

**USAID ECONOMIC GROWTH OFFICERS CONFERENCE  
OCTOBER 15-19, 2007  
WASHINGTON, D.C.**

Session Title: Economics Training for Host-Country Partners

Date and Time: October 15, 2007, 12:15pm

Type of Session: Plenary

Speaker(s): Professor Arnold Harberger

Moderator: Bob Aten

---

Overview of Session:

- Though it may be too quixotic a goal to revolutionize the teaching of economics in US graduate schools, Prof. Harberger expressed a missionary-like determination to promote “good economics”. Students come through a year of required grad macro, and they have not heard of money, or heard about the expansion of the banking system. Central bankers have complained that people coming back with new Ph.D.’s in the beginning are just no good at all.
- The solution?
  - Training in project evaluation: this can be a challenge because you need to professionally train a small army of people to implement.
  - “Advanced training in economics program”—this was a good exchange program from the 1990s between Catholic Univ of Chile and U of Chicago—helped spread good economics into Chilean universities, government, etc.
- What’s happening now?
  - USAID has set aside a modest amount of funds to finance a conference showcasing “good economics”: useful, real-world, intuition-based economics that can be used by policy makers and economists in developing countries.

Speaker’s Remarks:

Prof. Harberger has taken a sort of missionary role to promote good economics. He has one product to sell in this world, and he has tried to do this all his professional life: good economics.

On topic of training, he is a very biased speaker. From the very beginning (1949) of his teaching, he has been involved with students, and has been more proud of them than any collection of things he has written. On the US side, he counts two presidents of the AEA, two Nobel Prize winners, and three members of the academies of sciences among his students. Globally, his students include two presidents, 30+ ministers, and more than a dozen central bank governors. He can say, without hesitation, that these people have been a tremendous force for good policy, economic reform and economic growth in their countries.

**USAID ECONOMIC GROWTH OFFICERS CONFERENCE  
OCTOBER 15-19, 2007  
WASHINGTON, D.C.**

In 1955, with Ted Schulz and other U Chicago professors, Prof. Harberger went to see if there could be a relationship between Catholic University of Chile (Santiago) and U of Chicago. The ICA (ancestor of USAID) funded a program to train grad students at U Chicago over a period of 8 years. Most feel that that particular aid project was the key to the transformation of the Chilean economy; certainly key to transformation of the Chilean economics profession. It was also key to the transformation of economic journalism in Chile. And key to changing the attitude of the Chilean public with respect to economic matters.



Professor Harberger addresses workshop attendees. Photo by Paul Goodman.

Unexpected things that seem trivial can have amazing effects.

Prof. Harberger was in charge of participants that came to study in Chicago. He made sure that 1/3 of students came from the rival university, which meant the message got carried to both universities. This created a friendly rivalry of who could be best, instead of a back-biting thing of what one group had learned. This rivalry played a critical role in economics in Chile.

- *Full-timism:* At the time, there was not a single full-time economics professor; they were all part-time. By the end of the project, 4 participants were hired as full-time economics professors...and the universities had to pay market price for them. Now there are around 40 full-time professors. And these are people being paid wages that are reasonable.

- *System of national project evaluation:* an outgrowth of this exchange. One participant later became a Minister of Planning. This system required that public sector investment projects be submitted for approval, and that they get the stamp of approval before proceeding. This would not work unless supported by trained professionals. Now, in Chile, in every university, there are serious courses in project evaluation in the graduate and undergraduate levels. There is also a special program at Catholic University for 30-40 people who are then fed into every nook and cranny of the Chilean government. Among the most important are those advising the legislature. Project evaluation is absolutely key. Implementation of this system and its reinforcement with trained professionals has been instrumental to Chile's strong performance.

In the 1990s, USAID had the "advanced training in economics program". Prof. Harberger and Juan Belt discussed it in Chicago, and drew up the documents that gave

**USAID ECONOMIC GROWTH OFFICERS CONFERENCE  
OCTOBER 15-19, 2007  
WASHINGTON, D.C.**

rise to AID funding the training of 200+ people from Latin American countries (the poorest) in 4 LAC universities. The same program trained 30 in the US. Veterans of these programs are rising up to under-ministry, vice-minister, and minister level as time goes on. With this background, Prof. Harberger helped propel the establishment in Colombia to do similar work to that of Chile in project evaluation.

In a recent visit to El Salvador, Prof. Harberger tried to raise government interest in strengthening the system of project evaluation; and in Nicaragua, as well. He also tried to stimulate interest of USAID to emulate what they did in the advanced training in economics program, (send people to LAC universities, and get a background to bring sensible economic criteria into the discussion).

Looking at developing world, we can be happy with how economic policy has improved in past decades. These reforms were carried forward by teams of professionals: the Berkeley mafia in Indonesia, the Reformers of the 90s in Argentina, the economic policy leaders in Panama for most of entire period, the Reformers in El Salvador in the 1990s, the Chicago boys, etc. In India, we have Manmohan Singh and his allies, (as Minister, he was responsible for the revival of good economics in India.)

We must have a continuing flow of these types, so that there are people to man the top ministries and central bank; and we also need them at the project evaluation level to keep watch over how the government spends its money.

The sad part of the story: to make a tax reform, you can have a handful of people sitting around the table in the MOF; but to do good project evaluations, you need a small army.

Prof. Harberger is a big fan of well-designed trainings and project evaluation. However, nothing goes exactly as it should.

The new problem in this area is in our own graduate schools. It has to do with what is the state of economics training, economics literature, of what is viewed as top level stuff in economics today. He has been griping about this for many years. He is not the only griper. Many highly respected economists share that opinion, including Anne Krieger, Bob Solow, Kenneth Arrow, Marty Feldstein, and Larry Summers.

In 1994, Domingo Cavallo moved into the MOF in Argentina. He was impressed with the quality of people that came out of the foreign affairs training. They formed a higher institute for government economists within the government. That institute contracted out to training programs at Buenos Aires University: two years in duration (ABD PhD program equivalent).

In today's graduate programs, this link to the real world is missing. There is no help for being better public servants. But they get a heaping dose of theory.

**USAID ECONOMIC GROWTH OFFICERS CONFERENCE  
OCTOBER 15-19, 2007  
WASHINGTON, D.C.**

We see students come through a year of required grad macro, and they have not heard of money, or heard about the expansion of the banking system. Central bankers have complained that people coming back with new Ph. D.'s in the beginning are just no good at all. But they say we keep them for three or four years, and half learn from on-the-job training; the others retire and go teach in the university.

We need to restore the group of people that think like economists, and see the world through that lens. It is too quixotic a goal to revolutionize economics. But he is trying to assemble group of people like those here, to discuss what should be in the training of economists.

That project is indeed in the works: USAID has put aside a modest amount of funds to finance an economics conference. With the cache of these names, the people that go back to Ghana, Nigeria, etc. to teach policy and develop programs, will be able to refer to the conference document that says what the leading economists of the world agree ought to be there, but is not. Then, these developing country people will be studying a curriculum that allows them to engage in a way that the Argentine program participants could not.

**Key Points Discussed During Question & Answer Segment:**

**Q:** There is a gap in quality comparing those trained in US universities with those trained in USAID countries. Any comments?

**A:** There is a watershed. All the grad schools in the US have a whole string of students that come from Chile, Mexico, Brazil, etc. (not USAID countries), so those guys do keep up with their training. Those from USAID countries have a problem: how to get in to leading universities. They do not have the undergrad background.

Super technism: emphasis on a bunch of theoretical notions. Most macro courses spend much time emphasizing the problem of the representative consumer. Now, the student needs to decide how to divide time between working and leisure; and how to decide how to divide resources between spending and saving. That, students know well. Why barbers' wages have gone up is unknown.

We need to get down to earth again. It is no loss of quality or status: we need to give status to good economics.

**Q:** Some kind of assessment skills and economic policy capacity would be strategic to the future development of Vietnam. That said, (assuming we had the resources to underwrite such a program), that quality of economists that could go back to Vietnam would be faced with a situation of not being retained by the government—which cannot afford them. They would probably take a financial services job: 10-20-30x what government would/could pay. What ideas do you have for mobilizing policy capacity for government: how can it be provided to government, but perhaps employed by private sector?

**A:** That is a really tough question. On the issue of how to handle public sector bureaucracy, many lessons can be learned from the case of Singapore. High executives of Singaporean government

**USAID ECONOMIC GROWTH OFFICERS CONFERENCE  
OCTOBER 15-19, 2007  
WASHINGTON, D.C.**

are paid the same as the highest executives in the private sector. When public sector salaries are miserable, they invite corruption.

Taiwan, Korea, etc are not paying the same salary as private sector, but they manage to get people of high quality. We need to try to learn from that experience. On that basis, we can choose where this type of effort would pay off in a big way.