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Economic Growth in the 1990s: Learning from a Decade of Reform

Background

Economic Growth in the 1990s: Learning from a Decade of Reform is a World Bank report that looks at the development efforts and policy reforms of the 1990s to analyze the lessons of the successes and failures of that decade.

Summary of the Report

The 1990s was a decade with great expectations for development. Many predicted that the 1990s would be a time when growth as a result of policy reform and globalization would explode in all regions of the world. This did not occur to the extent anticipated. In the 1990s, globalization caused unprecedented interconnectedness, capital flows and particularly foreign direct investment (FDI) flows grew rapidly, countries liberalized their trade and financial sectors – it would seem that conditions were favorable for economic growth, but many developing countries achieved little if any, economic growth. In the Report's view too much faith was put in macroeconomic stabilization and reforms as the main basis for economic growth, when more was needed to promote growth. The report analyzes the 1990s with respect to progress in seven areas: macroeconomic stability; trade liberalization; privatization and deregulation; financial liberalization, policy reform and growth performance; public sector governance; and democracy.

Among the Main Findings/Conclusions Worthy of Note:

- *Macroeconomic stability* increased in most countries but without being associated with notably better economic growth performance: perhaps because in many countries fiscal policy reforms were not complete, and fiscal policy often was still pro-cyclical, destabilizing, lacking in credibility, and as such detrimental to economic growth and welfare.
- *Central bank independence* became more common and widely accepted, as a number of countries experienced success with giving the central bank independence to focus on price stability.
- *Privatization* yielded efficiency improvement benefits without hurting the poor, but has tended to disappoint as a means of increasing badly needed investment in infrastructure.
- *Financial liberalization achievements* included central bank independence, liberalization of capital movements in and out of the country, privatization of state banks, and enlargement of the role of foreign banks. Establishment of greater numbers of private sector banks has resulted in increased competition for clients, thus driving down profits and leading to riskier (some times excessively so) lending (moral hazard and adverse selection).

- *Financial crises* developed and knowledge of how to deal with and prevent them has improved. Countries experiencing financial crises tended to be highly indebted, run large current account deficits, have opened up the capital account prematurely or too much, and/or adopted inflexible exchange rate regimes.
- *Improving governance* is critical to economic growth since corruption and absence of rule of law seriously hinder investment and growth. Developing countries' best strategy is to focus on corruption prevention: reducing transactions that create opportunities for bribes, establishing merit-based recruitment and smaller pay differentials between public and private sectors, and increasing information, transparency and public oversight.
- *Democracy* needs good governance and transparency if it is to be a force for pro-poor economic growth. Since 1989, the number of democracies in the world has increased from 60 to 100, but democratic or not, countries whose governments lack policy credibility and good governance have lower investment and growth than those with credible governments practicing good governance. Special interest groups find it worthwhile to organize in pursuit of their interests while the rest of the population finds it hard to organize collectively in defense of the general interest, making it likely that even in a democratic system the will of the few will prevail to the detriment of the many.

How to Access

The full document, *Economic Growth in the 1990s: Learning from a Decade of Reform* is found at www1.worldbank.org/prem/lessons1990s/.