A challenge to World Bank economists: Achieving analytical wisdom

To be effective, economists must remain faithful to their principles and professional ethics. How?

The biggest threat that we face as economists is the threat to our integrity as economists. We go to graduate school, read books, and draw diagrams. Then we enter the real world, meet with politicians, and find that the economic policies they propose are often dominated by political considerations. That makes it very easy to become cynical and to lose touch with one's roots. And that is why maintaining contact with our roots as economists—as professionals—is our most difficult challenge.

How can economists stay faithful to their principles and professional ethics? Although economists do not have the equivalent of the physician’s Hippocratic oath, we must continuously ask ourselves: Are we being faithful to the principles of basic economics? For economists in an institution like the World Bank, adherence to these principles seems to depend on the time spent in the institution. Young economists are still fresh and innovative—willing to be critical and to come up with new ideas. They have very little political savvy and limited experience dealing with politicians. But older economists, often already in the managerial stream, have a lot of political savvy, are much more experienced in dealing with politicians, and are more aware of how political factors often dominate our lending. As a result seasoned economists are usually much less willing than their younger peers to change and be innovative.

How can we change that? By allowing the young to pester their elders. And by analyzing problems systematically, viewing them through a wide lens, listening to our clients, preserving wisdom, and transferring best practice.

Analyzing problems systematically

When economists face a problem, they are expected to examine all the relevant data in a sensible way. That does not always mean having an econometric model in mind or a fully articulated formal model. It means thinking in a systematic way—why, how, and for what purpose are we analyzing a particular country, program, policy, sector, or project? It means aiming at a deeper level of understanding, not just laying out a heap of numbers or presenting up-and-down-type descriptions.

When I read papers written by economists, I often find that they are not analytical enough. Although I also find this to be true of papers by noneconomists, I think our comparative advantage as economists is that we possess a set of tools that have taught us to think in an organized way. We think in terms of tradeoffs, and that is perhaps the essence of what we do. In the early 1960s, for example, Robert McNamara—then the U.S. Secretary...
of Defense—brought a group of whiz kids to the Pentagon to analyze problems. According to one member of that group, Alan Einthoven, these economists spent their time explaining opportunity costs and production possibility frontiers—the simple guns-and-butter diagrams of Paul Samuelson—despite the fact that game theory was already known and that advanced computer models were available. When economists encounter people who have not been exposed to economics, the basic analytical tools the discipline relies on are often very hard to get across.

Systematic analysis of problems in terms of tradeoffs is one of our comparative advantages. Closely linked to this is the role of incentives (often transmitted through prices). Whatever is being examined—a sector, a country, a project, or a policy framework—incentives are important. Unlike many other analysts, when economists examine a problem they usually look for the incentive mechanism. Take financial issues. What advantage does an economist have when it comes to banking reform? Simply, an economist can think of incentive schemes that will let actors do the right thing rather than focus on, say, just the role of supervision (though that too may have incentive schemes attached to it).

### Viewing problems through a wide lens

Seeing a problem in its economic, political, and social contexts is something that we should always do but sometimes do not. Put another way, this means seeing a problem in the context of general equilibrium, which applies to anything, not just to the economy.

Consider banking sector problems—and the role of specialists versus that of general practitioners. From our varied country experience with financial problems, we know that solving the problems of banks is a central concern in every region—yet it is the most undermanaged and underresearched area in the World Bank, one that our president has rightly identified as our Achilles heel. The tendency is to say: “If we have a problem in the banking sector, let’s get a lot of banking experts and put them together in a group and let them come up with a plan to raise the quality of banks.” That is a good start. But are economists also going to play a role? The comparative advantage of an economist is to say, rightly, that banking sector problems rarely originate in the banks themselves. Instead, banks are usually propagators of shocks from outside.

A good analogy for the financial sector—recently mentioned by the Inter-American Development Bank’s Ricardo Hausman—is that of a big chain with many links, with forces pulling on both sides. You never know which link—which bank—is going to break. You can, and should, spend resources on strengthening the links. But if the forces pulling those links are very strong, the chain will break somewhere else. So you have to be aware of all the links—especially the macro-micro links, because shocks from the macroeconomy can move into the banking sector and then move back into the macroeconomy. Macroeconomic instability causes bad loans, and bad loans pile up and impose a burden on the government budget, adding to macroeconomic instability. Thus we must keep in mind the close links between the banking sector and the general equilibrium of the system.

On a similar note, the role of institutions and the interaction of economic behavior with social and political behavior are increasingly important, both in research and in policy. As a result our roles as practicing economists and as policy advisors are undergoing major change. We used to say that economists prepared action plans and that if the plans failed, it was because politicians made a mess of them. But that is not a valid excuse for failure. We now know that we have to develop schemes for projects, sectors, and countries that are not only internally consistent from an economist’s point of view but politically viable as well.
an economist thinking on political and social problems. That is no longer the case, because much of what goes on beyond the narrow scope of economics is of use to economists. And we should be open to learning and to bringing in other knowledge wherever it is applicable. I am thinking here of work like that done by Robert Putnam—first a political scientist, or economic anthropologist, and now an economist. Or the work of Robert Wade, who comes from anthropology but has done important recent work for the Bank comparing how the organization of Korea and India’s civil services affects each country’s irrigation systems.

We are now confident enough about what economics can tell us—and to admit where the discipline is limited and where we can usefully bring in ideas from outside.

Listening to our clients

When an economist works on the economic problems of a country, there are some things about that country that its people know better than the economist does. The economist may be better trained in economics, but the country’s citizens know more about their culture, their history, their politics—no matter how long the economist stays in that country. So we must listen to what they have to say.

This does not mean that we should stop formulating country strategies and proposing solutions. But the ideas we put forward must build on the knowledge that comes from our partners in development. Ideally, countries would develop their own assistance strategies, and we would work within their framework. But many countries do not have that capacity, so we have to build it up. The ideal relationship is one in which development strategies come from the things that we learn listening to our clients—rather than from the things that we say. The best help that an outside group can give is to agree or disagree with the proposals a country plans on its own.

When I visit a country, I try hard not to say anything about the country in public. I say it in private, to those who have invited me. It has annoyed me in my own country when people come in and after two days think that they have all the answers. One good way to answer questions in public is to draw from the experiences of other countries, letting the listeners decide whether these lessons can be applied to their country. In this way we can avoid imposing our own ideas of what is applicable to a particular country.

Preserving wisdom

The collective wisdom that Bank staff gain from country experience too often gets lost. If I am traveling to a country and try to find out what work the Bank has done on that country, I cannot get the information from my computer. And if the person who worked on that country three years ago, or five years ago, happens to have left the Bank, then that information is gone. Most of this information does not get printed, and in any case I have found that two hours of discussion with someone who has been working on the country often tells me more than I can learn from ten hundred-page documents. Doing things in brief form is something that evades this institution—but it is very valuable.

In many cases a Bank economist may be the sole repository of information that was conveyed only to him or her. Why does that happen? No time. No resources. No incentive to sit down and transcribe the information. And that has to change. One way of making that change would be to encourage short sabbaticals within the Bank, so that when operations staff move from one country to another, they are given time to write about what they have learned and are rewarded for doing so. Another approach would be for operations staff to move to the Economic Development Institute for a while—to be able to write things up and train others.

Transferring best practice

Another of our comparative advantages as economists is to be able to learn from parallels, from best practice elsewhere, from common features that are independent of a particular country. Some eco-
nomic phenomena are almost the same everywhere. Inflation, its roots, the way it develops—these proceed almost independently of the country in which they occur. But apart from such basic forces, the way we have to tackle many key issues very much depends on local institutions and politics. Drawing from other countries’ experience and yet knowing what makes a country unique is a big challenge. Are we economists doing the best we can in distilling best practice? Definitely not.

Many Bank economists working in country operations yearn for cookbook-type advice from the center, from research—seeing research in its traditional role of providing guidance. But learning how to do project evaluation the right way, how to calculate effective protection rates, and how to do similar things that were important when public investment was more important is not the role of research now. Rather, research should focus on learning from the experience of many countries over many years. That is the comparative advantage of research in this institution—by having researchers who spend time in operations, research and operations avoid becoming two completely separate things.

Thus a major challenge facing economists is how to develop best practice from a combination of theory and work in the field. This means having practice feed into research and then having the lessons of research feed back into practice—so that if you work in a particular country or program, you have something of substance to draw on. Not a manual. Not a cookbook. But analytical wisdom.

This DECnote is based on remarks made by Michael Bruno, senior vice president and chief economist, Development Economics, at the World Bank’s Economists Week conference, held February 21–23, 1996. DECnotes do not necessarily represent the views of the World Bank and its member countries—and therefore should not be attributed to the World Bank or its affiliates. DECnotes are produced by the Research Advisory Staff. We welcome your questions and comments; please e-mail them to the authors or to Evelyn Alfaro, RAD.