Need for investment in infrastructure

I take strong exception to Paul Streeten's article, "Components of a Future Development Strategy," (*Finance & Development*, December 1999) for the following reasons:

First, I am now convinced that people in the developing world remain poor because of a lack of proper infrastructure rather than because of a lack of targeted programs. I had occasion to see India's Integrated Rural Development Program (IRDP), and I feel that India (and many other countries in the developing world) should invest more in infrastructure and leave the rest to market forces. (For further information, see my article, "Rural Resurgence," published in *The Hindu,* October 24, 1999.) Antipoverty concerns, yes. But the pathway to the realization of these concerns is through better roads, more reliable power, a more dependable rural water supply, and better public health and education. I am sorry that in its anxiety to attack poverty directly, the World Bank, supported by the likes of Paul Streeten, has chosen to put infrastructure development on the back burner.

Second, India's IRDP has only supported large bureaucracies—just the opposite of what Paul Streeten would wish for. It is being implemented by civil servants in almost all states.

Third, today's nongovernmental organizations (NGOs) were yesterday's civil servants or "non-officials" (a euphemism for politicians). There are some good NGOs, such as those in Bangladesh or Ahmedabad, but by and large the NGO community has been spoiled by receiving too much attention (and money) from the donors. Why hasn't the concept of the Grameen Bank worked in the many countries in Africa where the World Bank has tried it?

Finally, regarding monitoring, what exactly does Streeten mean by "mutually acceptable"? Which are the two parties involved?

Let us agree on one thing: the donor community is not going to run the recipient countries. They all have their own hypocrisies, and when they say decentralization they do not always mean it. It is not only the countries in the developed world who can afford to be hypocritical. The poor give the votes and the rich the money and power. It is better for the donors and the World Bank to lend to these countries for what worked in the Marshall Plan—namely, investment in infrastructure.

V. Venkatesan
Pune, India

Paul Streeten responds:

I have no quarrel with Mr. Venkatesan when he says, "the pathway to the realization of these concerns is through better roads, more reliable power, a more dependable rural water supply, and better public health and education."

But though investing in infrastructure is fine, it is only a permissive condition of development. It reminds me of the cargo cult of a New Guinea tribe after the lamented departure of the allied expeditionary force at the end of World War II. Those good people who lived in coastal villages built wharves out into the sea, ready for the ships to tie up, and those in land villages constructed airstrips out of the jungle for the planes to land. And they have waited in expectancy for the Second Coming of the Cargoes.

When advocating infrastructure investment, we must beware not to become victims of the cargo cult. And beware of single-remedy solutions!

Dollarization

Like many preceding issues of *Finance & Development,* March 2000's was superb. Of particular interest was "The Dollarization Debate" by Andrew Berg and Eduardo Borensztein. Whether or not to dollarize, indeed who are the candidates for dollarization, the authors succinctly conclude, is at best a work in progress. In their discussion, however, I note gross exaggeration of the loss of seigniorage revenue, the opportunity cost of dollarization.

Typically, the seigniorage revenue base—high-powered money—is bolstered by "repression" characteristics of financial markets of potential dollarization candidates. With financial liberalization measures drastically reducing or in some cases effectively removing the repression features, the seigniorage base has correspondingly dwindled. This has been empirically established. The nonbank private sector in the liberalizing economies is now able to substitute away from high-powered money as financial markets deepen. In essence, the money-demand functions in these economies have co-opted new variables. Consequently, the seigniorage-inflation "Laffer" curve has shifted downward thanks to financial liberalization.

As the authors rightly observe, there has been a considerable receding of the inflation problem in the 1990s. It would take no more than a first-resort-to-seigniorage budget-deficit-financing strategy, given the countries' right to issue currency, for inflation to reemerge. No doubt, managers of such economies are keen to avoid such a scenario, assuming they are aware that there is low seigniorage revenue for a given seigniorage-maximizing inflation rate. Surely, therefore, the seigniorage cost of dollarization cannot be that significant.

Take the case of Argentina, which is like many economies at the same level of (under) development and has a structure more or less similar to theirs. Its tax revenue as a proportion of GDP is well over 10 percent. So were it to dollarize, the 0.2 percent of GDP to be forgone would be marginal, not significant.

Jared Osoro
East African Development Bank
Kampala, Uganda