

# Good Intentions, Great Policies, Crappy Outcomes: The Difficult Dynamics of Deals

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# My friend's true story

**The beloved cat Duke**



**Actually not the beloved cat  
Duke**



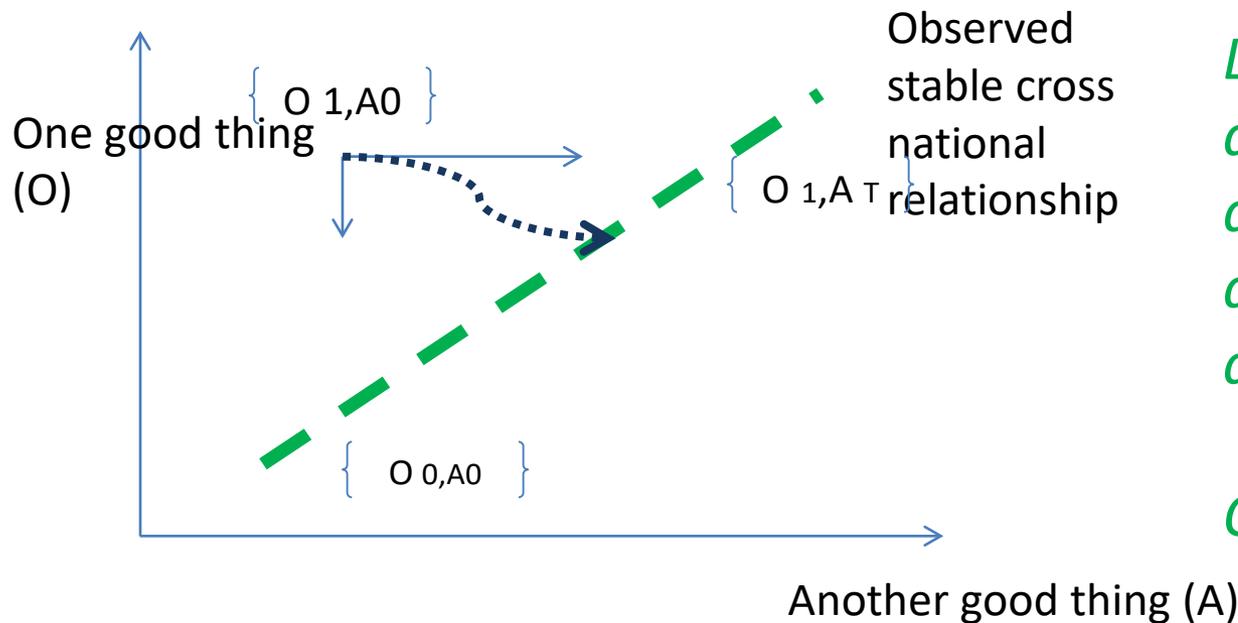
What should aid (or government, or advocates or philanthropists or you personally) be doing about development? Without understanding the dynamics of deals you could get this completely wrong

- What should I be doing?
- An normative objective function: how you personally would like the world to be (more prosperous, more equitable, cleaner, safer, more fair) (with some weights for persons and topics)
- A *positive* (descriptive) model of the world that specifies a casually connected *dynamics*: “if I perturb the existing system in the following way, here is what will happen to everything else”

# My basic thesis

- (In geek) The off equilibrium dynamics of actual, *de facto*, practices with respect to *de jure* laws, policies, decrees, orders are not uniform and big “good” jumps in *de jure* space can create bad dynamics and make practices worse—and harder to change.
- (In closer to English) Attempts to push better practices using big changes in policies can not just fail but be counter-productive
- (In visual example) Rubber band.

# Tabby cat 1 (Duke): Simple, uniform dynamics between two variables



*Life is simple in these dynamics: Make O go as far as possible as fast as possible and A will go along*

*Or*

*Change what you can when you can by as much as you can*

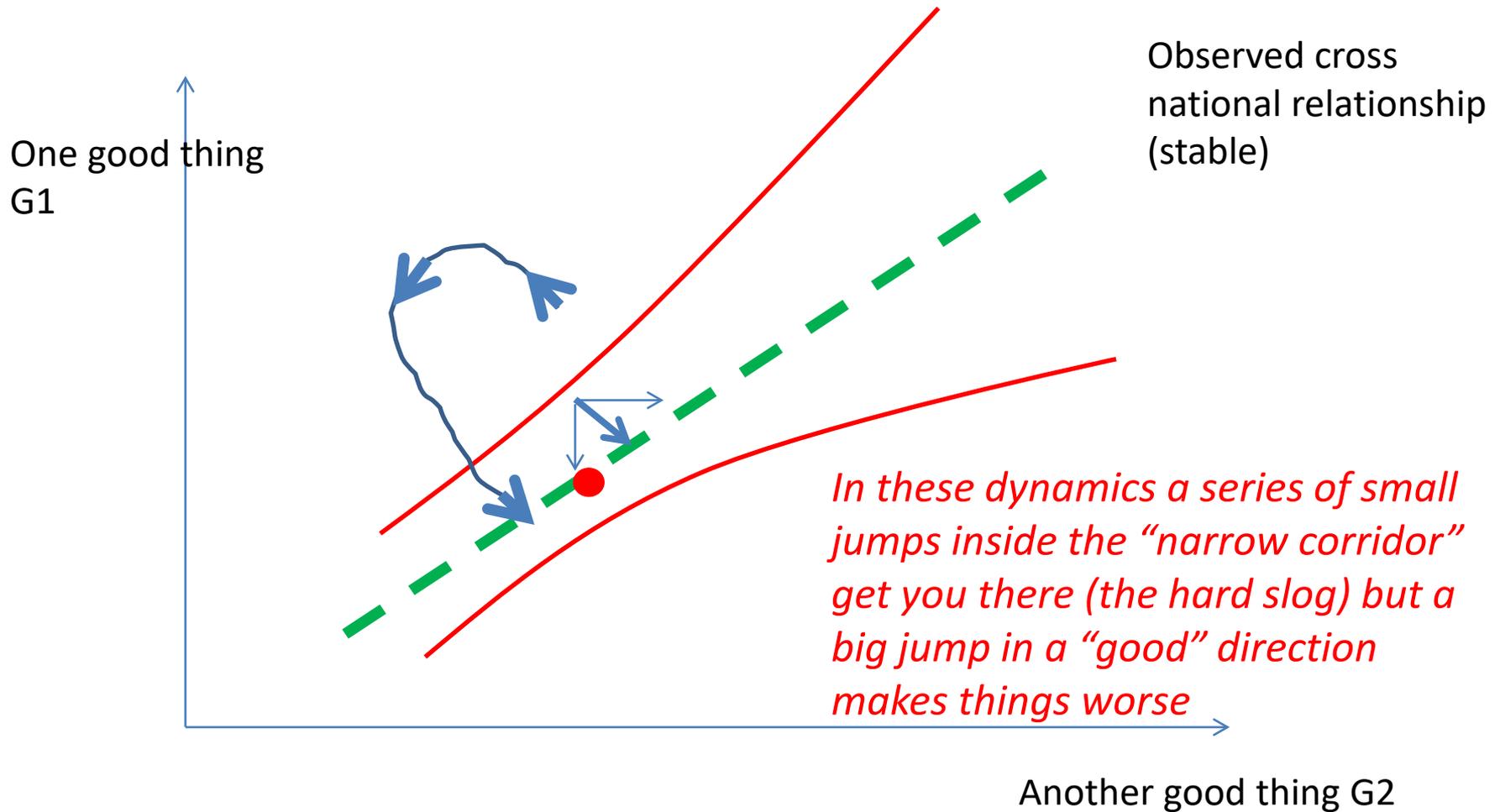
Dynamics of A is linear in deviation of A from equilibrium A with new value of O

$$dA/dt = \dot{A} = \lambda * (A(O_t) - A_t)$$

# A lot of aid (and advocacy) depends on these assumptions about dynamics

- “Civil service reform” in Afghanistan in 2006
- Finland (a very small, very rich, very homogenous country) did well on PISA and got literally *hundreds* of study tours from all other the world
- “Zero tolerance” for corruption
- Adoption of “best practice” in all kinds of regulation or taxation (e.g. unbundling electricity provision)

# Tabby cat 2 (Not Duke): “Narrow Corridor” dynamics—the “off equilibrium” equations of motion are not constant over the space



# Reality check

- Umbrellas in the drinks in the cupholders on the deck chairs on the Titanic
- If your reforms are Finnish they are finished.
- “Zero tolerance” is open season for a weapon against enemies of the powerful.
- “Best” practice is a bad practice as “good” law destroys the rule of law

# For one specific indicator (getting a construction permit) a comparison across countries of de facto and de jure

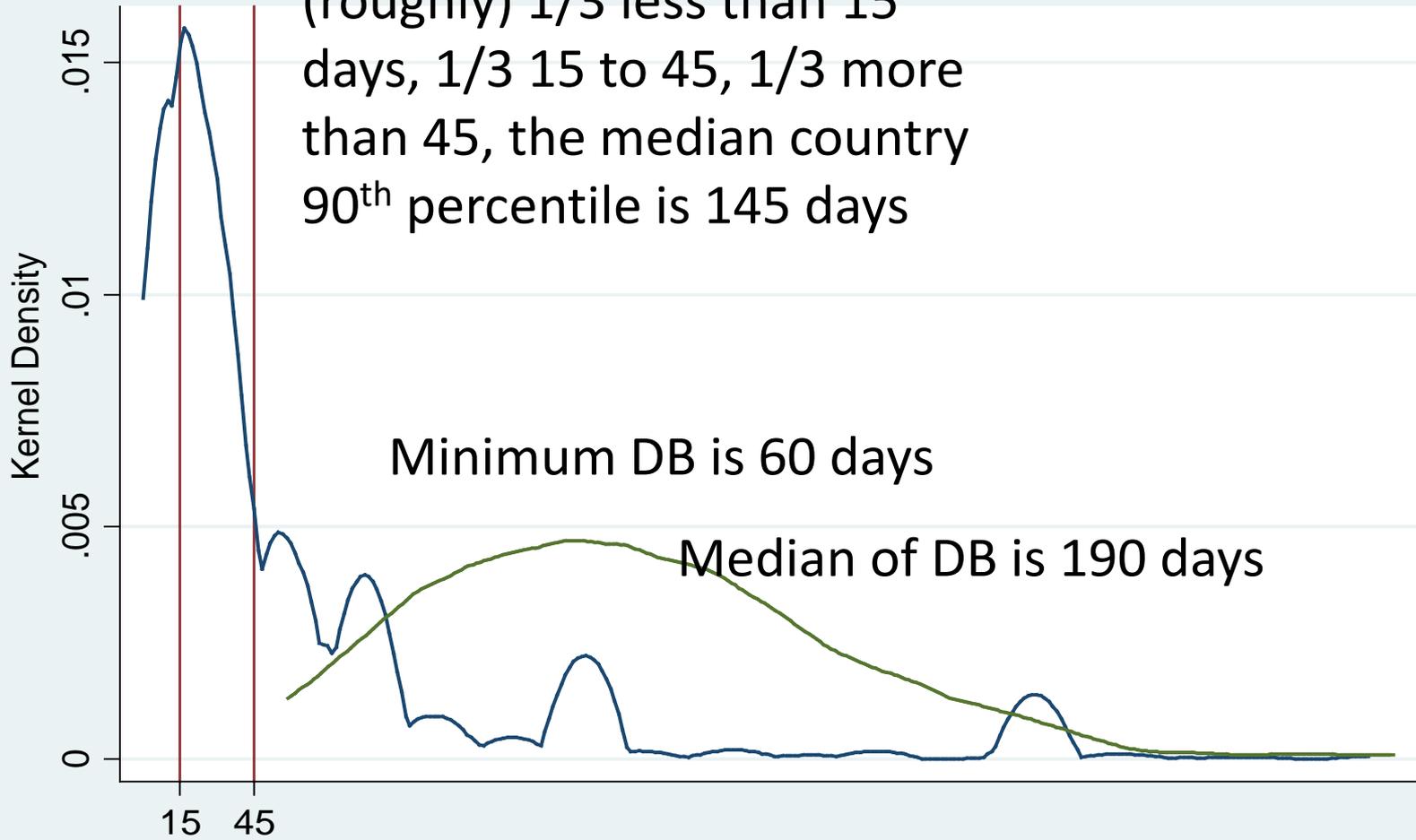
## Doing Business Indicators

- The number of days it would take to get a construction permit (for a commercial warehouse) *if* one were to follow the law.
- De jure measure of the time for regulatory compliance.
- One observation per country per year

## Enterprise Survey

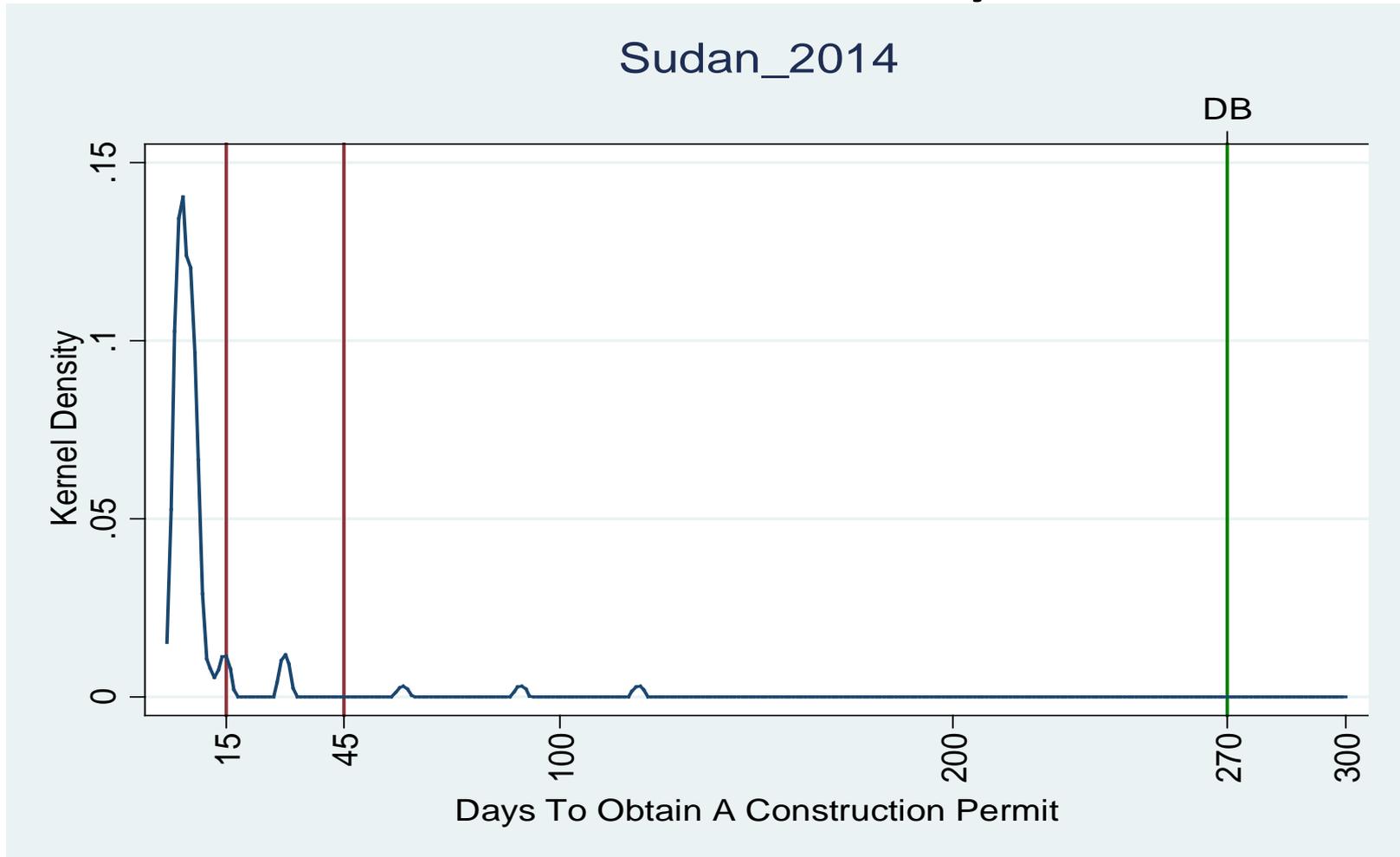
- Ask firms who actually built something how long it took them to get the permit
- De facto measure of how business is done

Actual reported days are (roughly) 1/3 less than 15 days, 1/3 15 to 45, 1/3 more than 45, the median country 90<sup>th</sup> percentile is 145 days

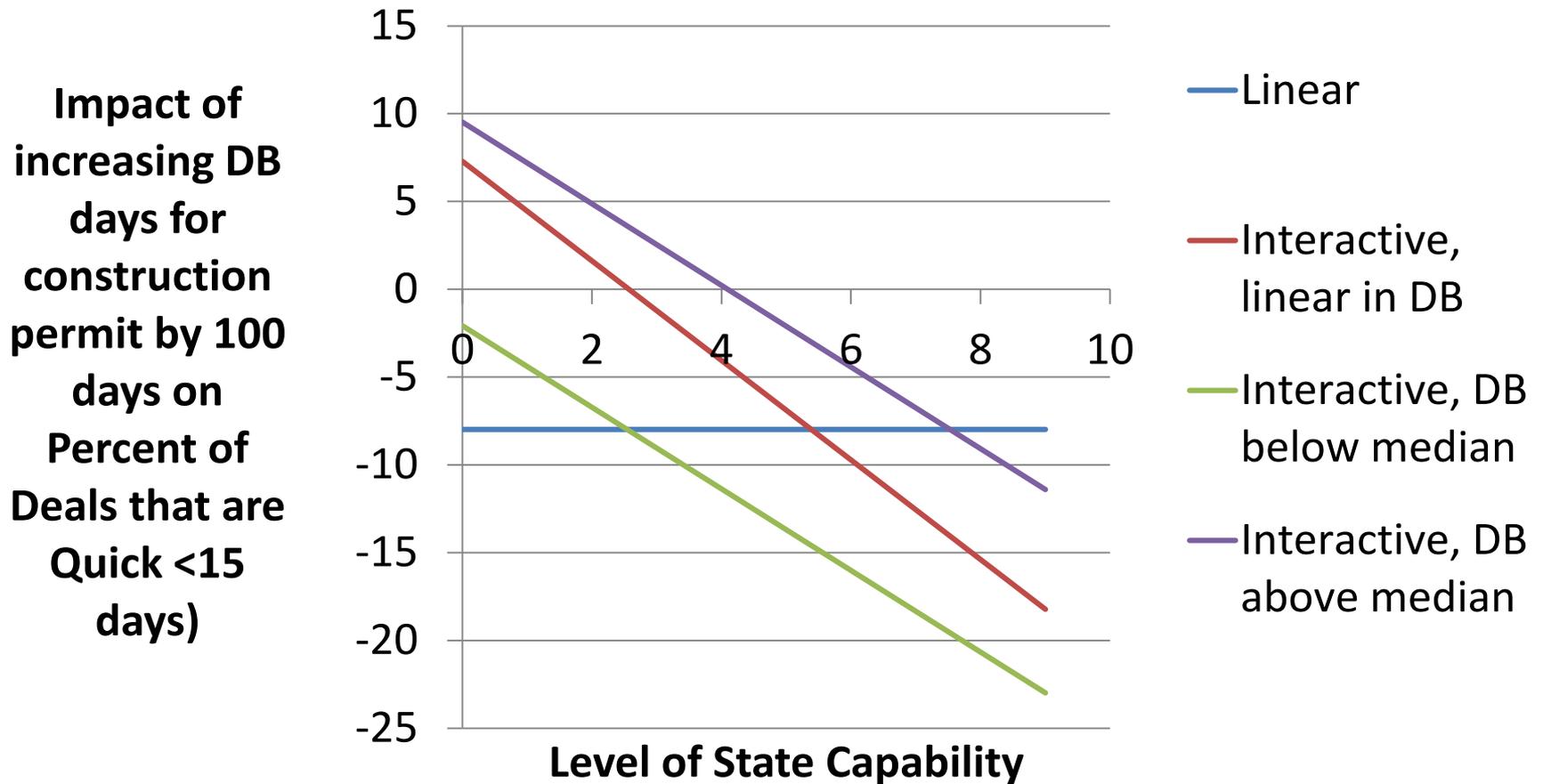


— Days to get CP (Ent. Survey) — de jure days (DB Survey)

Sudan: DB ('the law') is 270 days, 93.5 percent (of 108) firms report taking less than 15 days



Regression of the “percent quick deals” shows in weak capability countries *increasing* the legal regulation by 100 days *increases* the firms who report quick deals, particular when regulation is already strong

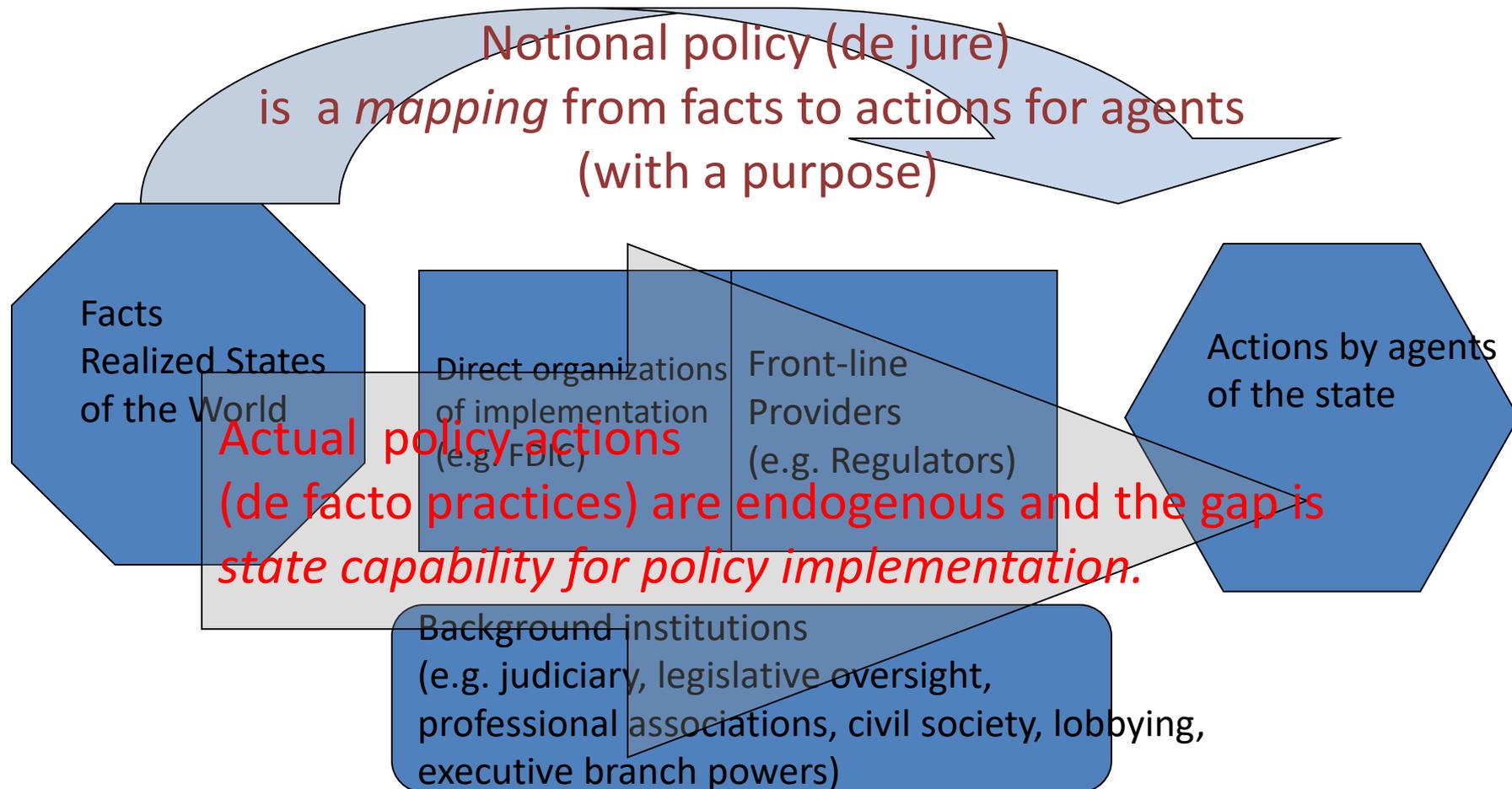


The “rules of the game” is that there are no rules, only deals

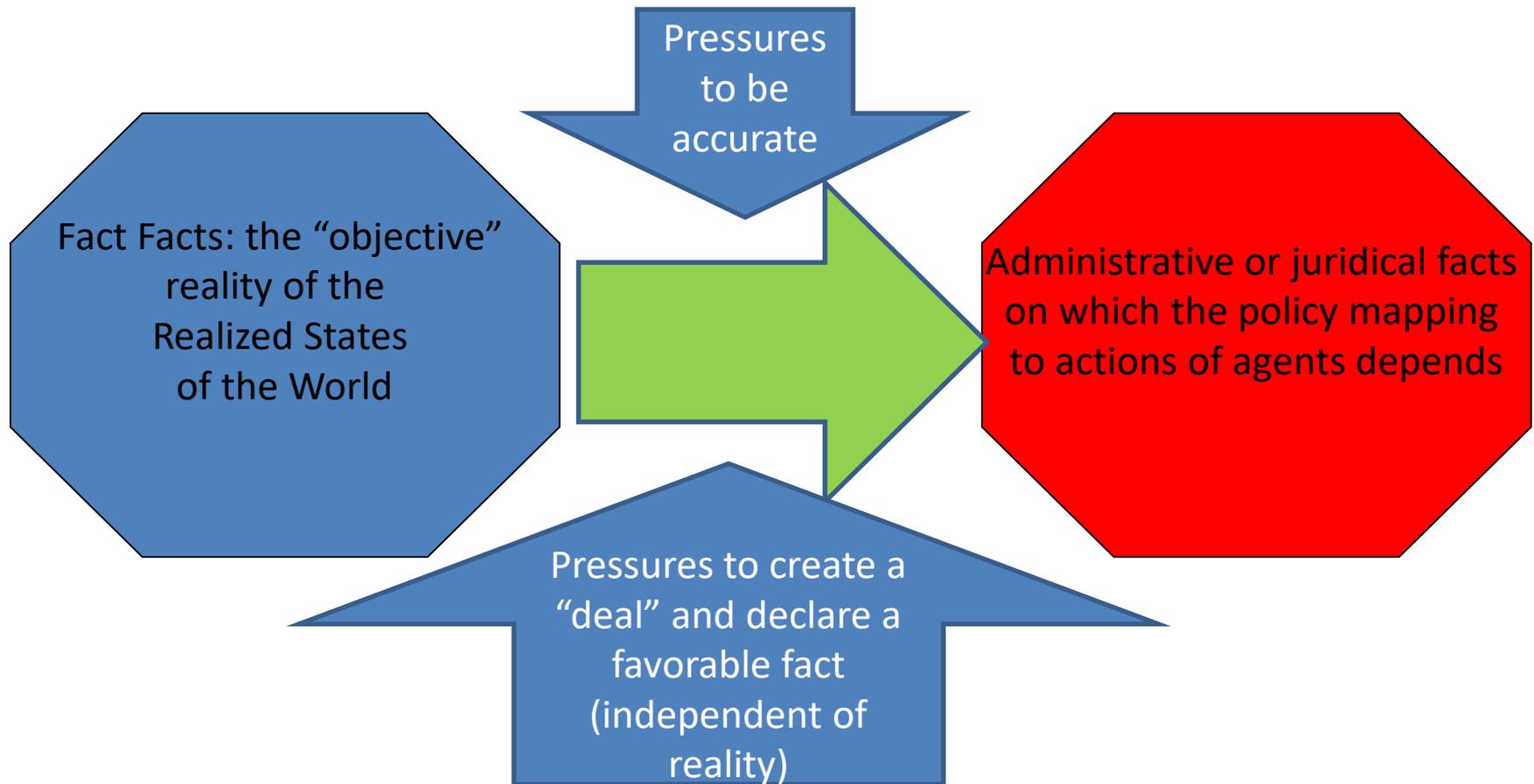


“...there are no rules in a knife fight”

# Mechanism of action of “good” law undermining rule of law: Losing control of the facts

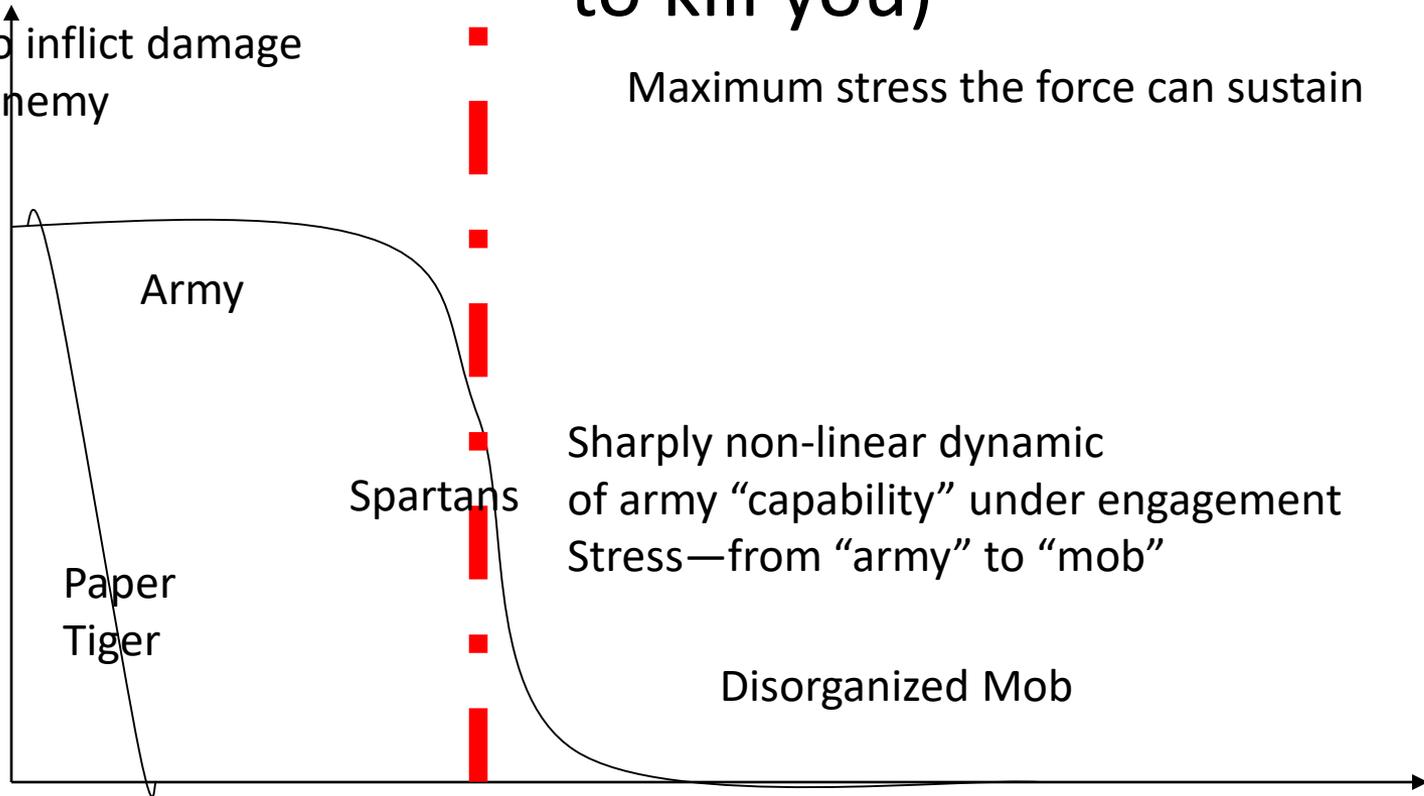


What are the “facts” is an interplay between the organizational/institutional pressures on agents to declare the fact facts to be the juridically relevant administrative fact versus pressures on agents in the implementation chain to declare favorable facts



# Two dimensions of organizational (“army”) capability: in “theory” (on the parade ground) and in “practice” (when the other side is trying to kill you)

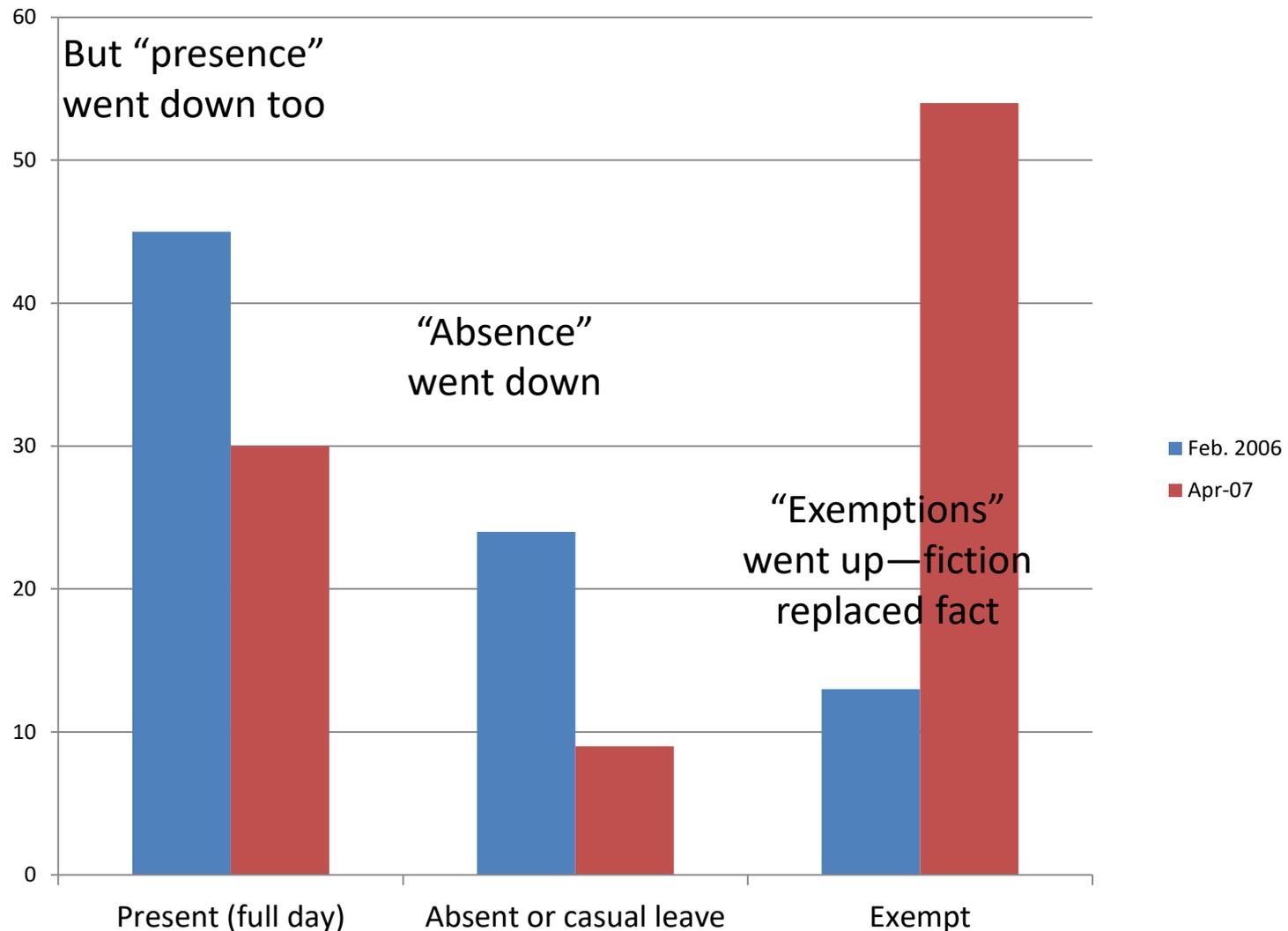
Ability to inflict damage on the enemy



Sharply non-linear dynamic of army “capability” under engagement  
Stress—from “army” to “mob”

Battlefield stress (e.g. fog of war, casualties)

# During the course of the field experiment to motivate nurses to attend their clinics with “best practice” design in Rajasthan...



Source: “Putting a Band-Aid on a Corpse: Incentives for Nurses in the Indian Public Health Care System” (with Esther Duflo and Rachel Glennerster), *Journal of the European Economic Association* 6(2-3), pp. 487-500, April 2008.

# The inexorable logic of the trap of “good” law, low capability for implementation, crappy outcome”

- The advocates for the “good thing” will never in a million years advocate for a relaxation of the “beautiful” de jure law (and will be supported by the “experts” from abroad who live in the “narrow corridor” dynamics)
- The powerful private actors in the economy are (in one way or another) free from the negative consequences of the beautiful law as they have “deals” that are available. These powerful actors do not want stronger “organizations” or “institutions” or enforcement
- Politicians are almost certainly making money/gaining resources from the differential enforcement of the law and if the law actually could be complied with this would go away.
- Any individual firm can choose to lobby/take action either to (a) get themselves exempted from the consequences of the “beautiful” law (stay under the radar, pay off enforcement, make political connections) or (b) form a coalition to change the law.

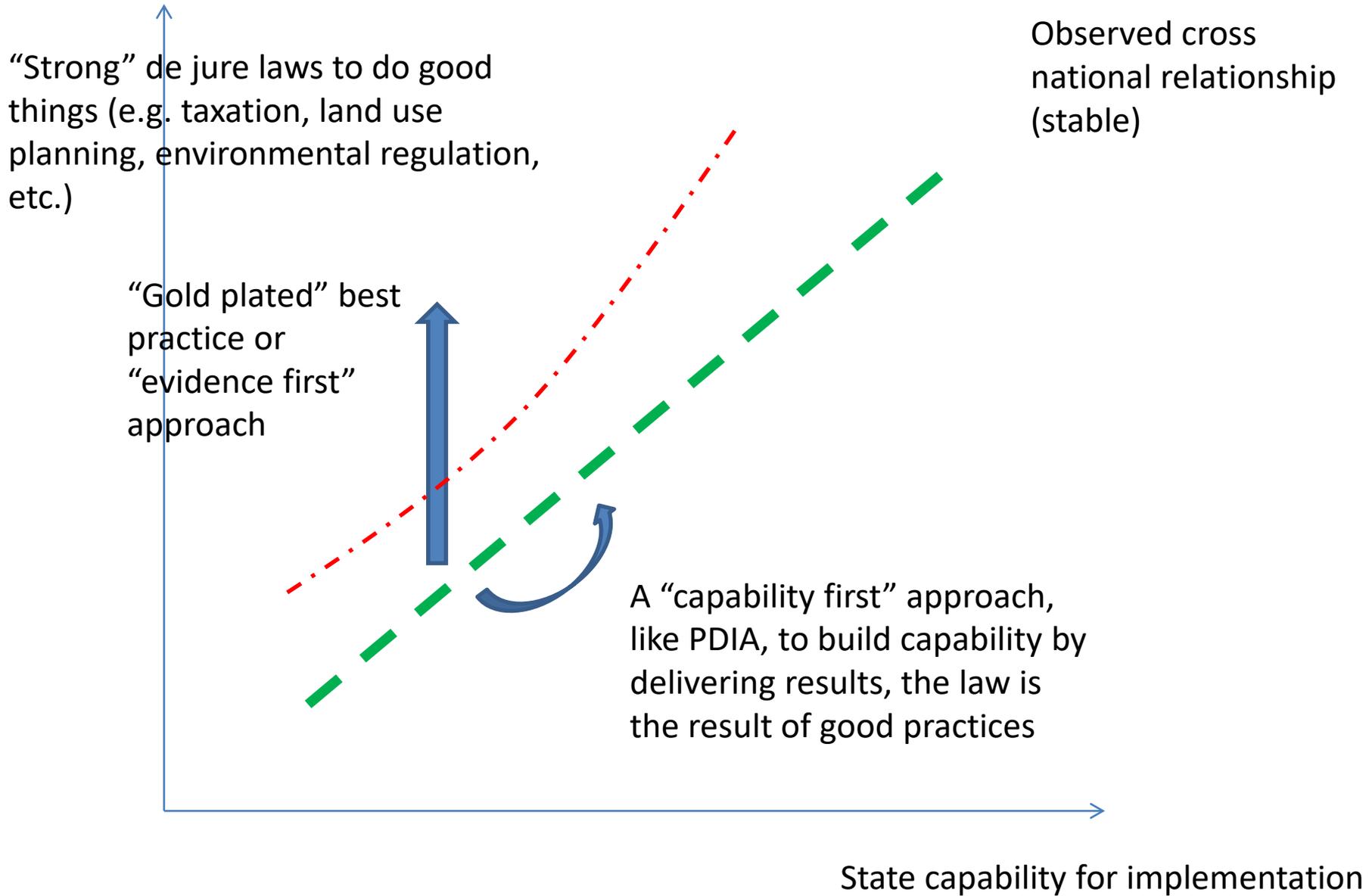
# Who are the vectors of the “good intentions, great policies, crappy outcomes” dynamics?



- Global “experts” from rich countries
- “Consultants” who peddle “best practice” “solutions”
- “development agencies” who insist on “wishful thinking” goals rather than achievable progress

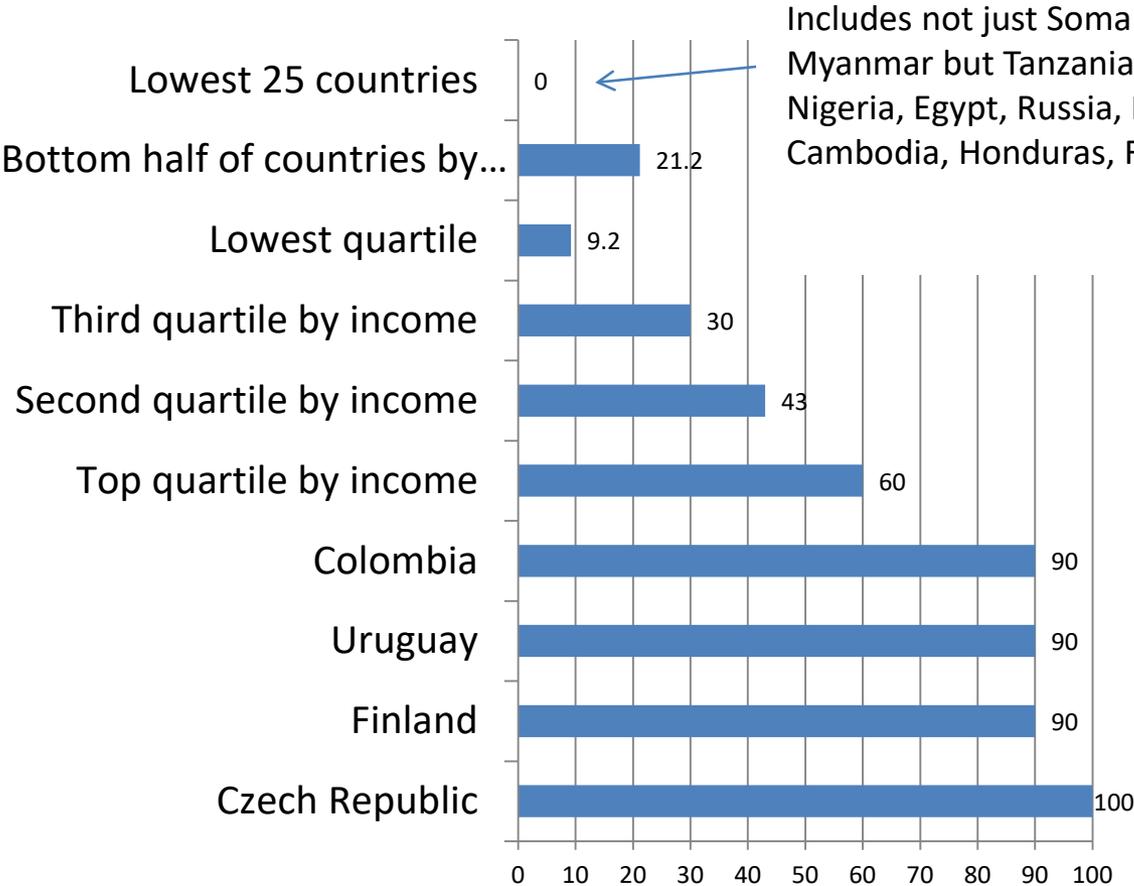
If this is indeed the positive reality (and it mostly is) then the normative “what should I do?” question is so, so, so much harder

- None of this is going to be simple, observables and easy in the way that the simple dynamics are
- All of this means one will have to use sophisticated judgments about the locally, contextually, range of the feasible.
- The temptation to believe the world is (in a positive sense) the way that makes one’s life simple and easy in one’s normative model is very tempting...if I am a big believer in “democracy” then believing in big jumps in the “de jure” will lead to better “de facto” (or have strong complementary dynamics, that is, lead to more of other good things) is just near overwhelming



# Does “policy” matter? An example where every country has the **same** policy but outcomes span the possible

Percent of 10 misaddressed letters coming back to USA within 90 days (all countries agree to return within 30 days)



Includes not just Somalia and Myanmar but Tanzania, Ghana, Nigeria, Egypt, Russia, Mongolia, Cambodia, Honduras, Fiji, etc.



Source: Chong et al 2014

Figure 7: National development is empirically necessary and sufficient for high levels of the Social Progress Index

