

Poor Economics

By Esther Duflo & Abhijit Banerjee

Winners of the 2018 Nobel Prize in Economics

About Paul Romer and Charter Cities.

“One possible way to break the vicious cycle of bad institutions is to import change from the outside. Paul Romer, known for his pioneering work on economic growth a couple of decades ago, came up with what seems like a brilliant solution: If you cannot run your country, subcontract it to someone who can.

Still, running an entire country may be difficult. So he proposes starting with cities, small enough to be manageable but large enough to make a difference. Inspired by the example of Hong Kong, developed with great success by the British and then handed back to China, he developed the concept of “charter cities.” Countries would hand over an empty strip of territory to a foreign power, who would then take the responsibility for developing a new city with good institutions. Starting from scratch, it is possible to establish a set of good ground rules (his examples range from traffic congestion charges to marginal cost pricing for electricity, and of course include legal protection of property rights). Because no one was forced to move there and all new arrivals are voluntary—the strip was empty to start with—people would not have any reason to complain about the new rules.

One minor drawback with this scheme is that it is unclear that leaders in poorly run countries would willingly enter into an agreement of this sort. Moreover, even if they did, it is not clear they could find a buyer: Committing not to take over the strip of land once it is actually successful would be quite difficult. So some development experts go further. In his books *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It* and *Wars, Guns, and Votes: Democracy in Dangerous Places*, Paul Collier, an Oxford University professor and former World Bank economist, argues that there are sixty “basket case” countries (think Chad, Congo, and so forth) in which about 1 billion people live. These countries are stuck in a vicious circle of bad economic and bad political institutions, and it is the duty of the Western world to get them out, if necessary through military interventions. As an example of a successful intervention of this type, Collier cites British support for Sierra Leone’s fledgling effort at democratization.”



