I did not choose the title of this talk, but I can admit that I was overjoyed when it appeared in an e-mail I received from Washington. This was partly because it gave me a chance simply to review many memories from my 55 years of collaboration with USAID and its predecessor, the International Cooperation Administration (ICA), and partly because it gave me plenty of scope to draw a variety of lessons and messages from that experience, not constraining me to any one topic or area. So my thanks go out to the unknown persons who were wise and kind enough to present me with this topic.

My experience with the U.S. foreign aid program began when, in early July of 1955, I was one of four University of Chicago professors who arrived in Chile to see whether our economics department was interested in entering into a university to university contract with the Catholic University of Chile (Católica). We stayed about a week, and ended up accepting the challenge. The result was a 5-year contract signed with ICA, running from 1956 to 1961. This was followed by a phaseout extension which ran from 1961 to 1964. Over that 8-year period around 30 Chileans received graduate training at Chicago. The arrangement was a resounding success, and set in motion a continuing flow of Chilean graduate students, some under USAID fellowships, others
financed by Fulbright or Rockefeller or Ford Foundation funds, or by Chile’s own
Central Bank or development agency.

There are two lessons from that experience that I want in particular to highlight. First, how the Catholic University became and has ever since remained one of Latin-Americas preeminent centers for economics. Without a doubt much of the credit belongs to Chicago’s economics chairman, Theodore W. Schultz. We four professors all noted with some dismay that the faculty of economics at Católica had at the time of our 1955 visit not one single full-time professor. Schultz was a profound believer in full-time-ism and insisted in our 5-year contract that Católica had to, by its closing date, hire at least four of our Chilean participants on a full-time basis. That, one might say, anybody would have done. But Schultz went further and insisted that our trainees should have no obligation to put in time on Católica’s faculty after they returned to Chile. He insisted that Católica accept the obligation to attract them, rather than requiring them to serve a period of indenture. That requirement was, in my opinion and that of the participants themselves, the key to the ultimate success of the program. It meant that Católica had to pay the market price for its full-time people, and it ended up doing so. And it took its obligation more than seriously. By the time the 3-year phaseout ended in 1964, the economics faculty at Católica had not 4 but 13 full-time professors (not all from Chicago, of course).

The second lesson I would draw comes from an idea of my own. The beginning of all of this had been a dinner of Schultz with Albion Patterson, the ICA director in Chile. It was Schultz’s depth of insight that so impressed Patterson that he got the idea of a university-to-university arrangement. Patterson wrote letters to Católica and to the
University of Chile, suggesting the arrangement. The latter institution was involved in a deanship struggle at the time, and did not respond, while Católica’s dean answered immediately. On our 1955 trip, I noticed a significant amount of tension between the two universities, and made it a point to draw something like a third of our participants from the University of Chile. As a result, our program ended up feeding into both of Chile’s leading universities, and it helped to insert a large dose of cooperation and mutual respect into their relationship. In later years I ended up spending two stints as a visiting professor at the University of Chile, and became the first recipient of a prize they awarded for contributions to the teaching and application of economic science in Chile. The lesson here is, I think, quite obvious. The product we are selling is good economics, and it is very much in everybody’s interest that the messages of good economics be spread as widely as possible.

Many people have observed that Chile’s remarkable economic performance owes a great deal to the fact that good economics has been embraced by all major political parties. The economic teams of all of them have overwhelmingly come from Católica or the University of Chile. The journalists writing about economic matters were likewise educated in these places. As a result the general public in Chile has a much deeper understanding of economic issues than is the case in most other countries around the world. I believe it is this culture that has led to an almost seamless transition from one presidency to the next and the next and the next. This economic culture, this pervasiveness of good economics in public discussion and public policy -- this is certainly a key element in Chile’s great economic performance. I believe that the early
ICA/USAID training program played a big role in planting the seeds out of which this culture developed.

The Cátolica-Chicago contract was followed by a similar one in Argentina, working with the National University of Cuyo, in Mendoza. This one had just a five-year duration (1962-67). We worked just as hard, maybe even harder, in this case than we had done in Chile. We also applied lessons we had learned, becoming much more involved in teaching in Mendoza than we had ever been in Santiago. The results were good, but not nearly as spectacular as in the Chilean case. The effort was surely there, but a certain element of serendipity was missing. Nonetheless this program provided the human capital that led to the founding of CEMA University, which helped modernize and revitalize the teaching of economics in Argentina. And it also provided several ministers and two Central Bank presidents during the 1990s, Argentina’s best decade for economic policy reform. By the way, the contract under which this Argentine program was established and funded carried the label AIDLA-1 -- it was the very first contract made by USAID, under a Latin American label.

What I recall as my earliest direct consulting work for USAID was as a member of a team that went to Chile to help develop what AID called its Long-Range Assistance Strategy (LAS). This team was led by Kermit Gordon, and I was its lead economist. We arrived in Chile early in the administration of Eduardo Frei I (1965). The country was still battling inflation, which had reached over 40% in 1964. On the economic side of the LAS, our task was to help promote Chile’s economic development in whatever ways we could. As it happened, our team undertook an independent study and analysis of Chile’s economic situation and drew up an outline of what we thought would be a sensible policy
response. We only then met with the Chilean economic team to compare our analysis with theirs. Imagine our surprise when we found that the two sets of diagnoses and suggested remedies virtually coincided!! That was a nirvana moment for me as a USAID person!! It was a perfect example of how helpful it is for the host country to have genuine ownership of a program. Of course, one might ask whether there is any need in such cases for a foreign donor to enter the picture. But in this case there was indeed such a need, for the economic team had to fight quite a battle in order to sell its program to the rest of the government and to Chile’s Congress.

I should spend a little time on the content of that program. The basic idea was to coordinate the entire policy machinery in a concerted effort to bring down inflation while still promoting healthy economic growth. The key elements in this picture were the fiscal deficit, the inflation rate itself, the exchange rate and the pattern of interest rates. The final package consisted of a programmed expected rate of inflation, linked to the financing of the expected fiscal deficit. In turn, this expected rate of inflation led to a policy of regular adjustment of both the exchange rate and the key interest rates in the economy, trying to maintain a steady equilibrium in the country’s balance of payments and to ensure that real interest rates, particularly those paid by borrowers -- should be positive in real terms. Thinking back on this experience, many of us consider it to be a precursor of the current practice of inflation targeting. And maybe that early Chilean experience even beats many current applications, in the sense of the close coordination between the targeted rate of inflation and the government’s fiscal and other economic policies. To put it very succinctly, Chile’s inflation targeting was by no means just a policy of the Central Bank -- it was a genuinely coordinated public-sector effort.
That effort succeeded grandly for some 3 years. Between 1964 and 1967 the rate of inflation was steadily brought down from over 40% to below 20% -- with the economy growing steadily at around 5% per year in real terms. Everything seemed on track to a smooth landing in which the inflation disease would finally be licked. But no such luck! Starting in 1967 the populist wing of Chile’s Christian Democratic Party started to get its way vis-a-vis the economic team, and from then on the inflation rate went back up, and new distortions were added rather than old ones being subtracted. What is the lesson here? When good policy wins, it naturally brings positive rewards for the economy and the people. When good policy loses the economy and the people usually pay the price.

In 1968, USAID brought me to Colombia to work with their planning department. It was not a long mission, but long enough for me to conduct what for that country was the first-ever serious estimation of the real rate of return to capital. This was published in their monthly journal, and reprinted in my own book on Project Evaluation that came out in 1972. Here the message is a familiar one -- the importance for developing countries of their building a serious system of cost-benefit analysis to screen their public investment projects. I don’t know much about what happened in the interim, but Colombia’s cost-benefit system was badly in need of repair when Paul Davis, Juan Belt and I looked in on it in 2006. This was my first country visit as chief economic advisor; Paul Davis was the AID mission’s chief economist, and Juan Belt was on temporary duty from Washington. We were being briefed by two well-rehearsed young ladies on various aspects of Colombia’s planning operation when at one point we asked about project evaluators. Well in hand, we were told. So, how many project evaluators do you have? The group-leaders looked at each other for a moment, then answered that there were around 400. At
this point the three of us nearly fell off our chairs! We could hardly believe what we had heard!! Pursuing this thread, we asked where and how these 400 had been trained. It then turned out at the true answer was “hardly at all”. There had been courses of one or two weeks’ duration, mostly at institutions none of us had ever heard of. We interrupted to ask directly if any training had been done at the University of the Andes, one of Latin America’s best centers of economics training. The answer was no!!

The upshot of this little episode was an all-out push to set up a first-class training program, centered in the Universidad de los Andes. With Paul Davis pushing forward with his remarkable drive and energy, we consulted the key faculty members at the university, then went to face-to-face talks with Colombia’s director of planning. The end result was a full-time academic-year program at the University, the first part dedicated to intensive course work, and the second to the participants working in groups on real-world projects submitted by the Department of Planning itself. This program was directed by Dr. Raul Castro (no relation), himself the author of a highly regarded text in project evaluation. This whole enterprise was but a gleam in our eyes at those meetings in August 2006. Yet with great effort on everybody’s part, the project was eventually set in motion within a year. I can personally testify to this, for I was a member of the expert panel that reviewed the real-world evaluations done by the first cohort of participants in the program. This took place at the end of the first year’s course, in May of 2008. I cannot resist adding at this point that the model for this new effort in Colombia was a program called CIAPEP at the Catholic University of Chile, which had been underway for some 30 years. It started with a two-year grant from BID, but was then taken over by Chile’s Planning Ministry. It was directed all this time by Professor Ernesto Fontaine,
the first Ph.D. to be granted out of the 1956-64 Chile project. Fontaine himself was author of a very famous text on project evaluation, and has worked and advised in this field, in Chile and all over Latin America, starting in the 1960s and carrying on up to right now. Another major dividend from the early ICA-AID project!! The lesson here is that it is all too easy for a country to have project evaluation “in name only”, where projects are handled by untrained or poorly trained people, who have not the slightest chance of stopping any bad project that has any serious pressure behind it. We have to think of a cost-benefit analysis of a country’s cost-benefit system itself. A pure rubber-stamp system carries no serious benefit for the country, only its own cost plus that of the bad projects that it lets through. There is an utter urgency, in developing countries at least, to link a public sector project evaluation program with the continuous training of people who are able to work as serious professionals in this area. As one who has been dedicated to this field for nearly 50 years, I deeply believe that serious professionalism is the first and best weapon we have to help us stand up against all the pressures that typically give rise to bad projects.

My involvement with Panama ended up lasting around 15 years (1962-77). It started with a sort of offspring of USAID -- namely the Committee of Nine of the OAS. The Alliance for Progress called upon each country to submit its economic programs for scrutiny by this committee, consisting of experts from around the hemisphere. As some of you may remember, they were called the “nine wise men”. Each country’s program had to be analyzed by an ad hoc committee, consisting of 2 of the 9 wise men and 2 others. In the case of the program submitted by Panama in 1962, Ernesto de le Guardia (a former President of Panama) and I were the two outsiders. It fell to me to run the staff
operation which evaluated Panama’s program. One of my Chilean students (Rolf Luders), came from Washington to be the on-site head. The Panama program was a pretty good one -- it had been largely written by another former student -- Rodrigo Nunez. But anyway, this experience led to my becoming a regular consultant on planning in Panama for a period of 15 years. I would go there for a couple of weeks or longer, between one and three times a year, working on all kinds of things. Others were also included, particularly my colleague Larry Sjaastad and later a team including Daniel Wisecarver and a number of other former students of mine. But I was the one who was there year in and year out, without fail. I say this for a reason, which you will soon see. But first I want to note that the Panamanian authorities did a pretty good job during this period. The growth rate for the 1960s and 1970s averaged close to 7%, and the country became, as many of you have seen with your own eyes, a major international financial center.

But now back to my reason. I had to tell you that I went there every year because one of the jobs I had, for many years running, was to make the budget projections for the income and outlay of Panama’s government for the coming year. Sometimes I was aided in this by two or three younger Panamanians. Sometimes an outside consultant was there to help me. But in a goodly number of years I did the job alone. I was long since a full professor at Chicago, crossing my 50th birthday during this period, yet I dutifully sat down year after year with reports of Panama’s comptroller, digging into the history and prospects for each of maybe 100 or more rubrics of expenditure. There were fewer relevant items on the income side, but I did serious analytical work projecting corporate and personal income tax revenues in particular. The lesson here is that you learn a lot by
digging into a country’s data in a serious way. And if you make projections you also learn a fair amount about humility. You’re bound to make some mistakes, but hopefully you learn from them. You develop a sort of feel for what is reasonable and what is not, with regard to many different economic variables. In the process you learn a lot about a country’s institutions, not only what are their stated responsibilities but also how they actually work. My guess is that I had a learning process that was worth something like a year of graduate studies, in the time I spent doing this work in Panama. A lot of drudgery, but it produced a lot of insight in the end. And it definitely helped me toward what has always been my aim -- to push myself to be a better professional. By the way, my work in Panama was financed by different sources at different times, but USAID was prominent among them.

Another major commitment of time in this period was to Uruguay. This was entirely a USAID operation. It began with a substantial team of economists being assembled to help with the modernization and liberalization of Uruguay’s economy starting in 1974 and ending around 1982. The team included Robert Mundell, Sjaastad and Wisecarver in addition to myself from the U.S., plus former students from Argentina, Brazil and Chile. We tried to help in every way we could, as a small but very dedicated Uruguayan team pressed forward with its reform agenda. The original leader of this team was finance minister Alejandro Vegh Villegas, who had done graduate work in Harvard. (He is the father of Carlos Vegh, now teaching at Maryland.) He began the whole reform effort in 1974, but was unfortunately (for the country) tempted out of the ministry within a year or two. What saved the day after his departure was the presence of José Gil Diaz, President of the Central Bank. He was the leading reformist figure after 1975.
But for now, I return to Vegh Villegas. He inherited an economy totally beset with regulations. There were regulations on interest rates, and strict foreign exchange controls. There was no real capital market and great discrepancies in the productivity of capital across industries and sectors. The tour de force that set the whole liberalization engine in motion was Vegh Villegas’s edict that starting tomorrow (figuratively if not precisely), any Uruguayan would be free to buy any amount of foreign currency without limit and without any paperwork! This came as a total shock to Uruguay’s business world. But it really shook things up in a hurry. Banks had to pay interest rates that would compete with what people could earn outside Uruguay. Business firms could no longer borrow at preferential rates because banks could no longer squeeze cheap money out of their depositors. The exchange rate had to move with the inflation, else the Central Bank would gradually lose all its reserves. I was enormously pleased by the way in which this single deft move spelled doom for a whole plethora of inherited rigidities and distortions. And the move really did work! What had been an utterly stagnant economy (in per capita terms) for a couple of decades suddenly enjoyed growth at something like 4-5 percent per year.

The lesson here is that we as professionals should be alert to the possibility of finding one or two key moves that may enable a whole immiserising “stack of cards” (bad policies) to be brought down almost at once. Vegh Villegas showed us that it can sometimes really be done!

Not long after Uruguay came El Salvador. It was around the mid-1970s that I started there and continued intermittently into the early 1980s. I worked mostly on budgetary and Central Bank matters, but the lesson I want to draw came from a one-shot
experience. It was around 1977 or 1978 and El Salvador was enjoying the fruits of a long coffee-price boom. Extra dollars were pouring in from this source, and as is to be expected under a fixed exchange rate, such a surge in foreign exchange inflows led to an increased money supply and to a rising price level. People were alarmed by this phenomenon, which they did not really understand. In some major meeting that I was addressing I was asked how to deal with it. My response was -- “Suppose you suddenly woke up to find that there was a live tiger prowling about in your house. What to do? What to do? My answer was -- open all the doors and all the windows, because the more exits there are the better the chance that the tiger will leave!” I’ve been to El Salvador many times since, and nearly always someone who was present at that early meeting reminds me about “the tiger in the house”.

The underlying economic lesson is this. An inflow of foreign exchange should make the dollar cheaper in real terms. With a fixed exchange rate, the way this happens is through the internal price level rising. I don’t like to call that inflation; its better understood when you call it a real exchange rate adjustment. But if you want to mitigate it, the way to do it is by confronting the burgeoning supply of dollars with some offsetting increases in demand. And what better choice is there, if you have lots of import restrictions, than to “open the doors and windows” and reduce or eliminate those restrictions. The message is that taken by itself, liberalizing imports would cause the demand for dollars to increase, and the real price of the dollar to rise. Put side-by-side against an export price boom, this operates in the opposite direction and mitigates the resulting rise in the country’s price level.
Fast forward now to the late 1980s. In mid-1988 I was visited by two emissaries from El Salvador. Could I mount a team of experienced people, mainly Latin Americans, who could come on a series of visits to El Salvador, and end up writing a series of papers delineating their suggestions of possible policy reforms? These suggestions would then be made available to whoever would win the election scheduled for early 1989. I was quickly able to mount such a team, which consisted mainly of my own former students, but who now were ex-ministers, ex-budget directors, ex-Central Bank presidents, ongoing IMF and World Bank consultants, etc. Our team worked through FUSADES, which was USAID’s local counterpart in nearly all of its ventures in the country. We met with all the presidential candidates, with each of their economic teams, and with interest-group organizations of all kinds -- the chamber of commerce, the manufacturers association, various farm organizations.

The story here is a real exchange rate story. El Salvador at the time had a fixed exchange rate of 5 colones per dollar. This rate was obviously stable with the dollar, but the dollar was very cheap in real terms. How had that happened? By internal prices rising while the nominal rate stayed at 5. But the process was not a standard inflation, fueled by profligate spending and huge public deficits. No, dollars were cheap in real terms because they were so abundant. In this case the sources of the special abundance were foreign aid and emigrant remittances, each of which brought in dollars amounting to around 5% of the country’s GDP.

The country was suffering from Dutch Disease (a dollar that was cheap in real terms), not because of some capricious and bad choice made by the Central Bank as to where to fix the exchange rate, but because of the huge, steady inflow of dollars. As
farmers and other exporters complained about the cheap dollar, I repeatedly told them (tongue in cheek, of course) that yes, the dollar could be made more expensive in real terms. “Tell your government to simply turn down next years’ offer of foreign aid, and tell all your friends to write to their relatives in the U.S., asking them to stop sending dollars every month.” Get widespread action along these lines, and the huge flow of dollars would abate, and the dollar would then become more expensive in real terms. More seriously, my message was that if, on the other hand the Central Bank simply doubled the nominal exchange rate from 5 to 10, as these people were urging, that would only make the dollar cheaper for a short time. The only lasting thing it would accomplish is a doubling of the general price level, such as had in fact occurred the previous time the exchange rate had been doubled (from 2.5 to 5). Then it took just 18 months for the price level to double in response to the autonomous devaluation. The main lesson is that if the underlying real determinants of the real exchange don’t change, simply by playing with the nominal rate one won’t be able to alter the equilibrium real exchange rate. This lesson, which to me seems an utterly simple result once we understand the basic economic processes at work, was incredibly hard to convey to the representative of El Salvador export sectors. The would seem convinced at the end of one meeting, yet two weeks later they would have reverted back to square one! This underlines the urgency of our responsibility as professional economists to keep pounding home the lessons and insights that our discipline has taught us. It can be a very hard and frustrating job, as we learned in El Salvador, but nothing will be gained if policies are adopted that simply fly in the face of these lessons and insights.
I had a somewhat similar experience on a recent trip to Russia. USAID had sent me to Russia several times between 2000 and 2004, mainly to work with a number of Russian economic research entities that were receiving AID funding. Now, in January 2010, I went back to participate in a major conference, and on the side revisited two of the places with which I had previously been working. As usual, I had to make presentations at these places, and chose a topic about which I felt quite secure, even though I feared the audience might find it too obvious and therefore bland. I was in for a big surprise, however, as I found both audiences intensely interested and lively.

In that talk I recalled that when I first had come to Russia in early 2000, the exchange rate had been 28 rubles to the dollar, and that at the very moment of my January 2010 visit it was once again 28 and a fraction rubles. In the meantime the price level had nearly tripled, with the ongoing inflation having been a constant topic of media discussion throughout the intervening years. The theme of my talk was that it was probably a mistake to use the term inflation to describe that near-tripling of the price level. It would have been much better to call it a real exchange rate adjustment, rather than an inflation. A “standard” inflation, I argued, was typically characterized by large fiscal deficits financed at the banking system, by unwanted deficits in the country’s balance of payments (reflected in losses of foreign exchange reserves), and by people reducing their holdings of real monetary balances to a minimum, seeking refuge in increased holdings of foreign currency usually both at home and abroad. And the nominal price of the dollar, in the typical inflation process, would be steadily rising and being steadily expected to increase still further. Contrast this with what one saw in Russia during 2000-2010. The government was running huge fiscal surpluses; the
balance of payments likewise showed a tremendous surplus, people (and businesses) doubled and redoubled their holdings of real monetary balances during this period -- nobody was running away from the ruble. And, quite obviously in Russia’s case, the nominal price of the dollar did not follow a continuing upward march. It had fluctuated over time, with a broadly downward trend, reaching a low of around 24 prior to the outbreak of the world financial crisis in late 2008. If, then, one decides to call the Russian syndrome an inflation, one at least ought to have a special label for it, like type B inflation, to distinguish it from the standard type A.

We have already seen that with a fixed exchange rate, real exchange rate adjustment has to take place through price level movements. In classroom examples of a flexible rate system, the nominal exchange rate is usually assumed to do all the adjusting. But it doesn’t work out that way in the real world. Yes, all the adjustment comes via price level movements under a fixed-rate system, but no, it is not true that all the adjustment takes place through movements in the nominal rate under a flexible rate system. Most often under flexible rates, a fall in the real price of the dollar is reflected partly in a fall of its nominal price and partly in a rise in the general price level. Russia’s case was like this immediately prior to the crisis, but reached the extreme of having the full (2000-2010) adjustment being concentrated in the price level, in the process of Russia accommodating its economy to the challenges of the world financial crisis.

The main lessons I would draw for USAID economists are first, that one should be particularly mindful that with flexible rates there are two channels of real exchange rate adjustment, and second, that there is a very big difference between inflation of type A (caused by fiscal imbalances financed by monetary expansion) and inflation of type B
(caused by big inflows of foreign currency). And one definitely should be alert not to apply the same kind of remedy (policy response) to type B as to type A!!

As my last topic I would like to report on a USAID program labeled ATIE -- Advanced Training in Economics. I was involved in this program from beginning to end. It began with a proposal that I in economics and the dean of UCLA’s business school put forward to USAID. We were thinking of building up a sort of specialization at UCLA in the graduate training (in economics and business) of students from Latin America. I had witnessed the great success of our Chicago links with Chile and Argentina, and there was no doubt at all that our proposal envisaged doing something similar out of UCLA. My hopes were quickly dashed, however, when I took the proposal for a trial run here in Washington. Right at the outset I was asked, who did I think would be the relevant Latin American participants in such a program. Without hesitation I replied, why people coming from the top economics programs there -- mainly in Argentina, Brazil, Chile, Mexico, Uruguay. That brought out another quick retort -- but those are no longer AID countries. They’ve all graduated!! Well, I asked, what then are the kinds of countries you have in mind? The answer was countries like Bolivia, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras. To which I responded that but with rare exceptions students from these places won’t meet our admission standards. Quite obviously we had a problem.

But it was a problem to which we found a very happy solution. The contract that was eventually signed provided for participants from USAID countries to be trained, basically to a level corresponding to a U.S. Master’s degree -- in four Latin American institutions; CEMA and Tucuman in Argentina, Cátolica in Chile, and ITAM in Mexico.
These were all top-ten institutions within Latin America, and at the same time my ties to the professors there were such that I felt pretty confident that I could ensure that their programs would impart training with real-world relevance as well as a high level of technical competence.

The program contemplated that the master’s-level graduates of these programs would mainly return to their home countries to strengthen the economics profession there. But the best, it was thought, could go on to receive Ph.D. level training in the U.S., for which they by now would be well prepared as a result of stage one.

The ATIE program was a great success. Under it something like 150 participants received a minimum of 2 years graduate-level training in Latin America and some 25 to 30 went on to Ph.D. work in the U.S. The program lost some of its as yet unallocated funds as USAID took on huge new responsibilities in the former Soviet-bloc countries. But these losses were partly compensated by major infusions of new money from the country missions in El Salvador and Costa Rica.

The program began in the early 1990s and came to an end around 2002, so it is still quite early to look for highly visible results. Nevertheless there are good things to report.

Quite early after his return to El Salvador from Chile, where his studies were funded by ATIE, Rafael Barraza was named president of El Salvador’s Central Bank. After his term there he became Director of ESEN, that country’s leading center of economics and business training. In Costa Rica, Edgar Robles was appointed vice-minister of finance within a few years of his completing his Ph.D. at UCLA, and after that became head of the agency that supervises that country’s pension systems. In
Guatemala Hugo Maul serves as director of economic studies in CIEN, that country’s leading think tank dealing with economic and social issues. Along the way, he served a term as the president of that institution. But the crowning achievements of the ATIE participants belong to Laura Alfaro. On receiving her Ph.D. in 1999, she was appointed to the faculty of Harvard Business School, and subsequently promoted to Associate Professor with tenure. And then in 2008 she was one of a hundred or so people honored as a Young Global Leader by the World Economics Forum. Obviously a series of great achievements, you might say, but does it not represent an undesirable brain drain from Costa Rica, leading one to ask how that country has benefited from her ATIE training? Well, we have an answer for that query - she just recently has been appointed as Costa Rica’s Minister of Planning!!

This brings up a lesson that I have often drawn with respect to developing country economists who end up accepting career positions in the IMF or World Bank. Yes, this comes across as a brain drain from their native countries, and yes, it sometimes ends up bringing little or no specific benefits to them. But there are enough cases with big payoffs to make it a good idea, in my view, for developing country economists to take up such employments. These are the cases where people, after 10 or 15 years or more of experience with, say, the IMF, return to their countries as minister of finance or president of the Central Bank or as budget director or other high member of the country’s economic team.

I cannot exaggerate the benefit that such people bring back to their countries. The years of service with a major international organization bring a wealth of hands-on experience with many different countries and many different types of economic
problems. They also bring important insights into the institutional strengths and weaknesses that can be so important in determining the success or failure of a country’s economic policies. The bottom line is that we and the countries themselves should recognize as great potential assets those people like Laura Alfaro who build outstanding reputations in the developed world and those who go through years of learning from experience in major international organizations.

Before closing, I want to say a few words about economists working here at USAID and in other similar jobs around the world. Our lives are not blessed with easy successes as we try to bring the lessons of good economics to fruition in our client countries. We spend a lot more time waiting, hoping, even praying for success than we do in actually savoring it. Frustration is much more our daily companion than is elation over our victories. I think all of you know what I’m talking about here. The question is, why do we do it? Why do we suffer through all the delays, all the footdragging, all the excuses that we hear as we try to help countries find a path to a better and more prosperous future? The answer is, I think, that we are pretty-much a self-selected lot. Those who couldn’t stand the heat have long since gone out of the kitchen!! Those who remain are those who realize that there are few callings for economists that offer more of a chance to be dealing with matters that are really important to the lives and welfare of whole populations. We are not out there trying to sell one brand of car or computer over another. Nor are we trying to earn our commissions as we help clients trade securities. All those employments are parts of real-life economics; they have their marginal product, as we are prone to say. But they surely don’t lead to the same sort of satisfaction that we can get, having played a role in helping to lift Indonesia from the economic doldrums into
four decades of fantastic growth, or helping to bring Peru to the fore as a growth champion in the early 21st century. I think most of us also get that good feeling inside, even from more mundane achievements, like helping to engineer a tax or exchange rate reform, or to carry to fruition an investment project whose benefits amply exceed its costs. These sorts of achievements are sufficiently special that they don’t have to come every week or every month, or even every year to keep us going. The goal is so worthy, and we recognize that the task is usually so hard, that we willingly fight on, savoring each success that comes our way, but also knowing that the battle itself is very much worth fighting. Certainly that’s the way I feel, after some 60 years in the trenches at home and abroad. And that is something that I have sensed with the USAID economists whom I have worked with and observed over the years. You USAID economists are a hardy bunch, and I love you for it!!