

Pacific Conference for Development Economics

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- The big question:
What kind of research should we, as development economists, be doing?

The empirical turn in Economics

- Empirical work is more prominent today than ever in development economics
- Many fields in Economics – labor economics, public finance, industrial organization – are also much more empirical today than 10-20 years ago
- Why? Much better micro-data on households and firms, faster computers, and improved applied econometric methods (instrumental variables, non-parametrics, matching methods)

Development Economics is part of the trend

- The improvement in data quality has been really stark within development economics
- ICRISAT paved the way. The Penn World Tables, Living Standards Measurement Surveys (LSMS), Demographic and Health Surveys (DHS), and easier access to large-scale government surveys from Indonesia and India
- There have been tremendous academic micro-data collection efforts (e.g., IFLS)

Identification, instruments, and experiments

- The increasing focus on econometric identification has also been common to many applied microeconomic fields (most notably labor)
- Quasi-experiments and experimental methods have been used in all fields in U.S. work
E.g., Lalonde's on labor market training programs, Moving to Opportunity, EITC experiments, health insurance experiments, recent H&R Block experiments
- Experiments yield transparent and credible results influential with policymakers

Randomization as program evaluation

- The Progresa program in Mexico is arguably the highest profile randomized evaluation in development
- Impact: countries throughout Latin America and the world have adopted conditional cash transfer (CCT) programs in large part because of the successful evaluation of Progresa
- Limitation: cannot easily disentangle the impact of the various project components due to the design

Randomization and theory

- But is it possible to use experimental methods to contribute to economic theory?
- Yes – sophisticated designs have allowed researchers to make progress on core economic theory issues
- Randomized methods are not inherently atheoretical, any more than IV is inherently atheoretical, say

Randomization and theory

- The South Africa micro-credit experiment (Karlan-Zinman): multiple staggered randomizations on interest rate offers, and the rate provided on loans, allow them to estimate the empirical extent of moral hazard and adverse selection in credit markets
- Estimating social effects has been more successful with these methods (e.g., Duflo-Saez, Kremer-Miguel)
- Future work should ideally employ structural econometric methods in combination with experimental data to explicitly recover underlying behavioral parameters that can be used for policy simulations

The limits of randomized methods

- Issues of sample attrition, external validity, data quality, and interpretation remain important – as in all other micro-empirical work
- Randomized methods may not be the best approach to study corrupt or ineffective central government institutions, given the inability to randomize

The bottom line on randomization

- Randomized evaluations have already been highly influential among policymakers, and have changed the face of development policy (e.g., Progresa)
- More sophisticated experiments can promote progress on central theoretical issues within development economics
- Randomization is far from the only research tool we as development economists should use. But it should be in the “toolbox” of every empirical development economist

