



**March 2006**  
**Volume 43, Number 1**

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## **Understanding Growth**

### **[Rethinking Growth](#)**

*Roberto Zagher, Gobind Nankani, and  
Indermit Gill*

Economists are reconsidering what they really know about economic growth and how to go about formulating policies in the absence of reliable models. A recent growth study by the World Bank concludes that there is no unique, universal set of rules to guide policymakers. The answer lies instead in less reliance on simple formulas and the elusive search for "best practices," and greater reliance on deeper economic analysis to identify each country's one or two most binding constraints on growth.

### **[Getting the Diagnosis Right](#)**

*Ricardo Hausmann, Dani Rodrik, and  
Andrés Velasco*

A look at a new growth diagnostics framework to help countries prioritize reforms. Once policymakers have identified the one or two most binding constraints holding back growth, they should focus on lifting those, setting aside for later other reforms that are desirable but not essential for growth.

### **[Getting Out of the Rut](#)**

*Danny Leipziger and Roberto Zagher*  
Results from a World Bank pilot study testing a new growth diagnostics framework suggests that the approach brings fresh insights to growth analysis

## **[Levers for Growth](#)**

*Simon Johnson, Jonathan D. Ostry, and  
Arvind Subramanian*

The quality of a country's institutions has long been recognized as key to achieving sustained economic growth. But improving such institutions is a slow and difficult process. Can other policy levers help kick-start growth when strong institutions are absent? New research suggests that macroeconomic stability, trade liberalization, and avoiding an overvalued exchange rate can sustain a self-reinforcing spiral of reform and growth.

## **[Growing Pains](#)**

*Catherine Pattillo, Sanjeev Gupta, and  
Kevin Carey*

Africa's growth is finally picking up. But is the improvement sustainable? While some countries' growth accelerations have lasted for 10 years or more, they still need to do more to dramatically reduce poverty and avoid accumulating excessive debt.

## **[Also in This Issue](#)**

### **[Examining Global Imbalances](#)**

*Philip R. Lane and Gian Maria Milesi-  
Feretti*

A new data set on external assets and liabilities reveals that U.S. investors have earned much higher returns on their assets than they pay on their

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but remains difficult to carry out.

### [The Quest Continues](#)

*Lant Pritchett*

What exactly do economists know and not know about growth? And what direction should future research and policymaking take? Economists may have to abandon the quest for a single growth theory, focusing instead on developing a collection of growth and transition theories tailored to countries' particular circumstances.

### [Breaking Down Barriers to Growth](#)

*Martin Neil Baily and Diana Farrell*

Europe and Japan have suffered a sharp economic slowdown over the past decade. To rekindle growth, they need to encourage competition (especially in the services sector), which will, in turn, boost productivity growth, the most desirable source of growth in all economies.

liabilities. As a result, the United States has been able to run large current account deficits over the past four years without experiencing a major deterioration in its net external liabilities.

### [Going too Fast?](#)

*Paul Hilbers, Inci Otker-Robe, and Ceyla Pazarba••o•lu*

Many countries in Central and Eastern Europe have experienced a rapid expansion of bank credit in recent years. While such credit growth is part of a normal and expected catching up process, it does involve significant risks. Countries would therefore do well to implement policies that limit the vulnerability of their real and financial sectors.

### [New Customs](#)

*James T. Walsh*

Customs administrations are here to stay. They play an important revenue collection role (especially in developing countries), combat smuggling, administer the complex provisions of proliferating trade arrangements, and increasingly address security concerns. So what is the best way to modernize them and minimize their negative impact on trade?

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## Departments

### [Letter from the Editor](#)

### [Letters to the Editor](#)

Aid recipients must be more accountable; Why not limit new borrowing?; Redesigning aid.

## People in Economics

### [The Quiet Integrationist](#)

*Jeremy Clift*

Profile of Haruhiko Kuroda, President of the Asian Development Bank. On top of addressing the risks of a bird flu pandemic and the effects of the Asian tsunami and the deadly earthquake in Pakistan, Kuroda has outlined an ambitious agenda for a new financial architecture for Asia.

## Back to Basics

## **Regressions: Why Are Economists Obsessed with Them**

*Rodney Ramcharan*

Regression analysis is a statistical tool used by economists to quantify the relationship between one variable and the other variables that are thought to explain it. These days, running thousands of regressions is commonplace and easy. But what exactly are regressions and what are their potential pitfalls?

## **Picture This**

### **Globalization at Work**

*Dorothea Schmidt*

The world economy has been expanding strongly, leading to healthy growth in both employment and labor productivity. But unemployment remains widespread, especially among young people. A chart-based look at global employment trends.

## **Book Reviews**

*Illicit: How Smugglers, Traffickers, and Copycats Are Hijacking the Global Economy*, Moisés Naím

*Fair Trade for All: How Trade Can Promote Development*, Joseph E. Stiglitz and Andrew Charlton

*Rules for the World: International Organizations in Global Politics*, Michael Barnett and Martha Finnemore

## **Straight Talk**

### **Separate and Unequal**

*Raghuram Rajan*

Microfinance is increasingly being touted as a miracle cure for poverty. But instead of focusing solely on microcredit for the poor, we should make financial services available for all, says the IMF's Economic Counsellor.

## **Country Focus**

### **Mozambique**

Since the end of its civil war in 1992, Mozambique has made impressive progress on growth and poverty reduction.