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Why we need a research department

1 message

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ADD COMMENT

After a brief hiatus, the office of the Chief Economist of the World Bank Group was reunited last week with DEC, the well-known Research Department of the World Bank. This led me to reflect on a question often posed to policy institutions as well as the private sector: Why do we need research departments outside academia?

Before attempting to answer this question, it is worth noting that research departments are common in top firms in the private sector. By research, I do not mean simple data gathering and processing, but rather the creation of original, innovative insights. AT&T famously had Bell Labs. Technology leaders from IBM to Microsoft to Amazon, Facebook, and Google have all funded basic research. Google has Google X, despite being located only a few miles from Stanford. A strong research lab is a sign of company health and power. Conversely, the shrinking of the research department often signals the demise of the company. And, of course, the phenomenon is not confined to tech.

The fact that these highly efficient companies choose to spend millions to support research departments reinforces the puzzle: Why not focus on engineering and application of knowledge and outsource the creation of fundamental knowledge, of primary research, to academia?

Many explanations have been suggested in the literature. One is prestige. Another is that to attract top, entrepreneurial staff, one needs to give them the freedom and independence associated with basic research. A further reason is that, occasionally, great things come out of these research departments that propel companies to the knowledge stratosphere and create enormous public goods. The transistor, laser, and UNIX are just a subset of Bell Labs' storied achievements.

Closer to home, some of the most important public goods associated with the World Bank originated in DEC. One of the main objectives of the World Bank is to eliminate extreme poverty. But we would not even know how to measure poverty without the innovative work of DEC on this topic ([online tool](#), [latest report](#)). Not only did DEC provide an analytical framework for measuring poverty, it also contributed to data collected within the [ICP project](#) and used widely today to estimate purchasing power parities (PPP) for the world's economies. The [Doing Business Report](#), one of the most influential products of the World Bank, is part of DEC. [Financial inclusion](#), a household term today, is intimately connected with [DEC research that started more than a decade ago](#). More recently, DEC developed the [analytical framework underlying the Human Capital Index](#). In all these cases, DEC, while attempting to answer basic research questions, identified data gaps and articulated strategic priorities that led to the provision of important public goods. And this only scratches the surface of the myriad contributions that DEC has made over the years.

Research is by its nature uncertain. The dominant cost of research is the time and effort spent on projects that have long gestation periods and may not pan out. Therefore, patience and tolerance of failure are pre-conditions for success. But the long-term payoffs of these high-risk, high-return bets justify the expenditures.

Last but not least, sound policy-making requires sharp and structured thinking. The traits honed in basic research, creativity, independent thinking, careful hypothesis formulation and testing, when paired with experience translate to invaluable wisdom that could and should guide policy. An in-house research department is better placed than outside academics to inform – and be informed by – the day-to-day operational work of its home institution. As Olivier Blanchard, the prominent macroeconomist and previous

Chief Economic Counselor of the IMF tweeted last month: "Central Banks have large research departments. Ministries of Finance typically do not even have a research department (with the result that research on monetary policy is much more developed than research on fiscal (macro) policy. Why?"

So, which of the above reasons is the most compelling for justifying the existence of a premier research department at the World Bank? My answer: All of the above!

With Regards,

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