**Reactions of Marc Miles**

**To David Wheeler’s Comments**

1. His suggestion of mentioning the (precise) correlation between, say, the Index of Economic Freedom and Doing Business is good. It will be very high. That should remove any fears that we are “cooking the books”. It also addresses his later point about how sensitive the results are by using one indicator over another.
2. Not sure what he means about a 3X3 matrix. However, it might be useful to analyze the model with respect to the extreme cases. Very often the important information is in the extreme cases, not the clump in the middle.
3. His point about shifting al values to the nonzero range is true. However, as he also points out, given the small shift involved it probably does not make a big proportionality difference here. So why not have a footnote addressing this point and showing that there is no major change involved.
4. Mobile phones vs. roads. Since we were trying to keep the initial model as basic as possible, only one is included. If we had chosen roads instead, by his example, the results would have been subject to the same criticism. But it is a legitimate point, and we should make an effort to include some measure of roads, etc. in a later version. I believe the World Economic Forum index has a sub-index “infrastructure,” though that measure may come from the WB or UN>
5. Life expectancy vs. national governance as measure of local readiness. We do not know a priori which is a better measure. That ultimately an empirical issue. If we were using multiple regression, we would include both and let them “fight it out” to see which is most significant for explaining our independent variable. So Wheeler’s point is just one of weighting. We are already giving the HDI about 2.5 times the weight of governance, so I think we are safe.
6. % of rural population. Aren’t you planning on addressing this issue with some measure of migration from rural to urban?
7. Indicator 18: That’s the point I was making before. $PPP doesn’t make any sense. There are no units, nor is the concept meaningful. As Wheeler immediately noticed, it is probably (real) GDP across countries measured at $PPP (vs. say at just the current dollar value). Let’s find out what this measure really is and clarify before the next version! BTW, his other comment about this being the same as the normalization process strikes me as not being true.
8. The correlation between the final value and GNIpc does not mean that GNIpc should play a more prominent role. As I believe Ian pointed out, countries with say a high degree of human capital tend to have high GNIpc. But which is the cause and which is the effect? Can’t say for sure from a correlation, and there may be some simultaneity between them. What we can say is that we should not include both GNIpc and human capital, because that would be double counting of the same phenomenon.
9. His point about special interest groups is important. I strongly endorse his suggestion of showing that the results are robust to shifts in weightings. Better to nip that special interest criticism in the bud! If a special interest person thinks you have gored their cow, they won’t pay attention (or even worse will bad mouth) the rest of the model.