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Strategic Policy Impact and Research Unit

# Beyond 'constraints': Promoting the politics of economic growth in developing countries

Max Everest-Phillips

Overseas Development Institute

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Overseas Development Institute
London

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Strategic Policy Impact and Research Unit
Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD

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## Acronyms

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| MDGs | Millennium Development Goals |
| OEDC | Organisation for Economic Co-operation and Development |
| US | United States of America |
| UK | The United Kingdom of Great Britain and Northern Ireland |

## Abstract

Economic growth is a political process requiring effective political leadership, vision and sense of national purpose. As a result of the extraordinary influence on economics of the 'Whig interpretation of History' based on the English 'Glorious Revolution' of 1688, international development has however been more concerned with formal constraints on political authority as a necessary condition for economic growth. Such constraints by the 'veto power' of formal checks and balances institutions, are supposedly essential for a government's 'credible commitment' to good economic policies necessary for investor confidence.

In the context of weak institutions and civil society prevailing in many developing countries however, improving economic growth dynamics through constraints on power by formal constitutional arrangements is often politically unrealistic in the short- to medium-term. In fragmented societies prioritising constraints over building consensus threatens to exacerbate the political instability that harms economic growth. International development partners should pay greater attention to finding the means for supporting economic growth through political leadership, vision and sense of national purpose.

# Chapter 1: Introduction

> 'In framing a government, which is to be administered by men over men, the great difficulty lies in this: You must first enable the government to control the governed; and in the next place, oblige it to control itself. A dependence on the people is no doubt the primary control on the government; but experience has taught mankind the necessity of auxiliary precautions.' James Madison: *The Federalist Papers*, No. 51, 1788.

International development has learnt during recent years that economic growth is a political process – growth dynamics depend on getting right the politics behind the economics (World Bank, 2005). This is to rediscover the truth best expounded by the 17th century political philosopher Thomas Hobbes that economic growth will not happen without 'good governance'. For, without the effective institutions of the state

> there is no place for industry, because the fruit thereof is uncertain: and consequently no culture of the earth; no navigation, nor use of the commodities that may be imported by sea; no commodious building; no instruments of moving and removing such things as require much force; no knowledge of the face of the earth; no account of time; no arts; no letters; no society; and which is worst of all, continual fear, and danger of violent death; and the life of man, solitary, poor, nasty, brutish, and short.[1]

Understanding of the political process that develops the necessary characteristics of 'good governance' needed for economic growth has unfortunately progressed little since Hobbes's era. The important challenge in international development is to improve 'governance for growth' reforms: which components of governance – rule of law, government effectiveness and accountability – are the priorities for economic development, and in what sequence in differing contexts. The central political economy problem is that an effective government strong enough to protect 'property rights' (meaning not just the physical assets of citizens but their incentives for economic activity) is also strong enough to confiscate those assets and so undermine investment incentives. Markets must rely on effective coercive power to function, yet need protection from coercion. This permanent tension between state effectiveness and its duty to be accountable and responsive to its citizens is only resolvable through political legitimacy.[2]

Current international development thinking is shaped by the lasting influence of John Locke's political propaganda from 1688 through the 'Whig interpretation of history' on economics. This has created the belief that only governments constrained by effective formal constitutional 'checks and balances', based on institutionalised rights of veto and accountable separation of powers, are able to make the credible commitments towards protecting property rights and observing the 'rule of law' needed for the short-term business activity and longer-term investor confidence on which sustainable economic growth depends. Formal constitutional constraints are

> 'the number of veto players in a political system, adjusting for whether these veto players are independent of each other, as determined by the level of electoral competitiveness in a system, their respective party affiliations, and the electoral rules.' (Beck et al., 2001).

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[1] Leviathan, 1651: chapter 13.

[2] Weingast recasts this, 'the fundamental political dilemma of an economic system', as that 'a government strong enough to protect property rights is also strong enough to confiscate the wealth of its citizens' (Weingast, 1993).

But formal and institutionalised power relations often appear less relevant where developing countries have weak formal institutions and effective neopatrimonial politics of patronage.

The 'good governance' and the 'investment climate' agendas promote transparent and accountable democratic government and rule of law not just as ideal an ends but as a means, as supposed prerequisites for the efficient competitive markets needed to promote the economic growth necessary for sustainable poverty reduction. Within these reform agendas, the stress on constraints on political authority reflects the concern for 'government failure' in many developing countries of the 1970s and 1980s: 'There is no way of explaining the extreme poverty of many nations without taking account of the extent to which they are misgoverned' (Olson, 2000: 59). While few doubt that governance and growth shape each other and that absolute ideals of 'governance' as an intrinsic 'public good' may be important aspirations, whether the components of 'good governance' reform are a useful guide to practical action for economic growth within the operational horizons of the international development community and partner governments in the developing world is open to doubt.

Form and function are too readily confused. Successful high growth countries have not been governed by constitutional arrangements which have placed effective constitutional constraints on the executive. As Dani Rodrik suggests,'successful [high growth] countries followed unorthodox policy agendas. … one can characterize what they did … as deploying unorthodox policies in the service of orthodox ends—such as openness, macroeconomic stability, private entrepreneurship, and so on'.[3] Where constraints have been effective it is due to the same stable political context that also promotes investor confidence. More attention therefore should be paid to finding realistic ways to promote the political commitment of developing country governments to economic growth, while retaining the long-term aspiration towards effective political development. To achieve this, a less prescriptive understanding of the influence of governance on growth is required, one that explicitly recognises the importance of political legitimacy, leadership, vision and sense of national purpose as essential components of any national growth strategy,[4] that underpins the technical capacity to improve economic policies through 'learning by doing.' Political commitment to sustainable growth is the most effective form of credible constraint – the constraint of self-interest, to preserve power through promoting prosperity.

The lesson drawn from England's 'Glorious Revolution' of 1688 should be less on attempting 'one-off' formalisation of binding constraints on the executive. Rather, 1688 represents one step in a much longer process of building state legitimacy by which informal constraints on power through the balance of vested interests around elite cohesion and consensus gradually becomes institutionalised. International development agencies can better support developing countries' growth strategies by recognising the political authority that is required to deliver poverty reduction in developing countries.

[3] Rodrik, D. 2004. Rethinking Growth Strategies: WIDER Annual Lecture. Helsinki. p.7.
[4] 'On the threshold of a new phase in the development of their country, statesmen should be prepared to take the long view, despite the need to deal also with matters of immediate urgency': Friedrich List: Edinburgh Review 1844, p.116.

# Chapter 2: The ‘Whig’ interpretation of political ‘constraints’ for economic growth

> ‘Constant experience shows us that every man invested with power is apt to abuse it ... it is necessary from the very nature of things that power should be a check to power’. Charles de Montesquieu, *The Spirit of the Laws*, 1748: xi, 4.

John Locke’s ‘Two Treatises on Government’, written as political propaganda for the ‘Whig’ supporters of the ‘Glorious Revolution’ of 1688, sought to justify their resistance to the legitimate ruler by characterising the Stuart monarchy of James II as ‘absolute’.[5] Sweeping aside the complex network of formal and informal constitutional arrangements that had in practice long constrained the ‘arbitrary’ authority of the English monarchy, Locke brilliantly created the Whig myth of 1688: that formal constitutional constraints on power are the prerequisites for progress and prosperity.[6] This interpretation of the ‘Glorious Revolution’ has enjoyed extraordinarily long-lasting influence on Anglo-American understanding of economic development, most notably through the dominant political philosophy in the US as enshrined in the American constitution (Paul et al., 1989).[7]

Locke’s legacy particularly permeated the US-dominated field of economics with the ‘Whig interpretation of history’.[8] This saw ‘progress’ including economic growth as constructed through formal ‘constraints’ on political authority introduced in England in the aftermath of the ‘Glorious Revolution’. Check and balance arrangements on power were essential not for their own sake but as a universal requirement for economic growth. Locke’s justification for 1688 created and sustained the illusion of ‘constraint’ on government authority as a ‘quick institutional fix’ to deliver credible commitment to policies for economic growth, even before government often has the capacity for effective (not just arbitrary) rule.

Yet many contemporaries believed that Locke’s justification of the 1688 Revolution was too radical in ignoring the ‘Ancient Constitution’ of England by creating a formal ‘contractual’ view of government that, as much as ‘absolutism’ could threaten the

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[5] Throughout the Civil War advocates of Parliamentary authority had argued not for more formal institutional constraints on the monarchy but in defence of the informal traditions that they claimed Charles I’s ‘radical absolutism’ had imperilled. Just before the outbreak of the Civil War, Charles I had issued *His Majesty's Answer to the Nineteen Propositions of Parliament*, which stated that ‘There being three kinds of government among men, absolute monarchy, aristocracy and democracy, and all these having their particular conveniences and inconveniences, the experience and wisdom of your ancestors hath so moulded this out of a mixture of these as to give to this kingdom (as far as human prudence can provide) the conveniences of all three, without the inconveniences of any one, as long as the balance hangs even between the three estates…’: J.P. Kenyon ed., *The Stuart Constitution, 1603–1688* (Cambridge: Cambridge University Press, 1966), p. 21.

[6] Locke’s legacy is disputed over the balance between his democratic principle of the equity of all mankind, but emphasis on the constraining function of the legislature where, rejecting more radical democratic argument, he seems to accept as natural the contemporary dominance of property owners.

[7] Famously reflected by James Madison in an article in the National Gazette of 1792: ‘Where an excess of power prevails, property of no sort is duly respected. No man is safe in his opinions, his person, his faculties or his possessions’.

[8] The phrase coined by Butterfield (1931) for the British liberal belief in modern English political history as the root of economic development and ‘progress’, with 1688 as a pivotal turning-point: see M. Everest-Phillips (2008).

unwritten constitution as an organic informal arrangement overlapping ancient liberties (Duncan, 1932). Contemporaries were all far from convinced that the creation of formal parliamentary 'checks and balances' was 'progress', concerns reflected in the opening preamble of the *Bill of Rights of 1689* that declared its aim was evolutionary not revolutionary, as 'the vindicating and asserting [of] ancient rights and liberties.'

That this key point was lost in the subsequent Whig Party's simplification of 1688 underlines the need to incorporate better into development the complexity and variety of the politics behind economic growth (World Bank, 2005). Domestic politics rather than aid or conditionality has been the main determinant of policy reform (Dollar and Easterly, 1999). The complexity of political, legal, economic and social development cannot be reduced to formal 'credible commitment' institutions of 'checks and balances' based on a limited interpretation of history. The exact relationship between political freedom and economic outcomes has puzzled political philosophers at least since Aristotle and remains contested:

> 'An overwhelming body of accumulating evidence indicates that good governance and economic freedoms are crucial for attaining rapid increases in the living standards of the broad mass of people in a developing economy. Transparent, predictable governmental institutions and policies are conducive not only to rising per capita incomes but also to declines in absolute poverty. The economic impact of political freedoms, however, is unclear' (Knack, 1999: 19).

All high income countries are strong, stable democracies because advanced market capitalism, liberal democracy, and welfare states generate mutually reinforcing legitimacy. A thriving market economy reduces the incentive to misuse the political process for personal gain while an effective balance between electoral democracy and welfare state encourages cooperative relationships between the state and capital, between the holders of political power and investors. State legitimacy therefore is essential for economic development: in Africa, for example, its estimated worth is 2.5% per annum in Gross Domestic Product (GDP) growth (Englebert, 2002).

The development path to this end-point however is far from as certain as the 'good' governance and investment climate literature might often claim. The historical evidence is troubling: no now-developed state ever followed the 'good' governance or investment climate agenda, including on formal constraints, to achieve economic transformation. Even the UK, with the position of the executive in Parliament more ambiguous than the US presidential 'separation of powers' and greater recognition that a strong state is required for effective public goods, has not shared the US belief from Locke that the state needs primarily to be constrained if economic growth is to be promoted.

Elsewhere the evidence is overwhelming: political incentives to promote economic growth, not 'constraints' on political power have been the key to sustainable growth paths. In Japan after the Meiji Restoration of 1868, the first non-European state to industrialise, there were few effective formal constraints on the authority of the executive even after the introduction of a constitution in 1889 and the Diet in 1890, elected by around 1% of the Japanese population. Similarly across the 'East Asian Miracle' of the 1960s and 1970s, the military regimes in South Korea and Thailand or the monopoly of power by Chiang Kai-shek in Taiwan or Lee Kuan-yew in Singapore were not constrained by separation of powers or effective constitutional checks and balances. Yet all achieved unprecedented rates of economic growth and poverty reduction. Glaeser et al. (2004) found that economic growth since the 1960s in developing countries has to a significant extent been a result of effective leadership, rather than constraints on executive authority for institutionalised credible commitment. Economic growth in developing countries has often been kick-started by little more than a shift of political support in its favour (Rodrik, 2003a).

Ha-Joon Chang in his significant effort to insert history into economic development *Kicking Away the Ladder* (2002), notes how the developed world, in promoting 'good' governance and the 'investment climate', is pushing poor countries into adopting economic institutions and laws that were not in force when the developed countries were developing. This ahistorical approach to institutional reform risks impeding economic growth in the developing world by ignoring 'what really matters'. Chang highlights the example of intellectual property rights: strict enforcement, as now advocated, would have prevented much of the developed world from developing as it did. In Switzerland for example, the absence of a patent law throughout the 19th century has been identified as one way that Swiss companies 'caught up' in new areas such as the chemicals industry in which it is now a dominant global player. Even when a Swiss patent law was finally enacted in 1888 ('the most incomplete and selective patent law ever enacted in modern times': Schiff, 1971: 93), it was designed to serve the vested interests of watch-makers not promote 'secure property rights' (David et al., 2006).

The 'Constraint' focus in contemporary international development emerging from the legacy of 1688 can be traced to two broad strands of economic thinking. First, endogenous growth theory argued that since total factor productivity depended on how governments address externalities, political constraints would increase the productivity of government expenditures (Romer, 1986 and 1990, and Barro, 1990). Meanwhile new institutional economics had discovered that 'politics and history matter', in the form of 'institutions' and, reflecting the influence in the US economics of the Whig interpretation of 1688, understood institutions through the lens of 'constraints'. Institutions in new institutional economics are defined as 'a set of rules, compliance procedures, and moral and ethical behavioural norms designed to *constrain*' (North, 1981: 201–202: italics added). North (1990: 138–140) justified this from the history of the 'Glorious Revolution' by asserting that 1688 not only generated formal rules of constraint but also 'informal *constraints* were hospitable to the change in the formal rules' that reinforced the formal constraints. North admitted however 'it is tempting to claim too much' for the role of Parliament as a constraint on the executive after 1688. New institutional economics therefore has fully embraced Locke's 'Whig' interpretation: by establishing parliamentary constraint on the arbitrary rule of the monarchy, 1688 created 'secure property rights' for all not just the politically powerful, resulting directly in Britain's economic prosperity of the 18th century and the industrial revolution.

As a result, 'institutions' of constraint on political process for economic growth have become the unquestioned development orthodoxy: worse governance (due to 'arbitrary' rule) produces worse economic outcomes; political constraints stop political power interfering with markets and so promote economic growth. This 'Whig' interpretation of political 'constraints' for economic growth has become a central argument in the burgeoning 'institutions and growth' literature. For example, Acemoglu, Johnson and Robinson, in their influential paper *Institutions as the Fundamental Cause of Long-Run Growth*, claim the main challenge to growth is creating 'effective constraints on power-holders', asserting that:

> 'Political institutions are essential both because they determine the constraints on the use of (*de facto* and *de jure*) political power and also which groups hold *de jure* political power in society.' (2004:10).

They then claim to find that:

> 'separation of powers between different power-holders are more likely to engender an environment protecting the property rights of a broad cross-section of society. When political elites cannot use their political power to expropriate the incomes and assets of others, even groups outside the elite may have relatively secure property rights. Therefore, constraints and checks on the use of political power by the elite are typically conducive to the emergence of better economic institutions' (2004: 48).

The 'lesson' of 1688 – that economic growth results from the establishment of a government's 'credible commitment' to its policies through the creation of formal institutional checks and balances on political authority – has become mainstream in international development. With it has come the implicit belief from the 'Whig interpretation of history' that institutional change along western experience lines is 'progress' and 'good' governance: that the quality of governance is enhanced and economic performance achieved through a system of checks and balances, separation of powers, delegation of authority, and credible commitment (Dixit, 1996).

Acemoglu et al., (2001, 2002) for example argue that European settlers brought with them contrasting institutions to constrain the executive. They claimed econometrics confirm that countries peopled by European colonial settlement have experienced sustained higher growth, so constraints on the executive supposedly lead to long-term higher growth rates. Europeans created effective 'constraint' institutions in British settler colonies of the US, Canada, and Australasia and ineffective ones in others (particularly in Latin America and sub-Saharan Africa). This argument, however, is new 'Whiggism' – a disturbing over-simplification of the variety of historical experiences and complex dynamics of the different European historical process of colonisation: a 'lethal cocktail' of Locke mixed with econometrics. Acemoglu et al. create a false dichotomy of 'good' ('constraints' creating 'secure property rights') or 'bad' ('exploitative') institutional legacies at odds with the complex variation in colonial exploitation and other variables. The Acemoglu et al. basic idea of the long trajectory of good governance misses the insight that path changes in growth have been a key feature of most successful development outside the Anglo-American experience. For example, the construction of developmental states in 19th century Scandinavia, and 20th Century Finland or East Asia were all triggered by large-scale land reform, contradicting the Acemoglu et al assertion that secure, unchanging property rights are an essential feature of successful growth trajectories. The problem with Acemoglu et al. and similar work is that the variation in state capacity and historical trajectories is not picked up in aggregate measures. Our understanding of why capacity varies so much within polities and the roots of how growth paths change is limited already, but their aggregation of complex history results in no more than a new variant of Marxist historical determinism.

This 'post-Washington Consensus' consensus on the investment climate is constructed on the legacy of these claims of 1688 as 'progress' and that focuses the politics of economic growth on the search for 'constraint'. The ideal is a strong but limited government, able to credibly commit itself to sustaining policies for growth yet prevented from expropriation and held accountable. Strong but limited governments sustain economic development, prompt investment and generate information for policy learning. So Keefer (2004: 22) asserts that 'the most powerful explanation of contrasting development outcomes links political checks and balances to the credibility of government commitments.' But this confuses ends and means, ideals and instrumental paths to development. The international development paradigm resulting from the ‘institutions and growth’ literature is neatly summarised by Qian (2002, 302–3):

> ‘A set of institutions is critical for sustained growth, including secure private property rights, protected by the rule of law, impartial enforcement of contracts through an independent judiciary, appropriate government regulations to foster market competition, effective corporate governance, transparent financial systems, and so on. The fact that all of them can be readily found in the developed economies, especially in the United States, implies that they are ‘best practice’ institutions. Economists then use these institutions as a benchmark to judge transition and developing economies, and often find huge institutional gaps. These findings then serve three purposes. First, they generate a diagnosis of deficiency of institutions in developing and transition economies. Second, they are used to explain why these economies perform poorly, confirming the central hypothesis that institutions matter. Third, they lead to recommendations for institution building: If the economy has weak property rights, clarify them. A weak financial system? Strengthen it. A bad law? Change it. A corrupt legal system? Clean it up.’

Unfortunately ideals of governance do not necessarily translate into better growth. The transition from low-income to high income states generates political instability.[9] Efforts to improve ‘good’ governance principles like transparency and accountability may not promote growth if reforms create the political instability which undermines investor confidence on which sustainable growth depends. Adoption of the ‘right’ institutions has often failed to generate growth (notably in Latin America). Conversely high growth has occurred where governance initially was ‘poor’, in China since 1978, to a lesser extent in India since 1980, and in Vietnam since the mid-1980s. Recent research has therefore increasingly questioned whether in the short to medium-term at least (the time horizon of development agencies), ‘good’ governance delivers improved growth rates for developing countries. Those developing countries that have pursued ‘good’ governance reforms have on average performed no better in the last two decades – and during the 1990s may even have performed marginally worse on economic growth than other developing countries (Khan, 2006).

While the longer-term nature of the undoubted connection between governance and growth performance remains unclear, it is apparent that in most developing countries the formal political institutions are often too weak to make any separation of power effective in the short- to medium-term. Political Risk indices fail to explain growth because these indices focus on the short-term rather than deep determinants of how governance influences growth dynamics (Linder and Santiso, 2002). Although the ‘rule of law’ should restrain arbitrary use of executive authority, the governance challenge is that all aspects of governance interconnect so that there is no template for prioritising and sequencing of reform: effective ‘rule of law’ in turn depends on an effective civil society, functioning democracy, free but responsible media, and an independent civil service, attributes that are often weak in most developing countries.[10] As a result, any formulaic constitutional division of government authority in environments that lack a history of effective political underpinning for checks and balances on power, is likely either to result in the ‘theatre’ of democracy or political instability, undermining the government effectiveness.

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[9] This point, obvious from the historical narrative, is also one of the main research findings of the Polity iv Research Project that attempts to quantify the characteristics of states over the last 200 years.

[10] Stasavage (2002a) offers a variant of the North and Weingast idealised model in which all good things, including effective constraints, come together. This however is to overlook the importance of elite cohesion, consensus and state legitimacy.

# Chapter 3: The lesson of 1688: Political constraints for economic growth?

The oversimplification of the importance and impact of 'the Glorious Revolution' of 1688 and the concept of processes of power as 'institutions' has nevertheless created and sustained the illusion of 'constraint' on government authority as a 'quick institutional fix' to delivering credible commitment to policies for economic growth; often even before government has the capacity for effective (as opposed to arbitrary) rule. The historical evidence also suggests the influence of 1688, of politics as a risk and barrier to the investment climate, and growth needing to be constrained to the minimum possible influence, to allow markets to prosper, is neither correct nor realistic (Everest-Phillips, 2007). The emergence of effective constraints on arbitrary power in England was a much lengthier more complex development: the evolution of common law which acts as a constraint on the executive has existed in some form since Anglo-Saxon times (Wormald, 1999). Stasavage (2002a and 2002b) for example examines North and Weingast (1989) assertions that institutional checks and balances from 1688 created credible commitment, but he suggests they were not a necessary condition.

Credible commitment was built less by any single episode of constitutional change and more by the gradual institutionalisation of power relations, with the rise of political parties in the early 18th century, and by the creation of a sense of national purpose; and perhaps most importantly though by the emergence of the religious tolerance that began to settle almost two centuries of religious conflict following the Reformation. A better understanding of 1688 in the broader context of 17th century British history emphasises that 'political settlements' are a process not an event – and like development reforms are dependent on local variation. Property rights had been stable in England for hundreds of years before 1688, but the political process had not achieved 'credible commitment'. The 'political settlement' that created the political underpinnings for economic growth was not a one-off set of reforms around 1688. To understand the enabling as well as constraining aspects of institutions, a proper grasp of reform in historical context is needed. This necessitates understanding history not just as 'path dependency' but as extensive political experimentation from which emerges the 'sense of national purpose' that delivers economic growth. As Jonathan Di John has pointed out, the historical evidence suggests that state capacity varies substantially across functions and sectors within polities. This variation in capacity is not picked up by aggregate measures and our understanding of why capacity varies so much within polities is limited. Detailed historical analyses of the political coalitions and settlements underpinning specific state capacities are essential to increase understanding of variable state capacity within a polity.[11] This has lessons for international development. The time-frame for what constitutes effective donor interventions may have to lengthen considerably.

Development requires the state to be able to manage conflict to prevent the violence that stops economic growth, and to overcome any opposition to the transformation of the economy and society which is needed to modernise and industrialise. For sustainable and shared growth the state needs to be able, credibly, to commit to the implementation of growth-enhancing policies to win the co-operation not just of investors but of political elites. To varying degrees it also needs to be able to convince the broad population that it

[11] World Bank. 2008. The Political Economy of Taxation in Developing Countries: Challenges to Practitioners. Washington DC.

too will benefit from economic growth. The state therefore requires effective authority to operate in the broad, long-term interest of society – to raise taxes effectively to pay for the social welfare needed to make growth politically and socially feasible and to put assets into productive hands to promote the broader interests of national purpose. Historical evidence suggests 'the critical and dynamically changing role governments must play in the economic development of their countries (requires) that they have sufficient autonomy not only from domestic political constraints but also from international constraints on their economic actions' (Morris and Adelman, 1988: 212).

Political context (such as political instability and policy uncertainty) shapes economic growth by constraining individuals' decisions in the marketplace (Feng, 2003). Political constraints as not just formal, but built on the practices, beliefs, and traditions of societies, and shaped by social interaction. Credible commitment requires a political process shaped by political leadership, vision and an emerging sense of national consensus around development aims. Political arrangements must always find the correct balance between institutional empowerment for decisive state action for the long-term collective interest and the arbitrary tyranny of short-term vested interests. The importance of government credibility for implementation and consolidation of policy reforms depends on this fine balance. Where lack of credibility causes higher economic and political costs of reform and reduces the incentive for governments to reform, constraints may increase government credibility and decisiveness, and therefore be conducive to investor confidence – but only when constraints enable credibility rather than create paralysis. Effective formal constraints in highly divided societies like Nigeria may make development all but impossible to achieve by fragmenting authority across too many conflicting vetoes on change. Although 'constraints on discretionary government policies are desirable, and that domestic institutions and international commitments could serve this purpose' (Schuknecht, 1999: 181), the political realities of developing country contexts raise doubts about constitutional constraints as a practical priority. The long-term development aim remains accountable and responsive government, but the process of building effective control on the discretionary power of government must engage with how power shapes growth in high-growth countries, and with the underlying historical and political factors that reflect the willingness of government to promote broad development beyond narrow interests.[12]

Limiting the state's capacity to expropriate, and ensuring policy predictability and certainty, is far more complex than 'constraints'. Not just expropriation of assets but also changes in tax policy, regulations or procedural requirements affect private investment identified as a determinant of economic growth (Barro and Sala-i-Martin, 1995). The evidence is clear that 'a nation can achieve economic miracles by reducing political instability, building policy certainty, and increasing political freedom' (Feng, 2003: 37). But how it does this successfully is not easy to identify. The 'East Asian Miracle' counties all had different institutional power arrangements. Their success in export orientation and macroeconomic stability was due to strong political incentives to succeed, not to constraints. Similarly in Africa's only sustained high-growth success story, Botswana, political incentives and a shared elite vision of development were supported rather than constrained by the kgotla system of village-level political accountability and consensus-building (Stedman, 1993). Growth in developing countries

[12] Olson (1965) pointed out that those who control violence as 'stationary bandits' extort from the population while the problem of collective action makes it difficult to resist this unless and until sophisticated political constraints can emerge. Barzel (2002) argues for a 'collective action mechanism' capable of constraining power *before* those who have the authority to enforce rules can assume power (p. 115) but gives no evidence that this is either politically feasible or has ever occurred.

depends on political governance capabilities that allow states to manage political stability through patron-client politics at relatively low cost by manipulating property rights without excessively disrupting productive investment and learning (Khan, 2006 and Schmid, 2006). Governments in fragile developing country contexts often simply lack the effectiveness and legitimacy needed for any credible commitment (Azam, 2000). Qian (2002: 10) argues that institutional innovation must 'simultaneously address both the economic and political concerns, that is, to make a reform efficiency improving and interest compatible for those in power.'

Initially informal constraints to protect private incentives limit most effectively the arbitrary behaviour of governments but local variations in the effectiveness of formal and informal constraints do develop. The Suharto regime in Indonesia deliberately chose to tie its hands, without formal constraints, in order to make a credible commitment about future policy to the investment community (MacIntyre, 2001). Bai, Li, Qian, and Wang (1999) suggest that one mechanism in China to constrain the state power indirectly has been through formal and informal constraints on the information available to it, effectively limiting government authority in the absence of effective formal 'rule of law'. This information 'constraint' includes allowing anonymous business transactions through the use of anonymous financial assets and anonymous bank deposits. So the capacity of formal checks and balances to be effective in the context of otherwise generally weak institutions remains the key development puzzle, but as a necessary precondition for economic growth the evidence is far from convincing.

So fundamental principles about the influence of governance on growth are not based on rigid rules, for instance, increasing political instability can even be correlated with *increases* in investment (Londregan and Poole, 1990, Campos and Nugent, 1999a and 1999b, and Haber et al., 2003). While political stability is usually linked to better growth outcomes, at the same time high leadership turnover is strongly associated with high economic growth both in autocratic and in democratic regimes. By contrast, high turnovers in bureaucracies are normally associated with poor state performance. So 'stability' can both promote and stunt growth: longevity of individual leadership is associated with stifled political competition producing poor economic outcomes, while longevity of political institutions strengthens economic outcomes:

> 'In politics, competition may promote growth when it is over ideas for improving the welfare of a broad base of citizens through the provision of market-enhancing public policies; but competition can also produce gridlock, such as in Korea before the Asia Financial crisis of 1997–8. Leaders' longevity in office typically reflects institutional arrangements that stifle just such competition, instead rewarding cronyism and corruption.' (de Mesquita, 2007: 23).

Ironically however in contexts of constraints causing political gridlock, it may be only far-reaching economic reforms that can be carried out (Martinelli and Tommasi, 1997).

The governance agenda – of rule of law, anti-corruption, voice and accountability – therefore needs to be expanded to balance better the ideal and the instrumental. The latter, the means for development, includes how the political arrangements underpin the growth dynamics through effective leadership, clear vision, an emerging sense of national purpose that could overcome limitations of narrow interest groups,[13] and a motivated, meritocratic bureaucracy. Government 'effectiveness' and 'responsiveness' must include

[13] Most notably Olson (1982) attempted to distinguish between organisations for broad collective interest and narrow distributional rent-seeking groups that constrain economic growth.

incentives for capable action not just constraints on discretion (Iwasaki, 2003). Imposing 'market-friendly' reforms like those proposed by the 'Washington consensus' can create the very political instability that undermines any prospect of sustained growth – the history of Latin America's economic lost decade of the 1990s: 'Perhaps the most important lesson of the 1990s is that technocratic responses to improve governance work only in very auspicious settings...'(World Bank, 2005: 298).

This is no more than to rediscover that the historical context really does matter: the economic success of North America by comparison with that of post-independence Latin America was because in the latter, 'political inequality, low investment in public education, limited social mobility, and slow rates of economic growth all mutually reinforced one another' (Haber, 2000: 17). But democracy as formal constraint of the legislature on the executive, which the governance agenda would suggest is critical for economic growth, has no clear-cut influence on growth dynamics: '...democratization does not ensure economic development' (World Bank, 2005: 306). There is indeed surprisingly little evidence that democracy leads to improvements in income inequality on which, by creating greater opportunity for all, improved growth dynamics through more political stability might depend (Milanovic et al., 2003).

The World Bank nevertheless still offers a normative prescription: 'elected governments are most credible and most likely to respect private property rights when they confront checks and balances on their decision making.' (World Bank, 2005: 313) but a footnote admits that little is really known about the various influences on the growth performance of democracies versus non-democracies. The opposite argument is also made: 'Public choice' theory reworks classical concerns about democracy as mob rule to claim that: '[d]emocracy may become its own Leviathan unless constitutional limits are imposed and enforced' (Buchanan, 1975: 204–205). This is no more then than an argument for liberal democracy not just democracy, a still largely impossible ambition for a weaker developing country's political arrangements. This is central to a crucial issue for development: a better distinction in improving governance for economic growth between promoting 'democracy' (through the mechanisms of elections and 'rule by law') and 'liberal democracy' that requires 'rule of law' constraining the rights of the state over those of its citizens. Extreme income inequalities in developing countries always threaten to undermine any political strategy for development through conflict over who benefits from economic growth. So all developing countries face the paradox that growth is needed for development but threatens the political stability on which growth depends. The political and technical ability to manage this paradox is the essence of 'governance for growth'. Some agreed national consensus is therefore needed for maintaining the political process required for building both growth and political stability.

Yet the evidence for constraints effecting growth is clear: merely adopting the formal structures of checks and balances of democracy, such as elections to hold the executive to account, make no difference to growth dynamics (Przeworski et al., 2000 and World Bank, 2005). Przeworski and Limongi (1993 and 2000) showed that democracy does not produce better growth outcomes than autocracy. They note that the political process of transition to democracy presents opportunities to redistribute income from the rich to the poor, but once democracy is secure, so too are property rights (that is, assuming a political settlement on the rules of the 'democracy'). 'Constraints' therefore may be most important for curbing, not effective government, but the effectiveness of government to reflect the unbridled will of the people – popular forms of redistribution that may hurt investor confidence. Glaeser et al. (2004) note:

> ‘although nearly all poor countries in 1960 were dictatorships, some of them have managed to get out of poverty, while others stayed poor. This kind of evidence is at least suggestive that it is the choices made by the dictators, rather than the constraints on them, that have allowed some poor countries to emerge from poverty.’ (18)

The focus on constraints as checks and balances adds to the apparent division between democracies and non-democracies on growth, but wrongly – autocratic regimes also have informal if not formal constraints on their authority. If poor growth performance is rooted in ruling elites’ coalition-building to stay in power, then how that coalition-building works is central to economic growth. But the link between politics on economic outcomes has typically focused on the role of democracy versus autocracy where democracies are argued either to favour national policy interests over the narrower particularistic and welfare-reducing policies of an autocracy (North, 1990 and Olson, 1993) and enhance transparency and accountability, or alternatively, to lower growth prospects as competing interests divert economic resources (Olson, 1982 and 1965). But broad generalisations are questionable: the same institutions that can provide a credible commitment to the stability of good status quo policies may impede the adjustment to external shocks that require a policy response (Rodrik, 2000).

Asia’s economic success (Japan since Meiji Restoration, East Asian ‘tigers’ since 1960, communist China since 1978 and Vietnam since mid-1980s) shows starkly how the supposed 1688 formula of formal institutions of institutional constraint on the executive is neither necessary nor sufficient, but credible commitment is crucial. Commitment is not only based on constraints. As demonstrated by all successful cases of high growth, a focus on ‘checks and balances’ shows at best a very inadequate understanding of the growth dynamic, and at worst is totally misleading. In many developing country contexts far more attention should be paid to positive ‘commitment-building’ through political leadership, coalitions, vested interests, collective action, and the differential capacity of different social groups to mobilise and coordinate their political aspirations.

# Chapter 4: Effective states for economic growth: What works?

This 'political constraints for growth' based on the questionable interpretation of 1688 creates a static, ahistorical view of governance as evolution of both political legitimacy and administrative capability fails to fit modern development success stories from East Asia to Botswana. The importance for economic growth of constraint on political authority derives from already effective states: developed countries by definition have complex patterns of institutions with interlocking powers. But whether constraint on state authority in weak or fragmented developing country polities is so beneficial for growth cannot be assumed from where the Organisation for Economic Co-operation and Development (OECD) countries are today. As Ha-Joon Chang (2002) has perceptively pointed out, there is no evidence that the now developed world when still developing countries had any of the complex institutional arrangements of the 'good governance' agenda now regarded as necessities for economic growth and development. Incentives to 'catch up' with British economic power seem to have been of greater importance in stimulating development in 19th century Europe and Japan than 'constraints' on authority.

Research evidence increasingly suggests the need to re-examine the historical record for what really works. Khan (2006) shown that 'good governance' at least as currently measured has no general impact on economic growth outcomes. Gerschenkron (1962) and Hall and Soskice (2001) point to the 'varieties of capitalism' by which advanced economies with similar 'secure' property rights developed through very different political processes and 'institutions'. Staton & Reenock (2006) notes that advocates of 'credible commitment' (e.g. North and Weingast, 1989, Clague et al., 1996, 1999, North, Summerhill and Weingast, 2000, and Frye, 2004) claims that credible commitment affects all people equally, whereas the evidence on political institutions suggests that rules do not effect all people in the same way: 'checks and balances' work also as 'private goods'. State bureaucratic competence always requires political leadership and vision to insulate policy effectiveness from social and political pressures (Leftwich, 1995).

Economic growth is often the result of little more than the known political support of rulers (Rodrik, 2003a). Deng Shao-Ping single-handedly delivered the Millennium Development Goals (MDGs) by declaring: '*To get rich is glorious'*. The unprecedented economic growth in China since 1978 has highlighted that formal 'constraints' are not essential to economic growth: research has failed to find evidence for the importance of formal or even informal constraints as a decisive factor in China's success (for example, Yeung et al., 2007). Kang (2002) has shown that the credible commitment of South Korea's military government to economic growth policies was not the result of institutional 'constraints'. President Park Chung-hee like other East Asian political leaders maintained an effective 'balance of power among a small and stable set of government and business elites' (2002: 3), in which economic growth was often a by-product of the more pressing concern of political survival. Rapid economic growth was the result 'not of better institutions but of political leadership and its relations with the business class' (95). Politics trumps economics: economic growth can only happen when those with the political authority to control violence believe that their long-term political interest lies in promoting shared prosperity (Bates, 2001).

Credible commitment is more dependent on long-term self-interest of political survival than on constraints that could be politically feasible in most developing country contexts. The point was most lucidly made five hundred years ago by Machiavelli who advised that the Renaissance monarch would thrive better in a prosperous realm:

> He ought accordingly to encourage his subjects by enabling them to pursue their callings, whether mercantile, agricultural, or any other, in security, so that this man shall not be deterred from beautifying his possessions from the apprehension that they may be taken from him, or that another refrain from opening a trade through fear of taxes; and he should provide rewards for those who desire so to employ themselves, and for all who are disposed in any way to add to the greatness of his City or State.[14]

Machiavelli was updated by Mancur Olson (2000) as 'stationary bandits': where rulers have long-term dynastic or clan ambitions or face external threats they have strong incentives to generate broad-based sustainable growth. The point remains the main political economy challenge to economic growth: why do ruling elites not pursue this strategy more often? The 1688 'constraints' approach to how politics shapes economic outcomes therefore misses the equal or possibly greater importance of incentives – what drives political interest in sustained economic growth outcomes: the positives of leadership, interests, ideas and incentives, less the negative of constraints, the legacy in economic thinking from 1688 – the 'Whig Interpretation of Economics'.

Economic growth comes from political trust or 'credible commitment' to overcome risk and uncertainty, through shared vision and a national purpose. How is this constructed? It requires a dynamic process for signalling political stability of commitment to shared ownership of the growth process that is above factional or personal politics. Such inclusive growth has been the defining characteristic of all thirteen post-World War II high-growth successes.[15] Growth depends on constraining the political risk perspective of the risk of expropriation of property that is the practical manifestation of the threat of ineffective security. This risk however does not stand on its own but in context of all manifestations of the political risk to growth, such as breach of a contractual obligation by government, non-payment of scheduled loan payments; the financial dimensions such as convertibility of local currency or transfer hard currency abroad; and the threat from political violence.

Effective governance requires both a strong citizenry that grants legitimacy to the state and receives in return an independent judiciary to uphold its interests; and a strong state with the capacities to drive forward broad social needs, such as economic growth and human development. The development community and the institutions and growth literature being too focused on Locke, has often failed to reflect other strands of political philosophy, especially Aristotle's concern for the common good, Hobbes's insistence on the state's necessary authority to impose its will. Property rights require first an effective state (Hobbes) and only then effective restraints on the state (Locke), so the puzzle for economic growth is how to achieve the most beneficial balance between effectiveness and adequate constraint on *arbitrary* power (not on *de jure* or *de facto* power itself): too weak a state will also weaken property rights. The rule of law is critical to economic growth by constraining government arbitrariness, the fundamental differences between the 'rule by law' and the 'rule of law'. But where the 'rule of law' is weak, government can be constrained by other political forces not arbitrarily to interfere with economic activities.

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[14] The Prince: 1992 edition, p.61.

[15] World Bank. 2008. The Growth Report: Strategies for Sustained Growth and Inclusive Development.Washington DC.

The practical challenge is to harness economic opportunities while developing political capacities of contestation leading to consensus on growth, in contexts with very different political ideologies, mobilisation, empowerment structures and inequalities. From Bolivia to Kenya to Indonesia, these problems are the practical challenge for long-term sustainable development. Democracy may complicate as well as resolve tensions between broad political interest in public protection of property rights as public good, and more responsive to fiscal pressures for public welfare. So the nature of democracy, and the degree of liberal democracy, matter along with the extent and politicisation of inequality. Efforts to identify the political and social conditions for 'secure' property rights reveal the tautology of advocating 'secure property rights' as a precondition for growth: property rights express the full mix of political governance variables that provide degrees of stability to the political process of managing asset ownership (Everest-Phillips, 2007). Politics shapes economic growth by determining immediate risk of expropriation and longer-term risk of potential reopening of the 'political settlement'. Risk threatens all rights, so politicians seek stability for their longer-term interests provided incentives prevent re-opening of the 'political settlement' (Wedeman, 1997).

# Chapter 5: Promoting the politics of economic growth in international development

International Development began life in the immediate post-independence era focusing on ‘market failure’. With the failure of development aspirations in the 1960s and 1970s outside of the ‘East Asian tigers’, development adopted the political philosophy of Locke, of ‘government failure’ constrained by separation of powers with the state’s role to promote economic growth through providing property rights and efficient markets. This means the state’s purpose is simply ‘rule of law’, the framework of institutions to uphold property rights and enforce contracts. The World Bank (2005) reflects the orthodoxy, asserting that ‘Credible, sustainable reform depends on the checks and balances provided through political institutions’ (p.25) and that ‘governments are most credible and most likely to respect private property rights when they confront checks and balances on their decision making’ (p.313).

The international development targets outlined in the MDGs all directly or indirectly require low-income countries generally with weak institutional arrangements to achieve higher growth rates. But the policy guidance and conditionalities developed for poor countries by aid donors and the international financial institutions over recent decades were the product of the limitations of economic theory: ignoring politics and the complexity of history, the transfer to developing countries of a set of universal, essential ‘best practice’ institutional arrangements modelled on the Anglo-American development experience as essential prerequisite reforms to deliver economic growth. ‘Institutions’ as the formal and informal ‘rules of the game’ for efficient markets to minimise transaction costs is no more than economics recognising that politics and history matter. Any political ‘constraint’ depends on this ‘institutional’ context that develops with a country’s income level and evolving needs (Lipset, 1960 and Demsetz, 1967); the development of human capital, income and complexity (Lipset, 1960 and Glaeser et al., 2004); the evolution of law (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1999); colonial legacy (Kohli, 2004); and societal characteristics such as religion that shape growth outcomes (Tawney, 1926 and Treisman, 2000). Landes (1998) concludes from economic history that ‘If we learn anything from the history of economic development, it is that culture makes all the difference’ (Landes, 1998: 516). This is mediated through political culture that dictates the relationship between political freedoms and adoption of technology advances, demographic changes, new markets or ideas. Sequencing matters: Kohli (2004) argues that ‘the creation of effective states within the developing world has generally preceded the emergence of industrialising economies’ (p.2) and notes that ‘there is a stunning lack of evidence for the proposition that less government facilitates more rapid industrialisation in the developing world’ (p.7).

The ‘constraints’ model from 1688 is limited in its power to explain how societies from Finland to Japan have managed to evolve to high-income status. Indeed even the UK retains an ambiguous relationship of checks and balances between the executive, legislature and judiciary. Presidential democracies, with a clearer constitutional constraint from the legislature, turn out to do no better on growth than the more ambiguous relationship between executive and legislature of parliamentary democracies. Development is a dynamic process of constructing legitimacy through a sense of national purpose and shared national vision. The politics of economic growth by legitimating contentious policy and motivating individuals and social groups behind a shared vision of long-term development, is the least understood dimension to development. Successful 'late developers' have almost all experienced some 'political settlement' around elites' use of nationalism and the politics of economic growth to ensure social cohesion, although Japan's case has perhaps been the most extreme example of the struggle for a modernising state to encourage prosperity rather than violence:

> 'When the country was facing a strong external challenge, such as total war, economic survival, or liberalization, national interest was often asserted strategically to reduce domestic conflicts. The shared sense of national crisis had been an important political foundation allowing competing parties to work out a solution to their domestic disputes' (Gao, 1997: 295).

Economic nationalism has played an important role in all successful economic development. The origins may lie in France with the ideas of Henri de Saint-Simon, and in Germany with Bismarck's development ideology of 'Blood and Iron' which was adopted by Meiji Japan under the slogan '*Fukoku kyohai*' – 'Rich country, Strong Military'. The link between the economic and military development of the state continues. From 1948 to the early 1980s, Israel's economic development, driven by the political ambition for a strong state, fostered the emergence of an indigenous capitalist class by encouraging the growth of private capital through key conglomerates initially tied to the state (Hanieh, 2003). Similar nationalism was a strong force in South Korea's slogan – 'defeat communism and achieve unification' – and in Taiwan's policy of 'retake the mainland'. In Thailand, with its rich regional and ethnic diversity, the king has become a key symbol of national development – a status similar to that of Emperor Meiji in late 19th century Japan. Such symbols of long-term state-building may have economic value in shaping the perceptions of risk of investors and the public about political stability and therefore the likely return on time, effort and financial capital.

But the primary function of government, to create an inclusive polity, is greatly complicated in societies with significant ethnic divisions. Economic growth threatens to upset the 'political settlement' on which inter-ethic collaboration may depend. Malaysia's 'Vision 2020' for achieving developed country status depends on a political settlement by which the Chinese and Indian populations that dominate the private sector are supported in return for funding the majority Malay population's social welfare and gradual process of economic empowerment. Many fragmented societies in Africa are only just beginning to overcome the post-independence divisions – which require as much cooperation as constraints. Vision therefore matters: ideas or ideologies create social cohesion and provide legitimacy for supporting growth:

> 'There are some countries in the world where there are political leaders with sufficient self-confidence and political commitment that they are developing their own vision of how to develop. However, that is not happening in other countries. The main issue in economic growth today is not necessarily that views are changing that much in Washington but to what extent countries are taking their own futures into their own hands' (Rodrik, 2006: 73).

National unity requires equity and social cohesion through shared growth, generally essential to gain political support for the social transformation resulting from rapid industrialisation and economic growth. Company-based trade unions were a notable feature of labour relations in Japan, Korea, Taiwan and Malaysia. Providing decent housing for low-income households was, for example, a deliberate strategy for buying political support from growth in Singapore and Hong Kong; the Housing and Development Board of the Ministry of National Development in Singapore is credited with creating social inclusion that supported the government's development objectives through prioritising good public housing projects with ethnic quotas to prevent social polarisation (Chua, 1997). In all of East Asia high-growth countries, inequality fell as incomes rose: ‘Labour has been compensated for its decreased political role through wage policies tied to increases in productivity’ (Johnson, 1982: 151). After its independence, Finland’s economic development from a poor, vulnerable and conflict-prone country to a modern economy with model Nordic democratic institutions was the result of a post-Civil War political consensus around the country’s need for policies that delivered both growth and equity, such as land reform and compulsory schooling (Jäntti, 2006). The politics of shared growth were less obvious in other high growth countries such as Gabon or Botswana, but these are small and non-industrialised economies with a strong political class: ‘the political stumbling blocks to beneficial institutional change in many poor countries may have more to do with distributive conflicts and asymmetries in bargaining power’ (Bardhan, 2005: 27).[16] By contrast Nigeria’s repeated call for a ‘national ideology’ legitimising the *status quo* is found in ‘development’ that does not threaten the existing political settlement (Williams, 1977: 286).

National purpose does not depend on regime type but on the responsiveness of political leaders and systems to the interests of their population. The balance in any society between political freedom with political stability and policy certainty sets the dynamics for economic growth. This arises directly and indirectly through the combination of interlocking effects: on investment, technology adoption and adaptation, inflation, income distribution, property rights, health and education, and population growth; and on the capacity to implement far-reaching judicial, administrative, social, and financial reforms necessary to future growth. Some political characteristics clearly matter. In India, after returning to power in 1980, Indira Gandhi’s government made a decisive break from the ‘Hindu rate of growth’ by changing the political climate prioritising the political importance of economic growth.[17] But in many successful high-growth countries, informal elite consensus for economic growth rather than formal democratic politics proved critical (Botswana and Chile, as well as East Asia). The political need for internal support has often played a key role in delivering shared economic growth. Apartheid in South Africa stimulated the pro-growth approach of Botswana. The external threat aligned to the communist insurgency in Malaysia and Indonesia led to active pro-growth policies. Africa’s fate may have been worsened by international acceptance of its borders without state-building contestation through insurrection or irredentism (Clapham, 2002).

To pursue growth, political leadership requires far-sighted individuals capable of building the political coalition and administrative competence to deliver the long-term public goods necessary for economic growth: security, infrastructure, a culture of entrepreneurship, strong macro-economy and international competitiveness. A major aspiration for development must be to understand better when and how political leadership, whether ‘democratic’ or ‘authoritarian’, pursues sensible growth strategies because of political competition. While effective political leadership of the growth process may depend on happenstance, the political climate that throws up effective leaders is shaped by some form of formal or informal political competition, transparency and accountability – to emerge and be sustained (Glaeser et al., 2004). There is also an increasing phenomenon of ‘the emergence of MBA politicians who are focused on improving the productivity of the private sector’ (World Bank, 2007: 179).

[16] Inequality is remarkably high and has been practically unchanged since independence in Botswana, with a GINI index comparable to countries like Sierra Leone or Angola.

[17] This new pro-business strategy led Congress leaders to mobilising ethnic sensibilities resulting in the political rise of the Hindu nationalism of the BJP (Bharatiya Janata Party).

# Chapter 6: Conclusion

The international development community has woken up in recent years to the importance of the politics behind the economics (World Bank, 2005). This calls for a a better recognition of the complexity of the historical transition to modern developed country economic status, which alone provides an accurate understanding of the complexity of the challenge facing low-income countries today. Some developing countries, with weak central authority and neo-paternalistic power relationships, have the social and political conditions of state-building that in many respects more closely resemble those of Europe in the late medieval period than those of institutions of OECD countries. This comparison should enable the developed world to have a better sense of long-term development commitment to the MDGs beyond 2015, and also an awareness of the enormous progress that many poor countries have made in a comparatively short period of time. Uncertainty is important because of the time lag between investment decisions and the realisation of returns, so what matters is the extent to which private investors perceive political power as supporting long-term growth outcomes. This does not need to be through formal checks on power, but on commonality of purpose – either because of similar aims (albeit for same or different purposes), or because the same people hold both economic and political power. (Evans, 2006).

A more thorough appreciation of the complexities of both the political dynamics and the economic costs of establishing political constraints in weak institutional contexts will improve international development through a more nuanced understanding of the inter-relationship between economic growth and politics. This would not only build on historical studies of developing country growth narratives (for example, Rodrik, 2003b) but also reflect more critically developed countries' complex processes of development – the 'varieties of capitalism' (Hall and Soskice, 2001) with the legitimate use of coercive power (Greif, 2005). The operational challenge is to find constructive and legitimate ways to progress beyond 'best practice' determinism.

Development agencies and developing country governments seek to foster the evolvement of credible and legitimate institutions in their own right but also to promote the economic growth on which poverty reduction and progress on the other MDGs depends. The Mo Ibrahim award for African leadership, and the Bamako African Statesman's Initiative may be positive approaches, but the last two decades have also highlighted that, just as there is no one path to development, so there is no one model of 'good' governance. While 'institutions matter', economic development has occurred under very different governance arrangements, amply demonstrated by the high economic growth achieved in recent decades by countries as diverse as Botswana, China, Chile, Mozambique and Vietnam. After two generations of a significant number of failed development projects in many parts of Africa and limited successes elsewhere, the international community urgently needs to get better at offering developing countries support to advance from the 'what' of technocratic solutions, to the 'how' ('how will reform actually work on the ground given the local political, economic and social conditions?') and the 'why' – why should governments carry out financially costly reforms, for if reforms are politically sensible, why are they not carrying them out already? This approach may help explain the institutional arrangements still so poorly understood as to count as the 'mystery' of economic growth:

> 'A legal system that facilitates transactions and a political system that constrains the executive are needed for this purpose. But these institutions are not sufficient for

> growth. The reason is that major changes in technology always induce major changes in economic organizations. … the ability of a country to grow also depends on its ability to accommodate such changes, and the ability to accommodate change depends in turn on a country's economic and political institutions' (Helpman, 2004: 140).

The diffusion of authority can only increase credible commitment and so increase investor confidence if the political context allows constraints to be effective. In many developing country contexts, this is questionable. The complexity of political, legal, economic and social development needed for effective 'constraint' cannot be reduced to formal 'credible commitment'. More attention should be given to the role of political leadership and positive incentives behind the formation of political coalitions promoting economic growth through shared vision and an emerging sense of national purpose that makes economic growth possible. State-society relations, especially the strengthening of civil society to support constructive political leadership, vision and national purpose, may matter more than trying formally to constrain often already ineffectual state authority to make policy commitments to economic growth credible for the long-term.

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