

The Iqbal Memorial Lecture

Governance

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The paper argues against the currently fashionable case for “state minimalism”. It argues for a strong, activist state, though operating on a different basis and in different areas from the many recently failed interventionist states and many developing countries.

The paper seeks to rescue alternative perspectives, such as the importance of the “civil society” that cuts across national boundaries. Global participation is examined. “Market-friendly” interventions are welcomed only if they are “people-friendly”. The role of the civil society, the problems of the post-socialist countries and the role of the fashionable slogans privatisation, liberalisation, deregulation and decentralisation are analysed. These are seen to call for many qualifications. The links between democracy, capitalism and development are reviewed. The social capital of trust and reciprocity that is invested in norms and networks of civic life is seen as a vital factor of effective government and economic progress. Should economic reform precede political reform in the countries in transition? Some lessons can be learned for the developing countries from the countries in transition. An analysis of the politics and the political economy of development aid follow. Buffers between donors and recipients are suggested, such as mutual monitoring of each other’s performance by recipients, a council of wise men and women, or a secretariat with genuinely global loyalties. A quiet style in aid-giving is also an option, when potential improvers are rewarded, without the imposition of conditionality. The paper then goes on to a presentation of various theories of the state. A non-maximising theory is recommended. It ends with a set of policy conclusions for governments and for aid agencies.

“Global governance” and “the international community” are words that can be used to conceal rather than reveal meanings. Many sins are committed in the name of “global governance”. They are part of diplomacy by language, used to “dignify the sordid processes of international politics”.¹

It was politically difficult to complain about corruption, mismanagement, and the abuses of authoritarian regimes, especially in Africa, without giving offence. So a new term was invented whose meaning in relation to the more old-fashioned “government” is not entirely clear. The American Heritage Dictionary defines governance as “the act, process or power of governing; government;” the Oxford English Dictionary as “the act or manner of governing, of exercising control or authority over the actions of subjects; a system of regulations”. The International Encyclopaedia of the Social Sciences has no entry for “governance,” nor does the term appear in its index.

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¹Orwell (1946).

Perhaps the widest definition of governance is given in the Report of the Commission on Global Governance "Our Global Neighbourhood".² "Governance is the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated and co-operative action may be taken. It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interest".

The late Göran Ohlin wrote in the context of international cooperation, "what some may have in mind is a vague notion of something less than government but more than chaos—regimes of the kind that already exist for many purposes".³ But one could also interpret it as meaning more than government: including not only global, central, provincial (or, in a federation, state) and local government, but also relations with the civil society, the private profit-seeking sector, the market, the family, and the individual citizen, in so far as these relations bear on governing a society. That civil society and civic culture (as it has evolved through hundred years) are particularly important for good governance is shown for Italy by Robert D. Putnam's excellent book *Making Democracy Work*.⁴ He shows that what he calls civic "norms and networks of social engagement" facilitate the working of democracy. The social capital of trust and reciprocity that is invested in norms and networks of civic life is seen as a vital factor of effective government and economic progress. That the market is an important institution of governance does not need stressing nowadays.

Cultural factors, too, determine, as well as are determined by, governance. I shall interpret governance in this wider sense and begin with some remarks on participation in global government, and then proceed downwards to national government, including a discussion of the links between democracy and capitalism and the problems of transition, to decentralisation to local government, and to the civil society. Next I shall return to the international aspects of governance and finally discuss briefly various theories of the state, selecting one as the most realistic.

GLOBAL PARTICIPATION

There is an important international civil society that cuts across national boundaries: NGOs, churches, professional organisations, international trade unions, interest groups, citizens' groups, grassroots organisations, action groups, etc., although they do not wield ultimate authority. But they, too, can commit their members. And there are, of course, the multinational corporations and international banks. How can the UN agencies and other international and regional organisations

²*Our Global Neighbourhood* (1995).

³Ohlin (1994).

⁴Putnam with Leonardi and Nanetti (1993).

become more responsive to the demands and needs of the global civil society and more participatory? We hear a lot about the need for greater participation, but the international organisations preaching this gospel have not been outstanding in practising what they preach. It has something to do with the blind spot of auto-professionalism, a subject on which I keep a secret file. It contains facts and reflections about dentists' children having bad teeth, marriage guidance counsellors suffering from broken marriages, management experts being unable to manage their own affairs, evaluators never evaluating their own activities, the auditors of the Royal Economic Society having to refuse to audit its books and economists, who make their living by telling everyone what is efficient, have not figured out whether their own educational process is efficient. The International Labour Organisation is unique in the United Nations family in that it already contains the germs of participation. It is not, like many others, just an inter-governmental body, but its tripartite structure consists of the representatives of workers and employers as well.

We also have heard a lot recently about the need to decentralise government (about which more below) and to draw more on participatory organisations in the political arena. The world has found unworkable and has rejected the process of centralised decision-making in centrally planned economies. But the very same process governs the relations between management and labour within both capitalist and public sector firms. We know that under regimentation people do not give their best. Democracy and participation should be introduced not only in politics but also in the private sector; and not only in government and in profit-seeking firms, but also in private voluntary societies and non-governmental organisations such as trade unions and churches; even in some families there is a need for greater participation, or at least better access to those in power, particularly by women and in some areas by children. This might be called vertical participation: to make the membership of these agencies more responsive to the needs of all its members through a higher degree of participation and access to power. By horizontal participation I mean the inclusion in the international organisations of some representatives of the civil society.

With the end of the Cold War, the role of the United Nations and its agencies can once again become what it was intended to be at its foundation, but with adaptation to the new power constellations of the present world. Japan and Germany should be given bigger roles. They should be encouraged to take positive initiatives in raising resources, and in the many activities surrounding various aspects of human security. Peace-keeping and peace-making applies to military and territorial security; President Clinton talks of personal security and health security; food security is the mandate of the FAO; financial security that of the International Monetary Fund, the World Bank, and the regional development banks, environmental security that of the United Nations Environment Programme and job and income security that of the ILO. The creation of productive, remunerative, secure, satisfying, freely chosen jobs should be a top priority for policy-makers.

Democracy, Capitalism and Development

A commonsense definition of democracy runs in terms of two institutions: regular, free elections and a body of civil rights (as well as responsibilities). Both institutions limit the power of the state: the first by ensuring that the rascals can be thrown out of office, the second by making sure that the rascals cannot do certain things even while in office.⁵ Civil rights also protect minorities against the dictatorship of the majority.

Does democracy require a market economy, and does a market economy require democracy? The answer to the first question is yes, for there are no democracies that are not market economies, although the admixture of public ownership, management and regulation varies widely; the answer to the second question is no, for there are many market economies that are not democracies.

What are the connections between democracy, human rights and freedom on the one hand and development or economic growth on the other? There is a large and growing literature on the links between freedom and economic growth. Vernon Ruttan draws on the political science literature (especially Samuel P. Huntington and Jorge I. Dominguez) and concludes that at early stages they are incompatible.⁶ The view is widespread that the tough measures necessary for successful development call for discipline and resistance to the pressures of special interest groups which can be provided only by authoritarian governments. The Human Development Report 1991⁷ rejects this and shows that freedom and democracy, though not a necessary condition, are entirely consistent with growth and development, even at low levels. It compares the Human Freedom Index with the economic indicators. It is true that Japan's success and the East Asian "miracles" were not built by democratic governments. From this some have argued that democracy and human rights are a luxury that countries embarking on development cannot afford. This is what the killings of Tiananmen Square wanted to impress on 1.2 billion Chinese. But these experiences do not prove that authoritarian government was a necessary condition for the success of these countries. Their success depended on land reforms, mass education, and the timely switch to labour-intensive exports. Also, their experience is limited to a few countries and a relatively short period. Atul Kohli has also shown that the growth rates of democracies have not been lower than those of undemocratic regimes.⁸ The USA in the 19th century, and more recently Israel, Venezuela, Malaysia, Cost Rica, Mauritius and Botswana have done well economically, while remaining democracies. Historically, economic progress has occurred in non-dictatorial societies: ancient Athens, the Roman Republic, the North Italian city states, the Netherlands in the 17th century, and Great Britain after the Glorious

⁵See Berger (1992).

⁶Ruttan (1991).

⁷UNDP (1991).

⁸Kohli (1986).

Revolution of 1688-89, as well as the United States in the 19th century. Adam Przeworski's and Fernando Limongi's careful review of the theoretical and statistical arguments of 18 studies of the links between political regimes and growth is inconclusive. "We do not know whether democracy fosters or hinders economic growth."⁹

A study edited by John Williamson¹⁰ looked at thirteen cases of radical reform in rich and poor countries (trade liberalisation, drastic changes in taxes and public spending) and found that six of the successfully reforming governments were "unambiguously democratic": (Australia in 1983, Colombia in 1989, New Zealand in 1984, Poland in 1990, Portugal in 1985 and Spain in 1982). Surjit Bhalla subjects 90 countries to an econometric analysis for the relation between various kinds of freedom. He finds that civil and political freedoms promote economic growth. He ranks countries in a seven-mark scale, and concludes that, other things being equal, an improvement by one mark in civil and political freedom raises annual growth per head by roughly a full percentage point.¹¹ It is often said that property rights, a necessary condition for economic growth, are securer in democracies and that these are less grasping than autocracies.¹² But how much private property, as opposed to public property, and how much state intervention are essential conditions for a democratic market economy to work is not known.

In an interesting paper Nauro Campos reviews some of the empirical literature on the relation between democracy and development and concludes that there is a significant positive effect of democracy on development via education and, surprisingly, investment.¹³ Chatterji, and Hilmore, Strunk and Vanasin (1993) find that politically free regimes in Asia have higher growth rates of real income per head than in other regions.

The connection between democracy and capitalism is, however, not as that painted by ideologues of capitalism. When the invisible hand of the market causes suffering through excessive unemployment or exploitation or environmental degradation, democracy demands interventions with the free market. There is no evidence whatsoever that these interventions are bound to lead to slavery and despotism, as Friedrich von Hayek predicted. On the other hand, the owners and managers of private firms attempt to restrain democracy when it claims too many resources for mass consumption.

⁹Przeworski and Limongi (1993). The studies investigated are also listed in Adam Przeworski (1992).

¹⁰Williamson (ed.) (1994).

¹¹Bhalla (n.d.)

¹²See Olson (1993). In the nineteenth century it was widely thought that democracy would destroy private property, for the majority of the poor would vote to expropriate the rich. Other explanations of the link between the market economy and democracy include the provision of: "the social space" for a civil society [Peter Berger (1992)] and the possibility of political dissent [(Bhagwati 1992)].

¹³Campos (1994).

Economic growth is the product of the rate of investment and its productivity. Early writers emphasised the importance of stepping up the investment rate, and some dictatorship may have had an advantage there. The economic performance of Chile under the pro-market dictatorship of Pinochet, of South Korea under Park and Chun, of Taiwan under Chiang Kai-Shek and his son, of Singapore under Lee, and of the People's Republic of China under Deng seem to prove it. The choice between what was thought to be freedom and economic growth used to be called "the cruel choice". Later, as the emphasis shifted to the productivity of investment, democracies could provide better incentives and institutions, and mobilise people's enterprise and initiative.¹⁴ More recently, the interdependence between the investment rate and its productivity has been explored.

What is, however, more important than attempts to show that freedom and democracy are consistent with good development performance, is the fact that human development (with improved health and education, as well as higher incomes) and economic growth (with the creation of a middle class) lead, sooner or later, to the irresistible call for freedom, as can be seen historically in Europe and today in East Asia, Eastern Europe, South Africa and Latin America. Even an aberration such as Hitler lasted for only twelve years.

I should like to give Albert Hirschman the last word for the present on the complex relationship between democracy or political progress and development or economic progress. "What, then, is the point of my story? It is to affirm once again that political and economic progress are not tied together in any easy, straightforward, 'functional' way. There are the various on-and-off connections... Then there are stories, intricate and often nonrepeatable,... that look more like tricks history has up its sleeve than like social-scientific regularities, not to speak of laws. To make an inventory, to survey history's repertoire of such tricks, seems to me an appropriately modest way of trying to make progress with this difficult topic".¹⁵

Fashionable Proposals

The current slogans in the economic area are *privatisation*, *deregulation*, *liberalisation* and *decentralisation*.¹⁶ Privatisation and deregulation are intended to free people from the strangulating (or at best heavy) hand of the state, liberalisation is intended to subject trade to foreign competition and world prices, and decentralisation is intended to make administration cheaper, more transparent, more participatory, and more responsive to people's needs.

Privatisation takes two different forms. It can consist in (1) transferring previously state-owned enterprises into private ownership, control and management;

¹⁴Bhagwati (1992).

¹⁵Hirschman (1994).

¹⁶The comprehensive package of measures recommended to Eastern Europe is known as a programme of stabilisation, liberalisation, and privatisation. Stabilisation refers to a stable macro-economic environment.

and (2) encouraging the growth of new, normally initially small, private enterprises. The reason for privatisation is the inefficiency of many (though by no means all) public enterprises, and the heavy drain on public revenue their subsidies constitute. An additional benefit can be the absorption of the liquidity overhang in many ex-socialist countries, if shares in the enterprise are sold and the receipts are not spent. In this way, inflationary pressures can be reduced. But the aim should not be to maximise receipts from the sale of assets, but rather to encourage competition and to harness private initiative.

Certain conditions have to be met to make privatisation a success. In addition to the need for a capital market (which did not exist in the ex-socialist countries) there must be a competitive environment, so that public inefficiency is not just replaced by private inefficiency or by exploitation; or, if a monopoly is inevitable, it should be regulated. Privatisation without the right regulatory framework is bound to fail. The premature freeing of prices in Russia led to vast price increases, which did not lead to more production because protection rackets kept out new entrants and skimmed off large profits. Instead of securing property rights, after privatised assets had been stripped, the money was transferred abroad, helped by misguided liberalisation of capital flows.

Competitive firms in Britain, such as Jaguar, Rolls Royce, British Petroleum, Trustees Savings Bank and British Airways have faced fewer problems being privatised than “natural monopolies” such as British Telecommunication, British Gas and the regional water companies. Corporate control created problems in the ex-socialist countries which privatisation in the West did not face. The managers of the enterprises, freed from the control of Ministries, sought the perquisites of control rather than the rewards of ownership and enterprise. There was neither the Anglo-Saxon control of management by capital markets (and take-over bids), nor the German-Japanese control by the dominant shareholding of banks and other financial institutions. Such controls are absent in Russian where shareholders are weak and dispersed. Without functioning capital and credit markets and without a soft budget constraint, efficient firms may be forced out of business for want of finance.

For successful privatisation there must also be training facilities for the new entrepreneurs and the workers; there must be a legal framework for property rights; it is desirable that there should be a political consensus on privatisation, which, in turn, presupposes transparency of proceedings and credibility of policies; and there should be provision for the workers dismissed from the over-manned public enterprises.

Deregulation can be excessive and of the wrong kind. In the USA deregulation has led to the savings and loan crisis. The greed of the managers and owners, released from controls, harmed the depositors and taxpayers, who had to bail them out. Similarly in the case of the airlines, with their heavy investment in fixed assets, deregulation has led to cutthroat competition, bankruptcies, monopolistic

practices and again bailouts and higher fares. When privatisation leads to private monopolies, regulation is essential.¹⁷

Too rapid trade *liberalisation* and currency convertibility can also be harmful as the East Asian crisis has shown. Eastern Europe can learn from East Asia how not only to “pick winners”, but also to create winners. We have seen that South Korea’s shipbuilding and steel industries, models of efficiency, were built with selective government support, without indigenous resources and initial skills. Efficient protection of promising industries, which later became successful exporters, has been the approach of Japan and South Korea. Efficient import substitution under protection has normally preceded successful exports. Rapid trade liberalisation captures only existing comparative advantage, confined to raw materials and industries with low values added. In order to gain a comparative advantage in high value-added industries (often the result of import-substitution of previously imported inputs for exports) and modern technologies government support has been essential. And success in exports is achieved not by relying only on the invisible hand (though international competition is a disciplining force), but by the strong supporting visible arm of government. Countries that are often cited as shining examples of free markets have powerfully and efficiently intervened in the allocation of investment (steering the private sector by differential interest rates, industrial policy and other interventions), have used a battery of import control and export incentives, and have had a large, efficient public sector.

Decentralisation will be discussed in the next section..

Should *economic reform* (perestroika, restructuring for liberalisation) precede *political reform* (glasnost, democratisation) or the other way around? A priori, one might choose the latter, for political reform, involving granting negative freedoms, is easier to implement; and the goodwill created might then be mobilised for the implementation of the more difficult economic reforms. But the limited evidence that is available suggests that the former is preferable. China appears to have done better than Russia. Paradoxically, the transition from a centrally planned to a market economy requires strong state action in designing the market economy. Given the historical legacy of institutions and practices, the natural evolution of the market, as it occurred in Western Europe, cannot be relied upon. In a young democracy that is following autocratic rule, there are not yet enough powerful interests to push for the reforms. Only a strong, ruthless and perhaps undemocratic rule may be capable of resisting the privileged interests of the old order, who wish to undermine the efforts for change.

I conclude that correctly phased gradual reforms on wide fronts are to be preferred in many situations to shock therapy; in spite of its risks; that economic

¹⁷Albert (1993) writes: “In the US (and, to some extent in the UK), it is increasingly obvious that the major ‘winners’ in the drive to deregulate the economy have been the lawyers, for whom chaos in the airlines industry and bankruptcy among the savings and loan associations have been an unqualified boon...The USA now has more layers than farmers” (p. 10).

liberalisation should precede political liberalisation; that institutional reform should precede stabilisation and stabilisation precede the freeing of markets, including foreign trade liberalisation. Wages should be freed last unless firm agreement on an incomes policy has been reached.

There are lessons to be learned from the ex-socialist countries in transition for the developing countries. Both have tended to be over-regulated, and have suffered from ham handed government interventions and an excessively large public sector producing things. Many developing countries have also suffered from a neglect of public action in basic social services. But simply introducing free markets may replace a government monopoly by a private one, often owned and run by foreigners. Institutional reform, including legal reform again should lay the foundations for a working competitive market. Where monopolies are inevitable or to be preferred, they should be made accountable and consumers' voice should be made articulate. Educational reform, especially public action for girls and women, should have a high priority. For South Asia, where much human capital has already been created, stepping up savings and investment, and making the investment more productive, are among the main prerequisites of success. The activities of the state should be changed to produce an enabling environment for the private sector, to provide the physical, human and social infrastructure and the institutions. Foreign assistance and foreign investment can help to make the transition less painful and accelerate economic growth. As one official at a conference on the problems posed by capitalism's victory over communism remarked, the choice boils down to Marshall Plan or martial law.¹⁸

The absence of civic traditions in post-Communist societies and developing countries alike may produce weak governments and economic stagnation. It is therefore important to build a civil society, a network of groups and voluntary grass-roots organisations, clubs, guilds, cooperatives and other associations, that provide the soil for initiative, enterprise and economic prosperity.

Decentralisation

Decentralisation and devolution have become popular in Europe, against the principles of Napoleon and Stalin, Europe's two great centralisers, France had been the most centralised state. The socialist government set up 22 regional governments with directly elected representatives since 1986. Spain devolved power to 17 "autonomous communities" and Portugal did similarly. The regions spend 5.6 percent of GNP, 90 percent of it directly passed on from central government taxes. In Italy, after the creation of new regional governments in 1970, local authorities are now acquiring the power to raise property, income and road taxes. Germany's constitution grants a lot of power to the *Länder*. They have veto power on central

¹⁸Keegan (1992).

legislation through their seats in the Bundesrat, the upper house of Parliament. Eastern Europe now looks at Germany as its model. Norway, Sweden, Denmark and Finland, with a longer history of decentralisation, are experimenting. Local authorities can ask the central government to relax any control that they regard as inhibiting. It has become fashionable to talk in the European Community of a *Europe des régions*, with direct contact between Brussels and regional governments.¹⁹

Decentralised government can be more responsive to citizens' needs, can mobilise resources more readily, can, for some purposes, be more effective in achieving its objectives, can reduce costs, and can increase participation. But it also tends to aggravate regional inequalities, because the richer regions can raise more tax revenue and provide better services. And its advantages depend on a power structure in which access to power is widely distributed. Otherwise it can simply reinforce the grip of local power elites. It must also be confined to the appropriate areas of activity, and has to be supported by central action in others, e.g. monetary authority, human rights legislation and judiciary action. Those concerned with the fate of the blacks in Mississippi would not wish to decentralise power to that state. Strong central government legislation backed by the Supreme Court, combined with empowering the minority blacks in the state, is a better way to achieving their civil rights. The experience with basic democracies in Pakistan under Ayub Khan illustrates the dangers of decentralising power. The basic democrats were usually the large local landowners who were given more scope to exploit the poor. The Communist state in West Bengal also illustrates the success of strong (state) government action combined with participatory local organisations.

The Civil Society

States and markets do not exhaust the players in the game. Frequently, although they need each other, they also weaken and undermine each other. States damage markets by over-regulation, licensing, and bureaucratic red tape. Markets tend to corrupt governments through bribery, lobbying and logrolling. Therefore there is a need for the civil society. It can contribute to more constructive relationships between the two.

Private voluntary organisations have come to play an increasing role, next to governments and profit-seeking companies. They comprise the most diverse organisations: religious, political, professional, educational, recreational and cooperative organisations, associations, clubs; pressure groups, and interest groups; institutions that are project-oriented, give technical assistance, provide disaster-relief, or are concerned with disaster-prevention, etc. Although they often claim to work without or even against governments, their contributions can sometimes best be mobilised by working jointly with governments.

¹⁹*The Economist*, (August 1992, p. 51), An interesting plea for decentralisation to the states in the USA is made by Rivlin (1994) appointed Deputy Director of the Office of Management and Budget by President Clinton.

The most successful NGOs in the Third World, such as the Self-employed Women's Organisation based in Ahmedabad, India, or the Grameen Bank or BRAC of Bangladesh, depend for their continuing and expanding (though not for their initial) operations on access to, and support and replication by, governments. Of course, in some situations their function is to criticise and exhort governments; or to fill gaps in government activities; or to do things at lower costs, with better results, and with more popular participation than governments. In other situations, when they promote their selfish interests, against the wider interests of the community, or when they reflect the dominant power of particular groups, government may be justified in trimming their influence.

The relationship between NGOs and governments can be understood as one of cooperative conflict (or creative tensions), in which the challenge of the voluntary agencies and their innovative activities can improve both government services and the working of markets, and help to resolve tensions between them.

In some situations the state plays a passive role, only responding to the pressures of interest groups. The outcomes will then be determined by the power of these groups, which in turn depends on their size, age, motivation, and enforcement mechanisms. In other cases the state is more active, imposing regulations and restrictions that can give rise to competitive rent-seeking by private interest groups. In yet other situations, both the private groups and the state work together for common objectives.

Functions are divided between the state and civil society. The institutions of civil society—churches, trade unions, interest groups, action groups, the media and many others—are often quite undemocratic, in spite of their rhetoric. There is then a need for the empowerment of weak and neglected groups within them: women, the unemployed, ethnic minorities. There can be undesirable concentration not only of economic and political, but also of social power.²⁰

The tendency to romanticise and glamorise the civil society is inviting, for it seems a way out of having to choose between the inefficient and sometimes corrupt public sector and the greedy, profit-seeking private sector, but it should be resisted. Though this sector can appeal to the highest faculties in people, such as devotion to the community, altruism, and selflessness, some of the worst characteristics are also manifested in some non-governmental organisations: the National Rifle Association, the Ku Klux Klan and the Mafia are also members of the civil society.

Though there is in the early stages of development a need to strengthen both states and markets, in fact they often tend to weaken and undermine each other. It is the institutions of the civil society that can intervene and inhibit such weakening and undermining.²¹ Interactions between the state, markets and civil society are complex.

²⁰Usually participation and democratisation are discussed only in the political domain. But the other three sectors, the private sector, the civil society and the familial society also need democratisation.

²¹Lipton (1991).

Some authors maintain that civil society is the reason why capitalism is necessary for democracy. But some autocracies, such as Bangladesh, had flourishing civil societies, while the democratic Prime Minister Mrs. Thatcher proclaimed that there is no such thing as society, wishing to destroy the civil society. Both too weak and too strong a state can discourage the growth of civil society. And too strong private political and ethnic organisations can undermine the power of the state, as in Sri Lanka or in Somalia or in Lebanon, or in the ex-Soviet Union, or in Yugoslavia, and can lead to the dissolution of society.

The Politics of Aid

Aid policies, just like domestic policies, are motivated by a mixture of political and commercial pressures, national interests, idealism and human solidarity. Military security, altruistic and Machiavellian motives and profit-seeking export interests inspire foreign assistance policies. To technical, economic and environmental conditionality has been added political conditionality about "good governance." It would be one-sided to criticise national policies for being subjected to political constraints without looking at international efforts in the same light. And it would be remiss in making recommendations about the redirection of aid, not to say anything about how political constraints can be overcome. Business interests are behind the provision of inappropriate, capital-intensive technologies (tractors and combine harvesters to countries with large rural surplus populations), and the interests of consultancy and training firms behind the provision of inappropriate technical assistance. Denmark and Sweden have bought off the business lobby by earmarking a fixed percentage of the aid programme for programmes of interest to businesses and the donor country.²² The answer to the pressures from consultancy firms and training institutions lies in decentralising technical assistance programmes to the donor offices in the developing countries. The local representatives who are in continual touch with the needs and people of the recipient countries are more likely to choose the right local people.

The interests of banks that had lent to developing countries and are eager to have their debts serviced are clearly partly behind the switch in donor policies from project aid to programme lending. The policy conditionality that accompanies such lending is often based on the premature crystallisation of flawed orthodoxies. Unfortunately or fortunately, depending on whose point of view one takes, policies, like projects, are substitutable for one another, and it is sometimes not difficult to evade the conditions imposed in programme loans.

It is often said that aid is inevitably given in the national self-interest of the donor country; it is just a branch of foreign policy. A lot depends, of course, on how narrowly or broadly national self-interest is interpreted. It is, however, noteworthy

²²See Mosley (1990).

that countries like Holland, Sweden, and Norway, whose aid programmes are inspired by moral concerns of human solidarity, have given more aid, and of a better quality, than countries like the USA and the UK, which have defended aid in terms of national self-interest. Australia conducted a public opinion survey that showed that people regard development aid as an expression of human solidarity.

Frequently NGOs and action groups agitate for more and better quality aid. Expanding the role of NGOs would help in reducing the bias in favour of large projects that create few jobs, and might raise aid effectiveness. To some extent this has occurred. The success of the World Development Movement in England in suing successfully the British Government and the Foreign Secretary Douglas Hurd over the misuse of aid funds for the Pergau dam in Malaysia, which was linked to a large arms contract, is a good example. But NGOs might object to becoming too dependent on government funds and government objectives. This objection might be met by expanding government contributions to NGOs more slowly, so that they can keep in step with non-governmental contributions, and by permitting the NGOs to preserve their autonomy.

Frequently the obstacles to restructuring aid policies to the priority sectors do not lie with outside pressure groups but have to be sought within aid ministries. Reducing conditionality would reduce the amount of work to be done by the donor, but would also reduce leverage. It could be replaced by actually giving aid only to those who have shown a commitment to human development policies, or who are intent on doing so in the future. Quiet signalling can be more effective than ham-fisted conditionality imposed on unwilling recipients.

An objection to supporting human development programmes consisting of basic education, primary health care, and family planning, that has sometimes been raised by aid ministries, is that they involve supporting recurrent expenditure, with the complaint that they present a bottomless pit, an indefinite donor commitment. The answer should lie in designing strategies with gradually growing recipient contributions, or with self-liquidating cost-recovery over a specified period. This may be accompanied by jointly working out new sources of tax revenue to finance the human development and anti-poverty projects (e.g. water, nutrition, basic education, preventive health services, family planning) for which cost recovery and user charges would be wrong.

The Political Economy of International Support

International and bilateral agencies can be mobilised both as pressure groups and as sources of finance for human development, including the respect for human rights, an important aspect of governance. Feeding and educating deprived children has a powerful appeal to human beings everywhere. A well-designed human development programme that benefits the poor in a poor country can count on support by citizens from all countries. Eliminating hunger and starvation in the world

can be regarded as a public good. My satisfaction of being successful in this endeavour does not detract from yours. And providing each human being born into this world with the potential for the full development of his or her capacities is part of the enlightened self-interest of humankind.

The United Nations Children's Fund (UNICEF) has been a highly successful pressure group for protecting the poor, and particularly children and pregnant women, in the adjustment processes that had been initiated in the 80s. Since 1985 it has propagated the use of growth charts and growth monitoring, oral rehydration, breast feeding and inoculation as cheap and effective methods of dramatically reducing child mortality and improving children's health. Through its book *Adjustment with a Human Face*, and through its dialogues with the International Monetary Fund and the World Bank, its pro-poor advocacy influenced the policies on conditionality of these two institutions and other donors so that they moved away from a merely technical, economic approach for stabilisation and balance of payments corrections, towards a more humane, compassionate approach, concerned with the human and social dimensions of stabilisation and adjustment. It also drew attention to the need and the political advantages of protecting the poor (by a form of compensation) from the burdens of adjustment. There were, of course, groups inside these institutions and in some developing countries that had been responsive to pro-poor policies and that had been continuing the traditions of the basic needs strategy of the 70s.

The success of UNICEF in getting governments to restructure their expenditure has been due not only to

- (1) the general appeal of improving children's health; but also
- (2) the low costs at which substantial improvements can be achieved;
- (3) external financial support for these measures; and
- (4) the fact that they included many children in the middle-income groups.

On the other hand, the political benefits to governments of the special campaigns that accompanied these drives may not be applicable to other areas with less public appeal, more narrowly aimed at the poor, fewer resources contributed by other sectors such as the military, and less external finance.

Donors have funded programmes that compensate the poor during adjustment periods. The best known are the Bolivian Emergency Social Fund (ESF), started in 1986, and the Ghanaian Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD), which started in 1988. These are programmes of employment creation through local public works, credit creation and social services. They are mainly intended to be temporary and for workers dismissed from the tin mines in Bolivia and from the over-staffed public sector in Ghana. Local communities and NGOs play an important part in proposing and designing these programmes. Bolivia's ESF in particular involved minimum government

involvement and full delegation to local communities and private contractors. Another similar scheme is the Economic Management and Social Action Programme in Madagascar. It includes measures to provide drugs and support family planning. The projects are broadly targeted so as to gain wide political support. The World Bank is planning similar programmes for many other countries.

The Bolivian and Ghanaian programmes have been criticised because the foreign funds were not additional to other aid, and in any case quite small compared with Bolivia's debt service and the drop in the world price of Ghana's principal export, cocoa. A second ground for criticism is that the poorest among the dislocated did not benefit. However, in countries like Bolivia and Ghana, with so many poor people, it is hard not to benefit some poor people with almost any scheme. A deeper criticism is that both projects are remedial to adjustment measures, whereas the desirable policy would incorporate human concerns right from the beginning in the very structure of the adjustment process.

If a country that has in the past neglected egalitarian, human development intends to adopt reforms that promote it, it runs into short-term problems. These may take the form of heavy burdens on the budget and on administration, or of political discontent and riots by those who are likely to lose from the reforms. If there is redistribution of income to the poor, there is likely to be an additional impetus to inflation arising from the sectors producing goods (especially food) on which the poor spend their money, because their supply is inelastic in the short run. This may be accompanied by unemployment in the trades that had previously catered for the rich, because it takes time to shift resources. There may be a reduction in productive investment and balance of payments problems caused by additional food imports and capital flight, as the rich try to get their money out of the country. If the reform-minded government replaces a dictatorship, previously oppressed groups will assert their claims for higher incomes, with additional inflationary results. If some groups become disaffected they may organise strikes, sabotage or even *coups d'état*. All these are familiar troubles for reform-minded governments that wish to change the course of policy in favour of the poor. They account for the regular disillusion after a honeymoon period.

In such critical situations international aid agencies can help in making the transition less painful and disruptive, and more likely to succeed. They can help to overcome an important obstacle to reform—the fear that the cost of the transition to more appropriate policies is too high. They can add flexibility and adaptability to otherwise inert policies set on a damaging course. Structural adjustment loans have come to be accepted in other contexts, such as the transition to a more liberal international trade regime and more market-oriented domestic policies. By an extension of the same principle, adjustment loans should be given to the transition to a regime oriented more towards human development. They can take the form of financial or technical assistance to a land reform, or a tax reform, or of well-designed

food aid or of international food stamps to support of a national nutrition programme. An international economic order built on international support of domestic efforts for human development, including good governance and poverty eradication is more sensible and more likely to succeed than one built on the hope of trickle-down effects and inter-governmental transfers.

Combining development aid not only with the conventional conditions for policy reform (reduce budget deficits, reduce inflation, raise interest rates, devalue), but also environmental protection, poverty reduction, social objectives, political freedom, human rights and good governance has become popular among bilateral and multilateral donors. The concessionary component in the assistance buys, as it were, the policies that a purely commercial lender cannot insist on. In Zambia, for example, a housing subsidy was given to high-level bureaucrats who often did not pay even the small, subsidised rents they owed. The World Bank exercised pressure to raise the rents and use the revenue for sites and services schemes for the poor.²³

It is controversial how desirable and feasible such conditionality is. Some observers have said that conditions can be successfully imposed only if the recipient government is in any case committed to the policies. Complaints have been voiced that conditionality imposed by foreigners is intrusive, incompatible with national sovereignty, and can be counterproductive if it discredits domestic groups aligned with such reforms. It can also be evaded by substituting other undesirable policies for the ones eliminated by conditionality. The same objectives can be achieved by adopting a quieter style than imposing performance criteria, by supporting regimes determined to promote human development, withdrawing aid from those that do not, and thereby signalling unobtrusively to all recipients the conditions for receiving aid. Alternatively, institutional innovations might be considered that put a mutually trusted intermediary between donors and recipients, who would insist on the condition of poverty reduction, briefly discussed in the next section.

It is important for conditionality on governance and human rights to distinguish between three types of what may be called negative human rights, leaving aside such positive rights as the right to education, health, food, etc. First, human rights in the narrow sense: not to be tortured; imprisoned without trial, etc. Second, civil rights, such as access to an independent judiciary; the rule of law. In Tudor England there was no democracy, but these rights were respected. Third, political rights, multi-party system, free elections, etc. The status of these three kinds is quite different. In the third, there is a danger that only Parliamentary or Presidential democracy is accepted, which may be inappropriate for some cultures. But human rights in the narrow sense are universally acknowledged. And I for one know with greater certainty that it is wrong to torture people than that an exchange rate is overvalued. Another question is whether the conditionality referring to

²³It should be noted that attempts at cost-recovery in squatter-upgrading projects showed that default rose with income.

governance and human rights is additional in two senses: (1) are the conditions added to other conditions? (2) are additional funds available if the conditions are met? Robert McNamara's Redistribution with Growth and Basic Needs approaches in the 1970s were accompanied by additional money.

Buffers between Donors and Recipients

The question of monitoring aid, though it may appear to be a purely recording effort, does, however, raise policy issues. On the one hand, monitoring of poverty reduction and income distribution by donors is regarded by recipient countries as intrusive and perhaps even violating national sovereignty. On the other hand, donors believe that their responsibility to the taxpayer is to account for the use of aid funds and to ensure that poverty reduction is achieved, if this is the purpose of the aid. Donor institutions are distrusted by recipients, because they fear that extraneous criteria may enter into the process; and recipients' institutions are distrusted by donors, because they may wish to conceal unsuccessful performance. To resolve this conflict it is necessary to design institutions that are trusted by both sides, and monitor reliably and objectively.

In addition to having to gain the trust of both sides, and be responsive to their needs and demands, these institutions would have to fulfil the function of buffers between donors and recipients, would have to be sensitive to social and political conditions, and would have to have the expertise to judge the impact of programmes on poverty reduction. They should also be helpful in building up the indigenous capacity of poverty monitoring in developing countries.

One possible solution would be to adopt the method that the Organisation of European Economic Cooperation (the forerunner of the OECD) practised under Marshall Aid. The USA generously withdrew from the monitoring process and encouraged European governments to monitor each other's performance. Analogously, groups of developing countries, such as those of East Africa or of Central America, would get together, and one, say Uganda, would monitor the performance of another, say Kenya or Tanzania, and vice versa. Technical assistance would initially be needed to acquire or strengthen the professional capacity to do this.

Another solution would be to appoint a mutually agreed council of wise men and women, with a competent secretariat, who would be performing the monitoring, possibly again combined with technical assistance for the strengthening of indigenous capacity. A third solution would be to aim at the creation of a genuine global secretariat, with loyalties to the world community, socially sensitive, and at the same time technically competent. The secretariats of existing international organisations such as the World Bank have not quite reached that point, and are not perceived by recipients as being truly global. Reforms in recruitment, training, and promotion would be needed, and perhaps in the governance and location of these

institutions. Decentralisation with strong regional offices in daily contact with the local population and policy-makers would be necessary.

Whatever institutional solution might be adopted, there is virtue in introducing a degree of competition into the monitoring process, so that a variety of methods may be tested against each other. At the moment it is feared that the large international financial institutions exercise a monopoly of power and wisdom, and propagate at times flawed prematurely crystallised orthodoxies. The proposed buffer procedures or buffer institutions should contribute to the building and strengthening of indigenous research and monitoring capacities of the recipient developing countries. For research on poverty and action against poverty tend to go together, as the investigations of Charles Booth and Seebohm Rowntree at the beginning of the century, and of Sidney and Beatrice Webb, of the World Bank, of the regional development banks, and of the Specialised UN Development Agencies have shown.

Theories of the State

We now have a menu of theories of the state to choose from. According to the one I was taught when an undergraduate, an idealistic, competent and well-informed government, like Platonic guardians, or perhaps more like Fabian bureaucrats, reigns above the conflicts of interest and promotes the common good. It is implicit in the writings of A. C. Pigou, Abba Lerner, Jan Tinbergen and James Meade. According to the this old romantic theory, the government can do no wrong.

The opposite theory, represented by the new classical Chicago economists, neoclassical political economists and the public choice school (better named the self-interest school), holds that the government can do no right. Citizens, politicians, bureaucrats and states use the authority of government to distort economic transactions for their benefit. Citizens use political influence and pressures to get access to benefits allocated by government; politicians use government resources to increase their hold on power; public officials trade access to government benefits for personal reward; and states use their power to get access to the property of citizens.²⁴ The result is an inefficient and inequitable allocation of resources, general impoverishment and reduced freedom.

A narrow interpretation of selfish political man (and to a lesser extent woman), pursuing ruthlessly his/her interests, can lead to mutual impoverishment. According to one version the predatory officials and bureaucrats or politicians promote actively their selfish quest for money or power, according to another they respond passively to powerful pressure groups so as to stay in power. "The model of government motivations" has been simplified "into a single-track form, supplying the public sector with a brain transplant straight out of the marketplace."²⁵ Any

²⁴Grindle and Thomas (1991).

²⁵Lewis (1990). It should be noted that even in the market place individuals do not always behave selfishly.

intervention by this “predatory state” with the “magic of the market place” is bound to make matters worse. Government action is not the solution (as it is in the first theory), it is the problem—“invisible feet stomping on invisible hands.”²⁶ As has been said above, while according to the Platonic theory the government intervenes in order to correct “distortions”, according to the public choice theory all distortions are due to government interventions. But according to both these apparently opposite views the state is an optimising agency. According to the Platonic view it optimises the welfare of the people as a whole, according to the public choice view that of special interest groups: those on whose support the politicians rely, the bureaucrats, the army, the politicians themselves. The Platonic view is normative (or naive); the public choice view crudely cynical.²⁷

Even if it were true that politicians, bureaucrats and interest groups pursue always only their self-interest, this is open to different interpretations; some of these may be in conflict with one another and with the interests of others, others may be in harmony. There may, for instance, be a conflict between smaller present and larger future gains; or between “hot” impulsive and “cool” deliberated interests; or between concentrated smaller and more widely dispersed larger gains; or between certain smaller and uncertain larger gains; or, perhaps as important as interest conflicts between groups, the conflict between perceived smaller and actual but non-perceived larger gains.

Amartya Sen pointed out in his Presidential address to the American Economic Association, on January 7, 1995, that one does not have to subscribe to either the “high-minded sentimentalism” the public servants constantly try to promote some selfless “social good”, or to the “low-minded sentimentalism” that everyone constantly is motivated entirely by personal self-interest, to assume that public servants have their own objective functions. To point to the need to fill in this gap in the theory of resource allocation does not imply assuming either Platonic guardians or *homo economicus*.

A third theory, propounded by Anthony Downs and applicable only to democracies, holds that politicians maximise their own welfare by selling policies for votes.²⁸ Since not many (though a growing number of) developing countries are democracies, this theory would not have wide application among them, even if it applied to democracies.

Then there are social contract theorists, from Hobbes, Locke, and Rousseau to John Rawls and Mancur Olson. They say that citizens surrender some of their rights

²⁶Colander (1984).

²⁷In advocating maximum delegation to markets as morally neutral systems of coordination, the self-interest school also ignores the fact, pointed out by many authors, that markets presuppose generalised moral norms, and particularly trust. See, for example, Arrow (1971,1973). Platteau (1991) See also MacPherson (1984) and Hausman and McPherson (1993).

²⁸Downs (1957).

or liberties in return for protection against aggression, provision of collective goods, benefits from externalities, and other services from the state.²⁹ A limited sacrifice of individual autonomy—by increasing the prospects of avoiding related traps such as prisoners' dilemmas, the isolation paradox, the free rider (and, worse, the sucker) outcome, and the tragedy of the commons—gives each citizen greater freedom and more benefits. The under-supply of public goods and the over-supply of public bads can be avoided by some enforced action by the central government.

A more recent theory of the late Mancur Olson is based entirely on self-interest, which he equates with rationality and logic. Either a roving bandit becomes a stationary bandit and autocrat with a longer time horizon, or a majority in a democracy, acting entirely in their self-interest, levy taxes and supply public goods. He shows that the results are not very different from those that would follow from the actions of a benevolent dictator.³⁰ Poverty, mismanagement and strife follow from two conditions: first, the absence of secure and precisely defined property rights and, second, absence of predation by special interest groups that takes the form of special interest legislation, or regulation, or cartelisation or collusion to fix prices or wages.

Marxist theory says that the government is the executive committee of the ruling class and always serves the economic interest of that class. But this is open to different interpretations. Some Marxists regard the state as acting in the interest of international, metropolitan capital, extracting surpluses from the periphery for the benefit of the centre. This is the view of neo-Marxist³¹ dependency theorists and was Marx's view of the relation of Ireland to England. Others regard the state as acting in the interest of an indigenous capitalist class, sometimes against the interest of the capitalists at the centre. According to both these views the state acts in the interest of a ruling class. A more sophisticated version of this theory holds that it is the function of the state to reconcile differences of interest within the ruling class, so as to maintain its power and the capitalist mode of production. According to this version it is possible for the government to impose measures in the interest of the exploited workers and small peasants, in spite of the loss of profit that this involves, if these measures save the system from revolt or revolution. It can also be that higher wages or a land redistribution, while reducing the profits of particular groups, raise total savings and/or lower capital-output ratios so as to increase the volume of the total surplus, though not the ratio of surplus to GNP. Others again regard the state as the agent of a "state class" or a bureaucracy.

Palaeo-Marxists like Bill Warren³² maintain that peripheral capitalism is a

²⁹Some countries, like Italy, give the impression that their citizens have entered with their governments into an *anti*-social contract: we shall not pay taxes, and in return we do not expect any public services.

³⁰Olson, *Capitalism, Socialism and Dictatorship; Outgrowing Communist and Capitalist Dictatorships* (undated, mimeo).

³¹As so often, the prefix "neo" is a euphemism for old hat.

³²See Warren (1979). Marx himself, of course, originated this view in his writings on India.

progressive, revolutionary force, making for productivity growth and economic progress. They illuminate Dudley Seers's remark about the convergence of "Marxism and other neoclassical doctrines".³³ And it is ironical that both neoclassical political economy and Marxism, two largely hostile and non-communicating groups, conclude that thinking and research about government policy for poverty reduction or income redistribution are futile. According to both, the predatory state inevitably acts in its own interest and that of powerful pressure groups; there is no place for disinterested, benign, altruistic government policies; only the forces of the free market are capable of advancing the good of society.³⁴

It is worth remembering, in the debate over market versus state, that real states fall under neither extreme. Dogmatism here leads to error even more than usual. A more commonsensical view, borne out by overwhelming evidence, holds that many governments are neither monolithic nor impervious to pressures for rational and altruistic policies. Moreover, if there is scope for a positive-sum game (as there is bound to be in the reversal of rent-seeking movements away from the Pareto frontier), and if the government can hold on long enough to tax this sum, the possibility of rational policies is opened up, even on the narrow assumption about predatoriness of the public choice school.

The structure of government decision-making consists of many departments, ministries, and agencies, and many layers from central government via provinces (or states in a federation) to village or town councils.³⁵ Power in some countries is divided between the legislature, the judiciary and the executive. Each of these pulls in a different direction. The obstacle to "correct" policy-making is neither solely stupidity nor solely cupidity, neither just ignorance nor simply political constraints or monolithic selfishness.³⁶ On occasion, governments, like charitable foundations, universities or voluntary associations, do act disinterestedly and in the public interest, particularly, but not only, if there are pressure groups behind them. It is the existence of these pressure groups with some power or influence that constitutes the "trustees for the poor", and the "guardians of rationality."³⁷ Count Oxenstierna may

³³See Seers (1979).

³⁴Mancur Olson has shown that even utterly selfish autocracies with sufficiently long time horizons have a self-interest in providing order and prosperity and other public goods and in not exploiting their subjects excessively lest they kill the goose that lays the golden eggs. The outcome resembles that of a benevolent dictator. *Capitalism, Socialism and Dictatorship*, forthcoming.

³⁵See Lipton (1989).

³⁶Mancur Olson and others have built theories of government on the exclusive premise of self-interested action by the autocrat or the majority, which he equates with "logical" and "rational". Though parsimonious in assumptions and elegant in execution, the construction is artificial.

³⁷See Meier (1984). "The guardian of rationality" is Kenneth Arrow's phrase for the economist; "trustees for the poor" is Gerald Meier's. See Arrow (1974). Without these two groups there is no Archimedean point from which any political economy that endogenises politicians can lift itself out of full determinism and make room for the possibility of reform. If we accept determinism, we have no choice.

not have had the whole explanation, but knavery has no monopoly either.³⁸

At the same time, there are areas in which a better analysis and a clearer sense of direction would help, just as there are areas where it is fairly clear what should be done, but vested interests, whether those of the policy-makers or of pressure groups on whose support they depend, prevent it from happening. Governments sometimes create rents and encourage rent-seeking; at other times they destroy rents and reduce wasteful competition in their pursuit. The private sector also creates and seeks rents. Some government officials act sometimes in their selfish interest; at other times the same ones and others are, or want to be seen as, moral agents, acting in the common interest. Some pressure groups, individual or collective, domestic or foreign, are motivated by reason, solidarity, and morality.

According to this commonsense theory, for which is overwhelming evidence, the state does not optimise anything, neither public welfare nor self-interest. It compromises, attempts to resolve conflicts, manages bargaining between groups, and occasionally leads. Gunnar Myrdal's notion of the South Asian "soft state", in which declared policies are not implemented or not enforced, fits into this picture. But so does that of the East Asian hard state, which, having sets its face against the pressures of particular interests, pursues successfully both growth and equity.

SOME POLICY CONCLUSIONS FOR GOOD GOVERNANCE

For Governments

Educate, train and instill the right attitudes for a competent civil service, willing and able to resist self-interested pressure groups and dedicated to serve the public.

Build the right checks and balances for government, private sector, civil society and family, so that governments do not over-regulate firms, private firms do not corrupt government, and civil society does not destroy society, but makes government accountable.

Provide opportunities for popular participation in decisions that affect the life and work of the people, access to power and transparency and accountability of those in power.

Keep the macro-economy stable, avoiding inflation, large-scale unemployment and imbalances in the balance of payments.

Enforce property rights and contracts.

Encourage government interventions in order to (1) make free markets work efficiently, correcting for market failure, and (2) provide opportunities for the poor

³⁸Thomas Balogh dedicated his book *The Dollar Crisis* to Lord Lindsay of Birker, the Master of Balliol College, Oxford, "who never quite could convince me that Oxenstierna had the whole explanation..." Count Oxenstierna had written to his son in 1648 "An nescis, mi fili, quantilla prudentia regitur orbis?" ("Dost thou not know, my son, with how little wisdom the world is governed?") Balogh, disagreeing with Lindsay, believed that it was knavery more than foolishness that was responsible for the world's troubles.

so that they can become self-reliant, correcting for iniquitous market “success”. This means giving the poor access to resources and power: land, food, health services, education, training, public employment, provision of public goods, credit, and a social safety net.

Give higher priority in welfare policies to women and children over men, to rural over urban residents, to the poor over the better-off, and to neglected minorities discriminated against over the established majority.

Always treat people as ends, never as production fodder only.

For Donor Agencies

Practise humility, adopt a quiet style in giving, avoid laying down hamfisted conditionality.

Accept that there are different styles of development, of democracy, and of capitalism, and do not try to impose a uniform system of governance throughout the world.

Remember that economics is not a science, that different circumstances call for different responses and listen.

Devote a high proportion (say 20 percent) of aid to social priority sectors like nutrition, primary and secondary education, preventive rural health services, water and sanitation, family planning.

Use development aid not to fill resource gaps or foreign exchange gaps, but to add flexibility to policy-making and reforms.

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Comments

1.

Paul Streeten has rightly emphasised the need for greater inter-face between national systems, civil society and the UN System. Indeed many scholars define civil society in terms of inter-face between the government, business and non-profit sector. I would rather opt for the more conventional definition of civil society as the non-profit sector.

Within the operational sphere of the non-profit sector, the scope of Paul Streeten has focussed on the issue based organisations. At the informal level the influence of issue based NGOs has been conspicuous in many areas, particularly in matters pertaining to environment. The fate of Narbada Dam in India was sealed on the initiative of NGOs, for instance. Whether their role should be formalised is not a straightforward or simple matter. The developing countries are apprehensive about WTO's recent interest in incorporating labour standards and environmental standards into its framework, because these can be used as expedient non-tariff barriers to block the exports from the developing countries. There is already evidence of this in the products involving child labour. These barriers might be strengthened if the NGOs are incorporated into the formal systems. One would be justified in asking the question how would the nexus of civil society and the UN System affect the trade and development of the developing countries? The answers to these question may provide the right perspective in making a judgement on Paul Streeten's proposal.

International trade already reflects unequal application of some of the basic principles. We are constantly reminded that subsidies distort or hinder the allocative role of the market mechanism and the developing countries should discard such practices—the sooner the better. Yet the pace of reduction in the direct and indirect subsidies to agriculture in the developed countries which exceed \$250 billion, has been painfully slow. Another market distortion is the continued imposition of quotas in the textile trade. In the Uruguay Round the developed countries asked for a 10 year time frame to deal with this problem and major reductions were scheduled toward the end of the period.

The second theme of Paul Streeten that people under regimentation have seldom been able to do their best is unexceptionable in principle. Nevertheless one might remember that Singapore under Lee Kwan Yew, Korea under General Park, Taiwan under Chun, and China under Deng Siao Ping, registered impressive performance in the economic field; certainly better than many democratic countries.

The third theme that the invisible hand of the market does not reach issues like rising unemployment and environmental degradation is unexceptionable. The

biggest market failure in the modern age is the collapse of the Russian experiment, where the suffering of the people have been compounded, efficiency levels are going down and the economy has been criminalised. Russian experience needs to be carefully analysed, particularly by the Western scholars who were the real authors of the new dispensation.

His fourth theme on the need for self-regulation, in preference to external regulation deserves careful attention, but it needs to be backed up by more research data on the experience of self-regulation in the developing countries.

The fifth theme-devolution, is in line with the current thinking on governance. But a simplistic conclusion as to the efficacy of devolution as a cure for all ills, is not warranted, more so when devolution is conceived primarily in terms of transfer of legal powers. If this is not reinforced by growth of institutional capacity, transparency, a system of checks and balances and carefully worked mechanism of accountability, the results may be disappointing.

As regarding adjustment lending, the impact of structural adjustment packages on growth, poverty alleviation equity and their relevance to recessionary situations has not been carefully examined. These questions are likely to assume growing importance in future. The role of volatile market and the disruptive character of short-term capital movements in times market uncertainty needs to be analysed in greater depth than has been the case.

Finally his counsel to the donors, that there should be wider acceptance of the diversity in the styles of democracy and development, and that aid should be used not merely to fill the resource gap, but primarily to enlarge policy options deserves to be heeded. Indeed the ultimate test of the efficacy of aid may not be in terms of the saving gap or the foreign exchange gap, but in terms of their contribution towards enabling the recipients to realise their economic and human potential. Dr Streeten's advice should fit well into such a broad framework.

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Professor Streeten's enlightening paper is a climax to the rising crescendo of learned wisdom on the subject of governance, the chosen theme of this conference which has been deliberated upon extensively by this meeting for the last four days. My comments on Professor Streeten's comprehensive paper on "Governance Issues in Development Economics" will be considerably less incisive and detailed than what a more well-chosen discussant for the paper would have done.

I share with Professor Streeten and many others in the conference the unease about defining governance. Professor Streeten has examined a number of definitions in his paper none of which appears to be quite acceptable to him. The one he chooses is the one *proposed* in the context of international cooperation by the late Professor Orlin. Streeten extends Orlin's definition, but I feel rather uncomfortable with the term "civil society" used in this context. The thesaurus in the word processors does not have an entry for "civil society", but it does give the following equivalent words: civilised, well-behaved, respectful, refined, mannerly, polite, etc. I wonder if this is the kind of society which is likely to be much concerned about or is relevant to the problems of poverty, hunger, squalor, illiteracy, disease, crime, corruption, rape, and murder, which the proponents of the governance concept are keen to address. Isharat Husain, in his highly analytical paper, invokes the new theory of endogenous growth and mentions various empirical studies to prove that governance is good for growth and development; but so hard for many other variables. The point is that in economics everything is related to everything else, and finding co-relations among particular variables does not imply causation. I would like this to be given a concrete shape. My recent experience is related to the most successful development experience, the Agha Khan Rural Support Programme (AKRSP) in Pakistan. I am impressed with the high degree of achievement in the field of education. Not only is every school-going-age child, from 5–16, male or female, in school, they are receiving the best possible education, comparable to any in Pakistan. Even more surprising is the fact that parents are paying the fees of about Rs 200 per child, and that enables the community to pay for the teacher. Although replicating it all over Pakistan may not be as easy, notwithstanding Mr Shoaib Sultan Khan's optimism, this achievement has been possible only after the community has experimented with the highly motivated poverty alleviation programme. The

*The above comments are the edited version of an oral presentation by the commentator as transcribed from an audio recording of the session.

endogenous growth models give primacy to the development of human resources in a poor country like Pakistan to increase the incomes of the poor.

No one doubts the role of the organisation and of technical change, since the discovery of the magnificent Solow; that these two account for more than two-thirds of the growth in the industrial world. In this regard, I would like to refer to the recent interesting exchange of words in the *Financial Times* between the World Bank President James D. Wolfensohn and his highly respected Chief Economist, Mr Stiglitz, on the one hand, and two noted development economists, Professors Baghwati and Srinivasan, on the other. They have rekindled the debate on to how the political treatment of development issues should be, and whether the trickle-down approach holds good. As happens in such debates, both sides are attacking the straw-men created by one and demolished by the other. But it does seem to me that the pendulum has swung in the other direction. The governance agenda has been pursued too far and it needs to be brought back to focus on the highly-needed great issues of development. This does not mean that we should forget about governance issues so successently analysed by Streeten, and these include a range of issues from local governance to global governance. My point is simply that if the evolution of civil society takes centuries or millennia, there is precious little the government of the day can do about it except taking the first necessary steps in that direction. Embarking on a tall agenda for governance at a time when many of the privileged position are still lurking about us is like putting the cart before the horse.

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