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INTERNATIONAL DEVELOPMENT

IDEAS, EXPERIENCE, & PROSPECTS

edited by Bruce Currie-Alder, Ravi Kanbur, David M. Malone, & Rohinton Medhora

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Edited by

BRUCE CURRIE-ALDER, RAVI KANBUR, DAVID M. MALONE,

and

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Canada

OXFORD
UNIVERSITY PRESS

OXFORD
UNIVERSITY PRESS

Great Clarendon Street, Oxford, OX2 6DP,
United Kingdom

Oxford University Press is a department of the University of Oxford.
It furthers the University's objective of excellence in research, scholarship,
and education by publishing worldwide. Oxford is a registered trade mark of
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First Edition published in 2014
Impression: 1

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Published in the United States of America by Oxford University Press
198 Madison Avenue, New York, NY 10016, United States of America

British Library Cataloguing in Publication Data
Data available

ISBN 978–0–19–967165–6 (hbk)
ISBN 978–0–19–967166–3 (pbk)

Printed in Great Britain by
Ashford Colour Press Ltd, Gosport, Hampshire

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Foreword

AMARTYA SEN

When Thomas Hobbes grumbled about the state of mankind in his seventeenth-century world, he pointed not only to the fact that human lives were "nasty, brutish and short," but also to the deprivation coming from the "solitary" lives of people. Hobbes's attempt to change the world took the form of his championing co-operative action through an imagined social contract, the provisions of which would be put into practice through the work of a sovereign state. That route, while a major advance in social thought, may be full of problems of various kinds (not the least of which being its dependence on national states, respectively working within their isolated sovereignties). However, Hobbes was remarkably insightful in understanding the far-reaching adversity of the solitariness of human lives.

The subject that we now call "development economics," or more broadly "development studies," is particularly concerned with reversing the solitariness of human efforts to improve their individual lives, through attempts to overcome the nastiness, the brutishness, and the shortness of human lives through human interactions, within the boundaries of a state, but also across the boundaries. Various relationships, practices, and institutions—from economic markets and legal interventions to political alliances and social agitations—can contribute to societal changes that can help to reduce, or eradicate, the penalties of privation. People relate to and interact with each other through communicating ideas, through exchanging commodities, through collaborating in political movements, through joining in making economic and social demands, through instituting and improving legal arrangements, and through many other routes.

The enterprise of development is, thus, a gigantic field, and includes immense diversities of engagement. In this wonderfully ambitious book, the editors have judiciously identified a range of topics in terms of which attempts at development can be viewed, scrutinized, and assessed, and have then proceeded to arrange for significant contributions in each of the identified areas. The result is a very distinguished collection of studies, with an overarching understanding of the complexity of the process of development, offering richly informed and enlightening insights, theories, and applications. The reader can find illumination in an astonishingly large range of issues that make up the thoroughly diverse field of development.

It is greatly to the credit of the editors that they have not tried to arrive at anything like a "consensus" on what needs to be done for development. Analyses of many issues can live with—indeed flourish with—different approaches, related not only to unresolved priorities, but also to varying contexts and diverse circumstances. While some airing of

preconceptions or prejudices, whether or not hallowed by alleged authority (past or present), can be subjected to withering scrutiny, the heterogeneity that remains can include different—and *differently relevant*—understandings and conclusions. This is a reflection of the nature of the subject, rather than evidence of "unfinished business." There are many insights, understandings, and proposals in this distinguished collection of essays that will greatly aid practitioners, and yet there are also enough disagreements and disparate evaluations, and what the editors call—rather charmingly—"dialogue between authors," to serve extremely well the purpose of developmental education and pedagogy. I feel very privileged to be given the opportunity to welcome a book on development that is, in more than one way, a triumph. It is not often that one is fortunate enough to be given a task that is as delicious as this.

Preface

The aim of this book is to trace the history of thought on various aspects of development that are presently in a state of flux, map the current range of approaches for each sector, and set out options and possibilities for the future, some of which may open new avenues for research. Development has come to be understood as more than economic growth and poverty alleviation, and policy choice is more than the result of ideological positions or designed social experiments. As more global powers emerge, the ideas shaping concepts of development and how it happens, and the policy recommendations that flow from them, are less likely to be hegemonically driven. The only unity in future development thought and practice might be at the broadest possible level—that there is no such unity and that its application must be intelligently and doubtless diversely pursued by local actors (how local would depend on the issue at hand).

This book provides both a reference point for and a counterpoint to conventional wisdom always subject to challenge. We hope to demonstrate in the pages that follow that as with any study of thought and practice, a logical progression of reason yields to fads, deviations, and inconsistencies. But equally, the development arena has been a massive laboratory for the scientific method. Ideas born of context and necessity are floated, developed, applied, modified or discarded only to be succeeded by others. Despite the seeming messiness of this process the field is in fact advancing. The lack of a resultant unified theory of development is entirely to be expected, but still distresses some.

Pedagogic Element

The editors also want this work to be of practical and not solely intellectual use. It occurred to our publisher and to us that a variety of combinations of these essays could lend themselves to undergraduate and graduate university education with some supplementary guidance for instructors and students, as well as advice on appropriate further reading. This supplementary material is provided free of charge at the following website: <www.developmentideas.info>. So is the pre-published text of all of the chapters.

Readers may wish to look out for a number of themes and related assertions that arise in the volume, sometimes mutually reinforcing, sometimes in conflict or at best running in parallel to each other. Because development does not lend itself to conventional wisdom for long—consensus in this field nearly always turns out to be wrong, at least in part—this is neither surprising nor alarming. Rather, the dialogue between authors, now reflected on the page, aims to stimulate the minds of those seeking to tackle our rich subject through this book.

Acknowledgments

This volume originated with a concern that many books, and university courses, on international development fail to grapple with the complexity of the field, the relevance of regional and country specificities, and the need to breach the disciplinary silos in academe. The editors are deeply grateful for the guidance provided by eminent colleagues who helped shape our work, including Mats Berdal, Julio Berdegué, Kevin E. Davis, Gerry Helleiner, Alan Hirsch, Devesh Kapur, Xue Lan, Pratap Bhanu Mehta, Simon Tay, and Ngaire Woods. They forced us to refine our thinking, identified potential contributors, and provided much needed guidance and encouragement throughout.

The editors warmly acknowledge the hard work of the contributors assembled here. They form an exceptional community drawn from around the world, reaching across disciplinary boundaries and spanning generations. Although each is credited with their own chapters, we are indebted to you all for your timely response to our feedback and deadlines and patient work in bringing this volume into existence.

The process of preparing this volume involved three separate workshops held in Ottawa, Bellagio, and New York. These occasions afforded an opportunity to offer critique, identify synergies, build on common themes, and shape our overall arguments. The editors are extremely appreciative of the generous support extended by Canada's International Development Research Centre, the Rockefeller Foundation, and the Greentree Foundation. In particular, the editors recognize Emmanuelle Dany, Nadia Gilardoni, and Ahmad Dawwas for their skill and professionalism which proved critical in making these events happen.

Our final meeting was attended by several distinguished individuals whose views we greatly value. They included Paul Bluestein, Alison Evans, Rebeca Grynspan, Bruce Jones, Rima Khalaf, Ricardo Lagos, Mustapha Nabli, Martin Ravallion, Emma Rothschild, Amartya Sen, Doug Saunders, Janice Stein, Philips Stephens, Jan Švejnar, and Dwight Venner. To them, our warm thanks for sacrificing a lovely fall weekend, albeit in beautiful surroundings. We hope this volume will seem to them worthy of their contributions to it.

The editors are also deeply grateful to Oxford University Press, particularly Adam Swallow, who provided excellent advice throughout, on substance as on form. His patience and wise counsel helped us always to consider the reader over the interests of the writer. We could not have hoped for a more supportive publishing team, notably one committed to making this work available in the developing world and through new forms of dissemination.

The research presented in this publication is the result of a project supported by Canada's International Development Research Centre. IDRC supports research in developing countries to promote growth and reduce poverty. IDRC rarely carries out research of its own, yet welcomed this collegial effort to shed light on the complexities of the wider topic and of the subject matter discussed in each of the ensuing chapters. We are very grateful to the Board of Governors, particularly former Chairperson, Barbara McDougall. IDRC is an exceptional institution that we look to with great admiration and affection.

Numerous individuals within IDRC were tremendously helpful to us. Elizabeth Mohan was invaluable behind the scenes on financial management and logistics, and everyone associated with this project is indebted to her tireless efforts. Daniel Norfolk and Niranand Kumar helped orient us within the intellectual history of development. Charles Cater acted as a contributing editor, offering constructive feedback, contributing to workshops, and providing countless hours of editing. Emily Jansons and Nuala Nazarko coordinated all the drafts and revisions, organized the second and third workshops, and supported us in myriad ways. Diana Tyndale and Maggie Gorman-Vélez provided a fresh perspective on the final text.

Finally, we are deeply grateful to those who taught us that engagement can bring enlightenment, and that collaboration is more fun (and often produces better results) than solitary endeavor, and to those who continue to encourage us to understand more and better. It is never too late for any of these dispositions that we have learned from others and that have made our professional lives much more fulfilling that they otherwise would have been.

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THE STATE OF DEVELOPMENT THOUGHT

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Why This Volume?

What is development? How does it happen? What can policy do to make it happen? Our project is designed to trace the evolution of responses to these questions over the past seventy years. The focus is on the interplay between ideas and experience in development broadly construed. How have ideas on development changed since the Second World War? How has thought driven practice, and how has practice in turn shaped thought? Our central proposition is that the certainties of the immediate post-war period are not with us anymore. Development is no longer seen purely in terms of economics and economic growth. It is also no longer seen as being dependent either solely on state direction or solely on the free play of markets. And development "wisdom" no longer emanates from the developed countries of the north. As a result of the current mutability in the field, the moment appears ripe for a stocktaking of where we are, an analysis of how we got here, and some speculation on what all this portends for the future.

Thought on development involves both theoretical and empirical dimensions. The former mostly revolves around theories grounded in the concepts of a particular academic discipline, which are often obscured by more accessible insights and rhetoric about what development constitutes and how it supposedly occurs. Theorizing about development can depart from normative or empirical bases, from moral principles and values relating to a desirable society, or from evidence about how societies have changed over time. Thus theoretical and empirical lines of thought are intertwined, and many of the contributions to this volume speak to the interplay between the two. If there is a trend to recent decades of thinking on development, it represents a gradual shift away from grand theories, such as modernization or dependency, toward a more modest aspiration grounded in realist and positivist philosophy. Whereas thinking on development once aspired to explain the unintentional evolution of people and places through history, more recent thinking tends to focus on the gap between the goals of public policy and what was achieved in practice, thus evolving in response to

perceived success, failure, and surprise. It reflects a desire to do things differently in order to improve upon past performance and realize a better future. Hence the emphasis we place on experience and practice, which might have been seen as less relevant to foundational thinking in this field three or four decades ago.

More than ever, those concerned with development want to understand and assess the policy and experience of others in order to develop ideas relevant to their own countries. On the one hand, thinking on development is pulling together, breaking out of disciplinary silos and drawing on ideas, concepts, and theories across the natural and social sciences. This volume recognizes an increasing accord among scholars and practitioners around the constituents of development (if not the weight that might be attached to each); and the existence of a plurality of views on what "works" and what does not, across time and place. The variety of contributors and their perspectives highlight how diverse approaches complement and enrich one another. On the other hand, thinking on development may be tearing apart, shifting as lines between international politics, development, and security blur and hitherto developing countries become major powers. As the developing world becomes more influential for global prosperity and the movement of people and ideas, it challenges the foundations of relations between the developing and developed world. It is thus an opportune time to re-examine the critical debates that have shaped thinking on development until now, and how such thinking may evolve in the coming decades.

In trying to understand the evolution of economic and human development up until today and where it might be headed, a historical approach on the thinking underpinning it is essential. As every chapter in this volume demonstrates, successive phases of thinking are informed by the platform on which they were formed. Beyond this, in a recent book on the history of economic thought Agnar Sandmo (2010) suggests three reasons why understanding the evolution of thought is important. First, the history of thought can be fun. Clearly, such treatises are an acquired taste, and the editors stake no claim on the entertainment value of this book, though we do hope the reader finds many of the chapters enjoyable. But we do place a premium on readability, as part of the challenge in surmounting ideology and disciplinary silos lies in banishing unnecessary jargon within an informed narrative. Second, the history of thought should be part of a liberal education. This comes nearest to our view that as power points shift globally and become more diffused, it is ideas and not gravity that drive change. A liberal education is about broad thinking, and the inculcation of the "scientific method" that advances good ideas and discards bad ones. Third, the study of the history of thought shows that a field is not static but is evolving. Evolution need not mean all new ideas all the time. In development, it is the resurrection of traditional ideas—for example industrial policy, or land as an essentially non-economic entity—re-shaped, combined with others differently than previously, that is as much a feature of current thought as are new ideas (such as the use of randomized controlled trials to guide policy interventions) which may prove ephemeral.

As with any process of evolution, understanding the path is as important as defining the end point. In the case of development, the end point remains unknown and the paths are many. All the more reason to study them. Taking a broad view of development as the starting point, the papers in the volume cover the evolution of thought and characterize the current state of development thinking. They range from explorations of specific issues such as poverty and inequality, through perspectives on development in particular countries and regions, to broader questions such as the nature of development itself. This overview presents a brief account of the evolution of development thought, focusing on the post-Second World

War period, as a means to set out the foundation upon which this volume is built. This is followed by a road map to the volume, including a brief introduction to the individual chapters in the collection. The final section presents some insights, reflecting on the motivation for this volume and what the editors have learned along the way.

The Evolution of Development Thought

Concern over development has been with us for as long as people have existed, for it is fundamentally about the improvement of the human condition. But its study as a formal line of enquiry is more recent, and best seen in two waves. The first dates back to what W. Arthur Lewis (1988: 28) terms the "superstars of the eighteenth century," the contributions of David Hume, Adam Smith,[1] James Steuart, and later, John Stuart Mill.[2] The classicists' ambit was what we would today term questions of economic growth, the distribution of wealth and the principles underlying personal behavior and public action. Thinking largely concentrated within the British Isles in the eighteenth and nineteenth centuries was complemented by that of the French *philosophes*, which focused less on economic factors (and perhaps efficiencies) and more on the promotion of greater equality and freedom and a just society. The *philosophes*, driving a form of French *enlightenment*, that culminated in, and rapidly reached a dead end in the excesses of the French Revolution, were discussed and sometimes hosted by elites and courts in Prussia and Russia. While encapsulated in a shallow layer of society, the conversation extended new ideas throughout much of Europe's political and intellectual elite. Meanwhile, in the newly independent United States of America, its former constituent colonies were seeking to practice what the great minds of Europe had merely preached several decades earlier. Finally, and worthy of note, were the efforts of Napoleon Bonaparte in France to codify both law and national education available to all citizens. (In the UK, the development of the "common law" came about as a process of aggregation over time of custom and innovation through the complex interactions of parliament, increasingly independent courts, and monarchs of varying but decreasing autonomous power.[3])

The second wave of discourse on development stems from the end of the Second World War and the accompanying preoccupations with European (and of a different scale and nature, Japanese) reconstruction, maintaining the peace while fighting the Cold War, decolonization, and the emergence of newly independent but poor countries. There are antecedents here—the outputs of (mainly) colonial administrators and culturalists who took a fancy (sometimes a dubious one) to the more exotic parts of their country's empire, and with a quite different orientation the seminal work during the 1930s and 1940s on economic planning for a post-independent India by the National Planning Committee of the Indian National Congress. But (for example) Edwin Seligman's pre-war *Encyclopaedia of the Social Sciences* contains precious few entries pertinent to the growth industry that development would constitute just two decades later. It was not until the Marshall Plan of the late 1940s and 1950s that a comprehensive and sustained interest in the design and practice of development emerged as the confluence of fighting poverty, (re)building infrastructure, keeping enemies at bay, and strengthening the institutions of good and democratic government.

But the Marshall Plan, focused on Europe, and parallel massive aid to parts of Asia, notably Japan and Korea, were very much concentrated on reconstruction (as were such institutions as the International Bank for Reconstruction and Development and the slightly later Organization for European Economic Cooperation), a notion which explicitly recognized that advanced economic and often political achievements had been attained in those territories in the decades preceding the Second World War. The success of these post-war reconstruction ventures produced what seems in retrospect a facile belief that with means, good will, and hard work, development could be encouraged everywhere with similar methods and results. This would not prove the case.

Thus while a post-war timeline for the present examination of development thinking and practice is apposite, it is also perhaps prone to generating confusion. Indeed, it was only in the 1950s that thinking and planning for development as we conceive of it today seriously took root (beyond the Soviet Union). Thinking about development tended to be "overarching" in nature: the Big Push, Marxian interpretations, Dependencia theory, and Basic Needs. Beyond these signposts, development came to be seen through two distinct lenses which endure to this day: *early developers* from the West who sought to replicate their own evidently successful experience at modernizing; and *later developers*—foreign aid donors—who prescribe actions especially designed for poorer countries. These lenses in turn shaped notions of development in economic and normative terms. But these lenses were not always complementary or internally consistent in their logic. For what was deemed to have "worked" for the early developers was not necessarily what was prescribed to the later developers. Geopolitics and the ideology of the time clearly trumped pragmatism or the historic record. This is most evident in notions of the role of the state, which cemented into dogma in the two principal blocs (three counting the smaller though still influential one centered on China) into which the developing world found itself divided during the Cold War period.

Throughout time there have been important voices of dissent from the mainstream approach to development. A principal strand, which went beyond dissent to actually hold sway in many countries, was the view of the leaders of newly independent countries themselves, starting with Latin America in the nineteenth century and continuing with Asia and Africa in the twentieth century. Shaped by their experience with colonialism, they were unsurprisingly wary of close economic and political ties with their former colonizers and other rich Western powers. Likewise, they were deeply suspicious of advice to adopt those economic and political systems that had enslaved their peoples, sometimes for centuries. Yet many were passionate admirers of the Western model of democracy and its institutions; they were only disillusioned that these were not applied in their own lands by the colonizer. Driven also by the imperatives of nation-building (and their own not incorrect reading of the path that Western countries had taken) these leaders saw a central role for the state and public institutions in charting (rather than merely managing at the margins) the process of development. Indeed, those countries that set their own path early seemed to fare better later on.

Faith in a unique way forward came with perils. In the late 1950s and 1960s, Iran entered into a forced march toward modernization along Western lines, which at the time was hailed by many as exemplary. The strains experienced within the country's social fabric, recognized by anthropologists and sociologists, went unheeded in Tehran and foreign capitals. The 1978 revolution was in many ways a backlash against development as it was then pursued by a self-serving elite. Although entirely different in context and outcomes,

the broad point about such blind faith might also be made about the collapse of the Soviet states and the current crisis in the U.S. and Western Europe.

Yet as long as money and ideas were flowing in tandem to the developing world, a hallmark of the post-war multilateral and bilateral aid architecture, the unified understanding of development was one defined in the West and not by the developing world. This was epitomized by the so-called *Washington Consensus* of policy prescriptions which crystallized in the late 1980s, coherent on their own terms, yet seemingly ignoring political and social context. Of course a lot can be said on this and was, including about the extent to which the original proposals were (or were not) traduced and otherwise distorted. Some argued that it was not sound even on its own terms (i.e. the policies advocated would not lead to economic growth even if implemented). Then there were further critiques—the proposals would not be implemented, or would be only half implemented, because of social and political constraints. Or, further, that the objective of economic growth itself was problematic, even if supplemented by equity, because of longer run environmental constraints. Missed in the din was an important message: that sound policy—not least state financial policy—matters, and that many varying articulations of sound policy are not only possible but desirable.

Inevitably, numerous challenges emerged that critiqued and undermined the tidy (and, in hindsight, over-reaching) nostrums of that "consensus." These came from within the developing world, from civil society organizations, and from credible institutions such as UNICEF. The ensuing debate conspired to place the field in great flux. Market and political forces at home and abroad demonstrated the limits of grand schemes, albeit in different forms in different places. Compounded by profoundly altered global economic and geo-strategic circumstances, a unified understanding has succumbed to numerous challenges, leaving behind varied new views on how to achieve development. Among the more salient of these are: expanding definitions of success, the importance of context to whether development "works," and a renewed appreciation for the questions economics cannot answer.

First, what is cast as constituting success has changed over time, embracing a bewildering number of goals of different sorts at varying scales of ambition and cost: from national income to individual freedoms, from global health to safer communities. Choosing the objectives, ends, or goals of development is a value judgment in the realm of the normative. The early reliance on growth in incomes as the sole measure of success in development practice, or as a proxy for a broader array of the components of development, has withered under the combined assault of experience and reason. For one, measures of economic growth are poorly correlated with other features of development. Also, welfarist approaches have demonstrated the importance of so-called value-heterogeneity (Pildes and Anderson 1990; Sen 1988). More recent understandings of development have layered new aspirations on top of older ones. For example, many conceptions of the "wealth of nations" expanded to include expectations of a just society that affords its citizens the opportunity to satisfy their basic needs and realize freedoms (on the desirable range and ordering—if any—of which consensus internationally remains elusive, beyond the realm of human right treaties). Progress is now widely assumed to mean positive movement in some combination of income, education, health, nutrition, housing, the environment, personal security, personal liberty, and the quality of public institutions—including their distribution across population groups and regions. There is little consensus on exactly what progress constitutes in its components, nor any need for one, as there is little prospect nor the theoretical foundation for creating an "optimal" political system that would yield an "optimal" development outcome.

Second, experience and observation have shown that the extent to which development "works" depends in part on particular local, historical, or institutional contexts. Thus general policy prescriptions will fail when the necessary conditions that make them work are either absent, ignored, or poorly understood. In short, context matters, suggesting a need to study how people understand their own development experience. As Dani Rodrik (2010: 34) puts it, "there has not been a greater instance of poverty reduction in history than that of China in the quarter century since the 1970s. Yet can anyone name the (Western) economists or the piece of research that played an instrumental role in China's reforms? What about South Korea, Malaysia and Vietnam?" Equally, the implosion of the countries of the former Soviet Union and Eastern Europe demonstrated that it was not market economics alone that was on trial, but perhaps dogmatism more broadly. If the countries of the world are varied in every way from their initial conditions to the degree of their openness to outside money and influence, and success is not centered in any one group of countries, it stands to reason that there cannot be a single recipe for development.

Third, the discipline of economics has well-known, if often overlooked, limitations in its application to real-world problems. A partial list includes the inability of conventional approaches to appropriately value the contributions to human welfare by the environment, housework and leisure; the role of history ("path dependency"), and cultural norms in peoples' behavior and actions; and the importance of good government and sound public institutions to well-functioning markets. Any single discipline contains its own strengths, weaknesses, and blind spots. The way forward lies in understanding how various disciplines can be brought together to enrich our understanding of development and its practice.[4] Such an approach might yield, for example, a nuanced role for government to create and strengthen markets, and sometimes circumvent them in the public interest, but not consistently to replace them.

The financial crisis initiated in 2007–2008 laid bare the continuing fragility of the economic systems and the unpredictable and sometimes shaky capacity of governments in Western countries to manage them. At the same time, the crisis seems to show a new resilience among the emerging powers. The previous near-consensus on the wisdom of deregulating markets eroded quickly, yet it is not obvious what should take its place. In the aftermath of dealing with their recessions, many developed countries chose or were forced to introduce austerity budgets cutting expenditure, but in so doing risked further decreasing incomes and undermining social protection more needed then than in times of smooth sailing.

Heated debate continues among economists on which policies would serve affected economies best, with agreement elusive (although many of the economic dynamics at play are widely accepted within the discipline). This, of course, further calls into question near-certainties of old on how development happens. Citizens and experts alike dusted off previously discarded theories and began to search for new ideas. Such is the nature of inquiring minds. Meanwhile the Occupy Movement rebuked growing inequality in developed countries, while the economic engine of global power appeared to shift to regions hitherto labeled developing, not in absolute terms but in forward momentum.

The ascension of the G20 as the premier forum for economic cooperation (however disappointing at times in practice) has offered larger developing countries a new voice and influence in global affairs, and the historically delicious opportunity to contribute to the IMF resources required to bail out Europe. The financial crisis and related wider economic crisis since 2008 thus generated a crisis of confidence in established ideas, in turn prompting a reflection among a wide range of scholars and practitioners, of which this volume is a result.

The terminology and language used to describe development is increasingly inadequate to describe reality in its many hues. The older dichotomies of developed and developing, or North and South, are poorly-suited to a reality where some of the largest economies are also home to some of the globe's largest numbers of very poor people. The nation-state itself is not always the most meaningful unit of analysis. The phenomenon of globalization and the emergence of meaningful new powers tie together the fates of many, while the diversity of experiences within borders is often greater than that between countries. For example, the levels of poverty and inequality in some municipalities within central Chile approach the national averages in Western Europe, while others more closely match African countries (Bentancor et al. 2008). Similarly, some states of India have development indices approaching Latin American averages, while others are at Sahelian levels.

Recent experience also suggests a shift in the fundamental question that drives thinking on development. For much of human history, the question was about how to overcome scarcity, or *how to generate income*. Theories of development proposed different answers to this question, creating points of tension around key concepts, such as the role of states and markets, and their respective failures. At present, with many countries growing at rates many experts would have considered improbable, the fundamental question is increasingly how to live responsibly (for example, in terms of the environment) and well amid plenty, *or how to manage the fruits of economic growth*. The contributors to this volume mostly see growth as a means to achieve development by investing in health and education, providing safety nets and social protection, and enriching democracy and other dimensions of governance (which likely will continue to vary considerably from society to society). Beyond this, there is currently little consensus. If anything, this volume suggests the importance of paying attention to what is under-emphasized in thinking on development, or what Bauer (1972) termed the "dissent on development." Many of the topics the editors considered vital to include in this volume, such as indigenous people, the role of civil society, and adaptation to climate change, were absent in the most forward-leaning thought on development of seventy years ago. That our conception of development has expanded, such that ignoring these issues is now unthinkable, speaks to what Sen (2005) terms the constructive roles of democracy and epistemology, which he defines as "government by discussion" and "learning from discussion."

STRUCTURE OF THE VOLUME

This book is organized in three parts, moving from the broad ideas that shape the critical issues and that have featured in development theory (Part 1) to its elemental concepts which, for the sake of exposition, reflect the tone and language of the underlying sector or academic discipline (Part 2) to experiences of countries and regions and the roles of other key actors (Part 3).

Part 1 addresses the key question—what is development?—and in doing so touches on several points of tension in the post-Second World War discourse of the field such as: concern with economic growth *and* inequality within society; wider understanding of poverty beyond a narrow focus on income (see David Hulme); recognizing the role of women in development while striving toward gender equity (see Irene Tinker and Elaine Zuckerman);

broadening notions of how to evaluate development (see Patricia Rogers and Dugan Fraser); and how changing political, societal, and economic relations have influenced trends in development theory and vice versa (see John Harriss).

It is striking how the great thinkers have always seen development as a broad-spectrum term, encompassing individual well-being through to the condition of large groups of people, even the entire world's population, and within these all manner of well-being not just material. Also, how broad philosophical concepts such as the capabilities approach have, of necessity, led to advances in the type of statistics that are gathered and used and how seemingly abstract views of development are amenable to measurement. We share the essentially—indeed surprisingly—optimistic view in David Williams' chapter, that the study of development has over time surmounted tensions rather than exacerbated them, and that of Maria Emma Santos and Georgina Santos that rather than see statistics as essentially limiting "there have been significant advances in terms of enriching the dashboard of development indicators and composite indices."

There is also a sense of synthesis in two discussions that had become sterile for a while, growth versus inequality, and States versus Markets, both false dichotomies. The chapters on inequality, by Frances Stewart and Emma Samman, and on growth, by Shahid Yusuf, show the inherent importance of each concept on its own terms, but also outline the interplay between them, sometimes virtuously and sometimes not. The empirical evidence on the links between inequality and growth is mixed, and deals with too aggregate a frame to yield very many meaningful results. But the deconstruction into different types of inequality *does* carry more meaning. It is perfectly reasonable for a society to be more intolerant of inequality among health outcomes for infants, for example, than of inequality among male adult professionals. Likewise, Yusuf's conclusion that growth economics is about more than obscure debates between technical specialists is salutary.

Finally, Shanta yanan Devarajan and Ravi Kanbur provide a way forward in the States and Markets debate, by recognizing that both sets of players are prone to success and failure, and exploring how their interaction will play out in the following areas: the nation-state in an era of globalization, the increasing importance of international public goods, and the socially and politically vexing question of entrenched pockets of poverty *within* countries rich and poor.

Part 2 of this volume, on the concepts that form the building blocks of the modern development discourse, picks up on the echoes of the questions raised in Part 1. It is organized into five sections: concepts that relate to the state and society; primarily economic topics; peace and security; sustainability and health; and technology and innovation.

The first section, on State and Society might as well have been named Institutions for it deals with the legal, social and political structures, norms and processes that underpin all countries, developing and otherwise. Here is where nuance and the need to examine issues in their proper context are most apparent. Kevin Davis and Mariana Prado argue that legal systems cannot be one-size-fits-all: for example, societies vary in their view on what constitutes private property, as well as in the formality of the process used to create and enforce law. This is especially apparent in Maivân Clech Lâm's account of the treatment of indigeneity in most modern development processes. Indigenous voices, she says, are stronger than ever, and many among them do not articulate "development" as the mainstream does. Armando Barrientos notes that social protection programs have made an important contribution to reducing poverty and vulnerability, yet their rationale,

design, and effectiveness remain contested. Albert Berry considers how income growth, socio-economic equality, and healthy inclusion interact to determine levels of satisfaction and happiness in a society.

A chapter that begs to differ with cultural relativism is Huguette Labelle's treatment of corruption, which she sees as being unambiguously socially and economically damaging, in contrast to more ambivalent views that make the distinction between "enabling" and "disabling" corruption, or suggest that corruption is indeed understood differently around the world. So this would appear to be one case of a universal truth; yet Charles Cater's analysis of transparency-based policies targeting conflict and corruption suggests there is still room for more than a single narrative.

The second section, on economic concepts, displays the range of options open to countries seeking to raise incomes, and pursue micro-economic and macro-economic policies. Justin Lin and Célestin Monga describe three waves of economic policy, the first concerned with market failures, the second with government failures and an emerging third wave that recognizes a role for government but explicitly in stimulating the private sector rather than replacing it. Variations around this theme—the pragmatic and efficient State—appear in the chapters on trade and finance (by José Antonio Ocampo); entrepreneurship (by Wim Naudé); and public finance (by Richard Bird and Arindam Das-Gupta). Lastly, Adekeye Adebajo addresses these issues from a regional and historical perspective with his focus on the influence of Raùl Prebisch and Adebayo Adedeji, two early "prophets" of regional integration. It is possible that after fifteen years of discussion following the coining of the phrase, we are no further ahead than saying states (and markets) should function within their capabilities (and aware of their limitations) and complement each other. But this too is an advance over pre-conceived notions of the primacy of one over the other.

The third section deals with the relatively new, even by development standards, field of the two-way relationships between war and peace on the one hand and development on the other. It is no coincidence that the parts of the world where poverty indicators have worsened even during periods of global buoyancy, where strains of disease thought to be eradicated stubbornly prevail, and where local and international crime festers are those in conflict. As Gilbert Khadiagala and Dimpho Motsamai note, the political economy of intrastate conflict is rarely entirely "local" in that there has typically been some connection to colonial history or the interplay of outside powers. Development theory and practice is rapidly (if very belatedly, as pointed out by Keith Krause) catching up to the connections between conflict and post-conflict reconciliation and development. Throughout all chapters in this section lie two precepts—large-scale violent conflict is everywhere and unambiguously inimical to development (even if sub-groups might benefit from it); and societies can only make progress from conflict to true development through a process of local reconciliation (however much mid-wifed by external actors). The range of options here might be wide as Pablo de Greiff and Mats Berdal show in their chapters on transitional justice and on peacebuilding respectively, but these two precepts might be the nearest we get to in this volume to suggesting a "universal truth"—perhaps a prelude to it being challenged by future scholars and policy actors, as each field has attracted a wide range of critics.

The fourth section on Sustainability and Health addresses what were once termed "sectors" and operationally are still treated as such in many organizations—agriculture, health, the environment. Measures of the quality of health or the environment do indeed contribute to an understanding of development, both at the individual level through their contribution

to well-being (or human development) and at a more aggregate level, in indicating the priorities of a country or society. M. S. Swaminathan et al., Cecilia Tortajada, and Julio Berdegué et al. show that the place of agriculture, water, and rural places in development thought have evolved considerably, becoming integral to other development imperatives such as health, nutrition, and sound environmental management. As Ben White et al. note in their chapter on land reform, if badly managed (and with no help from the agriculture and trade policies of developed countries) the sector may continue to be a source of poverty and conflict. A similar story emerges in the chapters by Tim Evans which traces the evolution from tropical medicine to global health, and by Nandini Oomman and Farley Cleghorn which addresses the tension between targeting disease and strengthening health systems.

The chapter on climate change by Fatima Denton belongs in this section but might also be read as a complement to the chapters in Part 3 on country and regional experiences. Climate change embodies all that is complicated, risky, and exciting about development. It is connected with everything else (imagine how lonely and ineffective an isolated Ministry of Climate Change would be); its science, while compelling, remains in its infancy and connects with policy interventions in complex ways. It is the quintessentially long-term, externality-driven problem. How the world as a whole deals with this threat, and how heretofore successful emerging powers deal with the threat at home and as global citizens, may well define our notions of development in coming decades.

The final section of Part 2 treats competitiveness, innovation, education, and new technologies as part of a continuum. It covers topics such as industrial policy (see Michele Di Maio), innovation systems (see José E. Cassiolato et al.), incentives for research (see David Brook et al.), and ICTs for development (see Ronaldo Lemos and Joana Ferraz). In doing so, the focus consciously moves away from the traditional emphasis on primary and secondary levels of education as a "basic need" in order to consider how it connects with both personal development and informed citizenship on the one hand, and economic prosperity on the other. Universities might well be the fulcrum that balances the social and economic dimensions of education. Rodrigo Arocena et al. make this point explicitly in their chapter on universities and higher education, and it is hard to read the other chapters in this section without having an image of the national university system, effective or dysfunctional, at the back of one's mind. A greater understanding of, and attention to, universities in developing countries might be the single biggest gap in the current discourse on development. And current excitement over the important role that think tanks can play in the developing world (notably in encouraging policy development) should not suggest that such institutions can substitute for the vital functions of universities, which are struggling or failing in many parts of the globe, while their business model in much of the West is also in question.

Part 3 of this volume brings home the sometimes abstract discussion inherent in a book on development *thought*. But development is essentially a real-life process, and a fundamental aim of our endeavor is to understand how thought and practice shape each other. It is axiomatic that one learns as much from successes as from failures. This section shows that neither success nor failure is unambiguous. The chapters on China (Xue Lan and Ling Chen), East Asia (Simon Tay), Chile (Ernesto Ottone and Carlos Vergara), India (Devesh Kapur), Brazil (Renato Galvão Flôres), South Africa (Mthuli Ncube et al.), sub-Saharan Africa (David Olusanya Ajakaiye and Afeikhena Jerome) and the Arab countries (Ahmed Galal and Hoda Selim) analyze what has worked, but also point to important gaps in development performance. In all cases, it is heartening to see a discourse on development that is

increasingly informed by evidence-based decision making and driven by local rather than external contributions and players. International finance and foreign aid still matter, but development tends to be locally defined, and in an increasing number of countries, it is overwhelmingly financed through domestic revenues. At root, it is invariably internally powered, as first the Asian Tigers and later China and India demonstrate. This is increasingly true of Latin America and sub-Saharan Africa but appears to be less established in many parts of Central Asia, the Middle East, and North Africa that have not yet achieved notable success. We do not offer a chapter on experience in "industrialized" countries of North America or Western Europe, but we conjecture that such a chapter would confirm that development is a path and not an end point, with new, often politically salient, challenges constantly arising in every society.

The second section in Part 3 deals with the Actors in development, including the State; civil society, and NGOs; international organizations with operational roles and more consultative fora; development assistance; and private philanthropy (as Carol Adelman and Yulya Spantchak demonstrate in their chapter, foundations and other private actors are an increasingly important complement to the official development assistance sector as private remittances and foreign investment flows far outstrip the latter in size).

In their chapter on The State, Celia and Jacques Kerstenetzky decry the "capture of development by the idea of economic transformation" and concomitant with it a new, almost "mechanical" role for the State which was, however, not apolitical. But states are about more than counterpoints to markets, and this chapter articulates the broad spectrum view of the state both in theory and through its application in a number of cases. Likewise, as Kumi Naidoo and Sylvia Borren argue in their chapter on civil society, many development challenges cannot be adequately addressed solely within a state-centric framework. This may suggest the need for enhanced civil society participation in future development decision making at all levels—including sub-national, national, and international.

Just as national governments are supposed to provide public goods to their citizens, international organizations were created to provide global public goods (although that term itself is of more recent vintage and might have drawn blank stares in San Francisco and at Bretton Woods.) The actual record is a distinctly mixed one, and there is no more contested space in development than around the nature, role, and performance of the UN organizations and other international financial institutions. Moreover, the so-called international architecture has been characterized by overlapping mandates (as in health and agriculture), gaps in global governance (as in climate change and post-conflict development) and pure additionality, with few recorded instances in the post-Second World War era of even minor institutions "going out of business." Still, for example, as is implicit in Diana Tussie and Cintia Quiliconi's (WTO) and Danny Leipziger's (IFIs) chapters, the counter-factual of how the international trade and finance systems would have functioned without their much-maligned main multilateral institutional platforms existing, leaves pause for thought. But averting disaster is hardly the standard by which international architecture should be judged. A more positive agenda ahead lies in drawing on:

- the role that Richard Jolly describes as having been played by the UN in changing the ways in which issues were perceived globally; framing agendas for action; altering the balance of power between groups over time; and creating operational structures to take new ideas forward;

- the gap between the UN and the IFIs being closed or at least narrowed;
- as Homi Kharas mentions in his chapter, new technologies enabling the rapid transformation of official development assistance toward more decentralized and competitive programs;
- and developing countries, especially the larger ones, playing a more active role in the governance of the established institutions or actively replacing them with their own creations (see Gregory Chin and Jorge Heine on Consultative Forums).

Several other chapters were considered for this volume, yet given the limitations on length, the editors needed to be selective. For example, there is a strong case for considering how thinking on demography has evolved over time, yet ultimately the editors decided to pass up on this tantalizing possibility, given myriad mistaken past demographic predictions and that demographic factors appear frequently in the chapters. Of course demography matters in development, particularly how demographic transition is addressed by policy. In India, it was until recently fashionable to intone that a fast-growing population would prove a decisive boon in the future while China's slowing population growth would limit that country's productive potential. Of course, whether hundreds of millions of young people in due course produce an economic boom, or constitute a social and economic bomb, greatly depends on how well countries can educate and meet the aspirations of the expanding number of young citizens.

Likewise, a case can be made for addressing how nationalism affects development outcomes. Conversations among the contributors and others noted that nationalism threatens to overwhelm today's optimism about continued growth through ever greater economic integration. After short-term exhilaration, the experience of political populism often leads to disastrous economic outcomes. At worst, nationalism and "sub-nationalism" lead to conflict between assertive nation-states and group identities endemic in regions that lie within countries and sometimes transcend them. But these dynamics are well documented elsewhere.

Initially, the editors hoped the contribution of women to development, and the constraints they face, would be sufficiently prominent throughout the volume. Yet after some debate, it was decided that a chapter specifically relating to gender was needed. Often the question of women and development is framed as a choice between mainstreaming and exceptionalizing: between accepting women are equal citizens and participants, or acknowledging that women experience development differently than men. In what proves to be an indispensable chapter, Tinker and Zuckerman show this is a false dichotomy. Gender needs to be present throughout development thinking and practice, yet there is continued need to advocate for women's rights and agency, and to analyze this process on its own merit.

In the interplay of ideas and practice, the interplay of power is seldom far behind. This volume does not explicitly address power, but it is present in everything to do with development, from dynamics within the household, to the tensions between different groups in society, and the geopolitics among countries. A chapter on the relationship of power to development would have been intriguing, but the editors ducked this option. Ultimately, no volume of this nature can ever do justice to every perspective, and every key issue. In our failure to meet all expectations in this regard, our consolation is that we tried very hard, not least through our dialogue with authors on what their chapters might touch on.

Past, Present, and Future

Development can be defined as simply *how societies change over time*. It is tied to the age-old questions of "how did we get here and where are we going?" This volume embodies a collective attempt to search for a historical understanding of past change in a quest to shape the future. A couple of observations emerge that help to distinguish among the ways of understanding development that stem from this common point of departure.

There is a tension between development as a subject of study and as a field of action. The process of change within society is a subject of scholarship across a multitude of disciplines. Yet understandings of development are not passive. They inform and inspire the actions of individuals, organizations, and states in their continuous effort to invent a better world. They include the mindsets and motivations that shape the real-life decisions of central bankers, political leaders, family doctors, parents, and beggars. Studying and acknowledging such practice is arguably as important to grasping the contours and content of development as is a command of the formal scholarship.

Analysis of development can seek to explain changes in a country's social, economic, and political situation, or the lack thereof. Extended visions of development might add important factors such as the bio-physical environment and spirituality or other philosophical and ethical dimensions to the formulation. There has been a continuous quest to learn from past experience and then to apply that knowledge to present action in order to realize future potential. In contrast, the absence of development is also a concern, as demonstrated through attention to the topics of deprivation, dependency, underdevelopment, fragile states, and corruption. The focus is on the barriers that prevent desired change rather than to arrive at a universally accepted set of development objectives or strategy to achieve them.

This is not to imply that there are no universally accepted components of success in development. As argued in the papers in this volume, there are several, ranging from those representing basic material needs to personal security and political freedom. But the weight given to each, the order in which they are prioritized and pursued and the manner in which the national development project is framed and implemented can (and must) vary by country and time period.

Development thought has been described as knowledge and understanding of the world in which we live (Sen 2005). Informed by practice and facts on the ground, it can be defined simply as the ideas, concepts, and theories that constitute our knowledge of how societies change. The progression from ideas to concepts and theories forms an intellectual hierarchy with each level relying on the building blocks of the level below. The abstract ideas of state, security, and well-being are tied to more refined concepts of social protection, transitional justice, and global health. In turn these concepts give rise to theories, which can be understood simply as systems of ideas that provide explanation. Thus the concept of economic growth informs theories on poverty, inequality, and inclusion, while the concept of sustainability informs theories of climate adaptation, food security, and water governance.

If development is about how societies change over time, change itself occurs as a response to ways of thinking. As noted by Beland and Cox (2011) "what things change and how they change are all the result of what people choose to do . . . these choices are shaped by the ideas people hold and debate." Ideas in turn are the product of "pure" academic enquiry but also

are a product of their times, driven by experience, the dominant prevailing ideology and other mores—social, political, and cultural—that shape thinking. This volume is interested in how the real-life experiences of different communities, countries, and organizations have been inspired by, and have contributed to, thinking on development (Kanbur 2009). Development has always been about much more than foreign aid, which constitutes a modest and shrinking portion of the financial flows into and out of most countries, systematized relatively recently, in the post-war era. More important than the strategies pursued by donors, development has to do with choices on the ground, how states marshal the resources available to them in order to care for their citizens.

Thinking on development refracts through politics, which mediates between public aspirations and policy. Tremendous advances in access to education, electricity, water, health, and other services encourage further rises in what citizens expect of development. Such advances can also foster a sense of complacency if they seem to arrive too easily through ultimately unsustainable government largesse, or natural resource wealth. By necessity, political leaders must be pragmatic; they define and pursue the art of the possible, navigating among established interests and the watchful eye of the opposition parties (or less formal forums, groupings, and dynamics that express criticism). Where there is public debate and periodic changes in leadership, opportunities exist for government by discussion, for people to understand each other's positions. Ultimately, governments do what their citizens force them to do.[5]

These considerations lead us back to the increasing overlap in the challenges faced and how development is pursued by the North and South. The first decade of the twenty-first century has shown that the West no longer has a monopoly on defining the terms of the development debate, if indeed it ever had one. Its countries increasingly struggle to afford their existing social policies. Add to this the need for a smarter, greener economy and it is clear that all nations are a work in progress, at grips with matching finite state resources ill-matched with infinitely expandable goals. The increased interdependencies created by globalization add an additional dimension to the discussion. In a very real sense, we are all developing.

As more global powers emerge, ideas and the policy recommendations that follow them are less likely to be hegemonically driven. The only unity in future development thought and practice might be at the broadest possible level—that there is no such unity and that its application must be intelligently pursued by local actors (how local would depend on the issue at hand). The aim of this book has been to trace the history of thought in various segments of development that are presently in a state of flux, map the current range of approaches for each sector, and set out options and possibilities for the future, some of which may open new avenues for research.

We hope to have demonstrated that as with any study of thought and practice, there will be fads, deviations, bumps, and other inconsistencies from a logical progression of reason. But equally, that the development arena is one massive laboratory for the scientific method. Ideas born of context and necessity are floated, developed, applied, modified, or discarded only to be succeeded by others. Despite the seeming messiness of this process, the field is in fact advancing. The lack of a resultant unified theory of development is entirely to be expected and it is no bad thing.

Thus, three major conclusions emerge from our exploration of co-evolution of development thought and practice. First, both the generation of ideas of development and their application

in practice can be properly understood only within their particular historical, political, and institutional contexts. Second, contemporary thinking on development is increasingly generated in a more diverse set of locations, while policy-makers are also progressively going beyond the intellectual capitals that loomed large in the past. Third, as a consequence, consensus on what constitutes "development" and how to best pursue it may well be a thing of the past.

Notes

1. Adam Smith is most often cited for his analogy in the *Wealth of Nations* of a "hidden hand" of self-interest guiding economic growth. However, tellingly, his earlier work *Theory of Moral Sentiments* opens with the sentence "How selfish soever man be supposed to be, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it." Thus, even great minds preoccupied with economic growth and efficiency understood that social solidarity is a core human characteristic, albeit displayed in many varying ways.
2. For an account of the classical contribution to current development thought see also Chapter 2 in Jolly et al. (2004).
   Although this body of work has not been given the systematic attention that it merits, we should also acknowledge the contributions through history of non-Western sources, ranging from Kautillya's *Arthashastra* (circa 300 BC) to Dadabhai Naoroji's contributions in his *The Wants and Means of India* (1870) and *Poverty of India* (1876), Khayr Al-Din Al-Tunisi's *The Surest Path to Knowledge Concerning the Conditions of Countries* (1867) in the Arab region, and Benito Juarez's enduring influence on reformists in Latin America via his rule in Mexico during the middle of the 19th century.
3. Several short, lucid and admirably clear books can be recommended on the progression of ideas relating to development in Western countries from the 18th century onward, notably Stedman Jones (2004) which focuses on the French Revolution through too much of the nineteenth century; and Arndt (1981), which, after a bracing canter through "pre-history" to 1945, bears down on how notions of growth, social and other objectives have been pursued by "right" and "left" since then.
4. There is a rich and thoughtful literature on the subject, for example see Bardhan (1989) and its review by Lipton (1992). More recent treatments include Rist (1997), Kanbur (2002), Rapley (2007), and Kanbur and Riles (2008).
5. The editors gratefully acknowledge the personal insights of Amartya Sen and Ricardo Lagos, among others, in drawing our attention to these points.

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PART 1

CRITICAL ISSUES

In preparation for the detailed sectoral, regional, and country specific discussions which form the core of this volume, chapters in this opening section adopt broad perspectives on a range of overarching critical issues in the development discourse. They take up the evolution of theories of development, including growth theories; long running debates on the balance between state and market; the focus on poverty, inequality, and gender in the development discourse; and the perspective of evaluation of development interventions.

Three themes emerge from the nine chapters in this part of the volume. First, is the progressive expansion of the notion of development, beginning with straightforward increases in average income, to incorporate broader aspects of well-being such as education and health, and with a growing focus on the distribution of well-being. These distributional concerns are reflected in increased attention to poverty and to inequality, including gender disparities in development. Second, related to the broadening of the content of development, is a broadening of the disciplinary range of the development discourse through the gradual introduction of social science perspectives from outside of economics. A third theme, however, is the ever present tensions in the development discourse—between growth and distribution, between state and market as the engine of development, between broad prescriptions and their specific applications, and so on.

The progressive expansion of the notion of development is captured well by Maria Emma Santos and Georgina Santos (Chapter 8) in the specific context of the emergence of composite measures of development. They document how the landscape evolved from the predominance of Gross National Product (GNP) per capita as the dominant measure of development, to include distributional and poverty measures, as well as a panoply of "basic needs," including health and education indicators, such as infant mortality rates and literacy rates. This move, which began in the 1960s and 1970s, is now well ensconced in the broad perspective on development outcomes as reflected in the range of the Millennium Development Goals (MDGs). But even the range of the MDGs has been criticized as being too restrictive, as not being sufficiently strong on climate change outcomes, and taking into account at all outcomes on voice and accountability.

The conventional focus on economic growth is taken up by Shahid Yusuf (Chapter 3), but the chapter shows well the broadening of perspectives and the tensions that have arisen even with this narrow focus. Starting with a simple perspective on the rate of investment as the determinant of economic growth, thinking has evolved to a broader and much richer discussion of a range of factors such as efficiency of resource allocation, technological innovation, human capital investment, and institutional quality. The policy implications have thus ranged from market liberalization to achieve better resource allocation, state intervention to encourage innovation and to invest in education, and legal and other reforms to strengthen the foundations for credit and investment. These new demands are stretching the discourse on economic growth.

For many, the central feature of the evolution of the development discourse from its post-war roots in per capita GNP growth, which occurred with accelerating speed from the 1960s onwards, was the focus on the distribution of the gains from growth. Two chapters in this opening part of the volume take up different aspects of this broadening of the development discourse—poverty and inequality. David Hulme (Chapter 5) gives an account of how the discourse on poverty has evolved in the post-war period. As the author tellingly observes, the 1961 goals of the first UN Development Decade (5 percent per annum economic growth) contrast with the MDGs of 2001, which had as one of their goals the halving of extreme poverty between 1990 and 2015. However, the author also highlights the central tension in the discourse between those who see the primary cause of poverty as lack of economic growth, and those who instead see the primary cause as being inequality. Of course, there is always the simple answer of "both." But this tension in the discourse goes deeper, and relates to differences on how the economy functions, and the role of economic and political power in determining outcomes.

The issue of inequality is taken up in detail by Frances Stewart and Emma Samman (Chapter 6). A key distinction is that between vertical inequality and horizontal inequality. Vertical inequality has been conventionally the focus of economic analysis. The Gini coefficient of income inequality is the standard measure of income difference between persons and is the workhorse measure of inequality in the analytical and the policy discourse. Inequality is one of the areas where the development discourse has broadened from its economic base, and with economics being complemented by linking to deep philosophical investigations into whether and how such inequality should be addressed. In the narrow economic sphere, there are vigorous debates on whether such inequality is conducive to economic growth, or whether it is inimical to investment and growth. However, in recent years the inequality discourse has been enriched considerably by broadening to include horizontal inequality—inequality between broadly defined groups. It has also been the entry point for insights and analysis from other social science disciplines such as sociology and anthropology.

One key aspect of inequality between groups is gender inequality, and a central feature of the evolution of the development discourse in the post-war years has been the rise to prominence of a gendered perspective on development analysis and development policy. Irene Tinker and Elaine Zuckerman (Chapter 7) provide an overview of this evolution. They argue that fifty years ago women were invisible to development theory. However, research by women scholars began to show the role of women in market production and in the economy of the household. At the same time, agitation by feminist activists brought to the attention of policy-makers the adverse impacts of a range of economic and social policies. The perspectives of disciplines like sociology and anthropology were crucial in the questioning and

modification of economic models. While there is a long way to go and tensions remain, this is a field in which tensions have been creative and have moved the discourse in the right direction.

The tensions raised by the ever broadening dimensions of development outcomes is well reflected in Santos and Santos's (Chapter 8) discussion of the formation of composite indices of development. That there is a need for such indices is itself indicative of the tension between the specificities of the different dimensions, and measuring the overall direction of development. The tension between specificity and generality is also found elsewhere in the development discourse. The specific approach to assessing development outcomes is well reviewed by Patricia Rogers and Dugan Fraser (Chapter 9) in their chapter on Development Evaluation. The most recent development in this literature is the great emphasis being placed by some on Randomized Controlled Trials (RCTs) as the "gold standard" of evaluation of development interventions. While having strong "internal validity" because of the controlled nature of the intervention, for this very reason RCTs have weak "external validity" once we move beyond the specific intervention to draw more general conclusions. For this, Rogers and Fraser argue, earlier traditions in development evaluation are more appropriate and better suited.

RCTs represent one end of a spectrum in the development discourse between specificity on the one hand and generality on the other. Broad issues such as the balance between state and market have been an important part of the development discourse. Shanta Devarajan and Ravi Kanbur (Chapter 4) provide an account of the evolution of the state versus market debates in the post-war era. In the immediate post-war era statist approaches reigned supreme, partly as the result of the failure of market-oriented approaches in the 1930s, and the perceived success of the centrally planned economies in the 1940s and 1950s. But the pendulum swung, partly in reaction to some of the failures of these statist approaches, to the Washington Consensus of the 1980s and 1990s. But the pendulum swung too far, and the authors argue that the current perspective is a synthesis between market and state approaches, with a key role for civil society. Their overall conclusion is that, at least on state versus market, the development discourse has been evolutionary rather than revolutionary.

The chapters by John Harriss (Chapter 2) and David Williams (Chapter 1) continue the theme of tensions in the evolution of development thinking. Both authors are, however, optimistic about the current state of development thinking and point to some resolution in the tensions. In his chapter, Harriss traces the evolution of development theorizing starting from the structuralist theories of the 1950s and 1960s. These approaches emphasized the role of the state, but then came under attack from neo-liberal development economics. However, in the view of the author, the success of the East Asian economies, in particular, called for theorizing that takes us beyond the orthodoxies of the 1950s and 1960s to those of the 1980s and 1990s. Rather, a renewal is called for which recognizes the very diverse institutional basis of development success. At the same time, the author calls for a recognition of the limits of theory itself. The importance of contextual knowledge is increasingly recognized by economists and political scientists as well as other disciplines. Harriss argues for "liberal institutional pluralism" with no single discipline or approach having dominance and that there should be a built-in tendency in the development discourse to resist "one-sided" consensus.

The chapter by Williams, which begins this part of the volume, identifies some of the tensions highlighted at the start of this introduction: between widely applicable lessons versus specific knowledge of successes and failures; between development as structural transformation versus

lack of development as leading to specific problems; and between economics and other disciplines. Williams traces the origins of the modern study of development and finds these tendencies present at the start, although becoming sharper in recent times. However, we appear to be at an interesting conjuncture in the interplay of these various tensions. The growth of development studies as an area of study which brings together the strengths of a range of disciplines is encouraging. Development agencies which in the past espoused narrow approaches to development have moved to a more empirical and pragmatic stance on policy formulation and implementation. The author ends by noting that in recent years the tensions have been recognized and that the future "holds out the possibility of steering a path through them." This is a conclusion that would be endorsed by the chapters in this opening section of the volume.

CHAPTER 1

THE STUDY OF DEVELOPMENT

DAVID WILLIAMS

Introduction

The study of what we now call "development" goes back at least to the Scottish Enlightenment, emblematically in the works of Adam Smith. As an institutionalized and specialized academic area of study, however, it emerged in the period after the Second World War under the auspices of U.S. hegemony and it expanded dramatically as the number of developing countries rose, especially from the 1960s. In many ways the study of development has been a tremendous success. It has become a vital component of the work of bilateral and multilateral development agencies, led by the work of the research arm of the World Bank (for some history see World Bank 2010). A significant number of specialist research centers have been established to study the processes and problems of development, and it has become a well-established academic area of study, with professional journals, conferences, and professional associations. It has also become an increasingly popular area of study for students, with many degree programs, particularly at the postgraduate level. The study of development has also dramatically expanded in scope alongside the expansion of the agenda of development agencies themselves. In the contemporary period it includes a huge variety of things from trade policy to marine conservation, and from banking regulation to maternal health.

The sheer size and variety of the study of development makes any kind of simple summary impossible. There are too many issues, too many institutions involved, and too many approaches for them to be even sketched out. But some kind of overall account and even assessment of the study of development is possible by viewing it at a somewhat higher level of abstraction. The approach taken here is that the study of development has been characterized by three tensions right from its origins in the post-war period. First, there is a tension between generating widely applicable knowledge and policy prescriptions, and generating knowledge of particular development successes and failures. Second, there is a tension between generating knowledge of "development" as a process of structural transformation (that in some way replicates the transition to "modernity" with all that implies—industrialization, urbanization, and so on) and generating knowledge of the particular problems and issues

associated with a lack of development (access to clean water, malnutrition, maternal mortality, and so on). Third, there is a tension between economics as the primary discipline within which development was studied, and the contribution of other academic disciplines (politics, area studies, anthropology). In many ways these tensions have been very productive, but they have also been very hard to overcome, and the challenges they pose remain.

Origins of the Study of Development

The full title of Adam Smith's most famous book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, provides the founding questions of the study of what we now call development (Smith tended to use the term "improvement"): what did being "developed" look like, what made it different from its opposite, and how did countries achieve it? The intellectual ambitions of the Scottish Enlightenment shaped the grand narratives of the nineteenth and early twentieth centuries, whether in the form of Marx's account of the development of capitalism or the sociology of Weber and others who concerned themselves with the origins and characteristics of "modernity." But the study of "development" only emerged as an institutionalized and professionalized area of study in the period after the Second World War, and it is this period that forms the focus of this chapter. The study of development in this period is defined by attempts to understand the process of "development" in the less-developed world, and, importantly, to provide knowledge that could generate policy prescriptions to be used by developing country governments and development agencies.

This locates the origins of the modern study of development in a particular international and institutional context. Internationally it emerges alongside the institutionalization of the "project of international development" itself in international politics—the establishment of bilateral and multilateral development agencies and the provision of foreign aid (Williams 2011). In turn this is significantly the result of the emergence of the U.S. as the hegemonic state in international politics. "Development" played an important role in the hegemonic order established by the U.S. in three related ways (Gilman 2003: ch. 3). First, U.S. policymakers recognized the need to integrate developing countries into the multilateral political and economic order they were creating. Of the forty-four countries present at the Bretton Woods Conference in 1944, nineteen were from Latin America, and they generally enthusiastically supported the agreements reached at the conference (Helleiner 2006). Second, the broad aims of U.S. hegemony were advanced through the development of developing countries. As Truman put it in his famous "Four Point" speech, "all countries, including our own, will greatly benefit from a constructive program for the better use of the world's human and natural resources."[1] Economic development expanded economic opportunities for the U.S. and reduced the likelihood of war. As Cordell Hull put it, "if we could get a free flow of trade . . . so that one country would not be deadly jealous of another and the living standards of all countries might rise thereby eliminating the economic dissatisfaction that breeds war, we might have a reasonable chance of lasting peace" (Hull 1948: 81). Third, and increasingly, development played in important role in Cold War competition. The promise of "development" was the U.S. alternative to communism and the practice of aid giving was shaped by the logics of Cold War competition. In terms of the study of development this meant, as

Lucian Pye noted, that "the increasing academic interest in the problems of new states ... has been inspired more by world events than by any indigenous advance in ... theory" (Pye 1966: 31). In other words, the study of development was driven as much by the need on the part of the U.S. to manage its relations with developing states as by purely academic interest. And as the number of developing states grew rapidly with the process of decolonization, so this need only increased, and over time the study of development expanded in other countries, such as Britain, France, and the Netherlands that also needed to find ways to manage their relations with their ex-colonies.

The emergence of the modern study of development was also shaped by other related factors. It can trace part of its lineage to the explosion of public policy "expertise" more generally and developments within the discipline of economics more specifically. In the late nineteenth and early twentieth centuries "experts" were playing an increasingly important role in public policy debates, and the New Deal, for example, was imbued with the view that social and economic problems were to be solved through the application of expert, "scientific" knowledge, and that attitude carried over into the study of development (Maier 1978). The emergence of economics as a separate and specialized academic discipline was also associated with this rise of public policy "expertise."

As noted above, in many ways the study of development has been remarkably successful. But it has also been beset by at least three tensions that, while they have been productive in many ways, have also created a series of intellectual and practical problems.

General versus Specific Knowledge

The first is a tension between generating knowledge and policy prescriptions that are generally applicable to a large class of developing countries and generating knowledge of the success and failures of particular countries at particular times. There is something of a paradox here. The Keynesian revolution in economic theory provided an important precondition for the emergence of a specific economics dedicated to the study of "development" by showing that different kinds of economic circumstances might require different kinds of economic policies. This break with what Albert Hirschman (1981) has called the "mono economics" claim was vital in carving out an intellectual space dedicated to the study specifically of development. The division of countries into those for which classical economics was appropriate and those for which some other kind of economic theory and polices were appropriate can also be found as early as List and later in thinkers such as Rosenstain-Rodan and Gershenkron (List 1841; Rosenstein-Rodan 1943; Gershenkron 1962; see also Harriss, this volume). The legacy of this generated two issues that were played out in this tension between the general and the specific. The first was a questions of where to draw the line: it might be that developing countries had different circumstances such that they required a different kind of economics, but did they have enough in common such that meaningful generalizations could be drawn about them, or were they all so different from one another that such generalizations were likely to be very difficult? Second, there were always students of development who rejected the claim that developing countries were relevantly different such that they

required a different kind of economics (Johnson 1964; Bauer 1976, 1984; for example). While this view was marginal during the 1950s and 1960s, it emerged very forcefully in the late 1970s and 1980s.

The first generation of development economists accepted that developing countries were different and then tried to generalize about them, focusing particularly on the problems and possibilities of industrialization. As Hollis Chenery put it, "successful development in virtually all countries has been characterized by an increase in the share of manufacturing in total output" (Chenery 1979: 70). Classic studies of this kind include those by W. Arthur Lewis and Albert Hirschman, and in a slightly different vein by Raul Prebisch. Lewis argued that within subsistence (or "traditional") agriculture there was a high level of under-employment of resources and low productivity, and thus very little surplus was produced. Given this, there were potentially large supplies of labor in the agricultural sector that could move to the industrial (capitalist) sector without any decrease in agricultural production (there were "unlimited supplies of labor" for the capitalist sector). Wages in the industrial sector would remain low (depressed by the unlimited supply of labor) and thus profits would accrue quickly within the capitalist sector, providing a surplus that could be taxed and invested. In this dualist model, the industrial sector would be the dynamic element, sucking labor out of the stagnant subsistence agricultural sector (Lewis 1954). Lewis was clear that this model was designed to "help understand the contemporary problems of *large areas of the earth*" (Lewis 1954: 140, italics added). While Hirshman's account was different, stressing the role of "forward and backward linkages" in stimulating industrialization through a cumulative process, it was also clearly a general theory (Hirschman 1958).

By the late 1970s the kinds of policy prescriptions that followed from these accounts came under attack as a result of the growing economic crisis affecting many developing countries, the more general global economic slow-down and the resurgence of neoclassical economics (for more detail see Toye 1987 and Williams 2011). In its place emerged another kind of generalization derived from what was seen as the universal applicability of neoclassical economic theory. Deepak Lal, one of the most famous advocates of this position, argued that "there is by now a vast body of empirical evidence from different cultures and climates which shows that uneducated peasants act economically as producers and consumers" (Lal 1983: 105). In other words, developing economies were not different in their fundamentals from developed economies: they were poorer of course, but the same kind of economic theory and the same kinds of economic policies applied to them as to all economies.

This position characterized what became known as the "Washington Consensus" and has continued to shape the study of development in important ways (Williamson 1989). The assumption of economic rationality has been extended and elaborated in both the New Political Economy and New Institutional Economics approach to development. The former extended the rational actor model to politicians, bureaucrats, and social groups more generally, and in doing so drew on theoretical accounts of the process of decision making and the role of "interest groups" in the politics of western states (Krueger 1974; Bates 1981; Olson 1982). The latter stressed the role that institutions, broadly understood, might play in shaping the decisions of rational economic actors, and showed that the institutional structures could play an important role in determining a country's developmental path, especially by changing the transaction costs facing economic agents (North 1990; more generally Williamson 1979). Both of these approaches were melded into the concern with good governance that emerged through the end of the 1980s and into the 1990s (for more detail, see Williams 2008).

Here again, the approach taken was that the consequences of good and bad governance could be generalized, and hence that policy prescriptions could be designed that were applicable to a large number of countries.

Another very important strand in the study of development that took as its aim producing generally applicable knowledge has been economic growth theory (see Yusuf, this volume). The general impetus behind this has been to develop and then test theoretical models that can explain differential rates of economic growth. Within this broad analytical tradition there have been a number of different models. The Harrod–Domar model was an important influence on early development economists, and to some extent the World Bank too (Harrod 1948; Domar 1957). Derived from Keynesian economics, it purported to show the links between changes in investment and changes in national income. In turn this model was amended and critiqued by other growth models, including the Solow (neoclassical) Growth Model and more recently by Endogenous Growth Theory. Also associated with this was a significant amount of statistical work on the correlates of economic growth. Here again, the idea was to determine the contribution of certain factors to economic growth by using data sets that covered a large number of countries (for a discussion see Kenny and Williams 2001). The underlying assumption of both growth theory and this kind of statistical work was that economies work in fundamentally the same way and thus that it was possible to discover general causes of growth that applied to a large number of states.

These forms of generalization have always been challenged by studies of particular development successes and failures that have located the reasons for success and failure in the specific conditions and circumstances of particular countries at particular times. The most obvious examples here are the East Asian success stories. A lot of effort has gone into capturing the experience of these states under more general theories. So, for example, the World Bank in its *East Asian Miracle* report, argued that while governments in these countries did intervene selectively in the economy, the bulk of the success of these states can be put down to sound macroeconomic policy, a high level of private investment, and export growth (World Bank 1993). Somewhat paradoxically, of course, some years later it was argued that some of those countries experienced a financial crisis because they did not have adequate regulation or appropriate relations between the government and the private sector ("crony capitalism") (Johnson 1998). But there have also been studies of these countries that challenge this kind of generalization. So, for example, studies of the developmental success of South Korea have identified a long list of contributory factors: Japanese colonialism, land reform, high levels of literacy, nationalism, geography, Confucian culture, U.S. support and protection, regional investment and trade flows, the suppression of social divisions, the particular circumstances of the global economy, and the emergence at a particular time under a particular regime of a "developmental state" (for a selection, see Belassa 1988; Amsden 1994; Kholi 1994; Leftwich 1995; Wade 1996). And, of course, all developing countries have their own set of specific features, derived from their own specific histories, including the form of colonialism, the make-up of society (social forces), forms of economic specialization, level of human capacity, and forms of government, to name just a few.

The issue here is not that some countries do not "fit" a general theory (no general theory and no statistical conclusions can "work" for all countries and their proponents do not argue that they can); it is that the development success (or failure) of individual states might be down to particular, country-specific, contingent factors. And the more we know about individual countries and their particular contingent factors, the less plausible the general theories

become. The final twist here is that the more we know about particular cases, the less likely it seems that general "lessons" can be drawn for other states. The utility of the "developmental state" cannot be doubted, but it certainly can be doubted whether any such state might plausibly be created in countries with very different histories and characteristics.

So we are left with a tension. On one hand, the condition of being "underdeveloped" seems like a general one (lots of countries have experienced this) with certain general features (poverty, dominance of agriculture, and so on), thus it seems to require general theories and accounts to explain it and to provide policy prescriptions for overcoming it. On the other hand, the more we know about individual countries, the more we find significant particularity and contingency that makes general theories seem inappropriate.

"Development" versus the Problems of Underdevelopment

A second tension revolves around what the study of development should be generating knowledge of and for. Within discussions of "development," a situation of "underdevelopment" or a "lack of development" is usually understood to involve two related components. The first is "development" in some large sense—that process of economic and social transformation to something like Western modernity—with all that entails, or at the very least sustained levels of economic growth. The second is a series of particular problems that are associated with a lack of this, from malnutrition, lack of access to clean water, and high levels of maternal death, to poor infrastructure and a "shallow" financial system. It is this that generates the enormous diversity in the study of development, but the links between knowing something about the large-scale process of development (or even the causes of sustained economic growth) is not necessarily the same as knowing how to deal with child malnutrition, for example. And of course the reverse is also the case.

As noted above, a significant part of the study of development has been concerned with large-scale transformation, whether in the form of industrialization or long-run sustained economic growth. The most ambitious of these attempts was "modernization theory." For modernization theorists, development was a transition to something like "modernity" as evidenced in the industrialized West and was accompanied not just by economic changes but by a host of other related shifts in the character and organization of politics, the spread of "rationalization," the growth in technology, and the diffusion of certain norms, habits, and attitudes (for discussions, see Gilman 2003; Higgott 1983). At its most simplistic the "transition" from "backward" to "modern" was presented in an almost mechanical and certainly linear way as a series of "stages" (Rostow 1959, 1971). For Gabriel Almond the stress was on *political* modernization, and he regarded "modern" political systems as those that exhibited a high degree of functional specialization, a secular political culture, a skepticism towards overly ideological politics (and a concomitant stress on the importance of bargaining and compromise), and a commitment to pluralism (Almond and Powell 1965; Almond and Verba 1965). Lucian Pye (1965) stressed the commitment to equality, the growth of the capacity of the political system, and the growth of specialization and differentiation within politics. David Apter (1965) took a broader focus and argued that "modernization" could be defined

as the growth of complexity in human affairs, the growth of an attitude of enquiry and a questioning about the sources of political authority, and a growth of organizational complexity and functional differentiation. For Dankwart Rustow (1968: 40), "modernization" involved the growth of centralized authority, the formation of a national identity, the growth of political equality and participation and the "widening control over nature through closer cooperation among men."

This kind of stress on the large-scale transformations that accompanied the transition to modernity, and which in these views define the process of development itself, stands in contrast to a focus on the particular problems associated with a lack of development. It has often been argued that large-scale changes might be a necessary, but not a sufficient condition for the amelioration of some of these other problems. Classically in the 1970s there was an increasing recognition that economic growth had not done enough to alleviate poverty, particularly rural poverty. As the then President of the World Bank, Robert McNamara said in 1973, "the data suggest that the decade of rapid growth has been accompanied by greater maldistribution of income in many developing countries, and that the problem is most severe in the countryside" (McNamara 1973). This led to a concern with, among other things, "basic human needs" as a way of thinking about the problems and possibilities of development (Streeton 1981). In more recent years more stress has been laid on the alleviation of the problems associated with a lack of development, inspired in large part by the Millennium Development Goals (MDGs) (Fukado-Parr 2004). Indeed, given the evident difficulties experienced by many states in achieving sustained development, especially in sub-Saharan Africa, tackling the problems suffered by individuals as a result of a lack of development has taken on a new urgency.

At one level it seems quite reasonable that the study of development would include attempts to understand the process of development writ large, and attempts to understand how to alleviate the problems experienced by people in less-developed states. There is a tension, however, because the causal connections between the two are not always clear. As noted above, it is possible to have growth without significantly alleviating some of these problems (and growth always throws up new problems); it is possible that growth might in the end be necessary to alleviate some of these problems, but we also know that the problems themselves can be tackled with some success in the absence of sustained development. Many human development indicators—such as life expectancy, infant mortality, and maternal death rates—have improved over the years in many countries, even those that have experienced sustained economic crisis (Kenny 2011). Finally, it is not clear (at least not in any straightforward way) how tackling these specific problems will lead to "development" in the larger sense, raising the possibility that a country could experience higher life expectancy, greater access to clear water, a reduction in infectious diseases, and so on, and still not experience sustained development.

Another way of approaching this is to recognize that within the study of development there just are different ways of understanding the term "development" and different priorities attached to elements of it. Studying the process of modernization or the causes of sustained economic growth is just not the same as studying how best to eradicate polio or ensure access to clean water. The contemporary situation reflects this. Achievement of the MDGs remains central to the work of many development agencies and students of development, and even if they are unlikely to be fully realized, the view that one of the principal tasks of the provision of development assistance is to reduce the suffering of people in poor countries is

unlikely to go away. At the same time, as a number of countries, particularly China, have experienced high growth rates, industrialization, and urbanization, so there has been a renewed emphasis on growth strategies and what is in some respects a return to older concerns with transformation (World Bank 2005; Lin 2009).

Disciplinarity versus Inter-(Multi-)disciplinarity

A third tension relates precisely to the very evident disciplinary diversity found within the study of development. The study of development has sometimes been captured under the label of "development studies." But this is not a discipline in the classic sense of that word. It is an object of study, but it is not a discipline because it does not have at its core a series of theories, methods, or even a clear intellectual history through which students are initiated into the discipline. As such it lacks some of the conditions for the integrated accumulation of knowledge (Harriss 2002: 487). Instead, there are lots of different disciplines that contribute: economics, politics, sociology, anthropology, agricultural engineering, marine conservation, public health, and so on. This diversity is in many ways entirely appropriate as the problems experienced by development counties are diverse and multi-faceted. This has led some to suggest that "development studies" is inter-disciplinary, although it is probably better labeled as "multi-disciplinary" or "cross-disciplinary." This is because there are significant barriers to what Kanbur has called the "deep integration" of the different disciplines (Kanbur 2002). There certainly are ways in which the different disciplines have interacted fruitfully, but the diversity of ways in which development can be studied creates its own set of problems.

One issue here is about the particular contribution of various disciplines to the study of development and whether there is some kind of hierarchy among them. In one sense economics has clearly been a dominant discipline within the study of development, and changes within that discipline have had a profound impact on the study of development (development economics, neo-liberalism, new institutional economics). In addition, it has often been assumed that economics should be the dominant discipline as the problem of development is significantly an economic one—low growth rates, low levels of investment and productivity, and high rates of poverty. This view certainly informed much of early development economics, for example. In this view, other disciplines might have something to contribute, but often in a subsidiary way—providing some insight into the difficulties of economic policy change, for example, or providing technical solutions to particular developmental problems (how best to design irrigation systems, for example). It is also fair to say that the major development agencies have been dominated by economists and economic thinking (Kanbur 2002).

While there is a certain plausibility to the dominance of the discipline of economics, there have always been approaches to development that privileged other disciplines. For many modernization theorists, the sphere of politics was the most important (Almond and Verba 1965). Samuel Huntington, for example, stressed the importance of political order, created through strong political institutions, as the key to the process of development (Huntington 1968). In the period after the Cold War, with the emergence of good governance and democracy promotion as important parts of the agenda of many aid donors, political variables were

seen as not just important, but in some respects as primary. The logic of this is clear: it is only through "good" politics that appropriate economic policies and strategies can be developed and implemented. In other words, while the discipline of economics might be able to identify the right thing to do, it is only students of politics who can know whether and how this knowledge can be implemented.

Some attempts have been made to marry economics and politics. One of the most important was the extensive literature that emerged about the political economy of adjustment (see Krueger et al. 1991/2, and Krueger 1993 for some examples). The problem here was how to understand the successes and failures of attempts to liberalize the economy and reduce the role of the state in developing countries. While some important conclusions no doubt emerged from this effort, it was in fact largely an attempt to use the tools of economic analysis in the study of political processes, rather than any genuine dialogue between economists and students of the politics of developing countries (Harriss 2002). This is one example of what has been criticized as the intellectually domineering character of economics more generally (Milonakis and Fine 2009).

Beyond the discipline of politics, other disciplines have also been seen as crucial to understanding the problems and processes of development. Both sociology and anthropology have been seen as making a vital contribution. This can be seen at both a macro and a micro level. At the macro level it has often been argued that forms of politics in developing countries derive from the kinds of social forces or groups that make up society. This has been argued to be important in both successful countries such as South Korea, where the state was able to achieve a certain kind of autonomy from social groups, and in more troublesome cases in Africa where the state is "captured" by its society (Hyden 1983; White 1988). In both these cases the ability of politics to deliver developmentally successful economic policies is shaped by the society over which it governs. At the more micro level it has been argued that anthropology for example, can tell us a lot about the local circumstances within which development projects and programs are implemented and, following from this, how these might be made more effective. The increased importance attached to community participation and ownership and to the role of civil society organizations reflects in important ways this more anthropological approach to development and the necessity of gaining more detailed knowledge of the local and thr particular. At their most ambitious these kinds of approaches have produced a kind of anthropology of economic policies and practices, stressing the ways in which certain kinds of economic practices—market exchange for example—get adapted and transformed within existing institutions and practices (Harrison 2010). In turn, however, this kind of knowledge forces us to question the utility of certain economic theories, for example, as the expected outcomes derived from them are often not forthcoming because of the ways local actors adapt or subvert them. Privatization of state-owned enterprises might be a very sensible way to reduce government deficits and increase productivity, but it also provides an opportunity for local actors to adapt this process to their own political or economic ends in ways that may subvert these aims (Tangri 1999).

This points to the complexity of the issues involved in development, and it might simply result in a call for the various disciplines involved to learn from one another. But there are serious barriers to this. In the first place each discipline has its own journals, professional associations, academic departments, conferences, and so on. Students of development, from whatever discipline, face pressures to work within these to gain promotion or peer respect. Related to this, but probably more serious, is that different disciplines value different kinds of

study: they have different epistemological orientations. The production of general models and theories is highly valued in economics, but much less so in anthropology, for example. Detailed local knowledge (and language acquisition) is the cornerstone of anthropology (and area studies), but not something most economists bother themselves with. Associated with this has sometimes been a mutual antagonism between disciplines based on what they perceive as the evident methodological inadequacies of other disciplines. Economics, for example—with its emphasis on parsimony, logical deduction, and hypothesis testing, often involving extensive quantitative analysis—has sometimes presented itself as being more "rigorous" than other social sciences disciplines. According to this view, those disciplines that are more qualitative, or do not generate testable hypotheses can be seen as less rigorous or "softer." On the other hand, of course, anthropologists often counter by criticizing economics for being too abstract and formal and uninterested in the detailed understanding of the rules, norms and self-understanding that, anthropologists think actually shape human choices (see Harriss 2002 for a discussion). Anthropologists also sometimes counter by applying the tools of anthropology to economic study of development, exposing, so they think, the contextual character and unacknowledged assumptions that underpin it (see Escobar 1995; Li 2007; and for a discussion, Kanbur and Riles 2004). Related to this, different disciplines simply see different things when they look at the world—they have different ontological orientations. It is all very well to say that economics and anthropology ought to learn from each other, but it is not clear how this can begin when the starting point of each discipline comes close to denying the utility of the other: economists see a world of economies many of which are thought to operate in the same kind of way and which can be perceived as discrete "things" that can be analyzed in isolation from their broader context; while anthropologists tend to deny that there are any such generally applicable economic laws, or at least if there are, they operate within a dense web of other social and political interactions.

There is a danger here of a kind of mutual rejection, a disciplinary policing that demarcates what can count as proper knowledge of developing countries. But there seems no very good reason why different disciplines might not be able to contribute in different ways to different kinds of questions. Anthropologists might not have much to say about exchange rates, but equally, economists might not be best placed to talk about gender dynamics within households. The real difficulty comes when some more substantial combination of the insights from different disciplines is attempted. As we have suggested, there are some real difficulties with this. On the other hand it may be that one way to do this is during the process of policy formulation: ensuring that different voices can be introduced into the conversation and some kind of rounded account of the problems and possibilities of different policy options developed (Kanbur 2002). This puts the onus on development agencies to create the conditions for these kinds of exchanges, but at least in principle there is no reason to think this cannot be done.

Conclusion

It is important to note that in spite of these tensions, and possibly because of them, we have learned a huge amount from the study of development. Our knowledge would certainly be depleted if we only had general theories of development or if development was only studied

within economics or politics. And in many respects the study of development has generated significant knowledge that has proved vital to the process of development itself. One cannot help feeling, however, that these tensions are going to be hard to overcome, and it is going to be hard to reach any kind of middle ground within any of the three that have been identified here. There are too many disciplines and methodologies involved and too many different kinds of problems to study. And the great diversity evident in the study of development illustrates the tremendous complexity and multi-faceted character of the process itself and the wide scope of the agenda of development agencies.

There are, however, some signs that at least some of these tensions have been recognized, and perhaps some tentative signs that students of development are trying to think again about how the study of development should proceed in the future. At the most general level this involves trying to balance general accounts of the necessary conditions for development with a recognition of the specific circumstances facing different countries at different times. The World Bank, for example, has recently argued that more attention needs to be paid to "the need for differentiated policy recommendations for different countries at different stages of development. Differences between countries . . . lead to different implications regarding the appropriate institutions and policy frameworks" (World Bank 2010: 10). "Greater emphasis on development strategy must be balanced against the now well-understood fact that there is no 'one size fits all' solution to the challenge of promoting growth and overcoming poverty" (World Bank 2010: 11). Associated with this, the Bank argues that a "more pragmatic and empirical approach to policy making needs to be encouraged" (World Bank 2010: 9). This points in the direction of recognizing more explicitly the limits of general models or theories of development, or at least of trying to understand where and when divergences from the policy implications of general models might be appropriate. It also points clearly to the need for more country specific knowledge—a recognition of the fact that countries are different in their physical and human capital endowments and in the structures of their economies.

In the course of discussing the future direction of its research on development, the Bank has also made some important points about the economic study of development. It argues that "many research economists do not start with the key knowledge gaps facing development practitioners but rather search for questions they can answer with the field's currently favored tools. Considerable emphasis is given to internal validity, but external validity is not addressed with the same rigor" (World Bank 2010: 11). In other words, economists approach development through the theories and methodologies that dominate the discipline, and the value of this work is defined in these terms rather than in terms of what it might contribute to the business of development policy making. This points in the direction of recognizing that the sometimes rather abstract work done in the discipline of economics needs to be more firmly anchored in an appreciation of the complexity of the process of development.

For an institution like the World Bank, which has long been criticized for having a "one size fits all" approach to development policy derived from general economic theories, to make these claims is an important sign of how some of the tensions within the study of development have been recognized, and it is also a sign of an attempt to make more explicit the need to steer some kind of middle path through them. A number of others have made similar points. Justin Lin, until recently chief economist at the World Bank, has argued that the role of the government in the process of development might be significant, and importantly, that it will vary from country to country (see Lin 2009). Dani Rodrik has argued that while

certain basic conditions are necessary for development, "the appropriate growth policies are almost always context specific" (Rodrik 2007: 4).

It is too early to say how widely adopted these general prescriptions for the study of development will be, and they do not resolve in any simple way the tensions this chapter has identified. But they do suggest a potentially important way forward. They also suggest that there some kind of "learning process" is at work within the broad field of the study of development. It might be slow and faltering, but as the example of the World Bank shows, the commitment to development can drive a process of reflection that holds out the possibility that the study of development will tell us more and more about what governments and development agencies ought to do to encourage development.

Note

1. The full text of Truman's speech is readily available; the most authoritative source is probably (<http://www.trumanlibrary.org/calendar/viewpapers.php?pid=1030>).

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CHAPTER 2

DEVELOPMENT THEORIES

JOHN HARRISS

Introduction: What Development Theories are About

The word "development" in the English language connotes such ideas as "unfolding," "growth," "the fuller working out of the details of anything," and bringing out the potential that is latent in something (as in the case of an image that is latent within the chemicals coating a piece of old-fashioned film that must be "developed" in order to be revealed). All these ideas are relevant to the concept of development that has informed so much public policy over the last half-century and more, both in the "core" of industrialized countries and in the "periphery" of the erstwhile colonies that came to be described as the "less developed countries" (LDCs) of the "Third World."[1] This concept, too, embraces ideas of "change" but also of "progress"—an idea which, in European thought, goes back to the philosophers of the Enlightenment, who found in it a rational basis for ethical judgment. "Right action" may be understood as action that is conducive to the "progress" of people and society. The idea of "development," then, in relation to societies, implies a process of change to what is, in some sense, a more "advanced" state. Development theories, therefore, are about understanding how this process takes place.

Of course the idea of a process of change to a more advanced (or "progressed") state raises the question of what we understand by "advance" or "progress." The simplest way of understanding these ideas, and the one that has informed so much of what has been done in the interests of "international development" since about 1945, is in terms of "increasing wealth" or economic growth, which is measured in terms of changes in gross domestic product (GDP). Over the past half century, growth of GDP has become ever more of an obsession of nation-states. A whole new branch of economics—development economics—was set up to explain how economic growth comes about,[2] and there is a great deal of both theoretical modeling and empirical analysis upon the subject (see Kenny and Williams 2001). Some economists, however, argue that there is no need for a distinct body of theory about "developing economies," since the general principles of economics apply universally—and one of them, Deepak Lal, wrote an

influential pamphlet entitled *The Poverty of Development Economics* (1983), to which we will have occasion to refer again.

The notion that "development" is synonymous with "economic growth" has, however, been subjected to severe criticism. By far the most significant is that of Amartya Sen, who has argued that "commodities"—the production of which is a major part of economic growth—are only of value to us in terms of what they allow us actually to do. Sen advocates that we should think about development rather in terms of people's capability to achieve those things that they have reason to value: "The focus here is on the freedom that a person actually has to *do* this or *be* that—things that he or she may value doing or being" (Sen 2009: 231, emphasis added). It is inherent in this approach that freedoms, both the "negative" freedoms—being free from unjustified coercion, and freedoms of speech and expression, of association, and of movement—and the "positive" freedoms, which have to do with what makes it possible for people actually to enjoy their freedom (including the material [commodity] means for this), are of fundamental importance. According to this view, therefore, development "can be seen as a process of expanding the real freedoms that people enjoy" (Sen 1999: 3).

Going back to the idea of development in the sense of "to realize the potential that is latent in something," we may understand international development as meaning the creation of conditions that make it possible for people to realize their potential as human beings, or to live full human lives that they value. This is very close to what the first prime minister of independent India, Jawaharlal Nehru, said early in 1947. Referring to the tasks that lay ahead for the new country, Nehru spoke of the need "to give every Indian the fullest opportunity to develop himself according to his capacity."[3] And while individuals may differ widely concerning the capabilities they value, it seems reasonable to suppose that most of us value life itself, good health, and at least basic education (and these surely are essential if "every person is to be given the fullest opportunity to develop herself according to her capacity"[4]). Though these values are of course not entirely independent of wealth (and of economic growth), neither are they reducible to it. They are sought through in measures of "human development," considered further below.

Whether conceived of in terms of economic growth or of capabilities, however, the idea of development in human societies postulates a process whereby "traditional," primarily agrarian societies shift from premodern institutions (such as feudalism, patrimonialism, and patriarchy), in which freedoms are constrained in various ways, to "modern" ones that are intended to supply those freedoms. There remains much debate about just what constitutes the optimal set of institutions, and this is at the heart of development theorizing. Development theories, which are about a complex process of becoming amongst human beings, are inherently normative and inescapably teleological.

In the remainder of this chapter I will explain the development of development theories historically, emphasizing what I see—following Edwin Brett (2009)—as the big cleavage between a range of "structuralist" theories, which in one way or another stress the role of the state, and liberal and recently neo-liberal theories that give priority to the role of the market. Latterly there are indications of the resolution of the long-standing tensions between these great meta-theories, in the form of pluralist institutional theories that pay more attention to context, and that at least promise to advance the objective of "development as freedom."

The roots of development theories

The message of the preceding section of this chapter is that development is not just a matter of economic growth: the way the economy is organized and the productivity of economic activity are also unquestionably of central importance in any consideration of development. Development theories have to be concerned with economic development, even if not with economic development alone.

Theorizing about development did not begin in the middle of the twentieth century, and we may look for the roots of contemporary development theories in the work of classical economists such as Adam Smith, in that of Marx and Engels, or in that of Friedrich List, who, writing in the 1840s, was critical of Smith and advocated state intervention to ensure national prosperity.[5] Another earlier theory that influenced some more recent development thinking was that of the economic nationalists in India (notably Dadabhai Naoroji and R. C. Dutt) who argued that India was being systematically impoverished—or actively "*under*developed"—by colonial rule. Their ideas influenced the later formulation of "dependency theory," largely through the more direct influence of Paul Baran's *The Political Economy of Growth* (1957), in which they are referred to. Born in present-day Ukraine, Baran was one of a number of remarkable scholars—born in Russia or in Eastern Europe or as German Jews—who emigrated to the West in the 1930s and 1940s, and whose work constitutes much of the foundation of modern development theory. They include, as well as the Marxist Baran, such scholars as Alexander Gerschenkron (born in Odessa), Albert Hirschman (born in Berlin), Paul Rosenstein-Rodan (born in Krakow), Ragnar Nurkse (born in Estonia), Hans Singer (a German Jew), and Karl Polanyi and Friedrich Hayek (both born in Vienna, in the Austro-Hungarian Empire). We may speculate that for some of them, at least, it was their observation and experience of economic backwardness, especially when compared with what they came to know in the West, that prompted their interest in economic development, or their experience of the mid-twentieth century world crisis that led to their desire to contribute to the post-war construction of a more secure world. Other important figures are from countries that experienced colonial rule, such as Arthur Lewis (later Sir Arthur Lewis), an economist from Saint Lucia in the Caribbean, and Raul Prebisch, an Argentine economist who headed the United Nations' Economic Commission for Latin America (ECLA) in the 1950s.

The scholars whose names I have listed, and others, all made significant contributions to thinking about the great problems of economic and social reconstruction in the aftermath of the Great Depression and the ensuing world war. This took place in the context of the emerging contest between the two great superpowers of the end of the Second World War, the United States and the Soviet Union. The two powers offered their competing visions of progress: what the historian Arne Westad has called "the empire of liberty" of the United States, which championed liberal values, and "the empire of justice" of the Soviet Union, which stood for equality (Westad 2005). Both were led by their ideologies to seek to bring about the end of colonialism, and then to foster the remaking of the former colonies of the European powers in their own images. This led, in turn, to the many disasters of Cold War interventions in Africa, Asia, and parts of Latin America, in which international development policies often played a part (as Robert Bates has crisply explained, 2001).

The many, somewhat different arguments about development of the mid-twentieth century do not map at all perfectly onto the political differences of the Cold War. It was only after 1978–9, after the development efforts of the period from the late 1940s to the 1970s had reached an impasse, that economic liberalism reasserted itself (Harvey 2005). Now, with the advantage of hindsight, we can discern an era in which "structuralist" theories, emphasizing the role of the state and of planning, were pre-eminent, followed by the ascendancy of liberalism—coinciding in part with the demise of the Soviet Union.

The sharply opposing views of two men who were both active in Vienna in the 1920s before finding refuge in Britain, Friedrich Hayek and Karl Polanyi, represent the fundamental cleavage in development theory. Both men published great works towards the end of the Second World War, in 1944. Hayek's book *The Road to Serfdom* argues that all forms of collectivism—whether those of the Soviet Union or of Nazi Germany—lead inevitably to tyranny, because of the faulty logic of central planning. The book has come to be regarded by some as a foundational statement of the case for economic liberalism, though this accolade should rather be awarded to Hayek's later work, *The Constitution of Liberty* (1960). Polanyi's *The Great Transformation: The Political and Economic Origins of Our Times*, on the other hand, is a powerful critique of economic liberalism. Polanyi argues that the idea of the self-regulating market—"the market" of mainstream economic theory—is utopian, because it requires that labor, land, and money all be treated as commodities, which they are not. "Labor" is nothing other than the activity that is essential to our humanity; "land" refers to the natural environment; and "money" is a medium of exchange. The first attempts (in nineteenth-century Britain) to implement the principles of economic liberalism and to make a reality of the self-regulating market provoked a counter-movement as some people resisted the commodification of their labor, others resisted the commodification of nature and struggled for the protection of agriculture, and in the end states were led to intervene to protect businesses against the effects of treating money as a commodity, as it was under the gold standard. *The Great Transformation* shows how the tensions and contradictions driven by these moves and counter-moves over the self-regulating market economy (what Polanyi calls "the double movement") finally saw the rise of fascism and communism in Europe, and of Roosevelt's New Deal in the United States, and how they account for the world crisis of the early to mid-twentieth century.

The year 1944 also saw the holding of the Bretton Woods conference at which the Western nations, headed by the United States, that were by that time gradually winning the world war sought to establish the principles according to which the international economy would be managed after the war. Like Polanyi, the principal architects, Harry Dexter White of the U.S. and Maynard Keynes of Britain, were in no doubt that governments would have to assume much more direct responsibility for domestic social security and for economic stability than had been the case before (*contra* the strict principles of economic liberalism). There were, says John Ruggie, "differences amongst the industrialized countries concerning the forms and depth of state intervention . . . not the legitimacy of the objective" (1982: 394). Bretton Woods saw the foundation of what Ruggie calls "embedded liberalism"—and the beginning of an era of unprecedented economic growth internationally.

Polanyi, writing before the Bretton Woods agreements, argued (partly anticipating Sen) that "the passing of market-economy [the would-be self-regulating market] can become the beginning of an era of unprecedented freedom. Juridical and actual freedom can be made wider and more general than ever before; regulation and control can achieve freedom not

only for the few but for all." He feared, however, that "the path [is] blocked by a moral obstacle. Planning and control are being attacked as denial of freedom [as they were by Hayek]. Free enterprise and private ownership are declared to be essentials of freedom. No society built on other foundations is said to deserve to be called free" (Polanyi 1944/2001: 265). But the Bretton Woods agreements proved his pessimism unfounded, and for many years the arguments of economic liberalism only lurked "in the wings of public policy" (Harvey 2005: 19). They were fostered, however, by the members of the Mont Pelerin Society who gathered around Hayek after 1947, and neo-liberal thinking became increasingly influential academically, especially at the University of Chicago. Hayek won recognition as the recipient of the Nobel Prize for Economics in 1974; and neo-liberalism finally emerged from the wings of public policy at the end of the 1970s, as we shall discuss (and, see Harvey 2005).

State First: Structuralist Theories Dominant

In the 1950s and 1960s, however, the centrality of the role of the state and the need for the regulation of markets was hardly questioned. It was generally understood that economic development must involve industrialization, following the path beaten first by Great Britain and then by other Western European countries, Russia, and the United States. Alexander Gerschenkron's reflections on this process in his essay "Economic Backwardness in Historical Perspective" (1962, original essay written 1951), in which he analyzed especially the experiences of France, Germany, and Russia in the wake of Britain, suggested, however, that the development of a backward economy might differ considerably from that of the now "advanced" economies. There could even be advantages for late industrializers because they might be able to leapfrog into more technologically advanced sectors, by learning from and imitating the pioneers. Gerschenkron, like other pioneers of development economics, emphasized the centrality of capital as the necessary means of overcoming the technological gap confronting the "backward" nations, and argued that state intervention compensated for inadequate supplies of capital, skilled labor, or entrepreneurship in the later developers. Indeed, in later elaborations of his thinking Gerschenkron argued that "the greater the degree of backwardness, the more intervention is required in the market economy to channel capital and entrepreneurial leadership to nascent industries" (Fishlow 2003)—and he thought, too, that this would probably involve higher levels of coercion.

In this period, therefore, as Colin Leys has argued, "the goal of development was growth: the agent of development was the state and the means of development were [national economic planning in the context of the macroeconomic policy instruments established at Bretton Woods]. These were the taken-for-granted presumptions of 'development theory' as it evolved from the 1950s onwards" (Leys 1996: 7). The growth models adopted by development economists assumed a central role for capital accumulation. This was the case, for example, in the model of "economic development with unlimited supplies of labor" developed by Arthur Lewis (1954), which also assumed that the opportunity cost of the shift of labor out of agriculture would be zero; in Ragnar Nurkse's balanced growth theory; in the Harrod–Domar model, which posited a linear relationship between investment levels and

growth rates; and in Walt Rostow's theory of the stages of economic growth (1960), which was, for a time, probably the most influential single theory of development. In the context of the Cold War, it was significant that Rostow's book was sub-titled "an anti-communist manifesto": his was emphatically a right-wing version of structuralist theory.

It was generally thought, too, in this period, as it was in the Economic Commission for Latin America, headed by Raul Prebisch, that development had to be based on what came to be known as "import substitution industrialization" (ISI). Towards the end of the 1940s, Prebisch and Hans Singer advanced similar theories that were critical of the economic orthodoxy of the time. What later became known as the Prebisch–Singer thesis holds that there is a tendency over the long-run for the terms of trade for primary commodities to fall. In other words, left to themselves, market forces would lead to ever greater inequity between the manufacturing economies of what Prebisch began to call the "core," and the primary commodity producers of the "periphery" within the international economy. The further implication was that developing countries would be advised to diversify their economies by developing their domestic markets, and through industrialization, by requiring that their states take on an activist role. Their infant industries had to be guided through licensing, promoted through subsidies and other industrial policy measures, and protected from important competition through tariff barriers and quantitative restrictions (quotas). Such import substitution policies were generally pursued in Latin America and in India, in particular, though the emphasis in the latter case—particularly in the period of the Second Five Year Plan (1956–61), also known as the "Mahalanobis Plan," from the name of the great statistician who was its principal architect—was somewhat different because of a focus on the development of heavy industry and the manufacture of machinery rather than on the production of consumer goods. However, in India and in other countries that pursued ISI, agricultural development was generally neglected. It was widely thought that in Asia and Latin America agricultural productivity would be enhanced by redistributive land reform, that is, by taking land away from relatively inefficient landlords and giving it to more efficient small family farmers (Lipton 2009). But such reforms proved to be politically infeasible except in China, after the revolution there, and in South Korea and Taiwan, with support from the United States. Elsewhere, however, as in Guatemala in 1954, the United States opposed governments that promised land reform because they seemed to be left-leaning and too sympathetic to communism.

The arguments of the development economists came to be linked with social and political theories about the process of "modernization," which the Comparative Politics Committee of the American Social Sciences Research Council adopted as a strategic term—reflecting opposition to communism—in the context of the Cold War. In essence, modernization theory held (as did Rostow in his model of the stages of economic growth) that societies must pass through similar stages to reach an end state not unlike the mid-twentieth century United States. This was a society of "high mass consumption" (in Rostow's terminology) that was politically liberal and economically efficient because it relied on principles of meritocracy, that is, on allowing people to achieve according to their abilities rather than compelling them to conform to "traditional" roles ascribed to them by virtue of their position in their family, tribe, or other kinship group. These ideas were perhaps as much ideological as theoretical. Insofar as modernization theory postulated a causal mechanism that would drive the movement of societies through the various stages, it was the idea that it would come about through changing values—for example, from "ascription" to "achievement," or values of entrepreneurship.

Criticism from the Left and the Faltering of Structuralism

Modernization theory came to be subjected to withering criticism, especially from scholars who, influenced in part by the work of Prebisch's Economic Commission for Latin America, argued that the relationships in the international economy between the centre and the periphery led to the systematic underdevelopment of the latter. The book that most strongly influenced studies of development in the late 1960s, and established "dependency theory," was Andre Gunder Frank's *Capitalism and Underdevelopment in Latin America* (1967), an excoriating critique of modernization theory. The whole flimsy edifice rested, Frank argued, on ignorance of history and of how capitalism works on a world scale. The assumption that the past and present of the so-called "underdeveloped countries" are like earlier stages in the history of the now-developed countries is fundamentally wrong, and the latter never were *under*developed, even if they might once have been *un*developed. "Contemporary underdevelopment is in large part the historical product of past and continuing economic relations between the underdeveloped (*dependent*) satellite and the now developed metropolitan countries" (Frank 1967). And in the context of his understanding of international capitalism, Frank appeared pessimistic about the prospects for the poor countries. It seemed that the only hope for them would be to disengage from the international system and pursue a socialist path under conditions of autarky.

Even as Frank's ideas were sweeping through universities elsewhere in the world,[6] however, they were being subjected to criticism within Latin America, as Gabriel Palma explained in what remains the best review of dependency theories (1978). Palma saw Frank's conception of capitalism as unhistorical, and his theory mechanical. In the same year that Frank's *Capitalism and Underdevelopment* was published, there appeared a book by the Brazilian sociologist Fernando Henrique Cardoso and the Chilean historian Enzo Faletto, *Dependencia y Dearrollo en America Latina* (1967), which was finally published in English (in 1979) as *Dependency and Development in Latin America*. Cardoso and Faletto, who drew more directly than Frank on the work of Prebisch's ECLA, argued that there is "no single or inevitable specific form of dependency" and that there is "space for agency within the global political economy." Their emphasis "was on the variability of the forms of integration into the world market and on the existing alternatives for the countries' economic growth even when in situations of dependency" (quotations from Cardoso 2009: 298). Countries in the global periphery were not necessarily condemned to underdevelopment, as Cardoso helped to demonstrate, years later, as President of Brazil from 1995 to 2003.[7]

As this criticism of the orthodox development theory of the 1950s and 1960s gathered momentum, the experience of the developing countries, too, began to reveal the limitations of that orthodoxy. The many countries that had tried to plan industrial development behind protective trade barriers had begun to experience great difficulties in continuing to finance their investments (as was the case in India), and the industries that had been set up were generally run very inefficiently. Raul Prebisch, by this time, criticized Latin American countries for excessive protectionism. At the same time it was recognized—notably in the report on international development commissioned in 1968–9 by the World Bank

and chaired by former Canadian prime minister Lester Pearson—that successful economic growth had done very little to reduce poverty.

Consequently, in the 1970s the focus of development theory shifted to the problem of tackling poverty. The approach taken was that of *Redistribution with Growth*, as in the title of a study undertaken by economists from the World Bank and the Institute of Development Studies (Chenery et al. 1974). This work argued the importance of targeting development efforts on both smallholder agriculture and activities in what had by now, thanks to the work of an anthropologist, Keith Hart, come to be referred to as the "informal sector" (Hart 1973): the many small businesses and enterprises that fall outside most of the regulations of the state and in which, in most "developing" countries, the great majority of the labor force is employed (or, very often, self-employed). Development policies began to be focused as they had not been before on agriculture and rural development (the subject of an influential sector paper published by the World Bank in 1975), and some economists began advocating an "agriculture and food first strategy for economic development" (for a review, see Mellor and Johnston 1984). By this time the adoption from the later 1960s of modern varieties of the major cereals[8]—wheat, rice, and maize—in what came to be called the "green revolution" (because it seemed to have the potential to head off the possibility of "red revolution") had begun to have a positive impact on the productivity of agriculture, at least in Asia and Latin America, if not in Africa, and Mellor and Johnston sought to show how the forward and backward economic linkages from this more productive agriculture had the potential to drive growth through the economy as a whole.

However, by the time these various ideas for reforming the structuralist orthodoxy had begun to be discussed, a major economic policy shift was taking place, influenced by neo-liberal thought. The great shift in development thinking can be seen, in retrospect, reflected in particular in the World Bank's report on *Accelerated Development in Sub-Saharan Africa* (commonly known as the *Berg Report* from the name of its author; World Bank 1981) which attributed the failures of development in Africa to "inappropriate state dominated policies" that had led governments to take on more than they could handle, distorted economic incentives, and created all manner of possibilities for unproductive rent-seeking. The pendulum in development theory now swung emphatically away from the ideas that emphasized the necessity for state intervention to those that argued for minimizing the role of the state so as to allow market forces to do their work of driving greater economic efficiency.

Even as the pendulum swung, however, it was being more widely noted that some "developing countries" in East Asia, the two states of South Korea and Taiwan, and the city states of Hong Kong and Singapore had been growing very fast indeed. They came to be known as the "Asian Tigers" or "East Asian NICs" (newly industrializing countries), and by 1986 their success had led Nigel Harris, in a book with this title, to announce *The End of the Third World*. Scholars began to turn their attention to explaining the developmental success of South Korea and of Taiwan in particular, and an answer was found in the idea of "the developmental state," articulated by Gordon White (1988). White and others drew their inspiration from the work of Chalmers Johnson (1982) on the role of the government, particularly through the Ministry of International Trade and Industry (MITI), in the Japanese "economic miracle" of the post-war period—an argument that was altogether opposed to the new neo-liberal orthodoxy. We will return to the critique of neo-liberalism that is inherent in the story of the NICs and of the "developmental state."

Market First: Neo-liberalism Ascendant

"Events, dear boy," was how British prime minister Harold Macmillan once described the progress of history. In the history of international development, two events of great importance took place in the 1970s: first, the decision by the Organization of Petroleum Countries (OPEC) to raise oil prices after the Arab–Israeli war of 1973; second, the so-called "Volcker shock" of October 1979.

The first greatly increased the revenues of the petroleum-producing countries, and the recycling of their dollars made for a period of easy credit for developing countries. But then Paul Volcker, as Chairman of the U.S. Federal Reserve, brought about a major change in U.S. monetary policy by raising interest rates in an effort to tackle the long-running problems of the U.S. economy (Harvey 2005: 1). This decision threatened to push some countries into default, and a major debt crisis was announced in Mexico's default on its debts in 1982–4. In this context, in order to secure assistance with rescheduling their debts, countries were required by the international finance institutions to implement major reforms of economic policy, involving cuts in public expenditure, liberalization, and privatization. The International Monetary Fund and the World Bank embarked on a new approach to economic development with the introduction of programs for economic stabilization and structural adjustment, intended to reduce the role of the state and ensure the implementation of liberal policy.

But ideas matter, too, and this was the moment of Lal's *The Poverty of Development Economics* (1983), which was greeted by *The Times*, then still London's most respected newspaper, as marking an intellectual counter-revolution (Toye 1985). Lal asserted the universality of the rational economic behavior of the standard economics textbook against the idea of the need for some special branch of economics for developing country contexts, and launched an attack on what he labeled as the "dirigiste dogma" that originated with Keynes. "Dirigism" holds, Lal argued, that the price mechanism must be replaced by extensive government controls; that such controls are essential if poverty is to be reduced; and that arguments for free trade are not valid for developing countries. All this, he held, is demonstrably wrong. The best advice economists can possibly give to the governments of developing countries is "get the prices right," and this was indeed the advice the World Bank gave in the 1980s.

It is a matter of later history that the World Bank's own research demonstrated, by the end of the 1980s, that structural adjustment programs were having mainly negative effects. Much of sub-Saharan Africa experienced a "lost decade" as a result (Mkandawire 2004). So the "new orthodoxy" of development theory was coming undone even as it was influentially described as "the Washington Consensus," on the desirability of fiscal discipline, competitive exchange rates, trade liberalization, deregulation, privatization, and the restriction of public expenditure to a narrowly defined set of public goods (Williamson 1990). It was, as Joseph Stiglitz has said, "the modern day version of liberal orthodoxy"—and in his view, as a sometime Chief Economist of the World Bank and winner of the Nobel Prize for Economics, it has had similar negative outcomes (Stiglitz 2002).

It was at this time, in the early 1990s, that an important debate took place over the "developmental states" of East Asia. The policies pursued by South Korea had been compared very favorably by Deepak Lal to those of India. South Korea, Lal argued, was characterized by free

trade and the absence of government controls. A different story emerged from Alice Amsden's more detailed work (1989) on the Korean experience, and from that of Robert Wade (1990) on industrial policy in Taiwan. These writers showed that the governments of these East Asian states had intervened extensively, often to "get the prices wrong," so as to promote particular industries. They had made selective use of trade restrictions, as well as encouraging export competiveness. But both governments imposed strict performance standards on the industries and the companies that they aided. Their developmental success appeared to be based politically on regimes that were distinctly authoritarian (rather as Gerschenkron had anticipated), with competent economic ministries (comparable with Japan's MITI) that were embedded in networks with private industry, but insulated by politicians from selective lobbying by the private sector. They were regimes that combined carrots and sticks with regard to labor, ensuring labor discipline but also that labor benefited from economic growth. They were what Atul Kohli calls "cohesive capitalist states" (Kohli 2004; and see also Evans 1995).[9] Yet the notion that the success of the East Asian states was to be explained essentially as being the result of "export-oriented industrialization" in the context of liberal economic policies died hard. The World Bank set up a study in the 1990s that was supposed to demonstrate this case. In the end, however, partly because of objections from the Government of Japan (which provided funding for the study but did not recognize its own experience in this story), the book that resulted was much more in line with what Amsden and Wade had argued (on this story, see Wade 1996). In other words, the story of the East Asian NICs provides support neither for the development orthodoxy of the 1950s nor for the new orthodoxy of the Washington Consensus. But it does show that there may be a very good case for state intervention in the context of late development.

The role of the state was also recognized in the work carried out under the aegis of the United Nations Development Program (UNDP) in calculating an index of "human development," starting in 1990 with the first of what is now a long series of *Human Development Reports*. The index, which takes account of life expectancy and basic education as well as income per head, is a crude but robust reflection of Sen's capabilities approach, and it was devised explicitly as a counter to GDP as a measure of development (Sen 2006). It was also part of a counter-move to the Washington Consensus by a group of economists who sought, at least, to give adjustment "a human face" (Cornia et al. 1989). Their influence may have been reflected in the shift away from adjustment programs by the World Bank to a renewed focus on poverty reduction and then to the introduction of the instrument of poverty reduction strategy papers (PRSPs) by the end of the 1990s.

From Crisis in Development Theory to a New Synthesis?

Edwin Brett (2009) argues that by the 1990s development theory was in crisis, given the practical failures of both structuralism and of liberalism, and the fact that many developing countries, particularly in Africa, were experiencing violence and civil war (for reasons which are considered by Bates 2001, 2008). Both the evidence of state failure in some parts of the world and the experience of the failure of structural adjustment brought renewed attention

to the role of the state. The World Bank published a significant paper on good government in 1992, highlighting the importance of transparency and accountability, as well as sound macro-economic and public sector management. This was followed by an issue of the annual *World Development Report* devoted to "The State in a Changing World" (World Bank 1997). These publications reflected the recognition that the state could be "rolled back"—as the neo-liberals had wished—only so far. As the Bank said, "Development without an effective state is impossible... an effective state—not a minimal one" (World Bank 1997: 18), though it went on to say that the role of the state should be facilitative rather than directive, and that it should complement markets rather than trying to replace them. This is what came to be called the "post-Washington Consensus" on the need for a balance between the market and the state, recognizing that there are market failures as well as state failures, and assigning a significant role in governance to civil society. It is a consensus that is predicated on the view of the indispensability of liberal capitalism (Fine et al. 2003). It has also become rather muddled up with the policy idea that it is possible for outsiders to "build democracy" in other parts of the world, which has generally had poor and sometimes disastrous results (Fukuyama 2004); and in its advocacy of the roles in civil society of voluntary association and social capital, it has been found by some scholars to have the effect of depoliticizing development by suggesting that there are technocratic solutions to what are fundamentally political problems (Harriss 2001). For Brett, however, it points the way towards what he sees as a renewal of development theory that draws on the recognition of the need for institutional diversity, in a new paradigm: "liberal institutional pluralism" (2009: 7).

Brett's conception of a new synthesis that has renewed development theory rests on the turn in economics and across the social sciences to the analysis of institutions (Harriss et al. 1995; Hall and Taylor 1996), which embraces both macro- and micro-levels of analysis. "Institutions," in this extensive literature, are understood as the rules, norms, and conventions that must exist for social life to be possible, and which both constrain and provide incentives for human action. The "macro" level of research includes that on the institutional conditions for successful economic growth by such scholars as Douglass North (1990; and North et al. 2009), and Daron Acemoglu, Simon Johnson, and James Robinson, who find that "economic institutions encouraging economic growth emerge when political institutions allocate power to groups with interests in broad-based property rights enforcement, when they create effective constraints on power-holders, and when there are relatively few rents to be captured by power-holders" (2005, abstract). One of the problems that has been pointed to in some of this work is that different institutions may have similar outcomes while the same institutions give rise to different outcomes in different contexts (Rodrik 2008, especially ch. 6). There are some serious questions, therefore, about how far the recent mantra in development thinking that "institutions matter" is helpful in development policy making.

The "micro" level of institutional analysis is about what makes organizations function effectively, and this may in the end be more fruitful (as indeed Brett's analysis suggests). One valuable empirical study is by Judith Tendler (1997), who draws on recent research on industrial work and performance in analyses of how the quality of government and the delivery of public services were improved in one of Brazil's more backward states (Ceara, in the northeast). The case provides some material for the general argument advanced by Lant Pritchett and Michael Woolcock (2004) for thinking through the possible institutional solutions to the delivery of different sorts of public services, depending on the number and intensity of the transactions they involve and the extent to which their provision calls upon the judgment

and discretion of the providers. This kind of analysis is a long way, perhaps, from grand theories about development, but such "middle-range" theory may be much more useful in helping to improve the way both states and markets work towards improving human well-being.

Conclusion

There is much, of course, that I have been unable to cover in this short review. In particular, I have not discussed various "alternative" theories of development, nor the work of the influential thinker Robert Chambers (on whose work, see Cornwall and Scoones 2011), or the vein of "anti-" or "post-development" thinking, perhaps most strongly reflected in the work of Arturo Escobar (1995), which holds that an alternative is to be found in support for social movements that reject the concept of development altogether as a Western project. It is not at all clear, however, that the members of such movements do reject the concept—if it connotes the expansion of human freedoms, as Sen suggests it should.

Finally, the trajectory of development theories as I have analyzed it here seems to reach one important conclusion: namely, that we must recognize the limits of theory. The economists Kenny and Williams, for example, conclude their review of economic growth theory and of the empirical analysis of growth (drawing on quantitative modeling based on large-*n* cross-country studies) by arguing that there is really no substitute for the specific historical analysis of different cases that takes account of circular and cumulative causation (2001). Such analysis reveals that the same factors have different implications in different contexts. The importance of contextual knowledge is also emphasized by Fukuyama (2004). We should heed the words of an eminent economic historian, the late Phyllis Deane, speaking before the Royal Economic Society in 1982 (and cited by Toye 1985: 4):

> The lesson that we should draw from the history of economic thought [*and, I would add, of development theories –J.H.*] is that economists [*and others, of course –J.H.*] should resist the pressure to embrace a one-sided or restrictive consensus. There is no one kind of economic truth which holds the key to fruitful analysis of all economic problems, no pure economic theory that is immune to changes in social values or current policy problems.

Notes

1. The idea of the "Third World" held connotations of the French *tiers état*, or "third estate," referring to the mass of the people, and implied the idea of "the people" on a world scale—those who had been oppressed by colonial rule.
2. There are many texts on development economics. A classic is Gerald M. Meier's *Leading Issues in Development Economics* (2000).
3. Jawaharlal Nehru, in a speech before the Constituent Assembly of India, January 22, 1947.
4. The obverse of development in this sense in globalizing India is powerfully reflected in Katherine Boo's poignant study of a Mumbai slum in *Behind the Beautiful Forevers: Life, Death, and Hope in a Mumbai Undercity* (2012).

5. List (1841).
6. Dependency theory was extended, too, from the analysis of Latin American experience to that of other parts of the world. See, for example, Rodney (1972).
7. The work of Cardoso and Faletto is considered in the context of globalization in a special issue of *Studies in Comparative International Development*, Vol. 44, No. 4 (2009).
8. The introduction of the modern or high-yielding varieties provided an answer to what the economist Theodore Schultz had argued for in an influential book, *Transforming Traditional Agriculture* (1964).
9. The best explanation for the rise of the development states of East Asia, and for the limits of their followers in Southeast Asia, is provided by Doner, Mitchie, and Slater (2005).

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CHAPTER 3

FIFTY YEARS OF GROWTH ECONOMICS

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Introduction

As the global economy recovers from the financial crisis of 2007–8 and struggles with the smoldering eurozone crisis, two questions are uppermost for policy-makers: (i) whether and how industrialized and industrializing countries might be able to restore the robust performance of the 1993–2007 period (minus the bubbles), and (ii) the contribution that growth economics could make to the policy agenda. Most developing and middle-income countries continue to envisage growth rates averaging 6–8 percent. They are convinced that the extraordinary performance of a handful of countries during the past quarter century can be replicated by the many in the decades ahead.

The purpose of this chapter is to review how thinking on growth has evolved since the 1950s through the interplay of international politics, country-level experience, and theorizing almost exclusively conducted in Western countries. It reflects on how this body of thinking has diffused through a variety of channels and influenced policies in virtually all developing countries. Finally, the chapter considers whether economic research based on the experience of a few countries, over a limited period of time, can provide relevant and effective policy guidance.

The chapter is divided into three parts. The first part examines the experience of the early post-war decades and the worldwide spread of a "growth ideology" that marked a shift from the prewar beliefs and experiences of the majority of nations. The second part discusses economic theory and empirical findings underlying the new growth ideology from the 1960s onwards. The final part reflects on the policy prescriptions to be garnered from growth economics.

Industrialization and Growth: The New Normal

Starting in the 1950s, with post-war recovery and decolonization in full swing, industrialization moved into high gear. Many factors contributed to this surge: for example, cheap energy, the transport revolution, and changing terms of trade. Perhaps most significant was the germination of a growth ideology among national elites, who had become increasingly aware of enhanced economic opportunities and were eager to secure material prosperity comparable to what they saw in the West. In the grip of this new fervor, developing countries began planning for rapid growth. They took their cues from the leading Western economies and also drew lessons from compressed development achieved by the former Soviet Union, Japan, and China.

The nascent growth ideology of national elites was powerfully reinforced by the ideologies of the great powers that defined the political economy of international development throughout the more than three-decade-long Cold War. Michael Latham (2003: 9) observes that "though American visions of the true and only heaven differed from Soviet visions of the 'end of history,' both models stressed the ability of enlightened elites to accelerate an inevitable, universal movement through historical stages and posited that technological diffusion would engender a new consciousness and a new society." And both sides used virtually identical means to achieve desired geopolitical and economic outcomes: foreign aid, power projection and arm twisting, technical assistance, training programs, arming of militaries, soft power, and, not infrequently, proxy wars to prop up favored regimes (some of which persisted for years, making life nastier and more brutish for millions). Econometrically sharpened hindsight shows that aid in pursuit of geopolitical objectives contributed little to investment, growth, or poverty reduction.[1] However, it cemented alliances with ruling elites, trained the focus on modernization and development, and through technology transfers hard as well as soft, kept growth at the center of policy attention and the preferred yardstick for measuring economic progress.

Post-war thinking was influenced by the efficacy of state economic control during the Second World War and the embracing of Keynesian policies following the Great Depression to help smooth business cycle fluctuations, or at least reduce their amplitude. The belief was that policy-makers had the tools to sustain economic activity at high levels or, in other words, to minimize the threat of prolonged downturns that eroded past gains. As a result of these policies and beliefs, the role of the state, already greatly enlarged during the course of the long war, was steadily augmented, and the state acquired the responsibility to strive for and maintain rapid growth. The emergence of a large and initially economically successful Communist Bloc (and active economic proselytizing by the countries of the Bloc) contributed to a widespread belief in the augmented role of the state. Fiscal policy, including direct public-sector intervention, was seen as a way to promote private initiative and industrialization. State-guided capitalism[2] received a strong endorsement from the performance of the Republic of Korea; Taiwan, China; Singapore; Malaysia; and Thailand, and it provided other developing economies with both inspiration and a proven model, at least through the early 1990s.[3] The performance of the Chinese economy, once market-oriented reforms were introduced in the early 1980s, further underscored the advantages of market institutions tempered by state control and an outward orientation to harness the power of globalization.

The growth expectations that took root during the halcyon 1960s were reinforced by widespread growth accelerations during that decade, and—in spite of what followed—they proved to be remarkably durable. Europe endured a long spell of stagnation during the 1970s, and growth was slow also in the United States through the early 1980s. Latin America, after an initial surge, lost ground starting in the 1980s and suffered from "lost decades." China was hobbled first by the havoc caused by the Great Leap in 1958–60, and then, after a short spell of recovery in the first half of the 1960s, by more than ten years of disruption resulting from the Cultural Revolution that Mao choreographed in 1966. By the mid-1970s, Africa had entered a long economic twilight that persisted for over two decades, and India remained on the treadmill of the "Hindu growth rate" induced by stifling state regulations, until the onset of reforms in the early 1990s.[4] Only the "tiger economies" in East Asia defied gravity and exploited international market opportunities to grow their economies at high speed with the help of investment in industry and buoyant exports.

The gloom lifted in the 1990s, arguably because of four main developments: (i) accelerating globalization assisted by the lowering of trade barriers; (ii) the stripping away of capital controls and declining transport costs; (iii) the tonic effects of general-purpose technologies (GPTs), such as semiconductors and the Internet, that released a flood of innovations; and (iv) the spread of regulatory reforms to weed out market distortions that stifled competition,[5] caused inefficiency, and promoted rent seeking. The neo-liberal argument for enlarging the role of markets and reining in the activities of the state[6] received a boost first from the collapse of the former Soviet Union and the discrediting of the socialist planned approach to development, and then, more convincingly, from the surge in global economic activity.

Could the growth ideology have become so all-pervasive absent the parallel rise of growth economics? This is difficult to answer because growth and development have become inextricably linked, and growth is widely accepted as the touchstone of performance. However, it is fair to say that the rise and teaching of neoclassical growth economics in leading Western universities from the mid-1950s did much to build the analytic and empirical scaffolding to support the idea that a steady-state growth path was theoretically feasible and was being demonstrated in practice by a number of countries. After a slow start, growth modeling exploded in the 1960s as economists became more accustomed to using mathematics and began elaborating the "science of growth" in conscious imitation of the methodologies of the hard sciences.[7] As national income data accumulated, especially on the United States, theoretical models were put to the test and the growth industry was born, providing much-needed intellectual underpinnings for the growth ideology and a few conceptual tools for policymakers wanting to translate political promises into tangible economic results. The second and third parts of this chapter discuss how economics accounts for growth, but before getting to that it is worth listing a number of other reasons for the popularity of the growth ideology and why it has survived and will continue to survive setbacks and disappointments.

Growth as a Belief System

The growth "ideology" has permeated the discourse on development and proven compelling for good and bad performers alike for several reasons. First, the growth rate for the global economy between 1950 and 1999 averaged 4 percent per year, well in excess of pre-1850 levels. Moreover, there is the demonstration effect generated by highly successful performers,

however small they might be—and Singapore; Hong Kong SAR, China; Taiwan, China; and the Republic of Korea were small economies in the 1970s and 1980s. These resource-poor countries on the periphery showed that steady progress from the lowest rung to near the top of the income ladder was possible in as little as four decades through technological catching-up and the patient building of human and physical capital largely from internal resources. Growth was achieved not through the virtuosity of policy but through macroeconomic and political stability, successful efforts at resource mobilization, learning and absorbing technologies from abroad, and the exploiting of market opportunities opened up by globalization. The early and later "tigers" served as a beacon of hope for the majority of economies that have struggled with low or negative growth rates. Had the tigers not materialized, it is doubtful that the growth ideology could have acquired such a loyal following. No amount of modeling can substitute for 7 percent rates of growth sustained for three decades.

Second, perhaps one can claim with little exaggeration (witness the concerns expressed in the United States *circa* 2012) that in democracies and autocracies alike, political legitimacy of governments has come to hinge on the delivery of good economic results over the medium term. If incomes stagnate and become more unequal or employment is hard to come by, democracies will show governments the door. The Arab Spring uprisings have demonstrated that populations can eventually become restive even in tightly policed autocracies. Rightly or wrongly, the notion that governments must deliver growth has acquired worldwide currency—and politicians have had a large hand in embedding it more firmly through the promises they make as they seek office.

Third, a number of developments over the past fifty years have rendered growth more urgent and made it harder to think of a world without growth. Population increase is a critical concern for a number of countries and, even as it slows, they will still have to convert a youth bulge into a youth dividend. A related factor is the promises many governments—and the international community—have made (and will continue to make) to reduce if not eliminate poverty and, more guardedly, inequality. The evidence suggests that countries (such as China) that have successfully tackled poverty have relied upon high rates of growth, which generate jobs, finance social safety nets, and enable governments to provide the poor with services that will equip them with capabilities.[8] Hence out of necessity, all parties must hold tight to the growth ideology and hope for the best.

Increasing resource and energy scarcities, climate change, and environmental degradation demand an urgent greening of growth. Although debate continues on the advantages of early and precautionary action, the weight of evidence points increasingly to net growth benefits of green policies and green technologies.[9] The evidence also suggests that two to three degrees of warming is becoming unavoidable, a development that will entail costly mitigating efforts in the future, in particular to increase the resilience of cities. In anticipation of a harsher environment, countries need to build their resource bases, because wealthier countries are far better able to weather shocks and repair the damage.[10] These three developments increase the pressure on governments to assign priority to growth.

Fourth—and there are other factors I will not list—industrialized and industrializing countries are aging and faced with a shrinkage of the workforce a decade or two into the future. A number of economies are weighed down with large debts and even larger contingent liabilities, which will be difficult to play down or accommodate (absent a drastic downscaling of the safety net) without fairly robust growth. Therefore, for fiscal and

welfare reasons at the very least, a resumption of "adequate" growth rates in these countries is vital if they are to maintain or improve their current living standards.

The above sketches the emergence and sixty-year dominance of the growth ideology. But while average growth rates are handily above the levels reached prior to the mid-nineteenth century for many countries, sustaining growth rates of 7 percent or more has proven difficult, and this confronts growth economics with a severe challenge: to convincingly explain the relatively few instances of high growth rates sustained for a decade or more, and with the benefit of such analyses, to arrive at policy recommendations tailored to individual country circumstances that will enable others to replicate what thus far has been the lot of a favored few.

Growth: Supply Push and Demand Pulled

The literature on growth is forbiddingly large and the expanding international army of researchers guarantees an endless stream of additions. The two volumes of the *Handbook of Economic Growth* provide a sense of the scope and richness of the research.[11] These were published in 2005 and much new material has appeared since then. Capturing the many-sidedness of this literature in a few pages is impossible. However, mercifully, the central threads and stylized facts are few and they have changed little over time.

Growth can be viewed from two angles and because this is economics, they are supply and demand. In a contribution to the debate on capital theory that raged between the two Cambridge (Massachusetts and UK) schools, Paul Samuelson (1966: 444) ringingly announced that "until the laws of thermodynamics are repealed, I will continue to relate outputs to inputs—i.e., to believe in production functions." And factor inputs have remained the drivers of growth in the supply side version of growth economics. However, whether or not supply materializes is a function of demand for outputs. Thus demand provides a complementary perspective on growth.

The Reign of Capital followed by Total Factor Productivity

In the beginning, when the Harrod–Domar model was the workhorse of growth economics, only capital and labor mattered (Harrod 1939; Domar 1946). These were the two basic factors whose entry into the production function caused growth, depending on a combination determined by technological relationships. The dominance of capital lasted until the middle of the 1950s, when papers by Trevor Swan (1956) and more famously by Solow (1956, 1957) revolutionized thinking on the sources of growth. These papers showed that as much as 70 percent of the growth in the United States could not be traced to factor inputs but instead was caused by a residual, including technology and other intangibles.[12] By singling out technological change as a key factor, Solow (and others such as Abramovitz[13]) highlighted the role that knowledge had come to play since the dawn of the Industrial Revolution.

Solow's findings were subsequently validated by others, and triggered theoretical and empirical research to track down the "quarks" that inhabit the residual—or total factor productivity (TFP), as it has come to be known. This quest is now in its sixth decade, and although a multitude of suspects have been identified, a theory that convincingly

accounts for the residual/TFP, lays bare its dynamics, and points unequivocally to effective policies has proven elusive. Researchers attempting to explain the differences in performance among countries have marshaled scores of so-called fundamental variables including geography, entrepreneurship, financial deepening, religion, ethnic fractionalization, and natural resources.[14] But after examining the explanatory robustness of the leading candidate growth theories, Durlauf, Kourtellos, and Tan (2008: 344)[15] are forced to conclude that there is a lack of "strong evidence that any of the new growth theories are robust direct determinants of growth when we account for model uncertainty. . . . [However,] variation in growth rates across countries are more robustly explained by differences in macroeconomic polices and unknown heterogeneity associated with regional groupings."

Recent attempts at estimating TFP for a large number of countries range from a quarter of growth to over two-thirds, with the average falling somewhere in the 50 percent range.[16] Over the longer term, the consensus is that growth of GDP and divergences in per capita GDP will be closely tied to individual country performance with regard to productivity. Technological change and innovation (some embodied in new equipment) are seen as the mainsprings of productivity growth. Underlying these is a learning and innovation system that produces human capital and determines its quality; helps to absorb technology and refines it through incremental innovations; generates ideas, some of which are translated into commercial innovations; and through the agency of greater technical, vocational, managerial, and organizational skills, brings about gains in efficiency. Physical capital is still very much in the picture by creating productive capacity and serving as a vehicle for research and technology transfer. In addition, since 1995, information technology (IT) capital has acquired a substantial role, especially in the United States and Europe. IT is complemented by technology that is at the heart of what Baumol (2002) describes as the "capitalist growth machine." As Parente and Prescott (2000), Comin and Hobijn (2010), Allen (2012), and many others note, the main reason that some countries are so far down on the income scale and convergence is so halting is that these economies have difficulty borrowing technologies from more advanced countries and tailoring it to their own purposes.

A number of reasons have been put forward to explain why frontier technologies have been slow to diffuse. Bad institutions that place limits on absorptive capacity, regulatory constraints, vested interests, and poor governance must take some of the blame. But the nature of technologies closer to the frontier may also slow diffusion. These technologies tend to be capital intensive because they were developed in countries where labor is relatively expensive and skills are abundant. They are less cost effective in countries where labor costs are low relative to those of capital.

A country such as China offers a good illustration of how technology gaps can be narrowed and productivity raised. China has invested massively in state-of-the-art production equipment, financed by equally massive domestic savings channeled to enterprises through state-owned banks at state-controlled rates of interest that substantially depress the cost of capital.[17] At the same time, China has successfully enlarged its pool of skills, thus facilitating absorption of technology from overseas. This brings us back to the refinements and advances in growth theory, as expounded in work by Paul Romer[18] that modeled endogenous growth and explicitly accounted for the role of knowledge.

From Solow to Endogenous Growth

The Solow model, by clarifying the relationship between capital accumulation and growth, helped to partially dislodge the orthodoxy that saw capital as the key to growth and focused growth-augmenting policies exclusively on measures to raise the rate of investment. Solow showed that increasing capital accumulation eventually runs into diminishing returns as an economy shifts from extensive to intensive growth, but in avoiding the problem the model assumed exogenous technological change that limited its explanatory power. This deficiency was remedied by explicitly incorporating (endogenizing) knowledge into the growth model. Endogenous growth theory assumes that learning by doing[19] and investment in education creates knowledge and knowledge spillovers. Thus, externalities reverse the diminishing returns to capital, allowing growth to be sustained. In other words, the continuous production of knowledge through a variety of avenues staves off what would otherwise be an inevitable onset of diminishing returns that would negate the deepening of capital.[20] It is arguable whether endogenous growth theory constitutes a significant advance, however, as Solow (2007: 6) remarks, "the most valuable contribution of endogenous growth theory has not been the theory itself, but rather the stimulus it has provided to thinking about the actual production of human capital and useful technological knowledge."

The literature is replete with an immensity of small variations and minor extensions, including the role played by institutions (whether viewed as rules or as organizations with specific governance mechanisms),[21] but the action revolves around capital and TFP and ways of parsing TFP. The contribution of TFP appears to be rising, according to a recent study by Arezki and Cherif (2010) of 94 countries covering the period 1970–2000. The question that refuses to go away is whether all the fuss over TFP is increasing the stock of effective policy instruments and institutions, and helping us understand why growth is so persistently uneven and all too often unresponsive to the moving of conventional policy levers. Policy instruments and institutions are discussed in the next section.

Introducing Demand

Much of the attention of growth theory has been on the supply side, with demand attracting sporadic attention during business downturns, as has been the case since 2008. During the extended period of calm prior to 2008,[22] the majority of macroeconomists were content to track the movements of the economy using variants of dynamic stochastic general equilibrium (DSGE) models that incorporated consumption smoothing and rational expectations, which papered over the differences between the Keynesian[23] and new classical models.

From the perspective of growth economics, this neglect of demand management (including the demand generated by net exports) and the risk of crises are hard to explain, given crises' frequency (though mainly in developing countries). A literature going back several decades has established that poor demand management—by injecting macroeconomic volatility,[24] inflationary pressures, or adverse expectations—has been responsible for depressing investment and growth in many countries.[25] One reason the East Asian tiger economies performed at such a high level is that, for the most part, they were able to create stable macroeconomic environments conducive to investment and to risk taking. A second reason of equal importance was the emphasis that East Asian economies placed on trade (and foreign direct investment) policies aimed at maximizing the growth impetus from exports. Thus,

growth was supported both in the form of demand and through gains in productivity, technology transfer, and the encouragement that an open trading environment offered to foreign investors. It was the relative neglect of such policies at the very time when globalization was widening opportunities for growth through trade that stifled growth in many developing economies and enabled the East Asians to pluck the low-hanging fruit.

The experience of Japan also shows how poor macroeconomic management can undermine efforts at accumulating knowledge and inducing innovation. Japan is home to some of the most innovative multinational corporations, spends in excess of 3 percent of GDP on research and development (R&D), is second only to the United States in the number of patents it registers each year, and is not short of science and technology skills. Nevertheless, following the bursting of the real estate bubble in 1989 and the ensuing financial crisis, Japan's growth slowed to a crawl, with TFP growing by just 0.6 percent per year between 1990 and 2003.[26] In other words, investment in knowledge to augment science, technology, and innovation (ST&I) activities cannot boost growth if demand is persistently weak.

As Keynes (1936) observed, deficient demand tilts the odds against the entrepreneur and can stifle innovation and eat into the growth of productivity. Amazingly, after so much research on macroeconomic policy, the financial crisis and the problems of the eurozone have uncovered a singular lack of consensus regarding the efficacy of demand management and how it can be most effectively conducted, once monetary policy is reduced to near impotence when interest rates are at the zero bound. Perhaps most disconcerting is that the debate is being conducted exclusively among participants drawn from a handful of schools (with strong ideological leanings) in North America and Western Europe. On demand management as on the supply-related aspects of growth, a few Western universities continue to call the shots by training and indoctrinating the majority of those who worldwide conduct influential research and advise policy-makers. The epicenter of growth economics remains highly localized, and more than sixty years after the birth of growth economics Western ideas, fashions, and methodologies continue to determine what is researched, how it is researched, and what gets translated into policies.

Policies for Growth: A Small Pot of Gold

Long immersion in the literature on growth leaves one with the feeling that a lot of incremental innovation is afoot wherever economics is being taught or practiced—and not just in a few Western hotspots. But then one stops to remember the last 1,000 papers read. That is when the sense of moving in circles becomes apparent and the impossible task of summarizing a few stylized policies begins to seem manageable.

King Capital

Although the spotlight might have shifted to TFP, capital is the driver of growth for most low- and lower-middle-income countries far from the technological frontier, with low capital labor ratios, and still on the extensive margin of development. For these countries, the first order of business is to put in place the infrastructure that undergirds development and

to build the productive capacity. Capital investment does this, and also serves as the avenue through which technology is transferred from more advanced to developing countries. China is the foremost exemplar of this approach. It telescoped decades of development into years by pulling out the stops on capital investment and in the process transferring technology at a much faster pace than would ordinarily have been possible. How can a country raise investment to upwards of 25 percent of GDP? Only a few have managed this through a combination of resource mobilization through the fiscal system and public sector entities; by harnessing publicly owned and controlled banks; by exerting financial repression, which depresses interest rates over long periods; through state capitalism in combination with industrial policy vigorously implemented through fiscal and organizational incentives; and with the help of an exchange rate policy that undervalues the domestic currency relative to that of major trading partners. This is impossible to codify, much less customize, for individual countries, and the World Trade Organization (WTO) now disallows some of the incentives utilized in the past. In fact, even countries that once achieved high rates of investment, such as Malaysia, have fallen far below earlier levels. Other countries such as Brazil and South Africa have been unable to approach East Asian levels in spite of the introduction of generous fiscal incentives for investment and a deepening of the financial sector to mobilize and allocate savings.

Improving the business climate can in principle increase investment, but it is difficult to identify countries that have moved to a high growth path by working on the indicators that affect transaction costs. In the 1980s and a part of the 1990s, low rates of saving and investment in Latin American and sub-Saharan countries was blamed on macroeconomic mismanagement. However, better macro-management has increased investment only modestly, if at all. Between 1995 and 2009, gross investment was unchanged in Latin America and rose from an average of 18 percent to an average of 21 percent in sub-Saharan Africa. Low levels of private investment in productive capacity and limited investment in physical infrastructure constrain growth, both directly and by dampening the gains in TFP from embodied technological progress and learning.

Horizontal and matrix-based approaches (as distinct from the earlier vertical ones) to industrial policy that were pushed aside by market fundamentalism in the 1990s are back in favor,[27] and past state failures[28] are being airbrushed as countries struggle to raise the level of investment and orient it towards the productive sectors rather than housing or real estate. The jury is still out on whether such policies or others will make a tangible difference in primarily market-based economies operating with reference to WTO rules.

Human Capital, the Knowledge Producer

Endogenous growth theory and the research on human capital have brought out the vital role of education and ST&I skills. They serve both as drivers of (inclusive) growth in themselves and as complements to increasingly more sophisticated capital/IT equipment based on technologies introduced in the advanced countries. Research by Hanushek and others[29] has demonstrated that the quality of human capital (based on standardized tests) counts for more than quantity, especially in the race to narrow technological gaps and to raise factor productivity by improving management, soft skills, allocative efficiency, and policy implementation. Learning from countries that are high on the quality ladder has become a growth

industry in its own right, even as some of these countries (for example, Singapore and Finland) begin to worry about the emphasis on rote learning and on the inability to instill sufficient creativity and problem-solving skills. It is clear from Western experience that greater spending on education, smaller class size, and provision of computers do not suffice. A teacher's knowledge of a subject and the incentive regime can make a difference but each success story (as in the case of Finland) has tight and unreplicable cultural correlates. Human capital has emerged as an axis of growth economics, and many of the answers countries are seeking must be found in the swampland of education "science," itself full of interesting papers and dead ends (Glewwe et al., 2011).

Innovation Systems

Human capital development—and the learning economy it represents—is inseparable from the ST&I system that uses human capital to generate ideas and commercial innovations facilitated by legal and regulatory institutions to move the TFP needle. The architecture of innovation systems in the leading economies has been exhaustively mapped to the following conditions: the role of the government, universities, and the financial system (including venture capital providers); legal institutions supporting intellectual property and the trading of ideas; industrial composition; the entrepreneurial dynamics of the business community, both domestic and foreign; and the contribution of a competitive market environment. A series of OECD reports[30] elucidates country experiences and offers policy advice. Lundvall (2007) provides a historical perspective and Martin (2012) nicely summarizes the state of the field and notes the challenge of coordinating the actions of several participants in the innovation game. The *idea- and innovation-generating machine* must function smoothly to extract the maximum TFP from capital investment and the accumulation of human capital. This is very much in the spirit of endogenous growth theory, but it should be noted that endogenous growth policies and innovation activities are not really separable. They are carried out more or less in tandem, given the fast-moving nature of the technological environment. A universal roadmap exists only as a broad sketch. With the U.S. and Finnish innovation systems showing signs of strain, two of the global icons are tottering on their pedestals.

Demand Management

Demand management is linked to economic openness and the role of trade in creating opportunities for firms (especially in small countries). Through demand management, firms can realize economies of scale and connect with international value chains. This creates avenues for technology transfer and subjects domestic firms to competitive pressures. Whether or not trade enhances productivity through these channels remains undecided. Bernard and his co-authors[31] show that firms entering export markets are already the productive ones. Others find that trade does cause productivity to rise.[32] As with macroeconomic policy, the answer seems to boil down to a matter of belief, because there are an equal number of papers arguing both sides of the case. I tend to go with the ayes. But this expression of belief only underlines the larger question: How does a country become a successful exporter? If one takes China as a model, then the answer appears to lie in making massive investments in

physical and human capital to build manufacturing capability; creating an innovation system to enhance absorptivity; exploiting foreign direct investment to increase access to technology; maximizing fiscal, financial, and exchange incentives; and applying pressure from the party organization to achieve state-mandated export targets. However, hard-won export successes can give rise to structural imbalances that China now has to correct.

Conclusion

There is no denying the scale of the economic research conducted over the past half century, but growth economics is struggling to provide detailed and meaningful answers to policy concerns. If TFP is indeed the driver of growth, its measurement is becoming something of an art,[33] appreciated by practitioners (there are scores of estimates, no two alike) but contributing little to the content and precision of policies for raising TFP. There is no consensus on how growth that is evenly shared might be accelerated in advanced countries and sustained by middle-income ones fearing the onset of sclerosis. The limitations of theory and policy are highlighted by two facts: between 1960 and 2011, only eight of 190 countries averaged a growth rate of 7 percent or more for two decades; and the correlation between decadal rates of growth is low—in fact, between growth in the 2000s and that in the 1990s it is close to zero. In the absence of fresh ideas, the professional and public debate mindlessly regurgitates well-worn nostrums on investment in education and science and technology; on stimulating innovation; and on creating an institutionally well-stocked, regulation-lite, market-friendly, enabling business environment. The one apparent innovation is the greening of several of the latest offerings on growth.

Since the early 1970s, leading economists have periodically warned that their profession would be marginalized by the trend towards technical specialization, mathematical modeling, and a focus on the testing of narrow hypotheses using increasingly abstruse econometrics. These warnings have gone unheeded. As a consequence, in the face of a crying need for rapid and effective policy action on many fronts, growth economics is not forthcoming with convincing analysis, plus the kind of fine-grained policy informed by the institutions and political economy of individual countries, that determine whether and how policies are implemented and the nature of outcomes (also noted by Harriss in this volume). Policymakers looking for practical proposals are not helped by recommendations to "strengthen institutions," or move from the periphery to the "core of the product space," or increase R&D, or improve the quality of education, or, most dishearteningly, raise TFP.

Notes

1. A large literature on the relationship between aid and growth comes to at best inconclusive findings. See Doucouliagos and Paldam (2006, 2009); Easterly (2006); Roodman (2007).
2. See also the discussion on the role of the state in Kanbur and Devarajan (this volume).
3. State-guided capitalism in the Republic of Korea and Taiwan, China was the subject of two well-known publications by Amsden (1989) and Wade (1990). A sampling of the voluminous literature on industrial policy is summarized in Yusuf (2011).

4. In the Indian case, the first steps towards deregulation in the 1980s had already begun raising growth rates, but the release from the prolonged stagnation took place in the 1990s.
5. This was a time when concerns about state failure were making deep inroads into thinking in the United States, spurred by the ideas emanating from the Chicago School and the activities of increasingly influential neo-liberal and libertarian think tanks (Backhouse 2010).
6. This was enshrined in the "Washington Consensus," first tabled by John Williamson in 1989.
7. The introduction of a "Nobel" Prize (actually the Swedish Central Bank Prize in Economic Sciences) in 1969 encouraged economists to imitate the physical sciences. On "scientific economics," see also Willams (this volume).
8. The capabilities approach is associated with Amartya Sen (1985) and his co-authors—for example, Martha Nussbaum. See <http://www.iep.utm.edu/sen-cap/>; <http://plato.stanford.edu/entries/capability-approach/>; <http://ndpr.nd.edu/news/26146-creating-capabilities-the-human-development-approach-2>.
9. See Hallegatte et al. (2012).
10. On investment and growth under conditions of climate change, see EIB (2012).
11. See Aghion and Durlauf (2005). These are volumes 1A and 1B. Volume 2 is to come.
12. Kuznets (1966) recognized the importance of capital saving innovations and investment in education and the development of skills.
13. For Abramovitz (1993), technology accounted for only a part of the coefficient of ignorance or the residual.
14. One compact source of cross-country growth analysis is Barro (1997).
15. See also the detailed weighing of approaches to modeling growth and econometrically tracing its causes in Durlauf, Johnson, and Temple (2005). Kenny and Williams (2001) also observe that the empirical evidence does not enable one to select among competing explanatory factors.
16. Among a legion of TFP enumerators, see Bosworth and Collins (2003), Crafts (2010), Jorgenson and Vu (2010), and Allen (2012).
17. Financial repression is a notable accompaniment of capital-intensive development in several of the East Asian economies.
18. Romer (1986, 1994).
19. The endogenizing of technological change as a profit-making activity in its own right was foreshadowed by Arrow in a landmark 1962 paper where he used capital investment as the vehicle through which learning/technological change occurs endogenously rather than being introduced exogenously.
20. See Howitt (2004); and Aghion and Howitt (2009).
21. According to some researchers, institutions (represented by a proxy for which data can be found) are the keys to growth. Institutions such as property rights and intellectual property surely matter, but how and how much they impinge on TFP is difficult to determine. As policy instruments, institutional variables are tricky to define and manipulate, and the returns can accrue non-linearly over a long period of time.
22. Between the mid-1980s and 2007, there was a relative lull in financial crises and defaults, which, according to Reinhart and Rogoff (2008), set the stage for the "big one."
23. New Keynesian models assume (difficult to measure) sticky prices.
24. Burnside and Tabova (2009) find that a country's average growth rate is correlated with its exposure to risk factors: the greater its exposure to shocks, the lower its average growth. In other words, riskier countries depress domestic investment and attract less capital from abroad.

25. See Sirimaneetham and Temple (2009) for a reexamination of the evidence using a new index of instability and for references to a large earlier literature.
26. Jorgenson and Motohashi (2005).
27. See Aiginger and Sieber (2006); Aiginger (2007, 2011); and Van Reenen (2012).
28. On the role of the state and state failure, see also Harriss and Kanbur and Devarajan (this volume).
29. Hanushek and Woessmann (2008, 2012); Pritchett and Viarengo (2008).
30. See <www.oecd.org/document/62/0,3746,en_2649_34273_38848318_1_1_1_1,00.html>.
31. Bernard (2006). Iacovone and Javorcik (2012) also find that potential exporters upgrade quality prior to entering the export market.
32. See Lopez (2005).
33. A survey of the econometrics of TFP by Van Beveren (2012) indicates how many tools and tests the modeler can now marshal to enhance the joys of estimation.

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CHAPTER 4

DEVELOPMENT STRATEGY: BALANCING MARKET AND GOVERNMENT FAILURE

SHANTAYANAN DEVARAJAN AND RAVI KANBUR

Introduction

"Markets versus the State" has long been one of the central themes of the development economics discourse. Broadly speaking, development strategies lie on a continuum, with more regulation of economic activity, less integration into the world economy, a greater role for the public provision of social services, more redistribution, etc., at one end; and the opposite at the other end. A policy package, or development strategy, will reveal its orientation by where it lands on this stretch between state- and market-oriented approaches. Those who come down on the more statist end stress "market failure," while those who come down on the market end stress "government failure."

In this chapter we examine the evolution of development economics thinking in the post-Second World War period as a constantly shifting balance between an emphasis on market failure and an emphasis on government failure. The swing of this pendulum can be traced back to the pre-war period, and even well before that. Development thinking in any phase was influenced by experience of the immediate past—successes or failures. The dominant strand of thinking was in turn challenged by new experiences and new realities. The next section of the chapter identifies three main phases in post-1945 thinking: the immediate post-war period, where statist strategies reigned supreme, the era of the Washington Consensus in the 1980s and 1990s, which represented a market oriented reaction to this orthodoxy, and the current phase, where the pendulum has swung back in the direction of the statist dominance of the 1940s and 1950s.

However, the current phase of thinking has elements that take us beyond the simple "market versus state" pendulum swings, important as they are. The subsequent section takes up a strand of development economics thinking that has come to the fore in the last two decades: namely, the shift from a technocratic perspective on the balance between market and government failure to the political economy of policy making and strategy. Which policies

get chosen, and how they get implemented, reflect the balance of political power in a country, and we will not fully understand the choice of strategy without understanding these basic forces. Indeed, to the extent that government failure is the result of these political forces, we cannot understand a key component of the old debate either.

The "state" in the development economics discourse has been the nation-state, and most of the discourse on economic strategy in the balance between market and state has centered on the nation-state, its policies, and its strategies. But the nation-state in the conventional sense is now facing two challenges, one global and the other local.

The final section introduces the issues that arise as we look out from the nation-state in these two directions—the need for cross-national coordination to address externalities across countries and international public goods, and the need to address growing subnational disparities within nation-states, disparities which could undermine the legitimacy of the state in the "market versus state" debate.

The chapter concludes by asking whether there are in fact revolutions in development strategy and thinking, or whether evolution is more likely to be the order of the day.

The Evolution of Development Thinking and Outcomes since 1945

Development Thinking Pre–1945

The focus of this chapter is on development economics in the post-Second World War era. There was, of course, thinking and writing about economic development before 1945. One can go right back to the classics, such as Ricardo's analysis of the joint determination of accumulation and income distribution, an analysis that was refreshed in the immediate post-war era by Arthur Lewis (1954). Or one can find in the neoclassical analysis of Alfred Marshall "the hope that poverty and ignorance may gradually be extinguished derives indeed much support from the steady progress of the working classes during the nineteenth century" (Marshall 1961: 3).

But it is in the early part of the twentieth century, especially in the inter-war period, that one begins to see a focus in the rich countries on the problems of poor countries or, in many cases, poor colonies of rich empires. The economic reports of the League of Nations, including on territories with mandates and other areas, began a discussion of low incomes and the investment needed to raise them. The colonial powers themselves could be said to be taking a "developmental interest" in their colonies, although the interests of the metropole were always central:

> From about the turn of the century, the UK Government began to take a slightly more active interest in colonial economies, and a variety of committees studied education, the use of natural resources, and similar topics in selected colonies.... In 1929, for the first time, provision was made for assisting colonial governments to develop their economies by means of grants and loans for what is now called "infrastructure"; for improving transport, research, power and water supplies, land surveys, and so on. Education was excluded, and a strong subsidiary aim of the new Colonial Development Act of 1929 was to promote employment in

> Britain by stimulating the colonial economies and their demand for British exports. Funds therefore had to be spent on British products as far as possible. (Little and Clifford 1965: 31)

In 1943, in the middle of the Second World War, the Colonial Economic Advisory Committee (CEAC) was set up by the Colonial Office, and none other than Arthur Lewis, a 28-year-old lecturer at the London School of Economics, was recruited to be its secretary (Mine 2006). The exchanges between Lewis and Sydney Caine, head of the Economic Division of the Colonial Office, are instructive, and the debates seem very modern. As Lewis wrote of Caine in a confidential memorandum in 1944, just prior to resigning from the CEAC:

> He is a religious devotee of laissez-faire, and his headship of the Economic Department at this juncture is fatal.... [His approach] is fatal not only in the decisions he makes, especially on secondary industry, on marketing and on co-operative organisation, but also in the appointments he recommends to important jobs in the Colonies, for which he chooses almost invariably people as laissez-faire as himself. (Quoted in Mine 2006: 335)

Of course the debates between Caine and Lewis reflected wider debates on market versus state. If there is any surprise it might be that the laissez faire view persisted so strongly in the inner reaches of government into the mid-1940s, being reminiscent of the "Treasury view" that Keynes battled in the 1920s and 1930s. The generally accepted consensus is that this view was discredited by the economic disasters of the interwar period, and a more interventionist, state-led view of economic policy in general, and development policy in particular, was dominant by the time the war ended.

A Global Perspective on the Balance between Market and State

The discipline of economics in general, and the sub-discipline of development economics in particular, emerged from the Second World War with a deep concern about market failures as a hurdle to rapid development and growth. The classic paper by Rosenstein-Rodan (1944) highlighted these concerns, focusing on the lack of development as the result of coordination failure, and the need for state intervention to coordinate the "big push." We have already referred to the thinking of the young Arthur Lewis in the 1940s, which eventually crystallized into his Nobel Prize-winning paper (1954) on development with surplus labor. A slew of other publications, such as Myrdal's (1968) monumental *Asian Drama*, testify to this mindset in development economics thinking.

Policy reflected this thinking nationally and internationally. Surprising as it may seem now, the World Bank's assistance in the 1950s and 1960s supported state-led industrialization. Reflecting, and leading, the evolution of India's Five Year Plans was the steady increase in emphasis given to poverty reduction directly, through phases such as the focus on rural development and on "basic needs" (ILO 1976). Robert McNamara, then President of the World Bank, gave a celebrated speech (McNamara, 1973) emphasizing poverty, and the Vice-President for Development Economics and his team published a book (Chenery et al. 1974) entitled *Redistribution with Growth*. The greater focus on poverty seemed to strengthen the case for the role of the state in development strategy.

Alongside India, countries in Africa and Latin America were very much in tune with these global perspectives. In a speech to the United Nations in 1957, Ghanaian President Kwame

Nkrumah said that, because institutions in his country were so weak, Ghana had to rely on state-led development. Houphouet Boigny, who would soon be his counterpart in Côte d'Ivoire, disagreed: because institutions in his country were weak, he would rely on market-led development. Despite this "West African Wager," both countries, as well as most of Africa, adopted strategies with a strong role for government. The disappointing performance has been called "Africa's growth tragedy." By the 1980s, Africa's slow growth and high poverty were attributed to excessive and inappropriate government intervention in the economy (World Bank 1982).

Meanwhile, the success of the export-led East Asian "tigers" in delivering historically unprecedented growth together with falling or at least stable inequality, with substantial poverty reduction as the result, raised major questions on the inward-looking strategy in India and globally. The growth success of China through opening up and liberalization, albeit with rising inequality, also raised questions on the inward looking import substitution strategies favored in the immediate post-war period. It should be noted, however, that the role of the state in the success of East Asia and China has been much debated. Freeing up of some controls has been emphasized by some, but the role of the state in guiding exporting industries through credit and other instruments has been emphasized by others. The lesson from these experiences is not necessarily a light state but a pragmatic, efficient state as the basis for development. Be that as it may, the fall of the Berlin Wall in 1989 seemed to be the final verdict on the type of central planning that went on behind it.

The 1980s thus culminated in a shift away from concern with market failure toward a concern with government failure—the seeming inability of statist strategies to deliver sustained growth and poverty reduction. Williamson (1990) captured this shift in a list of policy positions that, he argued, constituted the Washington Consensus. Some of the points in his list (for example, a more equitable distribution of public expenditure—see Kanbur 2009) may surprise those who are familiar only with summaries of the "consensus." Nevertheless, by and large the consensus does represent a move toward the market-oriented end of the spectrum of policy stances, and the shift that started in the 1980s continued into the 1990s.

A certain triumphalism accompanied this swing in the pendulum. Fukuyama (1992) spoke of "the end of history," meaning that all previous debates had been settled, and that market economics (and liberal democracy) had won the day. However, as is already clear from India, and would have been clear in light of the long arc of development thinking, such declarations were premature. As Kanbur (2001) noted, "the end of history lasted for such a short time." No sooner had the Washington Consensus been announced, indeed even before it was formulated, than the arguments against it began to coalesce, driven by a number of development outcomes of the market-oriented 1990s and 2000s: (i) the East Asia financial crisis of 1997, driven by liberalization of international capital flows; (ii) the "shock therapy" experience of many Eastern European economies' transition to market in the 1990s; (iii) the poor growth performance of Latin America and Africa in the 1980s, even after having adopted the tenets of market liberalization; (iv) the fact that India and China had not, in fact adopted full-throated market liberalization, especially on their international capital accounts, and yet had delivered high growth rates in the 1990s; and (v) the sharp rise in inequality that accompanied several fast-growing countries in the 1990s.

These challenges to the Washington Consensus were in turn absorbed in development thinking to produce a swing back to a better balance between state and market, but without

returning all the way to the statist strategies of the immediate post-war phase. The Growth Commission of the mid-2000s, whose members included leading policy-makers from developing countries, captured this emerging consensus well:

> In recent decades governments were advised to "stabilize, privatize and liberalize." There is merit in what lies behind this injunction—governments should not try to do too much, replacing markets or closing the economy off from the rest of the world. But we believe this prescription defines the role of government too narrowly. Just because governments are sometimes clumsy and sometimes errant, does not mean they should be written out of the script. On the contrary, as the economy grows and develops, active, pragmatic governments have crucial roles to play. (Commission on Growth and Development 2008: 4)

> The Commission strongly believes that growth strategies cannot succeed without a commitment to equality of opportunity, giving everyone a fair chance to enjoy the fruits of growth. But equal opportunities are no guarantee of equal outcomes. Indeed, in the early stages of growth, there is a natural tendency for income gaps to widen. Governments should seek to contain this inequality, the Commission believes, at the bottom and top ends of the income spectrum. Otherwise, the economy's progress may be jeopardized by divisive politics, protest, and even violent conflict. Again, if the ethical case does not persuade, the pragmatic one should. (Commission on Growth and Development 2008: 7)

The Growth Commission's report was published before the global financial crisis of 2008. The caution against the simple injunction to "stabilize, privatize, and liberalize" can only be stronger in the second decade of the new millennium.

Beyond State and Market

Our account of post-war development thinking and policy has focused, by design, on the debates between market-oriented and state-oriented development strategies. This debate, as we have seen, dates from before the war, is still at the core of the development discourse, and will no doubt continue. However, there is a key element in the debate that was not present in pre-war or immediate post-war thinking, or indeed for the first three decades after the Second World War. This is the role of civil society.

In Devarajan and Kanbur (2007) we have argued that between market failure and government failure is an area that is the domain of civil society:

> When markets do not work well, the economic system generates outcomes that are not efficient, nor need they be equitable. . . . If the interventions that are needed in theory can be implemented by a benevolent, informed and competent government, market failure can be easily overcome. Of course in reality, governments are not fully benevolent, informed, or competent. . . . This is government failure. . . . Just because there is some market failure does not mean that all markets fail all the time. Just because there is some government failure does not mean that all government fails all of the time. Moreover, even when markets and government both fail, perhaps especially when they both fail, sometimes civil society organizations step in and provide services and activities that fill the gap. . . . However, the gap is not filled completely, by a considerable margin—otherwise the record on poverty reduction would be stronger and more widespread. This is civil society failure. (Devarajan and Kanbur (2007: 379–80)

Three examples can illustrate what we have in mind (these are discussed in greater detail in Devarajan and Kanbur 2007).

There is clearly market failure in the credit markets for poor people in many developing countries. This failure has been the rationale for government interventions in credit markets. But alongside these government schemes one finds microfinance initiatives led by civil society organizations like Grameen in Bangladesh and Self Employed Women's Association (SEWA) in India. This is partly because the government schemes display key features of government failure—incompetence and corruption. Civil society has stepped in to fill the gap.

As another illustration, self-help groups in Andhra Pradesh, the Rural Support Program in Pakistan, and the National Solidarity Program in Afghanistan are all examples of partnerships between government and civil society to help deliver government programs that attempt to overcome market failures, but to deliver these while minimizing government failures.

A third example is that of Citizen Report Cards in Bangalore, where an NGO, the Public Affairs Centre, collected and collated information about the quality of public services and then publicized its findings to put pressure on local government to do better. Such a perspective clearly takes us beyond the simple state-versus-market dichotomy that dominated so much of the post-war debate on development. It changes the question as to what can improve the functioning of the state even as the state tries to improve the functioning of markets.

Civil society is now a player in the development discourse in two senses. First, its role in directly correcting market failures, and its role in addressing government failures, is the centerpiece of much development thinking. Second, civil society is itself engaging in the development debates, bringing their ground level experience to bear on matters which were previously thought to be the domain of technical analysis. The heated exchanges between Arthur Lewis and Sydney Caine on laissez faire versus state intervention in development policy were carried out behind closed doors. Today the debate would be between Lewis, Caine, and Ela Bhatt, the founder of the SEWA in India, or Mohammed Yunus, the founder of Grameen Bank in Bangladesh.

The greater involvement of civil society in development debates raises another aspect of the evolution of development thinking on markets and the state. The debates reviewed so far have been somewhat technocratic in nature, concerning a range of policies that would be adopted, and if adopted then implemented well. But the political process through which the policies were adopted and implemented, whether for good or ill, have not been explored. A greater awareness of the political economy dimension of development policy making is a characteristic of the current phase of development thinking. We turn now to a closer examination of this dimension.

Politics and Policy

The previous sections have described a stylized process by which development economics thinking translates into policies that in turn lead to outcomes; and then, in light of these outcomes, the thinking is revised and policies adjusted accordingly. The truth is that all three—thinking, policies, and outcomes—are influenced, if not driven, by underlying political forces and institutional incentives. In this section, we attempt to explain the emergence,

persistence, and transitions in development policies, drawing on recent research on politics and institutions in development.

The pre-war colonial era bias toward laissez faire—against which Arthur Lewis rebelled—could be attributed to what Acemoglu and Robinson (2012) call "extractive institutions." The colonial powers wanted to extract from the colonies as many resources as possible, as efficiently as possible. Minimizing government intervention, with little regard for equity, would come close to maximizing efficiency.

The heavy government intervention after independence in South Asia and Africa was partly a reaction to the laissez faire of the colonial era. Now that India was independent, so the argument went, it would develop its own industry, rather than be the supplier of raw materials to British industry. But this does not explain the persistence of the state-led model for so long, especially in the wake of anemic growth and poverty reduction.

The period of statist intervention was sustained, and eventually abandoned, because of politics and institutions. In the case of India and other democracies, although growth was slow, the policies and regulations, including import controls, created huge rents in the domestic economy. These rents were shared between the few industrialists who were fortunate enough to receive import protection (and monopoly power in the domestic economy) and the highly educated civil servants who had discretion in implementing policies, such as issuing import licenses. Inasmuch as these two groups constituted most of the elites of society, they commanded considerable power. Furthermore, in heterogeneous societies like India, with (at least then) a strong caste system, the prevailing Fabian socialist principle of free, public provision of basic services like health and education did not translate to universal access to these services. Doctors and teachers, who were themselves part of an educated elite, did not want to treat or teach those of a different caste. The result was that health and education levels of the poor remained low, further increasing the premium for the educated elite.

In non-democracies, such as the military dictatorships in Africa in the 1960s, 1970s, and 1980s, the state-led model persisted, but for slightly different reasons. To stay in power, military leaders needed to curry favor with those who might overthrow them. This included other military officers (who might launch a similar coup to the one that brought the current dictator into power), as well as the urban elites, who might support such an attempted takeover. One way to keep these groups satisfied was to ensure that food and import prices were low (Bates 2008). Accordingly, these countries maintained overvalued exchange rates and subsidies or controls on food prices. These policies discriminated against producers of food and exports (most of which were in agriculture), which was the majority of poor people in the country. Bates (1981) offers a further explanation for this "urban bias," which rests on the idea that industrial products are more differentiated, so that it is easier for producers of specific manufactured goods to mobilize for protection (and harder for consumers to register the impact of protection on the prices they face), whereas a more homogeneous commodity like food requires millions of farmers to organize and demand protection.

If this statist model of development was a political equilibrium, how did it change? While individual circumstances differ, a common feature was that almost every country faced an external shock, such as the oil price spikes of the 1970s (or the price collapse of the late 1980s), and the collapse of the Soviet Union in the late 1980s, which made the current policy regime unsustainable. The shocks triggered a balance of payments crisis (which had already been brewing, thanks to the overvalued exchange rates). The knee-jerk response to the

shocks—imposing exchange controls, for instance—exacerbated the problem. Moreover, the East Asian countries, which had liberalized their trade regimes earlier, fared better during the shocks (Balassa 1985). Lacking intellectual legitimacy and rents to capture, the elites either lost power (as in Ghana) or had to re-think their development strategy (as in India). Those that had been advocating for more market-oriented policies were now given more credence. And because it was a balance of payments crisis, external organizations, especially the International Monetary Fund (IMF) and World Bank, became important players.

Despite being triggered by a crisis and supported by a volume of academic work, the transition to more market-based policies was by no means smooth. First, because the balance of payments support was being provided by the IMF and World Bank, the accompanying policies or "structural adjustment programs" were seen as externally imposed. Political protests ensued, policy reforms were reversed or not enacted at all, and some countries found themselves in worse circumstances than before the crisis. As Devarajan, Dollar, and Holmgren (2001) show, the problem was not that these were the wrong policies. Rather, it was that they were designed from outside the country (usually in Washington, DC), which made it difficult to build a domestic political consensus around them. Desperate for the money, governments agreed to the "conditions" but did not implement them because the political costs were too high.[1] Countries such as Uganda, Ghana, and Tanzania, where the reform program was designed from within, with widespread consultation in the country, were able to sustain reforms and register strong growth rates.

Secondly, even for reforms designed in the country, there were problems particularly with trade reform. In addition to the usual phenomenon of losers (protected industrialists and government bureaucrats) colluding to resist reforms, there was an issue with exporters—who would normally benefit from the reform—because of the uncertainty associated with entering new markets (Fernandez and Rodrik 1991).

Uncertainty about whether they would be winners or losers led people to vote against reforms, resulting in a status quo bias in reform programs. However, when the initial bias was so extreme, as in Ghana with a severely overvalued exchange rate, and there was political competition (also in Ghana since 1992), then there was widespread support for reforms that shifted the terms of trade in favor of agriculture (Block and Bates 2012).

Notwithstanding the difficulties in the transition, most developing countries by the early 2000s had transformed into macroeconomically stable, market-oriented economies. Trade barriers had come down; there were fewer state-owned manufacturing enterprises; and so on. In a sense, these countries had adopted the Washington Consensus, but rather than being imposed from outside, it was increasingly developed from within. Their strategies were expressed in Poverty Reduction Strategy Papers, which were written by the government, based on widespread consultation. The substantial increase in political competition in Africa contributed to the reform momentum (Chauvet and Collier 2009). Furthermore, these countries were experiencing rapid economic growth—5–6 percent a year in Africa, 8–9 percent in India.

Nevertheless, this growth was not reducing poverty fast enough. India's rate of poverty decline was the same as before the 1990 reforms; fast-growing Tanzania saw only a slight decline in poverty during the 2000s. One reason was that agricultural productivity growth was still quite limited in Africa and South Asia (where the gains from the green revolution had dissipated). Another was that there was little growth in productive employment. About 70–80 percent of the labor force remained engaged in low-productivity informal farms or

household enterprises. Finally, human development was lagging: Africa and most of South Asia had stubbornly high child mortality rates; while primary enrolment rates were soaring, learning outcomes were disappointing; and India had about double the child under-nutrition rate of Africa.

These indicators confirmed the worst suspicions of the anti-globalizers. It looked as if market liberalization had led to the rich getting richer and the poor poorer. In India, electoral sentiments appeared to be moving back to the center. An alternative interpretation is that the problems with agriculture, employment, and human development have to do with government failures that were not tackled during the first wave of reforms. For instance, the high level of subsidies to farmers in southern Indian states (estimated at 1 percent of state GDP) crowd out much-needed public investment in agriculture, resulting in slow productivity growth. But these subsidies are politically sensitive: any politician who attempts to reduce them is likely to lose the next election. Likewise, formal-sector employment growth is hampered in India by restrictive labor regulations and in Africa by infrastructure constraints. The latter too are the result of policies and regulations that are politically difficult to reform. And the weak human-development indicators have a lot to do with poor service delivery—absentee teachers and doctors, leakage of public funds—that are in turn a reflection of politically powerful teachers' and doctors' unions that remain unaccountable to poor citizens (World Bank 2003).

Given that they represent a new political equilibrium, even in countries with competitive elections, these government failures will be difficult to overcome. Some solutions such as increasing the accountability of service providers by tying their pay to performance, have shown encouraging results (Basinga et al. 2010). But these can only be attempted if they have political support. If the underlying political system is distorted by clientelism, then the only way to get reform may be by informing the public about the costs of these distortions, so they can bring pressure to bear on politicians for reform. Even this approach may not always work (Keefer and Khemani 2012), but there is scope, especially with the widespread use of cell phones in these countries, so that citizens can be better informed, and in turn inform elected officials about their views.

Looking Ahead: Markets and State in the Global and the Local Context

Having described and interpreted the evolution of development economics thinking in terms of balancing market and government failure, we now look ahead and ask how this debate will play out in the future. Our view is that the nature of both states and markets—and hence of their failures—will change over time.

The Nation-state at the Confluence of the Global and Local

The nation-state has been at the foundation of development debates. The implicit assumption in much of the development policy discourse, from the Second World War right up to

the present, is that the policies being discussed and debated are national policies. Whether with regard to monetary stability, fiscal balance, trade liberalization, public expenditure, etc., the policies are applied by the national government, taking into account global conditions but without regard to the repercussions on other nations.

There are at least two senses in which the nation-state's being the fulcrum of policy is problematic. First, when a nation is large its policies have a direct impact on other countries. Chinese exchange rate policies or reserve accumulation policies of emerging markets are examples. Second, even if each country is small, the collectivity of their actions can impact the group as a whole. An example of this is when each country attempts to grow by exporting the same commodity: the expansion of global supply leads to a fall in the price of the export, hurting all countries together.

More generally, as cross-border trade, investment, and migration have expanded, and as environmental resources come under stress, externalities from one country's actions to another country's well-being have multiplied and intensified. Managing these spillovers requires policies at the level above the nation-state, and yet we do not have those structures in place. Rodrik (2007: n.p.) has gone further and posited a trilemma for the world economy: "I have an 'impossibility theorem' for the global economy.... [D]emocracy, national sovereignty and global economic integration are mutually incompatible: we can combine any two of the three, but never have all three simultaneously and in full.... Pretending that we can have all three simultaneously leaves us in an unstable no-man's land."

Looking outward globally from the nation-state is only one of two perspectives. The other, of looking inwards at the components of the nation-state, has been and always will continue to be important. In *The Black Man's Burden: Africa and the Curse of the Nation State*, the historian Basil Davidson assessed the colonial legacy to Africa—a collection of artificial states formed more for the convenience of, and through bargaining among, colonial powers. The Berlin Conference of 1884–5 left a map of Africa whose straight lines reflect the arbitrariness of the nation-states at independence. These states had to develop a national identity, adopt mechanisms to give effect to national policies, and manage the politics of these policies. If it took Europe more than a century to solidify the Westphalian state, why would we expect Africa to do it any faster?

Today, the nation-state is coming under greater pressure from within, particularly in large nations that have ethnic, religious, historical, geographical, and other cleavages. The formulation and implementation of national level policies must take into account their impact on local jurisdictions. These twin departures from the conventional focus on the nation-state, one toward the global and one toward the local, form the focus of this section of the chapter.

International Public Goods

Let us start with some basic economic theory of public goods. A "pure public good" is defined as one which is "non-rival" and "non-excludable" in consumption. By non-rival is meant that consumption by one does not reduce the amount available for another. By non-excludable is meant that it is in fact not possible to exclude anyone from consuming that good. National defense would be a concrete example of a pure public good: all citizens are equally and simultaneously defended from foreign attack, and no citizen can be excluded from such defense. Exchange rate policy is another example of a national level public good: all citizens

are simultaneously affected by it, and no citizen can be excluded from its impact. Somewhat more abstractly, the symbols of "national identity"—the flag, the national anthem—are public goods. In practice many goods are only "impure public goods" since they only partially satisfy the conditions of non-rivalry and non-excludability. But the sharp formulation of a pure public good is analytically useful.

Basic economics teaches us that markets will supply inefficiently low levels of public goods (Cornes and Sandler 1996). This market failure is one of the major arguments for state intervention in a range of activities, including activities to mitigate externalities, spillovers from one individual's actions to another which are not meditated through markets. Such mechanisms to address externalities—for example, a coordination mechanism to manage deforestation—are themselves public goods: the mechanism by definition applies equally to all. It follows that such mechanisms will also be undersupplied by the market, leading to an argument for state intervention.

The basic structure of analysis at the level of the individual can be translated up one level by replacing the community of individuals in a nation-state by the community of nations in the world as a whole. What nations do—their national policies—have spillover effects on other countries that are not fully mediated by markets. Refugees, greenhouse gases, deforestation, underground water exploitation, infectious disease immunization, financial regulation, etc., are all cross-national externalities in an integrating world economy. Mechanisms to address these many externalities are public goods. Markets will undersupply these public goods. What is needed, then, is the equivalent of a state at cross-national level to provide the public goods that are the coordinating mechanisms to manage cross-border externalities. Without them, global development and well-being will be lower than they would be otherwise.

Cross-national coordinating mechanisms will of course mean the giving up of some national sovereignty in deciding some national policies, as in Rodrik's trilemma. One solution is to not have as much "hyper-integration" in the world economy, "I am skeptical about the global governance option.... There is simply too much diversity in the world for nations to be shoehorned into common rules.... The only remaining option sacrifices hyperglobalization" (Rodrik 2011: 203–4).

One can make three observations about the comment above. First, there is still something to be said for at least some cross-national coordination. Second, as Rodrik recognizes, some aspects of globalization may now be beyond us to "walk back," linked as they are to technological and social changes. Third, where walking back is possible, this will itself require international coordination.

There are two further aspects of the public good of international coordination that need to be emphasized. First, some cross-border spillovers are not necessarily to do entirely with global economic integration. Greenhouse gas emissions or deforestation would be issues even if there were less hyperglobalization. Second, Rodrik's focus seems to be primarily on global spillovers and global public goods. There are often spillovers and externalities between neighboring countries within a region—for example, vector borne diseases in Africa, or countries that share a common water table—that require a more localized but still cross-national coordination.

Viewing the evolution of the development discourse as an ever-shifting balance between state-oriented and market-oriented strategies, as we have done in this chapter, comes up against an interesting variation in the case of International Public Goods. Public goods at the

national level are of course ones where market failures are inherent, and perhaps where attempts to supply public goods through the state led to government failure. But International Public Goods are also a case where there is clearly market failure, but the experience of international non-market provision is limited, because the experience of international coordination is limited. Perhaps strong instances of international government failure will arise when we try such mechanisms, but we will not know until we try.

Sub-national Pockets of Poverty

The terrain of development has shifted significantly, especially in the last quarter century. The conventional classification of countries is in terms of their Gross National Income (GNI) per capita using the World Bank's Atlas method. The latest available classification uses data for 2010: (i) Low Income Countries (LICs), less than $1,005; (ii) Lower Middle Income Countries (LMICs), $1,006–$3,975; (iii) Upper Middle Income Countries (UMICs), $3,976–$12,275; and (iv) High Income Countries (HICs), more than $12,276. Strong growth in a number of large developing countries has moved them from LICs to LMICs. Countries that have made this transition include India, Indonesia, Ghana, Zambia, and Philippines. China is now an Upper Middle Income Country, as is Thailand. Brazil, Mexico, and other Latin American countries are also UMICs, and South Korea is an HIC. Mexico and South Korea are members of the OECD.

If development were to be defined by increasing per capita national income, the world can point to considerable success in the post-war period. However, there are two features of this global picture that sound notes of caution. First, there is a group of countries stuck in a low income trap for a number of reasons, including conflict and political fragility. Second, even within countries that have exited from the LIC category, significant numbers of people languish in poverty. Using official definitions, Sumner (2012) establishes the following stunning stylized fact. Twenty years ago, 90 percent of the world's poor lived in LICs. Today, 70 percent of the world's poor live in MICs. In other words, the vast bulk of the world's poor now live in non-poor countries. In nation-states that have succeeded according to the conventional definition of development, there are significant pockets of poverty.

These pockets of poverty almost invariably have a geographical nature. Spatial disparities are and always have been a feature of development the world over. These disparities have intensified in the past two decades in almost every developing country (Kanbur and Venables 2005). This divergence of economic performance within nation-states can be linked to globalization, which has led to sharper expression of comparative advantage within each nation-state. In Mexico, regions furthest away from the U.S. border have lagged behind; in India, states with an educational advantage have raced ahead; in Indonesia, the outer islands have not done as well as the core; in China, coastal provinces have performed more strongly than inland ones.

When the pockets of poverty align with cleavages such as geographical divisions, which are themselves the product of history, the nation-state itself may be challenged. The challenges come along a spectrum from political activities by regional parties, through claims for greater regional autonomy, to outright wars of secession. Even where political dissent cannot be expressed in the open, the ruling elite has to address it one way or another. Examples of such tensions are abundant. In China, the Western provinces have significant Islamic and

ethnic minority populations. In India, pressures to split up large states into smaller entities are constant, and have been conceded periodically—for example, the new states of Uttarakhand, Jharkhand, and Chattisgarh, and ongoing agitations for a new state of Telengana. In Ghana, Nigeria, and Côte d'Ivoire, the north–south divide coincides with a religious divide and regional economic balance, and is central to political balance and viability. In large federations such as Brazil, regional disparities are prominent in the political discourse.

We thus come to an issue which is largely missing from the "market versus state" spectrum that has structured so much of the development discourse in the post-war period: whether the state itself can survive as currently structured. The question of "too much state" or "too little state" becomes moot if divisions within the state lead to challenges to the legitimacy of the state. Indeed, if the divisions within the state are intensified with a market-oriented development strategy, then the state which adopted this market-oriented strategy may be called into question. Paradoxically, perhaps, we need the state to maintain regional balance and legitimate the nation-state, through which a national policy of market-oriented reforms can in turn be legitimated! This certainly puts the "market versus state" debate in a new perspective, a perspective that is likely to endure in the coming decades.

Conclusion: Revolutions or Evolution in Development Thinking?

To those engaged in the cut and thrust of development debates, the twists and turns seem large and significant. The turn toward market oriented development strategies in the 1980s appeared to both supporters and opponents as "revolutionary." For Fukuyama (1992) these shifts were epochal in the right direction. For others the "neo-liberal" or "Washington Consensus" strategies were equally epochal but in the wrong direction. However, viewed in the perspective of the long arc of development thinking, stretching back to the Second World War, the inter-war period, and before, these decadal shifts appear as relatively small adjustments.

In fact, it would be difficult to identify "revolutions" in the progression of development thinking that we have described in this chapter. Rather, what we have seen is the pendulum swinging back and forth between two visions of development strategy, where each swing absorbs key features of the challenges to the previous dominant mode of thinking and converts itself into the next consensus waiting to be challenged. New challenges and issues may appear, such as the increasingly important role of civil society, but older issues do not entirely disappear. Mechanisms such as state intervention in agricultural research, discussed by Arthur Lewis in his challenges to Sydney Caine, which became orthodoxy in the next phase but were then dethroned in the phase thereafter, are once again present as policy possibilities.

Development economics thinking does not seem to have revolutions in the sense of Kuhn's (1962) "scientific revolutions" which sweep all in their path and establish a new discourse and completely new ways of thinking. This is perhaps because, as argued by Bronfenbrenner (1971), the evolution of economic thinking itself cannot be seen in these terms:

> Ptolemaic astronomy, phlogistonic chemistry, and humoral medicine are examples from natural sciences.... But in economics, where are their equivalents? Currently fashionable incomes-policy proposals are based on elements of the medieval *justum pretium*.... A French physiocrat or *économiste* of the eighteenth century is brain brother to an American agricultural fundamentalist of the twentieth. The Keynesian and the Hicksian crosses—paradigms in the most literal sense of the term—have supplemented but never displaced the Marshallian cross of supply and demand. The quantity theory of money, once considered moribund, has been resuscitated, after a brief trance, by Professor Milton Friedman and his Chicago colleagues. Economic paradigms, economic "normal science," both display a certain tenacity Kuhn has not found in the natural sciences across the quadrangle. (Bronfenbrenner 1971: 2)

Bronfenbrenner goes on to characterize the progression of economic thinking as being more dialectical in nature. The thesis of the dominant paradigm is under continuous challenge from a range of antitheses, which are not necessarily in agreement with each other. The synthesis involves the paradigm modifying itself by absorbing some but not all of these challenges, many of which live to fight another day. This synthesis becomes the thesis for the next phase, and new and old challenges act as the antitheses as circumstances change and issues arise. We have certainly seen this in our brief assessment of the post-war development economics discourse. The "market versus state" debate has gone back and forth, ever constant but also ever changing. If there is a synthesis now, it is perhaps one that has learned the lessons of the overzealous embrace of markets at any cost, but one that is not prepared to go back to the simple nostrum that state intervention can solve everything. This synthesis now faces challenges to the notion of the role of the state itself, and so the evolution continues.

Note

1. A further problem was the behavior of the donors. Knowing that a withdrawal of funds would leave these countries in disastrous shape, the international financial institutions continued to provide assistance. The countries quickly learned this. For example, the World Bank issued three structural adjustment credits to Kenya for the same agricultural price reform (Devarajan, Dollar, and Holmgren 2001).

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CHAPTER 5

POVERTY IN DEVELOPMENT THOUGHT: SYMPTOM OR CAUSE

DAVID HULME

Introduction

The concept of poverty is central to contemporary meanings invested in "development." Whether reviewing the academic literature, the documents produced by international and bilateral aid agencies, the plans of governments in developing countries, the World Wide Web, or the media, "poverty" and its alleviation, reduction, and eradication appear as a major—often *the* major—development issue. From early twenty-first-century perspectives this might look natural, but, like all analytical and narrative positions, the relationship between poverty and development is socially constructed. Indeed, poverty has not always been at the heart of development thinking. The goals of the UN's first Development Decade, declared in 1961 (5 percent economic growth per annum in developing countries, and foreign aid at 1 percent of rich country GDP), stand in stark contrast to 2001's Millennium Development Goals (with their detailed lists of poverty reduction targets and indicators) and contemporary discussions of "what comes next" (Pollard et al. 2010; Wilkinson and Hulme 2012).

This chapter examines how the concept of poverty has waxed and waned within development thought and how these fluctuations have shaped development policy and action toward, or away from, direct goals of poverty reduction or eradication. It provides an overview of poverty in social thought; examines the contestations over how poverty analysis is positioned in development theory; charts the conceptual contestations around poverty; presents a brief history of poverty in development thought and action; looks at the contrasting geographies of contemporary poverty; and concludes by considering whether a synthesis is emerging from structuralist and liberal understandings of poverty at present, or merely an uneasy compromise while each "side" looks for a way to regain a dominant position.

The chapter is a review essay informed by the analytical framework of Robert Cox (2002), which interprets the way things are at any specific time (the historical structure) as the outcome of the dynamic and evolving interaction of ideas, institutions, and material

capabilities. To illustrate this, the sidelining of poverty in development thought in the 1980s can be seen as resulting from (i) the global ascendancy of neo-liberal *ideas* prioritizing economic growth, (ii) the dominant position of the World Bank and the International Monetary Fund (IMF) within the international *institutional* architecture, and (iii) the economic and military strength of the U.S. and its allies, and the influence of business interests and the corporate sector (*material capabilities*) as the Soviet Union weakened and collapsed.

Poverty in Social Thought

While contemporary ideas and concerns with poverty—especially the recently constructed idea of global poverty (Hulme 2010)—are closely interwoven with development thought, many of poverty's conceptual roots lie in the historical analysis of social problems in Western Europe. These go back to theological debates within Christianity about the responsibilities of the better-off to the poor that began to shape public policy in the sixteenth and seventeenth centuries, when England introduced the Poor Laws and France tackled *indigence*.

It was in the late eighteenth and nineteenth centuries, as the Enlightenment unfolded, that social thought in Europe addressed poverty as a core issue. This included de Condorcet and Paine's search for an end to poverty; Burke and Malthus's warnings of the dangers of such radical thinking; Marx and Engels's examinations of the evolution of capitalism and class relations; and Booth and Rowntree's identification of who exactly was poor (Stedman Jones 2004). Many ideas from these times—including the separation of the "deserving" and "undeserving" poor, the role of charity, poverty as a structural or individual phenomenon, poverty lines, targeting, and welfare dependency—continue to influence contemporary development thinking.

Ravallion's (2011) analysis of digitized books identifies two "poverty enlightenments" that display peaks in references to poverty in book titles between 1700 and 2000 (Figure 5.1). The first is near the end of the eighteenth century, as Enlightenment thinkers focused on the big social problems of their era and identified poverty as a scourge. The second, gaining momentum from around 1960, comes at the end of the twentieth century, as "developing countries become more prominent in the literature" (Ravallion 2011). Toward the millennium, the intellectual focus of poverty analysis shifted from moral philosophy and welfare economics toward development theory.

Positions and Concepts

As Harriss (this volume) elaborates, there have been and remain a number of contesting development theories. Structuralists, Marxists and neo-Marxists, neo-liberals, and the broad church of the post-Washington Consensus have different ideas both on the concept of poverty and how it fits into development theory. Such debates have tremendous practical significance. If poverty is understood as a lack of income, policies to increase income are likely to

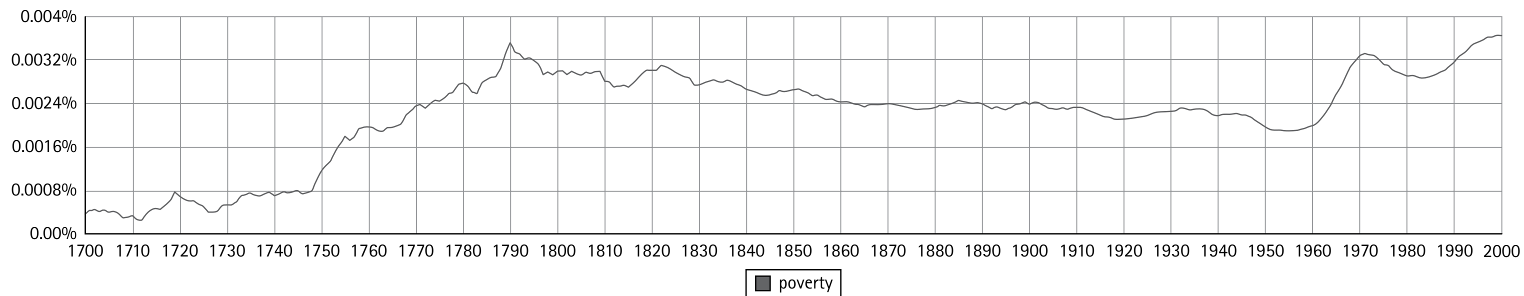

Figure 5.1 Incidence of reference to "poverty" in *Google Books*, 1700–2000

be prioritized. By contrast, if poverty is conceptualized along other dimensions, such as limited access to basic education and health services, policies to expand and improve access to basic services are more likely to be prescribed.

The positioning of poverty within any particular school of thought, and the theorized relationships between poverty, economic growth, and inequality, are especially important (see the chapters by Yusuf and by Stewart and Samman in this volume). While the contemporary post-Washington Consensus declares poverty reduction to be at the center of its analysis and to be the primary goal of development, this was not the case for most of the second half of the twentieth century. Structuralists (see Harriss, this volume, for an elaboration of the different schools) instead viewed the overarching goal of development as catching up with the West. This meant prioritizing state-led industrial growth to reduce per capita income inequality between nations. The mass consumption associated with high levels of per capita income was assumed to reduce poverty through "trickle down" processes. Neo-Marxists and dependency theorists placed the primary focus on reducing inequality, which they viewed not only as income inequality but as exploitative social relations. Development required radical social transformation into classless societies autonomous of the capitalist system. Poverty was a symptom of inequitable social relations and potentially an analytical distraction from the underpinning causes of global inequality. Neo-liberals placed poverty in a subsidiary position, embracing economic growth through market forces as the analytical and policy priority. Poverty would automatically decline as economic growth accelerated. Inequality was not a problem: indeed, for some neo-liberals inequality was desirable, as it fostered competition and contributed to economic efficiency and higher growth rates.

At present, post-Washington Consensus liberals (both center right and center left) are in agreement that poverty analysis and reduction are the central tenets of development theory and action. Whether this is a "synthesis" (see Harriss, this volume) or an uneasy compromise remains to be seen. However, where the center right champions poverty reduction by "pro-poor growth" (growth with poverty reduction), the center left adopts rights-based and human development concepts to create a more redistributive framework (poverty and inequality reduction). These positionings of poverty within development thought can lead to the excessive highlighting of poverty (in poverty measurement and analysis and as a priority goal), as in the heady days around the millennium, or to its relative neglect, as in the neo-liberal 1980s.

Alongside contestations about how poverty fits into development theory are debates about "what is poverty." It is useful to draw attention to four particularly important, but overlapping, conceptual issues: narrow versus broad conceptions of poverty; absolute and relative poverty; objective and subjective poverty; and whether poverty is due to individual agency-related or to structural factors.

Poverty can be framed in *narrow* or *broad* terms (Lister 2004: 13). A narrow approach is easily comprehensible and measurable, while a broader approach explores the multifaceted nature of poverty and the processes that create, maintain, or reduce poverty. At the narrow end of this continuum are national poverty lines, based on subsistence concepts of per capita household income or consumption (in most countries around 2,300 calories per day per adult) (Dercon 2006). The greatest "narrowing" is the application of a global US$1.25 per day (in purchasing power parity or PPP terms) to all of humanity.

Unidimensional concepts contrast with multidimensional notions that view poverty as a set of material and non-material deprivations. Amartya Sen's work on capabilities (Sen 2001)

has been particularly important in promoting broader understandings of poverty. For Sen, development is about people's ability to raise their capabilities so that they have greater freedom to achieve the "functionings" they want to do or be (for example, living a long and healthy life, being a respected member of a community, raising a family, achieving satisfaction in sports or cultural activities). From this perspective, people experience poverty when they are deprived of basic capabilities: the ability to avoid hunger, become literate, appear in public without shame, or take part in social activities, for example. While Sen remains skeptical about the merits of reducing human development to a single indicator, he was persuaded by Mahubub ul Haq to help operationalize this complex idea (Sen 2006), in the process creating the Human Development Index (HDI) that combines three crude indicators of capabilities—life expectancy, educational attainment, and average income—for measuring progress in human development. The United Nations Development Programme (UNDP)'s Multi-dimensional Poverty Index (MPI) has further broadened this measurement (UNDP 2010).

While some argue passionately for a narrow or broad concept, others use both simultaneously. Institutionally one can see this playing out by contrasting the measures championed by the World Bank and by United Nations agencies, particularly UNDP (Therien 1999). The World Bank has pioneered the dollar-a-day concept and helped many countries undertake Household Income and Expenditure Surveys (HIES) for calculating income and consumption poverty. The UNDP has championed broader human development measures such as the HDI and the MPI.

There are also heated debates around the merits of *absolute* and *relative* concepts of poverty. Rowntree's (1901) seminal work has been interpreted as defining poverty in absolute terms. From this perspective, poverty occurs when people cannot meet their minimum physical needs because of lack of income. This leads to an unambiguous poverty line. This method is simple and measurable and focuses on paramount human needs. Without sufficient food, people cannot function effectively, their health declines, and eventually they die. These absolute measures were advanced beyond headcounts in the 1980s when the Foster, Greer, and Thorbecke (FGT) (1984) measures were introduced, measuring poverty incidence, depth, and severity.

Major technical concerns arise, however, in dealing with differences in the minimum amount of nutrition that people need according to age, health status, employment, and household size. Even analysts such as Ravallion (who developed the dollar-a-day measure) confirm that the specification of a poverty line always involves a degree of arbitrary selection. Absolute poverty lines are also criticized for treating people like livestock—being reared individually, but not as part of broader society. This perspective recognizes that human beings are social actors, and argues that poverty must be defined relative to others in a society. How could someone in Canada, for example, participate in society if they did not have access to television, cell phones, the Internet, or culturally appropriate (and warm) clothing—things which most fellow citizens see as "normal?" OECD countries have embraced this perspective, with their official poverty lines almost always defined in relative terms. In European countries, the poverty line is usually set at 60 percent of a country's median income (Lister 2004: 42). For some, however, relative poverty is only a small step in the right direction. It is relational poverty that needs to be analyzed—not merely income inequality but the unequal power relations between different groups in a society. (See, for example, du Toit 2009.)

A third axis of debate concerns *objective* and *subjective* poverty measurements. Objective definitions and measures of poverty (dollar-a-day and FGT measures) are specified by researchers who decide who is poor and non-poor according to their definitions and survey analyses. Such definitions and measures are rigorously conceptualized and specified, permitting comparisons to be made over time and space. However, critics point out that such definitions inevitably involve explicit or implicit value judgments, and so the claim to objectivity is open to challenge.

Subjective definitions and measures of poverty are made by people about their own status and others in their community or society. They are subjective, since the respondents, not the external analyst, determine what constitutes poverty and the minimum levels of goods, services, or well-being. This has the advantage of letting those most knowledgeable about the experience of poverty determine how poverty is defined and measured. It can also be argued to be ethically more justifiable than objective approaches, as it requires public deliberation (Sen 2001) and recognizes the right of poor people and communities in creating and disseminating social knowledge, thereby potentially empowering them (Chambers 1997). It also has the disadvantage that people living in different areas may set different criteria that may change over time, making subjective comparisons difficult (Qizilbash 2003).

Finally, and of particular importance for understanding debates about relationships between poverty and inequality, comes the contrast between theoretical approaches focused on *human agency and individual behavior* and those focused on the *operations of social structures*. Both approaches have their strengths and weaknesses, and Giddens (1984) has proposed a conceptual means—structuration—of integrating both approaches. Individualistic approaches benefit from the precision with which they identify their units of analysis (individuals) and the simplicity of their behavioral models (rational choice). Structural analyses find it hard to match such precision and simplicity, as they argue that the units of analysis are multiple and overlapping and that behaviors are complex and, at best, only partly predictable.

Individualistic analysis has links to many powerful ideas about poverty, some with deep historical roots. Golding and Middleton (1982) have shown that from the sixteenth century the poor in Europe were seen as either "deserving" or "undeserving." These ideas carry through to today, particularly in elite perceptions of the poor (Reis and Moore 2005). The "deserving poor" are theorized as a group of people who are unable to participate in economic activity because of factors beyond their control: disabled persons, accident victims, the elderly, the infirm, and orphans. They merit social support. In contrast, the "undeserving poor" are a group of voluntarily indigent people who choose to be poor because of character defects: laziness, lassitude, work-shirking, drunkenness, promiscuousness, or immorality, among others. Society has no obligation to such people, as they choose to live in poverty. Implicitly, this theorizes the undeserving poor as living in an economy that can provide all of them with adequate incomes if they choose to take advantage of opportunities. Under- and unemployment, excessively low wages, and worker exploitation (debt bondage, slavery, child labor) are temporary market imperfections in such models.

Structuralist accounts directly challenge rational choice analyses and argue that inequality is the cornerstone of processes that create poverty. Their units of analysis are collectivities—classes, races, genders, ethnic groups—and the focus is on social relations between entities. While economic inequality is important to structuralists, they are also concerned about social and political inequalities. These frameworks highlight the ways

more powerful groups are able to impose their preferences on less powerful groups through the exercise of economic, social, and political power.

There are many ways that social structures create poverty. Childhood experiences and outcomes are of great significance. Children born into low-income households—with low social standing and limited political power—fall into vicious circles of capability deprivation. They are underweight at birth and likely to have weakened immune systems and curtailed physical and cognitive development due to their mother's under-nourishment and a lack of prenatal, postnatal, and infant care. Unequal access to schooling and their need to work in income-generating activities means many remain illiterate. Their social networks are limited to other disadvantaged people, constraining the information and support they can access when they mature. They also remain unlikely to inherit land or other physical assets, and may have to take on their parents' debts. In oversaturated labor markets the majority have no choice but to take up low-paid, irregular, physically demanding jobs that make it virtually impossible to accumulate productive assets or develop the human capital of their children through good food, education, and health care. Vulnerability further fuels processes of impoverishment and inequality.

The structuralist case powerfully argues that poverty is not the result of indolence, lassitude, immorality, or character deficiencies. Rather, it is unequal social relations that permit the poor to be economically exploited, socially subordinated, and politically marginalized. Powerful groups even "have the power to construct 'the poor' as other through words, images and deeds" (Lister 2004: 178).

Across different schools of development theory there are considerable tensions between those who pursue concepts of poverty that facilitate measurement (narrow, means-based, absolute, and objective) and those who believe that such simplifications are flawed as they avoid the more structural aspects of poverty essential to understanding how poverty is produced and reproduced. The "measurement camp" is usually occupied by economists, econometricians, quantitative sociologists, and social statisticians. Governments, international agencies, and policy-makers gravitate toward this camp. In the "structuralist camp" are critical sociologists, anthropologists, radical political economists, and heterodox economists. Their analyses are most often picked up and supported by activist non-governmental organizations (NGOs) and civil society groups, trade unionists, environmentalists, and left-of-center political parties.

The die-hard measurers argue that qualitative approaches lack rigor and permit the analysts to select non-representative empirical materials to advance their argument. The die-hard qualitative analysts argue that by focusing on what is readily measurable at the individual and household level, these dominant measurement approaches neglect the analysis of culture, identity, agency, and social structure that are central to the processes that create wealth and poverty (see Chambers 1983). In a particularly trenchant criticism, du Toit (2005: 1–2) identifies the "poverty measurement blues"; (see also du Toit 2009):

> ... the difficulties arise out of the domination of development studies and poverty research by ... the "econometric imaginary": an approach that frames questions of social understanding as questions of measurement. ... [They] are undermined by their reliance on a mystificatory theoretical metanarrative that tries to imbue poverty judgements with a spurious objectivity, and ... they direct attention away from *structural* aspects of persistent poverty. (du Toit 2009: 1)

A Brief History of Poverty in Development Thought and Practice

If one moves to the start of the development age in the late 1940s and 1950s, then I believe an important and persistent characteristic of the use of poverty in development, as a concept and narrative, is evident: namely, that presenting development as poverty reduction or elimination is much more attractive (and necessary) for leaders and governments in developed than in developing countries. U.S. President Truman's inaugural speech in 1949 illustrates this well. Late in the drafting process a *Point Four* was added "for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas" (Truman 1949). This focused on poverty reduction: "More than half the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economic life is primitive and stagnant. Their poverty is a handicap and a threat to them and to more prosperous areas" (Truman 1949).

As leaders of the newly independent nations—Sukarno (Indonesia), Nehru (India), Jinnah (Pakistan), and later Nkrumah (Ghana), Nyerere (Tanzania), Kenyatta (Kenya), and many others—moved from barracks and jail cells (and demanding freedom) to presidential and prime ministerial offices (and drafting national plans), they promised rapid modernization (economic growth, industrialization, infrastructure, durable goods, mass consumption) and national development more than poverty reduction. At the UN General Assembly in New York, with a membership mainly of industrialized countries, the Universal Declaration of Human Rights (UDHR) Article 25 might declare that "[e]veryone has the right to a standard of living adequate for the health and well-being of his family, including food, clothing, housing and medical care," but the leaders of new nations were rarely so unambitious or candid as to talk of the mere achievement of basic needs.[1]

While mass poverty was the norm across Asia and Africa (and much of Latin America, the Caribbean, and the Pacific) during their era of independence, reducing poverty was rarely an explicit analytical or policy focus in the 1950s and 1960s in the way that it became in the early 1970s and in the mid-1990s (Hulme 2010). Rather, the pursuit of economic growth, through the transfer of finance, technology, and institutions from the U.S./Europe or USSR, would transform economic and social conditions, including poverty. National leaders' speeches might reference ending poverty, ignorance, and disease, but not directly. Modernization and growth would ensure that poverty became a residual problem that could be dealt with by social policy or charity.

For all except a few East Asian countries, post-Second World War promises of modernization were not delivered. Across Asia and Africa, relative economic stagnation and mass poverty remained the norm (although some social advances were being made, especially in public health, life expectancy, and literacy). This led to two different responses. From the developing world came the analysis that "underdevelopment" (Fanon 1961; Rodney 1972) or the Economic Commission for Latin America (ECLA)'s structural obstacles (Prebisch 1984) were blocking economic and social progress. Africa, Asia, and Latin America (the periphery) were underdeveloped because of their relationships with the U.S. and Europe (the core), which meant that development required the reform of the core's exploitative relations of the periphery (Frank 1969) rather than limited financial, technological, or institutional transfers

from advanced nations. These radical ideas were prepared to shift to revolutionary if required, identifying their priority for action as tackling the root causes of poverty and underdevelopment, namely, the structures and relationships of post-colonial capitalism.

In the early 1970s, development thought in the major international agencies began to focus directly on poverty. The International Labour Organization (ILO) and other UN agencies proposed a "basic needs" approach to development that encouraged national governments and aid donors to prioritize policies, budgets, and actions that would ensure disadvantaged people achieved their basic needs. The exact nature of these basic needs was heatedly debated—food, potable water, clothing, shelter, and basic health care . . . probably education . . . perhaps law and order—but development was about governments directly meeting basic needs everywhere.

A few years later, in 1974, the World Bank shifted its focus to poverty. In his famous Nairobi speech, World Bank President Robert McNamara (1973) declared that a direct assault on poverty in rural areas was the priority and could be achieved by a greater focus on rural development through Integrated Rural Development Projects (IRDPs) rather than urban industrialization.[2] IRDPs focused on increasing rural incomes through infrastructural investment and agricultural development, with social dimensions—education, nutrition, women in development, and others—as related components. While "basic needs" and "rural development" both sought to reduce poverty directly, the former focused more on social protection while the latter focused on income generation and enterprise promotion.

Also from the World Bank but from a different perspective came Chenery, Ahluwalia, and Duloy's (1974) call for redistribution with growth. This advocated that poverty reduction would require tackling inequality directly, and the rich world would need to redistribute some of its wealth. This moved a little toward the underdevelopment framework, recognizing a need for structural change. Depending on one's reading of the motivations of World Bank research, this could be seen as arising pragmatically from the desperate conditions of mass poverty in developing countries or as a carefully constructed tactic to divert attention from the much more radical underdevelopment analyses coming from the Third World.

As it turned out, this emphasis on poverty analysis and direct poverty reduction within development thinking and practice was to prove only a brief interlude. By the late 1970s neo-liberal ideas were ascendant around the globe, and over the 1980s and 1990s the Washington Consensus (Williamson 1990) and its structural adjustment policies dominated the intellectual and policy agenda, arguing that economic growth was the key to development. This could be achieved if countries deregulated, privatized, and liberalized: as a side effect, poverty would automatically be reduced. Throughout the 1980s economic growth (through liberalization) became the dominant analytical focus in development thought, and this continued into the 1990s as Russia took the "shock medicine" that was presumed would solve all its economic and social challenges. Poverty, framed as the social consequence of structural adjustment, took a secondary position, serving mainly as a critique of neo-liberal thinking and policy. Below the surface of the neo-liberal versus anti-neo-liberal intellectual confrontation, however, alternative ways of understanding poverty were advancing, particularly in terms of human development and gender and development.

The year 1990 marked a tipping point in the evolution of ideas about development and how poverty was positioned within development thought. Against the backdrop of the end of the Cold War and growing doubts about structural adjustment, the World Bank's *World Development Report 1990* chose poverty as its theme, acknowledging the need for economic

reform to be accompanied by social policies. The report presented the first serious attempt to count the world's poor using a common measure. It introduced the dollar-a-day headcount measure of global poverty and estimated that around 1.1 billion people lived in extreme poverty. More significantly, UNDP (1990) published the first *Human Development Report*, promoting the idea of human development as an alternative to economic growth as a concept and goal. This facilitated the promotion of a broader understanding of what poverty reduction was about than previous measurements of income and consumption poverty had allowed, and made this alternative more accessible to a wider group of professionals and the media. It gave left-of-center scholars and social activists a relatively coherent framework from which to argue for policy change (although it gave them limited guidance for challenging macroeconomic policy orthodoxy).

In the same year, 1990, the World Summit for Children was held in New York, back to which the processes leading to the creation of the poverty-obsessed Millennium Development Goals (MDGs) can be traced (Hulme 2010). This summit achieved its goals of mobilizing political commitment and setting concrete targets to improve the prospects of the world's children. In addition, it re-established the notion that global summits—large meetings of national leaders—could motivate processes of change and lead to improvements in human welfare. Norm entrepreneurs (Fukuda-Parr and Hulme 2011) throughout the UN and civil society were on a roll in the early 1990s, and other major UN conferences followed: on Environment and Development (Rio de Janeiro in 1992), Human Rights (Vienna in 1993), and Population and Development (Cairo in 1994).

The peak year for UN summitry was 1995 with the World Summit on Social Development (WSSD) in Copenhagen and the UN Fourth World Conference on Women in Beijing. The Social Summit was crucial in pushing global poverty reduction onto the international agenda and stimulating an unprecedented conceptual, empirical, and policy focus on poverty. It was here that a global consensus (with 117 heads of state and government present) was first reached placing poverty reduction as the priority goal for development (UNDP 1997: 108). The WSSD approved the target of eradicating dollar-a-day poverty and reaffirmed declarations made at New York, Rio, and Cairo. Implicitly it drew on the idea of human development, viewing poverty as multi-dimensional. After Copenhagen, explaining how poverty would be tackled became a significant focus of international relations and development thought. Tackling global poverty moved onto the "international agenda" at the UN, G7, OECD, European Union, African Union, and other venues.

In the same year, the UN Women's Conference at Beijing—driven to a great degree by the women's movement—reaffirmed goals of gender equality and women's empowerment. Many delegates saw the time was ripe for ambitious, post-Cold War global strategies of empowerment and social transformation rather than the technical and target-focused approach of Copenhagen (Eyben 2006). However, the energy and drive of the Beijing conference were not matched by any impact on global policy making or development thought. Being the second conference that year proved disastrous: only two heads of state attended, giving it little political leverage in the international arena.

UN conferences continued in the latter half of the 1990s but many observers reported a "conference fatigue." The forum for shaping the global agenda on poverty reduction shifted from these vast and diverse UN jamborees to much smaller formalized meetings centered on Paris, attended mainly by men from industrialized countries working for aid agencies.

The debates and declarations of these global conferences and summits were impressive. They led to increased media coverage of the issues and raised public awareness about development and poverty. However, action after these events, with the exception of the Child Summit, was often relatively limited. The annual budgets and policies of developing countries did not systematically shift toward declared goals, and levels of official development assistance (ODA) continued to decline. This created unease among the donor club—the OECD's Development Assistance Committee (DAC)—leading them to produce a report in 1996 that listed seven International Development Goals (IDGs) in an attempt to generate public support for foreign aid. These goals brought together components from the declarations of recent Summits and Conferences, although the Copenhagen commitment to eradicating poverty (by an unspecified date) was converted into halving extreme poverty by 2015. IDGs achieved political traction in some OECD countries, such as the UK, but had little impact over powerful donors such as the United States and France, or the World Bank and IMF (Hulme 2010). In developing countries the poverty-focused IDGs had little or no resonance, coming from a document produced entirely by rich countries in which promises of "partnership" sounded like well-worn rhetoric. However, this list would make a comeback.

In 1998 the global poverty agenda continued to be reshaped in preparation for the UN's Millennium Assembly, held in New York in September 2000. The UN's new Secretary-General, Kofi Annan, was keen to make global poverty reduction central to the UN agenda. He identified four main themes for the Millennium Assembly. The second was "development, including poverty eradication," signifying the institutionalization of the shift in development thought that had emerged at Copenhagen. Development was no longer about economic growth and generalized improvements in welfare; rather, it was synonymous with targeted poverty eradication (or at least poverty reduction). Between 1998 and 2000, a complex set of formal and informal negotiations and releases of competing reports sought to specify exactly what poverty eradication/reduction was. The aid donors of the OECD pushed their conceptual and strategic preferences based on the original IDGs and supported by the World Bank and IMF. In parallel, the UN was producing a declaration for the Millennium Summit, a document that had to satisfy a larger constituency with very different interests: the 189 members of the UN General Assembly.

Over the summer of 2000 there were frantic negotiations about what should finally go into the *Millennium Declaration* regarding goals of development and poverty eradication.[3] With around 150 heads of government or state due to attend, and Annan seeking a mandate for UN reform, the Millennium Summit had to be a success. As the big day approached, a compromise was reached that included goals for rich countries (for aid, debt, trade, and policy reforms) and strengthened the goals related to gender equality and child and maternal mortality. These additions, deletions, and compromises worked. The *Millennium Declaration* was unanimously approved at the UN General Assembly on September 18, 2000, and what had once been "development" officially became "development and poverty eradication" (UN 2000).

The next formal stage of the process was for the Secretary-General to draw a "road map" showing how the world would achieve its global commitments to poverty reduction. Before the UN could develop a plan for implementing the *Millennium Declaration* it needed final agreement on what the exact goals and targets were. Negotiations over 2001 eventually led to the creation of a task force comprised of officials from the DAC (representing OECD), World Bank, IMF, and UNDP. This was the task force that finalized the Millennium Development

Goals (MDGs), bringing together concepts of human development and results-based management in an unlikely pairing (Hulme 2010). Notably, in conceptual terms, human rights are part of the preamble to the MDGs but no goals are set, and the only reference to inequality is in terms of reducing gender inequality at the national level. The international political economy of the millennium could accommodate gender, but any broader notion of equality, or of less inequality between countries, was unacceptable to those with material power.

While the MDGs, and recently the post-2015 development agenda, have remained important in official public discussions (which remain excessively influenced by the aid industry's interests), keeping global poverty genuinely on the international agenda since the Monterrey Summit of 2002 has been difficult. Other global priorities—terrorism, trade policy, economic growth, national security, energy security, the financial crisis—have proved more pressing, and national self-interest remains the dominant force in international negotiations, as evidenced by the lack of progress over climate change.

At the national level, within some (perhaps most) countries with large poor populations, thinking and policy have shifted away from poverty analysis (and prioritizing individual human development) toward national economic development. Low-income countries such as Bangladesh, Ghana, Uganda, Vietnam, and others have discontinued Poverty Reduction Strategies, returning to five-year national development plans that prioritize growth. Emerging economies, most obviously China and India, focus on maintaining growth as their top national goal. As discussed below, contemporary development thought can be seen as having moved to a synthesis position combining elements of structuralism with liberalism—so that growth, inequality, and poverty all have a major analytical role—or to an uneasy compromise in which liberals promote the analysis of market-based growth by demonstrating growth's (absolute) poverty-reducing effects, and structuralists seek to promote the analysis of inequality through more relativist and relational poverty analysis.

The Geography of Poverty

Over the years the geography of poverty (i.e. the areas where poverty is most concentrated) has changed and different ideas about how to understand this geography have been proposed. In the early development decades (after the Second World War), when poverty was not a major analytical focus, the underlying assumption was that poverty (then meaning low GDP per capita) was pervasive across the "developing world" or "Third World." It was assumed that poor people lived in poor (i.e. low-income) countries; the idea that poverty levels might be very different in countries with similar GDP per capita was often ignored. The Third World was a broad region stretching across Asia, Africa, Latin America, the Caribbean, and the Pacific, covering the majority of the world's population (excluding only North America, Western Europe, and Australia and New Zealand). Its boundaries were not precisely specified, however, and they became increasingly blurred as Japan and later the East Asian Tigers (Taiwan, South Korea, Singapore, and Hong Kong) rapidly achieved middle-income and later high-income status.

Although the idea of developing countries remained in play for many years (indeed, it is still used today), the meaning of this term became even more blurred as Malaysia, Thailand,

Mauritius, Turkey, Chile, the oil economies of the Middle East, and others achieved high growth rates. The increasing availability of reliable data on social indicators and the invention of measures such as the Human Development Index (HDI) permitted development analysts to focus more and more on the conditions of specific countries and to explore the ways in which progression to middle-income country (MIC) status was and was not associated with improvements in other dimensions of well-being. The oil exporting countries of the Middle East and others (such as South Africa) reached MIC status but their high levels of inequality meant that income and multidimensional poverty did not dramatically decrease, as development theory had earlier assumed.

After the end of the Cold War in 1989–90, with growing integration of the world economy, globalization became an important concept. Not surprisingly, the idea and measurement of "global poverty" came into currency and it proved an attractive idea for OECD aid donors, who increasingly had to justify aid budgets not in foreign policy terms but in terms of human need. Mapping the geography of poverty and justifying the allocation of aid to poorer parts of the world became an important part of discourse and policy for aid agencies.

Sub-Saharan Africa (SSA), often referred to as "Africa," was identified as the region facing the most severe challenges and where poverty was most widespread and deepest. This was not new—the Berg Report in 1981 had focused on SSA (Berg 1981)—but took on growing momentum after 1990. Africa was seen as special because of its low rates of economic growth, poor human development indicators, high levels of violent conflict, and the HIV/AIDS pandemic. During the UN conferences and summits of the 1990s running up to the Millennium Summit, declarations often highlighted Africa's special needs: while average world per capita income had risen by 40 percent in the last quarter of the twentieth century, average income per capita in Africa remained unchanged. Many countries, including Nigeria, South Africa, and Uganda, had in fact seen average incomes decline since the 1970s. Staggeringly, average per capita income in the Democratic Republic of the Congo (DRC, formerly Zaire) dropped from $730 in 1973 to $220 in 1998—extreme poverty had become a national norm.

Social indicators were also a cause for alarm in sub-Saharan Africa, with the HIV/AIDS pandemic reducing life expectancy in many countries and literacy, nutrition, and child and maternal mortality making little progress (Hulme 2010).The international media also constantly examined crises and conflicts in Africa, but rarely covered day-to-day life or African successes, bolstering public "Afro-pessimism." Against this background, the *Millennium Declaration*, approved unanimously by the UN's 189 member countries, included a chapter on "Meeting the Special Needs of Africa" (UN 2000: 7). The belief that the heartland of contemporary poverty is in Africa was reinforced by Paul Collier's (2007) influential book *The Bottom Billion*, which argued that 70 percent of the world's poorest people live in Africa and that the geography of global poverty is "Africa plus," meaning SSA and a set of other countries scattered around the world.

However, if one maps the data for Asia and disaggregates it for Indian states and Chinese provinces—which is not unreasonable given that most of these sub-national units have populations much bigger than those of the average African country—a more complex pattern emerges (Alkire 2010). A second poor continent can be identified: sub-Siberian Asia. This is an almost contiguous area that stretches across northern India and Nepal to Bangladesh, Burma, and Laos, takes in much of central and western China with Mongolia, includes Central Asia (Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan, and Tajikistan), and completes in Afghanistan and Pakistan (see Hulme 2010: 44 for a map). Economic indicators

of poverty (the $1.25-a-day headcount) and social indicators (illiteracy, maternal mortality, gender equality) for sub-Siberian Asia are much higher than to the north in Russia, the west (Iran and Turkey), the south (southern India and Sri Lanka), and the east (Thailand and coastal China). Research financed by NASA, using night-time lights as indicators of wealth, reaches similar conclusions: sub-Saharan Africa and sub-Siberian Asia are the two vast regions of the world where the populations are too poor to shine a light at night (Elvidge et al. 2009). While this can be argued to be the world's second poor continent, it must be recognized that with the exception of Afghanistan, the depth of income poverty in sub-Siberian Asia is not at the extreme levels of sub-Saharan Africa. What it suggests, however, is that the geography of the world's extreme poverty needs to be understood as "sub-Saharan Africa and sub-Siberian Asia plus some other countries."

Relatedly, Sumner (2010) has charted where poverty is concentrated in terms of country income status. He points out that while the assumption that most poor people lived in poor countries was earlier correct, this is no longer the case. With the graduation of China and India to middle-income status (and to a lesser degree Brazil, Indonesia, and other large population countries), the majority of the world's $1.25-a-day poor now live in middle-income countries. This has created a dilemma for donors who wish to target poverty reduction but whose citizens are reluctant to provide aid to countries with sizable wealth. That India can afford a space program, while the UK cannot, has made UK aid to India contentious, culminating in the UK's recent commitment to end financial assistance to India by 2015.

Synthesis or Uneasy Compromise?

If one rates the significance of an idea by how widely cited it is, then the last fifteen to twenty years have been a bumper time for poverty (Ravallion 2011). Since the demise of structural adjustment and the end of the Cold War, the concept of poverty has risen in prominence and has been very closely associated with development—indeed, leading agencies have at times seen these two as synonymous. Whether this will continue, and whether this has been advantageous or disadvantageous to poor people is unclear.

In his review of development theory, Harriss (this volume), citing Edwin Brett (2009), posits that we may have reached a new synthesis that recognizes "the practical failures of both structuralism and liberalism." This new synthesis moves away from grand theorizing to produce middle-range theory that sees that both states and markets have to work to improve human well-being. He identifies Brett's concept of "liberal institutional pluralism" as charting a theoretical way forward. One could argue that for poverty this is already the case, with analysts of both structuralist and liberal tendencies agreeing to the MDGs and the shift of the international financial institutions (IFIs) away from one-size-fits-all policy prescriptions to a greater focus on customized national poverty reduction strategies (PRSs) and institutional development.

However, whether this is a genuine synthesis or merely a temporary lull in the structuralism versus liberalism contestations remains to be seen. Both sides may agree that poverty reduction is a good thing, but there remains a yawning chasm between those who theorize that the cause of poverty is inequality (and to whom reducing national and international

inequality is the paramount issue) and those who theorize it is lack of growth (and to whom releasing the power of the market to increase growth is the top priority). In recent work, Rehman Sobhan (2010), a long-time structuralist, has attempted a Brett-type synthesis through a "conception of poverty as injustice," but neo-classical economists view his approach not as a synthesis but as structuralism in disguise.

The burgeoning number of consultations, debates, and meetings about the post-2015 development agenda are trying to shape the future of poverty in development thinking. Analysts of a structuralist tendency are concerned that with David Cameron as the OECD's representative on the three-person UN steering committee, the next set of goals will shift toward market-based growth, leaving human rights and reducing inequality to be mentioned as "principles" but omitted from the actual goals (as in 2000–01). Scholar-activists such as Richard Jolly and colleagues (2011) are arguing for a revised set of goals that place reducing inequality at their heart. These liberal versus structuralist debates will rumble on until the last minute when one can anticipate a new compromise on the goals of development—not a synthesis—between these two intellectual camps. The concept of poverty will be central to this compromise.

Notes

1. The two main exceptions were Gandhi and Nyerere, with their agrarian visions of development. They stood at odds to the visions of most other independence leaders in Asia and Africa.
2. Michael Lipton's (1977) influential book on "urban bias" supported the focus on rural poverty.
3. The focus here is on the "development and poverty eradication" goals and not the entire document.

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CHAPTER 6

INEQUALITY AND DEVELOPMENT: AN OVERVIEW

FRANCES STEWART AND EMMA SAMMAN

> Whichever way we look at it, we always return to the same conclusion: namely that the social pact establishes equality among the citizens in that they all pledge themselves under the same conditions and all enjoy the same rights.
>
> (Rousseau 1968 [first edition 1762]: 76)

> It is precisely because the force of circumstances tends continually to destroy equality that the force of legislation should always tend to its maintenance.
>
> (Rousseau 1968: 97)

Introduction

This chapter analyzes inequality—why it matters, how it is defined, how it has been changing, and how it might be reduced.[1] It considers inequality among people and among social groups, and the issues associated with each. While many countries have succeeded in raising their growth rates in the 2000s compared with the previous two decades, in the majority of cases this has been accompanied by rising income inequality—and inequalities among groups are a key source of unrest and conflict. The issue of inequality is consequently becoming increasingly central to development, because it has many deleterious effects on society and is intrinsically unjust. Moreover, without redistribution, the position of poor individuals and groups can only be improved by economic growth, which generally involves adverse environmental consequences.

Defining Inequality

Several issues have to be considered in defining inequality. Important aspects are:

- inequality among whom;
- inequality in what space or dimension; and
- inequality over what time.

Inequality among Whom

Inequality may be measured among individuals within a particular society, or in a region or in the world as a whole. Inequality among individuals (or households) is most commonly measured within a particular country, but there are some efforts to measure inequality among all citizens of the world. We shall term inequality among individuals (or households) *vertical inequality.*

Alternatively, inequality may be measured across groups of people within a society—for example, ethnic or religious groups, or people grouped by region, age, or gender. We shall term this type of inequality *horizontal inequality*. Inequality is also often measured among countries or groups of countries (like developed and developing countries), which is a type of horizontal inequality.

Each of these types of inequality is relevant in particular contexts. For example, to find out how a particular level of gross domestic product (GDP) per capita translates into poverty, vertical inequality measures are appropriate. Horizontal inequalities (within a nation) are relevant as a source of the type of injustice that can lead to societal conflict. And inequalities among nations are relevant to issues of global justice and global redistribution policies, such as aid flows.

Inequality in What Space

Although traditionally inequality is measured in income space, and this or inequality in consumption is still dominant in measures of vertical inequality, income has been widely criticized as an unsatisfactory indicator of welfare or development. Sen has been a leading critic (Sen 1977): he argues that development is about advancing freedoms or capabilities, defined as what people can do or be, and consequently that inequality should be assessed in the space of capabilities (Sen 1980; Sen 1999). This suggests a multidimensional concept. Inequality may then be measured independently in relation to each important capability (such as the ability to be well nourished or healthy), or in the resources needed to achieve each important capability (such as access to food or health services), or through a multidimensional index. Nonetheless, income distribution remains important in helping to determine access to various freedoms. But because the correlation between the distribution of income and that of various capabilities is not very strong, one cannot simply substitute one for the others (Samman et al. 2011).

Some capabilities seem to be of greater importance than others, either because they seem intrinsically important or because they are essential for the realization of other capabilities.

For example, living a long life represents an important capability in itself, and being alive is, of course, essential for all other capabilities. Consequently, it is essential to separate out the important dimensions, sometimes known as basic capabilities (Sen 1999; Nussbaum 2000), and to measure inequality in the distribution of each one, paying particular attention to the capabilities that affect other capabilities.

Inequality over What Time

Clearly, if inequality fluctuates a lot, then one needs to measure it over several years to get a true picture of the distribution of capabilities among individuals. The nature and extent of injustice and the societal consequences of inequality are very different if particular individuals move in and out of poverty or riches, that is, if there is social mobility. Panel data would be necessary (and desirable) to inform us about whether a stable overall distribution is indicative of stability in the placement of particular individuals. The limited evidence available indicates considerable movement among individuals in and out of income poverty: for example, one study showed that in the Central and Western Regions of Uganda, nearly a quarter of households moved out of poverty over a twenty-five-year period (Krishna 2005).

Horizontal inequality (notably between ethnic and racial groups, and between men and women) often (but not always) persists over decades and even centuries (Stewart and Langer 2008; Thorp and Paredes 2010). Tilly defined such "durable" inequality as *categorical inequality* and provided an explanation of why such inequality tends to persist in terms of opportunity, exploitation, and imitation—that is, a group that gets an initial advantage (opportunity) exploits and sustains this advantage in whatever way it can (e.g. by exclusion and discrimination), and this is widely imitated (Tilly 1998). In addition, an initial advantage can become cumulative (e.g. extra income enables better health and education in the next generation, which in turn leads to additional incomes). While this applies to individuals, among groups the forces of persistence tend to be greater as they lead to asymmetries of social capital (groups having more contacts with other members of the same group than with outsiders), and this is compounded by overt discrimination (Stewart and Langer 2008). Panel studies have shown that upward mobility among individuals is greater for people in more advantaged groups (Devine, Plunkett, and Wright 1992; Corcoran 1995).

It follows that inequality (and mobility) needs to be measured over different time periods to understand its full welfare implications.

Is High and Growing Inequality Undesirable?

There are many ways of approaching the complex question of whether inequality (both vertical and horizontal) is undesirable. Two sets of reasons can be distinguished: first, those which relate to the *intrinsic* merits or demerits of inequality; second, *instrumental* reasons, in which inequality is assessed for its consequences for other objectives. For both, the argument depends partly on the "among whom" question, since different considerations apply to

horizontal and vertical inequality; and partly on the dimension or space being considered, since both the intrinsic merits of equality and the instrumental consequences of equality or inequality vary according to the space.

Intrinsic Reasons

Philosophers have reached different conclusions about the intrinsic desirability of equality. One (humanist) approach is based on the premise that all humans share the right to be treated equally by virtue of being human (Kant 1949; Williams 1962). Kant interprets this as requiring "equality of respect," which does not necessarily mean equality of material wealth, but would rule out gross inequalities. Williams argues that shared humanity implies that "for every difference in the way men are treated, a reason should be given; . . . further that the reasons should be relevant, and that they should be socially operative" (Williams 1962: 123). Here, much depends on how one defines "relevant reasons."

A different approach starts from the premise of a social contract; Rousseau, as shown in the quotation that opens this chapter, concludes that the social contract implies equality as, he argues, people would not sign up to it if it involved inequality. Yet Rawls' (1971) conclusion is that a social contract agreed under a "veil of ignorance" leads to *maximin*—that is, inequality is justified so long as it means that the poorest person is better off than he/she would be with equality. This then justifies some inequality where it is instrumentally helpful in improving the position of the poorest.

The fundamental principle behind human rights approaches to development is the Kantian idea that every person is morally equal and therefore entitled to certain basic rights. A human rights approach implies universality in access to certain basic aspects of life (for example, adequate nutrition, housing, water, and education) and consequently limits inequality in these dimensions. An important difference between the "humanists" and the social contractarians is that the arguments of the former apply to the *whole* of humanity, irrespective of where people reside, while the social contract is argued to apply only to people who share a government, that is, *not* across nations (Nussbaum 2004; Nagel 2005).

A very different approach is taken by libertarians, who argue that inequality is justified so long as the wealth was acquired legitimately (Locke 1773; Nozick 1974). Nozick argues that just outcomes are those that result from *legitimate* acquisition and transfer of goods and services. Since, according to Nozick, legitimate transfer includes bequests, any initial inequality, which may emerge even from an equal starting point, can lead to substantial and rising inequality over time—which is just, according to his theory. However, a major exception to this unconstrained situation arises from the principle of rectification, which justifies redistribution if resources are not obtained legitimately. As Nozick accepts, "some people steal from others, or defraud them, or enslave them" (Nozick 1974: 152). The principle of rectification would apply to horizontal inequality in particular, including much North–South inequality, since the majority of group inequalities have their origins in historic injustices, such as colonialism, conquest, slavery, and discrimination.[2]

Economists' views of inequality have evolved historically, starting from an intrinsic perspective, but moving to an instrumental one. According to utilitarians, the optimum degree of inequality is that which maximizes utility. Pigou argued that this led to a highly egalitarian conclusion, assuming that a person's marginal utility would diminish as he/she acquired

more of it (Pigou 1952); but this assumption was famously disputed by Robbins (1938, 1945), whose assertion that one cannot compare the utility gained by different individuals became the dominant view among economists.[3] Consequently, economists have tended to shy away from making judgments about the desirable degree of inequality except from an instrumental perspective.

However, in recent years, "happiness" economists, in line with utilitarians, have argued that the overriding objective should be maximization of the sum total of happiness. Measures of how much happiness people at different income levels derive from that income mainly seem to support the Pigou hypothesis that poorer people get more satisfaction/happiness from additional income than richer people (Krueger et al. 2006; Sacks, Stevenson, and Wolfers 2010). However, this has yet to inform economists' views broadly.

Instrumental Reasons

Nonetheless, without making judgments about the intrinsic justice of a particular distribution, economists have accepted that instrumental reasons are relevant to determining the desirable extent of inequality. The prime justification for a particular income distribution rests on the effects on efficiency, with the desirable distribution being that which would maximize output. A certain amount of vertical inequality may be needed to encourage people to work hard, use their talents, and direct their energies in a way that exploits their comparative advantage and maximizes societal output.[4] But there is also an efficiency case *against* too much inequality, since it can reduce societal human capital (as poorer people are likely to be less well nourished and educated) and can also reduce the size of domestic markets, leading to under-consumption and unemployment, though there are ways of compensating for this. Thus there are instrumental efficiency arguments both for and against vertical inequality, and the power of these reasons depends on empirical relationships.

A number of studies have found that higher inequality leads to less growth, although this has been questioned.[5] Considerable evidence links a less equal income distribution to poorer outcomes in education (Mayer 2000) and health (Hildebrand and Van Kerm 2009; Kondo et al. 2009), which in turn reduce growth (Birdsall and Sabot 1994; Ranis, Stewart, and Ramirez 2000). It has also been argued to affect growth adversely through its impact on political populism and political instability. Moreover, for any given level of per capita income, vertical income inequality increases poverty.[6] Research also consistently shows that it increases intentional homicides and robbery (Fajnzylber, Lederman, and Loayza 2002). Empirical evidence on the links between inequality and measures of happiness at the country level are more mixed, with studies pointing in both directions,[7] but suggesting that perceptions of fairness and mobility appear to be crucial (Alesina, Di Tella, and MacCulloch 2004; Bjornskov et al. 2009; Oishi, Kesebir, and Diener 2011), that reference groups matter (Luttmer 2004; Eggers, Gaddy, and Graham 2006), and that even within countries, interpretations of inequality can shift over time.[8]

One plausible conclusion from economists' instrumentalism is that the objective should not be *equality of outcomes* but *equality of opportunities*, since efficiency should, in principle, be maximized if everyone faces the same opportunities (Roemer 1998). Genuine equality of opportunities, defined as equality in all dimensions over which the individual has no control (which includes all inherited inequalities, including those due to social background, etc.) is

likely to rule out much horizontal inequality, since differences in group outcomes are generally the result of historic or current discrimination. While inequality among individuals may be due to differences in efforts and talents, these should even out between groups consisting of large numbers of individuals, since a similar dispersion of effort and talents can be expected within each group, unless historic or current disadvantages have led to differences—that is, unless there is an absence of genuine equality of opportunity. However, in the short run this type of equality of opportunity—which goes beyond eliminating current discrimination—may not be output maximizing.

The bulk of empirical evidence on horizontal inequality has focused on conflict. This research generally finds a positive relationship (Gurr 1970; Stewart 2000; Mancini 2008), particularly where there are both economic and political inequalities simultaneously and in the same direction (Østby 2008; Stewart 2008; Cederman, Weidmann, and Gleditsch 2011). There is also evidence that horizontal inequalities are associated with other forms of group violence, including milder types such as riots (Blau and Blau 1982) and horrendous forms like genocide (Fein 1993; Harff 2003; Stewart 2011). In addition, some work links gender inequality to domestic violence (Bailey and Peterson 1995; Yodanis 2004).

Measuring Inequality

In order to ascertain prevailing levels of inequality and changes over time, there is a need to have an effective means of displaying distributions and of comparing them to one another—ideally through a summary index. Deriving such an index is complex, as it involves comparing the incomes (or other attributes) of all individuals within a society and incorporates an implicit or explicit sensitivity to transfers among them. Further complexities arise when incorporating group affiliation into measurement and when considering inequality along multiple dimensions.

Vertical Inequality

Measures of vertical inequality seek to represent how income or another attribute (we refer here to income for simplicity) is distributed among individuals or households in a population. The simplest measures are ratios of the amount of a given good in the top versus the bottom of the population (e.g. the top quintile versus the bottom quintile). More sophisticated measures consider the whole of a distribution—most simply represented by ranking the members of a society from poorest to richest and then plotting their cumulative share in the population against their cumulative income, as in the well-known Lorenz curve (Lorenz 1905). To summarize distributions, researchers have devised measures either because they fulfill certain desirable properties or axioms which establish their robustness, or for more "ad hoc" reasons such as mathematical or graphical appeal (Lugo 2007).

Some basic properties which it is generally agreed that inequality measures should fulfill are anonymity or symmetry, population size and scale, independence, and transfer sensitivity (Shorrocks 1980, 1984; Cowell 2008).[9] The first three imply that inequality measurement should be invariant to any other characteristic of individuals (including population size) but

their incomes, or to any uniform, proportional changes in income. The property of transfer sensitivity (Pigou–Dalton "principle of transfers") makes the important claim that any transfer from a poorer to a richer member of society must increase inequality. To these four properties is sometimes added that of *decomposability*: the measure of inequality for a population as a whole should be the (weighted) sum of inequality among its constituent parts. In other words, it should be possible to look at inequality overall and to divide it up by any subgroup characteristic, for example men and women.

The most popular measures of inequality are the Gini coefficient, general entropy measures (Theil 1967), and Atkinson class of indices (Atkinson 1970), all of which obey the first four properties just enumerated. But each measure has some distinct features—a key issue is their sensitivity to transfers that take place in different parts of the distribution.

The Gini coefficient is the most widely applied because it is intuitive and straightforward to compute. It is most sensitive to transfers occurring in the middle of the distribution. The family of general entropy measures derives from information theory, and represents the entropic "distance" of a population from full equality. The three general entropy measures—of which the Theil index is the best known—are not only decomposable, but also vary in terms of the weight they place on different parts of the distribution. Finally, the Atkinson class of measures explicitly considers the welfare loss associated with inequality according to a normative "inequality aversion" parameter, higher values of which are more sensitive to changes at the lower part of the distribution.

Because all these measures have differing sensitivity to performance at different parts of their distributions, they may rank the same distributions in different ways; for this reason, researchers have devised alternative approaches to rank distributions (Litchfield 1999). In particular, stochastic dominance techniques apply certain preferences to generate partial if not complete orderings: for example, one distribution may be said to "Lorenz dominate" another if every point on its curve lies above that of a second curve.

Horizontal Inequality

Many issues involved in measuring vertical inequality apply equally to measuring horizontal inequality. But here some additional problems arise. One is that groups differ in size, making it necessary to decide whether to weight any inequality by group size. Another is that there is generally inequality within each group, raising the question of whether to compare the distributions of each group with every other group as a whole, or simply take the mean—which is what is typically done. Yet it is desirable to take into account the distribution as a whole, as the political, economic, and policy implications differ according to how the whole distributions compare. The "mean of means" approach (Foster, Lopez-Calva, and Székely 2003)—simply the mean of mean levels of different subcategories within each group—is one way of doing so (see Mancini, Stewart, and Brown 2008; Stewart, Brown, and Mancini 2010). One common approach to measuring group inequality is to decompose overall inequality in a society into inequality between groups (BG) and within groups (WG), and to take the ratio of BG/WG as the measure of group inequality (Kanbur and Zhang 1999). But this makes the value of the between-group (or horizontal inequality) element dependent on how much within-group inequality there is, with the value of BG (and of the ratio BG/WG) falling as WG

rises. Yet for most purposes, what researchers and policy-makers need to know is the actual extent of inequality between groups, and not its relationship to within-group or total inequality.

Multidimensionality Issues

The measurement of inequality in multiple dimensions of well-being is vital to incorporate a fuller range of outcomes, yet this poses additional issues. A key issue is the ordinal and bounded nature of many indicators of interest, in contrast to income which is continuous and unbounded. Researchers have approached the issue of ordinality by devising median-based measures (see Allison and Foster 2004), and by transforming ordinal data into cardinal indicators so that standard indices can be applied (see van Doorslaer and Jones 2003). However, the resulting rankings display considerable sensitivity to which of, and how, these two approaches are applied (Madden 2010).

Challenges arise, too, in establishing dominance along multiple aspects of well-being (Kolm 1977; Atkinson and Bourguignon 1982) as well as the need to weight dimensions relative to one another and to consider the extent to which inequality in different dimensions is substitutable (Lugo 2007). Here too, an axiomatic approach to measurement is often taken (see Tsui 1999), but a key difference relates to how to establish transfer sensitivity along multiple dimensions (Kolm 1977; Tsui 1999). Given these complexities, which make the interpretation of any single multidimensional measure difficult, there is much to be said for presenting measures of inequality of important dimensions separately.

Inequality and Development: Historical Trends

A key issue is whether inequality changes systematically as countries develop, as suggested by Kuznets (1955). Data limits are severe for the investigation of this relationship, even where income is concerned; even so, there have been some efforts to bring non-income dimensions into the picture and these quite often significantly change our view of the extent and evolution of inequality.

Does the Kuznets Curve Exist, and What Explains it?

In a seminal paper published in 1955, Simon Kuznets proposed that in the course of development, income inequality would first rise owing to a shift from the agriculture to non-agriculture and the countryside to city, and then fall, as the returns across sectors equalized—“the range first tends to widen and then to diminish” (Kuznets 1955: 15). Kuznets cautioned that this conjecture was “perhaps five percent empirical information and ninety-five percent speculation” (Kuznets 1955: 26). Since then a large body of scholarship has investigated whether this relationship holds, and has derived policy conclusions accordingly. Early study drew by necessity on cross-country data and compared the experiences of

countries at different levels of development (Adelman and Morris 1973; Ahluwalia 1976). These studies found support for a Kuznets relationship, but later studies argued that "the use of cross-country data to analyze what are essentially dynamic processes can be strongly misleading" (World Bank 2006: 44), while empirically, the findings turned out to be very sensitive to the economic specification, sample size, and time period adopted (Anand and Kanbur 1993; Fields 2001). Advances in data collection over time have made it possible to look at trends within countries—studies here gave little support to the Kuznets hypothesis (e.g. Bruno, Ravallion, and Squire 1998). The absence of a clear structural relationship is argued to point to the importance of policy in shaping distributions (Kanbur 2011).

What Trends do the Data Suggest?

Nonetheless, at a country level, there is a general—though not universal—finding that inequality has been increasing, on average, in past decades, but with evidence of regional variation. Cornia and Kiiski (2001) found that the Gini coefficient rose in two-thirds of seventy-three countries they examined between 1980 and 2000. Ortiz and Cummins (2011), drawing on data for 141 countries over the past two decades, show that inequality increased most in Eastern Europe/former Soviet Union and Asia, that it declined significantly in Latin America after 2000, and that while sub-Saharan Africa remains highly unequal, its Gini index appeared to have fallen by almost five points, on average, since 1990. The fall in inequality in Latin America has attracted widespread attention: it has been so marked that inequality is now approaching pre-liberalization levels (Lustig, López-Calva, and Ortiz-Juarez 2011; Cornia 2012).

Limited information on the distribution of health and education over the past fifteen to twenty years suggests considerable reductions in inequality along both dimensions in six Latin American countries (Sahn and Younger 2006; Cruces, Domench, and Gasparini 2011) and little progress on health but some on education in twenty-three sub-Saharan African countries (Sahn and Younger 2007).

The question of inequality within countries is of deep interest not least because it has strong implications for national policy. However, the evolution of inequality between countries and among global citizens has also attracted attention, especially since prevailing inequalities are so much larger. Between countries, patterns of inequality would seem to hinge on whether the focus is on income or on other dimensions, with the evidence suggesting some convergence in health or education but not income (UNDP 2010). However, if data are weighted by population size, the rapid growth of India and particularly China has brought about some modest convergence for incomes, starting perhaps around 1960 (Boltho and Toniolo 1999; Melchior, Telle, and Wiig 2000; and Firebaugh 2003).[10]

The vertical global income distribution (i.e. among the global population) again shows deep-seated inequality: the top quintile of the global population enjoys more than 70 percent of global income, and the bottom quintile just 2 percent (Ortiz and Cummins 2011). However, there is little consensus on the direction of shifts in global inequality in the last two to three decades (Anand and Segal 2008).

Finally, trends in horizontal inequality are harder to trace at an aggregate level because while there are some common markers of disadvantage (namely caste, race, ethnicity, language, religion, gender . . .), the specific groups that are disadvantaged and the nature

of the disadvantage they face vary significantly from country to country. One analysis of "intersecting inequalities" at a regional level with respect to the Millennium Development Goals cited a narrowing of disparities for some groups and deprivations, and the persistence or widening of others. But it found that "in almost every society and in almost every region of the world, certain groups of people face systematic social exclusion as the result of multiple inequalities that constrict their life chances" (Kabeer 2010: 1).

Policies toward Inequality

Given the widespread acknowledgment that high and rising inequality is undesirable, systematic policies to reduce inequality are needed. Below we provide a brief outline of policies likely to reduce inequality, first for vertical, then for horizontal inequality.

Vertical Inequality

These may broadly be divided into policies likely to affect primary (pre-tax and benefits) distribution and those directed toward post-tax and expenditure distribution.

Asset redistribution is in the first category, and land reform is the most frequently advocated and adopted form. Historically, redistributive land reform has played an important part in improving primary redistribution, including in South Korea, Taiwan, and a number of Latin American countries (El Ghonemy 1990; Lipton 2009). Nationalization of major industries reduced inequalities in asset ownership in a number of countries in the 1960s, while privatization contributed to increasing inequality from the 1980s. Without nationalizing assets, specific schemes aimed at wealth sharing from natural assets can improve the distribution of benefits from these resources. For example, the Alaskan Permanent Fund (APF) was established to ensure that the population at large would benefit from the discovery of oil and natural gas. A 1976 amendment to the constitution of the State of Alaska specified that "at least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue-sharing payments and bonuses received by the state shall be placed in a permanent fund."[11]

Income distribution from earnings. Improving the distribution of labor earnings can be achieved by extending access to education at all levels; supporting rapid growth combined with labor-intensive patterns of development; and introducing minimum wages for unskilled employment. Extending education and raising minimum wages are believed to have contributed to the recent improvements in income distribution in some Latin American countries, in addition to cash transfers (Cornia and Martorano 2011). In contrast, the improved distribution achieved in some East Asian countries in the 1960s and 1970s was attributed to a combination of land reform and labor-intensive growth. Maximum incomes, in principle, could restrict the earned income of the rich. While this approach has never been adopted, the idea of putting pressure on companies to restrain payments to highest-earning employees is gaining ground. Atkinson (2000) has pointed out that incomes at the top are partly determined by convention and norms, and these have been moving in an inegalitarian direction.

Policies towards secondary distribution (post-tax and benefits). Progressive taxation can improve the distribution of both assets (through estate duties and capital taxes) and income. However, in recent decades there has been a tendency to move in a regressive direction, with lower marginal income tax rates, an increasing role for indirect taxation, and uniform rates of indirect taxation on all goods (via a value-added tax). In principle, there are ways of making both direct and indirect taxation more progressive. For many countries, evidence suggests that taxation is broadly proportionate with incomes (i.e. does not change the distribution) but that expenditure is mostly progressive, benefiting the poorer sections of the population more (in proportion to their original incomes) than the rich. Consequently, increasing both taxation and expenditure as a proportion of GDP reduces secondary inequality (Chu, Davoodi, and Gupta 2000; Cornia 2004). Public expenditure itself can be made more or less progressive according to the sectoral distribution, with social services generally benefitting poorer people more than others; and according to the distribution within sectors, with some sorts of expenditure being more progressive than others (for example, primary health as compared with hospitals) (van de Walle and Nead 1995; Chu, Davoodi, and Gupta 2000). A range of benefits in kind or cash can also be targeted to poorer sections of the population. These include conditional and unconditional cash transfers, which can materially affect the secondary distribution (Barrientos and Hulme 2008). For example, conditional cash transfers in Brazil, Mexico, and Chile have reduced inequality by 15–21 percent at a cost of less than 1 percent of GDP (Soares et al. 2007).

Globalization tends to constrain progressive taxation, since companies and individuals may move to other countries to escape such taxation. This tendency could be overcome by global (and regional) coordination on tax rates, or by changes in the basis of taxation (for example, by taxing individuals in their country of citizenship irrespective of where they live or where their incomes are earned).

Horizontal Inequality

Here we can differentiate between direct and indirect policies. The former target particular groups (though quotas, etc.), while the latter aim to achieve a similar inequality-reducing effect through general policies, such as taxation (Stewart 2008). The first type of policies are often described as affirmative action, and have been adopted quite extensively in multi-ethnic societies (Simms 1995; Brown, Langer, and Stewart 2012). They can be effective in reducing inequalities, but have some undesirable effects in entrenching identity distinctions. Indirect policies are much the same as the policies noted for vertical distribution, although they include geographic targeting of expenditure in countries where groups are geographically concentrated. Like the policies toward vertical distribution, they tend to take more time than direct policies and to meet political resistance.

Political Economy of Policy Making

Despite the accepted view that reducing inequality is generally desirable, by and large policy change in this direction has been limited. This, broadly, is not because of lack of knowledge about policies that would be effective, if adopted, but because of political constraints. Indeed, many policies being adopted are likely to increase inequality, such as the reduction of

marginal rates of income tax, cutbacks in public expenditure, privatization of public services, and land entitlement schemes, while the unregulated market economy appears to be unequalizing. At the international level too, a lack of support for tackling inequalities is also apparent. Ultimately, the question of reducing inequality comes down to politics. Where there is strong political support for progressive policies—for example, as a result of social movements, workers' and peasants' associations, or powerful ethnic or religious groups—in the case of horizontal inequality, policies to correct inequalities have been adopted. But where poorer groups are badly organized, political parties are weak, and non-ideological and corporate pressure groups are strong, progressive policy change is unlikely. However, in those societies which have succeeded in achieving full or near full employment, the relative bargaining and market position of poorer members of society is improved, and policy change to reduce inequality becomes much more feasible. This occurred in Europe after the Second World War, and in several developing countries in recent decades, including Taiwan and South Korea. Currently, China is approaching this situation. Thus a combination of organization of poorer groups and rapid employment growth appears to be most propitious for reducing inequality.

Conclusion

Scholarly interest in inequality has grown over time. In the years immediately following the Second World War, the focus was on growth, which was thought to be both necessary and sufficient to eliminate poverty. Yet the supposed "trickle down" from growth was grossly inadequate, and the number of poor people grew. Consequently, in the 1970s development economists and policy-makers began to focus on poverty, and their concern grew with the prolonged deflation of the 1980s. It is only recently that inequality has been widely recognized as important in itself and for its effects on poverty and social stability. Vertical inequality came to the fore with the rising inequality that appeared to accompany the increased pace of globalization, while horizontal inequality was recognized as a major factor behind the high numbers of civil wars and other social disturbances. While inequality has therefore gained a central role in analysis and measurement, less progress has been made in identifying equalizing policies, and even less in gaining political support for them.

Notes

1. We are grateful to the authors that participated in the Ottawa workshop towards this volume.
2. Similarly, the concept of fair difference suggests that some present-day inequalities ought to be supported to redress long-standing inequalities—for instance, in the case of indigenous peoples.
3. "In our hearts we do not regard different men's satisfactions from similar means as equally valuable" (Robbins 1938: 635–41; 1945: 156–7).
4. Galenson and Leibenstein (1955) argued that greater inequality would raise savings and thereby growth.

5. Adelman and Morris (1973), Alesina and Perotti (1994), Alesina and Rodrik (1994), Bénabou (1996), Panizza (1999). Inequality may affect other characteristics of growth, reducing the duration of growth spells (Berg and Ostry 2011). For opposing findings, see Li and Zou (1998), Forbes (2000).
6. See Datt and Ravallion (1992, 1998); Kalwij and Verschoor (2007); Fosu (2009).
7. For the argument that inequality has either no effect or modest positive effects on happiness, see Bjornskov et al. (2009), Berg and Veenhoven (2010). For the counterargument, see Graham and Felton (2006), Knight and Gunatilaka (2011).
8. In Poland, Grosfeld and Senik (2010) show that in the early stages of transition, people interpreted income inequality as a positive symbol of opportunity, while later on it came to be associated with dissatisfaction with the country's economic situation, and perceptions of a flawed and corrupt income-generating process.
9. Shorrocks (1980) also argued for two technical properties of indicators: that measures should have a norm of zero, and that they be continuous in nature. This raises issues for the measurement of inequality in other dimensions, as we discuss below.
10. Also, because the Gini emphasizes changes around the middle of the distribution, it emphasizes the current experiences of China, a middle-income country (Wade 2001).
11. <http://www.apfc.org/home/Content/aboutAPFC/constAndLaw.cfm>, accessed July 5, 2013.

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CHAPTER 7

WOMEN'S ECONOMIC ROLES AND THE DEVELOPMENT PARADIGM

IRENE TINKER AND ELAINE ZUCKERMAN

Introduction

Women were invisible in early economic development theory. First, the world view prevailing in Europe and the United States in the post-Second World War era, which assumed women did not work, was incorrectly perceived as universal. Second, the economic constructs based on this assumption proposed the household as an economic unit whose members were well served by its patriarch. Finally, this lack of cultural variability could be traced to some extent to inaccurate information about women's economic roles and gender relationships in developing countries.

Development theorists took as given this view of gender, and utilized it in designing the stages of growth that would lead to modernization. Liberal economists wished to counter Marxism with an alternative inevitable path, but they tended to dismiss the importance of women in both the economic and caring economies. Marxist theory does recognize women's importance in reproducing the labor force as well as their work, yet provisions for assisting women in their caring functions were seldom adequate in socialist countries. Both these economic constructs lacked an understanding of women's reality, especially in developing countries.

The social construction of gender reflected in development theory was increasingly challenged by women in both developed and developing countries. Scholars documented the work that women did and concluded that many development programs were having an adverse impact on women. As the women's movement grew, women demanded greater emphasis on their rights. Rapid socio-economic transitions altered family structure and drew greater attention to gender relationships. Gender-sensitive programs and policies further changed development programs. Activists today are working to ensure that rhetoric is matched by expenditures and by greater political power and representation for women.

This chapter traces the evolution of the development paradigm in response to the recognition of women's economic roles. It charts the shifts in thinking and in action, and relates them to developments in scholarly research, to activism in developing and developed countries, and to global fora that helped change the paradigm.

Alternative Voices

The rhetoric of democracy and equality espoused during the Second World War resonated in both former colonies and in industrial countries. Constitutions of newly independent countries granted women's suffrage. China passed the 1950 Marriage Act to counter traditional practices (Zuckerman 2000). Independence movements brought women to the forefront of struggle, especially when the male leaders were jailed. Many women were given high-level positions at home and in the United Nations in the newly independent countries (Tinker 2004b). International women's organizations participated in the Economic and Social Council and lobbied the UN to include social issues in the UN First Development Decade 1960–70, which focused on infrastructure and industrial projects. In 1964, Sweden became the first Western country to alter its development policies explicitly to include women; the USSR had initiated a few such projects earlier in the decade. Activists spurred the U.S. Congress to amend the Foreign Assistance Act of 1973 and require the U.S. Agency for International Development to administer its programs with a view "to integrate women in national economies of foreign countries, thus improving their status and assisting the total development effort." A similar resolution was passed by the UN General Assembly in December 1974 (Tinker 1990).

In her book *Woman's Role in Economic Development*, Ester Boserup studied the introduction of cash crops into subsistence economics in Africa. Not only did policies that privileged cash crops result in increasing women's work in the fields, but income from these crops—which flowed exclusively to the men—allowed men to seek higher-paying jobs in urban areas with no obligation to support their rural families (Boserup 1970). In this manner, development programs frequently had an adverse impact on women's work and also contributed to the disintegration of the family, which led to increasing poverty among women-headed households (Tinker 1976a, 1976b; Buvinic and Youssef 1978; Chant 1997). Barrig (2006) recorded the conflict between Northern donors and local NGOs in her study of indigenous women of the Andes. Ghodsee (2003) links the limited success of "Women in Development" (WID) projects in post-communist Europe to their situation within free-market capitalism rather than a more socialistic welfare state closer to the Scandinavian model.

Research about women's work in subsistence economies recorded the many hours women actually worked carrying out such survival activities as growing, harvesting, processing and preparing food, as well as carrying water and fuelwood. These time-allocation studies clearly show that women worked more hours than men; further, while men had some leisure time, women did not. They carried babies on their backs as they worked; girls assisted their mothers as soon as they could walk. Many assistance projects failed because they ignored the fact that the real rural energy crisis was women's time.[1] Time-allocation studies also distinguished between societies that utilized bride price and those that practiced

the dowry system. In female agricultural systems, women's work is highly valued and requires a payment to the bride's family to compensate for losing her labor. Where male farming systems predominate, women are a burden on the family and must pay a dowry to the husband.

Still, development agencies continued to conceive of programs that ignored cultural variations, political considerations, and women's work demands (and undervalued women's work). Even within a country, similar projects often had opposing consequences on different groups of women. Buvinic (1986) complained that projects often "misbehave" because elite women benefitted more that the poor. Boserup (1990) noted how age–class–race hierarchies modify women's roles in different types of societies. Papanek and Sen both emphasized how women's lower entitlements, both within families and within society, affect the efficacy of development programs (Papanek 1990; Sen 1990).

The 1974 UN World Conference on Population brought together scholars who had been studying population trends with activists trying to implement family planning. This population conference, along with the Conference on the Human Environment held in Stockholm in 1972, began a series of official UN world conferences dealing with emerging issues addressed in the original UN Charter. Participants in these conferences included national delegations and representatives of non-governmental organizations (NGOs) in consultative status to the UN. In addition, all arranged a Forum where a wide range of groups interested in the topic could debate. Women learned to lobby delegates at the UN meeting to include women in pertinent sections of the conference document. For example, at the World Food Conference held in Rome in 1974, women staff of the UN's Food and Agriculture Organization (FAO) ensured that women's roles in food production were recognized (Pietila and Vickers 1990: 82–3).

The 1975 World Conference of the International Women's Year (IWY) provided the first opportunity for a discussion about the impact of development on women. Irene Tinker organized an international seminar of women and men scholars, practitioners, and activists concerned with development which preceded the official conference. Most participants became advisors to their country's delegations; others organized panels at the NGO Tribune, as the Forum was called. As a result, many recommendations from the workshops were incorporated into the Plan of Action.[2] Delegates argued that one conference was insufficient to address women's inequalities; a decade for women was declared, with conferences in 1980 and 1985 (Allan, Galey, and Persinger 1995). The International Women's Tribune Center was established in New York City, and published a newsletter so that activists could keep in touch; the Center also compiled resource books for women's groups in developing countries (Walker 2004). The IWY conference proved to be an incubator for a global women's movement (Antrobus 2004).

As with subsequent women's conferences, political maneuvering by countries concerning issues outside the purview of the conference frequently conflicted with the conference participants' desire to focus on topics more closely related to women's concerns. While some women were convinced that governments used women's conferences as a proxy for global debates because women lacked the political muscle to contest, others welcomed such debates as an indication that women as citizens needed to be part of such discussions (Jaquette 1995; Snyder 1995; Tinker and Jaquette 1987).

The growing disconnect between Northern feminists, especially Americans like Betty Friedan, and women from the South was highlighted at the Mexico City NGO Tribune and caused by the American feminists' assumption of the universality of women's issues. Lucille

Mair, as secretary-general of the 1980 Copenhagen Conference, funded a series of research papers written by women from the South to balance the dominance of documentation by Northern scholars. Increasingly, the WID approach of integrating women into development was met with the question: into what? Mair argued in "Women: A Decade is Time Enough" (1986) that such integration, far from benefitting women, was actually making them work harder. Elise Boulding cautioned that integration into the present world order only increased women's dependency. She opted for a "strategic separatism that frees up the potentials of women for economic and social experiments on a small scale, outside the patriarchal social order" (1991: 23). Socialist feminists criticized the capitalist project, echoing many of the complaints made by WID advocates about the values and biases in liberal development thought. The women's social movement became a transnational network of diverse groups and interests encompassing class, religious, and geographic variations (Moghadam 1994, 2005).

In 1983, Devaki Jain presented a paper at the OECD/DAC WID group: "Development As If Women Mattered: Can Women Build a New Paradigm?" This concern blossomed into a series of meetings among women scholars from the South who drafted the influential *Development Alternatives with Women for a New Era: Development, Crisis, and Alternative Visions: Third World Women's Perspective.* This book was unveiled at the Nairobi Women's Conference in 1985 (Sen and Grown 1985). Project participants formed a new global organization, DAWN, to continue the presence of women of the South in the development debate (Jain 2004).

As the women's movement expanded, women's organizations began to hold world conferences themselves. A 1974 feminist meeting in Frankfurt, Germany, demanded increased surveillance over international prostitution rings and called for a ban on female circumcision. Aware of the "male-dominated transnational-controlled press," *Women's International Bulletin* was started by Isis, a documentation center based in Geneva and Rome, to enable women from North and South to exchange grassroots experiences (Portugal 2004: 105). Today, Isis operates out of Santiago, Chile; Kampala, Uganda; and Manila, the Philippines.

A World Congress for International Women's Year, convened in East Berlin in October 1975, was a hybrid conference. Organized by the Women's International Democratic Federation (WIDF) to celebrate that group's 30th anniversary, the meeting was planned with the support of the United Nations and attended by then UN Secretary-General Kurt Waldheim, who thanked the WIDF for first suggesting the idea of celebrating IWY. Participants included many Asian and African women and men who had attended workshops in the socialist countries that promoted integrating women into revolutionary causes, as opposed to the WID model designed to incorporate women into a capitalist model (Ghodsee 2012).

All this activity of women around the world underscored the critical role women were playing in developing countries while at the same time challenging the WID model.

Shifts in Development Agencies: Women, Work, and Income

Advocates for women in development emphasized programs that recognized women's economic roles. Previous programming for women was concentrated on their role as mothers, and was supported by well-funded population programs. To avoid the welfare approach to

women, WID encouraged separate offices, or "machinery" in UN parlance, to design new ways to fund, monitor, and carry out programs that would integrate women into the economy of the country. They argued such projects would be both more effective and more efficient if women were included. This was a tactical decision, given agency administrators' somewhat chilly attitude toward women's rights.

Activists, both within and outside agencies, criticized the development policies and programs being pursued. For example, agricultural projects promoted cash crops; research showed clearly that introducing these crops increased women's work. Further, cultural blindness often led to teaching African women to can foods or set a table while teaching men to farm. In both Asia and Africa, women farmers were taught to sew in countries where men were the tailors. Cooperatives were introduced to replace marketing boards under the assumption that producers and land owners were the same. For three years, Kenya's coffee production fell after women no longer received payment for their crop: the funds went instead to the men, who were usually in the city. Efforts to provide new improved cookstoves were mired in cultural assumptions about fuel types, efficiencies at the micro level, and women's time constraints. As a result, few rural women adopted these cookstoves.[3]

Such programs were conceived in response to the women's demonstrable need for money as monetization expanded. More successful were projects assisting women who were already working. Self-Employed Women's Association (SEWA), started by Ela Bhatt in Ahmedabad, India, set up a bank in 1974 to provide loans for members. Similarly, the impetus for the Grameen Bank came when its founder, Mohammed Yunus, observed a woman making chairs one at a time. He realized that credit would allow her to increase her output and buy goods in bulk. The Grameen model evolved into organizing women so that the group became collateral for loans to set up microenterprises.

For feminists, the philosophical distinctions between SEWA and Grameen are critical. SEWA organized women by their existing jobs, insisted they become literate, and trained members to become leaders. In contrast, the Grameen Bank is headed by men and has a largely male staff. While SEWA is organized around a union philosophy, Grameen has a strong social movement foundation. Members are expected to follow Sixteen Decisions that include calisthenics, birth control, and refusal to pay dowry or for lavish weddings. The use of loans is also controlled by the bank. Such a "father knows best" approach reflects a patriarchal mentality. Devaki Jain, reviewing income-generating projects in India to assess how the nature of leadership influenced women's agency, concludes: "All work did not necessarily empower women. . . . It took something more, and that seemed to be feminist leadership" (Jain 2004: 132).

None of these microenterprises would be considered work under early ILO guidelines. In the 1970s, the ILO did begin a series of studies on the informal sector, which it defined as an enterprise with five or more employees. Because women tended to be sole or family workers, this definition once again excluded them. Market women in West Africa had been the subject of studies for years, yet their considerable income fell outside definitions of employment. A seven-country study of street foods was greatly influential in influencing policies at the ILO (Tinker 1997). The study underscored how cultural factors influence the roles women and men play in the enterprises and identified methods to increase both the income for vendors and the safety of the food sold.

Gender roles became even more central to the debate over the informal sector in the 1980s when industries around the world began to "informalize" their workforce (Portes, Castells,

and Benton 1989; Rakowski 1994). The impact of industrial homework on social relations has been profound (Beneria and Roldan 1987). Some women were employed in assembly centers; other women made the same goods at home (Boris and Prugl 1996). The line between formal and informal work became blurred (Tinker and Prugl 1997). How to collect data on women's employment in the informal sector is central to United Nations statistical indices, especially as they are utilized in both the Human Development Report and the Gender Inequality Index.

Organized Women Move beyond Economics

While development agencies continued to follow the WID approach of integrating women into economic programs for efficiency reasons, the expanding women's movement was asserting women's rights as the basis for broadening programs beyond the economic sector. Twenty years after its 1980 founding, the Association for Women in Development (AWID) expanded its focus by changing its name to the Association for Women's Rights in Development. Maintaining its acronym, AWID today is the global umbrella organization leading the struggle for women's human rights. Although women's income was shown to increase women's bargaining power within the family and to diminish the incidence of domestic violence, other research showed that men often reduced family support as women increased theirs (Dwyer and Bruce 1988; Blumberg 1991; Sen 1990). Formal sector jobs paid women less than men; women in the informal sector were often compelled by household responsibilities to work fewer hours (Molyneux 1985; Tinker 1997). This unequal income particularly affected women-headed households.

As the socio-economic transition continued, poverty increased among female headship households. Structural adjustment policies in Latin America (Safa and Antrobus 1992) and Africa (Ladner et al. 1987) which decimated social programs and stifled growth tended to exacerbate this trend toward the "feminization of poverty."[4] A major resource for women is control of land. Traditional farming systems allocated usufruct rights to women, but the men controlled ownership and could evict widows. In post-genocide Rwanda, distant relatives often ejected grandmothers caring for grandchildren. The AIDS epidemic had a similar result in Uganda. Although both countries have recently passed laws to remedy this situation, enforcement is lax (Lee-Smith and Trujillo 2006). The Landesa Center for Women's Land Rights "champions women's secure access to land."[5] A pioneering project in India has arranged micro-plots that include women's names on land titles: the plots are too small to threaten existing landholders (World Bank, FAO, and IFAD 2009).

Housing is even more critical for women's empowerment: a home provides not only shelter but a site of income and space for growing or raising food. Further, home ownership allows women to eject abusive partners, not only reducing domestic violence but lowering the incidence of AIDS.[6] Costa Rica passed a law in 1990 that guaranteed women's ownership rights to any home subsidized by the government: if the woman was married the house was registered under both names, but if she was not married the house was in her name alone. In Bangladesh, where floods regularly wash away traditional rural huts with their bamboo poles and matting sides, the Grameen Bank granted loans to its members. Before a loan could be

granted, however, the applicant's husband had to deed the land to her in the virilocal village where the house was to be built, thus ensuring her right to stay in her tiny house even if the husband migrated to the city (Tinker 1999).

The culmination of women's demand for equality came at the 1993 World Conference on Human Rights, when the body adopted the statement that the human rights of women are an inalienable, integral, and an indivisible part of universal human rights. Essentially, this declaration is a frontal attack on patriarchy because it implies that existing laws that privilege men and maintain the subordination of women must be eradicated. This mantra was reiterated in the Platform of Action, which was passed at the 1995 World Conference for Women in Beijing despite a concerted effort of the Vatican and several Muslim nations to backtrack on the pivotal assertion that women's rights are human rights.

Gender and Development (GAD)

Participants at a 1978 workshop on "The Continuing Subordination of Women in the Development Process" at the Institute of Development Studies at Sussex University underscored challenges to WID coming from Marxist feminists. Noting that the growing literature on development was largely descriptive, the participants found that this approach, by treating women as a distinct and isolated category, ignored gender relationships within the household and labor force. In this ground-breaking volume, the authors analyze "the persistent forms of gender inequality in the processes of development" (Young, Samarsinghe, and Kusterer 1993: xix).

An added dimension to this critique has come from transnational feminist scholars who echo the complaint that women are not a universal and homogeneous category as presupposed by Western feminist scholarship. Rather, as Mohanty argues, Third World women must be viewed through an anticolonial, anticapitalist lens. From this view, the subordination that characterizes these women must include not only gender relations, but the "hegemonic imperialism" that describes the present capitalistic system (Mohanty 2003: 20). But the DAWN network insists that any struggle against these forms of oppression must not compromise "the struggle against gender subordination" (Sen and Grown 1985).

Gender refers to the socially constructed roles of women and men and is distinct from biological sex. As such, gender describes what is accepted femininity and masculinity in a particular society. These characteristics are learned behavior and easily manipulated by government or religious leaders who seek to change women's roles. They change the gender division of labor but not the fact that women are responsible for most of the unpaid labor in the household. As the development discourse recognized women's economic roles and as commodification required earned income, traditional methods of combining work in the home and in the field have increasingly lengthened women's double day. In both developing and developed economies, women's caring work continues to be undervalued and is seldom included in economic data, further disadvantaging women. The new Caring Economy Campaign aims to value unpaid care work.[7]

Since an individual's gender is the kaleidoscope of all that person's characteristics, the question arises as to what should be considered the predominant attribute. The

Marxist discourse had emphasized class as the organizing principle. In the 1980s, social movements organized around ethnic or religious identity gained prominence. While most focus today is on Islamic societies, the break-up of Yugoslavia and the subsequent Balkan wars illustrate the power of cultural identity. Control of reproduction, and therefore of women, is central to identity politics because women are celebrated as the embodiment of culture and values. Some women see this role as "an onerous burden, one they would just as soon not assume, especially if it is predicated upon control and conformity. But for other women, it is an honor and a privilege. . . . This is why all 'fundamentalist' movements have women supporters as well as women opponents" (Moghadam 1994: 19).

Identity politics, by seeking an idealized past, reasserts customary patriarchal family law. Similarly, Robert Mugabe railed against a new constitution that would give women rights to land; he declared that he did not lead Zimbabwe to independence to undermine patriarchal privilege. Such visions of the past are selective, applying primarily to gender relationships. Modern armaments are never embargoed, whether by Iran or the Taliban, but their version of the idealized past is retrogressive with regard to women's rights.

During the 1980s, both scholars and practitioners began to utilize the term "gender" when discussing household relationships, especially when describing the sexual division of labor (Overholt et al. 1985). This substitution has led to widespread use on data forms and now encourages transgender groups to request yet a new category for census gathering.

Mainstreaming and Holding Agencies Responsible

Transforming this nuanced concept of gender into programmatic reality turned out to be much more problematical than expected when, toward the 1990s, many development agencies adopted the terminology. Proponents declared that such programs were less likely to cause a backlash from men, who often objected to donors' focus on women. Acknowledging gender relations in planning, they believed, would result in more sustainable projects. They also hoped that a new approach would reinvigorate agencies to improve and increase projects for women. The International Development Research Centre (IDRC) was perhaps the first development agency to adopt "gender" in its policy statements.

Not all practitioners were pleased with the change. They pointed out that when translated the term was problematical (Jahan 1995). In Vietnam, some five words were used and all of them meant physical sex. Others have suggested that men running development agencies were uncomfortable with the growing strength of the women's movement and wished to deflect its power. In practice, however, the word "gender" simply became a euphemism for "woman."[8]

Caroline Moser, who had run training workshops on gender and housing for women from developing countries at the University of London, published *Gender Planning and Development* in 1993, while she was working at the World Bank. Noting that historically, bureaucratic efforts to introduce WID were often "symbolic," Moser comments on the hypocrisy of many donor agencies because they employed so few staff in relevant offices (Moser 1993: 126, 149).

The book reviews institutional obstacles to the adopting of any new policy and asks whether the preferable strategy is to create a separate institution or to mainstream gender throughout the institution.

Many donor agencies, disappointed in the limited impact that WID/GAD offices were having on policies or programs, embraced gender mainstreaming as a method to insert the issue of gender throughout the organization. In 2001 the World Bank synthesized global gender mainstreaming experiences in a landmark report, *Engendering Development* (World Bank 2001). It correlated greater economic growth and poverty reduction with greater gender equality worldwide. This report provided the intellectual basis for the Bank's "Gender Equality as Smart Economics" campaign, featuring a unilateral instrumentalist approach to empowering women to attain economic growth, which neglected advancing women's and men's equal rights (Zuckerman 2007; Arend 2010). Case studies of UNDP, the World Bank, and ILO indicate that "to a surprising degree" these multilateral agencies have incorporated mainstreaming into their practices, but in keeping with their organizational goals so that gender equity is only one of their policy objectives. The result is that adoption of gender mainstreaming by the United Nations "turned a radical movement idea into strategy of public administration" (Prugl and Lustgarten 2006: 55, 68–9).

A 2011 gender mainstreaming workshop organized by Oxfam GB and the UK Gender and Development Network recorded that some in the women's movement felt that "gender mainstreaming has become just part of the technocratic language . . . devoid of passion." However, participants from the global South hailed mainstreaming as a beacon beyond institutions that is a political statement favoring gender justice and women's rights (Cooke 2012).

Ultimately, feminists recognize that constant pressure is necessary to ensure that women's issues are not sidelined. Several donor agencies abolished their Women in Development/Gender and Development (WID/GAD) units when they switched to gender mainstreaming and lost a crucial advocate.

Working inside the World Bank's central gender unit during 1998–2000, Elaine Zuckerman (co-author of this chapter) was struck by how environmental concerns took off more deeply than did gender issues.[9] A key reason that environmental concerns received much more attention than did gender issues was that civil society groups created the environmental campaign on the World Bank in the early 1980s. All Bank country offices have environmental experts. In contrast, although the Bank's gender unit is strategically housed in the Poverty Reduction and Economic Management Network, it has fewer than twenty professional staff members, supplemented by gender focal points in fewer than half of Bank country offices, who spend a fraction of their time addressing gender issues (Zuckerman and Wu 2005; Lauterbach and Zuckerman 2013). The Bank's gender mainstreaming investments, at 0.13 percent of the total budget, are paltry (Gender Action 2012). Trust funds rather than core Bank funds support most of this spending. Gender expenditures by the Bank and other International Financial Institutions (IFIs) lag far behind their environmental investments (Zuckerman and Qing 2005).

Inspired by the environmental campaign, Gender Action launched in 2002 to lead civil society advocacy for gender justice in IFI investments.[10] Gender Action remains the only organization dedicated to holding IFI investments accountable for ending harmful gender impacts, promoting women's rights, and positively benefiting poor men and women. Gender Action works in many civil society coalitions because of power in numbers, monitoring IFI investments and leading advocacy to prevent detrimental gender impacts of IFI climate

change, extractive industry, gender-based violence, agriculture and food security, pre- and post-conflict, post-tsunami and post-earthquake Haiti reconstruction, and HIV/AIDS and sexual and reproductive health and rights investments and policies. To scale up this work, in 2012 Gender Action launched the Global Gender IFI Watcher Network.[11]

Clearly, to affect institutional change, putting gender into all policies and programs must be accompanied by a well-staffed and -funded office that lobbies for funding and monitors programs for women. Perhaps an analogy exists in the conceptualization of this volume. All authors were urged to include gender in their chapters, but after a year of planning, the editors recognized the need for a separate chapter on women, gender, and development.

Demanding Political Power through Quotas

Political participation of women has become a major goal throughout the global women's movement. Frustrated at the slow pace of change and impatient with the resistance from governments and agencies to laws and regulations recognizing women's rights and capabilities, the UN's Fourth World Conference on Women (held in September 1995 in Beijing, China) demanded in its Platform of Action that 30 percent of all decision-making positions in government should be allocated to women. Recognizing that appointed positions are more difficult to control, women focused on elected bodies, promoting the idea that 30 percent of membership is necessary to provide a critical mass that would allow significant changes in policies and procedures. Today, over half the world's countries have some sort of electoral quota system for their legislatures.[12]

Research shows that quotas do not consistently result in increased numbers of women elected. More important, even in countries with significant women representatives, policy change is uneven (Tinker 2004c, 2009; Ballington and Karam 2005). The 2002 *Human Development Report* notes that "Quotas are primarily a temporary remedial measure, and are no substitute for raising awareness, increasing political education, mobilizing citizens and removing procedural obstacles to women getting nominated and elected" (UNDP 2002: 70).

Much debate centers on the rationale for more women legislators. If the goal is equality, then an increase in numbers constitutes success. But if the goal is to empower women to implement a more feminist agenda, then outcomes, not numbers, are crucial. Thus how women candidates are selected and who supports them must be analyzed before numbers of women in legislatures can be equated with empowerment.

The most efficacious method for ensuring that women are elected to legislatures is through the party list system utilized by some 35 percent of countries. Parties determine who is on the list: in this system, if every other candidate were a woman, the party would elect 50 percent female legislators. In contrast, over half of the world's states use an electoral system based on a territorially defined constituency. Requiring that a specific single-member constituency in national elections be reserved for a woman is politically impractical, so women winning these races have a stronger voice in their parties than women put on the list by male party leaders.[13]

Clearly, the number of women in a legislature does not necessarily correlate with women's empowerment. A history of women's attempts to pass laws against violence against women

in Sweden and India illustrates this critical point. In Sweden, as a result of both major political parties' deciding in 1972 to alternate women and men on their list of candidates, the country has had the world's highest percentage of women legislators (until Rwanda surpassed them in 2008). Feminists argue that this action moved debate on women's issues into the parties and made a unified voice for women outside parties more difficult. They complain that most social policy legislation, such as improved working conditions and pay, affordable child care, and paid maternity (and paternity) leave, drew on a socialist ideology and were passed with little input from independent feminist organizations (Gustafsson, Eduards, and Rönnblom 1997). Further, because of outdated attitudes, legislation passed in 2003 meant to protect women from domestic violence has not been assertively implemented; incidences of violence are increasing, according to a 2004 report by Amnesty International (2004). In 2005 a women's party, The Feminist Initiative, was formed to agitate for the reform of rape laws and the creation of programs to address domestic violence (Wängnerud 2005).

India has had active women's organizations for years, but most focused on charitable work or development projects. For ten years, these groups agitated for a law dealing with violence against women. Finally, in 2005, women organized a national lobby, Women Power Connect, with full-time lobbyists in New Delhi. This coalition of women's organizations was instrumental in the passage of the Domestic Violence Bill, which finally became law in November 2006.[14]

The *Human Development Reports*, when calculating the Gender Inequality Index, measure empowerment as the number of women in parliaments plus women's educational attainment. A more accurate method of indicating empowerment would be to consider the impact of legislation passed by elective bodies, and also the numbers of politically active women's organizations. Similarly, to achieve greater equity in realizing the other two indicators in the Gender Inequality Index, reproductive health and employment, laws and customs that preserve male privilege must be changed. Until women can control their own bodies, they will be unable to realize their reproductive rights. Also, women's capabilities will not be achievable until women can own their homes and until the care economy is included in economic calculations.

Conclusion

The story of women and international development is a story of women organizing to challenge the development paradigm. Over fifty years, women have influenced development agencies to include women's concerns, and formed a global social movement that has altered gender relations throughout the world. Today women are seeking political power to advance their claims for equity.

To envisage the years to come, a historical perspective refreshingly underlines that tremendous progress has been attained for women's rights and gender justice (although massive work remains to achieve full women's empowerment). In developed countries a century ago, women could not vote and rarely worked outside the home. Now they do both, although globally gender gaps persist in earnings, household responsibilities, asset ownership, and decision making. Going forward, countries most resistant to the notion of women filling

civic and economic roles will certainly continue to experience an erosion of traditional cultural and religious barriers to women's empowerment in response to citizens' bottom-up organizing and government reforms.

While challenges to closing gender gaps worldwide remain immense, there is unprecedented energy today toward realizing women's and men's equal rights. The global women's movement has exploded into a myriad of new organizations and networks led by women in every country. Such organizations also empower women as political, community, and social leaders. As these leaders influence development policies and initiate national legislation, world society and gender relationships will surely become more equitable.

Notes

1. For a review of many time allocation studies, see Tinker 1987.
2. For papers from the AAAS Seminar on Women in Development, workshop reports, and a list of participants, see Irene Tinker and Bo Bramsen 1976.
3. See Tinker and Jaquette 1987 for an exhaustive critique of inappropriate technology.
4. The term "feminization of poverty" as well as the indicators that are used to measure poverty are widely contested (see Chant 1997; Razavi 2000). Research suggests that women's capacity to command and allocate resources is more crucial to empowerment than simply receiving them (see Kabeer 1994; Chant 2006).
5. See <http://www.landesa.org>.
6. For case studies, see <http://www.icrw.org>.
7. <http://www.caringeconomy.org>.
8. An illuminating discussion of the WID/GAD debate may be found in Jaquette and Staudt 2006.
9. In 1981, when Zuckerman first joined the World Bank, the Bank had one WID and one environment advisor. Since then environmental ranks in the Bank have grown to roughly 800 while gender experts hover around 100, mostly composed of part-time country gender focal points (Zuckerman and Qing 2005).
10. Zuckerman previously worked inside the Bank as a project economist, as the founder of the program to address structural adjustment's impacts on poor women and men, and in the gender unit.
11. See <http://www.genderaction.org>.
12. See <http://www.quotaproject.org>.
13. For a detailed review of electoral systems and women, see Tinker 2004c and 2009.
14. See <http://www.womenpowerconnect.org>.

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CHAPTER 8

COMPOSITE INDICES OF DEVELOPMENT

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Introduction

The question of how to measure development has attracted the attention of economists and other social scientists as well as non-government organizations (NGOs) and policy-makers for many decades now, especially since the post-war period. Broadly, we can identify three approaches to measuring development that emerged more or less sequentially over time, but now co-exist.

One approach considers that development can be measured with some specification of a monetary indicator: Gross National (or Domestic) Product (GNP and GDP, respectively), usually in per capita terms, and typically with special attention to its growth rate.[1] Most of the proponents of this view do not necessarily regard economic growth as the "end" of development, but consider GNP per capita to be a good enough proxy for well-being, highly correlated with other indicators that are less arguably considered as development goals.

The second approach states that GNP per capita has too many deficiencies as an indicator of well-being and that it does not always correlate well with development goals; therefore, a portfolio or dashboard of social indicators (including but not limited to monetary indicators) should be used to measure development.

A third approach considers that while portfolios of development indicators are informative and necessary, there is also a need for a summary measure that combines a few of these indicators into a single number. This approach has given rise to the construction of composite indices of development. A composite index is a function of variables and weights that maps attainments in a variety of attributes into a single real number, which may have cardinal meaning or be merely ordinal.

In this chapter we examine the motivation for the emergence of composite indices of development and the main grounds on which they have been criticized, which naturally coincide with the decisions involved in their construction. For simplicity, in most of the chapter we refer to "composite indices" in a broad sense, including multidimensional

indices, clarifying below the distinction between the two. There is a discussion of some issues specific to gender-related indices, and we conclude with a review of the trade-offs around composite indices alongside a few recommendations for their design.

The Emergence of Composite Indices of Development

In the years immediately following the end of the Second World War, the System of National Accounts was developed with the aim of providing a complete accounting framework for reporting and evaluating the performance of an economy.

This was a natural response to the Great Depression, two devastating wars, and the influence of Keynesian theory. Attention was focused on obtaining accurate computations of GNP and fostering their increase in per capita terms. Many argue that in those years GNP per capita was the primary—if not the sole—indicator of development (Hicks and Streeten 1979; UNDP 1990; ul Haq 1995, among others). Srinivasan (1994) argues that this was not the case, as policy-makers also considered indicators such as child mortality and life expectancy. Certainly, it would be unfair to say that there was no concern for human well-being. Rather, the underlying idea was that growth was the best instrument to reduce deprivation and warrant human flourishing, and thus it was a good measure of development. We identify this as the *first approach to measuring development*, namely using *GNP per capita*.

Yet in the early 1970s one empirical fact caught the attention of economists and international agencies: thirty years of outstanding economic growth performance had been accompanied by notable rising dualism within nations and a failure to reduce poverty. The limitations of GNP per capita as an indicator of development and of the power of economic growth as an instrument for poverty reduction started to be exposed. This gave rise to a change of emphasis in the conceptualization of development. It was time to measure development more directly, paying attention to the evolution of unemployment, poverty, and inequality (Seers 1969). An emerging new approach would emphasize the need to refocus development on removing mass deprivation and ensuring that all human beings met their basic needs.[2]

Thus efforts were redirected to push the development of a set of cross-country comparable social indicators, as evidenced by the work of the UN and reports by other international organizations, cited in Hicks and Streeten (1979: 570). These publications considered not just economic indicators, such as the distribution of household income by deciles, but also health and education indicators, such as per capita protein consumption, infant mortality rate, combined primary and secondary enrolment ratio, and literacy rate, to name just a few.

The Basic Needs Approach advocated a parsimonious set of core indicators covering six areas: nutrition, basic education, health, sanitation, water supply, and housing, and related infrastructure which would supplement GNP (Hicks and Streeten 1979). We identify this as the *second approach to measuring development*, namely using a *portfolio or dashboard of indicators*, more or less broad depending on the intended focus.

About the same time as efforts to measure development were shifting from GDP per capita to a portfolio of indicators, interest in constructing composite indices started to emerge.

In fact, as early as 1964, Harbison and Myers proposed a composite indicator that focused on human resource development (as distinct from development in general). The index was the arithmetic total of enrolment at secondary level of education and enrolment at tertiary level of education, the latter multiplied by a weight of five (Harbison and Myers 1964: 31–2).

A few years later, the United Nations Research Institute for Social Development (UNRISD) proposed an index of socio-economic development designed by McGranahan et al. (1972). The index was composed of nineteen indicators, including several indicators of economic development (defined as GNP per capita) alongside various indicators of structural change (such as manufacturing share of GNP), some of education (such as combined primary and secondary enrolment), and two of health (per capita-per day consumption of animal protein, and life expectancy at birth). The scaling and weighting of the variables was based on a statistical procedure. This index was expressly intended to fill in the gaps of GNP per capita as a measure of development.

Inspired by the basic needs approach, Morris (1978) proposed a composite index: the Physical Quality of Life Index (PQLI), which was the arithmetic mean of (normalized) life expectancy, infant mortality, and literacy. Notably, the index did not include any measure of economic performance. Ram (1982) proposed two variants of the PQLI, where the main innovation was the technique used to construct the index: the multivariate method of principal components.

The Basic Needs Approach also had a practical influence on poverty measurement in the 1980s. In Latin America, poverty started to be measured with census information as the proportion of people in households that reported one or more Unsatisfied Basic Needs (UBN) out of a total of five indicators for housing and education. The UBN Index was the predecessor of multidimensional poverty measures.

Other proposed composite indices were the Index of Social Progress (ISP, Estes 1984) and the Human Suffering Index (HSI, Camp and Speidel 1987). The ISP was composed of over forty indicators grouped in ten sub-indices: education, health status, women status, defense effort, economic, demography, environment, social chaos, cultural diversity, and welfare effort. The IHS was composed of ten indicators representing various dimensions of human suffering, not all of them obvious.

The early work on composite indices of development expressed "the need for a single number which, like GNP per head, can be quickly grasped and gives a rough indication of 'social' development" (Hicks and Streeten 1979: 577). Although GNP per capita alone was insufficient as an indicator of development, the information provided by a dashboard of indicators could be, for many, too much to digest.

Each of the aforementioned composite indices of development received some attention. Yet it seems that it was not until the appearance of the Human Development Index (HDI) in the first Human Development Report (HDR) in 1990 that composite indices of development received wider attention, naturally accompanied by deep scrutiny and a host of critiques.

Conceptually, the HDI was rooted in Sen's capability approach, which started with Sen's (1979) Tanner Lecture, "Equality of What?" where he proposed the need to shift the focus of attention from *means* of development, such as income and resources, to *ends* of development: the opportunities a person has. The capability approach differs from the basic needs one in that it broadens the scope of interest to all human beings (not just the poor), and it states the need to change the space of analysis to the capability set. Capabilities are defined as the various combinations of functionings (beings and doings) that the person can achieve.

Capability is, thus, a set of vectors of functionings, reflecting the person's freedom to lead one type of life or another, to choose from possible livings (Sen 1992: 40). Human development in this context is the process of expanding the real freedoms that people enjoy (Sen 1999: 3).[3]

Inspired by these ideas, the intention of Mahbub ul Haq in introducing the HDI was to consolidate the concept of development beyond growth in GNP. "The new index would measure the basic concept of human development to enlarge people's choices . . . at least a few more choices besides income and to reflect them in a methodologically sound composite index" (ul Haq 1995: 177).

The HDI (Anand and Sen 1994) considers a country's achievements in three dimensions: living standards, health, and education. In its original formulation, the indicator for living standards was the log of the real GDP per capita (in PPP$),[4] the health indicator was life expectancy at birth, and the education indicator was the literacy rate. The index was the arithmetic mean of these (normalized) indicators. Although inspired by the capability approach, the components of the HDI were present in previous indices; the health and education indicators reflected functionings insofar as data permitted at the time, and thus there was no advance on that front.

However, the HDI did have several advantages over its predecessors. First, unlike the PQLI, it included GNP per capita, and thus it was not blind to the relevance of the economic dimension for development. Second, unlike the UNRISD index, the ISP and the HSI, it had a small number of components, which anyone could remember. Third, all these components were intuitive indicators of development. Fourth, although the subject of intense debate, unlike the indices proposed by Ram (1982) and the UNRISD index, the weights as well as the normalization formula for each indicator were transparent, easily understandable, and replicable.[5] These features, together with the fact that UNDP started to publish the HDR annually with continuous updates of the index, placed the HDI as the showcase of what we identify as the *third approach to measuring development*, namely using *composite indices of development*.

The three main criticisms leveled at the HDI are related to (1) the selection of dimensions and indicators, (2) the implicit trade-offs, and (3) the insensitiveness of the HDI to inequalities in the distribution of human development in the population. Many of the critiques were accompanied by proposals of modifications to the HDI or suggestions for completely different alternative indices. Some of these critiques were echoed by UNDP, and over the subsequent years the HDI experienced methodological modifications.[6]

After the HDI, three other composite indices were introduced in the HDR, aiming at capturing more directly certain specific areas related to development, namely gender equality and poverty.[7] The 1995 HDR introduced the Gender-Related Development Index (GDI) and the Gender Empowerment Measure (GEM). In 1996, a Capability Poverty Measure (CPM) was introduced but was replaced the following year by the Human Poverty Index (HPI) (Anand and Sen 1997), which more accurately expressed failures in the three dimensions of the HDI. The components of the HPI were: for health, the probability at birth of not surviving to age 40; for education, the adult literacy rate; and for living standards, the average of the percentage of the population without access to an improved water source and the percentage of children under weight-for-age. In 1998 a variant of the HPI for developed countries was introduced. These indices were reported in every HDR until 2009.

UNDP has certainly not been the only institution producing composite indices of development. Several other institutions, NGOs, and think tanks have developed composite indices, which usually focus on certain aspects of development. For example, on economic aspects there is the Index of Economic Freedom (Heritage Foundation); on governance, the Ibrahim Index of African Governance (Mo Ibrahim Foundation); on sustainability, the Environmental Performance Index (EPI, Yale University); and we briefly review some gender indices below. Bandura (2008) surveys 178 composite indicators that rank or assess countries according to some economic, political, social, or environmental measure, all of which can be related to development.

The understanding that development is about improving people's lives, which motivated the construction of composite indices, also led, at a political level, to the Millennium Declaration in 2000, by which 189 heads of state committed to eradicating poverty and promoting other fundamental aspects of development by 2015. The Declaration was materialized in eight development goals (Millennium Development Goals, or MDGs) with eighteen associated targets and forty-nine quantitative indicators to follow them up (UN 2003). The MDG Indicators pushed the improvement in data collection in many countries, as progress towards *each* goal and target needs to be tracked. Interestingly, while fostering a multidimensional approach, the MDGs counterbalanced the interest on composite indices of development, favoring a dashboard approach. Likewise, the World Development Indicators offer a plethora of indicators related to different areas of development.

The 20th anniversary edition (2010) of the HDR introduced a number of changes in the measures of development. First, the living standard and educational indicators, the goalposts, and the aggregation formula of the HDI were modified. Second, the Inequality-Adjusted HDI was introduced. Third, the Gender Inequality Index (GII) replaced previous gender indices. Fourth, the HPI was replaced by the Multidimensional Poverty Index (MPI; see Alkire and Santos 2010). The MPI covers the three HDI dimensions (health, education, and living standards) using the indicators (nutrition and child mortality, school attendance and years of education, access to drinking water, improved sanitation, electricity, clean cooking fuel, non-dirt floor, and two small assets or one big one). The MPI was designed to reflect acute multidimensional poverty in a cross-country comparable way.[8] A distinctive feature of the MPI is that it looks at *joint deprivations*, requiring that the data come from the same source. In fact, the MPI is the product of two intuitive sub-indices: the *incidence* of poverty and the *intensity* of the deprivation that the poor experience. The 2010 HDR changes rekindled the debate on composite (and multidimensional) indices of development.

To sum up, there are currently three approaches to measuring development. Growth is still regarded by many as the key measure of development: "growth is a necessary, if not sufficient, condition for broader development, enlarging the scope for individuals to be productive and creative" (Commission on Growth and Development 2008: 1). Others explicitly favor a multidimensional approach as long as each indicator is kept separate, and they cast some doubt about the value-added of composite indices and their policy relevance (Ravallion 2010a). Finally, other researchers and institutions, such as UNDP, favor composite and/or multidimensional indices of development, as "they have a stronger impact on the mind and draw public attention more powerfully than a long list of many indicators combined with a qualitative discussion" (Streeten 1994: 235) and, in the case of multidimensional indices, allow looking at the joint distribution of achievements (or deprivations).

Critical Issues in Designing Composite Indices

Basic Notation

In order to discuss the main issues of debate around composite indices of development, it is useful to introduce some common mathematical notation.

Given m indicators across a population of n individuals, let $X = [x_{ij}]$ denote the $n \times m$ matrix of achievements. The typical entry $x_{ij} \geq 0$ represents individual i's achievement in indicator j. A composite index of development can be written in a general form as:

$$I(X) = \varphi[w_j \eta (A_j(x_{.j}))] \tag{8.1}$$

where A_j is a function that aggregates individual achievements in an attribute j across the population to obtain an indicator of that achievement, for example at country level. η is a normalization function that expresses all indicators in the same unit of measurement (typically between 0 and 1). w_j is the (explicit) weight attached to attribute j (with $\sum_{j=1}^{m} w_j = 1$), and φ is an aggregation function.

A typical aggregation function A_j of individual data in attribute j is given by the generalized mean of order β:

$$\mu_\beta(x_{.j}) = \begin{cases} \left[\frac{1}{n}\sum_{i=1}^{n}(x_{ij})^\beta\right]^{1/\beta} & \beta \neq 0 \\ \prod_{i=1}^{n}(x_{ij})^{1/n} & \beta = 0 \end{cases} \tag{8.2}$$

When $\beta = 1$, the expression is reduced to the arithmetic mean. When $\beta < 1$, higher weight is given to lower x_{ij} values. In this range, the general means capture inequality in a distribution of achievements: for a given value of β, the more unequal a distribution is, the lower the β-mean will be with respect to the arithmetic mean. Thus, given a distribution, the more one wants to penalize inequality, the lower the β value chosen should be. Two cases are frequently used: when $\beta = 0$, the β-mean is called the *geometric mean*, and when $\beta = -1$, it is called the *harmonic mean*.[9] When $\beta < 1$, higher weight is given to higher x^{ij} values; this is used to penalize for inequality when the x^{ij} arguments are deprivations rather than achievements. Most commonly, the arithmetic mean is used to obtain the indicator of achievement to construct composite indices, as it is the case for GDP per capita, the literacy rate, and the gross enrolment ratio, to name a few.

A typical normalization function is that used by the HDI: $\eta (A_j) = (A_j - A^{\min}) / (A^{\max} - A^{\min})$. The normalized indicator expresses the proportion achieved by a country of a total potential achievement.[10]

A typical aggregation function φ has most commonly been the arithmetic mean over the normalized weighted indicators, but other members of the general means are frequently employed as well.

Equation (8.1) can also be used as a general expression for multidimensional (rather than composite) indices, but with some important differences. First, although the equation presents the composite index as a function of the matrix of achievements, access to micro-data is not necessary when computing them. Only information on the indicators A_j, already aggregated across the population, is required, and thus, information on each indicator can come from different data sources. Moreover, different indicators may have different *base populations.* For example, while income per capita is computed over the total population *n*, the literacy rate is typically computed over the population age 15 years and older. When computing multidimensional indices, on the other hand, all data need to come from the same source. A^j is in this case the identity function, that is, A^j will no longer return a scalar but keep the column that contains the individual achievements in dimension *j*. All aggregation is performed with the φ function, allowing to first aggregate across attributes for each individual, and then across individuals. This implies that multidimensional indices can capture the joint distribution of achievements. This is clear in multidimensional indices of poverty, where first the poor need to be identified, generally based on the number of deprivations experienced by each person, for which one needs to consider the joint distribution. For example, the MPI identifies as "poor" anyone living in a household deprived in 33.33 percent of the weighted indicators. Even when an identification step is not required, as in a well-being index, aggregation across attributes is still the first step, as there is usually interest in accounting for relations of substitutability or complementarity across attributes.[11] Note, then, that in multidimensional indices the base population of all attributes needs to be the same.

A second difference, specific to multidimensional indices of poverty, is that the normalization function usually transforms achievements into shortfalls with respect to a desired threshold z_j. That is: $\eta(x_{ij}) = (z_j - x_{ij}) / z_j$ for those with $x_{ij} < z_j$ *and* who have been identified as poor, and $\eta(x_{ij}) = 0$ otherwise. When variables are of an ordinal nature (that is, the magnitude of the distance between categories is meaningless, as in "sanitation facility"), a robust normalization procedure is simply to dichotomize the variable with reference to the deprivation cutoff: 1 being deprived, and 0 non-deprived. This is the procedure followed in the MPI.

Selection of Dimensions and Indicators

One of the key debates about composite indices relates to the selection of the relevant dimensions and the indicators to measure them—the x^{ij} of equation (8.1). These are obviously linked to the purpose of the measure, which can be to track development across countries, or to monitor national poverty reduction, or to target a poverty reduction program, or some other.

In practice, the selection of dimensions and indicators for composite indices has usually been based on (a) existing data or convention, (b) theory, (c) public consensus, (d) ongoing deliberative participatory processes, or (e) empirical evidence or analysis (Alkire 2008); but also (f) pragmatism or intuitive appeal, or some combination thereof (Booysen 2002: 119). Methods (b) to (e) seem preferable to (a), and especially to (f). Robeyns (2005) recommends a thorough justification of the reasons and methods used in the selection as well as an explanation for any omissions, and Sen (2009) argues that any list of basic capabilities should enjoy a high degree of consensus built upon a process of public reasoning.

However, it is frequently the case in the construction of composite indices that while the "ideal" list of dimensions and indicators follows some of the preferred methods, the actual

indicators included in the index are constrained by data availability (method [a]). This usually happens with indices that intend to make cross-country comparisons, such as the HDI or the MPI. Nonetheless, the binding constraint of internationally comparable data is not exclusive of composite indices.[12] Thus, rather than deterring their use for cross-country comparisons, this should foster international homogenization of data collection. When the intended purpose of the measure is restricted to a country, there is scope for the use of better data.

In the construction of most composite indices, researchers have offered a justification for the selection of dimensions and indicators. Yet McGillivray and Noorbakhsh (2007) argue that the selection is ultimately always ad hoc. In fact, no composite index so far has escaped criticism in this respect. Discussions on this matter typically reflect the trade-off between parsimony, with its inherent risk of omitting relevant variables, and comprehensiveness, with the risk of being redundant. In the case of the HDI, for example, the intention was to "keep it simple and manageable" (ul Haq 1995: 182). Other indices reflect the other option, such as the Mo Ibrahim Index of African governance, which contains fifty-seven indicators.

Statistical techniques can be of aid in dealing with this problem. Provided a selection of the dimensions has already been done, the selection of indicators to represent those dimensions can be guided by correlation analysis, Principal Components Analysis, or Factor Analysis. The use of these techniques can help reduce the set of indicators.

Correlation analysis has also been used to scrutinize some popular composite indices of development, fuelling arguments both for and against composite indices. Hicks and Streeten (1979), for example, oppose the use of composite indices by arguing that if the individual indicators are highly correlated any of them alone would serve as an adequate index, and if they are not correlated but move in different directions across countries and in time, averaging would only conceal important issues. Larson and Wilford (1979) find that the three PQLI's components are closely correlated, and McGillivray (1991) finds the same for the HDI. Thus using just one component of these indices would yield similar findings as using the index itself. However, Noorbakhsh (1998) shows that the correlation coefficients between the component indicators of the HDI are much lower and often insignificant for sub-samples of countries grouped, for example, by level of human development. In this case, using different components of the index would result in different rankings within these groups.

Moreover, although higher correlation between indicators is often criticized as redundancy, Foster, McGillivray, and Seth (2012) show that the more correlated the component indicators of a composite index, the more robust the weighting, something usually desired for a composite index. They suggest that the trade-off between redundancy and robustness needs further research (Foster, McGillivray, and Seth 2012: 51–2).

Aside from the choice of specific dimensions and indicators, there are also choices to be made in terms of the type of indicators to be used. One of them is whether to use indicators of inputs or means (such as resources), indicators of outputs or ends (such as functionings), or a combination of both. Interestingly, variables such as literacy represent measures of both ends and means (Booysen 2002: 120). Statistics on inputs are more available than on outputs, but outputs tend to be better measures (Atkinson et al. 2002: 20; Booysen 2002: 120 and 144–5). For example, Das et al. (2008: 3) argue that higher investment in health care infrastructure in many low income countries has not translated into improved health. Composite indices usually have some combination of both means and ends variables.

Another decision to be made is whether to use indicators of stock (such as assets or wealth) or flow (such as income). As remarked by Atkinson et al. (2002: 32), flow measures are easier to change through policy; moreover, flows may have impacts on stocks: higher qualifications of those *entering* the labor market may have an impact on the qualifications of those in the *existing* labor market. Concentrating on either flow or stock variables might yield a misleading picture. For example, Klasen (2007) notes that focusing on life expectancy (flow) for women and men in countries such as China might indicate that gender bias is being reduced, as women's mortality rates are decreasing. However, this conceals an increase in sex-selective abortions (Sen 2003). Including both stock and flow variables would uncover this issue (Klasen 2007).

In sum, choosing dimensions and indicators is a critical step in the construction of composite indices. Given the outlined difficulties, it seems worth clearly *delimiting* the purpose of the measure, fully justifying the selection of dimensions and indicators, and exploiting the index to its full potential while recognizing that such selection may still fall short of fulfilling the intended purpose.

Normalization, Weights, and Aggregation

Another line of significant debate over composite indices of development has been the embedded trade-offs between their indicators. This is given by the relative weights between components, called in economics the marginal rate of substitution: for a given level of development or well-being, how much of one achievement must be resigned in order to obtain an extra unit of another achievement? It can be verified that these trade-offs are typically determined by three elements expressed in equation (8.1): the normalization procedure η, the explicit weights attached to each component (w_j), and the aggregation function φ (Decancq and Lugo 2012). Ravallion (2010b, 2011) argues that while the explicit weights attached to components are usually transparent, the trade-offs between them are not.

The normalization procedure η involves selecting goalposts or deprivation cutoffs or some other normative reference. Higher maximum goalposts or deprivation cutoffs lead to an implicit higher relative weight of that indicator as it becomes more difficult to achieve the same relative increase in that particular variable (Booysen 2002: 125).[13]

As for the weights of explicit attributes, the approaches that have been used for setting them can be grouped into *statistical*, *normative*, or *hybrid*, which combines statistical and normative (Decancq and Lugo 2012).

Statistical approaches include principal components analysis, correlation, and regression coefficients of the variables with some selected variable not included in the index (hedonic weighting). The problem with these approaches is that the weights depend on the particular data set used, making comparisons over time difficult. They are also less transparent to and understandable by non-scholars.

Normative approaches imply setting weights based on explicit value judgments. Within this category, Decancq and Lugo (2012) include using prices, an option advocated by many, such as for example, Srinivasan 1994; Ravallion 2010a, 2011. However, markets are imperfect and prices depend on the distribution of income (Lustig 2011; Seers 1969). Thus, meaningful prices may not be available across all dimensions of relevance to poverty (Alkire, Foster, and Santos 2011: 503), and—we could add—to development.

The limitations of prices as weights have led to the frequent use of equal weighting. This has been the case of the HDI as "there was no a priori rationale for giving higher weight to one choice than to another" (ul Haq 1995). The MPI also follows an equal weighting approach, a structure criticized by Ravallion (2010a, 2011). Yet equal weighting has been favored by experts, following a wide consultation (Chowdhury and Squire 2006), and it has also been recommended by Atkinson et al. (2002).

A promising hybrid method is that of setting weights based on participatory studies where people express their relative valuations of different attributes. Although this has not been implemented in the widely used composite indices of development (Ravallion 2011), there are some small-scale exercises (see Decancq and Lugo 2012) that may shed some light on the design of broader-scale indices in the future.

In terms of the aggregation function φ, ideally, one would like to know the functional form of a well-being production function (UNDP HDR 1993: 109). Yet this function remains unknown (McGillivray and Noorbakhsh 2007). The typically used arithmetic mean implies that the normalized attributes are considered perfect substitutes: failures in one area of development can be compensated by achievements in another. Many see this as conceptually problematic. An alternative is to use a member of the general means with $\beta < 1$. This penalizes uneven development across attributes. The use of such an aggregation function with $0 < \beta < 1$ has been proposed by Chakravarty (2003). It has also been proposed by Foster, Lopez-Calva, and Szekely (2005) in the range of $\beta < 1$, together with using a general mean of the same order β for constructing the aggregate indicators A_j, so that the index also captures inequality in the distribution of each attribute across people. This last idea was taken by UNDP to construct the Inequality-Adjusted HDI, introduced in the 2010 HDR.

The HDI used a linear form until 2009. Because GDP per capita was logged, the trade-off between longevity and income was dependent on the country's income level. Thus, the HDI's implicit monetary valuation of an extra year of life went from very low levels in poor countries to very high levels in rich ones (Ravallion 1997: 633). In 2010, UNDP changed the aggregation formula of the HDI to the geometric mean, in order to capture "how well rounded a country's performance is *across* the three dimensions" (UNDP HDR 2010: 15, emphasis added). The goalposts for the living standards and the life expectancy indicator were also changed. Given the data, these changes led in practice to an even lower (higher) valuation of longevity in poor (richer) countries, and a similar problem with every extra year of schooling, something Ravallion (2010b) calls "troubling trade-offs." Klugman, Rodriguez, and Choi (2011) responded to this critique, arguing that in rich countries income contributes very little to further expanding capabilities and this is why the "value" of anything in terms of income appears very high. However, it should not be concluded that more resources should be devoted to increasing longevity in rich countries than in poor ones.

The challenges faced by defining a normalization function, a weighting structure, and an aggregation function, with their implied trade-offs alongside the controversies in the particular selection of dimensions and indicators discussed in the section entitled "Selection of Dimensions and Indicators," lead some to lean towards a dashboard approach to measuring development (Hicks and Streeten 1979; Ravallion 2011). However, dashboards also suffer from several problems as detailed in Alkire, Foster, and Santos (2011: 503–4). First of all, policy-makers prefer a summary statistic to show how overall poverty (and development) has changed. Second, dashboards leave trade-offs completely open; thus they do not catalyze public scrutiny on these trade-offs, nor encourage transparency. Third, dashboards are blind

to the joint distribution of achievements (or deprivations), something also acknowledged by Lustig (2011) and even Ravallion (2011). There is increasing consensus on the importance of considering the joint distribution (see, for example, Stiglitz, Sen, and Fitoussi 2009: 15; Deaton: 14–15). Finally, in the particular case of poverty measurement, a dashboard is unable to answer the basic question of who is poor.

Thus, despite the challenges, many still argue for summary indices of development. One possible "way out" of potential controversies is to make each choice as transparent, explicit, and justifiable as possible. A common practice in this respect is to follow an axiomatic framework that clearly states the direction of change of the summary measure (or the requirement not to change) under different possible transformations of the achievements. This has been the tradition followed in the unidimensional inequality and poverty measurement. It is also being followed by multidimensional indices of poverty, as evidenced by several papers in this area, including Alkire and Foster (2011), on which the MPI is based. This has been less common in the area of composite indices of development, but not totally absent, as shown by Chakravarty (2003) and Foster, Lopez-Calva, and Szekely (2005). Axiomatic frameworks are helpful in selecting indices and in identifying trade-offs between the desired properties. For example, for policy relevance, it is useful for a composite index to be subgroup consistent, such that if the development level of one subgroup (say a geographical region) rises and the rest are unchanged, the value of the overall index rises. Yet not all indices satisfy this property (see Foster, Lopez-Calva, and Szekely 2005). Similarly, also for policy convenience, one may want to break the index down into the contributions of its dimensional components; however, this requires assuming independence of the considered attributes.

A second important "way out" of controversies is to perform thorough robustness checks of the particular selection of normalization procedures and weighting structures, as done by Slottje (1991) and stressed by Ravallion (2010a), among others. In the particular cases of the HDI and the MPI, these checks suggest that country rankings are highly robust to alternative weighting structures. (For the HDI, see Foster, McGillivray, and Seth 2012; for the MPI, see Alkire and Santos 2013.)

Issues Specific to Gender Indices

Gender equality is central to development. It is well documented that in some regions of the world there is an anti-female bias that starts as early as before birth, with female children more likely to be aborted; they are also more likely to die earlier because of neglect (Sen 1990, 2003). Gender bias also exists in other dimensions such as food consumption, education, employment, and income-earning opportunities (Anand and Sen 1994: 11). Aside from the obvious unfairness of this bias, enhancing women's achievements in the mentioned dimensions is instrumental to other development goals.

Naturally, there have been efforts to capture gender bias in composite indices of development. In particular, the 1995 HDR, which focused on Gender and Human Development, introduced the Gender-Related Development Index (GDI) and the Gender Empowerment Measure (GEM). The GDI considered gender equality in the same three dimensions as the HDI and with very similar indicators (life expectancy by gender; adult literacy and enrolment by gender; female and male income shares). The objective was to discount the level of human development by the degree of inequality between these two groups, and thus was

similar in spirit to the IHDI (Seth 2011). This was achieved using the harmonic mean to aggregate achievements of males and females within each dimension, and then the three indicators were aggregated with an arithmetic mean.

The GEM was designed to capture women's participation in economic and political decisions through women's representation in parliaments, women's share of managerial and professional positions, women's participation in the active labor force, and women's share of national income. As with GDI, achievements of each gender were aggregated using the harmonic mean within each dimension and then aggregated across dimensions with an arithmetic mean.[14]

Both GDI and GEM had important limitations.[15] A key one was that because of data limitations they had to rely significantly on imputations, especially for the income component. Additionally, since they aggregated across dimensions with an arithmetic mean, they were not penalizing uneven development across dimensions.

In 2010, these two indices were replaced by the Gender Inequality Index (GII), which followed the methodology proposed by Seth (2009). The index considers three dimensions: women's reproductive health, as measured by the (inverse of the) maternal mortality ratio and the (inverse of the) adolescent fertility rate; empowerment, as measured by the share of parliamentary seats held by each sex and attainment at secondary or higher educational level; and labor market participation, as measured by the labor market participation rate for each gender. By not including income as an indicator, GII avoids the need to impute values for a significant number of countries, and thus the estimates are more reliable. Like the GDI and GEM, GII captures inequality *across* genders by aggregating the male and female indices with the harmonic mean. However, GII also captures inequality in achievements across dimensions *within* each gender using the geometric mean.[16]

Although the GII is an improvement over the GDI and GEM, it has a number of shortcomings (summarized in Seth 2011: 16). One in particular is that the health indicators are only applicable to women; thus men are given a value of "one" as if they had achieved the best possible outcome. However, this does not really provide a basis for comparison of achievements across genders. Another is that the indicators of empowerment have a bias towards elites. To avoid that, they should include participation at the local government level and elsewhere in the community and public life.

There are several other gender indices. Van Staveren (2012) compares five of them: the GII, the Global Gender Gap Index (GGGI, used by the World Economic Forum), the Social Institutions and Gender Index (SIGI, OECD), the Gender Equality Index (GEI, Indices of Social Development database of the Institute of Social Studies of Erasmus University Rotterdam), and the Women's Economic Opportunities Index (WEOI, Economist Intelligence Unit). She finds that the Pearson correlations between the indices are relatively high (between 0.50 and 0.81). However, each index yields quite different ranking results. This is because they focus on different dimensions of human development, which she classifies into resources, capabilities, functionings, and institutions. For example, while GII uses mostly indicators of functionings, SIGI focuses on institutional gender equality and WEOI uses mainly indicators of resources. The rankings at the bottom are more similar than those at the top, suggesting that the different dimensions of human development do not automatically move together as countries develop.

The discussion above suggests that the construction of gender-related composite indices faces additional specific challenges on top of those that affect the design of composite indi-

ces in general. Klasen (2007) reviews some of these issues. Essentially, he notes that a great deal of gender inequality is generated within the household, be it allocation of income, food, or educational opportunities. This is obviously influenced by women's empowerment, a variable difficult to measure as women are typically willing to forgo resources for their children and to delegate decision-making power. In order to uncover these intra-household allocation dynamics, Klasen highlights the need for better quality data on functionings such as nutrition and health status, cognitive abilities, time use, and so on. Additionally, he notes that combining stock and flow indicators becomes particularly crucial in gender indices, where life expectancy should be complemented by some stock measure in order to capture gender-selective abortions.

Conclusion

Composite indices stand as one of the options to measure development, as an alternative to using a portfolio of indicators or simply the GNP (or GDP) per capita. With composite indices we broaden the considered dimensions of development, an advantage with respect to GNP, and we gain power of synthesis such that countries or regions can be ranked, an advantage with respect to portfolios of indicators. Yet by aggregating "incomparables" we compromise on not expressing all components in market prices. Additionally, we cannot sensibly integrate *all* the relevant dimensions present in a dashboard.

While no single measure will suffice for measuring development, different measures may suit different purposes. Composite (and multidimensional) indices offer a flexible framework that can prove helpful in many instances. However, their construction faces a number of trade-offs. In selecting dimensions and indicators one can be comprehensive, albeit possibly redundant, or parsimonious, at risk of omitting significant variables. Furthermore, avoiding redundancy by including lowly correlated indicators can compromise the robustness of the index to alternative weighting structures. The index components can be "universal" and available for a wide number of countries, but possibly not as relevant to specific contexts. Also, the index can be a composite one, overlooking joint deprivations, or a multidimensional one, imposing high data requirements.

None of these decisions is trivial for development policy, and none is free from value judgments. As argued by Atkinson (2001), there is a need to bring back into economics the study of normative principles that underlie our welfare assessments. In line with this observation, a number of practices related to their use seem recommendable. First, to fully specify the purpose of a measure. Second, to select dimensions, indicators, and weights (in the broad sense of implicit trade-offs of components) with as much public scrutiny and justification as possible. In this respect, it is desirable to extend the practice of participatory processes to perform legitimate choices. Third, to elicit at least some of the alternative roads not taken. Fourth, to choose the mathematical structure of an index in view of alternative axiomatic frameworks, so that the direction in which the index will move under specific transformations is transparent. Fifth, to perform robustness tests in order to make explicit the scope of the conclusions that may be derived from the index values. Finally, to leave composite indices open to revision, as feedback from the different stakeholders may offer new insights into measurement.

The design and use of composite indices would also benefit from improvements in data collection, in particular at least a core set of outcomes (functionings) measurements in a cross-country comparable way.

Notes

1. From now onwards we refer to GNP generically, which may in fact be GNP or GDP. The implications of each of these specifications for measuring development are not addressed in this chapter.
2. See UNEP/UNCTAD (1974) for a first articulation of the Basic Needs Approach. Other relevant reports were those of the Dag Hammarskjöld Foundation (1975); Herrera et al. (1976); and ILO (1976). In 1978, the World Bank started to foster the approach (Streeten et al. 1981).
3. Incidentally, there are important coincidences between the capability approach and the Christian view of economic development, as presented by the Social Doctrine of the Roman Catholic Church: "Development…cannot be restricted to economic growth alone…it must foster the development of each man and of the whole man" (Pope Paul VI, 1967, *Populorum Progressio*, point 14).
4. The use of the log of the real GDP per capita was to reflect the diminishing returns of income on development.
5. Slottje (1991) showed empirically that the choice of the weighting technique is quite critical.
6. See OPHI (2011).
7. We concentrate on indices that were reported annually for several years.
8. Acute poverty is understood as a person's inability to meet minimum internationally agreed standards in a set of core human functionings and rudimentary services *simultaneously*.
9. The general means with $\beta < 1$ correspond to what Atkinson (1970) called the "equally distributed equivalent (EDE) income" (Y_{EDE}), which is core to his inequality measure defined as: $I_\beta = 1 - Y_{EDE} / \mu = 1 - \mu_\beta / \mu$.
10. See OECD (2008: 83–8) for other normalization functions.
11. See, for example, Seth (2009).
12. The construction of cross-country comparable unidimensional indices also requires imputations, intra- and extrapolations, and other assumptions regarding the comparability between countries.
13. This issue was early raised by Hicks and Streeten (1979) and later by Kelley (1991: 319) and McGillivray and Noorbakhsh (2007).
14. For details on the computation of both GDI and GEM, see UNDP (HDI 1995, Technical Note).
15. There are many reviews of the GDI and GEM indices. Klasen (2007) is one.
16. Note that, in contrast to GDI and GEM, GII is an index of gender *in*equality. For a detailed description of the steps to compute GII, see UNDP (HDI 2010) or Seth (2011).

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CHAPTER 9

DEVELOPMENT EVALUATION

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Introduction

Evaluation has long been considered an integral part of effective development, but over time there have been different views about how development evaluation should be undertaken. This chapter shows how these different approaches to development evaluation reflect different ideas about what development is and how evaluation can contribute to improving it.

If development is primarily understood to be about implementing effective development projects, then development evaluation needs to support this by helping to choose the right projects to invest in, and supporting their management. If development is primarily understood to involve scaling up effective technologies within a country or across countries, then development evaluation needs to focus on identifying effective technologies, communicating these findings clearly to policy-makers, and monitoring implementation fidelity during scaling up. If development is primarily about building the capacities of government and non-government organizations to create, adapt, and implement technologies that are appropriate to their diverse and changing situations, then development evaluation needs to build capacity, supporting implementers to improve their practice. (Note that these different assumptions reflect the distinctions that Ocampo (in this volume) has drawn between different approaches to "technological catching up.")

All of these concepts focus on evaluation's role in informing rational decision making, but there are other ways of thinking about how evaluation can influence development. Evaluation can contribute to positive incentives for good performance and to negative incentives (sanctions) for poor performance through its role in accountability to funders or to the community. By reassuring funders that money is being well spent, evaluation can also serve an important function in ensuring that effective programs and organizations receive ongoing funding.

Rather than seeing these as mutually exclusive, incommensurable approaches to development evaluation, in this chapter we discuss them as potentially appropriate choices for particular situations, depending on what is being evaluated and the purpose of the evaluation. None of the approaches described here are irrelevant, nor are any of them universally appropriate.

Despite the somewhat chronological presentation of different approaches in this chapter, there has not been a simple progression of theory and practice: in fact the various different approaches highlighted sequentially in this chapter have for the most part been present

throughout the history of development evaluation. Specific techniques have simply been emphasized and promoted more successfully than others as a result of the interplay of a range of different political, economic, and ideological factors at specific conjunctures.

In part this is because the different approaches retain some degree of relevance and appropriateness, at least in some circumstances. In part the lack of informed evolution of evaluation theory and practice is due to the limited knowledge of earlier evaluation theory and practice among practicing evaluators and those who develop evaluation guidelines. Because in most contexts there is no accreditation or certification among evaluators, no agreed curriculum or required training, and because evaluation draws on many different disciplines that tend to publish in different journals and books, there is often little understanding of what has already been done and what is currently being done in different disciplinary or organizational circles. This chapter attempts to bring together insights from different disciplines and sectors that often co-exist in mutual ignorance.

Informing Investment Decisions by Donors

Early development evaluation began at the same time as the growth in international aid following the Second World War. In a review of evaluation across different time periods, Basil Cracknell, former Chair of the OECD's Expert Group on Evaluation, pointed to the emphasis in the late 1960s and 1970s on "economic project appraisal, which was seen as crucial to good project selection and formulation" (Cracknell 2000). Little and Mirrlees (1968, 1974), initially in an OECD manual and then in revised form in a book, set out a process for ex ante evaluation of proposed projects, including the use of shadow prices for non-traded goods.

Ex ante evaluation, sometimes called economic project appraisal, is intended to improve development interventions in two important ways. First, the process itself helps improve the quality of planning by assessing the quality of the needs analysis that has been undertaken, the plausibility of the planned intervention in terms of the needs and the stated goals, and the compliance of planning processes. Second, ex ante impact evaluation can contribute to better investment decisions by providing estimates of the benefits, cost–benefit ratios, and return on investment for potential projects through a model linking inputs with estimated outcomes and impacts.

The approach has been criticized for lacking a critical analysis of the intended benefits and their likely distribution (in particular whether the very poor are likely to benefit), for producing misleadingly precise results that conceal the assumptions and judgments underpinning the calculations, and for favoring larger projects over smaller ones (which might arguably be more locally appropriate) because of the high technical costs of conducting cost–benefit analyses in the ways recommended (Stewart 1978; Chambers 1978). It also does not take account of the broader impact of development assistance which frees up government expenditure for other purposes (World Bank 1998).

Despite these concerns, ex ante evaluation continues to be widely used to inform investment decisions. Different terms are used for this approach, including ex ante impact assessment, return on investment (ROI), and value for money (VfM). A primary focus is on

ensuring that investments are guided towards the projects most likely to produce benefits—and on reassuring donors that this is the case. These can vary from quick estimates of likely benefits, as in the poverty impact assessment approach developed by the OECD's Development Assistance Committee (DAC) (1997), or more precise estimates based on econometric models. Another use for these models is to support simulations that can suggest changes to improve the reach or impact of projects, or reduce their cost without reducing their impact—for example, the ex ante evaluation of conditional cash transfer projects (Bourguignon, Ferreira, and Leite 2002). As development moved from discrete projects to more integrated and complex programs and broad policy reforms, and as aid moved from projects to more general budget support, the feasibility and relevance of this emphasis on ex ante project evaluation was further questioned.

Improving Planning and Accountability

Another early focus of development evaluation was to improve planning and management, especially by donor agencies. Much of this focused on the use of the logical framework, commonly referred to as the logframe. This is one of the most common and persistent approaches to evaluation in development, whose roots go back to the introduction of program budgeting in the U.S. Department of Defense in 1961.

Building on this experience, in 1965 a new Planning-Programming-Budgeting System (PPBS) was introduced across the U.S. federal government (Lyden and Miller 1967). In 1969, the U.S. Agency for International Development commissioned the company Practical Concepts to develop a guide applying the approach to the planning and evaluation of international aid projects. The approach centered around the use of a matrix, the logical framework, which was further developed for use by UN agencies by Gesellschaft für Technische Zusammenarbeit (GTZ), the German international development agency.

The logframe consisted of four components, each contained in a separate row of the matrix: activities, outputs, purpose (the rationale for producing the outputs), and goal (a higher-level objective to which this program and others contributed). For each component, four aspects were articulated, each in its own column: a narrative description, objectively verifiable indicators, means of verification, and assumptions and risks (factors outside the control of the program on which the success of achieving that component depended).

In addition to its use for planning and developing performance monitoring indicators, the logframe also provided a framework for external evaluation. These external evaluations tended to use the same criteria as research, emphasizing comprehensiveness and rigor, rather than producing timely and relevant information to inform decisions. This way of framing and describing programs continues to be a key feature of development evaluation. While logframes, and the logical framework approach more broadly, have helped provide a structure for both planning and evaluation, there are concerns about their use. These concerns relate to:

> "logic-less frames," where only an illusion of logic is provided; "jamming" of too much into one diagram; "lack-frames," which omit vital aspects of a project; and "lock-frames," whereby programme learning and adaptation are blocked. (Gasper 2000: 21–2)

Some changes have been made to the format of logframes—for example, the UK Department for International Development (DFID) has changed some of the terminology being used, and the level of detail required. However, it is not clear that these innovations actually address the most potent criticisms of the approach.

The logframe-inspired approach to evaluation has also been reflected in the broader results-based management (RBM) emphasis in the UN system and more widely. The 2005 Paris Declaration on Aid Effectiveness committed partner countries and donors to manage for results, "managing and implementing aid in a way that focus[es] on the desired results and uses information to improve decision making," and to "work together in a participatory approach to strengthen country capacities and demand for results-based management." The Accra Agenda for Action in 2008 prioritized a results focus to improve aid effectiveness, and the Busan Partnership for Effective Development Cooperation in 2011 again supported the principle of focusing on results. Development evaluation training, such as the International Program for Development Evaluation Training, has focused on incorporating evaluation as an integral part of results-based management, with its textbook *The Road to Results* (Morra Imas and Rist 2009).

Studies of RBM in practice, however, have found that its performance often falls short of its promise. A survey of members of the UN Evaluation Group in 2006 found that indicators and evaluations were rarely used as practical management tools, but were used mainly for reporting purposes. Studies of the UNDP and UN Secretariat found similar problems (Bester 2012).

Developing appropriate indicators and using them appropriately for management are not easy tasks. They require adequate resourcing of time, technical expertise (in content and monitoring), and legitimacy to overcome a tendency to focus on procedural compliance in terms of inputs, processes, and outputs. Perrin (2002), in his report of an OECD meeting on challenges to results-focused management, summed it up succinctly: "If the data that are reported do not reflect actual performance, they are meaningless or worse. It would be misleading or even dangerous to use them for policy- or decision-making." Gaming, data corruption, and goal displacement are predictable risks that need to be directly addressed. More recently, the need for credible evaluation of performance has increased with the introduction of "performance-based aid," where governments or non-government organizations receive additional aid if they meet performance targets (Eichler and Levine 2009; Olken, Onishi, and Wong 2012).

Rapid Appraisal

Traditional external evaluations, with their emphasis on rigor and comprehensiveness, often lacked focus and timeliness, which limited their usefulness. Rapid rural appraisal emerged in response to these concerns. While many of the shifts in approaches to development evaluation relate to debates and dynamics in the broader evaluation field, rapid rural appraisal arose from development evaluation experience. Rapid rural appraisal grew out of Farming Systems Research and Extension experiences and techniques promoted by the Consultative Group on International Agricultural Research Centers (CGIAR). Agriculture development specialist Anthony Ellman developed rapid rural appraisal after undertaking a study of the achievements of four different land settlement schemes in Sri Lanka (Ellman 1981). It took nine months to collect data and six months to complete the 305-page report for the study, by

which time it was no longer relevant, as government policy had changed. Ellman's next evaluation took a very different form: after the minimum data required had been identified, a concise 25-page report was produced, on the basis of six weeks of data collection by a team of ten people, with clear recommendations that were largely accepted (Crawford 1997).

Rapid rural appraisal is not a single method of data collection, but an overall approach to focusing and prioritizing data collection, and then mobilizing a team to collect and analyze data quickly to produce a succinct and targeted report. It should not be confused with the "quick and dirty" approach sometimes used in development evaluation, where one or two evaluators produce a report on the basis of a review of existing documentation and a brief field visit, limited to interviews with readily accessible sites and informants. Robert Chambers (1980) labeled this superficial approach "rural development tourism" and criticized its inherent biases in data collection and analysis. Rapid rural appraisal, by contrast, was intended to be "fairly quick and fairly clean," and to use a larger team with the necessary expertise to ensure an adequate standard of data collection and analysis in a short time.

Unlike the other approaches discussed in this chapter, rapid rural appraisal has not continued to be used widely. Some of its elements were incorporated in participatory approaches, but it seems to have been largely ignored in more recent discussions of development evaluation, again reflecting the lack of learning from previous practice and the continuing emphasis on methodologies advocated by academics publishing in refereed journals.

Participatory Approaches

While rapid rural appraisal addressed concerns about the timeliness of evaluations, it was still primarily focused on how external evaluators could provide information to inform decisions to be taken by external funders or policy-makers. With the increasing emphasis on the role of communities in producing sustained and effective development came a matching emphasis on involving communities in evaluation (Estrella et al. 2000) and a realization that their involvement in data collection could achieve greater coverage, more valid interpretation of data, and greater local ownership.

This trend reflected discussions in the wider evaluation literature about the value of involving project stakeholders in some way in an evaluation. Utilization-focused evaluation (Patton 2008) was based on two principles: identifying the primary intended users of an evaluation and their intended uses of it, and then making every subsequent decision about the design and conduct of the evaluation to ensure it was appropriate for their intended use. Action research focused on supporting those implementing a service to engage in cycles of improvement through an iterative process of observe–reflect–plan–act (Kemmis and McTaggart 2005; Burns, Harvey, and Aragón 2012).

Some approaches to participation focused on engaging local project staff; others focused on community members or intended beneficiaries. This participation could be at one of three levels, depending on whether the underlying rationale for using a participatory approach was primarily to improve the quality and relevance of data collected or to engage participants in implementing changes.

The first level of participation involves participants (especially community members) as important sources of information about the implementation of projects and programs, their

outcomes and impacts, and how well these match community needs. One approach to this level of participation, beneficiary assessment, was developed by the World Bank as "a process of listening systematically to key actors" (Salmen 2002) in order to document the experiences and values of the people who were intended to benefit from programs and projects. The rationale for beneficiary assessment was that "by encouraging people to express their beliefs and values, [it] leads to development which responds to, while it promotes, the fuller participation of people in their own development" (Salmen 2002). Its primary intended purpose, however, was to inform decisions by managers responsible for the particular project or program.

Using a combination of direct observation, conversational interviews, and participant observation, beneficiary assessment developed a picture of the concerns and experiences of intended beneficiaries. This could be used to check if the goals of the project matched the aspirations and needs of the community, to understand barriers to engagement and implementation, and to gather evidence about the causal paths by which the project or program produced its results. By 2002, over 300 projects funded by the World Bank in more than sixty countries had used the approach. However, in part because of the time needed, its widespread use has not continued, although most development evaluations seek to have some processes for including the "voice" of intended beneficiaries.

The second level of participation involves the community in collecting data. Participatory rural appraisal comprised a range of methods that could be readily used with a range of participants (including non-literate community members), such as community sketch maps, group-generated timelines, and trend lines. Participatory data collection can improve the quality of data collected (where community members can gain better access to key informants) and improve the quality of data analysis (by appropriately interpreting responses). It can also build community engagement in a project (Chambers 1994). It is important not to conflate participatory data collection with qualitative methods. Many of the approaches used in participatory rural appraisal involve quantifying data, with a particular emphasis on ensuring the right things are counted in the right way in order to represent the situation accurately (Chambers 2007).

The third level of participation involves control over the evaluation process itself. Sometimes this involves participatory data collection as well, and at other times it involves community members being part of the decision-making process, overseeing the activities of external evaluators who collect and analyze the data.

Many further developments of participatory approaches have emphasized strengths-based approaches to evaluation to support strengths-based approaches to development. The "positive deviance" approach, initially proposed by Marian Zeitlin and operationalized and developed by Jerry and Monique Sternin in the 1990s (Pascale, Sternin, and Sternin 2010), was developed for situations where, although the average experience is poor, there are some success cases that can enhance learning. Rather than having an external evaluator conduct an evaluation, identify lessons to be learned, and then try to convince community members to adopt them, the "positive deviance" approach involves the community in the entire process, including deciding what constitutes success. In an early example in Vietnam, researchers worked with community members to identify "outlier" families whose children were unusually well nourished and healthy, in a poor community where child malnutrition was widespread and seemingly intractable. Discussions with these families revealed differences in their feeding practices (adding crustaceans to the rice, providing several small meals) that could be adopted by other families. "Appreciative inquiry" takes a similar strengths-based approach, working with implementers to identify examples of good practices and explore ways of increasing their frequency (Elliott 1999).

Concerns have been expressed about the rigor and credibility of participatory approaches, especially when they have a strengths-based focus. In particular there are questions about possible bias in data collection because of participants' prior involvement (Leeuw and Vaessen 2009) and concerns that such evaluations can too easily be co-opted to avoid hard questions. Skills in group facilitation are needed for the effective use of these approaches.

Accountability to Communities

Earlier approaches to accountability emphasized the upward accountability of recipient governments to donors, and of program managers to senior management and elected officials in government. To complement this there developed an interest in downward accountability to the communities. Most governments have some level of accountability to their communities in the form of elections, but even when elections are free and fair and voting provides a level of accountability to the government, this is a "long path" of accountability, with infrequent opportunities to provide overall feedback on the government's performance.

Various evaluation approaches have been developed to provide a shorter path for accountability, each with its own logic of what constitutes good development and how evaluation can help to achieve it. Some approaches have focused on identifying gaps and shortfalls in service delivery, responding to basic problems such as teacher absenteeism, service opening hours, and availability of supplies. Citizen Report Cards, developed in the Indian state of Bangalore by the Public Affairs Centre, a local NGO, gathered user feedback on the performance of public services, such as whether health clinics were open at the advertised times. The process involved extensive media coverage and civil society advocacy to achieve change by "naming and shaming" poor performers (Ravindra 2004).

Technological developments have made it easier for communities to report on observable aspects of service delivery performance. The increasing use of mobile phones, especially in Africa, has provided a way to get information quickly from a dispersed team of data collectors or from community members. For example, the Stop Stock Outs project in Kenya conducted coordinated surveys of the drugs available at health clinics, reporting on those that did not have first-line medicines for malaria, HIV/AIDs, and other common diseases.

All of these projects depend on the willingness and ability of government agencies to respond to identified problems. Some approaches to community accountability work to help develop this capacity. For example, "Citizen Voice and Action," developed by the international NGO World Vision, also includes processes to support dialogue between communities and service providers so they can together develop solutions to identified problems and monitor progress in addressing them, rather than taking an adversarial approach (Walker 2009).

Finding Out "What Works"

The increasing focus on the improvement of programs led to concerns that hard questions were not being asked about terminating ineffective programs, and that insufficient attention was being paid to identifying successful technologies that lend themselves to being scaled up.

There was also concern that public support for international aid was faltering, requiring a demonstration of the value of investments in development. These concerns, combined with the rise of the "what works" movement in the USA and UK, led to systematic efforts to increase the use of experimental research designs in development evaluation. These efforts were explicitly inspired by the use of randomized control trials (RCTs) in clinical trials to test the effectiveness of different drugs or medical treatments, and they borrowed the concept of the "gold standard" and the "hierarchy of evidence," where RCTs were seen as the highest quality research design, some quasi-experimental designs (propensity scores, difference-in-difference) as the second highest quality, and non-experimental designs as poor quality.

While RCTs had been used in social program evaluations since the 1960s, their use in development began much later. In 2003 the Poverty Action Lab at the Massachusetts Institute of Technology (MIT) and Innovations for Poverty Action based at Yale University were established with the aim of creating a network to both undertake and advocate for the use of RCTs. In 2004, the Center for Global Development in Washington convened an "evaluation gap" working group to examine why what it termed "rigorous impact evaluations" of social development programs were rare, and what could be done to change this situation.

The resultant working paper, "When Will We Ever Learn?" (Savedoff, Levine, and Birdsall 2006), identified the fact that much of development evaluation did not adequately address questions of impact. Far too often it consisted of a "quick and dirty" evaluation planned and conducted towards the end of a project, drawing on project documents and monitoring data, interviews with key informants, and sometimes some cursory observation in a field visit and group interviews with beneficiaries, all of whom were well aware that the continuation of the project depended on its being seen to be effective. The paper argued that weak evidence of effectiveness was produced by these evaluations, given the absence of good quality measures of impacts and information about any negative impacts, little attention to the match between intended beneficiaries and those who had actually benefited, similar inattention to the likely sustainability of these impacts, and little effort at attribution beyond noting that the intended impacts had occurred. These discussions led in 2009 to the launch of the International Initiative for Impact Evaluation (3IE), an organization created to generate, synthesize, and support the use of rigorous evidence to inform policy in development.

Advocates for the approach claimed it was particularly well placed to be able to identify interventions that work well so that they can be scaled up and rolled out more widely (Duflo 2004; Duflo, Glennerster, and Kremer 2007). Its particular strength was the construction of a counterfactual: a group that does not receive the intervention that is to be evaluated, but that can be compared statistically to the group that did receive the intervention. A central plank in the case made by proponents of randomized control trials is that by randomly assigning subjects to either the experimental or the control group (i.e. the group that receives the intervention or the group that does not), the only difference between them will be the intervention, and thus differences between the two groups can logically be ascribed to the intervention and the intervention alone. Yet RCTs need to manage the risk that random error will produce non-equivalent group needs. This can be achieved through large sample sizes, inspecting groups for comparability on relevant variables, and conducting multiple studies.

The RCT approach to evaluation has been criticized on a number of grounds. Concerns have often been expressed about the ethical implications of experimental research designs, where only some participants receive a potentially beneficial program. This can however be readily addressed, especially in resource-constrained situations, by ensuring that the control

group is queued to receive the program if it is shown to be effective. Other critiques have highlighted the fact that evidence-based medicine does not use RCTs alone, but draws on both quasi-experimental research (epidemiological designs) and non-experimental designs (including single case studies). RCTs have also been criticized for their "misunderstanding of exogeneity and the handling of heterogeneity" (Deaton 2010).

Some concerns have related to the methodological aspects of the approach and its ability to produce useful knowledge, given its assumption that an estimate of mean differences in outcomes is the most useful finding for informing policy and practice (Heckman 1992). A key concern has been that the emphasis on the average effect risks masking differential effects, which can be large and important. A narrow focus on "what works" does not distinguish between the winners and losers from a particular project or policy, nor identify whether the result is desirable.

For example, a microfinance project might have a slightly positive impact, on average: by producing strong positive impacts for less poor people who are better able to put the money to productive use to generate income, and strong negative impacts for very poor people who are more likely to access money to meet immediate needs. Very poor people lack the capacity to use loans to generate income to improve their situation or even repay the principal. While it is sometimes possible to identify subgroups whose experience is likely to be different from the average—men and women, urban and rural, indigenous and other people—in other cases these subgroups are not evident in advance, being based on factors other than simple demographics (for example, the level of family violence in the household). Because the statistical power of RCTs is designed with these identified subgroups in mind, it is not always possible to disaggregate them by factors that become evident only during the implementation of the project.

Some concerns relate to the practical implementation aspects of RCTs and their claims of rigor. Achieving the high standards required can be challenging. In many instances, comparison groups are used instead of control groups, or the process of randomly assigning participants to different groups is poorly done, because of high attrition rates or other breakdowns in the experimental design. Whatever the reason, if random assignment is poorly done, its key purpose, which is to address selection bias, is not achieved and the ability to demonstrate causal attribution is drastically reduced. Deaton (2010) has concluded that "actual experiments are frequently subject to practical problems that undermine any claims to statistical or epistemic superiority."

Another concern has been that the focus on developing evidence of what works and convincing donors and governments that they should support certain initiatives is not helpful when the focus of agencies is to improve programs to which a formal (or political) commitment has already been made. This has highlighted the need to work on the "demand" end of evidence-based policy as well as on the "supply" end. Demand includes the individual skills and motivations of policy-makers and other decision-makers to request evidence to support their decisions, and the political and organizational environment that either supports or inhibits this—for example, requirements for evidence to be systematically included in planning proposals. Supply includes the skills and motivations of evaluators, researchers, and community members to generate appropriate evidence to inform decisions.

Concerns have also been expressed about the limited range of interventions suitable for experimental research designs. RCTs are at their best in discrete projects with a large population size, where randomization is an option and where impacts will be discernible within a

reasonably short time. Development interventions that operate at the level of the community, region, or nation do not lend themselves to using random assignment, as the unit of analysis is often too large (thus masking internal variation) and too few in number (thus negating meaningful comparisons).

More recently, increasing attention has been paid to the limitations of single studies, however large and well-designed and -implemented. Results from a single study can still be subject to random error, which random assignment does not reduce, and its external validity, or its ability to generalize findings from one site or population to another, is limited. As a result, there is increasing attention on conducting multiple studies and undertaking systematic reviews that summarize the range of credible evidence on a topic. This has included creating a new international development coordinating group in the Campbell Collaboration, an organization that focuses on supporting systematic reviews of evidence in social programs.

Some systematic reviews include only evidence from RCTs, despite concerns raised in evidence-based medicine about the risks of excluding potentially relevant evidence from other research designs.[1] Other reviews include some quasi-experimental designs, such as propensity score matching and regression discontinuity. Evidence can be synthesized using meta-analysis, producing an overall statistical summary, or narrative synthesis along the lines of a literature review. Meta-analyses cannot successfully address contextual variations adequately unless all the studies have presented disaggregation of their data using the relevant variables.

Another significant development in this approach has been increasing interest in using causal inference techniques from natural science and social science, such as multiple lines and levels of evidence, process tracing, comparative case studies, qualitative comparative analysis, and contribution analysis (Iverson 2003; Stern et al. 2012) to identify "what works" in situations where experimental or quasi-experimental designs are not possible. More radically, some approaches argue that, given the multiple contributors to impacts, it is not possible to undertake credible attribution of impacts to an intervention. Outcome mapping (Earl, Carden, and Smutylo 2001) focuses on identifying "boundary partners"—organizations outside the control of an intervention but within its sphere of influence, and critical to achieving the intended impacts—and articulating progress markers of intermediate outcomes related to their activity.

What Works for Whom

Realist evaluation (Pawson and Tilley 1997) has been increasingly used in health and community services evaluations, particularly in the UK and Canada. Its use in evaluation addresses some of the limitations of the "what works" agenda. A realist evaluation asks: What works for whom, under what circumstances, and how? This goes beyond simply identifying and reporting patterns of results. Realist evaluation involves iteratively constructing and testing (against a variety of evidence) "context-mechanism-outcome configurations"—different theories about causal mechanisms that operate in particular contexts (implementation environment or participant characteristics) to produce certain outcomes. The strength of this approach is its investigation of heterogeneity and external validity, producing results with more information about their potential for transferability to other sites. However, the approach has been criticized for providing less clear messages for policy-makers.

A further development of this approach has been realist synthesis (Pawson 2006), a systematic review using a realist framework. It draws on a range of credible evidence, including impact evaluations that use non-experimental research designs, and seeks to explain how the evidence reflects causal mechanisms that work differently in different contexts. These reports lend themselves to moving beyond knowledge collection to knowledge translation—helping policy-makers and practitioners understand the situations in which interventions are likely to be effective, and the types of adaptation that will be appropriate.

Responding to Complexity

At the same time as RCT-oriented understandings of evidence-based policy came to the fore, other researchers seeking to inform policy were exploring how insights from complexity science could be used to help individuals, communities, and organizations develop the resilience needed to respond to local circumstances and ongoing change (Ramalingam et al. 2008). Interestingly, given the emphasis on drug trials as an exemplar for research and evaluation, many of the examples of applying complexity concepts in evaluation have been undertaken in the health area (Sibthorpe, Glasgow, and Longstaff 2004).

Complexity-based approaches recognize the rapid, continuing, and discontinuous nature of change, which can be poorly served by evaluation approaches that are premised on a fairly stable situation where what works largely remains constant and evaluation is mostly about checking compliance with plans. In the complexity-based approaches, effective development is seen not as identifying what works and then scaling it up, but rather as supporting ongoing adaptation and responsiveness to new needs, risks, and opportunities, and to individuals' different needs.

Complex-adaptive approaches to development evaluation draw on Glouberman and Zimmerman's (2002) distinction between simple, complicated, and complex. In this taxonomy, "simple" describes situations in which there are rules that can be followed and there is agreement on a single way to achieve a result; "complicated" indicates the presence of many components, each of which requires expertise and coordination; and "complex" indicates the presence of emergent and responsive features, with relationships being the key to success. Kurtz and Snowden (2003) characterized simple as the domain of the "known," where cause and effect are well understood, and best practices can be confidently recommended. They see complicated as the domain of the "knowable," where expert knowledge is required, and complex as the domain of the "unknowable," where patterns are evident only in retrospect. Simple interventions need competent transfer of findings. Complicated interventions need communication of differentiated findings, and support to select and adapt them appropriately. Complex interventions need support for ongoing learning.

Dynamic and emergent interventions present a challenge to conventional linear processes of developing an evaluation, implementing it, and reporting the findings. Dynamic interventions will change substantially over time, and their specific impacts cannot always be identified in advance. For example, community development projects often work by bringing together community members to identify local issues, develop a plan for addressing them, gather resources and implement the plan, and then review progress and plan again. Where projects have a similar desired outcome, they are unlikely to implement the same

activities. Developmental evaluation (Patton 2010) aims to support ongoing adaptation and learning to respond to emerging opportunities and priorities and to the different needs of individual communities or beneficiaries.

Because complexity-based approaches to evaluation are relatively new, there are still few examples of the approach or analyses of its strengths and weaknesses. There has been concern that evidence generated by such evaluations is insufficiently clear and does not provide either policy-makers or program implementers with clear direction or instruction on what should constitute good practice. A related concern appears to be that this approach can provide an overly persuasive reason not to do good, rigorous planning, and that generalized rough frameworks may suffice. There is also a concern that it assumes a high level of skills and knowledge among service deliverers and a commitment to ongoing learning, assumptions that might not be appropriate in many resource-limited situations.

Country-led Evaluation

The Paris Declaration on Aid Effectiveness (OECD 2005)[2] outlined "far-reaching monitorable actions" to reform how aid is delivered and managed. The overarching concern was to strengthen governance and improve development performance. The declaration directly addressed the shift in how development should be curated. Previously, the underlying assumption was that much of the work being done in development was focused on meeting the expectations of donors and providing evidence to be accountable to the North. The Paris Declaration shifted this explicitly and made it clear that developing country processes should belong to and be owned by the country concerned. The corollary is that evaluation should also be for use by the government responsible for the country.

More recently this trend has been accelerated by the strong growth in the developmental state, or state capitalism. In this model, the state makes highly deliberate and purposeful use of market mechanisms to achieve developmental outcomes. The prime examples of this approach are China and Brazil. In a developmental state, the focus shifts from discrete, individual evaluations that provide evidence to external donors for accountability purposes, to a greater concern with evaluation systems that generate useful knowledge for use in informing policy and improving program implementation. The long-term implications of this shift have yet to show themselves. Associated with this is increasing emphasis on building national evaluation capacities, in terms of supply and demand, including the skills and expertise of internal and external evaluators and evaluation users, as well as organizational incentive systems. Evaluation associations can play a role in both of these (Holvoet, Dewachter, and Gildemyn 2011).

Conclusion

The different types of evaluation are summarized in Table 9.1, in terms of their underlying assumptions about what constitutes development, and how evaluation can support this. Effective development evaluation matches the approach to development that is being used,

Table 9.1 Different types of evaluation

If development is mostly about	And evaluation supports development by	Then the type of evaluation needed will be
PROVIDING INFORMATION FOR DECISION-MAKERS		
Choosing the right programs to invest in	Helping to manage investment risk	Ex ante impact evaluation
Effective planning and management of projects and programs	Helping to clarify what needs to be done and providing ongoing feedback on progress	Performance monitoring (logical framework analysis, results-based management); external review; rapid rural appraisal
Scaling up effective projects and programs	Identifying "what works" and monitoring fidelity of implementation	Experimental or quasi-experimental evaluations that provide estimates of average net impact; compliance monitoring of activities
Translation and adaptation of appropriate technology	Identifying what works in what circumstances and supporting implementers in translating findings to new situations	Explanations of how interventions work, and under what circumstances ("what works when," "good practices," realistic evaluation)
Resilience in the face of uncertainty and rapid change	Supporting ongoing adaptation and responsiveness	Real-time evaluation to support front-line workers; dialogue between partners
Supporting local people in becoming agents of their own development	Supporting beneficiaries and other stakeholders in developing and sharing solutions, including managing, conducting, and using evaluation; learning from success	Participatory approaches; strengths-based approaches; building national capacity for evaluation
CHANGING BEHAVIOR THROUGH INCENTIVES		
Donors and central government ensuring that national partners (government agencies and NGOs) do the right thing	Identifying those not doing the right thing so they can be sanctioned, and motivating all to do the right thing	Upwards accountability
	Identifying those doing the right thing so they can be rewarded, and motivating all to do the right thing	Rewards systems (performance-based aid)
Civil society ensuring that government agencies and NGOs do the right thing	Identifying and sanctioning those not doing the right thing and/or supporting agencies to improve their performance	Community accountability

Source: Author's own design (Patricia Rogers and Dugan Fraser).

and how evaluation is intended to support it. The various approaches to development evaluation discussed in this chapter differ in important ways in terms of:

- What should be the main focus of evaluation: pilot projects or all projects; discrete projects or broader policy initiatives.
- When evaluation is most important: before, during, or after implementation.
- Who should be involved in doing evaluation: internal staff, external evaluators, community members.
- Who should control it: individual donors, a joint group involving partner governments, or an alliance of donors, national governments, and community groups.
- What relative emphasis should be placed on monitoring versus evaluation.
- Whether the methods and standards for evaluation should be the same as those for research.

An awareness of the different approaches, and the types of development for which they are best suited, increases the likelihood that evaluation will be appropriately matched to its situation and succeed in contributing to development.

Notes

1. This point was made eloquently by Smith and Pell (2003) in their review of evidence for the effectiveness of parachutes as a technology to reduce trauma from jumping out of planes.
2. The full text of the Paris Declaration on Aid Effectiveness is available online at <http://www.oecd.org/dac/effectiveness/34428351.pdf>.

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PART 2

CONCEPTS AND THEORIES

State and Society

The role of the state arises in nearly every chapter of this volume, so central an actor has it been to development efforts since the Second World War. Indeed, it is the primary actor of the field, even though we identify many others in Part 3 of this volume. But, *pace* Margaret Thatcher, there is such a thing as society. It plays an important role both as modeling clay (or subject) for the state, and as a sum total of individuals and groups organized to achieve a myriad of goals (including developmental ones). It operates under the authority of a (more or less legitimate) state, but the *bona fides* of those speaking and acting for the state (more or less legitimately) have in turn at times throughout history been challenged by elements within society through methods ranging from all-out revolution to those of non-violent contestation and resistance.

Because the concepts of state and society are each subject to manifold interpretations, it may be useful to consider some of these. We tend to equate the notion of state today with that of countries recognized under international law within circumscribed territories. It was not always so: early notions of the state related to ideas of power and authority, specifically the relationship between human beings and political authority. Aristotle (384–322 BC)'s concept of the "polis" applied both to a city-state and to a society. Cicero (106–43 BC) was concerned with authority, which stemmed from the Roman (Republic's) Senate. Machiavelli (1469–1527) is credited with the first use of the word "state" in *The Prince*, a textbook on statecraft. Although mostly referring to small but prosperous Italian city-states, he employed the term

in its modern meaning of a territory with defined borders and a central authority which had to be obeyed (Bealey and Johnson 1999). Among contemporary scholars, Craig Calhoun highlights "Max Weber's influential definition, a set of institutions that possesses a monopoly on rule-making and the legitimate use of force within a bounded territory—powers collectively termed sovereignty" (Calhoun 2002b).

In essence, society represents a web of associative human relationships (*OED* 2013). Contrasted to the state, it is commonly known as civil society, a distinction formed in the seventeenth and eighteenth centuries through early modern reflection on the origins of the social order and the nature of the state by, for example, John Locke, Thomas Paine, Adam Smith, and Adam Ferguson (Calhoun 2002a). Today, definitions can range from those centered on "a group of people who share a common culture, occupy a particular territorial area, and feel themselves to constitute a unified and distinct entity" to, more loosely, "human association or interaction generally, as in the phrase 'the society of his friends'" (Scott and Marshall 2009; Frisby and Sayer 1986). "The crucial innovation of the Early Modern era was to understand society as at least potentially self-organizing, rather than organized only by rulers. This was exemplified by the market but not limited to it. It formed one basis for understanding society as a distinct object of analysis, not reducible to either state or individual" (*OED* 2013).

Albert Berry (Chapter 10), in a wide-ranging discussion on economic development, inclusion and human satisfaction, notes that most economists have now retreated from earlier assumptions that the main societal "good" to which the economics discipline can contribute is growth, today recognizing that other economic outcomes matter to human welfare. The recent claim, echoing a line from the U.S. Constitution, that human happiness matters above all, underscores both that we need economic systems better able to respond to existing human needs and ones that allow "humankind to get more out of whatever the economy does produce." In such systems, greater economic, social, and political equality are all likely contributors to the sense of inclusion that most human beings crave. Berry considers ways in which income growth, socio-economic equality and healthy inclusion interact to determine levels of satisfaction and happiness in a society. He argues, among other propositions, that because people are influenced by the character of the society and economy within which they live, it is important that the economy and public policy "foster the better side of human nature and discourage the dark side."

State and society come together in many ways. One is social protection for the poor and other disadvantaged sectors of a country's population—the topic tackled by Armando Barrientos (Chapter 11). Social protection has emerged as one of the fastest growing areas of development policy and practice. Large-scale social assistance programs in middle-income developing countries providing direct financial transfers make an important contribution to the reduction of poverty and vulnerability, and to knowledge on poverty and its remedies. In poorer countries, reaching the intended beneficiaries can be difficult, as direct transfers are often frustrated by rent-seeking intermediaries and because the beneficiaries are often barely connected, if at all, with government and with financial institutions. Nevertheless, social protection is increasingly seen as an essential component of an effective development strategy that also features economic growth and basic service provision. As argued by Barrientos, "the rationale, conceptual basis, design, and effectiveness" of related programs in developing countries are much contested, although, mostly, their existence and necessity is not.

Law defines, intermediates, and modulates transactions and connections between state and citizen (as well as other actors falling in some respects under the authority of the state, such as private sector and civil society). While the rule of law is widely perceived as an important component of successful development, this is mostly understood to be so through law's constraining and ordering role vis-à-vis the state and in its role as guardian of the rights of citizens and other actors within society. But in development law has other functions as well, as documented by Kevin Davis and Mariana Prado (Chapter 12). They point out that as poor countries grow more prosperous, with concern over rent-seeking and corruption displaced by the need for effective regulation of powerful economic actors, new forms of legal and regulatory intervention become important. Their chapter, like that of Barrientos, is cross-cutting. They ask whether "the relationship between law and development is causal," in the sense that specific legal reforms cause specific development outcomes, and whether particular types of legal institutions can be associated with particular modes of economic organization or trajectories of economic development. These questions have major implications for policy-makers. While analyzing such relatively recent concepts as the Right to Development, they also focus on key limitations in the intellectual frameworks that have been dominant through the turn of the twenty-first century.

Maivân Clech Lâm (Chapter 13) focuses on globally widespread populations that have been systematically marginalized, economically and socially—those of indigenous peoples whose lands were overtaken by invasion and colonization and who consider themselves distinct from other sectors of the societies now prevailing in those territories, or parts of them. Much of her chapter explains and details how their plight has been addressed internationally (often with beneficial consequences in their own countries and regions). This was achieved in large part through normative development in the setting of the United Nations, as part of the very significant elaboration of new norms and rights that preceded and followed the adoption of the cornerstone Covenants of Civil and Political Rights and on Economic and Social and Cultural Rights of 1966. She narrates the significant imprint made in the development domain by the over 370 million persons, comprising about 5,000 ethno-linguistic entities distributed through some ninety countries and all geographical regions, who are now broadly recognized as constituting its indigenous peoples. Her chapter addresses their attempt to turn stark opposition into difficult engagement.

Huguette Labelle (Chapter 14) analyzes corruption, a universal phenomenon with a noxious impact on economic and social development. She provides the perspective of the admirably dynamic and comparatively new international research and advocacy non-governmental organization, Transparency International, which she has chaired for several years. Her chapter draws deeply on the economically and socially distorting outcomes of corruption in countries where many are poor, exacerbating inequalities and tensions within society. The fight against corruption does battle with the counter-intuitive reality that some of the economically fastest-growing countries today are also among the most corrupt, where the phenomenon is sometimes accepted as "enabling" productive activity in weak institutional environments. For Ms. Labelle, the genesis of corruption and any economistic justification for it can never serve as justification for it in light of its deleterious outcomes. This chapter is profitably read in conjunction with that by Charles Cater (Chapter 23) on Transparency, the analysis of which flows in complementary but different directions. The two chapters enrich each other.

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CHAPTER 10

GROWTH, INCLUSION, AND HUMAN SATISFACTION

ALBERT BERRY

Introduction

Many economists have presumed that the main societal "good" to which the discipline can contribute is economic growth. The necessary, albeit delayed, retreat from that presumption has been helped along both by the recognition that other economic outcomes matter to human welfare and by the claim by some students of the happiness literature that economic growth does not, on average, raise human satisfaction. As well as naturally casting some doubt on the desirability of growth per se, perhaps more importantly this latter claim underlines the importance of the search for (i) economic systems better capable than the current ones of responding to existing human needs, and (ii) ways in which humankind can learn to get more out of whatever the economy does produce.

In the context of existing market systems, it is generally accepted that societal welfare is greater when economic growth is pro-poor and, more generally, when it is egalitarian. It is also accepted that the availability and quality of employment matter greatly to people for the direct satisfaction that employment provides, and that for most people a solid sense of inclusion is important, whether mainly through their family, their community, or some other group.[1] Economic equality, social equality, and political equality are all likely contributors to a sense of inclusion, and each may be important to welfare through other mechanisms as well.

This chapter considers some of the ways in which income growth, socio-economic equality, and healthy inclusion interact to determine levels of satisfaction and happiness in a society. In so doing it makes three main points. First, the case that economic growth is by itself a secure route to human happiness is relatively weak. Second, equality and inclusiveness are obvious candidates as contributors to that happiness, making it therefore necessary to understand how they may best be fostered and how they relate to the rate and pattern of economic growth. Third, partly because people are influenced by the character of the society and economy within which they live, it is important that the economy and public policy foster the better side of human nature and discourage the dark side.

Background Ideas and Concepts

Over the last sixty years many countries have achieved good to very good growth rates, such that average per capita income in the countries of what was formerly called the Third World has risen about fourfold over that period, from about U.S.$580 (of year 2000) to around $2,300—a rise heavily influenced by the strong performances of the two biggest countries, China and India. In a number of countries, however, periods of economic growth have been accompanied by widening economic inequality (China is the most notorious recent case); the population-weighted average Gini coefficient for this same set of nations rose markedly over 1980–2000, and many of them have been facing severe challenges on the employment front.

Much concern has also been expressed about the extent and trends of exclusion, marginality, and socio-economic insecurity. Some of the links between economic growth and certain aspects of income (or consumption) equality are reasonably well understood, but those between growth and more sociological and psychological phenomena, such as a sense of satisfaction and inclusion/exclusion, are harder to nail down, in part because such concepts are by nature somewhat subjective and in part because their links to economic processes and economic growth have thus far received little in-depth analysis.

The literature based on "happiness" surveys now provides considerable evidence on how absolute income, relative income, employment, age, and various personal and family circumstances affect people's self-reported welfare. The literature on inclusion/exclusion is more varied in focus and emphasis. Exclusion from public services or other benefits received by most members of a society is objectively measurable and can be built into estimates of overall economic inequality. Analysis that aims to identify the mechanisms leading to inclusion or exclusion in a more general sense and to consider the direct psychological benefits and/or costs that affect satisfaction/happiness[2] is more difficult. "Psychological inclusion"—defined here as the state of feeling part of a social group (as small as the nuclear family or a group of intimate friends or as large as the nation or the world) in ways that are conducive to personal well-being—matters differently across people, groups, and cultures. Psychological exclusion may be active or passive, according to whether a person suffers aggressive exclusion (e.g. overt and maliciously hurtful discrimination) or simply the absence of active inclusion. Historically, in most cultures a key unit has been the extended family or clan. Larger social groups tend to become more important as societies evolve, with the community important in some and the country in others. Exclusion can be experienced at either the individual or the group level. The collective character of much exclusion focuses attention on group or horizontal inequalities. Inequality is causally tied in both directions to exclusion, whether the focus is at the group level or the individual level. Group exclusion is strongly intergenerational since, even more than family poverty, it involves multiple mechanisms of self-perpetuation.

One person's inclusion in a group is often the other side of another's exclusion. The overall societal implications of groups capable of providing a sense of belonging thus depend on whether and to what degree that sense is defined in reference to others who constitute the out-group or even the enemy. Many groups compete in ways that engender a sense of inclusion related to that competition; others do not compete, as for example in a neighborhood whose members mutually support each other and provide a sense of inclusion independent of their relationship to any other groups.

Inclusion or societal cohesion brings other benefits than the psychological boost from interaction and comradeship. Thus worker cohesion often raises group productivity; such "social capital" may be a significant determinant of aggregate productivity in an economy (Hall and Jones 1999; Isham, Kelly, and Ramaswamy 2002). Alternatively, association and interaction with others help build social networks that may provide support when it is needed.[3] On the economic side, such networking may be essentially functional, creating a sort of intangible personal or family capital that is parallel to a firm's intangible capital in the form of goodwill (whose economic value is reflected when it changes hands in the marketplace). Some mutual support networks are horizontal, involving people of roughly the same socio-economic status who may be best placed to help each other. Very low income families, however, are often precluded from participation in networks because they cannot reciprocate; at the limit their members may have only each other to rely on for support in difficult times, since collective support strategies are not feasible (Pahl 1984; Gonzalez de la Rocha 1986). All three conceptually distinct types of benefits may (and presumably frequently do) arise from the same associations.

Approaches to and scope for policy to promote social inclusion vary according to, among other things, the weight societies place on psychological/sociological welfare. In France, where the term "social exclusion" originated,[4] it referred to a "rupture of the social bond" or solidarity between the individual or group and the society. The European welfare state eventually grew out of the concept, with the idea of mutual obligation between individuals and the larger society. Many contemporary social protection policies can be seen as involving both a fulfillment of this sort of social contract by the government on behalf of the society and an attempt to counteract and weaken the society's cultural and institutional sources of exclusion. They thus aim both to counteract such direct economic correlates of exclusion as poverty and lack of access to social services (like health and education) and to lessen its sociological and psychological costs (Abel and Lewis 2002). The mechanisms of social exclusion (e.g. class and caste systems, ethnic divides) act as natural barriers to the effectiveness of such social protection policies (Barry 2002).

In the now industrial countries, social policy to foster inclusion (or combat exclusion) has often been associated with urbanization and the emergence of working-class interests (Dani and de Haan 2008: 8). An important characteristic of the welfare state as it emerged after the Second World War was the association of delivery of services with the extension of citizenship and rights. Social homogeneity made a higher level of taxation palatable as a quid pro quo for the social contract of the welfare state. The welfare crisis of the Great Depression was a powerful factor in creating an awareness of the need for social protection.

The processes have been very different in the global South. Contextual factors include colonialism, slavery, and ethnic exclusion. With the boundaries of many new countries not defined in ethno-linguistic terms and many tribal and ethnic conflicts still unresolved, social integration has been enormously challenging. Social policy has often been grafted onto still weak institutions. Unions have played a different and smaller role and non-governmental organizations (NGOs) a bigger one, and global influences have been more important. The special challenges confronting social policy in developing countries are exemplified by the extremity of the caste system in India and the ethnic rivalries in many of the artificially created African countries emerging from former colonial empires, and by the fact that in several Latin American countries the indigenous majority group(s) has suffered severe exclusion. In such settings social integration would be very challenging even if institutions were strong and accountable.

Empirical Relationships

Growth and Economic Equality

In the early days of development thinking, it was often held that the goals of growth and equality were at odds with each other,[5] and that in order to permit an adequate level of investment it was necessary to allow and foster the wealth of a few capitalists—the savers, innovators, and inventors. This view may have had some validity at certain points in the history of the now industrial countries, but it is now quite clear that inequality is not a generally necessary condition for fast growth, which can occur with either low or high levels of inequality and in a context either of rising inequality (as recently in India and, more dramatically, in China) or falling inequality (Taiwan and Indonesia during various periods). Some policy packages may achieve equality in ways that promote growth and others in ways that deter growth. In technical economic terms, achieving growth with equity does not appear to be a very difficult challenge. It is the exception rather than the norm in the real world for political and institutional reasons:[6] the pressures in favor of growth paths that favor the few, and the sometimes ideological belief that only the rich can save and create jobs.

Income Level and Happiness

Surveys of people's self-reported satisfaction or happiness provide a useful form of evidence with which to analyze questions like the extent to which higher and better distributed income fosters happiness and a sense of inclusion among the members of a society. Such surveys provide pro-growth people with some grounds for optimism. All studies report a positive cross-section relationship between absolute income and happiness; for example, in the U.S. the share of respondents reporting that they are very happy rises from 16 percent for the bottom income group to 44 percent for the top group, while the share who are not very happy falls from 23 percent to 6 percent (Easterlin 2001: 468). For many people, having a job is a requirement for personal fulfillment.[7] Many other things matter as well.[8] The analytic challenge is to sort out how the range of factors that contribute to human satisfaction interface with and are affected by economic processes.[9]

One step involves the interpretation of another key finding: that the average level of satisfaction in a country does not rise as much with over-time increases in per capita income as does the point-of-time cross-section relationship—in fact it may not rise at all. Average reported levels of well-being declined over 1972–98 in the U.S. and have been approximately flat in Britain (Blanchflower and Oswald 2004: 1359). One plausible explanation for such constancy is that relative income is very important to most people.[10] Among economists, major forerunners who have stressed its importance and that of conspicuous consumption are Duesenberry (1949) and Veblen (1973), together with many sociologists and psychologists.[11]

Easterlin's (1974) hypothesis that happiness is experienced in relation to expectations or aspirations and that these are largely defined in reference to people and groups close to one and to one's own personal trajectory predicts no large systematic difference in average happiness across countries with different income levels, other things held constant; it also implies that economic growth may have no net benefits at either a country or a world level. The evidence

most relevant to the developing country context is the over-time data for those countries, but its scarcity precludes any very general conclusions at this time. Among the optimists, Inglehart et al. (2008: 264) report that "Data from representative national surveys carried out from 1981 to 2007 show that happiness rose in 45 out of 52 countries where substantial time series data were available," something they attribute to economic development, democratization, and increasing social tolerance. Veenhoven (2010: 120) similarly concludes that the quality of life has been rising significantly in a good number of countries, and attributes this partly to the fact that "modern society provides a challenging environment that fits an innate human need for self-actualization."

Such optimists see a direct role for non-economic factors, though the changes in some of those factors may depend on rising incomes. Easterlin and Sawangfa (2009) criticize these and other studies for failing to take fully into account the lack of comparability across surveys from given countries. Their more restrictive set of criteria leaves just twelve developing countries, and although in most of these there was at least some increase in average life satisfaction, three of the fastest growing (China, Chile, and India), having among them nearly half of the developing world's population, recorded declines. Easterlin and Sawangfa's main contention, however, is that across these countries there is no correlation between *changes* in per capita income and in life satisfaction. If true, this would leave open the possibility that the last half-century or so has seen an upward trend in life satisfaction in the developing countries (or a significant number of them), but that this has been due to things other than growth of GDP per capita, for example falling poverty achieved through social policies, rising economic security, better employment conditions, or a variety of non-economic variables. This possibility underlines the need to better understand what other social and economic factors may have been at work.

Inequality and Happiness

The happiness surveys provide no clear story on people's feelings about inequality in their society (Stewart and Samman, this volume). Cross-country analysis led Berg and Veenhoven (2010) to the conclusion that living in an unequal society has if anything a small positive effect on happiness, whereas within-country analyses for Latin America and China led Graham and Felton (2006) and Knight and Gunatilaka (2011), respectively, to judge that greater inequality has a modest negative impact. Other studies hint at factors that might underlie a variety of relationships: people and groups no doubt vary in their aversion to or tolerance of inequality according to their own experience, and to their perception of what is fair and of whether inequality plays a useful role in society or is substantially the result of corruption and waste. Analysis of this relationship is at a very early stage.

Inclusion and Happiness

The happiness literature throws some quantitative, albeit often indirect light on the role of belonging as a source of satisfaction (e.g. the strongly negative impact of losing a spouse or being unemployed). Psychologists are unambiguous in their view that group identity is central to most people's lives. Schoolyard bullying, the subject of a recent wave of attention, exemplifies both the psychological costs of aggressive exclusion of individuals and the group

membership needs that help to induce such behavior. In the case of group exclusion, a key phenomenon is structural inequality—the attribution of an inferior status to a category of people, especially severe when the stronger group also dominates state institutions. Such inequality is reproduced through a wide range of mechanisms, often adding up to a vicious circle. Ethnicity clearly plays a major role.[12]

Important to the role of economic structure in the various forms of inclusion/exclusion are their links to economic inequality, as where poverty prevents a person or group from accessing a public service supposedly available to everyone or to poor people in particular; the more important these links, the more likely is it that raising the relative income of currently excluded groups will weaken the mechanisms and effects of that exclusion. Marquez et al. (2007: 33–5) present systematic evidence (from Latinobarometer surveys[13]) that poverty is seen by the populations of Latin America and the Caribbean as the main reason people are discriminated against, with lack of education second, followed by being old and by "lacking connections." Experiment-based evidence points to the fact that trust is reduced among people with widely varying levels of education (Marquez et al. 2007: 140). They conclude (2007: 71) that the labor market is one of the social loci where modern exclusionary forces have heightened the impact of social exclusion.

Policy in a Broader Societal Perspective

It remains a matter for empirical analysis to what degree an economically egalitarian society also fulfils the non-economic requirements for societal satisfaction, including the need for inclusion or, alternatively, the extent to which social policy instruments are more effective in achieving those social goals and possibly economic ones as well. Economics is involved in several different ways in policies directed at broad societal goals; here we distinguish four categories.

First are traditional economic policies relating to output variables and to primary income distribution. Second is tax and transfer policy, usually directly redistributive in character (at least in stated purpose), though as with any policy there may be effects on traditional economic variables as well. The last few decades have seen a considerable expansion of initiatives within this area: countries with new non-contributory pension systems, expanding public health systems, etc. The large size of the urban informal sector has led to a debate on the economic effects of an extension or universalization of already existing social protection systems.[14] A third category of policies aims to attack the underlying socio-economic inequalities that cause the observable inequalities in income, educational attainment, etc. Affirmative action programs like ethnic quotas for education and public sector jobs, etc., fall into this category.[15] Finally there are the policies directed (whatever the instruments involved) specifically at the social and psychological determinants of life satisfaction, including a sense of inclusion: for example, reforms of educational curricula and teaching practices to emphasize anti-racism and thus influence how people live together.

Policies to promote inclusiveness fall into the last two categories. Students of such policies distinguish several steps, including fostering general recognition of there being a problem, civic action to pressure and induce governments to act, and the establishment and clarification of rights (e.g. judicial, access to public services) that are desirable or even essential preludes to

policy design and implementation. Deepening the recognition of structural inequality and thereby softening societal attitudes helps to pave the way for change. This makes visibility of gender and ethnic inequalities important, including such basic steps as local data collection to help end the invisibility of socially excluded groups (Buviníc and Mazza 2008: 125). Partly through such pressures, the role of ethnicity in equality has come to be increasingly recognized in some Latin American countries (including Brazil). The Chinese government has started to promote the concept of a harmonious society, building on or actively promoting traditional values (Dani and de Haan 2008: 10).

Globalization and information technology have seen the emergence of global networks and the internationalization of ideas, with much potential to accelerate normative changes. In India, where progressive policies have been on the books for a long time with only limited action taken, the government has since 2004 felt compelled to deliver more to the poorest groups, partly through new schemes but also by introducing rights-based approaches promoted by sustained civil society advocacy—as, for example, with the employment guarantee scheme (Dani and de Haan 2008: 18). Sometimes the initiatives are generated by the groups themselves, though to be sustained they usually need support at the national level. Though laws and conventions are seldom sufficient conditions to achieve progress, they may be useful or even necessary. The group aspect of discrimination suggests the need for a framework based on collective rather than individual rights. Several Latin American countries have adopted constitutional frameworks that recognize excluded groups as distinct groups within the nation, sanctioning ethnic and cultural diversity. Failure of policies to be built on an understanding of power and discrimination can of course lead to unexpected results (Dani and de Haan 2008: 17).

Though naturally very resistant to change, structural inequality can be attacked through a variety of internal and external factors, some planned, some accidental. Sometimes transformation occurs through conflict and violence. Sometimes a softening of societal attitudes helps to pave the way for change. Dani and de Haan (2008: 14) note that the temporary emigration of millions of Pakistani and Indian workers to the Middle East has allowed many landless people to escape feudal bondage. Historically, many forms of discrimination have been eroded by a demand for labor strong enough to counteract the pressures for discrimination and exclusion. Improving access to decent employment often constitutes a mechanism to facilitate group identity and inclusion. This, together with the income generated and the self-esteem implicit in being able to carry out some socially valued activity, helps to explain why employment emerges as so important to so many people. It also suggests that the great potential for reducing economics-based exclusion is lost when, as is usually the case, countries do not have well-designed or -implemented employment strategies (Berry 2012).

Affirmative Action

Affirmative action may improve both economic equality and social inclusion in a variety of social policy areas, such as education (various levels and different instruments like quotas and conditional cash transfers), health and pensions, food distribution, input subsidies, and the labor market (via quotas for government or other employers, special training, programs to assist in the transition from school to the labor force, etc.).

Affirmative action programs require especially careful design, efficient administration, and good monitoring and evaluation. Sometimes the ongoing exclusion of the intended beneficiaries makes them hard to reach, and usually the opposition of the excluders constitutes a serious barrier. Effective policies often need to involve both the excluded group and the excluding society. Exemplifying this in the area of health, Jenks (2003) argues that the rehabilitation and reintegration of individual patients suffering from leprosy and the society's education on this health issue are best done in such a way as to involve the same actors that promoted exclusion, and thus create bridges across the divide separating the two groups.

When circumstances are particularly difficult it may be important to avoid aiming for the unattainable and in the process generating a counterproductive response.[16] Evaluation, and the database it calls for, can be especially important either in cases where progress toward equality is likely by nature to be slow—this makes it essential to know whether small improvements are occurring—or in cases where it is unclear *ex ante* whether the design itself is good, as might occur with some labor market policies, like high minimum wages in countries with large informal sectors. In such cases it is pivotal to have data not just on the average access or income of an excluded group but also on the variance of that access or income within the group, to guard against the danger that policy may favor a few winners at the expense of a larger number who may even fare worse than before.

India exemplifies such challenges. In response to extreme social inequality, the country has pursued various affirmative action programs. But even with a commitment from higher levels of government, it is not easy to circumvent both the elites who make up the "excluders" and the corrupt local officials who appropriate public funds when possible. Thus Jeffrey et al. (2005: 2085) conclude that the rural elite use their superior wealth, connections, and social status to ensure their sons' privileged access to schooling and government employment, and that the political rise of lower castes and the greater availability of educational opportunities, though allowing a small group of Dalits to raise their social standing, has failed to alter the broader historical relationships of exploitation. This study, however, lacks a sufficient time dimension to provide a confident assessment of whether the affirmative action is having an impact which, though gradual, might over time be significant.

In their more detailed analysis of eighty-nine West Bengal villages over 1978–98, Bardhan and Mookherjee (2006: 303) test the hypothesis that local elites through their control of local government prevent the benefits of targeted credit, agricultural input kits, employment programs, and fiscal grants from reaching their intended targets. They reject the hypothesis that higher poverty, land inequality, and an overlap between low caste and poverty in a village were systematically associated with measurable adverse effects on the targeting of private goods to the poor, though they did lead to lower employment generation out of allotted funds and to significantly lower allocation of resources to the village as a whole. Bardhan and Mookherjee (2006: 324) suggest that the intra-village targeting of credit and agricultural input kits occurs "in a context of rich information shared within the community concerning relative entitlements and allotments of different claimants." For public goods, however, the scope for elite capture is greater and the allocation of resources across villages, made by officials of higher-level governments (block, district, and state), is more influenced by the lobbying power and negotiating skills of the village representatives, which presumably depend on land and caste status.

Desai and Kulkarni's study (2008) of affirmative action on education in India over 1983 to 1999–2000 highlights the nature of societal response. Over the course of its implementation. higher-caste resentment against the program grew, culminating in widespread riots in 1990. The government's attempt to introduce quotas for "backward" castes in highly competitive

engineering and management schools saw the resentment flare up again, leading to increased sabotage and to a public discourse rife with prejudice against steps that "give to the undeserving classes and take away from the deserving." Professors reported problems in teaching lower-caste children on scholarship who are ill prepared (because the village schools continue to discriminate against them). Meanwhile, Dalit and Adivasi spokespeople complained that the policies were poorly implemented and hence had very little effect. Clearly, in cases like this a deep understanding of the social dynamics involved is necessary to ascertain the optimal route toward a reduction of injustice.

Affirmative Action on Labor

Overall employment strategies around the developing world are weak even when measured against the standard labor market target variables—quality and quantity of employment, working conditions, etc.; it is thus no surprise that they have typically not been carefully designed, analyzed, or evaluated in terms of promoting greater equality or greater inclusion.[17] But affirmative action programs do exist; on the demand side they include ethnic or caste-based hiring quotas, usually for public sector jobs, and guaranteed work schemes targeted to lower-income families. By far the largest of these is India's national program, with an estimated 52.5 million beneficiary families in 2009–10 (Zepeda et al. 2013: 13). On the supply side there have been new policy developments, such as training programs for people with disabilities (e.g. an Inter-American Development Bank-funded program in Mexico). Traineeships can sometimes improve labor market insertion of youth, though it is important to avoid the error of believing that what is mainly a labor demand problem can be resolved mainly by acting on the supply side.

As with other areas of affirmative action, having better data (and better analysis of it) is important in order to underpin the need for policy, to help sort out what the policy should be, and to provide the material for monitoring and evaluation. Labor market data on excluded groups needs to be much improved; information is usually available only on gender (Buviníc and Mazza 2008: 157).

Two tricky challenges warrant mention in this area. First, for employment guarantee systems to work well, it is necessary to keep the wage low enough to avoid mis-targeting and political corruption. Well-intentioned pressure to raise the wage runs the risk of undercutting the economic logic of such programs—that only a relatively low wage will keep the needy from being squeezed out. That risk is exemplified to some degree by the experience of India's famous Maharashtra Employment Guarantee Scheme, which after pioneering guaranteed work programs on a large scale from the mid-1970s, implemented a large wage increase in 1988 with negative effects on employment and the access of the poorest (Ravallion et al. 1993).

Second, pressing too strongly against discrimination in hiring can, depending on the setting, discourage employment of disadvantaged groups, especially on the part of the micro-, small, or medium enterprises (SMEs) that generate a considerable share of the paid jobs in developing countries. In the industrial countries, governments and larger firms have usually set the pace on the hiring of minority groups. Micro- and small enterprises are often ethnic based, as well as living closer to the margin of profitability, so this is not one of their strengths.

Social programs aimed at equity and inclusion usually face serious dangers on the corruption front, in part because the direct political weight of the beneficiary groups is low. Mobilization of those groups can help to counteract this problem, especially after a program has been going on for a period and comes gradually to be seen by them as a right (which brings

its own dangers). Civil society groups can also help. The potential of low-cost technology to circumvent corrupt officials is exemplified by the current proposal to use direct transfer of funds to the bank accounts of the beneficiaries of the Indian work guarantee program. Time and experience will tell how successful such a reform may be; it is part of the continuous cat-and-mouse game between the supporters of such programs and those who try to benefit illicitly from them. It may even sometimes be necessary to recognize that the corrupt officials, as co-beneficiaries of a program, do provide support for it.

Using Aggregate Evidence to Gauge Progress and Success

The analysis needed to backstop good social policies (affirmative action and other) involves not just the identification of the underlying problems that lead to exclusion and the monitoring and evaluation of programs put into place, but also the monitoring of the broader trends and patterns that reflect the severity of the exclusion and may therefore be used to measure progress at an aggregate level.

Consider, for example, ethnic and gender inequality in Latin America. Despite a relatively good database, too little analysis has been undertaken to quantify the degree of progress. Hall et al. (2006: 21) note the remarkable growth in the political influence of indigenous peoples, and the specially tailored health and education programs. There are data on the indigenous/non-indigenous gaps at specific points of time but too little analysis of trends over time in those gaps (or in other relevant outcomes) and in what may underlie them.

The advance of women in Latin America is another complicated and somewhat ambiguous story. Buviníc and Mazza (2008: 127) note that the situation of the average woman has improved markedly in recent decades but that black, indigenous, and other socially excluded women have been left behind; and that, more generally, the labor market gains of women have not been commensurate with their rising educational level "because of persistent exclusion from key occupations, formal sector employment, and better and higher quality jobs."

Meanwhile, aggregate income data suggest a reasonably positive story. Over the 1990s, together with a very rapid increase in female participation rates, there appears to have been an increase in female relative earnings (among all workers, paid or not), suggesting a significant increase in women's share of urban income and hence of total income (Berry 2012: 26). In Mexico, for example, that share of total (reported) urban income rose from about 19 percent in 1989 to about 25 percent in 2002; in Venezuela the rise was more dramatic, from 24 percent in 1990 to 34 percent in 2003. Such figures do not capture economic insecurity, however, and the high proportion of women in the urban informal sector is cause for concern, especially among the indigenous. Age discrimination is particularly relevant for women. Keeping all of these patterns in mind at once is a major analytical challenge.

Improving the Social Efficiency of Market Economies

Some policies to advance equality and inclusiveness are designed to work within an existing society/economy, while others (some affirmative action programs, for example) aspire to change the attitudes of those responsible for the exclusion, that is, to alter society itself.

Another approach is to tinker with those features of an economy's functioning that are most likely to negatively affect variables like inclusiveness.

Among the features deserving attention in this connection are:

1. taste formation through advertising designed to drive business profits, especially with a focus on affording a sense of "exclusivity";
2. greed as a desirable personal trait (at least to a point) on the grounds that it drives the economy;
3. competition as a generally desirable feature of a society and an economy.

Each of these three features may have significant direct human welfare costs involving exclusion (or lack of inclusion); this makes it particularly important to understand whether they have important upsides in terms of contribution to economic growth, job creation, or other economic "goods."

Advertising can heighten unhappiness for people unable to acquire an advertised item or a certain overall consumption level[18] by encouraging comparison with others, as well as inducing some to go into debt in a way that is ultimately damaging to them. But there is no reason to believe that this sort of advertising adds to economic efficiency.

Personal greed has been defended as what drives entrepreneurs to provide a key input necessary to economic growth and dynamism. Greed may be defined as the desire for more than one needs, or an insatiable desire to accumulate wealth or other things of value, or a desire to have something to which others also aspire. In the latter guise it is a form of interpersonal competition. Adam Smith's "person acting in his own interest" was not necessarily greedy, but simply giving due weight to his own welfare. For markets to parlay individual actions into societal welfare through the benefits of specialization and economies of scale certainly does not require that their actions be motivated by greed; very plausibly, markets work better when not so motivated.

Market-oriented societies are characterized by high levels of competition at many levels, each with some negative and some positive effects on societal welfare. At the personal and family level, people strive to outdo others (through conspicuous consumption or wealth, purchasable status, etc.). This competition can take the form of a "zero sum game," in the sense that for one person to feel good (from "winning") someone else must feel bad.[19] Competition among people for jobs can improve resource allocation and hence overall production, as well as maximizing a form of personal freedom. But where many people strongly prefer and wind up competing for the same job(s) for which few are needed, the competition itself can extinguish friendships and contribute strongly to tension, uncertainty, and feelings of inferiority, while not necessarily contributing to economic efficiency.

Conclusion

Equity and inclusiveness are logical goals of economic policy, both because they are likely to contribute to human welfare and because there is considerable uncertainty as to the extent and the mechanisms through which growth (the traditionally accepted route) advances that welfare. Growth probably does have important positive effects when it occurs in conducive societal structures; otherwise it may not. Doubts about the value of growth in and of itself

flow both from the multidisciplinary evidence on the centrality of relative income and relative status to people's satisfaction levels—with the implication that if average relative position is unaffected by growth, then average satisfaction may not be much changed either—and from the empirical evidence which, while it sometimes shows a positive trend in self-reported happiness as growth occurs, remains open to the possibility that such correlation may be due mainly to other changes occurring simultaneously (for example, in societal structure).

Thus, while the evidence does not suggest giving up on growth as a source of benefits, it does argue for a more cautious stance on that front and a better understanding of how economy and society can best interact for the common good. It is clearly necessary to unpackage the concept of inclusiveness, drawing more on the nuances present in the psychology literature but not easily integrated into the sort of statistical analysis reviewed here.

Preference formation, with respect to both what one wants to consume and what makes one happy, is endogenous to a society's development. How much of the challenge of raising human satisfaction could or should come from a deliberate effort by society (as opposed to those always ongoing efforts of business, religions, philosophies, and other actors) to change preference systems toward ones which make satisfaction easier to achieve?

At the practical level, exclusion and the economic inequality to which it contributes are often so deeply ingrained in both the economy and the society that policy instruments falling outside the normal economic tool kit (e.g. affirmative action) are likely to be important to healthy and equitable development in both the economic and social domains. Their currently early stage of development implies a major challenge over the coming decades.

Notes

1. "Social exclusion" refers to the inability of a person or of the members of a group (e.g. an ethnic group) to participate in the basic political, economic, and social functioning of the society.
2. See, for example, Hills et al. (2002).
3. See Mauss (2011) for a classic treatment of reciprocity as a form of association.
4. A concept that many trace back to Rousseau (1762).
5. A prominent statement was Galenson and Leibenstein (1955).
6. Among many authors discussing this are Acemoglu and Robinson (2012) and Easterly (2001).
7. An early discussion from the psychological literature is Jahoda (1981).
8. Point-of-time surveys typically find that 25 to 30 percent of variance in reported happiness/satisfaction is associated with income. Industrial country analysis throws up some intriguing looks at trade-offs between income and other sources of satisfaction. Blanchflower and Oswald (2004: 1373) report that in the U.S., on average it takes considerable additional income ($100,000 per annum, according to their first-cut estimates) to compensate for a life-changing event like being widowed or suffering a marriage break-up. Compensating for unemployment takes $60,000 per year, and for being black, $30,000. These large sums reflect both the significance of such personal conditions and the modest impact on happiness of more income. It remains to be seen how similar are the patterns in developing countries.

9. Presumably imposing some limit on the extent to which satisfaction levels are likely to change in response to economic or other factors is a person-specific genetic proclivity to a given level of satisfaction. De Neve et al. (2012) conclude that about 33 percent of the variation in the baseline level of happiness is explained by genes. This finding, however, leaves plenty of space for other determinants of happiness to play a role.
10. The life cycle pattern of happiness for individuals also fails to match the cross-section; as income and economic circumstances improve there is typically little or no corresponding advance in subjective well-being (Easterlin 2001: 469). Psychologists draw a distinction between "decision utility" (*ex ante* satisfaction associated with choice among several alternatives) and "experienced utility" (*ex post* or realized satisfaction) (Kahneman and Krueger 2006), whereas economists have tended to assume that these are the same.
11. Contrasting with the simple assumption that, economically speaking, "more" automatically produces "happier" is the (perhaps extreme) view from the psychology side that "The single most remarkable fact of human existence is how hard it is for human beings to be happy" (Hayes et al. 1999: 1).
12. Gill (2012) studies the complex linkages between poverty and ethnicity. Ethnic values are also seen to play an important role in the social exclusion and isolation of some people within their own ethnic group.
13. Latinobarómetro is an annual public opinion survey of more than 400 million inhabitants in 18 countries in Latin America. It measures attitudes toward democracy, trust in institutions, and other topical issues.
14. See, for example, Levy (2008).
15. Policies in these different categories may overlap in many ways. Thus, effective functioning of redistributive policies like India's work guarantee system may require attacking the administrative corruption that prevents benefits from reaching the intended parties.
16. There may be "tipping points" in the growth of resistance, above which the negative response multiplies quickly and becomes a major threat to success.
17. A point made by Buviníc and Mazza (2008: 157) in the context of Latin America.
18. See van Tuinen (2011) for a recent discussion. A classic treatment is Galbraith (1958). On the impact of advertising on children, see Chernin (2008).
19. The American psychologist Madeline Levine (2006) details how, for example, tremendous parental pressure to get into a good university leads to grief, self-loathing, cheating, and drug use on the part of their children and, in her view, contributes powerfully to unhappiness.

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CHAPTER 11

SOCIAL PROTECTION

ARMANDO BARRIENTOS

INTRODUCTION

SINCE the turn of the century, social protection has emerged as a key area of development policy and practice. Large-scale social protection programs in middle-income developing countries providing direct transfers to households in poverty make an important contribution to the reduction of global poverty and vulnerability. More recently, social protection programs have begun to emerge in low-income countries. The expansion of social protection in the South has been described as a "quiet revolution" (Barrientos and Hulme 2008), because for the most part it represents domestic policy responses to poverty and vulnerability. Increasingly, social protection is perceived as an essential component of effective development strategies, combining growth, basic service provision, and social protection. The rationale, conceptual basis, design, and effectiveness of social protection in developing countries are contested. The main objective of this chapter is to throw light on the concepts and practice of social protection in developing countries, with a view to assessing the role of social protection in development.

Basic terminology is an issue and a necessary starting point. In developed countries and in the work of the International Labour Organization (ILO), social protection comprises *social insurance*, contributory programs covering life-course and work-related contingencies; *social assistance*, consisting of tax-financed programs addressing poverty and vulnerability; and *employment programs* whether "passive" or "active." The importance of social protection is well understood in European countries, especially as it constitutes the core of welfare states which emerged in the aftermath of the Second World War. In the context of developing countries, and in international development policy debates, social protection has come to describe a range of programs and policies addressing poverty and vulnerability—social assistance, in the terminology described above. In the chapter, the terms *social protection* and *social assistance* will be used to refer to the broader and narrower definitions of social protection respectively. In developing countries, social protection is generally underdeveloped. In some middle-income countries, especially in Latin America, social insurance institutions are in place but protect mainly formal workers. Social assistance and employment

programs were, until recently, residual or non-existent. The first decade of the twenty-first century has ushered in broad agreement across developing countries on the importance of social assistance. Policy activism is embedding this new understanding in appropriate policies and institutions. The chapter examines the growth of social assistance in the South, and assesses its future evolution.

The political and economic conditions within which this policy activism has taken root have ensured a focus on self-standing flagship programs, as opposed to institutions. The reasons behind a program approach to social protection are complex and often country-specific. They will be taken up in the text below. They include fiscal constraints, political opposition, knowledge gaps and uncertainty, the time window of international aid, and the hubris of silver bullets in international development policy. As a result, the focus of attention of the analysis in the chapter will be on programs, including Mexico's *Oportunidades* (originally *Progresa*, renamed in 2002), Brazil's *Bolsa Escola/Familia*, South Africa's *Child Support Grant*, Ethiopia's *Productive Safety Net Program*, India's *National Rural Employment Guarantee Scheme*, and China's *DiBao*, to name a few. In the pioneer countries, a shift in policy and practice from flagship programs to stable and more or less permanent institutions is underway. The shift towards further institutionalization of social assistance is welcomed and will determine the future shape of social protection in the South.

Social assistance is not understood simply as a policy instrument compensating or mitigating poverty, but rather as part of a strategy to reduce and eventually eradicate poverty and improve equity. To the extent that development signifies achieving productive, fair, and democratic societies, social protection and social assistance have a primary role to play in this project. Social protection supports economic inclusion and human capital investment among low-income groups, key conditions for development. The important point, highlighted below, is that this is precisely the motivation behind the expansion of social assistance in middle-income countries.

The next section will examine concepts and approaches to social protection in development. The third section will focus on social protection programs, providing a classification and a discussion of main features. The subsequent section identifies and assesses two of the main challenges facing the extension of social protection in developing countries: implementation and financing. The final section will speculate on the future of social protection in the South. The chapter aims to cover developments in all regions, but a stronger focus on Latin America is occasionally unavoidable, reflecting the earlier growth of social protection, and the depth of research available, in this region.

Concepts and Approaches

There is some uncertainty in international policy debates on the meaning and scope of social protection in a developing country context. This section attempts to clear up this uncertainty. It begins by spelling out an institutional approach to social protection. It then considers how social protection is informed by broader development perspectives centered on risk, needs, and rights. The discussion then returns to the scope of social protection in a development context.

Social Protection as Institutions

In advanced industrial countries and in the work of the ILO, social protection is defined as policies and programs concerned with the protection of basic living standards (ILO 2006). Social protection has three main institutional components: social insurance, social assistance, and employment protection and promotion.

Social insurance consists of contributory schemes providing protection against a range of life-course and work-related contingencies. Social insurance is provided through a fund that collects contributions from employees and employers and pays benefits when specified contingencies materialize. Typically, social insurance funds include old age, service, and disability pensions; survivor benefits; and unemployment and sickness insurance. In developed countries, pensions constitute the main component in social insurance. There is considerable variation in institutional arrangements across countries and across contingencies. In some countries, social insurance funds are employer- or occupation-based, while in other countries a social insurance fund covers all workers, or even residents, and their households. The focus of social insurance is the pooling of life-course and work-related risks through a social insurance fund.

Social assistance consists of programs and policies ensuring minimum living standards, and consequently addressing the needs of groups facing poverty, vulnerability, and exclusion. Social assistance is tax-financed. In most developed countries, social assistance is built around income maintenance schemes providing means-tested transfers covering individuals' poverty gaps. In developing countries, as will be discussed in more detail below, there is wide variety in social assistance arrangements, but transfers are often fixed in level and focused on households as opposed to individuals. In low-income countries, social assistance reaches a fraction of the population in poverty and is often supported by international aid.

Finally, labor market interventions fall into two types: "passive" interventions, which set minimum standards of employment and protect workers' rights, and "active" interventions, which aim to enhance employability through training and skills transfers, job search and intermediation, remedial education, and employment subsidies. In developing countries, labor market interventions are restricted by fluid and informal labor markets.

There are two important implications emerging from this institutional description of social protection. The first is that comprehensive social protection systems would require the presence of all three components. Most developing countries have some form of social insurance institutions, but these cover at best a fraction of the labor force in formal employment. Few developing countries have strong employment programs, whether "passive" or "active." Social assistance institutions were residual in developing countries. The focus of recent growth in social protection has been on social assistance. The second implication relates to the relative weight of the components and policy priorities in social protection building in developing countries. Until the turn of the century, and under the influence of the ILO, the focus was on social insurance. There are good reasons to believe different approaches are needed in developing countries that give a stronger priority to the other two components (Camargo 2004; Barrientos 2007; Seekings 2008).

Social Protection and Development Perspectives

A proper understanding of social protection needs to go beyond an institutional approach and consider underlying development foundations. There are competing views on this issue. Alternative views of the role of social protection in development can be traced back to competing development perspectives emphasizing the role of risk, needs, or rights (Munro 2008). A brief discussion on these perspectives could help clarify the linkages between social protection and development.

Some define the main role of social protection as lifting the constraints to human and economic development posed by social risk. In the late 1990s, the World Bank developed a Social Risk Management approach to social protection, understood as policies that seek "to assist individuals, households and communities in better managing income risks" (Holzmann and Jorgensen 1999: 4). In policy terms, this approach identifies the main social risks faced by households and then defines and implements a range of policies facilitating households' management of their risk portfolio. The approach emphasized the role of vulnerability as a factor in poverty persistence, and the role of safety nets as a means of reducing vulnerability.

Another approach grounds social protection within a rights-based development perspective. The ILO understands social protection as arising from human rights, specifically the Universal Declaration of Human Rights.[1] A rights-based approach emphasizes an implied obligation for states and international institutions.

A third approach locates social protection within institutions ensuring the satisfaction of basic needs. The UN defines social protection as "a set of public and private policies and programs undertaken by societies in response to various contingencies to offset the absence or substantial reduction of income from work; to provide assistance to families with children as well as provide people with basic health care and housing" (United Nations 2000: 4). It is underpinned by shared "fundamental values concerning acceptable levels and security of access to income, livelihood, employment, health and education services, nutrition and shelter" (United Nations 2000: 4). In essence, this approach envisages social protection as ensuring the satisfaction of basic human needs as a component of human and economic development.

In international policy debates across the UN agencies, these three perspectives risk solidifying into competing approaches. There are some implications at the operational level associated with giving preference to one approach or another,[2] but it should not be difficult to spot the common ground in the three approaches. To an important extent they point to three different dimensions of the same development challenge.

The Scope of Social Protection and Assistance

In practice, and beyond the discourse of UN agencies, the main dividing line is between two approaches: one with a more limited focus on poverty and vulnerability, and the other with a much broader remit overlapping development.

One approach to building social protection starts from established social policy frameworks, tried and tested in developed countries and middle-income developing countries. Let us call this the social policy/public finance approach. In terms of social assistance, it focuses on policies and programs providing transfers to households facing poverty and vulnerability as a means of overcoming their situation.

The other approach to building social protection starts from development policies and concerns. It is referred to below as the development approach. There are many variants of this approach, and wide areas of disagreement, but at its core it proposes attention to human development, governance, the environment, and empowerment. It advocates integrated development strategies advancing simultaneously on all these fronts, a proposal captured in the notion of sustainable development. It does not differentiate social protection substantively from these other areas of policy. The development approach looks beyond poverty as its main objective and includes human development more generally, emphasizing empowerment and equality.

The development approach will consistently push social protection and assistance towards a broader, more encompassing, policy framework (Sabates-Wheeler and Devereux 2007). This is in contrast to the more focused scope proposed by the social policy/public finance approach. Many areas of apparent confusion and controversy over the role and scope of social protection in developing countries, and especially uncertainty over its boundaries, can be traced back to the differences between the social policy/public finance approach and the development approach.

The social policy/public finance approach has a lot to recommend it. There is a great deal for us to learn from the experiences of developed countries as regards poverty reduction and development. The crucial role of registration in enabling public assistance was well understood in eighteenth-century England. The advantages and disadvantages of means testing and targeting assistance to poor households were hotly discussed in the U.S. in the context of its "War on Poverty" in the late 1960s and 1970s. At the same time, conditions in developing countries strongly recommend against transferring European approaches and institutions slavishly to developing countries.

On the other hand, a development approach has much to contribute to enhancing social assistance and social protection institutions in developing countries. In particular, anti-poverty programs, social assistance included, need to be designed and implemented in ways that synergize social and economic development. But there are limits to this strategy. In developing countries the share of national income absorbed by low-income groups is very small,[3] and the additional income from program budgets is often a fraction of 1 percent of national income. As a result, even large improvements in economic activity among households in poverty are unlikely to show up in economy-wide growth rates. The multipliers from social protection transfers apply to a very small income base.

Keeping this in mind, the impact of social protection on economy-wide growth rates will be greater in conditions where employment and economic inclusion are expanding. It can also be greater in periods of crisis and recession if the economic situation of poor households is given a higher priority.[4] The multifaceted nature of the development approach, when applied to social assistance, can result in a crippling loss of focus. Adding objectives and instruments to social assistance and to social protection strategies could quickly encounter diminishing returns. Well-designed social assistance programs can be effective in reducing poverty, and in the process they could have an impact on disparities in access to basic services, and could strengthen the productive capacity of groups in poverty. They are unlikely to deliver economy-wide growth, gender empowerment, or structural change.

It is important to ensure that social protection and assistance are developmental, that is, that they contribute to social and economic development, but in the understanding that development is much bigger than social protection. Social protection will be more effective

if combined with policies delivering basic services and growth, it is not a substitute for these (Barrientos 2012). Understanding the boundaries of social protection and assistance will be essential to maintaining a clear focus on their contribution to development.

Social Assistance in Practice

There is considerable diversity in program design in developing countries, underlining the domestic basis of emerging social protection policies. The main objective of this section is to provide an overview of the main types of programs and then to discuss some features that have received a great deal of attention in the literature.

Program Types

The vast majority of social assistance programs are designed around a direct transfer, in cash or in kind, to participating households. Analytically, it will be useful to classify social assistance programs into three main categories: pure income transfers; income transfers combined with asset accumulation; and integrated poverty reduction programs.[5]

Pure income transfers include transfers in cash specifically targeted at households in poverty. Some programs target all households satisfying the selection criteria, while others target categories of individuals considered to be particularly vulnerable. An example of the former is the *Kalomo Pilot Social Transfer Scheme* in Zambia, which provides direct and regular transfers to the poorest 10 percent of households in designated districts. Examples of categorical transfer programs include child or family allowances or social pensions. South Africa's social assistance is organized in the main through means-tested categorical grants focused on older people, people with disabilities, children, and orphans in poor households.

Income transfers combined with asset accumulation include programs providing transfers in cash or in kind, which are combined with, or facilitate, the accumulation of productive assets. The term "asset" is used here in its broadest sense, to include human, physical, and financial assets. Linking direct transfers with interventions aimed at asset accumulation underlines the fact that programs of this type aim to strengthen the productive capacity of households in poverty. This category includes two families of programs now common in developing countries. The first group includes programs that combine direct transfers with interventions supporting household investment in human development, especially education and health. Mexico's *Oportunidades* or Brazil's *Bolsa Família* are well-known examples of this family of programs. The second group includes programs that combine direct transfers with interventions supporting the protection and accumulation of physical assets. Examples of this type of program include India's *National Employment Guarantee Scheme* (infrastructure or community assets) and Ethiopia's *Productive Safety Net Program* (household and community assets). The *Productive Safety Net Program* combines transfers in cash or in kind with agricultural extension activities for households with work capacity, and direct support to households without work capacity. These programs require beneficiaries to supply work to create or protect household or community assets.

Integrated poverty reduction programs are an important innovation in social assistance, combining a range of interventions focused on the poorest and addressing social exclusion. BRAC's *Challenging the Frontiers of Poverty Reduction: Targeting the Ultra Poor* provides an integrated and sequential set of interventions strengthening the nutrition and health status of the poorest households, as well as training in preparation for the transfer of productive assets. Chile's *Chile Solidario* is another influential example of a program that provides an integrated set of interventions addressing a range of deficits responsible for keeping households in poverty.

The conceptual basis for this classification is provided by the underlying understanding of poverty underpinning the programs. Pure transfers rely on an understanding of poverty as largely to do with deficits in income or consumption. Transfers are expected to remedy these deficits and thus reduce poverty. Income transfers combined with asset accumulation share a broader understanding of poverty. They pay attention to deficits in income or consumption but they also aim to address deficits in productive assets. Programs focused on human development, like Mexico's *Oportunidades*, understand the persistence of poverty as arising from deficits in human capital. Ethiopia's *Productive Safety Net Program* is based on an understanding of poverty and its persistence as arising from the asset depletion and destruction affecting food-insecure households faced with droughts or other shocks. Programs included in this group adopt a multidimensional understanding of poverty, but focus on a few dimensions. Integrated poverty reduction programs also share a multidimensional understanding of poverty, but are distinguished by a wider set of dimensions covered, by a strong focus on social exclusion, and by the fact that direct income transfers play only a marginal role in the overall support provided to households in poverty.

Program Design Features

Here we examine some design features which distinguish social protection innovations in developing countries, some of which have been discussed extensively in the literature.

Scale and Scope

New forms of social assistance in developing countries without exception target the poor and poorest households. In most cases, this involves a mix of selection techniques. *Progresa* used geographic targeting to identify communities in rural Mexico with the highest levels of marginalization, then a proxy means test to rank households on several deficit indicators, and finally community validation (Skoufias 2005). This is closely replicated in Honduras' *PRAF II* (*Programa de Asignación Familiar*, or Family Allowance Program), except that poverty incidence in marginalized communities is so high that it makes more sense to select out the non-poor than to select in the poor, an affluence test. In Brazil, social assistance transfers, like *Bolsa Família* and the *Beneficio de Prestação Continuada*, use a targeting mix that involves a comparison of per capita household income with the national poverty line, plus in the latter case a minimum age requirement of 65 years. India's *National Rural Employment Guarantee* relies on self-targeting by participants who are unemployed or whose earnings are below the market rate. Assessments of the effectiveness of selection performed on some of these programs suggest they are effective in reaching the poor and in

reducing leakages to the non-poor, but that their coverage of the poor is insufficient. This is a generalized lesson from the literature on targeting (Ravallion 2007).

In addition to deficiencies in coverage arising from resource constraints or from operational deficiencies in the implementation of programs, it is useful to pay some attention to the exclusion of some of the poor and poorest arising from program selection and design. Programs that focus on strengthening enrolment and schooling select poor households with children of school age in communities where schooling infrastructure is in place. This has the effect of excluding poor households with children below school age, those without children, and those in communities without schooling infrastructure. In some middle-income countries, social assistance programs have expanded in scale so that they reach a majority of households in poverty. Mexico's *Oportunidades* and Brazil's *Bolsa Família* reach around a quarter of the population, while South Africa's social assistance grants reach around one half of all households. Ethiopia's *Productive Safety Net Program* reaches around 10 percent of all households in the country.

Another fundamental break with old social assistance relates to the way in which new forms of social assistance incorporate and operationalize an understanding of the multidimensional nature of poverty, and particularly extreme poverty. New forms of social assistance discussed in this chapter are increasingly designed as integrated interventions based around income transfers. *Progresa*, for example, combined income transfers with interventions on nutrition, schooling, and health; when scaled up to *Oportunidades*, additional services included training, job search, youth inclusion, saving instruments, and micro-enterprise development. This widening of the scope of the programs follows on from the recognition that overcoming poverty requires integrated support on a number of dimensions, especially in a context in which basic services and insurance programs exclude large numbers of the poor and poorest households. Income transfers are unlikely to be sufficient on their own to pull poor households out of poverty, even assuming their level could be raised significantly. Chile's *Chile Solidario* had the widest scope, focusing on seven dimensions of welfare and on fifty-three minimum thresholds (Barrientos 2010).

Conditions

Some social assistance programs attach conditions to the continuation of transfer payments. Public works and employment guarantee programs—Ethiopia's *Productive Safety Net Program*, for example—attach work conditions to participation in the program, in part as a means to ensure self-selection among potential participants and also in order to improve community infrastructure. Latin American human development conditional transfer programs aim to reduce the intergenerational persistence of poverty by supporting investment in health and schooling. Mexico's *Progresa/Oportunidades*, for example, requires that school-age children be enrolled and attend for at least 85 percent of the time; that all household members visit primary health care centres; and that mothers attend nutrition training sessions. Failure to comply with these conditions can result in the suspension of transfers. More broadly, these programs have adopted co-responsibilities that spell out the responsibilities and standards of performance of the program agency on the one hand, and the conditions imposed on participant households on the other. These are formally established at the time households join the program.

Issues relating to these conditions have been discussed extensively in the literature. First, there is a concern that conditions might in fact penalize households least able to comply. Second, there is a concern that the effectiveness of conditions has not been fully established, with the implication that conditions might in fact be unnecessary or even counterproductive. Furthermore, even where conditions can be shown to be effective, it would be necessary to establish that the gains from conditions outstrip the additional administration and implementation costs. Third, there is a concern that compliance with the conditions falls primarily on mothers, with no form of compensation available. Fourth, and in view of the experience of developed countries with welfare reform, there is a concern that conditions might be required not for program effectiveness, but to secure political support from taxpayers.

In Latin America, the first concern, that conditions penalize those least able to comply, has led some programs to use non-compliance with conditions as a means to trigger further support for the participant households. This is the case in Brazil's *Bolsa Família*. More broadly, a distinction has been drawn between programs with "soft" and those with "hard" conditions, which depends on how programs deal with non-compliance.

There is very little hard evidence on the *separate* effectiveness of conditions, but there is evidence that programs with conditions achieve their objectives (Fiszbein and Schady 2009). Experimental approaches to testing for the effectiveness of conditions are unlikely to meet ethics research protocols. Consequently, researchers have looked into the details of program implementation to identify whether "natural experiments" could throw light on this issue. The extension of the *Bono de Desarrollo Humano* in Ecuador, a human development transfer program, is interesting because the program was advertised, to beneficiary households and the general public, as including conditions on schooling and health, but in practice the government was not in a position to implement the conditions. A study compared information on schooling responses from households who understood there was a relevant condition in the program and households reporting having no knowledge of conditions. It found that the belief that conditions were part of the program did influence positively those households' schooling decisions (Schady and Araujo 2006). The introduction of Mexico's *Progresa* seems to provide another "natural experiment." Compliance with schooling conditions is monitored through a form that beneficiaries take to school to be filled in, but for administrative reasons a group of beneficiaries were not issued with the forms. A study compared the schooling responses of beneficiary households without forms or knowledge of conditions, and other groups of beneficiary households. It found that knowledge of conditions seemed to have influenced schooling decisions at the secondary school level (de Brauw and Hoddinott 2011). The studies suggest conditions may matter, but it is hard to generalize from these highly specific settings. At any rate, the effects are likely to be small: for example, in Mexico, school enrolment rates in primary education were above 90 percent before the introduction of *Progresa*, so that the effect of conditions could at best bind on the 10 percent of children not enrolled at school. A point often missed in policy discussions is that it is the marginal, not the average, effect of conditions that indicates their effectiveness.

Some researchers have pointed out that in many human development programs, mothers are the direct recipients of the transfer and the persons primarily responsible for compliance with the conditions (Molyneux 2006). In general, concerns over the extent of compliance costs must be taken on board by program designers. It is also the case that conditions might

enforce some degree of coordination between program managers and other ministries—health and education, for example—that could strengthen implementation effectiveness (Cecchini and Madariaga 2011).

Time Windows and Exit Strategies

Another important feature of new social assistance relates to the time window for interventions. This raises some interesting issues at a more fundamental level. Limited time windows reflect a concern to avoid dependency. It is a feature of new social assistance programs that they identify some "graduation" process for beneficiary households. Most programs include a regular review of eligibility at regular intervals, for example every three years. Eligibility conditions also provide "graduation" milestones such as children growing beyond school age or the death of pension beneficiaries.

Most of the programs mentioned above aim to protect the poor from the harm done by persistent poverty; but they also aim to strengthen their productive capacity by facilitating investment in schooling, health, and nutrition, and to strengthen their agency. The optimal time window might well be different for each of these functions. The protection role would be best performed by permanent institutions that come into play whenever households fall into poverty. The promotion role would be most effectively performed at specific points, for example school age children, expectant mothers. It is hard to envisage a time window for empowerment, though in practice it would be most effectively done with a mix of time-specific interventions and rights. Time windows reflect in part that one or other of these functions is dominant. Time windows are also one of the design features aimed at building credibility around social assistance programs.

In developing countries, the design of time windows and "graduation" mechanisms should take into account the nature, quality, and coordination of the institutions charged with delivering public programs. Graduation from a program in a context in which supplementary programs ensure "propulsion" away from poverty for beneficiary "graduates" will be very different from graduation in a context where the end of income transfer dumps beneficiary households straight back into precarious livelihoods. In the latter, graduation is problematic. Without appropriate consideration given to follow-up interventions designed to help graduating households avoid falling back into poverty, the success of social assistance programs will be limited.

Impact

The gains from improving our knowledge of what works in reducing and preventing poverty are large, and a strong focus on evaluation and research is a feature of recent social assistance in developing countries. The impact evaluation results from some programs improve poverty knowledge. The strength of evaluation processes associated with *Progresa/Oportunidades*, for example, have become a "gold standard" for anti-poverty programs elsewhere. The quality of impact evaluation is not uniform across programs and regions, and less is known about the impact of smaller programs in lower-income countries.

There is significant variation in outcomes across programs and for individual programs over time, but findings to date suggest large-scale social assistance programs are, on the

whole, having some success in meeting their objectives.[6] The knowledge base is stronger on human development programs, in part because human development outcomes, such as school enrolment and attendance and health services utilization, have a more direct and short-term impact. Intriguingly, evidence on the poverty reduction effects of social assistance is less comprehensive. Because transfer levels are currently a fraction of what is required to lift households out of poverty, the poverty impact of social assistance programs is stronger on the poverty gap than on the poverty headcount.[7] There is still more work to be done to identify with greater precision the impact on current poverty of smaller programs in low-income countries.

Challenges

The growth of social protection in developing countries has been remarkable, but important challenges remain. The expansion of social protection has been slower in low-income countries than in middle-income countries. To some extent this is because of characteristic capacity deficits in policy design, implementation, and financing, but it would be wrong to focus solely on resource deficits as an explanation for the slow development of social protection in low-income countries. Political factors are very important, especially given the significant role of democratization in the expansion of social protection in countries like Brazil, South Africa, and more generally Latin America. This section will focus on two main areas: implementation and finance, with low-income country constraints as a cross-cutting issue.

Implementation

The delivery of large-scale, and in some cases complex, multi-intervention programs makes significant demands on the capacity of public agencies. Administrative competencies and resources available to social assistance agencies are generally limited, especially in low-income countries. Introducing conditional income transfer programs in countries with poor delivery capacity is challenging.

To take one example, information systems are essential to achieving adequate coordination and delivery of social assistance. They perform several key functions: (i) matching participants with their entitlements, avoiding any duplication or misdelivery of benefits and transfers; (ii) enabling program officers to access the "social history" of participants, tracking any change in their socio-economic condition, and adjusting support accordingly; and (iii) identifying potential needs and available provision geographically (including the location of schools, surgeries, hospitals, municipal buildings, banks, or public offices able to deliver cash transfers, public transport, roads, etc.). The system must have the capacity to enable users to input and access information directly, thus enabling spaces for interaction between program officers and beneficiaries and the fine-tuning and personalization of programs at the local level. Transparency and accountability are important, especially in administrative processes dealing with appeals and representation. Brazil's *Bolsa Família* relies on a single information system, the Cadastro Unico, which contains up-to-date information on every household considered for participation in social assistance and other public programs. In effect, the information system is a coordination and management tool supporting a decentralized implementation of the program. At the other end of the range,

Zambia's *Public Welfare Assistance Scheme* has two welfare officers per district (one in 2005). They are charged with delivering all social assistance services and programs in the district in coordination with other agencies, and have to service a highly dispersed population. It is not surprising that low-income countries make greater use of community implementation of social assistance programs, but this often implies a mix of hand ledgers, personal contact, and telephony (Garcia and Moore 2012). Less complex programs are a necessity in this context.

The technology of delivering social assistance programs is advancing extremely fast, and learning across countries and regions has been hugely productive. However, a one-sided focus on technical fixes to deficits in capacity and resources, the holy grail of donor agencies, is to be avoided. An important lesson from implementing social assistance programs is the significant role of intermediation in ensuring the effectiveness of these programs. Technology can raise the productivity of welfare officers, but cannot replace them.

Finance

How should developing countries finance an expansion of social assistance? Research on the financing of the expansion of social protection and assistance in developing countries is limited. In part this is due to the dominance of the resource mobilization approach in international policy debates. Resource mobilization approaches focus on finding "new money" to support the expansion of social protection in developing countries, often in the form of additional aid flows. Resource mobilization is essential in low-income countries, but its dominance in the context of social protection is unhelpful. The issue of financing social assistance is not just to do with resources but also with incentives and legitimacy. In low-income countries, an aid-dependent expansion of social protection can turn out to be detrimental if it disconnects elites from their responsibilities for poverty reduction, or if it is perceived by the general public to be unsustainable and lacking in legitimacy. The expansion of the welfare state in European countries in the second half of the twentieth century was based on corporatist consensus between unions, employers, and governments, supported through income (payroll) taxation. This is a model that developing countries will find hard, if not impossible, to emulate, for reasons that include high levels of informality, inequality, and the absence of corporatist political processes. Developing countries need innovative ideas and approaches on the financing of social protection, but the European experience highlights the crucial linkages between taxation and politics.

Government revenues are fungible. The resources required for assistance programs are often collected from a combination of different sources such as tax revenues, expenditure switching, revenues from natural resources, debt cancellation, payroll taxes, and international aid. In a dynamic context, the focus must be on the financing mix as opposed to individual sources of finance. In the short term, an expansion of fiscal space and/or switching expenditure from underperforming programs might be sufficient to provide the initial financing. International aid has a role in helping developing countries, and especially low-income countries, overcome the high costs associated with introducing social assistance programs anew. Investments in research, training, information systems, and financial delivery, to name a few, are substantial at the start. Revenues from natural resources or from debt cancellation can also help engineer an expanded fiscal space. The opportunities for expenditure switching are

significant in most developing countries. Research leading to the introduction of Chile's *Chile Solidario*, for example, established the existence of 143 public programs addressing the needs of households in poverty, while Bangladesh has ninety-three separate anti-poverty programs. In the medium and longer term, the resources needed to support social protection must be generated domestically. The effectiveness and fairness of the tax system are paramount to the longer-term sustainability of social protection. In most cases, a low tax/GDP ratio is associated with imperfect fiscal contracts. Civil society is often reluctant to pay taxes because governments provide few services, a factor in the persistence of high levels of informality. Elites able to draw large amounts of revenue from natural resources face fewer pressures to submit to democratic processes.

The Future of Social Protection

The discussion in the previous sections supports the view that the future of social protection in developing countries is unlikely to be found in existing European institutions, even less in their past. This does not imply rejecting the objective of setting in place comprehensive social protection institutions: rather, it is meant to emphasize the need for innovative thinking on how to achieve this objective in developing countries.

Social assistance has been the main focus for the expansion in social protection in developing countries. This is the case even in countries with large-scale social insurance. What are the implications for social protection systems in the South of this expansion of social assistance?

In addressing this question it is important to distinguish between low- and middle-income countries. In low-income countries, often with very limited social protection provision, the expansion of social assistance helps to focus government efforts on poverty reduction and eradication. The growth of social assistance generates few trade-offs. Moreover, social assistance can have positive outcomes in other sectors. Replacing emergency assistance with regular and reliable transfers to households in poverty, for example, could generate additional demand for schooling and health care and other forms of asset accumulation. In Ethiopia's *Productive Safety Net Programs*, evaluations suggest that groups of participants for whom transfers came bundled with agricultural development interventions showed the strongest gains in food security and asset protection (Gilligan, Hoddinott, and Taffesse 2008). In low-income countries, the future involves linking social assistance with "productivist" interventions, leading to improved productive capacity among participant households. Trade-offs are more likely to emerge in contexts in which social assistance expenditure risks crowding out service infrastructure investment. There are few gains in diverting investment from schools and clinics to finance social assistance transfers. Social protection expenditure is, in most developing countries, some way off reaching the scale for these adverse trade-offs to be observed.

In middle-income countries, especially countries with large-scale social insurance, the future course of social assistance and protection presents a different set of challenges. Latin American countries, especially Mexico, provide a fertile ground in which to look at future development. Prior to the growth of large-scale anti-poverty programs in the first decade of

this century, social protection systems in the region had been characterized as "truncated," in the sense that relatively generous social insurance schemes enjoying significant public subsidies catered for workers in formal employment and their households, while a large section of the population relying on informal employment had very limited access to social protection (Fiszbein 2005; Barrientos 2009). Whereas in the 1960s and 1970s policy-makers and researchers could hold on to the view that industrialization would eventually eliminate informality, liberalization in the 1980s and 1990s put paid to that assumption. Against this background, there is growing consensus around the view that social protection systems in the region have been strengthened by the growth of social assistance in the last decade. Social assistance helps extend social protection coverage to sections of the population traditionally excluded from social insurance institutions, and is effective in reducing extreme and persistent poverty. It has the potential to improve human development and economic inclusion among low-income groups. Social assistance absorbs a very small fraction of public revenues, and there is every prospect that social assistance budgets will decrease in the future as poverty declines. The growth in social assistance is a welcome development because it fills in a component missing from social protection systems in the region. At the same time, the growth of social assistance has not undermined truncated social protection systems in the region, but has resulted instead in segmented or "hyphenated" social protection with two separate components. This suggests a long-term cleavage.

How will this situation evolve in the future? Current research and policy discussions have not led to a settled view on this issue. The emerging orthodoxy argues for a stronger integration of social insurance and social assistance, and an urgent upgrade of labor market policies (CEPAL 2006; Levy 2008; Ferreira and Robalino 2010; Ribe, Robalino, and Walker 2010). The conditions, and therefore prescriptions, for integrating well-developed and longstanding social insurance institutions with emerging social assistance are hugely complex. Corporatist and State-led integrated social protection systems, as in South Korea and China respectively, offer a different route, but require political conditions very different from those observed in Latin America.

Notes

1. Article 25 states that "Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.... Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same protection."
2. A one-sided risk approach recommends a focus on transient as opposed to chronic poverty, but the Social Risk Management Strategy and its more recent incarnations explicitly acknowledge the need to address the latter. An imperfect rights perspective has been taken to recommend "universal" policies "blind to socio-economic status," but the ILO has explicitly acknowledged the need to give priority to groups in poverty. A one-sided needs perspective has highlighted trade-offs between supply-side service provision and demand-side income transfers, but it has proved hard to determine the empirical significance of the trade-offs.

3. In Bolivia in 2007, for example, the bottom quintile captured 2.6 percent of national income.
4. This implies attaching a social weight to the welfare of poor households, compared to the standard GDP measures lacking social weights.
5. Program information is available in the *Social Assistance in Developing Countries Database* (Barrientos, Niño-Zarazúa, and Maitrot 2010). Version 5 can be accessed at <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1672090>.
6. For a review of the impact across human development conditional transfer programs, see Fiszbein and Schady (2009); for a discussion of non-contributory pensions, see Holzmann, Robalino, and Takayama (2009).
7. Evaluations of *Progresa* show a large reduction in the poverty gap, but the impact on poverty incidence is small (Skoufias 2005).

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CHAPTER 12

LAW, REGULATION, AND DEVELOPMENT

KEVIN E. DAVIS AND MARIANA MOTA PRADO

Introduction

Ideas about the relationship between law and development play prominent roles in contemporary thinking about development, both among scholars and policy-makers. Social scientists regularly try to unpack the mechanisms through which various aspects of law influence individual behavior and promote desirable forms of social change. Meanwhile, development practitioners have invested massively in legal reforms—sometimes known as "rule of law reforms"—designed to promote development (Carothers 1998).

In this chapter we will only sketch the field in the broadest of strokes, restricting our attention to ideas that pertain to the post-colonial era. In most cases it seems safe to presume that the end of colonialism marked a significant shift in the nature of the legal system and its role in society.

We begin by offering a working definition of the concept of law. We then survey efforts to understand the relationship between law and post-colonial development in the twentieth century. This vast intellectual terrain encompasses many theoretical approaches, but we focus only on: the enduring influence of the work of Max Weber; the law and development movement that flourished in the United States in the 1960s; the voluminous scholarship inspired by the new institutional economics (NIE); the varieties of capitalism project; the human rights movement; and Third World Approaches to International Law (TWAIL). We show that these approaches originated in very different intellectual communities and employ different conceptions of development and of law.

In the following section we describe conceptual limitations associated with these divergent ways of thinking about the relationship between law and development. We focus on four dichotomies: legal versus non-legal, domestic versus international law, common law versus civil law, and public versus private law. We then outline three sets of twenty-first-century ideas that point toward ways of overcoming some of these conceptual limitations. We conclude by indicating possible directions for future research.

The Concept of Law

Studies of relationships between law and development use varying definitions of the term law.[1] In this chapter, we define a legal system (i.e. a system of laws) as a system of norms—propositions that purport to guide action—administered, or at least endorsed, by state officials in a particular society. A legal system will include norms that guide the behavior of both state officials and other actors. For example, property law will include both the norms that regulate the use of parcels of land and the norms that regulate the selection of people to adjudicate property disputes.[2] Within a legal system, we use the term "legal institution" to refer both to legal norms and to the organizations—which are themselves constituted by legal and non-legal norms—that administer them. Functioning legal institutions are products of the interaction of official legal norms (the law on the books), the legal officials who administer them, and the environment in which they operate (Kornhauser 2004). For example, understanding Peruvian property law as part of a functioning legal system requires acknowledging that in some parts of the country the law on the books indicates that land is owned by the State, yet some state officials refrain from evicting squatters if they appear in sufficient numbers (De Soto 1989).

Important Intellectual Currents

Claims about relationships between law and development can differ significantly in terms of their conceptions of development, the types of law that are most relevant to development, and the causal connections between these two variables. In this section we survey sets of ideas that have been especially influential since the beginning of the twenty-first century, outlining how they vary along these dimensions. Most of the ideas presented in this section were initially developed in the global North, based on experiences of Northern countries.

Max Weber

The shadow of Max Weber looms large in most contemporary thinking about the relationship between law and development. Weber was not concerned with explaining the relationship between law and development per se. Instead he was preoccupied with *capitalist* economic development.

Weber's view was that capitalism required a "formal" and "rational" legal system that allowed disputes to be resolved based on systematized, previously established rules. Such a legal system allows private actors to engage in trade and investment free from constraints imposed by traditional rulers and with predictable consequences. Weber also asserted that a hierarchical bureaucracy guided by instrumental values was the only realistic way of administering such a legal system in a large, complex society. Based primarily on the history of Western European legal systems, he supported several key points by reference to Chinese, Indian, Islamic, Jewish, Persian, and canon law.

In Weber's theory, political, cultural, and economic factors can all interact to determine whether any given society develops a formal rational legal system. For instance, he suggested

that forms of political rule that depend on tradition or charisma for legitimacy are incompatible with formal rationality.

There are several difficulties with interpreting Weber's work as a theory of law and development (Thomas 2008). First, it is not clear whether he made any claims about the necessary conditions for capitalist development; he appears to have been more interested in explaining historical outcomes than in deriving universal social laws. Citing the differences between English and continental legal systems, he openly acknowledged that capitalism could flourish under a diverse set of legal systems. Second, law plays a limited role in Weber's theory. In fact, his most famous contribution to social thought is the claim that adherence to a set of religion-derived values, the Protestant ethic, was a critical factor in the initial rise of capitalism. Third, Weber might object to equating capitalism with "development." He would likely see the emergence of capitalism and bureaucracy as causes for despair than celebration. Regardless of Weber's own views on the subject, however, many subsequent thinkers have identified a formal rational legal system as a universally necessary condition for development.

Law and Development

Weber's work had a particularly significant impact on the law and development movement of the 1960s (Trubek 1972). This U.S.-based movement combined legal reform initiatives and research projects sponsored by U.S. universities, foundations, and government agencies. The movement assumed that legal reform plays an instrumental role in promoting development; its initiatives focused on educating developing countries' legal professionals as well as reforming formal legal rules.

The law and development movement did not endure, and shortly after its inauguration it was declared dead by two of its key figures, David Trubek and Marc Galanter. In a widely cited paper (Trubek and Galanter 1974), they argued that the movement failed in part because of its ethnocentric assumption that law played the same role in other countries that it was imagined to play in the U.S. In fact, their experience showed that in many developing societies, legal institutions—especially the kinds of elite institutions that received the most attention from the law and development movement—were not the most important forms of social control. Instead of using contract law, for instance, members of an ethnic group or kinship network can effectively guarantee the credibility of agreements by using social pressures to resolve disputes (Greif 2006). They also argued that when legal institutions were effective means of social control, they were prone to capture by powerful political interests. This meant that there was no guarantee that legal institutions could help promote the interests of less-advantaged groups. For example, the movement's emphasis on a modernized legal profession risked increasing the price of legal services and making legal decision making more formalistic, thus reducing the ability of the less-well off to access justice. Trubek and Galanter's despairing analysis continues to resonate among skeptics of legal reform initiatives sponsored by Western actors.

New Institutional Economics (NIE)

The recent revival of interest in law and development can be largely traced to developments in economics. In 1993 Douglass North won the Nobel Prize for a body of work suggesting that a great deal of the variation in economic performance, across space and time, can be explained

by variations in institutions (see generally, North 1990). Although North's best-known work focused on the history of the U.S. and Western Europe, the influence of the "new institutional economics" in development economics has been profound. Rather than attributing poor economic performance to factors such as climate, endowments of minerals or arable land, or the genetic make-up of the population, it is now standard to search for institutional causes and solutions. Economists' definitions of the term "institution" typically encompass legal institutions. As a consequence, a great deal of research on the relationship between law and development is now being conducted by economists rather than legal scholars.

Most new institutional economists adopt a neo-Weberian framework. Their hypothesis is that legal systems composed primarily of previously established norms enforced impartially and predictably by specialized officials—attributes often referred to compendiously as "the rule of law"—are universally conducive to economic growth (or other desirable outcomes, such as increases in literacy rates and life expectancy). Property rights and contracts are regarded as especially important. Protection of property rights, for instance, is argued to be necessary to increase incentives for investment and decrease incentives for inefficient competition over scarce resources. Enforcement of contracts—especially contracts that transfer interests in property—is seen as necessary to create markets that allow goods, services, and credit to be allocated to people who value them most highly. So, for instance, Hernando De Soto (1989) advocates giving squatters in Peru and elsewhere formal title to land to allow them to share in the benefits of land markets.

Although the NIE may have been inspired initially by case studies of the North, its empirical studies now often include countries in the South. Cross-country studies generally find that "institutions matter," consistent with the theoretical predictions. There are, however, important caveats. China is a particularly enigmatic case, a large country with weak indicators of institutional quality and high rates of economic growth. Such studies also provide limited support for claims that legal institutions generally, much less any particular legal institutions, are significant. This is because they rarely attempt to isolate the influence of specific institutions. Finally, cross-country studies shed little light on within-country variations in the role of institutions, such as how institutions affect people from different classes or ethnic groups, or in urban as opposed to rural areas. Within-country studies that incorporate these factors often reveal that the roles of institutions are rather context-specific. In Ghana, for example, where property rights in rural areas are governed by customary law, country-level indicators of the "strength of property rights" over-simplify a complex reality in which the strength of rights varies between urban and rural areas, from village to village, with the political power of the competing claimants to land, and depending on whether one is considering the right to use or to alienate land (Pande and Udry 2005).

When it considers why legal institutions vary over time or across societies, NIE overlaps with the discipline of political economy. This body of literature considers a wide range of determinants of legal development. Some scholars focus on the lingering effects of colonization, linking the quality of contemporary institutions to the extent to which the country was either exploited (Acemoglu, Johnson, and Robinson 2001; Acemoglu and Robinson 2012) or permitted to develop indigenous legislative bodies and jurisprudence (Daniels, Trebilcock, and Carson 2011) while colonized. Other scholars focus on the effects of resource endowments, arguing that resources that lend themselves to concentrated ownership are likely to generate economic and political inequality, along with a set of institutions designed to perpetuate it (Sokoloff and Engerman 2000). Still others have examined the effects of ethnic

divisions (Easterly and Levine 1997; Chua 2000). One particularly notable set of papers focuses on "legal origins," meaning whether the legal system in question traces its origins back to English common law or to a variant of Roman civil law (La Porta, Lopez-de-Silanes, and Shleifer 2008). Societies with origins in English common law have been found to be superior to those with French civil law origins along a number of dimensions, including protection of property rights and enforcement of contracts.

The NIE had considerable influence upon certain development agencies. A case in point is the World Bank's "Doing Business" project, which champions, among other things, the elimination of regulatory obstacles to enforcing various sorts of contracts and securing property rights (World Bank 2004). More generally, the World Bank as a whole tends to view the quality of a country's institutions as a determinant of how effectively the country will use development assistance, and devotes considerable efforts to compiling indicators of institutional quality (see, for example, World Bank 2010).

Varieties of Capitalism

The "varieties of capitalism" approach was developed by scholars of comparative political economy, focused primarily on developed economies (Hall and Soskice 2001). Proponents classify countries as either "liberal market economies" (e.g. the U.S.) or "coordinated market economies" (e.g. Germany). Although the framework has been applied primarily to OECD countries, Hall and Soskice (and others) argue that it can be applied to developing countries as well.

The varieties of capitalism literature offers a sophisticated theory of institutional change, showing how institutions co-evolve with patterns of economic activity. Hall and Soskice (2001) argue that the two ideal types of economies represent alternative ways of coordinating interactions among firms, employees, investors, consumers, shareholders, etc. Those interactions are shaped by local institutions and end up influencing, if not determining, macroeconomic policies and the overall structure of the economy. The relevant "institutions" include both rules enshrined in the formal legal system and informal rules such as shared expectations of appropriate behavior shaped by common experiences. A key claim is that nations will tend to develop complementary institutions, meaning institutions that increase the returns from one another. For instance, Hall and Soskice posit that capital markets that are relatively insensitive to current profitability complement long-term employment, whereas more profit-sensitive capital markets complement fluid labor markets. Accordingly, liberal market economies have tended to combine higher levels of stock market capitalization with lower levels of employment protection, whereas coordinated market economies have tended toward the opposite equilibrium.

Proponents of the varieties of capitalism approach claim that both ideal types of economies can lead to satisfactory long-run economic performance, as evidenced by the roughly comparable performance of the U.S. and Germany. They do, however, suggest that differences in institutional structures lead to systematic differences in distribution of income and employment. Institutions also determine firms' capacity for engaging in specific types of activities, including radical (as opposed to incremental) innovation.

This approach shares with the NIE the assumption that institutions determine economic outcomes. A distinctive feature is the emphasis on institutional interdependencies, that is, the idea that both the structure and performance of any set of legal institutions might be

shaped by the broader institutional context in which they operate. This implies that it is impossible to foresee the consequences of adopting particular institutions, or whether those institutions are optimal in any sense, without accounting for institutional interdependencies.

Human Rights and the Rule of Law

While the NIE and varieties of capitalism approaches are primarily concerned with laws governing the conduct of private (i.e. non-state) actors, other approaches focus on laws that regulate state action. The most prominent of these approaches connect development with respect for human rights and the rule of law, either directly or indirectly, and focus on legal mechanisms for achieving those objectives. In some cases, legal systems that manifest respect for human rights or the rule of law are viewed not just as means to promote economic or political development but also as ends in themselves. This non-instrumental understanding of the role of law represents a significant departure from other approaches to law and development.

The human rights movement originated in the work of activists seeking to rectify injustices perpetrated or condoned by states or state-sponsored international organizations, in both developed and developing countries. Activists have used human rights discourse to challenge state actors on issues ranging from the provision of anti-HIV drugs in South Africa, to the displacement of indigenous peoples in the course of constructing the Sardar Sarovar dam in India (Hurwitz, Satterthwaite, and Ford 2009), to the detention, torture, and murder of dissidents in Argentina (Sikkink 2011). Since the 1990s the idea that development includes respect for human rights has become increasingly accepted among mainstream development agencies (Uvin 2007). This idea is succinctly captured in Amartya Sen's (1999) influential concept of "development as freedom."

The human rights approach argues that states have an obligation to "protect, respect, and promote" a set of universal and inalienable rights, for both instrumental and symbolic reasons. There is, however, significant disagreement about how to define the rights that qualify as human rights, especially when it comes to social and economic rights. For instance, some instruments refer to the concept of a "right to development," defined as a right to a process of development that will result in the realization of all human rights and freedoms. While some proponents of the right to development interpret this as a collective right of a state, some scholars have argued that such collective rights depend on the existence of individual rights to development (Abi-Saab 1975). At stake in this debate is whether states can defend projects that promote national economic development at the expense of certain individuals or communities—a dam might be a case in point—in the name of the human right to development.

Under rights-based approaches, more than in any other theoretical framework, legal institutions play a key role in defining desired development outcomes. Human rights are typically set out in treaties or constitutions and defined by courts, both domestic and international, in the course of litigation. The resulting concentration of power in lawyers and courts may be in tension with democratic principles (Waldron 2006), although, as Sen (1999) points out, this is less of a concern if the rights that merit legal protection are determined through democratic processes. There are also reasons to doubt whether courts or other human rights bodies are competent to resolve effectively the broad range of public policy issues that implicate social and economic rights. Take, for instance, the right to health: in

Brazil and Colombia much of the health care budget is consumed by judicially-mandated expenditures resulting from a massive volume of individual claims. This has undermined the ability of policy-makers and health care professionals to plan how to best use available resources (Yamin and Gloppen 2011).

Independent of litigation, human rights discourse is believed to be an effective way of mobilizing groups to press for social change. For example, resistance to the Sardar Sarovar dam involved not only litigation before the Indian courts but also protest marches and sit-ins, letters sent to the World Bank, and testimony before the U.S. Congress (Narula 2008). In this context, unmoored from the relative precision provided by legal documents and the adjudication of specific cases, the definitions of human rights risk becoming unhelpfully vague, capable of being reconciled with almost any outcome (Uvin 2007).

Rights-based approaches to development are closely related to approaches that emphasize the rule of law. The definition of rule of law is highly disputed (Tamanaha 2004; Daniels and Trebilcock 2008). Some adopt a thick conception that includes not only fundamental human rights, but also all the guarantees that need to be in place for such human rights to be protected. Thus, rule of law would include independent judiciaries, non-corrupt bureaucracies, and functional legislatures. In contrast, others have resisted the thick conception as it equates rule of law with a particular (as opposed to universal) concept of justice. Instead, they propose a thin conception of the rule of law based on procedural rights that guarantee due process, but nothing beyond that. Regardless of how it is defined, promotion of the rule of law can be justified as either an end in itself or, as we have already seen with NIE scholars, as a means to achieve other development objectives (Trubek and Santos 2008).

Many development interventions are explicitly designed to promote either human rights or the rule of law. Unfortunately, the results to date have been disappointing (Jensen and Heller 2003; Carothers 2006).

Third World Approaches to International Law (TWAIL)

TWAIL is a movement that seeks a more equitable international legal regime. The first generation of TWAIL scholars claimed that the post-colonial international economic order was characterized by systemic exploitation of Third World countries by Western nations and that international law implicitly condoned this exploitative relationship under the guise of neutrality. The movement proposed institutional reforms to better attune international organizations to the interests of developing countries and to reflect their numerical superiority, such as majority rule in votes of international organizations (Bedjaoui 1979).

Since the 1990s, a second generation of TWAIL scholars has analyzed not only formal governance structures in international law but also the relationships of power that determine how such structures operate. In addition to being more interdisciplinary than the first generation, the second generation is more skeptical about the liberating potential for international law.

TWAIL supporters have acknowledged the limitations of the movement, lamenting that: it has made no impression on international law scholarship; it is mostly produced by scholars located in the First World; and the second TWAIL generation has failed to present more detailed proposals for reforms (Chimni 2011). Nevertheless, TWAIL's focus on international power dynamics offers a useful perspective on contemporary features of the international

legal order. One example is the argument that the World Trade Organization's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), signed in the Uruguay Round of multilateral negotiations (from 1986 to 1993), has benefited developed countries—which tend to produce patentable products such as pharmaceuticals—at the expense of the developing countries.

Concepts versus Reality

Many of the approaches described above are based upon conceptual distinctions that are in tension with reality. Most of them are premised upon at least four dichotomies: law versus not law, public versus private law, common law versus civil law, and domestic versus international law. These distinctions demarcate fields of scholarly inquiry and professional competence, and may thereby perform important organizational functions for legal scholars and practitioners. However, for reasons we discuss below, they are of limited value in social-scientific efforts to assess causal connections between law and development.

Legal and Non-legal

According to Trubek and Galanter (1974), the first law and development movement was premised on the assumption that it was possible to reform the legal features of a society without taking significant account of or changing its non-legal attributes. However, in many developing societies state and non-state norms interact in a variety of complex ways. For example, in post-colonial societies the colonial legal system may co-exist with customary pre-colonial norms and institutional structures. Those customary norms can attract varying degrees of enforcement by the state. Similarly, in virtually all societies certain industries tend to create their own systems of norms and dispute resolution mechanisms, only some of which are backed by the possibility of state enforcement (Moore 1973; Merry 1988).

This suggests that lawyers and legal scholars must take into account interactions between legal and non-legal norms. For example, guaranteeing women's property rights is regarded as a strategy to increase economic efficiency, improve the family's well-being, and empower women. However, reforms designed to guarantee the benefits of private property to women may generate tensions if customary systems and land management structures are not compatible with gender equality (Agarwal 1994).

The complex and sometimes unpredictable ways in which legal and non-legal norms interact limits the potential for legal reforms to achieve development goals, leading some scholars to question the entire law and development enterprise. In the context of gender equality, for instance, recent empirical research shows that positive rule of law indices do not correlate with the status of women in society. The correlation does exist in high-income countries, but disappears in poor countries (Pistor, Haldar, and Amirapu 2009). This suggests that the status of women in society is determined primarily by social norms, which are only weakly affected by formal institutions in developing countries. Alternatively, one may argue that state and non-state norms interact in such complex ways that it is impossible to isolate the influence of either set of norms upon human behavior.

In either case, there is no value in analyzing state law in isolation from other normative orders[3] or promoting legal reforms independently of broader social change.

Public and Private Law

The distinction between public and private law is at the heart of many debates on law and development. Public law is focused on regulation of state action, while private law is concerned with the conduct of private (i.e. non-state) actors. Public law comes to the forefront when development is defined as a set of fundamental human rights that need to be guaranteed through constitutional provisions (Nussbaum 2011). In contrast, when new institutional economists emphasize the importance of contracts and property rights to promote economic development, they are focusing on private law as an engine of development.

Many developing countries in Africa, Asia, and Latin America have had or still have a Developmental State (Evans 1995; Trubek 2005). The law that regulates the activities of such a state has both public and private aspects. For instance, many developing countries have state-owned enterprises (SOEs) that can operate as private companies in the market. In addition to (or instead of) profit, SOEs may pursue social and political goals defined by their controlling shareholder, the government. While the legally defined governance structures of these SOEs may formally resemble those of purely private companies, they will obviously have different ramifications, and will, or ought to be, constructed accordingly (Ghai 1977). A similar blurring of the line between public and private occurs in national development banks. Banking transactions are generally governed by private law but many of these banks are used to pursue industrial policy through investments in sectors that the government considers strategic.

The public/private distinction is also challenged by proponents of the varieties of capitalism approach (Hall and Soskice 2001). They try to discredit the idea that governments are able to design and implement institutional reforms without input or assistance from the private sector.

Common Law and Civil Law

The distinction between common law and civil law jurisdictions has long been central to comparative law scholarship, as has a particular set of sub-distinctions among civilian jurisdictions based on European history. These distinctions have been reified in the development context by the Legal Origins theory (La Porta, Lopez-de-Silanes, and Shleifer 2008), which casts doubt on the merits of legal institutions that come from the benighted French civil law family.

These distinctions assume that most countries can be identified with a unique legal origin and that there are fundamental differences between legal systems with different legal origins. In many instances, however, these claims are demonstrably false. In Latin America, for example, many countries combine European-inspired civil codes, with constitutions based on the U.S. constitution, and corporate and commercial statutes based on a mixture of common law and civil law sources (Dam 2006).

Domestic and International Law

Most studies of law and development focus on how domestic laws affect local social and economic outcomes. This is often distinguished from the work of international lawyers who examine the effects on developing countries of bodies of public international law, such as the law of the World Trade Organization or the International Monetary Fund, investment treaties, or the international human rights regime.

The reality in many developing countries, however—especially small countries with very open economies—is that social and economic outcomes are influenced by legal norms that cannot be classified straightforwardly as either domestic or international. For instance, domestic laws of large foreign states can exert extra-national influences in these countries. For example, U.S. laws concerning immigration, narcotics control, and firearms have dramatic effects on patterns of migration and criminality throughout Latin America and the Caribbean. Similarly, when the U.S. sanctions firms for paying bribes to foreign public officials, it increases the risk of investing in corrupt countries.

The domestic/international dichotomy also fails to account for norms promulgated by intergovernmental organizations or private standard-setting agencies that do not qualify as binding international law. For example, the World Bank promulgates internal policies setting out social and environmental standards to be met by the projects it supports. Those standards are adopted voluntarily by many private project finance banks under the auspices of the Equator Principles. Given the volume of foreign investment that is bound by the World Bank standards, they effectively serve as an externally imposed code of social and environmental regulation for developing countries.

Emerging Approaches

Most of the theoretical approaches we have discussed in the previous section were developed in the global North to explain relationships between law and development in Northern societies. This is potentially troubling because experience has demonstrated that empirical and normative assumptions that underpin those theories are not necessarily valid in other contexts (and in some cases they are not valid in the North either!). As a consequence, conceptual frameworks based on those assumptions may be less helpful than expected in the global South.

Emerging theoretical frameworks are more mindful of these limitations and have paid more attention to the experiences of developing countries. The most interesting of these theories are open to potential interactions between institutions that span traditional conceptual categories, for example legal and non-legal, public and private law, common and civil law, domestic and international law. They also show increasing acceptance of the idea that both legal systems and the societies in which they operate are complex and constantly evolving, and so the relationships between law and development are likely to be variable and context-specific.

Global Administrative Law (GAL)

The concept of GAL (Kingsbury, Krisch, and Stewart 2005) overcomes many of the conceptual limitations identified above. Its proponents are concerned with exploring a "global administrative space" in which a variety of actors engage in regulatory activities whose effects transcend national borders. Those actors include:

> …transnational private regulators, hybrid bodies such as public-private partnerships involving states or inter-state organizations, national public regulators whose actions have external effects but may not be controlled by the central executive authority, informal inter-state bodies with no treaty basis (including "coalitions of the willing"), and formal interstate institutions (such as those of the United Nations) affecting third parties…(Kingsbury 2009a: 25)

This definition of the global administrative space unambiguously rejects sharp distinctions between domestic and international law. Moreover, although GAL purports to focus on "law," it does not insist on a narrow state-based concept of law.[4] Also significant is that the project includes many case studies of the effects of GAL in developing countries (see, e.g., Kingsbury 2009b). The Regulatory State of the South Project (Dubash and Morgan 2012) which seeks to explain how internationally harmonious policy prescriptions for the creation of Independent Regulatory Agencies generated multiple variations in institutional design, political dynamics and social and economic outcomes in developing countries.

On the other hand, GAL does not and cannot offer an overarching framework for analyzing the relationship between law and development because it is limited to legal institutions with significant transnational dimensions. In addition, much of the project is focused on the norms that govern global administrative actors, which excludes purely domestic legal institutions and many areas of private law. For example, global administrative lawyers might be interested in whether and how the World Bank's views on topics ranging from environmental protection to insolvency law effectively regulate activity in developing countries. However, purely domestic efforts to regulate in those fields are beyond the scope of the project. Moreover, GAL is more interested in the institutions that hold the World Bank accountable for its actions than in the effects of those actions on development outcomes.

Adaptability Theories

Some contemporary scholars focus on processes through which interdependent institutions adapt to changing circumstances. Drawing on the literature on varieties of capitalism, Milhaupt and Pistor (2008) argue that understanding how legal systems adapt to change is more important than a static analysis of the law. They conclude that the demand for law depends on affected constituencies' ability to participate in lawmaking and law enforcement. Their analysis is based primarily upon case studies of legal responses to corporate governance crises in six developed and middle-income countries, and mainly involves tracing different methods of legal adaptation.

Similarly, in recent work Douglass North and his collaborators argue that institutional change is a path-dependent process. Institutions, like technological development, can be locked in a suboptimal equilibrium that is hard to change. Obstacles to change include institutional interdependences and culture (North 2005). North, Wallis, and Weingast (2009) examine the emergence of regimes that allow open access to political and economic

benefits and tend to foster economic and political development. They conclude that the pre-conditions to the emergence of such open access regimes include: (i) rule of law for elites; (ii) the creation of perpetually lived organizations; and (iii) consolidated control over violence and the military. In their absence, attempts to promote the rule of law by transplanting legal institutions associated with markets and elections have failed (Weingast 2010). For instance, political leaders ranging from Carlos Menem of Argentina to Indira Gandhi of India have undermined the potentially salutary effects of elections by compromising judicial independence and thereby avoiding the rule of law.

On the one hand, focusing on processes of adaptation represents a promising reorientation of the field of law and development. This approach is sensitive to the complexity of interactions between legal systems and societies and points away from the idea that institutional designs are or should be static. On the other hand, these approaches threaten to dampen dialogue between academics and policy-makers by suggesting that such processes are too complex to permit intentional manipulation. This would cast a long shadow upon an aspiration that has characterized law and development scholarship since its inception, namely, of providing guidance for action.

Experimentalism

Most of the approaches discussed so far are based upon firmly held beliefs about causal relationships between legal institutions and development outcomes. In contrast, experimentalists start from the premise that we know very little about such relationships, and they value using experiments to untangle them. Rather than a theory of law and development, experimentalism promises a theory about a process for generating theories of law and development. So far, however, there have been few explicit efforts to experiment with legal institutions in developing countries.

Political theorist Charles Sabel (2007) justifies experimentalism in the governance of developing countries by pointing to evidence that the performance of institutions varies according to the context. Even in countries with national-level institutions that are viewed as dysfunctional, there are clusters of industries and some government branches that operate as effectively and efficiently as their counterparts in the developed West. He argues, therefore, that reformers should focus on what is already working in the specific context and attempt to improve upon it.

For this, Sabel strongly favors a method inspired by the Toyota Production System. This method involves ongoing monitoring of institutional performance, benchmarking against peers, and deliberation about both the goals to be achieved and means of achieving them, all in a non-hierarchical fashion with open participation.

In development economics, experimentalism is associated with another process: randomized controlled trials (Banerjee and Duflo 2011). In such trials, subjects are randomly assigned to either a group that is subjected to the intervention, the "treatment group," or a group that has not been subjected to the intervention, the "control group." Different outcomes between the treatment group and the control group are presumed to be caused by the intervention.

One of the few examples of a randomized controlled trial of a legal intervention involved police reform in the state of Rajasthan, India (Banerjee et al. 2012). The experiment consisted

of four different interventions to improve police performance and public perception of the police. While some randomly selected police stations were subjected to one type of intervention, others remained as the control group. The experiment showed that two mechanisms—training and freezes on transfers of police staff—improved performance and perceptions of the police. In contrast, the other two—placing community observers in police stations and weekly duty rotations—showed no results. Scholars suggested that failed implementation may explain the different result, as the latter depended on sustained cooperation of communities or local authorities, whereas the former did not.

Practical, legal, and ethical problems limit the scope for experimenting with legal norms, especially those that apply directly to individuals. Advocates for randomized controlled trials to evaluate legal reforms in developed countries argue that these problems are not insurmountable (Abramowicz, Ayres, and Listokin 2011). They do not, however, confront the potential challenges associated with running such experiments in developing countries. Where is a government to find people with the expertise and integrity to design, conduct, and interpret the results of these kinds of experiments in good faith? Do they have legal authority to apply legal norms selectively? Is it ethical to experiment with the welfare of people on the brink of subsistence? Without answers to these questions it is hard to determine the extent to which experimentalism will help the field of law and development move forward.

Conclusion: The Search for Meta-principles

For most of the post-war era, dominant approaches in law and development have involved claims about how specific legal mechanisms invariably produce desirable development outcomes. Emerging approaches take better account of the complexity and dynamism of relationships between law and development, especially as they are manifested in the Global South. They acknowledge that legal systems are composed of many interdependent parts that interact in complex ways across artificial divides between public or private, domestic or international, common law or civil law, or legal or non-legal norms, in an endless process of adaptation. Unfortunately, approaches that acknowledge these complexities struggle to identify empirical regularities in the relationship between specific legal institutions and development outcomes. Often the particularities of legal systems in developing countries are fleshed out through careful case studies, which then resist generalizations. In contrast, regularities in processes of institutional change may be generalizable. This may explain why an intellectual quest for general principles of law and development has evolved into a search for meta-principles.

So far no single approach offers a well-developed set of overarching concepts and causal claims that can satisfactorily account for the varying relationships between law and development in the Global South. And even if such a theoretical framework does emerge, translating its insights into practice is likely to present a challenge. In the absence of overarching theoretical frameworks we expect the practice of law and development to remain focused on analyses of the impact of legal reform in specific contexts. The most important scholarly research is likely to be concerned with the methodologies for conducting such analyses.

Notes

1. Here we ignore definitions used in studies conducted for other purposes, such as philosophical inquiries into whether people have a duty to obey the law or whether judges have a duty to decide cases in accordance with the law.
2. This distinction corresponds to the legal philosopher H. L. A. Hart's famous distinction between primary rules and secondary rules (Hart 1994).
3. Some "legal pluralists" would define the concept of law to include any norms that individuals treat as guides to behavior, regardless of whether those norms are recognized by state officials (Griffiths 1986). They view state law as just one of several kinds of legal orders, which might be embedded simultaneously in any given social setting (Griffiths 1986; Merry 1988). By contrast, others argue that in trying to capture the multitude of normative orders that influence social behavior the concept of "legal pluralism" is deprived of any analytical force. Indeed, one of its early proponents later argued that the concept of "legal pluralism" was a mistake and should be replaced with a concept such as "normative order" or "mode of social control" (Griffiths 2005: 63–4).
4. Kingsbury (2009a) suggests that norms administered by extra-national actors qualify as global administrative law so long as they generate a sense of obligation among their subjects and there is agreement among the relevant officials that the norms come from a source capable of generating legal rules.

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CHAPTER 13

ROOTING CHANGE: INDIGENEITY AND DEVELOPMENT

MAIVÂN CLECH LÂM

Ua mau ke ea o ka aina i ka pono
(The life of the land is perpetuated in righteousness)[1]

Introduction

In their review of the history of development thought and practice at the United Nations, Richard Jolly, Louis Emmerij, Dharam Ghai, and Frédéric Lapeyre link the approaches that marked successive phases of that history to their corresponding contexts as constituted by, first, the positions that dominant states *du jour* asserted on the subject and, second, the perspectives that influential civil society agents brought to the development table.[2] Thus, even as the ideological antagonism between East and West broadly split the world into opposing camps at the end of the Second World War, the international reconstruction and development activities undertaken in the 1940s and 1950s in the devastated heartland of Europe and the ravaged territories of the South proceeded smoothly enough because both public and private development actors of the period, East and West, generally subscribed to this cardinal article of faith on the subject: development = industrialization = progress. Debates of the time thus focused not on normative questions regarding the ultimate purpose of development, but on technical issues having to do with, for example, what constitutes its better engine: the public or private sector; or, what would accelerate it quickest: the importation of manufactured goods, or the local production of their substitutes? Moreover, the question of agency, that is, who should author development projects, was all but overlooked, as the assumed answer was: the experts, of course.

Today, however, half a century later, a far broader set of state and non-state actors are seized by the development syndrome—whether as agent, apologist, critic, beneficiary, or

victim—significantly complicating the subject on all fronts: theory and practice, yes, but also normativity and agency. This chapter narrates the young but already significant imprint made in the development domain by a major stakeholder in its trajectory: the 370 + million persons in the world, comprising about 5,000 ethno-linguistic entities distributed through some ninety countries and all geographical regions, who are now broadly recognized as constituting its indigenous peoples.[3] As such, they figure among those shrinking human communities that are not yet irreversibly wrenched from their native spaces, that is, not yet fully "de-indigenized" by development or other circumstances. An influential 1987 UN study describes indigenous peoples as follows:

> Indigenous communities, peoples and nations are those which, having a historical continuity with pre-invasion and pre-colonial societies that developed on their territories, consider themselves distinct from other sectors of the societies now prevailing in those territories, or parts of them. They form at present non-dominant sectors of society and are determined to preserve, develop and transmit to future generations their ancestral territories, and their ethnic identity, as the basis of their continued existence as peoples, in accordance with their own cultural patterns, social institutions and legal systems.[4]

While reliable demographic data for indigenous peoples are singularly difficult to obtain for technical reasons like inaccessibility, as well as political ones like non-recognition in some states, a rough estimate based on figures supplied by the UN and other parties close to the subject provides the following profile of their geographical distribution: 259 million in Asia; 50 million in Africa; 45 million in Latin America; 5 million in North America; 1.25 million in Australia and Aotearoa/New Zealand; and the remaining 9.75 million in Europe, the Middle East, and the Pacific Islands.[5]

The UN took stock of the circumstances of indigenous peoples in its 2009 *State of the World's Indigenous Peoples*.[6] While the report describes conditions that vary significantly from region to region, and indeed within regions, direct and indirect evidence of the concerned peoples' losses to the ever-advancing global economy abounds throughout. In Africa, for example, governments had, as early as the 1980s, signed with private corporations and/or northern governments more than 2,600 bilateral investment agreements that, constructed to protect foreign interests, increasingly restricted the region's public policy choices, constrained its environmental safeguards, undermined labor and human rights standards, and up-ended locally-based livelihoods.[7]

The 1980s also saw the emergence of a global trend to liberalize mining codes in favor of foreign mining companies. By 2003, 105 countries concentrated primarily in Asia and Latin America had succumbed to the trend, despite the devastating, and typically also irreversible, impacts of mining enterprises on local communities and ecologies.

In the Arctic and Pacific regions, where scarcer or less accessible terrestrial resources draw fewer investors, it is climate change and sea-level rise that most confound indigenous livelihoods long tied to hunting, herding, and fishing. Traditional animal sources of food, stressed beyond sustainability by climate change, commercial exploitation, and polluted habitats, no longer meet the needs of local communities.

Finally, where indigenous peoples formerly relied on small-scale, diversified, and sustainable cropping systems that were paired with hunting-gathering practices in adjacent forests, agri-business is now able to dump, worldwide, cheap monoculturally produced staples that undermine such systems and jeopardize the peoples' long-term food security. Add in the

clear-cut logging that fells forests, and the roads and dams that economies of scale require even as they splice or submerge indigenous territories, and it becomes abundantly clear why indigenous peoples so often oppose development.

The present chapter addresses their attempt to turn stark opposition into difficult engagement. The first section traces the emergence of the indigenous voice in international circles. The second identifies the foundational international law principles or norms that indigenous groups regularly advance in various fora to support the specific collective rights that they assert, including the right to approve development projects that affect them. The third focuses on issues of normativity and agency to which, the author believes, indigenous communities want and need agents of development to pay particular heed.

Emergence of the Indigenous Voice

Prelude

The 1950s, 1960s, and 1970s were a prelude, albeit a highly relevant one, to indigenous peoples' own later contestation of development practice. The early post-war conviction—that development would deliver progress and reduce poverty—that animated the first fifteen years or so of international development activities began to falter when, at the close of the 1950s, statistics streaming into the UN and elsewhere revealed that a shocking chasm had been rapidly growing between the gross national products (GNPs) of the North and the South since the founding of the world organization. While these figures spelled trouble for the South, they also unnerved the capitalist West inasmuch as the socialist East could, and did, make political hay out of them. As the 1960s dawned, then, Washington felt compelled to act. It did so in 1961 by calling on the UN to launch a Development Decade aimed at reducing the GNP divide between North and South by, it proposed, coupling robust trade openings for the North with enticing aid packages for the South.[8]

As it happened, this developmental biped was launched at about the same time that a dynamic group of Southern economists gathered around the legendary figure of Raúl Prebisch, the then Secretary-General of the UN's Economic Commission for Latin America (ECLA), who was disseminating a trenchant critique of North—South, or rather centre–periphery, economic relations that, among other things, depicted the Northern-hawked aid-and-trade package as yet another permutation of the dependency-inducing and poverty-sustaining structure of those relations.[9] This "dependency" critique so captivated the imagination of political and intellectual circles in Third World countries in the ensuing decade that, as the 1970s dawned, their governments joined forces in the General Assembly to issue a historic call for the UN to establish a New International Economic Order (NIEO) dedicated to nothing less than the rectification of the unjust economy of horizontal inequality that colonialism had riveted in place over much of global space in the course of its virtual 500-year run.[10] Vertical inequality, not as extreme then as it is today, did not as such particularly figure on the NIEO agenda.

Western states, seeing in the NIEO a wrecking ball aimed not only at the economic legacy of colonialism but potentially also at the neo-liberal edifice they had been assembling since Bretton Woods to preserve their economic dominance in the South even as the latter transited

to political independence, moved quickly to abort the proposed order by counter-advancing its very antithesis which, in time, came to be known as the Washington Consensus (WC). At bottom, the WC imposed on an already aid-dependent South this formula for continuing to receive aid: (i) participate in the free trade regime (which covers manufactured goods and, increasingly, financial services, where the advantage lies with the North, but which largely excludes agriculture, where the advantage might lie with the South); and (ii) undertake internal structural adjustments, that is, privatize. In an uncannily short period of time, the "technocratic" elites in the South, who by the 1980s had all but replaced the "ideological" first generation of post-independence leaders, signed on to these neo-liberal prescriptions which then all but sealed their orthodoxy in development circles through the remainder of the twentieth century. Some ten years now into the new century, the social and ecological costs of the neo-liberal regime are piling high, especially in the South, even as the regime's hitherto vaunted financial structures are also breeding havoc in the North.[11]

Interestingly, while the horizontal disparity spawned by colonialism was incorporated into neo-liberalism, it is in fact vertical inequality that has become the new regime's signature by-product. For many, however—and indigenous peoples figure disproportionately among them—global neo-liberalism signals much more than inequality: it unleashes, as anthropologists have amply recorded, the ravage of their communities.[12] There matters might have remained but for the efflorescence, beginning also in the 1970s, of rebellious ideas and actions incubated in the world's many civil societies that, unlike governments, see the shattering of communities and locales up close.

Outraged at the devastation wrought by the world's headlong rush to industrial and commercial formations that the privileged few were seen as imposing on the vulnerable many, these non-state actors, newly connected transnationally by the proletarianization of information technology, spontaneously sprung up in "blessed unrest."[13] Unfamiliar, unpredictable, and unconfinable, they metamorphosed into a force that neither states nor the global neo-liberal establishment knew quite how to contain or engage.[14] Improvising, these have been offering responses ranging from confrontation through negotiation to co-optation. In this context, the world conferences convened since the early 1970s to address issues raised by transnational civil society may be seen as sites of negotiation writ large, the 1972 Stockholm World Conference on the Human Environment qualifying perhaps as the event that launched the genre. Many others followed: Copenhagen, Cairo, Mexico City, Nairobi, Vienna, Rio, Beijing, Seattle, Johannesburg, Durban, and so on. At some, as in Seattle, physical confrontation broke out; at most others, state and non-state actors willy nilly interfaced, argued, debated, learned, unlearned, co-opted, became co-opted, revised norms, re-tooled ideas, and modified practices. Betwixt and between this ferment, the international indigenous movement was born, and is now growing up to centrally challenge neo-liberalism's development orthodoxy.

Engagement (1971–2011)[15]

For indigenous peoples, the engendering transnational civil society event was, arguably, the 1971 conference organized in Barbados by the World Council of Churches' (WCC) Program to Combat Racism, which focused on the subject of ethnic strife in Latin America. Conference attendees, many of whom were anthropologists, drafted a *Declaration of Barbados* that condemned what it termed the internal and external colonialism remaining in the region

which, it continued, could only be eliminated with the purposeful re-configuration of Latin American states into multi-ethnic entities.

It so happened that the WCC was, and remains, a long-standing and influential member of the dense community of non-governmental organizations (NGOs) that Geneva harbors alongside the several UN human rights bodies also sited there. Not surprisingly, then, in the same year that the Barbados Declaration was issued, one such UN body, the Sub-Commission on Prevention of Discrimination and Protection of Minorities, successfully urged its parent Commission on Human Rights to authorize a comprehensive study of the discrimination that indigenous peoples experience. The task was assigned to the Ecuadorean diplomat José R. Martínez Cobo, who, expertly assisted by the Panamanian anthropologist César A. Willemsen-Díaz, went on to produce a landmark study on the subject which contains the now classic description of indigenous peoples quoted earlier.[16]

The WCC followed up its first Barbados conference with a second one in 1977 where indigenous representatives explicitly denounced the development projects that violated their spaces and the assimilationist policies that states used to justify the violation. Later that year, the first ever pan-NGO Conference on the Indigenous Peoples of the Americas also met, in Geneva, with UN support. It issued a Declaration asking that indigenous peoples be recognized as nations and subjects of international law. While the following year's UN World Conference to Combat Racism and Racial Discrimination did not comply with this call, it did recognize the rights of indigenous peoples to, *inter alia*: (i) name themselves and express their cultures; (ii) receive an official status; and (iii) maintain their traditional economies. The General Assembly (GA) endorsed these principles later that year. Finally, in 1982, at the sustained urging of civil society and also because early installments of the Cobo study suggested as much, the GA requested the Commission on Human Rights to assemble a Working Group on Indigenous Populations (WGIP) to do two things: monitor and report on the situation of indigenous populations, and recommend standards for state/indigenous relations.

Coincidentally, another UN entity, the International Labour Office (ILO), was already at work crafting a related set of standards to be encoded in an instrument designed to supersede the only treaty then extant on the subject of indigenous peoples: the ILO's own 1957 *Indigenous and Tribal Peoples Convention (107)*.[17] The successor *Indigenous and Tribal Peoples Convention (169),* adopted in 1989, recites this reason for its genesis: [18]

> The General Conference of the International Labour Organization…
>
> Considering that the developments which have taken place in international law since 1957, as well as developments in the situation of indigenous and tribal peoples in all regions of the world, have made it appropriate to adopt new international standards on the subject with a view to removing the assimilationist orientation of the earlier standards, and
>
> Recognizing the aspirations of these peoples to exercise control over their own institutions, ways of life and economic development and to maintain and develop their identities, languages and religion, within the framework of the states in which they live…adopts…

The clear anti-assimilationist stance laid out above went on to also undergird the work of the WGIP. A measure of rivalry ensued at this time between the ILO and the WGIP as to which would produce the earlier and more impactful imprint in the field.[19] As it turned out, the more cumbersome tripartite ILO completed and adopted its new treaty in 1989. The WGIP, composed of only five experts, took until 1994 to complete its admittedly more complex *Draft Declaration on the Rights of Indigenous Peoples.* The latter then languished in a states-

composed committee of the Human Rights Council for another decade before being finally adopted by the GA in 2007 as the *Declaration on the Rights of Indigenous Peoples* (UNDRIP).

The GA, in the interim, has not stood still. Between 1982, when it called for the establishment of the WGIP, and the present, the GA has undertaken, at the prompting of a host of indigenous and non-indigenous groups and individuals (none more dedicated and resourceful than Greece's Erica-Irene Daes, the long-time chair of the WGIP), an unprecedented number of initiatives to assist indigenous peoples in their quest for empowerment at the international level. These include: the 1985 establishment of a UN Voluntary Fund to support indigenous participation in UN fora; the designation of 1993 as the International Year of the World's Indigenous People; the proclamation of 1995–2004 and again 2005–14 as the first and second International Decade of the World's Indigenous People; the 2000 creation of the Permanent Forum on Indigenous Issues (PFII); and, most important, the 2007 adoption of UNDRIP. More recently, the GA voted to convene a World Conference on Indigenous Peoples (WCIP) for the year 2014.

Taking its cue from the GA's adoption of UNDRIP, the Human Rights Council dismantled the WGIP and replaced it with an Expert Mechanism on the Rights of Indigenous Peoples charged with studying, and advising the Council on, issues arising under UNDRIP. A Special Rapporteur on the broader subject of the human rights and fundamental freedoms of indigenous peoples has been reporting to the Council since 2001. In the meantime the ILO, armed now with two binding Conventions on the rights of indigenous peoples, enforces their respective provisions vis-à-vis signatory countries, most of which are located in Latin America. Reviewing these initiatives, a UN study concludes: "Along with the movements for decolonization and human rights, as well as the women's and environmental movements, the indigenous movement has been one of the most active civil society interlocutors of the United Nations since 1945."[20]

Foundational Principles

UNDRIP provides an invaluable set of normative tools, or "weapons of the weak," for indigenous peoples' activism.[21] A handful of key principles underpin its forty-six articles. Because these norms figure in a non-binding Declaration rather than a binding Convention, their potency derives less from their normative compulsion than from the high visibility (read political capital) that the indigenous campaign has attracted worldwide in the last thirty years. Key to that visibility was the participatory process that indigenous peoples managed to extract from the ILO, UN human rights institutions, and UN headquarters. That groundbreaking process is reviewed here as it bears directly on the issue of their agency, which permeates UNDRIP.

At the drafting of ILO Convention 169, which centrally concerned indigenous peoples, their representatives found themselves in the anomalous position of being highly visible yet conspicuously silent inasmuch as the president of the proceedings accepted interventions only from the ILO's own state, employer, and union constituents. Nevertheless, a strange thing happened on the way to ILO 169. To begin with, unionists there clearly sympathized with and openly sought out the indigenous observer contingent which, for its part, zealously

distributed position papers to the ILO members assembled. More creatively still, several unions had simply absorbed indigenous activists into their ranks even before setting out for Geneva, giving them free rein once they got there to voice indigenous, as opposed to strictly syndicalist, perspectives. The new Convention, then, which the employer bloc largely opposed, came into being because an "indigenized" worker bloc voted for it in concert with enough states that were willing to jettison the old Convention's assimilationist stance.

While indigenous activists had to borrow the identity of workers in the ILO, the WGIP made it clear early on that it would advance, in its work, a genuine if still inchoate concept of state/indigenous partnership that it would moreover model with a path-breaking process for its own sessions. Thus, the WGIP dropped the usual UN credentialing requirement for non-state participants and, amazingly, allowed virtually any would-be participant to register, attend sessions, and offer testimony. In consequence, it regularly drew, during the time that it elaborated the Draft Declaration, contingents of 500 or more indigenous attendees to each of its annual sessions in Geneva. In turn, those contingents succeeded beyond all expectation in powerfully, even transformatively, educating the experts involved on the nature of the indigenous world and its needs. In contrast, one-tenth that number of states' delegates showed up at earlier WGIP sessions where, moreover, most remained silent until the last years of the drafting process, when the genie of a daringly imaginative state/indigenous partnership was already out of the bottle and, indeed, inflecting UN practice.

In truth, no international forum has since matched the WGIP's elevation of the indigenous voice, with the possible exception of the UN's PFII which, perforce, was created to project that voice. At the same time, few international fora since have been able to wholly withstand indigenous peoples' consistent demand that they honor the process launched in the WGIP.

Turning now to the explicitly normative, as opposed to processual, gains that indigenous peoples secured at the UN, these, by and large, are recorded in UNDRIP, an instrument that, by its own terms, sets out "the minimum standards for the survival, dignity and well-being of the indigenous peoples of the world."[22] The analysis of the document offered here reviews not the many rule-like provisions contained in UNDRIP, but the foundational principles that animate them. Two of these have been mentioned: non-assimilation and state/indigenous partnership. Five others now follow.

Self-determination

More than anything else, indigenous peoples' insistence that the right of self-determination be included in UNDRIP delayed its drafting and adoption. The right vests agency in indigenous peoples for virtually all that touches them, thereby commensurately constraining states' agency in the matter. The right is set out in three articles:

> **Article 3**. Indigenous peoples have the right to self-determination. By virtue of that right they freely determine their political status and freely pursue their economic, social and cultural development.
>
> **Article 4**. Indigenous peoples, in exercising their right to self-determination, have the right to autonomy or self-government in matters relating to their internal and local affairs, as well as ways and means for financing their autonomous functions.

> **Article 5**. Indigenous peoples have the right to maintain and strengthen their distinct political, legal, economic, social and cultural institutions, while retaining their right to participate fully, if they so choose, in the political, economic, social and cultural life of the State. . . .

As can be seen, Article 3 extends to indigenous peoples, *verbatim,* the right of self-determination consecrated in the common Articles 1 of the two 1966 International Human Rights Covenants. Because this same right was first memorialized in the 1960 Declaration on the Granting of Independence to Colonial Peoples and Countries which went on to underwrite Third World peoples' bids for independence, states in Geneva resisted extending the right to indigenous peoples lest, they said, it foment secessionist movements on their part. In response, indigenous participants and their civil society allies variously countered: that it would be discriminatory to carve indigenous peoples out of the generic "peoples" attached to the right; that in any event indigenous peoples could not technically "secede" from a state they had not freely joined; that they in fact sought to construct a novel partnership with enclosing states; and that, in the end, room must be made, between annihilation and separation, for the good faith practice of, and experimentation in, partnership.

Given this impasse, states in New York adopted a two-pronged strategy to resolve it. Article 3 was retained but a new Article 4 was unilaterally placed by them to suggest that the "self-determination" status contemplated is autonomy. Textually, however, Article 4 can also be read to illustrate, rather than limit, self-determination's outcomes. This was in fact the case with the original 1960 enunciation of the right, which was interpreted to authorize a range of outcomes ranging from incorporation into a state, through free association with it, to full independence.

In any event, it is the idea of partnership, more than anything else, that most indigenous representatives invoke today when they assert their right of self-determination. Article 5 anticipates this when it states that indigenous peoples have the right to their distinctive institutions, alongside the right to participate in those of the state "if they so choose."

Territoriality

UNDRIP devotes six articles to the subject of lands, territories, and resources (LTR), including waters and coastal areas. As can be appreciated, the integrity of their LTR is key to the cultural and physical survival of indigenous peoples. At the same time, it is this very complex that infrastructural and extractive projects habitually threaten. Here, UNDRIP's Article 26 unambiguously privileges the indigenous party:

1. Indigenous peoples have the right to the lands, territories and resources which they have traditionally owned, occupied or otherwise used or acquired.
2. Indigenous peoples have the right to own, use, develop and control the lands, territories and resources that they possess by reason of traditional ownership or other traditional occupation or use, as well as those which they have otherwise acquired.
3. States shall give legal recognition and protection to these lands, territories and resources. Such recognition shall be conducted with due respect to the customs, traditions and land tenure systems of the indigenous peoples concerned.

Additionally, UNDRIP recognizes indigenous peoples' rights to return to their traditional LTR, and to redress when return is impossible.

While the term "territoriality" does not figure in UNDRIP, it is used here to denote the jurisdictional or state-like powers of exclusion, and of dominion over territory, that UNDRIP places in indigenous hands.[23] The only exemption made to this scheme is for the enclosing state's military activities. Even here, however, these are prohibited on indigenous territories "unless justified by a relevant public interest or otherwise freely agreed with or requested by the indigenous peoples concerned."[24] Overall, then, the territoriality that UNDRIP constructs for indigenous peoples is, as a UN study observes, akin to the right of "permanent sovereignty over natural resources" that newly independent states asserted in the last century to preserve their resource base from the confiscatory power of overreaching foreign capital.[25]

Free, Prior, and Informed Consent (FPIC)

UNDRIP is the first international instrument to formalize the right of a sub-state community to give or withhold consent for activities affecting it that issue from outside the community. Looked at another way, the FPIC norm operationalizes the right of self-determination. UNDRIP's first mention of the right to FPIC states:

> **Article 10**. Indigenous peoples shall not be forcibly removed from their lands or territories. No relocation shall take place without the free, prior, and informed consent of the indigenous peoples concerned and after agreement on just and fair compensation and, where possible, with the option of return. . . .

The norm figures in five other articles. The first four mandate, respectively, that states: (a) offer redress for "cultural, intellectual, religious and spiritual property taken" without FPIC; (b) also offer redress for LTR taken without FPIC; (c) obtain the FPIC of indigenous peoples for legislative and administrative measures that affect them; (d) likewise obtain FPIC for the storage/disposal of hazardous materials on indigenous LTR.[26] The last mention of FPIC, in Article 32, zeroes in on the subject of development:

1. Indigenous peoples have the right to determine and develop priorities and strategies for the development or use of their lands or territories and other resources.
2. States shall consult and cooperate in good faith with the indigenous peoples concerned through their own representative institutions in order to obtain their free and informed consent prior to the approval of any project affecting their lands or territories and other resources, particularly in connection with the development, utilization or exploitation of mineral, water or other resources.

Clearly, difficult questions attend the application of the FPIC norm. For a start: how free is free, how prior is prior, and how informed is informed? Anticipating these problems, in 2005 the UN's PFII staff convened an exploratory workshop on the subject. The author proposed there that: (a) "free" should mean without inducement or coercion of any kind, material or political; (b) "prior" should mean before any activity begins that could manifestly influence the decision to proceed or not to proceed with a proposed project; (c) "informed" should mean, *inter alia*, that indigenous peoples will have access, on a par with the developer counterpart, to the relevant knowledge base and domain of experts; and (d) "consent" should mean the overwhelming approval of the community affected.

The author further pointed out that national and international institutions' current practice of requiring that the developer file an environmental impact statement (EIS) before a project can be authorized is wanting in at least one respect. A single stakeholder—the developer—controls the EIS process, as the agent that typically assembles the concerned document, hires its authors, frames its questions, and deploys its often impossibly technical language. Under the FPIC norm, the developer should also be required to dedicate a sum of money, equal to what it spends on its EIS, to the affected community to enable it to commission its own EIS. Clearly, as in the judicial context, two briefs, better than one, expose the complexities of a contested matter.

Intellectual Property

UNDRIP addresses this norm in a single article:

> **Article 31**. Indigenous peoples have the right to maintain, control, protect and develop their cultural heritage, traditional knowledge and traditional cultural expressions. . . . And develop their intellectual property over such. . . .

With this, UNDRIP simply references the domain (which the World Intellectual Property Organization [WIPO] now calls "Traditional Knowledge, Traditional Cultural Expressions, Genetic Resources, and Folklore") over which indigenous peoples may assert intellectual property rights (IPR), leaving their elaboration to specialized bodies like WIPO. A clash of normativities, however, continues to stymie the latter's effort to provide protection for indigenous peoples' IPR. Simply put, the present world IPR regime remains embedded in a Western paradigm that assigns intellectual value to identifiable moments, and items, of individual creativity or originality. Indigenous peoples, on the contrary, value traditional knowledge and cultural expressions for the very reason that they have been held and reproduced collectively from time immemorial. The two paradigms could not be more mutually alien. WIPO has been attempting to bridge this divide since 2001, when it empanelled an Inter-Governmental Committee on Intellectual Property, Genetic Resources, Traditional Knowledge and Folklore to give it guidance. To date, that guidance remains at the work-in-progress stage.

UNESCO, for its part, adopted its Convention for the Safeguarding of Intangible Cultural Heritage in 2003 and its Convention on the Protection and Promotion of the Diversity of Cultural Expressions in 2005, ahead of UNDRIP's adoption, which may explain the said Conventions' insufficient attention to the specific interests of indigenous peoples. Overall, however, UNESCO plays a pre-eminent role, particularly through its publications, in emphasizing the value of indigenous cultures to their bearers and to humanity in general. Additionally, since 2002 it has run a Local and Indigenous Knowledge Systems Program that places indigenous persons with traditional knowledge in environmental management roles where their knowledge may be applied and transmitted. Aware of indigenous participants' strong support, expressed at the 1992 Rio Conference on Environment and Development, for "a sustainable future rooted in the knowledge and worldviews of their Elders," which stance earned them the designation of "Major Group" entitled to an ongoing voice in the Rio process, UNESCO engaged indigenous participants in two events leading up to Rio 20+: its Planet Under Pressure conference in March 2012, and its UNESCO/ICSU Forum for Science,

Technology and Innovation for Sustainable Development in June 2012. Notwithstanding the combined initiatives of its agencies, the UN reports that the piracy of indigenous peoples' intellectual property surges on unabated, generally in the form of raids on indigenous peoples' resources carried out by pharmaceutical, cosmetic, touristic, and other companies that states fail to control.[27]

Cultural identity

As with "territoriality," UNDRIP does not advance a norm of "cultural identity" as such but amply fills out its content throughout the text.[28] The norm underlies spelled-out rights to membership in a cultural community, to tradition and custom, spirituality and religion, ceremonial artifacts and practices, transmission of legacies and language, and so on. In the end, it is the collective cultural identity of indigenous peoples that enables them to exercise their right of self-determination. That is, while the right of self-determination recognizes and secures agency for indigenous peoples, it is the norm of cultural identity that safeguards their ability to knowledgeably and meaningfully exercise that agency in common into the future. This, because culture is, finally, nothing less than the historically derived complex of shared knowledge, norms, symbols, behavior, and social ties on which every community, indigenous or not, relies to claim, modify, and reproduce its particular vision of selfhood and well-being. The complex may be relatively thin in metropolitan communities shared by the rooted and the transient; it is uniquely thick in indigenous communities attached to traditional territories.

Rooting Change

The previous section reviewed the agency that international society now vests in indigenous peoples over a range of subjects. This section discusses the deployment of that agency, and of indigenous communities' own normativities, constructed locally and now also transnationally, in development and other contexts. That is, while indigenous communities remain attached first and foremost to the distinctive normativities of their particular cultures, they are also synthesizing, as a result of similar encounters with modernity, a shared set of norms displayed in but not limited to UNDRIP that may be called "indigeneity."[29]

Agency

Operationalizing the rights of self-determination and of FPIC in the development context will undoubtedly prove daunting. For example, where proposed projects potentially affect several communities and peoples in different ways, who is the rights holder? Two postulates could offer a degree of initial guidance here, to be checked of course against the cumulative wisdom of practice. The first, ethnographic in nature, recognizes that human beings today live and participate in several interactive "grids" of belonging. Akhil Gupta's comment on "citizenship" in his work on identities makes the point:

> Citizenship ought to be theorized as one of the multiple subject positions occupied by people as members of diversely spatialized, partially overlapping or non-overlapping collectivities. The structure of feeling that constitutes nationalisms needs to be set in the context of other forms of imagining community, other means of endowing significance to space in the production of location and "home."[30]

The second postulate, normative in nature, asserts that any community or "grid" of belonging, large or small, that is potentially impacted by a development project must have agency over it commensurate with the anticipated degree of impact. In the case of indigenous communities rooted to ancestral lands and ways, that impact will likely be substantial. For this reason, UNDRIP makes the agency rights of self-determination and FPIC maximally available to them. This does not mean, however, that an indigenous community exercising that agency will do so in isolation from all other communities or normativities, for, as the first postulate indicates, even rooted indigenous peoples today navigate between several social and ideological grids. Consequently, while they will likely foreground their community's own normativity in the situation, they will also inevitably be considering other normativities. The space where parallel normativities are considered and assessed, then, is also the space where rooted change emerges.

Normativity

UNDRIP states that its standards are vital to the "survival, dignity and well-being" of indigenous peoples. Today, perhaps as a dividend of the UNDRIP campaign, some indigenous communities have moved beyond survival issues to contest visions of "well-being," an open-ended term now happily replacing the unilinear rubric of "progress" in development parlance. In the process, a common indigenous normativity is coalescing. Its foundational theme was sounded by President Evo Morales in 2007 on his first trip to the GA as Bolivia's head of state. He said, "We are opposed to development; we do not want to live better, we only want to live well." This *vivir bien* theme encapsulates a veritable domain of values, for what President Morales did, in that moment, was to announce the fundamental divide that separates the normativity of modernity from that of indigeneity. Admittedly oversimplifying both, the first may be said to prize rationalism, individualism, competition, disaggregation, accumulation, the mastery of nature, and the present generation. The second espouses meaning, communalism, collaboration, connection, sufficiency, the stewardship of nature, ancestors, and the unborn. The first excels at change, the second at sustainability. Clearly, development thinking in the twenty-first century must mine both.

Practice

Drawing on a handful of recent examples, this section discusses a sample set of practices that, in the author's opinion, assist or hinder indigenous peoples' reach for well-being. Starting with the positive, indigenous peoples' achievement, however fledgling still, of agency in international fora outranks all their other gains. It gives them a potent two-way advantage: the ability to influence decisions made supra-nationally that play out locally and, conversely, the opportunity to bring supra-national influence to bear on lower-level decisions. Either way, it strengthens their position vis-à-vis states.

It was indigenous agency exercised in the PFII that made the UN create an Inter-Agency Support Group on Indigenous Issues to coordinate the organization's several projects in aid of indigenous well-being. Under the same impetus, the UN today also requires its agencies to disaggregate the data they collect so as to highlight the particular circumstances of indigenous peoples. UNESCO has elevated the status of traditional knowledge from a local good to a global one benefitting communities at both levels in a world re-awakened to the virtue of sustainable economies. Significantly, a committee of the World Bank itself issued an *Extractive Industries Review in 2003* that urged that body to end its funding of mining industries given their destructive effect on local communities and the environment. Furthermore, the *Review* urged the Bank to embrace the FPIC norm for projects impacting indigenous and similarly situated peoples.

There is also evidence, albeit circumstantial, that international gains percolate down to regional and national levels. Thus, because UNDRIP characterizes its standards as minimal, the Organization of American States has been constrained by its indigenous interlocutors from introducing lower standards into its own Draft Declaration of their rights. It is probably not coincidental either that, during the four decades that the indigenous *gestalt* was coalescing trans-nationally, indigenous parties scored landmark victories against over-reaching states on issues involving the former's rights to self-determination and territoriality in international, regional, and national courts.[31] While Bolivia alone has incorporated UNDRIP wholesale into its national legislation, other Latin American countries' executive and legislative branches have also been moved to respond, as never before, to the demands of their indigenous communities, albeit with mixed motives and results.[32]

International indigenous agency has also stimulated indigenous peoples to organize themselves on a more ambitious scale. The Sami Council jointly formed by the Sami of Norway, Sweden, Finland, and Russia is a case in point. Others include the several large transnational assemblies of the last decades where indigenous peoples, reaching across a range of cultures, formulated common norms, strategies, and demands.[33] These efforts in turn attract a widening circle of allies so that a veritable network of indigenous and non-indigenous parties now mounts weighty challenges to the orthodox development view that economic growth equals, or must precede, well-being. Thus, Joseph E. Stiglitz has famously declared that growth is unsustainable, adding that GNP and GDP, which obsessively search for it, "mis-measure" our lives.[34] He and other experts increasingly urge the use of additional indices of human development: human security,[35] food security, capacity,[36] democratic institutions,[37] the "bottom billion,"[38] status of women, literacy, health, education, the state of infrastructural stock, and so on. However, few development specialists yet tend to the foundational questions that communities more harmed than helped by development continue to ask: What is the goal of development? Who decides? Applying what norms? Indigenous peoples answer, *grosso modo:* Well-being, not growth, should be its goal; we decide, if it affects us; and we do so guided by our own values, which states must respect.

Because these responses fly in the face of established conceptions of the state, and of mainstream development paradigms, they encounter serious resistance in the UN as elsewhere. The UN, as is well-known, veers in different directions depending on which "UN" leads at any given time or on any given topic: the member-states', the Secretariat's, the "Third UN" of associated experts, or the latest UN of civil society agents. While the organization played an extraordinarily supportive role in elevating the indigenous cause to the international status that it now enjoys, the UN's subsequent institutionalization of the indigenous agenda is

predictably subjecting it to the downside of success. Thus, the UNDG-issued *UNDG Guidelines on Indigenous Peoples' Issues* states that, conforming with the UN's desire to "mainstream and integrate" indigenous concerns, UNDG advocates "a human rights based and culturally sensitive approach to development." As can be seen, UNDRIP's powerful and controversial discourse of collective self-determination and of FPIC is being transmuted here into the tamer discourse of individual human rights and "development with identity."

Likewise, the growth of UN mechanisms dedicated to indigenous matters may scatter, rather than concentrate, indigenous peoples' energy. Already, the PFII, the Expert Mechanism on the Rights of Indigenous Peoples, and the Special Rapporteur, notwithstanding their important contributions, appear to be settling into the UN pattern of issuing studies and reports rather than frontally challenging unacceptable state and corporate practices. Finally, while as many as 1,500 indigenous persons attend the PFII's yearly sessions, a strikingly small contingent of indigenous individuals tends to show up again and again as spokespersons of indigenous peoples in international fora, regardless of topic or task. The disjunction between any such small contingent and the far-flung, highly diverse, and locally stressed communities where the world's 370 million indigenous peoples live raises serious issues of representativeness that will have to be addressed by indigenous peoples themselves.[39]

Conclusion

If, as indicated at the start of this chapter, development thought and practice evolve through the countervailing, but also cross-fertilizing, pushes and pulls of public and private actors in the field driven by their singular complexes of values and interests, then that evolution has embarked on a new phase with the entry of indigenous peoples into the fray. As with previously marginalized groups like the colonized, and women, who also managed—relying on an array of political alliances and normative maneuvers analogous to those described here for indigenous peoples—to significantly bend to their advantage prior paradigms of agency and normativity, indigenous peoples are taking their rightful place in national and international discourses on development.

For real cross-fertilization to occur in those discourses, however, the grip of certain dominant narratives of modernity will have to be loosened. First, there is the simplistic vaunting of the market as the pre-eminent device for the exchange of goods and services, notwithstanding Karl Polanyi's long-standing warning that it also figures as the unraveler e*xtraordinaire* of social relationships.[40]

Second, there is the associated trope of the market as engine of flexibility and creativity that, before 1989, sounded plausible in contrast to the Soviet Union's centralized command economy. Today, however, the combined power of the International Monetary Fund (IMF), the World Bank, and the World Trade Organization (WTO)—which commands not a mere national space but a global one—is outdoing the Soviet planned economy in its ability to homogenize space and suppress local agency.

Third, as the world searches for models of sustainability, the view that traditional knowledge is pre-scientific needs to be replaced with the recognition that it in fact embodies a trove of information painstakingly acquired through generations of observation and trial-and-error.

Fourth, the narrative of the rescue of the South (where most indigenous peoples live) from purportedly self-inflicted disasters like poverty, internal displacements, and civil strife needs to yield to a discourse of prevention that equally exposes Northern and Southern vectors of human and ecological degradation, be these neo-liberal prescriptions, mega-projects, the arms trade, or other culprits. Of course, a simplistic grand narrative of indigeneity would be as misleading as the reigning modernist ones. Instead, a gentle rain of small narratives, supported by ethnographic-level accounts of well-being—how it is sought and found—might provide welcome relief, and perhaps also insight.

Notes

1. This statement attributed to Hawai'i's King Kamehameha III (1813–54) remains the principle most invoked by kanaka maoli (indigenous Hawaiians) as they contest the ongoing expansion of U.S. military bases, and hotel and housing complexes, in their formerly independent country which the U.S. annexed in 1898.
2. Jolly et al. 2004.
3. See UN 2009: 1.
4. Cobo 1987, paragraph 379.
5. Some sources consulted include the UN PFII, IWGIA, and IFAD.
6. The data set out in this paragraph are culled from that report.
7. UN 2009: 17.
8. Toye and Toye (2004) have richly narrated the complex UN response to the new developmental focus on trade.
9. For an insider account of ECLA's extraordinarily influential years, see Berthelot 2004: 168–232.
10. For an eloquent treatise promoting the NIEO at the time, see Bedjaoui 1979. But see Escobar 1995 for a current critical perspective on the associated construct of "Third World."
11. See Sundaram (2011) on the connection between the defective financial system and development.
12. Anthropologists, long before economists, recognized this ravage. See Bodley 1988; Ferguson and Whitehead 1992; Perry 1996; Bardhan and Ray 2008; Oliver-Smith 2010; Boggs 2011.
13. A term coined by the environmentalist writer Paul Hawken (see Hawken 2007).
14. See Alston 2005 on the NGO challenge of neo-liberal excesses on human rights grounds.
15. For a fuller account of this engagement, see Lâm 2000.
16. Cobo 1987.
17. Its formal name is Convention Concerning the Protection and Integration of Indigenous and Other Tribal and Semi-Tribal Populations in Independent Countries. However, both it and the later Convention 169 are generally referred to in the abbreviated fashion used in the text.
18. Rodríguez-Piñero's account (2005) of the geneses of both Conventions presents far more complex reasons.
19. Rodríguez-Piñero 2005.
20. UN 2009: 1. UN instruments and mechanisms dedicated to indigenous peoples, for example, outstrip those devoted to minorities. See Lâm 2009.
21. A term and concept James Scott made justly indispensable (see Scott 2003).

22. Art. 43.
23. For a fuller account of the territoriality dimension, see Lâm 2004.
24. Art. 30.
25. Daes 2003.
26. Articles 11, 19, 28, 29.
27. Articles 68–77.
28. Primarily Articles 8, 9, 11–16, 31. UNESCO's 1981 Declaration of San José uses the term explicitly when it says that ethnocide "involves an extreme form of massive violation of human rights and, in particular, the right of ethnic groups to respect for their cultural identity" [emphasis added].
29. For an extended discussion of this concept, see Fabricant and Gustafson 2011.
30. Gupta 1992: 73.
31. See: Western Sahara Advisory Opinion (International Court of Justice, 1975); *Mabo v. Queensland* (Australian High Court, 1993); Case of the *Mayagna (Sumo) Community of Awas Tingni v. Nicaragua* (Inter-American Court of Human Rights, 2001); *Alexkor Limited v. the Rickersveld Community* (South Africa, 2003); *Sagong Bin Tasim v. Keajaan Negeri Selangor* (Malyasia, 2005); *Serana v. Botswana* (Botswana, 2006); Case 366 of 2008 (Supreme Court of Belize, 2010); and Case of the *Kichwa People of Sarayaku v. Ecuador* (Inter-American Court of Human Rights, 2012).
32. See the excellent articles on this in Fabricant and Gustafson 2011. But see also: Young 1995; Brysk 2000; Martin 2003; Engle 2010.
33. See, for example, the Declarations of Quito and Cochabamba, respectively.
34. Stiglitz, Sen, and Fitoussi 2010.
35. MacFarlane and Foong Khong 2006.
36. Sen 1999.
37. Acemoglu and Robinson 2012.
38. Collier 2007.
39. See Shah 2010.
40. Polanyi 2001.

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CHAPTER 14

CORRUPTION

HUGUETTE LABELLE

> Corruption is an insidious plague that has a wide range of corrosive effects on societies.... This evil phenomenon is found in all countries—big and small, rich and poor—but it is in the developing world that its effects are most destructive.
>
> (Kofi Annan, Foreword to the United Nations Convention Against Corruption, 2003)

Introduction

Whether perpetrated by governments, businesses or citizens, corruption is a major barrier to development. When people in power at local, national, or international level abuse their position for their own benefit, at the expense of the public good, the costs are high for society at large, but particularly for society's most vulnerable.

Corruption can happen in many different forms in any country, but whether poor people suffer demands for petty bribes or the destruction of entire public services through embezzlement, the consequences for development are equally damaging.

In the past two decades, there has been growing recognition that corruption undermines development efforts. It skews decisions about budgets and policies, it undermines the effectiveness of policies to grow economies and help the poor, it denies citizens the right to participate in the government of their country, and it diverts public resources into private hands. Most recently, this problem has started to be seen as a social injustice, since it is the poor who most often find themselves at the losing end of this corruption chain. They are not only denied access to public resources but have to pay a higher proportion of their limited income when they make illegal payments to access them. The poor also suffer further exclusion by losing voice and vote when public institutions—the structures that are supposed to protect them—are corrupted.

Where corruption characterizes the rules of the game, the fault tends to lie in structural weakness in public and private institutions exacerbated by a lack of political will to enforce laws and implement necessary reforms. With the challenges ever more global, good governance challenges cannot be treated by national governments in isolation. Looking at the

various barriers to good governance allows a more sophisticated and nuanced view of corruption. No one initiative can by itself prevent corruption, deal with it when it happens, and correct the gaps that allowed it.

The Evolution of Thinking about Corruption

Corruption is often thought of as an economic or "white collar" crime. That ignores the greater implications of corruption, namely, the abuse of power at the expense of the many, which perpetuates social injustice and the exploitation of the vulnerable—through denial of health care, education, economic opportunity, and justice—and prevents the holding to account of leaders for the theft of resources. A wider understanding of corruption can help explain why decades of development efforts are not working for many of the world's most poor and vulnerable people.

Definitions

A simple yet widely accepted definition of corruption is "the abuse of entrusted power for private gain," entrusted power being the mechanism by which representative government gains its legitimacy, as do other positions of power within modern society: the judiciary, political parties, and corporations.

Early definitions of corruption, however, were confined to *public sector corruption*. Joseph Nye, one of the first political scientists to address the issue directly, included bribery, nepotism, and misappropriation in his definition: "Corruption is behavior which deviates from the normal duties of a public role because of private . . . pecuniary or status gains" (Nye 1967).

Samuel P. Huntington also limited his definition of corruption to the "behavior of public officials which deviates from accepted norms in order to serve private ends" (Huntington 1968). According to Huntington, some societies experience more corruption, especially societies at an earlier stage in development. This was at a time when Rostow's "stages of development" theory was in vogue (Rostow 1960). According to Huntington's analysis, corruption served a purpose in these evolving societies: it was a by-product of modernization and a means to "surmounting traditional laws or bureaucratic regulations which hamper economic expansion."

While later research would expand the definition of corruption, there is still a strand of thought that maintains the focus on the public sector, such as a recent academic study explaining corruption as something that will happen in large public sectors: "an incident where a bureaucrat (or an elected official) breaks a rule for private gain" (Banarjee 2012).

However, corruption is not limited to government officials who hold out their hand for a bribe. Doctors, businesspeople, parliamentarians, and any individual can demand illegal payments for services and jobs that they are supposed to provide. And where there is demand, there has to be a *supply side*. Surveys of businesspeople show that corruption can also occur between private sector companies, with no public officials involved, such as when suppliers compete within a multinational firm's supply chain, or when cartels keep prices artificially high (Transparency International 2011a).

One of the leading scholars in the field of corruption, Susan Rose-Ackerman, was one of the first to focus on the relationship between business and government as a corruption hotspot. She warned that firms bribe to win contracts, to avoid regulation and taxes, to inflate the price they are paid for their services, or to justify delivery of lower quality (Rose-Ackerman 1978).

The concept of "grand corruption" as a shared crime perpetrated by both officials and businesses (the bribe taker and the bribe giver) was introduced and explained by George Moody-Stuart, in a study that did much to break the taboo in business circles about discussing the problem (Moody-Stuart 1997).

Moody-Stuart elucidated the role of business in corruption by defining two kinds of administrative corruption. While officials often demand to be paid for something that they are ordinarily required to do by law ("according-to-rule" corruption), bribes are also paid to obtain services the official is prohibited from providing ("against-the-rule" corruption) (Moody-Stuart 1997), The bribe payers may include businesses and a wide range of actors that form part of the exchange. Regardless of who pays, the results are the same: "According-to-rule" corruption can be economically wasteful, but "against-the-rule" corruption can cause death—when, for example, illegal payments are used to endorse sub-par safety standards in buildings, building sites, food, or medicines.

It is important to recognize that corruption can influence the very making of the rules. This *political corruption* can include the manipulation of policies or abuse of procedures in the allocation of resources and financing by political decision-makers who abuse their position to sustain their power, status, and wealth (Amudsen 1999).

A pioneering thinker in corruption, Daniel Kaufmann of the Brookings Institution, and formerly of the World Bank, has made the powerful and compelling claim that looks at a new classification of corruption: "legal corruption." Here, corruption is understood to involve collusion and bargaining that may be legal in a country but that produce results harmful for broader public welfare (Kaufmann and Vicente 2011). An example would be the powerful role of lobbyists, which is legal in many countries, but which may result in skewed legislation that is not in the public interest.

Manifestations

The notion of abuse of power allows many more examples of corruption to emerge, including illegal surveillance, torture, and vote rigging (Alatas 1990).

Other clear manifestations of power abused, whether in the public or private sector, include *clientelism*, *nepotism*, and *patronage.* A recent report has defined political patronage as "a vertical system of corruption that functions from top to bottom in all public institutions," warning that such a system is not limited to developing countries but also exists in countries where "politicians, magistrates, and white-collar criminals form closed corruption networks that are not systematic in nature" (Center for the Study of Democracy 2010).

While some may argue that corruption in the form of favoritism or nepotism is human nature, by now it is widely felt to be neither acceptable nor culturally excusable as a way of doing business. While certain forms are more prevalent in some societies than others, it can exist everywhere, causing equal damage to both finances and trust. It can be compounded by

years of neglect, as people who come to positions of power by these means use their position to contribute to the exacerbation of the problem.

Few activities create greater temptations or offer more opportunities for corruption than *public procurement*. The procurement of goods and services can represent between 15 and 30 percent of an entire national economy. Yet public procurement procedures often are complex, making manipulation of the sums involved hard to detect. The estimated cost of corruption in public procurement ranges from 10 to 25 percent. Analysts say that in some cases the lost money can amount to as much as 40–50 percent of the total contract (Transparency International 2006).

Another area prone to risk is the natural resource sector. Dozens of developing countries have seen their chances of economic prosperity undermined because of the lengths to which leaders, officials, companies, and individuals will go to maintain their grip over the revenues (also called "rents") produced from oil, gas, mining, forests, and other extractive industries.

Another manifestation of corruption is the phenomenon known as stolen assets: the money a corrupt leader takes out of a country and parks in fiscal havens or property around the world. One study estimates that dictators have stolen between US$100 billion and 180 billion over the past decades (CCFD 2009). Since this study only looked at leaders, not their families or associates, the actual figure may be much higher.

However, the study was a watershed because it marked the first attempt to calculate the amounts stolen and highlight the complicity of Western banks and other companies in providing a safe haven for illicit monies.

Illicit flows can also include ill-gotten profits from tax evasion, organized crime, the illicit trade of natural resources, and trafficking (of people, weapons, and drugs), aided by the bribery of enforcement bodies, from customs officials to judges.

What does this mean for developing countries? Often, a massive loss of money that could be invested in development. One study estimates that the forty-eight poorest countries lost US$197 billion from 1990 to 2008 (GFI/UNDP 2011). Further analysis suggests that when the estimated illicit outflows from the developing world to the leading financial centers ($500–$800 billion a year, according to Baker (2005)) are compared to the development aid inflows to developing countries from donor governments ($50–$80 billion), it appears that for every $1 received from the West, $10 are flowing back out of the developing countries.

Efforts to Quantify Impact

Corruption generally comprises illegal activities, which mainly come to light only through scandal, investigation, or prosecution. It is thus difficult to assess absolute levels of corruption in countries or territories on the basis of hard empirical data, as the true figures are "off the books."

However, many efforts to take on the challenge of measuring the scale of corrupt acts, and their wider cost, have aided a better understanding of and an opportunity to address the impact of corruption.

A wave of efforts started in 1995 that analyzed the impact of corruption, and its control, on the economy, especially developing economies. The findings were significant: some reported that increased corruption leads to reduced growth, others that it slowed rates of poverty reduction (Mauro 1995). In 1998, an International Monetary Fund (IMF)

working paper based on two decades of income levels established the considerable impact of corruption on income inequality (Gupta, Davoodi, and Alonso-Terme 1998). This finding has been confirmed by a 2011 systematic review of evidence on corruption's negative impact on economic growth in low-income countries, highlighting indirect consequences such as reduced investment, human capital, and public expenditure (Ugur and Dasgupta 2011).

This makes it hard to support the argument that highly corrupt countries can sustain strong economic growth. These studies based their measurement of corruption on the amount of red tape, the efficiency of the judicial system, and various categories of political stability for a cross-section of countries.

Econometric analysis also shows that governance and growth are correlated. Interpretation of growth rates from Latin America and the Caribbean shows that when growth takes place without governance, the result is new forms of state capture, another abuse of power. Forms of state capture such as undue influence on politics can explain why indicators show rising perceptions of corruption in many developed countries. Countries such as Singapore, Hong Kong, and South Korea have experienced rapid growth from a starting base of poor governance. However, that growth was accompanied by specific anti-corruption measures that were in many respects successful.

This research made it harder to ignore the economic costs governments would face if they failed to tackle corruption. One study graded corruption on a scale of one to ten and found that moving up one point on that scale could reduce foreign investment flows by 16 percent. It went even further by positing that corruption's impact on investment could be even greater than the impact of raising taxes (Wei 1997).

Corruption has been estimated to cost the world economy at least one trillion dollars annually (World Bank Institute 2004). While it is important to note that bribery is only one form of corruption, quantification of this sort had a major impact on the public consciousness and succinctly remade the economic case for greater international action.

Correlating corruption measurements with other indicators, the same World Bank research said that controlling corruption would increase per capita income four times over: a "400 percent governance dividend." A later paper argued that poverty was closely correlated to countries where governments have low levels of accountability, passing policies and budgets without consultation or consequences (Moore 2006).

Because it is hard to measure corruption, it is also hard to measure the impact of fighting it. Countries can be ranked, for example, based on how corrupt their public sector is perceived to be, and global surveys can measure people's experience of corruption and its impact on their daily life. These surveys tend to consistently show two things: corruption, especially in the shape of petty bribery, hits the poor hardest; and political parties are perceived to be the most corrupt sector.

An Impediment to Development

Corruption limits the capacity of governments to govern, of development organizations to aid development, and of people to live without being excluded from opportunities.

The negative drain that corruption exerts on development offers some explanation for the below-average standard of living in countries that have valuable natural resources. In looking at key indicators of human development and corruption, resource-rich countries such as Equatorial Guinea and Angola fall toward the bottom of the list.[1] Correlations between levels of perceived corruption and human development substantiate this finding (Transparency International 2008). While there are many other factors behind the persistence of income inequality, poverty, social injustice, and political instability, understanding corruption can help explain the barriers that have limited the success of decades of development efforts.

Impact on Human Development

Corruption deprives citizens of access to the basic goods and services they need to live: health care, education, and water. It can also see them robbed of the right to land, and stuck in unemployment without equal opportunity to build a better life.

Demands for illegal payments reduce access to services like education, denying people a means to improve their social and economic standing, thus perpetuating the cycle of stagnated development. As corruption also reduces the quality of services, the impact on needy households is equivalent to an insidious sort of double taxation. Survey work in Mexico suggests that one-third of a poor family's income is spent on bribes. Surveys in India have reported that poor people have paid more than US$200 million in bribes annually to access eleven "free" services, including police services, hospitals, schools, and unemployment benefits (Transparency International India 2008).

Findings across the world show that corruption has undermined development advances. The dangerous relationship between higher levels of reported corruption and reduced development has been demonstrated in education, maternal health, and access to water (Transparency International 2010). The results for improved access to drinking water are the most striking. They suggest that when it comes to improving access to clean water, having a higher level of per capita income has the same statistical effect as lowering the level of bribery. Similarly, stronger anti-corruption legislation and rule of law have successfully reduced maternal mortality rates. A correlation is also evident between higher literacy rates for a nation's youth and greater public access to information.

The impact of corruption on development has been substantiated by other studies. In 2005, Swedish researchers found that in Africa, between 30 and 76 percent of all funds other than wages going to primary education are lost, warning that higher corruption is correlated to children spending fewer years in school (Reinikka and Svensson 2005). Other researchers said that an increase of one point in the index of corruption reduces school enrolment by almost 5 percent and life expectancy by more than two years (Dreher and Herzfeld 2005). Based on research from the Philippines, corruption affects health and education outcomes by reducing test scores, lowering school rankings, and reducing satisfaction ratings (Azfar and Gurgur 2005).

Corruption, whether in public services or other sectors, harms vulnerable groups most: the poor, women, youth, and those without influence over institutions. Thanks to studies highlighting the impact of corruption on women, it is increasingly recognized that gender acts as a lens magnifying the impact of corruption, particularly when it comes to service delivery. Corruption in the provision of basic services such as health care and education can

have disproportionate and negative consequences for women and girls (as greater users of public services), exacerbating existing inequalities (Chene, Clench, and Fagan 2010).

As seen in the case of women, the cost of failed governance in public services can be the misallocation of public resources, of which the brunt is also borne by those most dependent on them. Paul Collier's seminal work on poverty, *The Bottom Billion*, cites a study tracking money intended for rural health clinics in Chad, which found that only 1 percent actually reached its intended destination (Collier 2007).

These findings about governance breakdowns have important repercussions for development organizations. Already in 2000, empirical research was pointing to a direct link between the quality of governance in recipient countries and positive aid outcomes (Knack 2000).

Justice Denied and Impunity Tolerated

In the past, efforts to tackle corruption have often failed because of corruption in the justice system. When there are factors that encourage the judiciary to take action contrary to the public interest, it can be very difficult to create a strong disincentive to corrupt behavior: politicians, businessmen and criminals can be encouraged to break the law, safe in the knowledge that justice can be evaded. Conversely, if the judiciary lacks authority it may not be able to serve its role as a check on government power. Many times, independent judges who do their job well have been pushed aside, reassigned, or even fired (Buscaglia 2006).

It is important to recognize the marginalization that poor communities and individuals experience when justice fails and their governments are not accountable. Corruption denies access to the institutions that people need to protect their human rights: the police and the courts. A Human Rights Watch report in Nigeria warned that citizens do not expect help from the police: payments are often necessary to see an investigation completed. While senior officials embezzle budgets, underpaid traffic police set up roadblocks for the sole purpose of extortion (Human Rights Watch 2010).

When the justice system is corrupt, people can be pushed off their land, denied employment, or abused and extorted by local officials or security forces without hope of redress. In Cambodia, for example, land grabs occur because of the high incidence of failure by the local courts to uphold laws regarding state land concessions, which have found their way into the hands of the country's political and economic elite (UN Cambodia Office of the High Commissioner for Human Rights 2007).

When police corruption occurs, it can extend to protecting, supporting, or turning a blind eye to organized crime. The UN Office on Drugs and Crime (UNODC) has warned that such connivance can reach to the highest levels, pointing to evidence implicating senior police officials in Guatemala, Mexico, and El Salvador.

In terms of development, the result of justice systems being weakened by corruption is that people become disempowered, losing their ability to seek justice in courts or hold politicians to account. This not only makes them further impoverished, but also sows the seeds of conflict by dissolving any ties of loyalty between people and a state seemingly captured by private interests. The World Bank's 2011 World Development Report showed that countries with better performance in terms of governance indicators are at lower risk of civil war by a margin of 35–45 percent.

One explanation for this correlation is that corruption of state institutions that should act as a check on executive power makes it easier to rule without citizens' consent. Another explanation is that a prolonged period of unaccountable rule is likely to build up social tension and exclusion, reducing loyalty to the state and making people more likely to resort to violence to meet their ends.

This was demonstrated during the popular protests that took place in North Africa and the Middle East in early 2011. Although there were many contributing factors to the "Arab Spring," corruption was a common denominator. Leaders in countries where economic growth has not been accompanied by equitable distribution of resources, the development of transparent public institutions, and the rule of law can find themselves faced with popular anger and demands for greater accountability.

The Wealth of Natural Resources Denied

Instead of prosperity and development, resource-rich countries often show high levels of poverty, illiteracy, and inequity, and a tendency towards political instability and violent conflict. This scenario, often called "the resource curse" or "the paradox of plenty," arises when business and political elites influence policies and manipulate the state apparatus to maintain their advantageous position over the control of natural resources (Bantekas 2005).

It is estimated that two-thirds of the world's poor live in resource-rich countries. An IMF study of thirty-one oil-exporting countries from 1992 to 2005 revealed that more oil rents mean increased corruption and fewer political rights (Arezki and Brückner 2009). It does not have to be that way.

This sort of activity is usually facilitated by bribes to officials, which weakens government institutions and encourages those making ill-gotten gains from their control to hold onto these by all means necessary: a complete capture of the state by private interests.

Few countries have seen the harmful impact of the "resource curse" more than Nigeria. The role of massive foreign bribery in lining the pockets of the corrupt cannot be ignored. Several U.S. companies have admitted paying Nigerian officials hundreds of millions in bribes for engineering, procurement, construction, and exploitation contracts related to oil and gas extraction (Transparency International 2011b).

Lack of Trust in the Political System

Citizens give their governments the power to act on their behalf, entrusting them with the management of the public good. Many things can undermine this trust: the financing of political parties by powerful private entities, the capture of the state and the pushback on regulation, leaders living in opulence while their citizens live on less than two dollars a day.

Because it blocks attempts to carry out government policy—whether in the form of stronger prosecution, more transparency, or higher taxes—state capture by private interests is a fundamental barrier to development. As Hellmann and Kaufmann write, "state capture has become not merely a symptom but also a fundamental cause of poor governance" (Hellman and Kaufmann 2001).

Attempts at regulatory capture in any public sphere can result in inefficient public spending, overpriced public tenders, and a gnawing mistrust of politics among citizens. All of this produces "social damage" for a country and its government.

"Social damage" is a newly emerging concept that seeks to estimate the cost of corporate bribery of foreign officials to a country's development (Olaya et al. 2010). In Costa Rica, Alcatel-Lucent, the Franco-American communications company, agreed to pay US$10 million to the Costa Rican state as a compensation for the "social damage" caused to Costa Rican society after a scandal that involved US$2.5 million in bribes to win cell phone contracts. To estimate social damage, Costa Rican authorities cited reduced investors' confidence in the national economy, damage to government financial management, and undermined credibility of politicians and political parties, illustrated by increased abstention rates in the 2006 elections.

Countries Left with Weakened Infrastructure

Several studies correlating public services with corruption indicators have demonstrated the empirical argument: corruption significantly increases the cost and reduces the quality of infrastructure services that are vital to any economic development (Collier and Hoeffler 2005). Studies have found, for example, that corruption negatively impacts the delivery of electricity, raising the cost of both connecting to and operating a network (Dal Bo and Rossi 2004).

The most debilitating infrastructural corruption problem occurs in the construction sector, which is naturally an area of big expenditure for a developing economy. It is difficult to compare the costs and timeframes of large and often unique construction projects. This makes it easier to hide and inflate additional expenditure. It is also a particularly technical and fragmented industry, often involving contractors and sub-contractors, making the tracing of payments and promulgation of standards more complex.

Research carried out in Nigeria by Human Rights Watch explains some of the corruption risks in large projects. Corrupt officials favor large construction processes over basic public services, since the former offer greater opportunities for surreptitious misuse of funds. The report warns that half of large public investment projects are not completed, suggesting that many local officials have no interest in seeing projects completed, since that would see the funding, and opportunities for graft, dry up (Human Rights Watch 2007).

Chronic corruption can lead to under-investment in infrastructure due to the lack of resources both domestic and foreign. Corruption is often marked by the flight of capital from the country by domestic investors and an increased wariness by international investors to invest in local projects. The perception that corruption is a part of doing business in a country can be a strong disincentive to foreign investment, especially when corruption has an impact on that country's politics and stability. In 2011, a World Bank report looked at the impact of corruption and tax evasion in Malawi and Namibia. In both countries, corruption and tax evasion amounted to more than 10 percent of the size of the national economy—funds which normally would have entered national accounts for use in investments and service delivery (Yikona et al. 2011).

Responding to Corruption

Governments can pursue greater economic development, but their capacity to implement their policies depends upon the integrity of institutions. Strong checks and balances are needed, as well as a general culture of transparency and accountability. The participation of local government, judiciary, civil servants, citizens, and the business sector has to be an integral and constant feature of governance initiatives. Without these, the goal of cleaning up government can be quickly diverted by interests other than the public good.

To determine where to improve governance, one has to analyze where the problems are. In more than seventy countries, Transparency International has assessed the "National Integrity System:" the key institutions ("pillars") of good governance, such as the executive, legislature, judiciary, private sector, civil society organizations, media, and anti-corruption agencies.

The performance of institutions is critical to development. While most countries have laws and related institutions, the problem remains the enforcement of those laws, which is often a matter of political will and having the necessary measures and systems in place.

Judicial Reform

The impact of laws depends on a state's ability to enforce them. This means developing countries must prioritize the building of integrity in their institutions, especially the judiciary. An independent, impartial, professional, and well-resourced judiciary has been recognized as being at the top of the agenda to ensure that there is no tolerance of perpetrators of corruption and other wrongs in our societies. Individual judges are also accountable for the manner in which they discharge their responsibilities. Unfortunately, informality in legal systems remains a fact of life in a number of countries, primarily at the lower court level, where bureaucracy can make it faster to pay a bribe than to go through regular channels. The cost of such a system is that it is harder for justice and the public interest to prevail.

At the heart of a system that protects the people, therefore, is a fair and open system for the appointment, promotion, and removal of judges. Jurisdictions with a well-performing judiciary tend to have transparent criteria for the selection and promotion of judges. In an increasing number of jurisdictions, an independent judicial council is responsible for these processes.

International standards such as the *UN Basic Principles on the Independence of the Judiciary* and the *Commonwealth Latimer House Principles on the Three Branches of Government* concentrate on securing judicial independence by insulating judicial processes from external influence.

Relying primarily on judiciaries, rather than the state, for implementation and enforcement, the Bangalore Principles recognize the judiciaries' wider role in promoting accountability throughout society. The principles set out six core values that should guide the exercise of judicial office: independence, impartiality, integrity, equality, propriety, and competence and diligence. While not a binding international legal instrument, they provide an excellent guidance document, and the UN has encouraged judiciaries to use them as a model.

Collective Action

When the U.S. Congress took the historic step in 1977 of passing the *Foreign Corrupt Practices Act*, it was the first time any country had made it a crime to bribe foreign officials. It was hoped that other industrialized countries would adopt the idea. It took another twenty years before the idea took hold. Far from punishing foreign bribery, in the early 1990s the tax system in fourteen member countries of the Organization for Economic Cooperation and Development (OECD) counted many facilitation payments as tax-deductible business expenses.

Many businesses were themselves unhappy with this situation. In 1997, sixteen European business leaders wrote an open letter calling on European governments to criminalize international corruption and to end tax deductibility of bribes paid to officials abroad. As Peter Eigen, founder and at the time chair of Transparency International, argued in 1997, anti-corruption efforts also had to tackle those who offer bribes.

However, the only realistic way to address the problem of bribery in international business and its impact on development is multilaterally. As most multinational companies came from OECD countries, that body was best placed to tackle foreign bribery. In 1994 it set up a working group on bribery, which over the next three years turned its initial recommendations into the OECD Convention on Combating Bribery of Foreign Public Officials in International Business. The convention was adopted on November 21, 1997 and signed a month later by twenty-nine OECD member countries and five non-members. By 2012 the number of signatories had risen to 39, including Brazil and Russia. Between them, the signatory countries represent more than two-thirds of world exports. In addition, although not a formal member, China has modified its domestic legislation to be in compliance with the global convention.

The OECD has also worked to improve cooperation between tax authorities. Under the 2011 Multilateral Convention on Tax Information Exchange, countries agreed to share tax information, which can be an effective tool in the fight against money laundering and the loss of domestic revenues that could otherwise have been channeled towards development.

Another example of collective action in the fight against corruption is the UN Convention against Corruption, which entered into force in 2005. The convention has been widely hailed as a major breakthrough, establishing a comprehensive global framework for combating corruption. It provides a global model for anti-corruption legislation and a framework for mutual assistance and information exchange. This includes articles on criminalizing foreign bribery, transparency in financial management, and public procurement reforms. Many countries have used the treaty as a model for developing national anti-corruption strategies.

Regional collective action against corruption is also happening. The New Partnership for Africa's Development (NEPAD), created by African leaders in 2001 to address the challenges (such as increasing poverty) facing the African continent, created the momentum which led to the signing in 2003 of the African Union Convention on Preventing and Combating Corruption. This convention was expected to assist African leaders in living up to NEPAD's promises in terms of good governance.

In the wake of numerous corruption scandals in different parts of the Americas, the First Summit of the Americas and the Organization of American States undertook the creation of the first international convention aimed at combating corruption. The Inter-American Convention Against Corruption, signed in 1996, deals with both domestic corruption and

foreign bribery by companies, while providing a framework for regional cooperation through mutual law enforcement assistance, notably in extradition and investigations.

Individual countries are also working together across regions to redouble anti-corruption efforts in voluntary agreements. In November 2010, the Seoul summit of the Group of 20 leading economies agreed to an ambitious anti-corruption action plan modeled in many respects upon the UN convention. The action plan committed to the adoption and enforcement of laws and other measures against international bribery, such as the criminalization of foreign bribery. If the world's leading economies take strong anti-corruption measures, there will hopefully be a follow-the-leader effect, with other countries following suit.

Collective action can also take the form of voluntary initiatives. For example, the Global Compact, a benchmark for corporate social responsibility created in 2000, added an anti-corruption principle in 2004 that opened the way for cooperation with companies, governments, and civil society to improve the transparency, accountability, and integrity of the private sector. Another example is the Extractive Industries Transparency Initiative, a simple mechanism for systematic payments and revenue disclosure by both natural resources companies and governments.

Oversight

Oversight institutions can be a first line of defense against corruption within an organization, state, or company. They are a vital part of an integrity system's checks and balances, providing an independent assessment, thus promoting accountability and the opening of institutions to scrutiny. In a country, they can take the form of an office of the ombudsman, anti-corruption commission, or supreme auditor.

In a company or organization (like the World Bank, which provides US$43 billion of funding annually), they may be set up as an ethics office or independent auditing unit. They respond to problems and allegations raised by individuals but also identify departments and bodies vulnerable to corruption. In some instances, they may even provide training and conduct investigations to rectify the situation. For oversight bodies to work effectively, they need to have full independence, be well-resourced, and publicly disclose their findings.

Integrity: A Defense against Public Sector Corruption

At the height of the first wave of anti-corruption literature, Susan Rose-Ackerman wrote that combating corruption is not an end in itself but is part of the broader goal of creating more effective, fair, and efficient government (Rose-Ackerman 1997). This view belongs to a general school of thought that the goal of preventing corruption within the public service cannot be achieved without promoting integrity, transparency, and accountability both among public servants and among other pillars of society, whether within the public or private sector.

The more recent trends in building integrity involve increasing access to information and putting in place mechanisms to flag problems early. At the time of writing, more than eighty countries have put access to information laws in place. This includes making information on budgets easily accessible to citizens, from central government right to the point of delivery. Another recent trend is protection of whistleblowers, with new measures introduced in the United States, South Korea, and several European countries in 2011.

Despite these gains in the name of transparency, for anti-corruption measures to run throughout an organization there is also a need for political will and someone to set the tone at the top. This means having a zero tolerance policy on corruption.

It also means setting out a broader agenda of reform. Successful governments have a merit-based system for entry and promotion in the public service based on clear criteria and open appointment procedures. Building integrity also involves adopting codes of conduct and conflict of interest rules. Compliance (including training), enforcement, and sanction mechanisms must be adopted concurrently.

Integrity must also extend from the national to the local level, where service delivery is critical to ensure that everyone—not just the capital city—benefits from development. Local spending usually goes to projects that are fundamental to daily life and development: homes, water and sanitation systems, bridges, and roads. People must be able to see project budgets and revenues, and compare them to make sure revenues and spending match. Local authorities must make information available, and must make sure budgets are disclosed on time.

Some of the greatest risks for private interests overriding the public good take place around government spending on public contracts, often for public works and development projects. Governments, companies, and civil society have a responsibility to ensure tendering processes are characterized by integrity. Bidders and contractors alike must live by high standards, of which the benchmark is transparency. They can also oblige that all departments and local offices appoint independent oversight of major projects. In Mexico, for example, social witnesses participated in over 120 public procurements in 2010, valued at approximately US$14 billion (Sheppard and Cantera 2012).

The Private Sector

Private sector integrity is particularly important given the ever-expanding list of business activities that intersect with government. Whether the sector is transport, defense, land use, energy, procurement, customs, or public works, governments and business are constantly intersecting, frequently with huge sums of money at stake. When there is a risk that those representing governments and companies in these interactions have their priorities confused, the potential danger for the state is not only financial loss, but security, safety, and trust in the system.

The regulatory initiatives at international level envisaging the supply side of corruption described above have placed significant new obligations on business.

Indeed, more and more companies in all sectors are introducing codes of conduct, anti-corruption programs, and compliance measures, and some are adopting disclosure policies.

Governments are continuing to add to requirements for company transparency, with new laws passed in the United States (part of the Dodd–Frank financial reform bill) and, at the time of writing, being legislated in the European Union. This will create a situation where companies listed on stock markets are legally obliged to disclose financial and technical information on a country-per-country basis, and in the extractive sector, on a project-by-project basis.

Development Cooperation

Recipient countries and donors—bilateral donor agencies, multilateral organizations, foundations, development NGOs, and others—must be on board to effectively fight corruption in development.

Anti-corruption efforts became a more visible and official part of the development community's agenda in 1996, when James Wolfensohn, then President of the World Bank, addressed what he termed "the cancer of corruption." The Bank has since taken steps to combat corruption by taking a zero tolerance approach. It has debarred over 400 firms and individuals from its contracts since 1999. Its common debarment approach, adopted in 2010 with other regional banks, is a major step forward.

The positive change at the World Bank has been mirrored elsewhere. Aid agreements between the European Union and African, Caribbean, and Pacific aid recipients include specific clauses aimed at fighting corruption in the general conditions for all contracts financed through the European Development Fund since 1990, with an agreement in 2000 that recognized the importance of transparency.

Transparency in aid means making the information provided more comprehensive, comparable, timely, and accessible. This is a perfectly achievable goal and key requisite for delivering on broader aid effectiveness principles set out in Paris (2005), Accra (2008), and Busan (2011). Aid transparency is happening thanks to political will on all sides that has been channeled through the International Aid Transparency Initiative. Set up in 2008, the initiative is a multi-stakeholder attempt to adopt a uniform and agreed standard for reporting aid flows.

Conclusion

The imperative for transparency in government is hardly new. In 350 BCE, Aristotle suggested in his *Politics* that "to protect the treasury from being defrauded, let all the money be issued openly in front of the whole city and let copies of the accounts be deposited in various wards."

However, it is over the last two decades that the value of transparency in public life has become widely accepted, as has the fact that laws, and the institutions to enforce them, are vital to protecting the public good from the temptation of those in power to cut corners or engage in unethical behavior for personal gain. Only this can ensure that mistakes and misdeeds are prevented, and that corruption does not flourish with impunity.

Note

1. The two countries rank 172nd and 168th respectively out of 183 countries on Transparency International's Corruption Perceptions Index, and 136th and 148th on the Human Development Index.

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ECONOMICS

The editors might have named Part 2 of this volume "sectors," but chose instead the title "concepts." To be sure, the practice of development, indeed of policy in any country—rich or poor—tends to be organized around "sectors" rather than fields of study. The academic literature, too, tends to gravitate around sectors, such as health, transport, banking, and security. Nowhere is the dilemma between sector and concept more apparent than in the area of economics, the focus of the chapters in this section.

Economics is a discipline. It is fundamentally about making choices—the allocation of finite resources in land, labor, capital, and enterprise in production, and the allocation of limited income and wealth in consumption. Thus the concept of opportunity cost—the cost of the alternative forgone to the one chosen—is central to economic thinking and practice. As such, economics offers a way of analyzing a wide range of issues in development, including health, transportation, banking, and even security. For example, witness the "greed and grievance" literature that attempted to distill the economic causes of civil conflict from the non-economic causes (see Berdal and Malone (2000) and the even longer standing literature on the economic causes of war). It is also true that the language of economics has come to be the language of policy in every area. But the treatment of economic "concepts" in development can be narrowed to the core themes covered by the chapters in this section, for they go to the heart of making choices and of the economic elements of development.

Throughout, and in keeping with the ethos of this book, we are mindful of the distinction between positive and normative economics, or what Gunnar Myrdal (1975: vii) decried as the trend among "[M]odern establishment economists [who] have retained the welfare theory from the earliest neo-classical authors, but have done their best to conceal and forget its foundations upon a particular and now obsolete moral philosophy." Our premise is that development is multi-faceted, going beyond economic views of well-being to include health, environment, security, and freedom. Also, paths to the ultimate vision of development can vary over time and across countries. Thus the economic concepts covered in this section are limited to questions of public finance (taxation and expenditure), economic growth and transformation, openness (trade and finance), and entrepreneurship. Each of these might include non-economic elements; indeed the chapter on entrepreneurship makes a persuasive case for the role that ideology and sociology respectively have played in each. Other chapters in this volume would not be complete without a significant economics-oriented treatment of the subject. It is

the balance between economics and non-economics that drives the apportionment of chapters to sections.

Motivations for this Section

Three observations, no doubt all contestable, help motivate this section. The first is that rising incomes are a necessary but not sufficient feature of successful development. There are many examples, such as some natural resource-rich countries, that feature high average per capita incomes but low levels of development on account of the unequal distribution of wealth and the resultant low quality of social and political institutions. Instances of the obverse, poor countries that might be highly developed, are rare either because the concept of the noble savage is an idealized view of societies that might never have existed, or because the resources necessary to sustain development will at some point no longer be available. So the creation of wealth is a central part of the development process.

Second, the generation of economic wealth, in turn, is the result of the efficient allocation of limited resources among competing uses. Every man, woman, and child in every country does this every day, but their decisions are the function of the institutional structure within which they occur, and the activities of entrepreneurs who create opportunities for others. The most contested area in development is the question of who the entrepreneur is. There is simply no room for unequivocal statements about the role that governments and private sector agents should and should not play. Governments typically create the environment in which private entrepreneurs might thrive, and are also entrepreneurs themselves. There is no magic bullet about what the mix between these two might be and where the dividing line lies.

Third, economics and ideas are intertwined. To provide two extreme examples, a decision that foreign aid will be provided with absolutely no strings attached, as balance of payments assistance only, is as ideologically driven as the decision by a funder to provide foreign aid for specified purposes only. Similarly, using marginal analysis to determine who and how much to tax and where to spend, even if this were accurately possible, represents a value judgment on the part of someone—voters who elected such a government, or officials who create such a system.

All the chapters in this section demonstrate a tension between that which is technocratically "correct" and that which is feasible over time and space. One can fully accept the principle of subsidiarity and still find that the appropriate level at which taxes might be collected and the proceeds spent, or foreign aid disbursed, varies because of circumstances. Local governance structures might be closer to the action and thus possess more and better information than their central counterparts, but they might also be more liable to undue influence by elites and be more corrupt. In the realm of trade and finance, the exceptions to free flows in each are widely known and have been for some time. Free trade is as much an economic concept as is the infant industry argument against it; capital controls are as much part of the pantheon of economic approaches to capital account regimes as are regimes that encourage the unfettered movement of capital around the world. In all these cases, the cost to society of doing X and not Y is a calculation grounded in economic approaches but whose final outcome depends on the conditions at the time the decision is taken.

Organization of this Section

This section starts with Richard M. Bird and Arindam Das-Gupta (Chapter 15) on the core economic function of governments, taxation, and expenditure. "Public finance is not just about money," they state, and go on to describe trends in thinking about the role of government and the types of institutions that are required for an effective public finance system. Emphasis is placed on thinking around tax systems, the nature and scope of fiscal decentralization, and looking ahead, the challenge that globalization places on national tax bases and the provision of global public goods.

Justin Yifu Lin and Célestin Monga (Chapter 16) describe three phases in thinking about the structural change that accompanies economic development. Often driven by external funders and actors, the first two waves stressed the need to remedy market failure and government failure, respectively. The authors argue that the current (third) wave of thinking is more grounded in a reading of the economic history of developed countries and the experience of successful developing countries themselves. Not surprisingly, the result is more eclecticism in the policy prescriptions on how to increase productivity and see complementarity rather than competition in state interventions and the activities of the private sector. This is also the theme that emerges from José Antonio Ocampo (Chapter 17) on trade and finance. In each case, the traditional neoclassical view about the desirability of openness and the free international mobility of capital, goods, and services is tempered by history and experience without, it appears, doing injustice to sound economic thinking and practice.

This is followed by Wim Naudé (Chapter 18) on a key driver of economic growth, entrepreneurship. Although much remains to be examined empirically, and such work is difficult to design and execute in this area, two broad conclusions emerge. First, there is a role for governments to promote innovative entrepreneurship by reducing uncertainty and transaction costs for entrepreneurs. Second, entrepreneurship not only influences development outcomes (not always positively) but is in turn influenced by them. The section is rounded off by Adekeye Adebajo (Chapter 19) who addresses how Raul Prebisch and Adebayo Adedeji promoted the idea of regional integration. Both championed the idea of home-grown development and had a lasting impact on how the United Nations' Economic Commissions for Latin America (ECLA) and for Africa (ECA) address the acute disadvantages of their respective continents.

The interconnectedness of development paths and actors, and the diversity of ways to achieve a given end form central themes in this section, as in the rest of this volume. The concept of economics in development is very much the result of interplay between the scientific part of the discipline and its social part.

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CHAPTER 15

PUBLIC FINANCE IN DEVELOPING COUNTRIES

RICHARD M. BIRD AND ARINDAM DAS-GUPTA

Introduction

Public finance is not just about money. Its subject matter includes not only all aspects of public sector finances but also the structure of the public sector and fiscal institutions as well as the broad objectives and rationale for government activity. We focus here on how governments raise resources to finance spending, without regard to what spending is financed. Even so, our scope is still substantial, not least because some analysis of the nature and efficiency of public spending is needed for a proper understanding of financing sources.

Public finance policy results from a complex interaction between ideas, interests, and institutions. The best public finance system for any country is one that reflects its economic structure, its capacity to administer its public finances, its public service needs, and its access to different sources of finance such as taxation, debt, or aid. The public finance system of any country is both path-dependent and context-specific, reflecting the outcome of complex social and political interactions between different groups in a specific institutional context established by history and state administrative capacity. Influence does not flow only in one direction, however, so how the public finance system operates may influence not only the context but the nature and the outcomes of such interactions. Though long dominated by economists, the study of public finance has important political and administrative dimensions that have recently received increasingly close attention from historians and those concerned with improving policy outcomes in developing countries.[1]

Development Taxation: Advice and Practice

Developing countries have heard many changing messages about development taxation. Fifty years ago the academic ideal was a broad-based progressive personal income tax that included capital gains and was integrated with corporate income tax to minimize the

economic distortions induced by taxation (Auerbach 2010). Unsurprisingly, the advice offered to developing countries by foreign experts was to adopt such a tax. Indirect taxes were seen as at best a necessary evil. Taxes on international trade (exports and imports), like local and regional (sub-national) taxes, were generally neglected. Most advisers thought higher tax–GDP ratios were needed to finance development expenditure. In some instances, higher marginal tax rates were also suggested in order to further income redistribution.[2]

By the 1990s, however, a new development tax model had emerged (World Bank 1991). The central element of this "broad base low rate" model was not a comprehensive progressive personal income tax but a VAT imposed at a single rate on a broad base. VAT took center stage partly because the widespread move toward lower and more uniform import tariffs made it the tax most likely to fill the resulting revenue vacuum in developing countries. Income taxes continued to play an important role, but more emphasis was put on lower rates as having fewer negative effects on economic efficiency and reducing incentives to evade or avoid taxes. As in the earlier approach—though with equally little success—expert advisers usually discouraged incentives and other concessions that reduced the tax base. Such traditional "sin" excises as those on cigarettes, liquor, and petroleum products continued to be important, and more emphasis was given to improving the use of the property tax by local governments and to imposing user charges on such excludible public services as irrigation and power. As before, little or no attention was paid to payroll taxes or to non-tax revenue sources. Developing countries continued to be urged not only to "tax better" but to "tax more."

In reality, however, few developing countries increased their tax–GDP ratios during the post-war decades. Moreover, although developments in theoretical and empirical public finance during this period generally supported a greater reliance on consumption taxes, the relative importance of "direct" (income) taxes and "indirect" (consumption) taxes also hardly changed in developing countries, despite the rise of the VAT (Martinez-Vazquez, Vulovic, and Liu 2011).[3]

Although the tax–GDP ratio in developing countries moved from around 11 percent in the 1950s to 16–17 percent by the 1970s, Table 15.1 shows that it has subsequently hardly changed despite the adoption of much more ambitious goals in the UN Millennium Project (2005). Developed countries collect roughly twice as much in taxes as a percentage of GDP, and the imbalance is even greater with respect to non-tax revenues if oil producers are omitted. Strikingly, however, if oil producers are included in the developing country group, the share of non-tax revenues actually exceeds that of tax revenue mainly because of oil revenues. Other important "supply-side" determinants of revenue levels are per capita GDP and the non-agricultural share of GDP. Tax levels also reflect such "demand-side" variables as the

Table 15.1 Tax levels: revenues as a percentage of GDP[a]

Country groups	1970s	1980s	1990s	2000s[b]
Industrialized	30.1	33.7	35.5	33.4
Developing	16.2	17.3	17.0	17.0
Total[c]	19.8	21.6	22.6	21.8

Notes: (a) decade averages for countries for which data are available. (b) based on data for the early part of the decade (c) including "transitional" post-Soviet countries not included in either of the two previous groups.

Source: Bahl and Bird (2008b), calculated from IMF data.

quality of governance, inequality, the extent of informality, and tax morale (Bird, Martinez-Vazquez, and Torgler 2008).

Although taxes on international trade as a percentage of total taxes in developing countries declined from about 32 percent in the 1970s to recent levels of only about 20 percent, the share of domestic indirect taxes, mainly the value added tax (VAT), rose from 25 percent to 40 percent (Table 15.2). Taxes on personal income (including social security taxes) remain unimportant compared to corporation tax. In contrast, in developed countries personal income and social security taxes, which contribute about 50 percent of total tax revenue, are much more important than taxes on corporate profits. The mix of taxes employed varies across regions as well as countries, with VAT being particularly important not only in the (usually poorer) sub-Saharan African countries but in the considerably better-off (though unequal) Latin American countries.

The "sea change" in tax thought and tax advice from the 1970s to the 1990s appears to have had some effect. Not only did VAT become important in many developing countries but income tax rates declined almost everywhere (Peter, Buttrick, and Duncan 2010). If the advice was sound, developing countries might now perhaps be considered to be taxing "better" in some respects. However, they are definitely not taxing more since the average tax–GDP ratio has hardly moved during the past thirty years. Arguably, as Kaldor (1963) noted long ago, this striking inertia in tax levels may reflect not so much the inherent difficulty of raising the effective level of taxation as the equally persistent reality that it is hardly ever in the interest of the political elite to do so.

Public Finance Principles and Institutions

Public finance encompasses much more than taxes, and the array of goods and services that are publicly provided varies even more widely than taxes across countries, depending on such things as preferences and the level of development. Nonetheless, a century

Table 15.2 Tax structures: tax categories as percentage of total taxes[a]

Income tax	1970s	1980s	1990s	2000s[b]
Industrialized	35.5	37.8	38.6	53.8
Developing	29.6	28.6	27.6	28.3
Total	30.7	30.2	29.7	28.5
Indirect taxes				
Industrialized	27.2	29.4	30.5	19.8
Developing	25.2	29.3	34.9	40.1
Total[c]	25.3	28.9	34.2	39.0
Taxes on international trade				
Industrialized	4.6	2.8	1.0	1.0
Developing	32.4	30.7	25.6	19
Total[c]	25.2	23.8	18.2	14.1

For table notes and source, see Table 15.1.

of thought and practice around the world has produced three commonly accepted principles of good public finance.[4]

First, using resources to finance public services should not result in a sacrifice of private value higher than the value of the public service produced. In other words, the last unit of resources transferred to the public sector—the Marginal Cost of Funds (MCF) for public services (in terms of the private goods forgone)[5]—should just equal the marginal social benefit from expenditure on public services. Over time, this rule is closely related to the practical budgetary principle of maintaining aggregate fiscal discipline to ensure that government spending does not exceed the resources that citizens (who presumably benefit from the expenditures) are willing to allocate to it through the political process. If fiscal discipline is not maintained, countries may run large and persistent budget deficits—deficits that both reflect serious underlying problems and make those problems worse the longer necessary corrective action is delayed.[6] One of the most important changes in recent decades is that an increasing number of countries that have undergone such experiences have tried to reduce the likelihood of future indiscipline by establishing fiscal institutions, such as more comprehensive and transparent budgets, as well as specific fiscal rules, such as fiscal responsibility laws (Liu and Webb 2011), that restrain the level and nature of government borrowing.

Second, to maximize national economic welfare, the benefits received from the last dollar spent on each public service should be equal. While it is impossible to allocate budgetary resources this precisely—both because we cannot actually measure well-being with such precision and because it is not clear how meaningfully one can compare the benefits from the last dollar spent on the army to those from the last dollar spent on health—the idea is both clear and correct. Resources are scarce in developing countries, so wasting those resources by spending them on something worth less than the opportunities forgone is a dead loss. In practice, the best way we know to improve the allocation of public resources is to measure and assess both public-sector performance and the economic cost of public services as well and as transparently as possible. To reflect the economic values of resources used and outputs produced, governments need to use accrual accounting (with due recognition given to the use of capital goods), just as private-sector firms must do in most countries. Unfortunately, most developing countries still have only cash-based government accounts as well as very weak institutions for budgeting and financial and performance auditing.[7] Institutions that promote transparency and accountability are as essential as good electoral systems to strengthening the ultimate development outcomes associated with public services.

Third, such institutions are equally essential to securing an acceptable level of operational effectiveness and efficiency. In principle, services provided should promote the intended social outcomes (effectiveness) with as little leakage or waste as possible (efficiency). Again, however, few developing countries have such institutions in place. Although agencies such as the IMF and the World Bank have devoted considerable effort to providing technical assistance in developing such institutions in some countries, not all that much success is yet evident. Moreover, developing a practical definition of public-sector waste—an issue that is as important with respect to the need for public finance as energy conservation is to the need for energy—does not as yet form part of the policy agenda anywhere.

Some Issues in Development Finance

Although to some extent the second wave of development tax thinking mentioned earlier led many countries to adopt tax regimes that were economically more sensible in important ways, one consequence of the shift of attention to consumption taxes was that less attention was paid to the issue of equity. This neglect was justified partly because of the evidence that few countries did much redistribution through taxation (Chu, Davoodi, and Gupta 2000) and partly because many believed it was more efficient and effective to deal with redistribution on the spending side of the budget. As always, however, both expert advice and practice varied widely in both time and space, so the few issues discussed here do not tell the whole story.[8]

VAT

Although value added tax (VAT) was widely adopted, not all the VAT design principles advocated (Ebrill et al. 2001) were widely followed. Most VATs do have a broad base encompassing sales of both goods and services (with some exclusions) between businesses as well as retail sales. However, few are levied at a single rate above a threshold that excludes small business, and not all fall only on consumption (that is, provide full tax credits for capital goods purchases and, for cross-border transactions, zero rating of exports). The tendency to impose low thresholds is surprising, since not only is the administrative cost of securing revenue from small taxpayers much higher per dollar but there is also strong evidence that tax compliance costs are highly regressively distributed and have the strongest impact on small businesses.[9] There is still much to be learned about the design and effects of VAT in developing countries (Bird and Gendron 2007).

Income Taxes

Most countries lowered income tax rates. However, personal income taxes, though limited in scope, continue to provide the most progressive element in most tax systems. Most countries provide exemptions for saving and other presumably good things, and tax different income sources, especially types of capital income, at different rates. Such "schedular" taxation, as it is called, results in horizontally inequitable treatment of taxpayers, but it can be administratively more effective and may have a sound economic rationale (Bird and Zolt 2011). A more difficult question remains the appropriate treatment of corporate profits, especially in countries with significant informal sectors and growing cross-border income flows.

Earmarking

Earmarking taxes to finance particular activities, though almost universally condemned by tax experts, is widespread. Properly designed and implemented earmarked taxes may sometimes be justified as benefit taxes that act as a kind of collective user charge—gasoline taxes,

for instance—gathering revenue from those who use a public service in order to fund its development. In this case, the benefits from the spending may perhaps be considered by the beneficiaries to be worth at least the taxes they have to pay. However, most earmarking serves no such allocative function (Bird and Jun 2007). Non-benefit-related earmarking is sometimes justified as establishing a link between taxes and public service spending, thus presumably improving tax morale (for example, an education tax was added to central taxes in India to fund education). Although increasing morale is a good idea, such false connections may end up increasing rather than reducing the distortionary effect of public finance policy. Much the same can be said even when a "good" tax—one intended to ensure that buyers of particular products take their full social costs into consideration—is earmarked to a related "good" expenditure. An example is a "green" tax, like one on carbon-based fuel, linked, say, to incentives to use wind instead of coal for power generation. It is difficult to calculate the "right" level of either such taxes or such expenditures. Tying together two complex decisions by funding one from the other is unlikely to make either budgetary decisions or policy outcomes better.

Tax Evasion

Tax evasion looms large in developing countries, with negative consequences for economic efficiency and equity. Evasion causes effective tax rates to differ on different activities, resulting in resource misallocation and equity violations. Business risks increase. Administrative responses to evasion, such as requiring detailed record keeping or enhanced tax investigation activity, raise taxpayer compliance costs and efficiency losses. Agriculture, small business, and the informal sector are always hard to tax properly and constitute a much larger share of the potential tax base in developing countries (Alm, Martinez-Vazquez, and Wallace 2004). One approach to this problem is simply to exclude very small activities from taxes by imposing a high threshold. In the case of VAT, since those below the threshold (or unregistered) do not receive input credits, those outside the system are in effect indirectly taxed. A more explicit approach is to impose a simplified, usually presumptive, tax regime linking tax liability to some business characteristic more readily observed than income, sales, or work hours (such as location, assets, or profession). However, there is little evidence either that most such systems are well designed in terms of relevant factors (such as business margins and administrative and compliance costs) or that their effects on revenue, efficiency, and distributional goals are desirable.

It is not always easy to distinguish tax evasion (illegal activity) from tax avoidance (legal ways to reduce taxes, for example by splitting income or structuring transactions to produce more favorable tax results). Tax avoidance is more important with respect to wealthy families and formal sector firms, particularly those with cross-border transactions. The battle to close tax loopholes and the continuous need to patrol the borderline of legality means that even the poorest countries often need at least some of their "best and brightest" public officials in the tax department. Nonetheless, the key elements in countering tax evasion are simple: good tax design, a capable tax administration, a supportive legal system, and at least a modicum of trust between the state and its citizens. Good tax design includes collecting necessary information through withholding and in other ways, as well as the appropriate design of thresholds, penalty systems, and, where appropriate, presumptive features. A capable tax

administration is needed to utilize information effectively and to take appropriate action. If taxpayers fail to comply, administrative controls and penalties come into play. If taxes are simply not paid, actions need to be taken to intercept income streams or confiscate assets as necessary. Especially critical though often lacking is audit capacity, which requires skilled (and scarce) staff resources. Finally, for even the best administration to be effective, it needs to be supported by a sound legal system and to operate in an environment that does not require it to face outright opposition from all its actual and potential "clients."

Tax Administration

In the end, controlling tax evasion depends on sound tax administration. As economic reality changes with development, so must tax administration.[10] In recent years, the most dramatic changes have been in the use of information technology (IT), not only in automating most tax records and procedures but in becoming the main interface between taxpayers and the tax administration. Increasingly, countries are moving to web-based systems of filing and payment, and making more use of IT's capacity to develop and apply risk-based audit systems that enable them to concentrate scarce administrative resources on those taxpayers and activities most likely to cause difficulties, and to strengthen internal control systems to ensure that tax officials behave properly in their relations with taxpayers.[11] Other elements of "smart" tax administration include an emphasis on establishing good working relations with both the immediate "clients"—that is, the businesses that actually collect and remit most taxes—and with the ultimate client, the public in general, as well as with others engaged in similar activities both within the country—for example, separate customs departments or state pension funds or sub-national tax authorities that deal with many of the same clients—and tax departments at the other end of cross-border transactions. Some countries have unified all their revenue collecting departments; some have converted their tax departments into independent revenue authorities (generally to permit greater managerial flexibility and to delink salaries from those of the general civil service); yet others have, without going so far as to revert to the "tax farming" of early modern Europe, outsourced some functions to the private sector to various degrees. When examined closely, tax administration at the beginning of the twenty-first century is a surprisingly dynamic and innovative industry and remains a challenging and important task for developing countries.

Non-tax Revenues

Every country collects revenue from sources other than taxation: indeed, in some, notably oil-producing countries, non-tax revenues may exceed tax revenues. However, surprisingly little effort has been made to think most non-tax revenue issues through systematically. Some points are obvious. For example, when government is a monopolistic provider (of assets, use rights, or services) and consumption is voluntary, in principle prices should be set to cause as little efficiency loss as possible, with each revenue source being exploited to the point at which its MCF equals that of every other source (given overall revenue requirements). Examples include the sale or lease of mining rights, forest exploitation, and airwave spectrum as well as seignorage. Since government is the sole supplier of the monetary base in most countries, it reaps revenue—seignorage—from doing so (Buiter 2007) and may, in

principle, even impose an inflation tax (a tax on holders of money) up to the point at which the MCF of doing so is equal to that of other revenue sources. Although one may not wish to emphasize this particular point to governments that are already, in most cases, finding it all too difficult to maintain aggregate fiscal (and monetary) discipline, the general rule about exploiting monopoly pricing powers as a revenue source through the auctioning off "rights" to resources in as competitive a market framework as possible needs more attention than it has usually received in developing countries.

Countries rich in natural resources whose governments need not rely on taxation are sometimes said to suffer from a "natural resource curse," in the sense that ownership of revenue sources makes governments less accountable to citizens, leading to poor governance institutions (Collier 2007). In principle, however, resources can be a blessing rather than a curse, if use rights to resources are properly priced both in terms of their initial allocation—as by auctioning use rights rather than allocating them to friends (or those who pay the largest bribes)—and proper public-sector pricing rules are applied as resources are exploited. Of course, even if the MCF of natural resource earnings (taking into account their effect on weakening governance institutions) could be properly calculated, it is difficult to imagine that rational politicians would ever prefer to tax citizens directly rather than tax resource revenues.

In practice, often the most immediate public finance issue facing resource-rich countries is not how much to exploit their advantages—they tend to figure this out fairly well—but rather how to use the revenue once they have it: for example, whether to use it all for current expenditure—sometimes for current subsidies (to fuel, for instance), sometimes, more sensibly, for asset (including human capital) creation—or to put some of it aside (that is, invest it abroad) for the "rainy days" that reliance on volatile resource prices often entail.[12]

Whether commercial exploitation of natural resources, both renewable (such as from forests) and non-renewable (oil), is undertaken by the public or private sector, it is important to capture economic rents from resource exploitation for public purposes. Reliance on corporation taxes and royalties may not do this, with royalties in particular being economically inefficient. Developing countries have in recent decades adopted a variety of methods to capture resource rents such as special "windfall" taxes linked to excess profits or production, equity participation by the host government, improved assessment of multinational profits (by curbing transfer pricing abuses), and attempting to encourage local value added by imposing export taxes on unprocessed natural resources. Of the different methods of capturing resource rents, auctioning of exploitation rights, cash flow taxes with full loss offsets, and government equity participation are, in the absence of environmental externalities, least inefficient in economic terms, and the first two can, in principle, ensure that all economic rents are captured by the government (Boadway and Flatters 1993). In practice, however, since it is hard to achieve theoretically ideal auctions and cash flow taxes, and equity participation at best permits partial capture of economic rents, production royalties, export taxes, and leases for exploitation rights are widely used, with efficiency and fuller rent capture being traded for more certain revenue.

Debt Finance

Most governments finance some spending by borrowing, which may make good sense when the funds are used for investments that generate returns sufficient to cover the costs of

borrowing.[13] The main costs of debt finance are "crowding out" private investment and the fact that the interest burden of debt pre-empts resources for public services. Excessive debt finance can all too quickly become unsustainable and lead to excessive inflation when borrowing is domestic (ultimately financed by central bank monetary emission) and, when the resources have been borrowed from foreign lenders, even to the equivalent of government bankruptcy. Defaults in such cases often need bailout support from international institutions that require the imposition of austerity programs in exchange. The consequent adverse impact on a country's income and consumption standards is often attributed proximately to the foreign demands but ultimately results from the original excessive recourse to debt finance.

International bailouts of heavily indebted countries are always difficult not only to arrange but to assess, owing to the need to balance the costs of imposed austerity on citizens of affected countries against the costs to the world as a whole arising from the increased moral hazard of future bailouts if the consequences of fiscally irresponsible behavior are unduly softened. There are far too many unknowns in this area for anyone to be able to assess with any confidence the appropriate MCF of debt finance, which is one reason why countries should have recourse to such finance only with care and within strict limits.

Fiscal Decentralization

Fiscal decentralization has in recent years become a concern in many developing countries. In economic terms, the most important benefit from decentralization is the increased efficiency (and consequent welfare gain) that comes from moving governance closer to the people. Some have gone further and argued that fiscal decentralization may improve welfare not only directly but also by contributing to economic development, revenue mobilization, innovation in public service delivery, accountability of elected officials, local government capacity development, and grassroots participation in governance.

To attain such benefits from decentralization, sub-national governments ideally must have the power to control their employees and local residents must have the power to control their governments (normally through elections). Moreover, there must be sufficiently accurate information to enable voters to evaluate the fiscal decisions of their local governments as well as sufficient incentive and interest for them to exercise their power responsibly. Unfortunately, in many developing countries few if any of these conditions are satisfied. In fact the sub-national tax share in total taxes in developing countries is less than half the share in industrialized countries and has hardly changed in the last thirty years (Bahl and Bird 2008a). Most subnational spending in developing countries is financed through transfers, and the few taxes that sub-national governments have are often costly and difficult to administer.

This is consistent with the traditional theory of fiscal federalism, which prescribes a very limited tax base for subnational governments. The only good local taxes are said to be those that are easy to administer locally, are imposed solely (or mainly) on local residents, and do not raise problems of harmonization or competition between subnational—local or regional—governments or between subnational and national governments. The only major

revenue source that passes these stringent tests is usually the property tax, with perhaps a secondary role for taxes on vehicles and user charges and fees.

There are good reasons why central governments are often reluctant to give much tax discretion to local governments. They may fear losing macroeconomic control. Fiscal decentralization may shift resources from central governments that have higher rates of capital spending to regional and local governments that spend relatively more on consumption goods and services, thus harming national growth. Decentralization may shift the composition of public capital investments away from national priorities. Moreover, if fiscal decentralization takes the path of increasing reliance on own source revenues, then local governments with greater fiscal capacity—such as large cities in which there is both a larger tax base that is easier to reach and a better chance of developing the administrative capacity to collect taxes—gain most, and regional inequality is likely to increase. Revenue decentralization may also increase administrative and compliance costs.

Nonetheless, recent reappraisals of fiscal decentralization make a strong case for increasing local tax autonomy (Weingast 2009). Local residents are likely to hold officials more accountable if local public services are financed to a significant extent not from central government transfers but from locally imposed taxes and charges that they (local residents) must pay. Local taxes should both be visible to local voters and large enough to impose a noticeable burden (one that cannot be easily exported to non-residents). Reliance on own-source taxes also has the important advantage of imposing fiscal discipline on sub-national governments. Requiring local governments to finance a greater share of financing from own revenue sources drives up the tax price of public services and hence tends to reduce upward pressure on sub-national government expenditures. In contrast, heavy reliance on intergovernmental transfers—the common situation in most developing countries—has the opposite effect of expanding local demand for increased public services (financed largely by others) unless care is devoted to ensuring that transfers have no effects at the spending margin. Unless local governments have sufficient freedom to alter the level and composition of their revenues, neither local autonomy nor local accountability is likely to be achieved.[14]

Some Open Questions

The Choice of Revenue Instruments

Tax experts now understand fairly well the efficiency aspects of taxation even in the far from optimal—second-best and third-best—worlds in which real policy operates. However, though sometimes technically brilliant, little of this work has had much impact on practical policy design, in part because as yet only preliminary efforts have been made to incorporate limitations on administrative capacity into the analysis. Applied tax policy practitioners, such as those from the IMF and the World Bank, necessarily continue to rely to a considerable extent on more pragmatic "expert practice" rules to guide policy. Unfortunately, some such practices are based more on authority than on evidence for support. Moreover, even when both theory and empirical evidence support recommendations—as, for example, for

relatively high VAT thresholds (Keen and Mintz 2004) and very limited use of tax incentives (Klemm and Van Parys 2012)—such advice is often ignored.

Other examples are not hard to find. For instance, the use of selective consumption taxes on presumed "luxury" goods as a means of indirectly taxing the rich in an effort to increase progressivity has long been suggested (Musgrave 1969). However, not all such goods are consumed by the rich, and even to the extent they are, the final incidence of such taxes need not fall entirely on the rich, so whether such taxes do much to increase progressivity is open to question.[15] Much the same can be said about such other common features of indirect taxes as exempting or subjecting to lower rates such basics as food and fuel: studies have shown that concessions to fuel are generally highly regressive, while most of the benefit from concessions to food also accrues to the non-poor. Sometimes it may still seem sensible to provide relief in this distortionary (inefficient) and relatively ineffective way rather than not at all, but such delicate trade-offs between equity and economic and administrative efficiency are almost invariably necessarily made more on the basis of judgment than hard evidence. Although user charges and taxes on negative externalities (like carbon taxes) may be both more attractive in efficiency terms and even have distributionally attractive effects to some extent, little careful country-specific research has been done either on the economics of such sources or on why countries at all levels of development have been so reluctant to utilize them.

Globalization and National Tax Bases

With countries increasingly engaging in cross-border economic relations, the expansion of what may be called the global fiscal commons—potentially taxable entities or transactions with some characteristics involving more than one jurisdiction—gives rise to both risks and opportunities. The global fiscal commons in this sense includes multinational business, "footloose" industries, cross-border portfolio investors, FDI investors, and mobile skilled workers or professionals as well as those engaged in illicit activities such as the drug trade. There are no universally accepted norms for sharing property rights in the fiscal commons between countries (Bird and Mintz 2003). In practice, the main ways in which tax access to property rights are currently shared are through a network of bilateral income tax treaties, most of which are patterned on OECD or UN model treaties (Das-Gupta 2012). National tax base erosion in the commons occurs when the combination of tax treaties and particular tax policies in countries other than "legitimate" source or residence countries—tax havens—allows cross-border flows to move out of the legitimate tax base. Led by the OECD (1998), coordinated international action against tax havens and international administrative coordination against cross-border tax evasion have become important features of international taxation. However, economic assessment of the impact of these developments on, for example, international economic efficiency or developing country tax bases is still limited.[16]

A persistent feature of international taxation is the continuing taxation of cross-border income and trade flows by origin countries—on "entitlement" or simple "possession" grounds—even though widely accepted tax principles advocate destination taxes. Origin-based taxation (for example, through source withholding taxes) is not only administratively simpler for countries facing capacity limitations, but may be one way to limit international tax base erosion. An important question is therefore whether, and under what circumstances,

it may make sense for countries, individually and jointly, to tax more on an origin (source) than on a destination (residence) basis. Although tax experts have long argued that the destination basis is economically superior from the perspective of the world as a whole, there are no conclusive arguments or evidence demonstrating that this is the best possible outcome for all, let alone for developing countries either individually or as a group. Further exploration of this fundamental question about how best to deal with the fiscal reality of the global fiscal commons in the absence of any encompassing international governance structure remains a high priority issue. Immediate resolution seems unlikely, however, since it is far from clear that it is possible (let alone fruitful) to discuss the "global" efficiency or equity of the international fiscal system when there is no international fiscal system.

Global Taxes

Nonetheless, the recent financial crisis has led to a revival of interest in the possible desirability of taxes on financial activity (particularly international financial activity) or on financial institutions, with major reports from organizations, national governments, and NGOs playing a prominent role in this debate.[17] As yet, however, little is really known about how such taxes might work in situations where both national and international financial regulatory systems are in flux and where countries have been unable to work out how to tax financial sector activities even within their domestic VAT systems (Boadway and Keen 2003).

Such global tax proposals include, besides taxes on currency transactions or financial institutions, taxes on carbon emissions, multinational profits, and even airline tickets. With improvements in information technology and more sophisticated global financial institutions, such taxes may now be feasible (Schmidt and Bhushan 2011), but little is known about their effectiveness and economic impact. Tobin (1978) originally proposed setting an internationally coordinated (low) rate with collection and use of tax revenue by the levying country; his focus was on the policy impact of the tax itself and not on the revenue from the tax. Other proposals see such taxes as a means of enhancing financial resources for global public goods, including environmental protection, poverty alleviation, and health programs, through new or existing multilateral institutions. The more extreme proposals even suggest tax collection by a (nonexistent) global taxing authority. The prospect that a sufficient number of countries will agree to such a global tax seems limited, particularly if collection is to be by a global tax authority.

A more multilateral approach has been taken with respect to the international aspects of indirect taxation. With World Trade Organization (WTO) coordination, taxes on international trade in goods and also to a limited extent on certain services have been gradually reduced worldwide, leading to greatly increased international trade. Unfortunately, since border taxes on trade were easily collected even by weak fiscal administrations, they were an especially important revenue source for poor countries and the evidence is that some countries have proved unable to replace trade tax revenues from other sources (Baunsgaard and Keen 2010). The only answer for such countries may be again to impose higher taxes on cross-border trade in one way or another. As Stiglitz (2010) suggests, in some circumstances it may even be efficient as well as effective for them to do so. In practice, however, no one has yet worked out the details of a feasible and desirable strategy to restore the lost fiscal base of poor countries without forgoing most benefits of trade liberalization.

Is Advice Useful?

One lesson has clearly been learned over the last fifty years: "no one size fits all" with respect to public finance in developing countries. Revenue analysis and prescription needs to be tailored to fit the specific circumstances of each country, taking into account such critical factors as the interaction between taxes and other public policies (including transfers and the regulatory framework), the number of tiers of government and the institutions shaping intergovernmental relations, and the extent of globalization. Close attention also needs to be paid to the specific reform environment and process. The quality of administration and level of development are key considerations, as is the extent of political support for reform and local ownership of reform by such key stakeholders as fiscal professionals (accountants, economists, and lawyers), elites, taxpayers more generally, and, not least, critical third parties involved in the taxing process such as banks.

Despite these cautions, some broad public finance lessons have emerged from past experience:

- Fiscal indiscipline as manifested in persistent and large budget deficits (or surpluses) has large economic growth costs.
- To avoid this outcome, good institutions for both the revenue and spending sides of the public sector are crucial.
- Good revenue structures for developing countries tend to include a broad-based indirect tax, typically VAT, supplemented by selective excises, income taxes on corporations and individuals, and some non-tax revenues from areas where the public sector has monopoly power. Tax concessions on the one hand and high rates on the other are to be avoided. Recourse to debt finance should be limited to the extent possible.
- Decentralization and local governments still tend to be neglected. Enhancing local government revenue capacity so that a greater share of local spending is financed by own revenue may have efficiency and accountability benefits.
- No country can develop its public finance system without taking into account the increasingly important international dimension of public policy.

In the long term, sustained efforts focused on building institutional policy development and implementation capacity, both within and outside government, and collecting and analyzing information to assess the impact of fiscal reforms appear to be the best—perhaps the only—way countries can develop sustainable fiscal systems. History tells us that this process takes time and much effort, and that each country must find and follow its own path to success within the evolving international setting.

Notes

1. Tilly (1990) was particularly influential in this respect in leading scholars interested in political economy aspects to focus more on fiscal questions, as in the studies included in Brautigam, Fjeldstad, and Moore (2007) and Martin, Mehrotra, and Prasad (2009).

2. A more detailed appraisal of tax thought and practice in developing countries over the last fifty years may be found in Bird (2011).
3. Direct taxes include social security taxes, which are much more important in developed than in developing countries; indirect taxes include excises, which, like customs duties, generally declined in relative importance in all countries.
4. An introduction is in Das-Gupta (2010); for the basic theory, see Slemrod and Yitzhaki (2001) and for the practitioner's perspective, see Schiavo-Campo and Tommasi (1999) and Diamond (2006).
5. For full discussion of this concept, see Dahlby (2008).
6. The less common practice of running large and persistent budget surpluses—found sometimes in natural resource-rich countries—is also mistaken in the sense that the public sector is pre-empting national resources without providing any compensating value. Although channeling resources from variable sources like mining revenues into a stabilization fund to smooth public spending over time often makes sense, the discipline required to do so seems to be as hard to achieve as to maintain aggregate fiscal discipline in general.
7. For discussion, see Athukorala and Reid (2003). It is essential to keep a close eye on the flow of cash through the public sector to reduce peculation, but the best way to do so is not to revert to cash accounting but to establish a single treasury account to which all revenue flows and from which all expenditure comes.
8. For useful reviews of the relation between tax theory, tax advice, and practice from different perspectives over the years, see Goode (1993), Barbone et al. (1999), Stewart and Jogarajan (2004), and Bahl and Bird (2008b). On the whole, an early conclusion about the relationship between theory, empirical evidence, and policy advice still holds: "Since the scientific validation of reform proposals is beyond anyone's reach, all that remains is a cheerful pragmatism grounded only on a mixture of professional commitment and ethical judgment" (Toye 1989: 198–9).
9. Counterbalancing these arguments, the higher the threshold the greater the differentiation between those in the VAT net and those outside it: the result may be increased risk (and ease) of evasion.
10. For discussion, see Bird and Casanegra de Jantscher (1992), Das-Gupta (2002), and Hasseldine (2011).
11. Historically, controlling corruption associated with taxation has always been a central concern of governments (Webber and Wildavsky 1986). However, reliable estimates of the revenue effects or economic costs of corruption are hard to find, and other than such broad prescriptions as simplifying the tax system, reducing the administrative discretion of officials, and increasing independent monitoring, many aspects of how to reduce the corruption-proneness of revenue systems remain poorly understood.
12. Few countries manage such issues as well as Singapore, which (despite its lack of any natural resource base) has had fiscal surpluses in most years since its inception, and has carefully balanced its use of these surpluses between asset creation and general and conditional current transfers to citizens.
13. A recent trend in the provision of public services is through outsourcing debt to some form of "public–private partnerships" such as private finance initiatives (PFI). The idea is to add to resources for public services while transferring fiscal expenditure risk to a private partner which recovers its costs by charging users for the service (which means that services financed through a PFI must be excludible). Unfortunately, such arrangements have sometimes been used to hide what is really public-sector borrowing (since

the public sector bears the risks) or to enrich favored investors rather than to serve the public interest. All too often, such arrangements are as difficult to structure properly from the perspective of risk-bearing as to understand from an accountability perspective (Ménard 2011).

14. A potential danger in permitting local governments even limited freedom to tax is that they may not utilize fully all the revenue sources open to them for fear of fiscal competition or adverse political consequences, thus allowing the level and quality of public services to deteriorate—the infamous "race to the bottom." As Bird and Smart (2002) show, however, this problem can largely be obviated by the proper design of intergovernmental transfers. For further discussion of transfer policy, see Boadway and Shah (2009).
15. On the weak case for taxing luxuries, see Cnossen (2012). Indeed, cosmetics and similar "small luxuries" may even may be considered "aspirational goods" for the poor, to the point that (as in the Philippines) taxing such items may itself be regressive.
16. For a sample of the large literature discussing international taxation, see Lodin (2002), Muten (2002), and McLure (2006).
17. See Gurría (2009), International Monetary Fund (2010), European Commission (2010), and Schmidt and Bhushan (2011).

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CHAPTER 16

THE EVOLVING PARADIGMS OF STRUCTURAL CHANGE

JUSTIN YIFU LIN AND CÉLESTIN MONGA

Introduction

In Molière's celebrated play *The Bourgeois Gentleman*, the climactic joke occurs when Mr Jourdain, the main character, realizes that he has "been speaking prose all [his] life, and didn't even know it!" Macroeconomists may have reached a similar point in their pursuit of growth and poverty reduction recipes: regardless of their stated objectives and areas of specialization, they may have been just searching for the blueprint of structural change without knowing it. Suffice it to observe the evolution of the discipline since it emerged as a specific intellectual entity in the mid-twentieth century: whether they have been studying the role of monetary and fiscal policies, the nature and importance of markets and states, or the appropriateness of the regulatory framework and other institutions, researchers and policy makers are mainly trying to decipher the "mystery of growth" (Helpman 2004)—the economic dynamics that eventually transform the economic landscape and the deep nature of societies and nations.

Their quest has not been a smooth endeavor. The strategic focus of their work has often shifted from long-run to short-run issues. Classical economists such as Adam Smith, Alfred Marshall, and Allyn Young attempted to identify the ingredients required to ignite and sustain growth. But after the Second World War, the discipline moved to the study of business cycles and remained there through most of the 1970s. With the notable exception of the pioneering work of Robert Solow, for much of the twentieth century macroeconomists tended to study business cycles issues that characterized the post-war period. As they tried to better understand stabilization policies—monetary and fiscal measures to avoid disruptive and costly inflation—few resources were devoted to the analysis of the long-run determinants of growth. While there has been renewed interest in growth research in recent decades, the economic literature has not focused on making clear the linkages between growth and economic transformation. As a result, the impressive advances in methodology have not led to a consensus on the policies that allow some economies to evolve from low- to high-income status.

Structural change occurs in all countries, not just "developing" ones. But initial research about it was limited to high-income countries, for good reasons: with the advent of the Industrial Revolution and the economic takeoff of some countries in the Western hemisphere, the magnitude of transformation in Britain, the United States, France, or Germany was such that it was indeed fascinating to uncover the mechanics at work there. Research on that topic was also taking place in Japan, most notably with the work of economists such as Kaname Akamatsu. The economic trajectories of lower-income countries of Asia, Latin America, and Africa became the subject of systematic analysis only in the 1940s and 1950s, when development thinking emerged as a particular branch of economics.

It was then clear that modern economic development is a process of continuous change in economic structure. Successful countries also exhibited profound structural changes. This was subsequently confirmed by empirical evidence in the work of pioneers such as Simon Kuznets, Hollis Chenery, and Moses Syrquin. In fact, virtually no country evolved from a low- to a high-income status without simultaneously transforming its economy from agrarian or resource-based towards an industry- or services-based economy. Therefore, the main intellectual challenge for economics was (and remains) to understand why so few countries have managed to engineer such structural transformation.

The economic notion of "structures"[1] has evolved over the decades to cover both macro and micro issues, and to hold different meanings. In the 1940s, a first wave of researchers working on low-income countries conceived development to be an interrelated set of long-run processes. Their focus was therefore on structural change in production structure and on economy-wide phenomena such as agricultural transformation, industrialization, urbanization, and "modernization." Leading that group, Kuznets (1966) studied the genesis and patterns of evolution of modern economic growth in high-income countries and approached structural analysis mainly through the lens of sectoral changes—that is, the evolution over time of the relative contributions of agriculture, industry, and services to gross domestic product (Syrquin 1988).

A second wave of development thinking dominated policy making in low-income countries in the 1980s and 1990s, and tackled structural analysis indirectly. Like Mr Jourdain in Molière's play, economists in that group approached structural change almost inadvertently, through broad examination of the general functioning of economies, their markets, institutions, mechanisms for allocating resources, regulatory and incentives systems, etc. The proponents of the "structural" adjustment programs implemented in many developing countries viewed the restoration of external and domestic balances as an essential precondition for launching the process of economic transformation and change.

A third and more recent wave of the development literature has sought to refine structural analysis and bring back on the agenda some of the specific issues of the process of economic transformation: a rethinking of the distribution of roles between the government and the private sector; the strategic selection of competitive industries according to the comparative advantage of developing countries; the determinants of the dynamics of sectoral contributions to growth; the evolution of the capital intensity of sectors over time—within and across countries; the factors that help or hinder the reallocation of resources from low- to high-productivity sectors and the policy environment that facilitates such changes; the processes that allow economies to move up the value chain; the various ways of organizing and fostering the adaptation and adoption of new technologies in poor countries; the determinants of a country's ability to create employment; and the institutional arrangements that are

necessary to support structural transformation, especially in the context of low-income countries where infrastructure, skills, and long-term financing are scarce.

The remainder of this chapter is organized as follows: The next section reviews the initial focus of early economic structuralists on market failures and highlights their sometimes disappointing results. The following section explains how the second wave came to dominate policy discussions in developing countries, but also failed to generate sustained and inclusive growth. The final section introduces the third and latest wave of analysis on structural change, which draws lessons and inspiration from all previous intellectual currents. It stresses the notion that underdevelopment should no longer be viewed as a lack of some indispensable factor (human capital, physical capital, financing, administrative capacity, governance, etc.) but as the reflection of development strategies that were not centered on comparative advantage of the existing endowment structure.

First Wave: The Focus on Market Failures

Early development economists[2] borrowed the notion of "structures" from other social scientists in the 1940s. They used it to design a first set of theories for growth and prosperity. Their focus was on market failures, which they identified as fundamental constraints to structural change in developing countries. They advocated state-led industrialization and inward-looking policies to achieve the modernization of poor countries. We refer to that early approach as "Development Economics 1.0."

While numerous variants of early economic structuralism[3] can be traced to a very diverse body of work that spans over a century (from Karl Marx, David Ricardo, and John Maynard Keynes to Michal Kalecki, Joan Robinson, Richard Nelson, and Sidney Winter), the fundamental assumption of all its various schools of thought is that "an economy's institutions and distributional relationships across its productive sectors and social groups play essential roles in determining macro behavior" (Taylor 2004: 1). They initially put forth the proposition that the world economy was composed of two poles (a homogeneous and diversified "center" facing a heterogeneous and specialized "periphery") with fundamentally different production structures.

They identified economic activities of a very different nature that existed side by side in the "periphery" (developing countries), with an export sector of relatively high productivity of labor, and a subsistence agricultural sector of very low productivity. They hypothesized that poor economies had to specialize in the production of a few commodities whose exploitation could not generate any forward or backward linkages. They conjectured that poor economies were trapped into an external disequilibrium and could occupy only a marginal space on the international scene (especially given the long-term trend of declining terms of trade). As a result, they argued, these peripheral economies would not undergo the kind of transformation process that leads to modernization and prosperity.

Early structuralists also argued that because of structural rigidities and coordination problems in developing country markets, the modern heavy industries were unable to develop spontaneously there. They suggested that the virtuous circle of development depended essentially on the interaction between economies of scale at the level of individual

firms and the size of the market. Specifically, they assumed that modern methods of production can be made more productive than traditional ones only if the market is large enough for their productivity edge to compensate for the necessity of paying higher wages. Yet the size of the market itself depended on the extent to which these modern techniques were adopted. Therefore, if the modernization process could be started on a very large scale, then the process of economic development would be self-reinforcing and self-sustaining. If not, countries would be trapped in poverty indefinitely (Rosenstein-Rodan 1943).

The focus on economic structures across all the currents of structuralism was always in sharp contrast to the initial neoclassical thinking, which assumed the existence of rational actors in perfectly competitive markets and emphasized only the need for well-functioning markets and institutions. As Gibson observes, "For orthodox economists, why the advanced countries were rich and the developing economies were poor depended only upon the amount of capital per unit of labor and subsequent labor productivity. Both could increase their income per capita by the same means, and relatively independently. The world as a whole would be better off with free trade with both poles pursuing their own comparative advantage." (Gibson 2003: 55). In other words, early structural economics aimed at building a theoretical framework for thinking about development with stronger ethical foundations and more realistic assumptions, some of which were subsequently acknowledged by neoclassical economists.[4]

The distinguishing feature of their framework was the notion that macroeconomics must relate to the institutional structure of an economy and the perceived behavioral patterns of households and firms, and that economics must be constructed directly in terms of aggregates such as household consumption, business investment, total exports, etc., not from optimizing decisions made by individual "agents," These features stood in sharp contrast to the basic assumption of neoclassical economics—the mainstream interpretation of Adam Smith—that businesses and consumers act rationally to maximize in one case their own profits, and in the other case their own welfare. As Chenery later observed, "The structuralist approach attempts to identify specific rigidities, lags, and other characteristics of the structure of developing economies that affect economic adjustments and the choice of development policy2" (1975: 310). Initially, there was no formal modeling, but the so-called dual economy and two-gap models gradually came to express the different internal structures in low- and high-income countries. In reaction to strong challenges and criticism from neoclassical economists, later generations of structuralists improved the initial theoretical framework—and branded themselves "neo-structuralists" in the late 1980s and early 1990s.

Why didn't early structuralists express their views more systematically in formal models? Some of them were skeptical of econometrics for the reason that classical statistical theory tends to impose stringent requirements on data—especially good time series—that were not always available in many developing countries. Moreover, early structuralists wanted to explain complex economic phenomena, which could not be captured realistically using models with one, two, or very few variables in so-called "reduced form." Another possible explanation offered by Krugman, Cooper, and Srinivasan (1995) is that their theories rested critically on the assumption of economies of scale, which virtually nobody at the time knew how to put into formal models. The essential theoretical problem they faced was that of market structure. For nearly a century (at least until the mid-1970s), economists only really knew how to model formally perfectly competitive economies, those in which firms take prices as given rather than actively trying to affect them. There was a standard theory of the behavior

of an individual monopolist who faced no comparably-sized competitors, but there was no general theory of how oligopolists (firms that have substantial market power but also face large rivals) would set prices and output. Moreover, there was no general approach to modeling the aggregate behavior of a whole economy largely peopled by oligopolistic rather than perfectly competitive industries. Only since the mid-1970s have economists overcome such methodological barriers, and in a number of fields: international trade, economic growth, and, finally, development. But the limited use of formal models certainly helped invalidate the work of many pioneers of development thinking.[5]

There was broad agreement within the various groups of early structuralist economists on the diagnostic that market failures were the main problem of developing countries. However, there was divergence as to what specific policies to implement in order to break out of the trap and start the virtuous cycle. Rosenstein-Rodan seemed to indicate that a "Big Push" (large and coordinated government investment program) was the solution. Others such as Hirschman (1958) suggested instead an "unbalanced" approach to growth, that is, the promotion of key economic sectors with strong linkages, and subsequent correction of the disequilibrium generated in other sectors by these investments. Still, many developing country governments regarded economic growth as their direct and prime responsibility. Eventually, many influential multilateral institutions such as the World Bank adopted structuralist economic thinking in their approach to development.

While some developing countries that adopted policies from the early structuralists managed to launch their industrialization programs and build human capital, the results were generally disappointing. Instead of undergoing the kind of structural changes described by Kuznets and converging to the developed countries' income levels, most developing countries stagnated or even witnessed a deterioration of their income gap with developed countries. In many developing countries in Latin America, Africa, the Middle East, and South Asia, well-intended government interventions failed in the 1960s and 1970s when import substitution and protection were essential features of the development strategy. The main reason was the pervasive involvement of the state in activities that were far from their country's comparative advantage.

Many former socialist and developing countries could not achieve structural transformation because they gave priority to the development of capital-intensive heavy industry in the 1950s, when capital in their economies was scarce. In order to implement a development strategy that defies its comparative advantage, a developing-country government has to protect numerous non-viable enterprises; however, because these governments usually have limited tax-collection capacities, such large-scale protection and subsidies could not be sustained with their limited fiscal resources. The government had to resort to administrative measures—granting the non-viable enterprises in prioritized industries a market monopoly, suppressing interest rates, over-valuing domestic currency, and controlling prices for raw materials—to reduce the costs of investment and operation of the non-viable enterprises. Such intervention caused widespread shortages in funds, foreign exchange, and raw materials. The government had to allocate resources directly to these enterprises through administrative channels, including national planning in the socialist countries and credit rationing, investment, and entry licensing in non-socialist developing countries (Lin 2009).

As government-led economic development strategies, based on the early structuralist teachings, failed in many countries, neoclassical economics appeared to triumph and to influence development thinking. Not surprisingly, its focus was on government failures.

Second Wave: The Focus on Government Failures

The failure of the first wave of early structuralist economics to achieve its stated aim of eliminating the income gap between poor and rich countries led to the return of neoclassical orthodoxy in development thinking in the 1970s and 1980s. In the aftermath of the first oil shock and a radical questioning of Keynesian economics, a group of development experts—mainly within the World Bank and the International Monetary Fund—redefined the recipe for sustained growth and structural changes in poor countries as a two-pronged strategy involving macroeconomic stabilization and structural adjustment policies. That new framework, which came to be known as the Washington Consensus, represented the second wave of development thinking—"Development Economics 2.0." While it underwent some variations, it became the blueprint for economic transformation in many developing countries. Unfortunately, its results were also disappointing.

Development Economics 2.0: The Reinvention of Orthodoxy

The rationale for the change in the development paradigm was based on a neoclassical interpretation of the economic trajectories of most poor countries that attempted state-led industrialization strategies and the "dirigist dogma" (Lal 1985) advocated by the structuralists.

That story of the failure of these previous experiences focused on government failures. It went something like this: in the early 1960s, most of the newly independent countries benefited from a rapid rise in the value of their exports, which led to an increase in their foreign exchange and government revenues. That surge in income stimulated ambitious public policies aimed at increasing both investment and consumption. The poor state of infrastructure and the large social needs of the population (especially in the areas of education and health) who had suffered centuries of slavery and colonization often justified these policies.

However, investments were over-sized and ill-designed. Fueled by the nationalistic dream of the new political leaders, some big projects and programs dominated government plans—often conceived on the model of the Soviet Gosplan, regardless of the ideological background of the ruling elites. These projects and programs also generated large current expenditures, as they required a large number of civil servants with salary levels often equivalent to ten times the average income per capita, or high levels of operation and maintenance spending. Furthermore, for ideological, political, and sometimes economic reasons, and also for reasons of pure greed, some countries opted for the nationalization of substantial segments of the production apparatus. They were encouraged along this direction by the ease with which they could obtain foreign loans (owing to abundant international liquidity).

By the 1970s, many private American, European, and Japanese banks had at their disposal important deposits from members of the Organization of Petroleum Exporting Countries (OPEC) cartel—so-called "petrodollars." Acting under the assumption that countries cannot go bankrupt, these banks made risky loans that were used to finance mega investment projects with little or no economic rationale, or imports of luxury goods, or were simply misused to fund personal bank accounts overseas. Yet by the early 1980s the situation had

changed considerably. OPEC had become less effective as a cartel, which drove oil prices down and substantially reduced petrodollars held as deposits in Western banks. Also, the United States, the world's dominant economy, was pursuing fiscal policy centered on large tax cuts and a big buildup in military spending. The combination of these two factors (the limited availability of petrodollars on the international lending market and the need for funds to finance the large U.S. fiscal deficit) drove interest rates upward. To make matters worse, the world economy faced a major recession in the early 1980s after the Iranian Revolution and the ensuing oil crisis, and commodity prices on which developing countries relied for foreign exchange fell to historic lows. Confronted with the rapid increase of interest rates on their variable-rate loan repayments, these countries were on the verge of default on their external debt. Since the loans they obtained in the 1970s were used to pay for politically motivated projects or expensive luxury goods—not productive investments—only one option was left to them: turn to multilateral financial institutions like the World Bank and the IMF for help.

In macroeconomic terms, the evolution of developing countries was summarized as follows: after independence, many of them quickly experienced a persisting imbalance between aggregate domestic demand and aggregate supply, and this was reflected in a worsening of their external payments and an increase in inflation. In certain cases, the main explanation was the importance of external factors such as an increase in foreign interest rates or an exogenous deterioration in terms of trade. But in most cases, the so-called demand–supply imbalance could be traced to the inappropriate government policies that expanded domestic demand (consumption, investment) too rapidly relative to the productive capacity of the national economy.

That diagnostic rested on the contention that state-sponsored development strategies necessarily give rise to incorrect relative prices in poor economies and distort incentives. The logical conclusion was therefore to correct the mistaken policy recommendations from the past by bringing back the fundamental precepts of the free market economy. That led to the reinvention of the neoclassical orthodoxy.

Fighting the "Global Apartheid"

The focus on government failures by mainstream development economists led to the design and implementation of a policy framework known as structural adjustment programs (SAPs). They emerged from the Bretton Woods institutions and centered on the elimination of macroeconomic imbalances of developing countries as a required passage towards sustainable growth and structural change. SAPs thus combined two overlapping objectives:

(1) stabilization, defined as the reduction of national expenditure to bring it in line with national output or income; this implied adopting policies that lower the rate of inflation, reduce the current account deficit, restore external competitiveness, and limit the loss of international reserves; and

(2) structural adjustment, defined as an increase in national income and output through a more efficient use of resources. This basically meant implementing policies to increase the productive capacity of the national economy and to improve the efficiency with which the country's resources were utilized. Macroeconomic success was to be achieved when the economy reached domestic balance (loosely defined as

full employment without a large distortion in economic policies) and external balance (a sustainable position of the current account balance).

The new policy framework relied on a belief in the virtues of market economy, the importance of macroeconomic discipline, and the need for all economies to open up to trade and foreign direct investment. These basic ideas also constitute the foundations of what Williamson (1990) called "the Washington Consensus." Even though this particular term was coined only to describe the set of ideas that "most people in Washington believed Latin America (not all countries) ought to be undertaking as of 1989 (not all the time)," (Williamson 2002) it became the new blueprint for all poor countries to follow in their quest for growth and structural transformation. The fact that Williamson went on to become one of the most influential Regional Chief Economists at the World Bank reinforced that view. To be sure, the policies proposed under SAPs and the Washington Consensus framework were quite similar and presented by their leading proponent as a vehicle to break the intellectual "global apartheid" facing developing countries:

> These are ideas that had long been regarded as orthodox so far as OECD countries are concerned, but there used to be a sort of global apartheid which claimed that developing countries came from a different universe which enabled them to benefit from: inflation (so as to reap the inflation tax and boost investment); a leading role for the state in initiating industrialization; and import substitution. The Washington Consensus said that this era of apartheid was over. (Williamson 2002)

Williamson subsequently listed the ten reforms around which economic transformation and structural change should be organized. His comments deserve to be quoted extensively:

(1) *Fiscal Discipline*. This was in the context of a region where almost all the countries had run large deficits that led to balance of payments crises and high inflation that hit mainly the poor because the rich could park their money abroad.

(2) *Reordering Public Expenditure Priorities*. This suggested switching expenditure in a pro-poor way, from things like indiscriminate subsidies to basic health and education.

(3) *Tax Reform*. Constructing a tax system that would combine a broad tax base with moderate marginal tax rates.

(4) *Liberalizing Interest Rates*. In retrospect I wish I had formulated this in a broader way as financial liberalization, and stressed that views differed on how fast it should be achieved.

(5) *A Competitive Exchange Rate*. I fear I indulged in wishful thinking in asserting that there was a consensus in favor of ensuring that the exchange rate would be competitive, which implies an intermediate regime; in fact Washington was already beginning to subscribe to the two-corner doctrine.

(6) *Trade Liberalization*. I stated that there was a difference of view about how fast trade should be liberalized.

(7) *Liberalization of Inward Foreign Direct Investment*. I specifically did not include comprehensive capital account liberalization, because that did not command a consensus in Washington.

(8) *Privatization*. This was the one area in which what originated as a neoliberal idea had won broad acceptance. We have since been made very conscious that it matters a lot how privatization is done: it can be a highly corrupt process that transfers assets to a privileged elite for a fraction of their true value, but the evidence is that it brings benefits when done properly.

(9) *Deregulation*. This focused specifically on easing barriers to entry and exit, not on abolishing regulations designed for safety or environmental reasons.

(10) *Property Rights*. This was primarily about providing the informal sector with the ability to gain property rights at acceptable cost. (Williamson 2002)

Some dissenting voices argued that the Washington Consensus was theoretically flawed (Stiglitz 1998; Hoff and Stiglitz 2001). Others noted that its policy prescriptions did not include crucial elements for growth and structural change such as human capital or institutions, and that there was a need for an "augmented" version of the Washington Consensus (Rodrik 2006). Empirical studies have shown that in terms of sustained growth and structural transformation, their results were at best controversial (Easterly, Loayza, and Montiel 1996).

Third Wave: Explaining the Mystery of Change

The disappointing results of several decades of development economics have led to a soul-searching exercise among researchers, many of whom are still looking for something that might be missing in or even wrong with poor countries. In their desperate quest for answers, they have identified a long list of often contradictory factors to make that case. The list includes the apparent inability of poor countries to solve their structural deficit in capital or to attract sufficient foreign aid for the required "Big Push" (Sachs 2005); their excessive and wasted foreign aid that may have profoundly distorted policy incentives in poor countries (Easterly 2006; Moyo 2009); the general geography of poor countries, many of which are landlocked; their high level of ethnic fractionalization, which they see as an unshakable source of tensions that slow economic performance; or their prevailing cultural practices, which some found unsuited for sustained economic performance. Many such arguments were made several decades ago to explain the pervasive poverty in Asia, and even to predict why countries such as Japan, Korea, or China might never be capable of overcoming their poverty traps.[6] History has not been kind to such deterministic approaches to economic development.

Many important intellectual initiatives have been launched in recent decades to reassess development theories, policies, and practices (Meier and Stiglitz 2001; World Bank 2005; Commission on Growth 2008). The temptation has been strong for proponents of the various schools of thought to stick to their initial theories and defend the validity of their analysis, to turn the focus on the inconsistencies of competing theories, or even to blame the poor implementation records of their "good" policy recommendations by failing developing countries.

Early structuralists (even those using more rigorous analytical frameworks of analysis) and Keynesians have tended to stress the persistent market failures that prevent developing countries breaking out of their low-level equilibrium (Taylor 1983, 1991, 1992, 2004) while neoclassical economists have pointed to the pervasive government failures that maintain a bad business environment and ineffective policy frameworks in countries in need of investment (Krueger 2004; Hubbard and Duggan 2009). A third wave of development thinking is currently underway, which builds on both early structuralists and neoclassical economists. Drawing lessons from history and economic analysis, it aims to reconcile insights from previous brands of development knowledge and to provide policy-makers in all low-income countries with a practical framework for identifying sectors and industries that are consistent with their comparative advantage, and facilitating the process of structural change.

Revisiting the Analytics of Economic Transformation

The third wave of development thinking aims to return to the true meaning and dynamics of structural transformation. Its theoretical foundations can be found in a large corpus of interrelated themes that includes: the economics of information; the economics of ideas and diffusion of knowledge; the problem of agglomeration; and (perhaps most important) the problems of coordination and externalities.

Stiglitz, who pioneered the economics of information, explained in his Nobel lecture how his encounter of developing country issues forced him to reassess his own views:

> My first visits to the developing world in 1967, and a more extensive stay in Kenya in 1969, made an indelible impression on me. Models of perfect markets, as badly flawed as they might seem for Europe or America, seemed truly inappropriate for these countries. But while many of the key assumptions that went into the competitive equilibrium model seemed not to fit these economies well, the ones that attracted my attention was [*sic*] the imperfection of information, the absence of markets, and the pervasiveness and persistence of seeming dysfunctional institutions. (Stiglitz 2001: 473)

It was not just the discrepancies between the standard neoclassical competitive model and its predictions that were being questioned. The model was not robust—even slight departures from the underlying assumption of perfect information had major analytical and policy consequences. In many areas of public policy (such as education and wage determination), the notion that had underlain much of traditional competitive equilibrium analysis—that markets *had* to clear—was simply not true if information was imperfect.

For centuries, the most dominant idea in mainstream economics, which provided both the rationale for the reliance on free markets and the belief that issues of distribution can be separated from issues of efficiency, was that competitive economies lead, as if by an invisible hand, to a (Pareto) efficient allocation of resources, and that every Pareto efficient resource allocation can be achieved through a competitive mechanism—provided only that the appropriate lump sum redistributions are undertaken. That big idea, still the fundamental theorem of welfare economics, also allowed economists the freedom to push for reforms which increase efficiency, regardless of their seeming impact on distribution. As Stiglitz noted, "the economics of information showed that neither of these results was, in general, true." Moreover, asymmetries of information have been shown to be related to absent or imperfect markets. They help explain why markets for used cars as famously shown by Akerlof (1970), or for credit or for labor tend to work imperfectly. Information imperfections

are pervasive in the economy and neither sustained economic growth nor structural change is possible without a reliable mechanism to address them (Greenwald and Stiglitz 1986). The fact that when there are asymmetries of information, markets are not, in general, constrained Pareto efficient implies there is a potentially important role for government (Stiglitz 1997).

That insight also opens up an avenue to discuss the economics of ideas and diffusion of knowledge, which is typically considered a particular form of information. Many of the issues that are central to the economics of information and to the process of structural transformation—such as the problems of appropriability, the fixed costs associated with investments in research that give rise to imperfections in competition, and the public good nature of information—also point to the crucial role of the government in economic development. "Nations are poor because their citizens do not have access to the ideas that are used in industrial nations to generate economic value," Romer observed (1993a: 543). Developing countries remain trapped in poverty because households and firms there have not been able either to invent new ways of making better goods and services or to copy and use new industrial and technological tools available elsewhere to improve their productivity levels. "In a world with physical limits, it is discoveries of big ideas, together with the discovery of millions of little ideas, that make persistent economic growth possible. Ideas are the instructions that let us combine limited physical resources and arrangements that are ever more valuable" (Romer 1993b: 64).

Another theoretical justification for the role that governments must play to foster sustained growth and structural transformation is found in the economics of agglomeration. Since the puzzling observation made by Balassa (1966) on the rise of the intra-industry trade in Europe in the 1950s that each country produced only part of the range of potential products within each industry, importing those goods it did not produce (because specialization in narrower ranges of machinery and intermediate products permits the exploitation of economies of scale through the lengthening of production runs), new trade theorists have highlighted the fact that unexhausted economies of scale at the firm level necessarily imply imperfect competition. They have shown that increasing returns have been a powerful force shaping the world economy, and developed general equilibrium models of imperfect competition that confirm Marshall's trinity of reasons for industry localization: knowledge spillovers, labor market pooling, and specialized suppliers.[7] For developing countries that must rely on trade as their main source of growth in an increasingly globalized world, the policy implications of these theoretical analyses are clear: it is essential that their governments be willing and capable of solving the coordination and externalities issues that prevent agglomeration of firms and activities from taking place (Rodrik 2007; Harrison and Rodriguez-Clare 2010).

An influential perspective based on non-linearities is the Growth Diagnostics approach suggested by Hausmann, Rodrik, and Velasco (2008). It is motivated by the inability of governments to reform everything and thus the need to prioritize reforms, which is done through the information revealed by shadow prices. It recognizes the central role of structural change in economic development and argues that in each country there are "binding constraints" on growth, implying that failure in one dimension prevents growth even if the others are all satisfactory. Through time and across countries those binding constraint can vary. Identifying them is the prerequisite to successful policy making.

While it is a good systematic approach to consider the government's policy interventions in a distorted second-best world, in practice, the binding constraints are related to the new industries that the country is attempting to develop, and the approach argues that choices of new industries should depend on a self-discovery process by individual firms. Hence the

identification of binding constraints is more an "art" than a "science." Moreover, the proponents of the growth diagnostics oppose the use of comparative advantage as a basic reference in the identification of new industries (Rodrik 2004). The industries that governments select through this process are likely to have the same characteristics as those targeted by the structuralist approach and are not viable in a competitive market. More distortions to the market, similar to those introduced by the import-substitution strategy, may be created as a result.

A related but somewhat different framework that explicitly recognizes the importance of structural change and suggests policies to facilitate that change is the product-space method proposed by Hidalgo et al. (2007) and Hidalgo and Hausmann (2009). It posits that economic progress occurs because countries upgrade what they produce. In doing so, they move from their current products to other, usually more sophisticated, related products. The more closely related the product lines, the easier it is for countries to make progress. Relatedness is associated with the similarity in the inputs required by a certain activity, including everything from particular skills and institutional and infrastructural requirements to technological similarity and the like. So the product-space metaphor refers to how this process of moving from one product to another works in the real world.

New Structural Economics

Within the third wave, the New Structural Economics (NSE) approach to development (Lin and Monga 2011; Lin 2012; Monga 2012) points to the fact that almost all previous waves of development thinking on structural change have been conceived on the basis of a required list of ingredients considered indispensable for sustained growth and structural change. Economic failure has thus been analyzed as a lack of some factor or variable. Development economics in the past often focused on what developing countries did not have and could not do well: early structuralists and other proponents of "Development 1.0" theories focused on market failures and the lack of capital of poor countries, and doubted that the "periphery" could compete successfully with the "center." As a result, they advocated inward-looking policies that eventually failed to foster convergence. In reaction, neoclassical economists and proponents of "Development 2.0" identified another list of missing elements which they thought were absolutely necessary for sustained growth to be ignited (macro stabilization, sound money, free markets, good governance, well-functioning delivery systems for projects).

While economic development certainly necessitates some minimal conditions (social peace and stability, and a relatively well-functioning state), the NSE contends that a radically different mindset must be adopted by development economists and policy-makers in poor countries. Consistent with the intellectual posture of philosophical pragmatism, it argues that structural change and economic development can take place anywhere—including in poor, landlocked countries with no natural resources, limited physical and human capital, and suboptimal governance—provided that a realistic strategy that makes the best use of the country's unique set of assets at that given time be implemented. It therefore advocates an approach to structural change based not on the long list of missing ingredients for a first-best development scenario (good business environment, good governance, adequate domestic capacity, etc.) but on what any poor country has at a given moment (that is, its endowments) and what it can do well (that is, comparative advantage). As part of this process, the government should play an active role in helping the private sector scale up what the country can do well now.

Economic development is indeed a process of sustained increase in per capita income, which requires a continuous upgrading of industries and technology from labor (resource)-intensive industries to more capital-intensive industries (otherwise, per capita income will stagnate, as predicted by Solow's neoclassical growth model). It is a gradual process from the lower to the higher end of the spectrum, and countries can move to many intermediate levels. Developing countries have the advantage of backwardness and a whole spectrum of industries with different levels of capital intensity available to them. Because the industrial structure in an economy is endogenous to its relative abundance of labor, capital, and natural resources, the speed of industrial upgrading and development depends on the speed of its upgrading of factor endowments as well as the required corresponding improvement of "soft" infrastructures (institutions) and "hard" infrastructures (physical capital).

At each particular level of development, the production structure will be different, as will each type of infrastructure. The upgrading is an innovation and unavoidably risky. Successful upgrading requires that the firms in the economy overcome issues of limited information regarding which industries are viable. Successful upgrading often requires related investments by other firms (Murphy, Shleifer, and Vishny 1989), and required changes in soft and hard infrastructures. And, in addition, valuable information externalities arise from knowledge of pioneer firms' success and failure. Therefore, in addition to playing a proactive role in the improvements of soft and hard infrastructures, the government in a developing country can also adopt an industrial policy to assist firms in a market economy to overcome the above issues (Rodrik 2004; Lin 2009).

The practical implementation framework associated with the NSE suggests that policy-makers identify tradable industries that have performed well in growing countries with similar resources and skills, and with a *per capita* income about double their own. If domestic private firms in these sectors are already present, policy-makers should identify and remove constraints on those firms' technological upgrading or on entry by other firms. In industries where no domestic firms are present, policy-makers should aim to attract foreign direct investment from the countries being emulated or organize programs for incubating new firms.

The government should also pay attention to the development by private enterprises of new and competitive products, and support the scaling up of successful private-sector innovations in new industries. In countries with a poor business environment, special economic zones or industrial parks can facilitate firm entry, foreign direct investment, and the formation of industrial clusters. Finally, the government might help pioneering firms in the new industries by offering tax incentives for a limited period, co-financing investments, or providing access to land or foreign exchange.

Conclusion

This chapter has identified and chronicled three broad waves of development thinking on the important issue of structural change, which is central to sustained growth, job creation, and poverty reduction. Successful countries have almost always undergone structural change, while unsuccessful ones have not. For developing countries the challenge has always been to design and implement economic policies geared towards a careful analysis of the

changing patterns of industrial structure and technology diffusion, to appropriately select and foster the development of industries in which private firms can strive because they are in the country's comparative advantage.

Early development thinkers who took up the challenge of devising economic strategies for low-income countries in the 1940s through the 1960s identified market failures as the main obstacles to prosperity. They faced some big questions, which are still on the agenda of development thinking today: What mysterious processes are at play in countries that are able to break out of the poverty trap and gradually change the fundamental nature of their economies? What policies and institutions facilitate the dynamics of sectoral transformation? Within agriculture, services, or industry, how does the process of moving into higher quality goods and services happen? How do economies move up the value chain? What determines a country's ability to create good jobs? What is the appropriate role for governments and markets in the growth and structural transformation dynamics? Their choice of inward-looking strategies generally failed to deliver results.

The second wave of development experts that dominated policy making in the 1980s and 1990s turned to government failures as the main cause of failure. Consistent with neoclassical principles, they advocated free market policies for all low-income countries, with some subsequent variations (human capital institutions). While it advocated macroeconomic stabilization and "structural" adjustment policies, that second wave neglected the deeper issues of structural transformation, which implies a strategic selection of industries that can ignite long-term changes in a country's endowment structure and production capabilities. The results of these policies were also disappointing.

There has been a robust debate on the intellectual legacy of all these earlier waves of economic thinking on structural change. Disagreements over the pertinence of its main assumptions, frameworks of analysis, and policy recommendations are likely to continue for a long time. But a set of stylized facts have emerged from empirical observation, which makes it a legitimate and useful approach to economic development and economic thinking. Ocampo et al. (2009) provide a comprehensive exposition of these stylized facts. Two of them stand out: (i) The lack of economic convergence (neither absolute nor relative) among countries in the past two centuries appears to contrast with the bold predictions of orthodox models of growth. That also invalidates the notion that all countries may eventually reach similar income levels by pursuing similar policy frameworks, regardless of their initial economic structure. (ii) International factors play a crucial role in the overall growth dynamics of the developing world—much more so than in high-income countries. This finding, too, weakens the traditional neoclassical emphasis on domestic policies and institutions as the primary determinants of economic performance.

Drawing lessons from history and economic analysis, the third wave of development thinking has sought to put structural analysis and comparative advantage centerstage. It suggests new ways in which all developing countries—regardless of their natural resources, location, or amount of capital—can break into global industrial markets and find their own niche, or organize their economies to take advantage of the opportunities being vacated by middle-income countries that are forced out of their niche because of rising wages, rising productivity levels, and the need for industrial upgrading. Unlike previous theories of economic development, the new wave does not focus on the list of missing ingredients. Instead, it provides a blueprint for making the most of the existing assets and endowment structure of any country.

As such, it offers a ray of hope to all low-income countries that can organize themselves to seize the unprecedented economic opportunities created by a multi-polar world.

Notes

1. The concept of "economic structure" refers to "the composition of production activities, the associated patterns of specialization in international trade, the technological capabilities of the economy, including the educational level of the labor force, the structure of ownership of factors of production, the nature and development of basic state institutions, and the degree of development and constraints under which certain markets operate (the absence of certain segments of the financial market or the presence of a large underemployed labor force, for example)." (Ocampo et al. 2009: 7).
2. The long list of these early development economists includes Rosenstein-Rodan (1943); Singer (1950); Lewis (1954); Nurkse (1956); Myrdal (1957); and Prebisch (1959); Chenery and Bruno (1962); and Furtado (1964).
3. Dutt and Ros (2003) provide a comprehensive review of the main and often overlapping currents of early economic structuralism. They suggest that the first phase, which occurred from 1945 to the mid-1950s, was launched by Rosenstein-Rodan, Lewis, and Nurkse. A second sub-group extended from roughly the mid-1950s to the late 1960s and was dominated by contributions from Myrdal, Hirschman, Chenery and Bruno, and Furtado. A third sub-group, called "neo-structuralism" or "late structuralism," emerged in the early 1980s to respond to criticism from neoclassical economists and to modify and enrich development economics with lessons drawn from economic analysis and the actual experience of poor countries. It is represented by contributions from Taylor (1983, 1991); Ocampo and Taylor (1998); and Ocampo et al. (2009).
4. Game theory has shown, for instance, that individuals tend to value fairness and are very often more generous than the rational agent model would predict. See Henrich et al. (2001). With such developments in neoclassical economics, Taylor (1992) suggested that modern neo-classicism is little more than an effort to co-opt and integrate in their knowledge corpus the accurate observations initially made by structuralists.
5. Taylor objects to Krugman's assertion that early economic structuralism disappeared from the mainstream's view because it was insufficiently formalized. He argues that the old development literature lost impact because it had two ideological drawbacks: first, while it was rich with diagnoses of development problems, it offered little policy advice. Balanced and unbalanced growth, relative backwardness, circular flows, cumulative processes, and so on were "intriguing metaphors but didn't help much with practical decisions. Planning models and cost–benefit analysis proved to be more of academic interest than managerial worth" (Taylor 2004: 362). Second, the early development economists placed limitless faith in the capacity of the state to intervene in the economic system.
6. Even future Nobel Prize winner Gunnar Myrdal suggested in his book *Asian Drama* (1968) that the region's economic future was bleak. He believed that traditional power structures were likely to persist and that unless there was change, the chances of economic takeoff were slim. He found the governments in the region too "soft" (he used the term the "soft state") and unable to enforce the discipline that was needed to implement their development plans. He even concluded that authoritarian regimes, rather than democracy, might be the best system for achieving structural transformation.

7. For a quick intellectual history of the importance of increasing returns in economics and a review of progress on theoretical analysis, see Krugman (2008).

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CHAPTER 17

TRADE AND FINANCE IN DEVELOPMENT THINKING

JOSÉ ANTONIO OCAMPO

Introduction

TRADE and finance have always figured at the center of development debates. However, there have been significant divergences among schools of development thought as to the role of the global system versus national policies in determining development success, and between those who defend the virtues of markets versus those who consider that development is intrinsically tied to some forms of state intervention. This chapter summarizes these controversies as they have evolved since the Second World War. It follows a historical sequence and takes a look not only at the development debates as such but also at the evolving global economic order in which they took place and initiatives aimed at redesigning the rules for the global economy. It uses as a point of reference the concept of two globalization processes: a first that covers the last decades of the nineteenth century and the first of the twentieth century,[1] which had collapsed when our story starts, and a second that began in the 1960s and 1970s and continues until the present.

The chapter is divided into three sections. The first looks at the early post-war decades, during which the global economy started to be reconstituted after the collapse of the "first globalization" and in terms of development there was a rise of what I will call the "industrialization consensus." The second section considers the succeeding phase, which was characterized by the rise of the newly-industrialized countries (NICs) as exporters of manufactures and the reconstruction of a dynamic but volatile international financial system that would end up in the first boom–bust cycle that would engulf part of the developing world. This period also encompasses the two oil shocks of the 1970s and the heated controversies around a New International Economic Order (NIEO). The third section focuses on the consolidation of a "second globalization" and the spread of market liberalization. In this regard, I will use the term "Washington consensus," though recognizing that it refers to the broad agenda of market reforms rather than the initial Decalogue proposed by Williamson (1990).

The Old Division of Labor and the "Industrialization Consensus"

The point of departure for our analysis is the collapse of the "first globalization." This process started during the First World War, which inflicted permanent damage on the gold standard and left permanent scars on Western Europe and, particular, on the country that was at center of that globalization, Great Britain. The death sentence came, however, with the Great Depression, which had strong effects on the alternative emerging global center, the United States, and would bring with it the collapse of the global financial system and the multilateral trading order.

An element of continuity between the old order and the one that emerged after the Second World War was an international trading system in which the developing world was essentially specialized in primary goods destined for the industrial center, with the terms of trade between commodities and manufactures constituting an essential relative price linking the two parts of the system. In any case, as a result of the collapse of the world trading system during the 1930s (and in part since the Second World War), many developing countries turned inward, in a sense forced by the circumstances rather than by true policy choice. However, as these inward-looking processes unfolded, their benefits provided an alternative engine of growth—industrialization became an increasingly conscious development strategy. Such a strategy had some features in common with the phenomenon of late industrialization analyzed by Gerschenkron (1962), in particular the increasing levels of state intervention. Latin America and Central and Eastern Europe were the most successful cases of these "late-late" industrialization drives, as well as of the new ideas on the relation between industrialization and development.

The early post-war debates were dominated by an academic and policy debate on the disadvantages for developing countries of the existing international division of labor. They led to what can be called the "industrialization consensus": industrialization was seen as the road to economic development, in the triple sense of being the mechanism of transmitting technological progress, generating external economies that accelerated economic growth, and absorbing the rural but increasingly also urban surplus labor (underemployment). As there were few export opportunities aside from commodity exports, that meant continuing looking inwards and erecting protection barriers.

The major issues raised were, therefore, how to manage the external economies associated with industrial development, building the modern infrastructure that was necessary to further it, and financing the investments associated with industrialization, infrastructure and the related urbanization process. This was the background for one of the most interesting controversies of classical development economics. One side, best represented by Rosenstein-Rodan (1943), claimed that the external economies (backward and forward linkages, in Hirschman's terminology) and the system-wide scale economies that they generated required a "big (investment) push." The alternative view, best exposed by Hirschman (1958), claimed that such balanced growth was impossible, due to both its financing requirements and the limited capacity of the states that were called to undertake such a strategy. In this alternative view, successful development could only be solved in a sequential way and through a series of imbalances.

The basic advantage of industrialization was the capacity to adopt technology that had already been developed in the industrial world and to benefit from the "unlimited supplies of labor" that characterized developing countries, to use the terminology then advanced by Lewis (1954). These advantages were perhaps less evident than was recognized at the time. Successful technological catching up was actually a more active process than initially foreseen, as it required adaptation, learning, and developing the capacity to innovate—areas that would later be emphasized by Lall (2001), among others. The unlimited supplies of labor could only be produced by the destruction of pre-capitalist rural structures, which generated social problems of their own. Industrialization and the associated infrastructure and urbanization process also had high investment requirements and some industrial projects had uncertain returns in protected domestic markets.

This was all made more difficult by the scarcity of international financing, which was largely limited to official flows. The World Bank was the only agent in the still incipient system of multilateral development financing, joined later by the regional development banks, with the Inter-American being the first in 1959. It was complemented by official development assistance and trade financing, including, in the latter case, that provided by the export—import banks from industrial countries. At the domestic level, this meant expanding the role of the state, which took the main responsibility for infrastructure development, played a significant role in the creation of domestic financial institutions, and in several countries took a role as investor in "strategic" industrial sectors. Attracting foreign direct investment (FDI) in manufacturing was also part of the strategy, notably in Latin America, but it was frequently accompanied by rejection of old forms of FDI in natural resources and infrastructure.

The industrialization consensus was grounded in the empirical observation that development was associated with significant changes in economic structures in which industrial production took a leading role. Many economists contributed to corroborate this stylized fact, notably the first World Bank Chief Economist, Hollis Chenery (1979), Furthermore, Chenery et al. (1986) asserted that all (or at least most) successful manufacturing exporters had experienced a previous phase of import substitution. This was even more forcefully argued later on by Chang (2003), who claimed that this was also behind historical success stories even in the industrial world. However, this view was also subject to criticism, as it implied a violation of the classical principles of comparative advantage, a criticism that was voiced by more orthodox economists, with Viner (1952) as an important example.

The industrialization consensus was also grounded in ideological visions—much as the Washington Consensus would later be. These ideologies were very attractive in a world in which markets had been discredited by the Great Depression and planning was seen as an instrument of successful economic performance, and in a world in which decolonization was taking root at the political level and industrialization was seen as a sign of greater economic autonomy and thus as a complement to political independence. But it was subject to ideological attacks from both right and left: the former for leading to the misallocation of resources, and the latter for generating new forms of external dependence. This led to the strange alliance between orthodox economics and neo-Marxists that, according to Hirschman (1981), was behind the decline of classical development economics.

The special disadvantages associated with commodity dependence were emphasized by Prebisch (1950) and Singer (1950), and had two different dimensions. The first was the claim that the world economy was a hierarchical system—a "center–periphery" system. This implied that, unless the asymmetries of such a system were addressed, world

inequalities would be maintained or even become more acute. An essential point was the low income-elasticity of demand for raw materials (particularly agricultural goods), which created limited opportunities for developing countries, unless they industrialized. Industrialization also offered, as indicated, better opportunities for technological change, and thus for income growth. It was mixed with the second, related issue that specialization in primary goods subjected developing countries to the sharp cyclical swings of commodity prices, and possibly to a long-term downward trend of these prices vis-à-vis those of manufactures.

Although the case for overcoming the deficiencies of the existing division of labor was based on all of these arguments, the major focus of criticism by orthodox economists was the so-called Prebisch–Singer (terms of trade) hypothesis. Interestingly, its validity was revived in the 1980s by two World Bank economists, Grilli and Yang (1988), leading to a copious recent literature that actually confirmed that the terms of trade of non-oil commodities deteriorated through most of the twentieth century, though not necessarily as a secular trend, that the trend was uneven across commodity groups (stronger for tropical agriculture followed by non-tropical agriculture, less clear for metals and not valid for oil), and that this trend had been preceded by an improvement in relative commodity prices in the nineteenth early twentieth centuries, and followed by a strong upswing in the early twenty-first century (see Ocampo and Parra 2010; Erten and Ocampo 2012).

On the policy front, the major push for industrialization came from both the United Nations and the World Bank, which at least until the 1970s was clearly in favor of industrialization, as reflected in the views of its first Chief Economist. It was also reflected in the early post-war negotiations of an international trading system that led to the 1948 Havana Charter that created the International Trade Organization (ITO) and gave significant room for industrialization policies as well as commodity price agreements (Toye and Toye 2004: ch. 1). The U.S. Congress only approved one part of this treaty, the General Agreements on Tariffs and Trade (GATT), which had been agreed in 1947, but the industrialization consensus would underline the negotiations that took place in the 1960s and 1970s. In turn, the issue of commodity price volatility eventually led to a proliferation of agreements that tried to regulate the world supply and demand of individual commodities, usually involving cooperation between producers and consumers. This trend became particularly strong when commodity prices collapsed in the mid-1950s. In this regard, there were ample precedents from the early part of the twentieth century (Rowe 1965) as well as Keynes' view that the post-war economic order should include a commodity buffer stock.

Emerging Export Opportunities, the Fight for a New International Division of Labor, and the Recreation of Global Finance

The recreation of world trade in the early post-war decades largely took place among industrial economies—and, in particular, among Western European countries. Thus, it largely left aside the developing world. However, opportunities to export low-skilled manufactures

from developing countries started to spring up in the 1960s. The most direct effect of these new opportunities was the spread of export promotion policies, which took strong roots in the first generation of Asian tigers but also in other parts of the developing world. This was accompanied by economic integration among developing countries following two entirely different models: explicit policy decisions to launch integration processes, the best example being Latin America, and a more market-oriented process which resulted from growing trade in parts and components among export-oriented economies. The latter became part of the so-called "flying geese" model of East Asia, in which older export sectors were successively displaced from Japan to first and then successively to a second and third generation of NICs, as the older generations of export-oriented economies moved up to export goods with a higher technological content.

From early on, it became clear that the more export-oriented economies tended to grow faster (see Chenery et al. 1986). As we will see below, the interpretation of this pattern would become a subject of significant debate, which centered about the reasons for the success of East Asia. A central policy issue in this regard was the possible role that protection had in hindering export development—its "anti-export bias"—rather than as potential complements. In fact, a few countries aside, export success was not associated during this period with the dismantling of protectionist policies. Rather, a new layer of interventionist trade policies aimed at promoting exports was added to a system of protection that was at best only gradually dismantled, thus generating "mixed" trade regimes which involved both import substitution and export promotion. Indeed, in several cases, the domestic market helped the process of mastering and adapting technology, and also provided the base upon which firms gradually generated market information and built a reputation that allowed them to successfully break into established international production and marketing channels. This possible complementarity between protection and export promotion was formalized by Krugman (1990: ch. 12) as "import substitution as export promotion."

The gradual entry of developing countries into manufacturing exports may be seen as a modification of the center–periphery model, in which mature manufacturing activities from the center were gradually displaced to the periphery (or, perhaps better, peripheries), as part of a broader process of technological transfer. However, the basic structure of the international trading system continued to be "center–periphery" in character. The "product cycle" literature of the 1960s analyzed some of the features of this transfer (e.g. Vernon 1966). As developing countries were unevenly prepared to enter the new stage of development—due to diverse prior industrialization experiences among other reasons—this process led to a growing divergence among developing countries.[2] A related literature showed that technology gaps generate income differentials among countries (e.g. Krugman 1990: ch. 9). As technological change continued to be concentrated in the industrial countries, this also reinforced existing international income disparities and the role of transnational enterprises from the industrial centers as major engines of technological transfer and export growth in the developing world. Indeed, one of the characteristics that took shape during this period was the increasing reorientation of FDI toward export activities.

The gradual transformation of the center–periphery system of international trade did nothing to moderate the call for global trading rules aimed at changing the international division of labor. The United Nations Conference on Trade and Development (UNCTAD), created in 1964, and under the initial leadership of Prebisch, took a leading role in calling

for a new world trading system. This was followed by the more radicalized negotiations for a New International Economic Order (NIEO) that were launched by the United Nations in 1974 but collapsed in Cancun, Mexico, in 1981. The most significant gain was the acceptance of the principle of "special and differential treatment" in trade relations, although its concrete manifestation, the Generalized System of Preferences, remained limited in its scope.[3]

Overall, however, the world trading system did not evolve in the direction of the UNCTAD agenda, which included the reduction of tariff escalation according to the degree of processing of raw materials and of high tariff (peaks) for labor-intensive manufactures in which developing countries had a growing comparative advantage, as well as international cooperation to regulate commodity markets. GATT, which had mainly been a mechanism to liberalize trade among developed countries, did little to benefit developing countries, aside from accepting the principle of special and differential treatment and allowing these countries to make very limited commitments to reduce protection. Rather, agriculture was excluded from GATT in the mid-1950s, textiles became subject to a series of quantitative restrictions that evolved into the multi-fiber agreement, and successful new industrial powers (including Japan but also some successful NICs) were penalized by major developed countries (notably the U.S.) with a new protectionist tool ironically called "voluntary export restraints."

In the area of commodities, the spread of international agreements in the 1960s started to come under significant strain early on, and UNCTAD's call for a common commodity fund—which echoed Keynes' proposals during the war years—was essentially ignored. The major development in the commodity area was the increasing nationalization of oil by developing countries, the creation of the Organization of Petroleum Exporting Countries (OPEC) in 1960, the gradual expansion of its membership, and the flexing of its muscles during the two major oil shocks of 1973 and 1979. However, as an exporters' cartel, OPEC also represented the abandonment of global cooperation among exporting and importing countries to manage commodity markets, and its capacity to control oil markets was significantly weakened in the 1980s and 1990s.

The expansion of world trade and the new opportunities created to diversify the exports of the more successful developing countries, has coincided since the 1960s with the reconstruction of the global financial system around the so called "Eurodollar market." As did it predecessor prior to the 1930s, this global financial system has even stronger "center–periphery" features—a concept that is indeed frequently used today by orthodox economists to refer to the global financial system. Some developing countries started to tap this market at an early stage but their full incorporation only took place from the mid-1970s and was associated with the recycling of petrodollars. As the market was born and remained unregulated, it soon led to a boom–bust cycle, which had devastating effects in the 1980s on Latin America and some other parts of the developing world. This was, of course, a repetition of a long history of financial instability, which had been illustrated in the classic analyses of Kindleberger (see Kindleberger and Aliber 2005) and more recently by Reinhart and Rogoff (2009), among others. Interestingly, rather than drawing on the lessons learned in the area of domestic finance during the Great Depression, which led to stronger regulation, the rise of global finance led to pressure to liberalize domestic finance, with results that would become evident in the frequency of financial crises in the subsequent decades.

The Second Globalization and the Liberalization Paradigm

Global Trends

The events of the 1960s and 1970s were the prelude to a deepening of global economic integration and the "second globalization." In the area of trade, the main manifestation was the increase in elasticity of world trade to world GDP.[4] This reflected, in turn, other phenomena, notably the fragmentation of value chains, which provided new export opportunities to developing countries. FDI in export activities and subcontracting by major global firms, which had started in the previous period, now became widespread. FDI also started to penetrate the service markets of developing countries, to the extent that policies in these countries allowed. The rapid expansion and diversification of global trade was combined, in turn, with a boom in global finance, which left its legacy in a myriad of financial crises. Two of those crises affected large parts of the developing world: the Latin American debt crisis of the 1980s and the succession of Asian, Russian, and Latin American crises of 1997–2003. In contrast, other crises had stronger repercussions in the industrial world, including the European monetary crisis of 1992, and the global financial crisis of 2007–8.

At the conceptual level, the major manifestation was the collapse of the industrialization consensus and the rise of a market reform agenda which came to be identified under the rubric of the "Washington consensus." Trade and domestic and external financial liberalization were some of the key elements of the new agenda, as part of a broader rolling back of the State. At the international level, the collapse of the NIEO negotiations was followed by a shift in global development debates from the United Nations to the World Bank, whose conditionality—often combined with IMF conditionality—was essential to spreading the new paradigm, although its application was quite diverse across the developing world.

In terms of international policy, the previous fights of developing countries to redefine the international division of labor and commodity markets were buried, and the major institutional innovations were the creation of the World Trade Organization (WTO) in 1995 and the proliferation of free trade agreements. The long Uruguay Round of trade negotiations that led to the WTO extended the disciplines of global trade rules to developing countries—particularly to middle-income countries—and expanded the scope of trade agreements to include services and intellectual property rights. Agriculture was brought back into the discipline of WTO, but allowing for high levels of protection and subsidies by industrial countries. During the first WTO ministerial in Singapore in 1986, developed countries proposed to further expand the disciplines of the Organization to include trade facilitation, government procurement, investment rules and competition rules—which thus became branded as the "Singapore issues." With the exception of the first, they were eventually withdrawn from WTO negotiations during the now more than decade-long Doha Round of trade negotiations, but were included with vengeance in several Free Trade Agreements (FTAs). The result was doubly paradoxical: multilateral rules were strengthened by WTO as the multilateral trading system was fragmented by FTAs, and the negotiating power of developing countries was weakened by the fragmented

character of negotiations of FTAs with major industrial countries (Economic Partnership Agreements in the case of the European Union). A leading author has thus characterized FTAs as the "termites" of the world trading system (Bhagwati 2008).

In the area of finance, although the Basel Committee on Banking Supervision was created in 1974 to establish minimum standards of banking regulation and supervision, its scope remained rather limited, as well as did the scope of similar organizations in other areas of finance. So, global finance remained essentially unregulated until the eruption of the global financial crisis of 2007–8 led the Group of 20 to create the Financial Stability Board. Although the frequency of national financial crises led to the belief that prudential regulation and supervision had to be strengthened, this also came with a significant lag, both in the developing and the developed world.

Trade Liberalization

Behind the controversies surrounding trade liberalization lay two interlinked debates. The first related to a concept of "efficiency" as the key to economic policy. Orthodox economists understood it as static efficiency, which implied a significant change from the focus on accelerating the transformation of production structures that was behind the industrialization consensus and the heterodox interpretations of development success—and which may be termed "dynamic efficiency." The second debate was associated with state intervention. In this regard, the liberalization paradigm called for "neutral incentives," which essentially implied dismantling trade interventions. In contrast, the alternative view gave a central role to active industrial (or, more broadly, production sector) policies as well as well-developed national innovation systems. In terms of their implication for trade policies under the new concept, the two alternative paradigms could be summarized as the "orthodox" versus "structuralist" export-oriented strategies.

The first achieved full centrality in debates with contributions from Krueger (1978) and Bhagwati (1982), based on a large-scale study by the U.S. National Bureau of Economic Research. This study highlighted the inefficiencies associated with trade intervention policies, their anti-export bias and therefore the role of trade liberalization as an instrument for enhancing efficiency and exploiting the opportunities provided by international trade. It also emphasized that interventionist trade policies encouraged rent-seeking by domestic firms looking to be shielded from competition. These views were mainstreamed into the policies of the World Bank, where Krueger served as Chief Economist from 1982 to 1986.

Simultaneously, a booming cross-country econometric literature started to show that developing countries with higher trade openness tended to grow faster. It was never clear, however, what the connection was between the static efficiency achieved by trade liberalization and the dynamic effect of faster economic growth. Rodriguez and Rodrik (2001) provided a devastating critique of that literature, indicating that there was no clear association between trade *policies* and growth. Similar conclusions were presented in my own contributions to this debate, which were part of an UNCTAD report (UNCTAD 1992).

World Bank policies led to heated debates, which highlighted their mixed success. Most of Latin America and Africa continued to perform poorly through the 1990s, and only picked up in the first decade of the twenty-first century, but partly as a result of booming commodity prices. In turn, Central and Eastern European countries collapsed in different degrees

during their own (broader) liberalization processes of the 1990s, again followed by recovery in the 2000s. In many of these cases, trade liberalization led to de-industrialization in variable degrees. This is in open contrast to the successful Asian stories (some of them going back to the 1960s), where export-led growth reinforced the industrialization process.

Controversies surrounding East Asian success were heated. Japanese dissatisfaction with the World Bank interpretations of such success was behind its willingness to finance the study *The East Asian Miracle* (World Bank 1993). But this study hardly solved the controversy, as it argued that the active state interventions by East Asian countries actually resulted in more or less "neutral incentives," which the study interpreted as the reasons for their success. This is in sharp contrast to the alternative views of Amsden (1989 and 2001) and Wade (2003), among others, who emphasized the interventionist character of East Asian policies and their focus on structural change and the technological upgrading of exports.

A more nuanced World Bank view of the links between trade liberalization of development was provided in its own evaluation of the 1990s reform programs (World Bank 2005: ch. 5), in which it argued that trade was an element of all successful processes, but that trade by itself was no guarantee of success. For that it was necessary that trade policies be part of a broader development strategy, which should include an appropriate macroeconomic policy, guaranteeing in particular a competitive and stable real exchange rate, trade institutions that helped local producers meet international quality standards, and investments in human capital, physical infrastructure and institutional development. It also pointed out that in some successful experiences, such as those of China and Mauritius, export promotion clearly preceded import liberalization. *The Growth Report* of the Commission on Growth and Development (2008) provided an even more nuanced view as, aside from reiterating the role of investments in human capital and infrastructure, it underscored the need to use the exchange and interest rates with explicit development objectives, and thus to be very cautious of capital account liberalization. Both studies underscored the crucial role that exchange rate policies play in the success of the trade strategies, an issue that permeates other controversies, as we will see below.

The structuralist interpretations of the success stories emphasized the capacity of a given strategy to facilitate the technological upgrading of exports and domestic production generally (see, for example, Akyüz 2003 and Ocampo et al. 2009). These interpretations were grounded in a more careful look at industrialization and manufacturing experiences in the developing world (see, for example, the contributions to Helleiner 1994 and 1995). Coming from new trade theory, Grossman and Helpman (1995), among others, had also pointed out that not all sectors had the same capacity to induce technological change. In this line of thought, Hausmann et al. (2007) argued that that the "quality" of exports—which could be understood as its technological content—was the factor that induced faster economic growth, not trade openness per se. So, active industrial (and, more generally, production sector) policies, focused on increasing the technological contents of production, may be a necessary ingredient in a successful export-led strategy (see Rodrik 2007, and contributions to Cimoli et al. 2009).

In the more nuanced mainstream contributions, there is also a positive view of "horizontal" production sector policies—those with no sectorial bias—particularly those aimed at promoting technological innovation. These policies are suboptimal according to the structuralist paradigm, as sectors have different capacities to induce technological change and growth. In turn, a major criticism from the orthodox camp is that selective (or "vertical") policies involve "picking winners," a rather risky strategy and one that creates opportunities

for rent-seeking. A compromise solution suggested by the "new (or, more appropriately, neo-classical) structural economics" of Justin Lin (2012) is that there are stages of comparative advantage associated with the resources economies accumulate as they develop (an idea that goes back to Balassa 1989), and thus that the problem of what sectors to promote is solved by looking at countries that are immediately ahead in the development ladder.

It can also be argued that developing new activities does involve risks of failure, but that such strategy is the essence of success stories even of individual private sector firms. Furthermore, it is a learning process in which "winners" are *created* rather than chosen a priori. This is in fact an idea that can be drawn from the (now old) "new trade literature" pioneered by Krugman (1990), in which comparative advantages are essentially created. In any case, active production sector strategies do have additional institutional requirements that must be built up, again through a learning process. Perhaps because of these special institutional requirements, some economists, such as Rodrik, visualize exchange rate undervaluation as a substitute for industrial policies, as it also generates a bias in favor of tradable sectors. However, it is an imperfect substitute, as it is not a selective strategy and, if practiced by large economies, it generates global imbalances.

A final remark could be added in relation to the role of natural resources, which continue to be the major source of exports in many poor countries and have again become more important for several middle-income countries over the past decade of high commodity prices. In this regard, the work by Sachs and Warner (1995) is widely regarded as the best attempt to show the disadvantages in terms of inducing growth of an excessive reliance on these exports. Again, however, the essential element of success with natural resource intensive export strategies is the capacity to increase the technological content of exports, to exploit the linkages between natural resources with other sectors, and to diversify away from them in the long term, all of which seem to be at the center of the success stories of some developed countries (Blomström and Kokko 2007).

Financial Liberalization

Financial liberalization generated its own successes and failures. The prior regime came to be pejoratively labeled financial "repression" and was characterized by highly regulated domestic finance, particularly of interest rates and credit allocation, by the role played by state-owned banks in several countries, and by the management of the balance of payments through foreign exchange and capital controls. The financial liberalization that followed was more diverse across the developing world than trade liberalization, as several countries maintained commercial and development state-owned banks, and capital account regulations of different character.

Financial liberalization was successful in several countries in inducing an expansion of private credit as a proportion of GDP and of stock market capitalization in several developing countries—and more the former than the latter. The development of long-term credit and financial inclusion remained, however, overriding concerns. To reduce the dependence on external funding, the development of domestic bond markets became an important area of policy work, particularly after the Asian crisis, but success was more commonly associated with the growth of government rather than corporate bond markets. New paradigms were also developed to expand access to finance through microcredit and other means.

The major failure of liberalization was the sequence of financial crises, generated by the dual effect of strongly procyclical capital flows to developing countries and weak domestic financial regulation. Financial crises indeed became a frequent phenomenon, in sharp contrast with the era of financial repression. This was associated with both domestic and external financial liberalization, and led on many occasions to a "twin crisis" (simultaneous domestic financial and balance of payments crises). Analyzing the experience of the Southern Cone countries of Latin America, which were among the first liberalizers, Diaz-Alejandro (1985) said it all in the title of one of his best known papers: "Good-bye financial repression, hello financial crash." An early idea, also drawn from the Southern Cone experience, was that the liberalization process should be sequential, with trade liberalization preceding financial liberalization (Edwards 1984), but this was generally ignored in the following decades. Despite some efforts to re-regulate finance—an area in which several developing countries led the way, generally after their own financial crises—the risks of financial liberalization became a recurrent theme (see, for example, the contributions to Ocampo and Stiglitz 2008). A landmark in this debate was, undoubtedly, the IMF paper by Prasad et al. (2003), which recognized the high risks associated with financial liberalization, which in a sense swamped the potential benefits that such liberalization could have on growth.

The most important issue is the interaction between liberalized financial sectors and macroeconomic dynamics, which leads to boom–bust cycles. This phenomenon was central to the Keynesian revolution and was developed with particular brilliance by Minsky (1982). As already mentioned, confirmation of this pattern has been provided by Kindleberger and Aliber (2005) and Reinhart and Rogoff (2009), among others. The essence of the story is the tendency of private agents to alternate through the business cycle between "risk appetite" (or, rather, underestimation of risks) and "flight to quality" (risk aversion). In turn, opinions and expectations of different agents feed back into each other, generating an alternation of contagion of optimism and of pessimism. Asymmetries of information typical of financial markets tend to accentuate these trends.

Boom–bust cycles are stronger for those agents that are considered riskier by financial markets, who experience easier availability of finance during booms followed by credit rationing and/or high costs of financing during crises. This is the situation faced by small enterprises and lower-income households even in mature industrial markets. It is also the situation of emerging and developing countries during crises (including currently peripheral Europe). One way of understanding this phenomenon is that financial integration by developing countries into global financial markets is a segmented integration (Frenkel 2008), such as integration into a market that is segmented by risk categories. As a result, emerging economies experience boom–bust cycles independently of macroeconomic fundamentals (Calvo and Talvi 2008). Indeed, countries that are considered "successful" are inevitably brought into the boom, but this can lead to the accumulation of vulnerabilities that may lead to them to crises (Ffrench-Davis 2001).

Volatility is reflected in the behavior of risk spreads as well as in the availability and maturity of financing. All of them have procyclical effects. Risks tend to be more pronounced in developing countries due the proliferation of maturity and currency mismatches in private sector balance sheets. All forms of financing tend to be procyclical, but this pattern is sharper for short-term financing, which thus tends to be particularly risky (Rodrik and Velasco 2000). A recent diagnosis by the IMF (2011: ch. 4) indicates that the volatility of capital flows has increased over time and is sharper for emerging than for advanced economies. Bank and

other capital flows are more volatile, followed by portfolio debt flows, but FDI volatility has increased and is now similar than that for portfolio debt flows.

Intense short-term movement, such as those produced after the August 1998 Russian moratoria and the September 2008 collapse of Lehman Brothers, are particularly traumatic. However, in practice the most difficult phenomena to manage in macroeconomic terms are *medium-term* cycles. Developing countries have experienced three such cycles since the 1970s and are in the midst of a fourth one: a boom in the second half of the 1970s followed by collapse in the 1980s; the boom in 1990–7 (shortly interrupted by the December 1994 Mexican crisis) followed by the sequence of emerging market crisis that started in East Asia in mid-1997; a new boom between 2003 and mid-2008 followed by the global effects of the collapse of Lehman Brothers; and a new boom since mid-2009 (shortly interrupted by the different episodes surrounding the euro crisis).

Historical evidence seems to indicate that the strength of the policies adopted by advanced economies to stabilize financial markets is critical for the length of the downward phase of the cycle. So, the massive interventions after the collapse of Lehman Brothers were critical for the return to more normal financial conditions in the developing world in a relatively short time period (about a year). The same is true of massive support to Mexico after its December 1994 crisis (a few months). In contrast, weak and delayed action after the August 1982 Mexican moratoria and the first stages of the East Asian crisis in 1997 lead to protracted crises in emerging markets (eight and six years, respectively).

Another factor that has mitigated the strength and length of crises is the reduced *external* vulnerability of developing countries after the Asian crisis generated by the combination of massive self-insurance through foreign reserve accumulation and the development of domestic bond markets. Both led to a sharp reduction in risk spreads between 2004 and 2007. Although this may be understood as reduced market segmentation, the fact that its counterpart is massive self-insurance indicates that market segmentation is still a feature of global finance, but one that can be mitigated with prudential policies.

As indicated, the major problems generated by boom–bust cycles are associated with procyclical private sector spending and induced vulnerabilities in balance sheets. However, the major complication is that this may reduce the space for traditional countercyclical macroeconomic policies, as attempts to cool down the economy during booms with increased interest rates would lead to additional capital inflows that would counteract the effect of monetary policy on private demand and may increase currency mismatches in portfolios. Given this constraint, the key to appropriate countercyclical management is the expanded availability of policy instruments to manage the domestic effects of external boom–bust cycles. This is particularly so when we understand that macroeconomic stability goes beyond price stability and includes *real* and *financial* stability—that is, avoiding sharp business cycles and domestic financial crises. So, it requires the integrated use of three broad sets of policies to smooth the business cycle: fiscal policies; monetary and exchange rate policies (which are highly interlinked in the developing world), and macroprudential policies[5] (Ocampo 2008; Ocampo et al. 2009: chs. 5–6).

In this regard, an issue that links trade and finance is the relation between capital account volatility and exchange rate management. Some degree of exchange rate flexibility may be essential for macroeconomic management. However, it may also lead to exchange rate volatility and misalignment, both of which have significant adverse effects on trade. There is also no clear evidence that market forces that would tend to correct such misalignment. Hence the

search for intermediate options between the extremes of fixed and totally flexible exchange rates (Williamson 2000). Managed flexibility seems to have become the preferred option to manage this challenge in the emerging world, with capital account management as a complement in some cases.

Emerging Issues

At the global level, two trends are now reshaping global trade and finance. The first is the rise of emerging powers, a result of success of some of them in navigating through the second globalization. The most significant trend in terms of both trade and international investment is the rise of China, which in terms of its global effects overshadows that of all the other emerging economies. The second is the global financial crisis, which first led to the collapse and later to the reduced dynamism of world trade.

The net effect is that the most important opportunities are associated now with South–South trade, which largely means trading with China. Its major positive effect has been rising commodity prices (World Bank 2009; Erten and Ocampo 2012). Its major negative feature is that the emerging China-centered trading system is highly center–periphery in the very old sense of the term: other developing countries mainly export primary goods (some of these exports being supported by Chinese investments) and import an increasingly diverse set of manufactured goods from the emerging industrial powerhouse. This has noticeably brought back old debates on the disadvantage of this emerging feature of South–South trade that some claim is reinforcing the de-industrialization process in other parts of the developing world (see, in relation to Latin America, Gallagher and Porzecanski 2010). In turn, as a result of the lack of dynamism of international trade, domestic markets have again begun to look like an attractive opportunity, not least in China. This may give rise to protectionist trends. Although such trends have not been widespread so far, they may become an increasing threat if the recovery of the industrial world continues to drag and that of China weakens.

These emerging trends are bringing back old debates on the links between trade, finance, and development. They will continue to shape intellectual controversies in the years to come.

Notes

1. This concept does not ignore that there were global economic processes that precede the globalization of the late nineteenth century, but correctly differentiates the older processes from the two contemporary globalizations by the degree of integration of commodity and financial markets that was possible since the late nineteenth century given advances in transportation and communications.
2. Using historical data collected by Angus Maddison (see Groningen Growth and Development Centre's Total Economy Database (<www.conference-board.org/data/economydatabase/>), it is possibly to estimate that the standard deviation of per capita GDP growth of developing countries increased from 1.9 percent in 1950–7 to 3.5 percent in 1973–80 and has stabilized around that level since. In contrast, a similar statistic for developed countries actually fell in the early post-war period and has stabilized around 1 percent since the mid-1950s.

3. See a detailed analysis of the UNCTAD conferences and the North–South negotiations in Toye and Toye (2004, chs. 9 and 10).
4. Using data from the United Nations Statistical Division, the elasticity of real world exports to world GDP (at market prices) increased from 1.4 in 1970–86 to 2.4 in 1986–2007.
5. Capital management techniques, if we use the terminology of Epstein, Grabel, and Jomo (2003).

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CHAPTER 18

ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT

WIM NAUDÉ

Introduction

Adam Smith, founding father of modern economics, “detested business men” (Lewis 1988: 35). Development scholars and development economists in particular have, if not detested business men or entrepreneurs, (benignly) neglected them. Following Leff (1979: 51), many development scholars took the position that “entrepreneurship is no longer a problem” or a “relevant constraint on the pace of development” in developing countries. Entrepreneurship scholars, on the other hand, have been more concerned with the *who*, *why*, and *how* of entrepreneurship rather than with the impact of entrepreneurship on development or developing countries (Shane 1997; Bruton, Ahlstrom, and Obloj 2008), a state of affairs described as a “scholarly disconnect” (Audretsch, Grilo, and Thurik 2007).

Why does this matter? First, it is widely believed that entrepreneurship is beneficial for economic growth and development. Second, entrepreneurship has been remarkably resurgent over the past three decades in countries that have achieved substantial poverty reduction, such as China. Third, donors and international development agencies have turned to entrepreneurship to improve the effectiveness and sustainability of aid.

However, the theoretical and empirical cases for understanding the role of entrepreneurship are not yet solid. Evidence on whether entrepreneurship matters for economic growth is not straightforward; how entrepreneurship has been promoted and how it contributed to development in countries like China and the East Asian Tigers is still a matter of contention; and whether and why private-sector development initiatives may be effective is not well understood.

Closer scrutiny of the relationship between entrepreneurship and economic development is therefore needed. In order to stimulate the development–entrepreneurship discourse, it may be necessary first to attempt to formalize or reconcile the role of entrepreneurship in the “grand ideas” of development economics, and to consider how this resonates with available evidence and what it means for policy.

There are at least three "grand ideas" in development economics. The first is that development requires a structural transformation of what, how, and where production and consumption take place: from low value-added, low productivity, and rural-based activities to higher value-added, more productive activities in services and manufacturing located in cities. The second idea is that development is a multidimensional concept that requires more than just the eradication of income poverty. The third is that market failures are prevalent and that the state has an important coordinating and regulatory role to play in development.

All of these grand ideas are currently at the forefront of thought in development, and much of what development scholars are occupying themselves with, either directly or indirectly, falls within the scope of these ideas.

This chapter provides an overview of thinking on the intersection of development and entrepreneurship. It addresses the theoretical insights from the intersection of entrepreneurship and development studies, the empirical evidence on the relationship between entrepreneurship and development, and the fresh insights on entrepreneurship policy for development that have emerged from recent advances in this area.

Theoretical Perspectives

Concept, Definitions, Evolution, and Relevance for Development

The evolution in scholarly views of entrepreneurship is reflected in the categories of *behavioral*, *occupational*, and *synthesis* definitions.

Schumpeter (1950, 1961) famously defined the entrepreneur as the coordinator of production and agent of change ("creative destruction"). As such, the "Schumpeterian" entrepreneur is above all an innovator. Scholars who share this view do not consider entrepreneurship to be very important in the earlier stages of economic development; they see the contribution of entrepreneurship as much more important in later stages of development, where economic growth is driven by knowledge and competition. In earlier stages of development, entrepreneurship plays a much less pronounced role because growth is largely driven by factor accumulation (Ács and Naudé 2012).

Other behavioral definitions allow for a more substantial role for entrepreneurship in developing countries. Kirzner (1973) views the entrepreneur as someone who facilitates adjustment to change by spotting opportunities for profitable arbitrage (and "disequilibrium" situations in the market). This view has resonated among scholars who emphasize the opportunity-grabbing-for-profit nature of entrepreneurship (Shane and Venkataraman 2000), particularly in developing countries where market disequilibria may be common.

Behavioral definitions also stress the risk-taking dimension of entrepreneurship. Kanbur (1979: 773) described the entrepreneur as one who "manages the production function" by paying workers wages (which are more certain than profits) and shouldering the risks and uncertainties of production. Such definitions are seen as very relevant for developing country contexts characterized by high risk and uncertainty. The predominance of small firms in developing countries—most entrepreneurship studies in developing countries are concerned

with small and medium enterprises (SMEs)—has been postulated to be a symptom of economy-wide uncertainty, where the probability of success is small (Wiggins 1995).

Policy implications follow from these views—for instance, that government policy for promoting entrepreneurship should reduce uncertainty and transaction costs. Policy, however, is only a proximate cause for risk and uncertainty, and in recent years development scholars have recognized "institutions" (the "rules of the game") as the ultimate determinant of development. Institutions affect not only the supply but, perhaps even more important, the allocation of entrepreneurship. According to Baumol (1990: 895), entrepreneurial ability can be allocated towards productive, unproductive, or even destructive activities. He defines entrepreneurs as "persons who are ingenious and creative in finding ways that add to their own wealth, power, and prestige." Underdevelopment is due not to an insufficient supply of entrepreneurs, but to institutional weaknesses that result in a "lack of profit opportunities tied to activities that yield economic growth" (Coyne and Leeson 2004: 236).

In economic theory, entrepreneurship has been modeled as an occupational choice between self-employment and wage-employment (see Lucas 1978; Evans and Jovanovic 1989; Murphy, Shleifer, and Vishny 1991). Hence someone will become an entrepreneur if profits and the non-pecuniary benefits from self-employment exceed wage income plus additional wage-employment benefits. Entrepreneurship is thus often synonymous with self-employment. Because self-employment is often not by choice but by necessity, a distinction is often made between necessity and opportunity entrepreneurs, as, for instance, in the Global Entrepreneurship Monitor (GEM) (see Reynolds et al. 2005).

A synthesis definition combines behavioral and occupational views, and relates entrepreneurship to the three big ideas in development economics, as discussed in the introduction. As such, this definition to an extent reflects some of the evolution in the scholarly thinking about entrepreneurship, understood as the resource, process, and state of being through and in which individuals utilize positive opportunities in the market by creating and growing new business firms.

As a *resource*, entrepreneurship has the instrumental value that it is accorded in economics; as a *process* it accords to the attention given in management studies on the start-up, growth, and exit of firms; and as a *state of being* it recognizes that entrepreneurship is not limited to being instrumental, but is often valued in and of itself (as will be explained in greater detail below).

This definition emphasizes the process value of entrepreneurship and describes entrepreneurial opportunities in a broader sense than is usual in the literature. For instance, Shane and Venkataraman (2000) define an "opportunity" as when goods can be sold at a profit. From a development perspective this is inadequate, because it implies that utility from entrepreneurship depends only on monetary gains. "Opportunities" should include situations when persons can create new firms that will further the kind of lives they desire.

The use of the adjective "positive" in relation to opportunities reflects a subjective assessment that, while entrepreneurial *ability* may be allocated to destructive activities (as in Baumol 1990), it should not be defined as entrepreneurship if it detracts from either individual or societal welfare.

Whereas initially, scholars viewed entrepreneurship as being restricted to innovation and business creation, the view has expanded towards one where entrepreneurship is seen more appropriately as a social phenomenon that reflects the broader institutional characteristics of a society. Entrepreneurship is concerned not only with business success, as measured by

profits, but also with subjective welfare and non-economic well-being. Entrepreneurship is a catalyst for structural change and institutional evolution.

The following sub-sections consider the contribution that entrepreneurship can make to illuminating the three "big ideas" in development economics.

Structural Economic Transformation and Entrepreneurship

One of the seminal contributions to development economics has been dual economy models, inspired by Lewis (1954), utilized to explain the structural transformation of underdeveloped economies. The Lewis-model distinction between a traditional and modern sector can be expanded with the micro-foundations of optimizing households, firms, and labor market matching. One can also distinguish between mature and start-up entrepreneurs, between large firms and small firms, and between necessity- and opportunity-driven entrepreneurship. In this model the transformation from a low-income, traditional economy to a modern economy involves significant changes to production methods, a process of change where entrepreneurs play essential roles, including providing innovative intermediate inputs, permitting specialization, and raising productivity and employment.

This model builds on earlier work of Murphy, Shleifer, and Vishny (1991); Peretto (1999); Rada (2007). In Rada (2007), entrepreneurs "trigger" an investment in the modern sector once they have perceived profitable opportunities and facilitated the re-allocation of production factors from the traditional to the modern sector. Peretto (1999) provided a modified endogenous growth model that implied that long-run structural transformation depends on the degree to which an economy can make a transition from a growth path driven by capital accumulation (the "Solow economy") to a growth path driven by knowledge accumulation (the "innovation-driven economy").

In structural change, entrepreneurial ability has been accorded centerstage. Murphy, Shleifer, and Vishny (1991) provided a model that described firm size and the growth of the economy as a function of entrepreneurial ability. Nelson and Pack (1999) assign a key role to the "effectiveness of entrepreneurial ability," which they see as a vital determinant of the rate of assimilation of technology (1999: 420)—as in Michelacci (2003), where entrepreneurial ability is vital for research and development (R&D). In Nelson and Pack (1999), a "rapid" expansion of skilled labor can be absorbed only if entrepreneurial ability is high, and without entrepreneurial ability the returns to physical and human capital are low.

The process of structural change as facilitated by high-ability entrepreneurs leads firms to adopt more complex production methods and produce more complex and specialized intermediate inputs. As a result, the technological intensity of a country's economic structure increases (Ciccone and Matsuyama 1996). These structural changes have interesting implications for the development of entrepreneurship itself, so that entrepreneurship may itself be endogenous in the development process.

Ciccone and Matsuyama (1996) explain this in a model where they make a distinction between consumer goods and intermediate goods. If a particular economy produces a limited range of intermediate goods, they show that the final (consumer) goods sector will use "primitive" production methods and will have little demand for sophisticated, new inputs. This will lead to lower incentives for potential entrepreneurs to start up new firms. The economy can get stuck in such an underdevelopment trap, with primitive production in its (small)

modern sector. They also point out that in such an "underdevelopment trap" there might be a case for assistance to new start-ups, since these can provide both pecuniary and technological externalities. If they start producing new intermediate goods, these will induce end producers to demand more, in turn improving the incentives for other entrepreneurs to start up firms in response to greater demand and the example provided by the application of new technology. In this model, start-ups face positive costs that include R&D activities in bringing a new good to the market.

That entrepreneurs create a positive externality by bringing new goods to the market, and in the process showcase new technology, has been extended by Hausmann and Rodrik (2003), who point out that entrepreneurs provide not only these technological externalities (by bringing new goods to market), but pecuniary externalities (by providing information on the profitability of new activities). Entrepreneurs fulfill a "cost-discovery" function in making sunk costs in a new activity that *ex ante* may or may not be profitable, but that will provide information *ex post* on such profitability to other entrepreneurs—information often lacking in developing countries.

Finally, an aspect of duality that is particularly pertinent to the debate on entrepreneurship in development is that between the formal and informal sector (Maloney 2004). De Paula and Scheinkman (2007) find that informal firms are often a form of "evasive" entrepreneurship in order to evade taxes or regulations, or to engage in illegal trade. They also find that they are less efficient, less able to obtain finance, and more likely to be dominated by entrepreneurs of low ability. Thus the informal sector is much like the traditional or subsistence sector in typical dual economy models, and growth may be enhanced by encouraging entrepreneurs of high ability to "migrate" to the formal sector.

Multi-dimensional Development and Entrepreneurship

The entrepreneurship literature generally takes a restricted view of development. Most empirical studies on the relationship between entrepreneurship and development have similarly been limited to GDP, productivity, and employment growth as proxies for development—and not multidimensional development (van Praag and Versloot 2007; Ács, Desai, and Hessels 2008). Yet entrepreneurship can also contribute to multidimensional well-being by demonstrating what people can achieve through their capabilities. This notion of human development—or human flourishing—has been pioneered by Sen (2000), Nussbaum (2000), and others.

This capabilities approach can inform both theoretical thinking on and measurement of entrepreneurship. It views entrepreneurship as a human *functioning*[1] that can be valued as an end in itself, not just as a means to other ends. It can enrich human capabilities if people's complementary capabilities are expanded so that they can choose *not* to be entrepreneurs. An important implication is that the demand for entrepreneurs is not a derived demand as in the instrumentalist view (as in, e.g., Casson et al. 2006). Individual level data from the Global Entrepreneurship Monitor (GEM) show evidence of an inverse U-shape relationship between entrepreneurship and national happiness. Opportunity-motivated entrepreneurship may contribute to a nation's happiness, but only up to a point. Not everybody should become an entrepreneur, and the happiness of a nation cannot be indefinitely increased by increasing the number of entrepreneurs.

Although the literature on whether entrepreneurship matters for multidimensional development is scant, there has been more research on the subjective well-being (or job satisfaction) of entrepreneurs (mostly measured as the self-employed). The evidence so far suggests that entrepreneurs experience higher levels of job satisfaction than employees (Benz and Frey 2004; Blanchflower 2004; Andersson 2008). They have also been found to be healthier and less prone to negative feelings and depression, and to experience flow and "procedural utility" (Block and Koellinger 2009).

Market Failures, the State, and Entrepreneurship

The third "grand idea" in development economics concerns market and state failures. In the aftermath of the Second World War, when development economics was founded, the belief was that market failures were important to understand underdevelopment. During the 1980s, the government was seen as similarly subject to failure, under a set of principles for market-oriented reform described as the "Washington Consensus." The implicit assumption was that the supply of entrepreneurship would be forthcoming once the constraints imposed by state interference were loosened. After the global financial crises of 2008 and 2009, in which market liberalization and "Washington Consensus"-type policies were found to be complicit, the regulatory role of the state has been revived.

One role of the state that has received more attention is in industrial policy (Szirmai, Naudé, and Alcorta 2013; see also Di Miao, this volume). Here, old models of import-protection and state-owned enterprises have given way to policies that rely more on the private sector and entrepreneurship, but with government still playing an important role to address market failures in the entrepreneurial start-up and growth process. For example, some have argued that entrepreneurial entry may be sub-optimal due to the externalities that may justify "self-discovery" through supporting innovation by SMEs and new firm start-ups—for example, by reducing regulations and requirements or providing subsidized credit (Hausmann and Rodrik 2003).

In contrast, others have argued for taxing (regulating) entrepreneurship because it may cast negative externalities. De Meza and Webb (1987) make the case that credit market imperfections may lead to "overinvestment" when banks cannot accurately judge entrepreneurial ability. Because banks cannot observe any entrepreneur's ability *ex ante*, interest rates on start-up capital will reflect average entrepreneurial ability. If the proportion of entrepreneurs of low ability increases, it will result in higher borrowing costs, which impose a negative externality on entrepreneurs of high ability, who will consequently borrow and invest less. The entry of entrepreneurs with low ability might also hinder development because such entrepreneurs may have less productive workers, who will earn reduced wages as a result, and in turn reduce the opportunity costs of self-employment, thereby causing the entry of even more low-ability entrepreneurs (Ghatak, Morelli, and Sjöström 2007: 2).

There is thus a clear case for the state to play a role in addressing the market failures that plague entrepreneurial start-up and innovation activities (Ács and Naudé 2012). More research is needed to clarify this role, given the fact that many countries simultaneously exhibit different stages in different sectors.

The *how* of state support for entrepreneurship is also essential. For instance, private-sector development policies have tended to shy away from targeting entrepreneurs in specific

sectors or industries for fear of distorting markets, and for fear of government failure—especially fearing the potential for such selective support to encourage rent-seeking and corruption. The design of entrepreneurship policies is therefore a delicate art, and one that needs rigorous evidence.

Empirical Evidence

Macro-level Relationship

Three important databases describe the entrepreneurial activity of countries: the International Labour Organization (ILO) measures self-employment, the Global Entrepreneurship Monitor (GEM) measures start-up rates of new firms, and the World Bank measures the registration of new firms. It is worth noting that these databases are concerned with formal as opposed to informal firms (for a comparison of these databases, see Desai 2010).

Studies using these databases have uncovered two sets of results. First, there is a lack of clear empirical evidence of whether entrepreneurship drives economic growth, productivity, or employment. Studies find a mixed bag of results. Second, there seems to be a U-shaped relationship between entrepreneurship and a country's level of economic development, as measured by GDP per capita.

The U-shaped relationship implies a higher rate of entrepreneurial activity in low-income countries than in middle-income countries (Wennekers et al. 2005). This result may reflect that entrepreneurs in developing countries are less innovative and tend to be proportionately more "necessity"-motivated (Ács, Desai, and Hessels 2008; Gollin 2008). Higher levels of GDP may therefore be associated with more "innovative" forms of entrepreneurship. Another implication is that causality may run not only from entrepreneurship to development, but also from development to entrepreneurship.

In conclusion, macro-level empirical work has been concerned with how entrepreneurship influences economic measures of development, such as GDP, productivity, and employment. Very few studies have considered non-monetary or subjective measures.

Micro-level Relationship

Most micro-level studies focus on the *why* and *how* of entrepreneurship, not its impact on development. Nevertheless, studies on productivity, innovativeness, growth, and female entrepreneurs provide insights on whether and how entrepreneurship matters for development. One lesson is that innovative entrepreneurship matters most for development.

Van Praag and Versloot (2007) consider the literature on the impact of entrepreneurship on employment, innovation, and productivity growth. They find that although the quality and efficiency of their innovation is higher, entrepreneurs do not spend more on R&D than their counterparts, and their contribution to productivity growth is low. The majority of entrepreneurs would earn higher incomes as wage employees, and while entrepreneurs create more jobs than non-entrepreneurs, the quality of the jobs they create is lower. Hence not all entrepreneurs drive development, and not all entrepreneurs are innovative (Stam and Wennberg 2009).

As these findings refer to the impact of the average entrepreneur, they perhaps suggest that focusing on the average entrepreneur may not be the best policy stance. It may be better

to focus on the small subset of innovative entrepreneurs who do make a difference. Studies find that innovative firms, particularly in high-tech sectors, have on average higher levels of productivity, tend to enjoy higher employment growth, and cause positive spillovers for other firms (Stam and Wennberg 2009). A study of manufacturing firms in Brazil, with the focus on a panel, found that firms who engaged in technological innovation experienced higher growth in employment, net revenue, labor productivity, and market share (Kannebley et al. 2010).

Female entrepreneurs in developing countries have attracted greater attention in recent years, given the key role of women in development and the still widespread discrimination they face. Evidence to date suggests that there are several reasons for the observed differences in entrepreneurial behavior between women and men. For instance, women entrepreneurs' businesses tend to be smaller and to provide less employment growth than those owned by men. Women's businesses also tend to be less profitable than, and generate lower sales turnover than, those owned by men, even in same industry comparisons (Minniti and Naudé 2010).

These differences in entrepreneurial propensity and performance between men and women reflect disadvantages and discrimination in education and the labor market. It has been argued that labor market discrimination against women leads to a self-selection of the most highly talented women into labor markets. As a result, less talented women will opt for self-employment, a characteristic reflected in their enterprises' lower survival and growth rates. Furthermore, many women may not have sufficient confidence in their ability to start a firm (Langowitz and Minniti 2007). Yueh (2009) discusses the case of women entrepreneurs in China and supports the idea that lack of self-confidence is a significant constraint hindering women's entrepreneurial entry in developing countries.

As a result they also lack access to credit and face higher start-up costs. Horrell and Krishnan (2007) report that female-headed households often lack assets or incomes, and that this constrains their ability to diversify their economic activities. In this regard a large number of studies have found that access to micro-credit has improved women's decision-making autonomy, and general household welfare and consumption.

In conclusion, although much has been learned about the obstacles faced by female entrepreneurs, much less is known about how the level of aggregate activity influences women's decisions about entrepreneurship, and even less about how the latter contribute to development. The lack of a systematic approach and data have prevented, so far, the formulation of a comprehensive and robust theory of female entrepreneurship and development. A solid understanding of how the distinctive characteristics of female entrepreneurship are accounted by existing models of growth would be very desirable for both science and policy.

Enhancing the Developmental Impact

Given the "grand ideas" in development economics, the main policy considerations for enhancing the developmental impact of entrepreneurship are to improve the quality and allocation of entrepreneurial ability, and reduce the need for necessity entrepreneurship. Both considerations require better quality and quantity of research and data generation.

Improving the quality of entrepreneurial ability means not only improving the skills and education of entrepreneurs—their "human capital"—but focusing on the innovative abilities of entrepreneurs. Indeed, the discussion in this chapter implies that it is innovative entrepreneurship that is most desirable for growth. Innovation policy ought therefore to be a central focus of entrepreneurship promotion in developing countries, as it is in advanced economies. Entrepreneurs in developing countries often have a much greater propensity for innovation than is recognized in the literature or by policy-makers.

Stimulation of innovation has not been paramount in most development agencies or donors' private-sector development programs, nor in national entrepreneurship support programs. The only innovation-relevant aspects of such support programs have been their concern to improve the general business environment, a prerequisite for innovation, and to argue for patent protection—and to a lesser extent basic research. Such policies tend to be more concerned with improving static and allocative efficiency than dynamic efficiency, which is more important for job creation and growth.

Taking aim at improving dynamic market efficiency through raising innovation, and aiming to limit necessity entrepreneurship, may have implications for policy that run counter to many current policies. For instance, many aim to improve static and allocation efficiencies in markets through increasing competition. However, this misses the fact that with underdeveloped financial markets in developing countries, raising competition may not improve dynamic efficiency. In the absence of financial markets, firms can only finance innovation through profits; if too much competition erodes their profits, it will also erode their innovative activities. Reducing the need for necessity entrepreneurship may also imply policies to encourage job creation and provide social security, policies not popularly associated with an entrepreneurial economy.

Promoting innovative entrepreneurship in developing countries runs into further difficulties in that there is a broad lack of sufficient impact evaluations[2] with which to judge what works and what does not. Lopez-Acevedo and Tinajero (2010: 2) mention that most existing evaluations typically do not consider biases due to unobserved firm heterogeneity or self-selection. Evaluations of entrepreneurship policy tend to be qualitative rather than quantitative, and cannot keep track of continual changes in programs over time. Many "impact" studies also do not attempt to attribute impacts or outcomes to interventions, while a lack of reliable SME data makes evaluation and cross-country comparisons of programs difficult.

There is thus a need for much more rigorous empirical evidence as to what works and why, with respect to entrepreneurship policies. In the near future, most poor people will reside in so-called fragile states where an understandable lack of rigorous micro-level studies of firms and entrepreneurs limits the contribution of aid and other policies towards private sector development in conflict or post-conflict countries (Brück, Naudé, and Verwimp 2011).

One should be cautious of an undue reliance on randomized field experiments as the sole approach to inform appropriate policy formulation for entrepreneurship development (see also Deaton 2009). What is needed is interdisciplinary approaches combining insights from randomized field experiments with anthropological fieldwork, and with the political economy of development. Such approaches offer promise for further evolution of the scientific field demarcated by the intersection of development economics and entrepreneurship.

Conclusion

Reconsidering entrepreneurship's role in development leads to three novel realizations. First, it provides fresh perspectives on three of the "grand ideas" in development economics; second, entrepreneurship influences development outcomes positively as well as negatively; and third, entrepreneurship is in turn significantly determined by the dynamics of development.

Entrepreneurship is therefore a valid and important subject of study for development scholars, and development is a worthwhile subject of study for entrepreneurship and management scholars. The growing availability of more and better data from emerging and developing economies, the increasing adoption of rigorous evaluation methods in policy assessments, and the likelihood and desirability of closer collaboration across disciplines are all boding well for the intersection of development and entrepreneurship.

Notes

1. The term *functionings* is central in the capabilities approach, and refers to valuable activities and states that make up people's well-being (Alkire 2005: 1) and includes "working, resting, being literate, being healthy, being part of a community, being respected" (Robeyns 2003: 6).
2. Impact evaluation (or attribution analysis) is "a with versus without analysis: what happened with the programme (a factual record) compared to what would have happened in the absence of the programme (which requires a counterfactual, either implicit or explicit)" (White 2013: 3).

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CHAPTER 19

TWO PROPHETS OF REGIONAL INTEGRATION: PREBISCH AND ADEDEJI

ADEKEYE ADEBAJO

Introduction

Raùl Prebisch and Adebayo Adedeji are regarded as the contemporary intellectual fathers of regional integration in Latin America and Africa.[1] Even though their ideas did not translate into practice, they were important institution-builders. I focus on the impact of the ideas of Argentina's Raùl Prebisch (1950–63) and Nigeria's Adebayo Adedeji (1975–91) on the United Nations (UN) Economic Commission for Latin America (ECLA)—which became the Economic Commission for Latin America and the Caribbean (ECLAC) in 1984—and the UN Economic for Africa (ECA) respectively. This chapter is thus not concerned with providing a history of the intellectual evolution of the ECLA and ECA, but rather with assessing the impact of two powerful individuals in promoting ideas on economic development and regional integration within these two institutions during their tenure in office. The chapter places their role, vision, and impact in historical context, highlighting the role that individuals with vision and forceful personalities can play in driving institutions to adopt ideas, but demonstrating the institutional, regional, and external constraints on the implementation of these ideas which still rely on the decisions and vested interests of powerful national governments and other important actors. The essay will further assess the personal, intellectual, and professional background and influences that shaped the development of both men into crusading prophets.

Raùl Prebisch and Adebayo Adedeji were trained as economists, taught at universities in their respective countries, and occupied important economic positions in the national governments of Argentina and Nigeria. Both were prodigies who were propelled into prominence and achieved professional success at an early age. They helped to restructure national economies after cataclysmic events (the Great Depression of the 1930s; and the Nigerian civil war of 1967–70). Prebisch and Adedeji were head-hunted to lead the UN Economic Commission for Latin America and the UN Economic Commission for Africa. Both contributed

to important policy debates on unequal terms of trade between the industrialized North and the global South; as well as national and regional self-sufficiency and people-led development. Both surrounded themselves with bright young economists from their regions to promote their ideas.

Both Prebisch and Adedeji also opposed the neoclassical policies propounded for their respective regions by the Western-dominated World Bank and the International Monetary Fund (IMF). Both men faced incredible political odds in their policy battles which were opposed by powerful Western governments. The two Bretton Woods institutions would eventually change course on some of their economic orthodoxies in Latin America and Africa and heed the warnings of Prebisch and Adedeji, but often after much socio-economic damage had already been done. Both men rejected neoclassical economic theories and were often erroneously depicted by critics as "dangerous radicals." They were, in fact, pragmatists who opposed Marxist economic policies (Adedeji 2004a: 253; Pollock 2006: 13–14). Prebisch and Adedeji both accepted the role of the market economy and an activist state in promoting economic development and integration. Both enjoyed the trust of powerful actors on their respective continents, and used skilfull political manoeuvring within international institutions to promote their goals. Both were, however, ultimately frustrated in their efforts to unite Latin America and Africa, as national, regional, and/or external constraints largely obstructed the implementation of their ideas.

Prebisch and the Building of Latin America

Raùl Prebisch was born in the Argentinian province of Tucumán in 1901 to a German immigrant father and a local Argentine mother. He studied economics at the University of Buenos Aires and taught political economy at the university before serving as Undersecretary of Finance and Agriculture. He later advised the country's ministers of finance and agriculture, thus gaining influence among powerful political actors. At the age of thirty-four, Prebisch became the first Director of Argentina's Central Bank, having been one of the architects of its creation. He served a conservative military-backed Argentine oligarchy which later became discredited. Prebisch's world view, at this time, was heavily influenced by European economists, particularly John Maynard Keynes. (Rosenthal 2004: 181). Following a military coup in 1943, he was eventually dismissed (apparently for his pro-Allies views during the Second World War, and his stout defense of the central bank's autonomy) and ostracized by the regime. Almost like an intellectual Che Guevara whose legendary motorcycle travels across Latin America transformed him into the world's most famous guerrilla leader, Prebisch spent six years in the wilderness traveling rather more comfortably than his famous compatriot across Latin America as a banking consultant while teaching economics at the University of Buenos Aires.

The ECLA and the "Structuralist" School

Prebisch eventually found succor in the Chilean capital of Santiago where he served as the UN Economic Commission for Latin America's Executive Secretary from 1950 to 1963,

having joined the organization in 1949 as its research director. The United States (U.S.) had been determined to shut down the ECLA—which it regarded as an unwelcome rival to the Washington-based Organisation of American States' (OAS) Economic and Social Council—by 1951, after only three years of the organization's existence. Prebisch mobilized political support across Latin America for its governments to take ownership of the body and to stare down the U.S. juggernaut. His ECLA produced country studies of such high quality and usefulness that Prebisch successfully convinced regional governments (strongly supported especially by Brazil, Chile, Uruguay, Guatemala, and Cuba) to embarrass Washington into keeping the organization alive. The U.S. eventually conceded that Prebisch represented for many Latin American governments an "unusually able champion of their economic views" (Quoted in Dosman 2008: 262).

Before joining the ECLA, Prebisch had achieved regional and UN prominence through an influential document *The Economic Development of Latin America and its Principal Problems* (Prebisch 1950) which was presented at the newly-established UN Economic Commission for Latin America's Havana session in 1949. Due to opposition by the U.S. and other Western states (though France would become a key supporter of the ECLA), this document carried the name of the author: a rare exception within the workings of the UN. Prebisch rejected neoclassical international trade theories that argued that such trade benefited all countries due to the comparative advantage that each enjoyed, and was unconvinced that these interactions would eventually reduce the income gap between rich and poor countries (Rosenthal 2004: 169; 181–3). As Prebisch noted: "The forced march of the first countries in the Industrial Revolution has created an economic firmament with a sun composed of the developed countries of the center around which the peripheral countries rotate in their disorganized orbits" (Dosman 2008: 276). He urged Latin American countries toward revisionism by overturning the international division of labor in which the Northern "center" exported manufactured goods to developing countries, the price of which continued to increase, while the Southern "periphery" exported agricultural goods and minerals to the North, the price of which continued to decline.

These ideas represented Prebisch's main theoretical contribution and were adopted in emerging departments of development economics across Latin America. They also came to be known as the "Prebisch–Singer" thesis on the terms of trade between developing and industrialized countries. (Hans Singer was a German-born British economist working with the UN, who provided the historical price data used by Prebisch to reach the conclusions in his 1949 presentation.) According to this view, long-run trends suggested that prices of primary products continued to deteriorate relative to manufactured goods, forcing countries in the periphery to export even more raw materials to import the equivalent industrial products. This thesis also noted the differential effect of the global economic cycle on the center and the periphery. During economic upswings, the terms of trade generally move in favor of primary products, while during downturns, they swing against raw materials to a greater degree, resulting in a long-run deterioration of the periphery's terms of trade, with downswings also lasting longer than upswings. These factors are explained by the differential behavior of prices, profits, and wages in the center and periphery during economic cycles. During economic upswings, wages and prices increase greatly in the center, but hardly rise in the periphery which has surplus labor. During a downturn, the decrease in wages and prices in the center is constrained by trade unions and the oligopolistic structure of industry. The periphery in contrast suffers substantial reductions in prices and wages, lacking strong trade unions (Kay 2006: 200–2).

Under Prebisch's leadership, the ECLA sought to refine the core–periphery model. This concept consistently argued that the global economy was divided into an industrial center and agrarian periphery, with the core possessing a homogenous structure of similar levels of productivity in diverse sectors, and the periphery having a heterogeneity based on different levels of technology. Led by "Don Raùl"—as Prebisch was fondly known by his admirers—ECLA "structuralists" proposed a strategy based on import-substitution industrialization (ISI), employing protectionist measures of high tariffs on manufacturing imports and a tax on primary exports to encourage the creation of a larger industrial sector based first on the domestic market and then on exports. Prebisch also advocated stronger trade unions in the primary export sector to increase wages, defend prices, and push against protectionist measures in the industrialized countries (Kay 2006: 202–3). His thoroughly-researched two-yearly *Economic Surveys* sought to push Latin American governments to break the vicious cycle of low productivity, low income, and low savings by increasing industrialization through restructuring domestic imports and production (Dosman 2008: 263).

Prebisch's credibility was boosted by the fact that his ideas—widely embraced by governments in the region—were based on actual practice as head of his country's central bank, and not just on theories devised in an ivory tower. The ruinous effect of the Great Depression of the 1930s on Argentina and other Latin American economies was a particularly formative experience, as Prebisch had until then been an orthodox neoclassical economist. His approach was to find "historical moments" in order to use new ideas to transform institutions into movements for structural change (Pollock 2006: 14). He believed fervently in the role of the state in social engineering as well as national planning to promote development and industrialization. By 1954, in the still-born *International Cooperation for a Latin American Development Policy*, Prebisch was calling for greater international credit for the region's development involving an annual $1 billion for development financing to accelerate industrialization; the creation of a regional development bank; greater taxation and agrarian reform; and the stabilization of commodity exports. A surly United States—the obvious paymaster of these ideas—rejected them out of hand (Rosenthal 2004: 176; Dosman 2008: 291–4).

At the UN ECLA, Prebisch—working eighteen-hour days—assembled a young team of dynamic, ideologically-diverse Latin American economists (several recruited from the World Bank and the IMF) to help build their own continent. By 1953, the ECLA had 130 full-time staff. Prebisch provided inspirational leadership in championing the gospel of the Latin American "structuralist" school of development. Structuralism represented one of the earliest efforts to develop a theory of development and underdevelopment. Prebisch (particularly after 1960) also questioned whether growth would necessarily result in improved income distribution, and called for greater external savings to support regional development. (Rosenthal 2004: 184, 191). The increasing number of National Planning Offices throughout Latin America at least demonstrated that the ECLA's ideas were being taken up by national governments, even if their implementation did not always match the ambitions of their initiator.

Regional Integration and Global Development

At the request of regional governments, Prebisch helped Central American countries to establish a Regime of Integration Industries which would consist of regulated monopolies

among the five countries of Guatemala, Nicaragua, El Salvador, Honduras, and Costa Rica. This effort at regional integration, however, failed as a result of opposition from the public sector as well as U.S. hostility. Nevertheless, a General Treaty was signed between the five countries in 1960 to achieve generalized trade liberalization, and eventually a customs union, and a secretariat was established in Guatemala City. The seeds of regional integration in Latin America had been sown (Rosenthal 2004: 185–6).

In his second term as ECLA Executive Secretary between 1956 and 1963, Prebisch focused on trying to create a Latin American Common Market, an idea given impetus by the creation of the Jean Monnet-led European Coal and Steel Community (ECSC) in 1951, and the European Economic Community (EEC) six years later. Prebisch had often complained that Latin America's twenty states operated in "water-tight compartments," and from 1956, he prepared a *Preliminary Study of Inter-American Trade.* Brazil, Argentina, Chile, Uruguay, and Paraguay were the most enthusiastic supporters of this integration agenda. The ECLA co-sponsored a meeting of Experts on Iron and Steel in Brazil in 1956, with large private sector interest. Regional trade was a derisory 7 percent at this time, and consisted of $350 million worth of largely agricultural products. Prebisch thus preached specialization based on regional planning as a way of industrializing, benefiting from the economies of scale of a larger market, and eliminating protectionism in regional trade and perennial trade deficits. He also sought to provide a better livelihood for Latin America's rural masses in an era of economic stagnation (Dosman 2008: 321–45).

The ECLA strove to promote its regional integration agenda through four key strategies: establishing a system of multilateral payments; developing an inventory of existing industries; creating a regional market in manufactured goods; and stabilizing traditional markets in intra-regional trade. Prebisch's efforts ultimately ran into opposition from Washington as well as from two American-dominated institutions: the IMF and the General Agreement on Tariffs and Trade (GATT). The U.S. was particularly concerned that a common market not reduce foreign trade or create domestic monopolies. Prebisch had consistently insisted that the Latin American Common Market would be open to trade, and noted that the EEC had been granted exceptions by GATT for its Common Agricultural Policy (CAP) and continuing privileged access in trade relations with its former European colonies (enshrined in the Yaoundé Convention of 1963). However, no such special treatment was to be granted to Latin America by patronizing American officials, some of whom argued that the region's citizens should not get ideas above their station by trying to manufacture cars or aeroplanes, as Prebisch was urging. At the ECLA summit in Panama City in 1959, Washington ensured the rejection of the Latin American Common Market, and a watered-down free-trade area was eventually agreed by Brazil, Uruguay, Argentina, Colombia, Mexico, and Ecuador in February 1960. As a final act of humiliation, the U.S. peevishly excluded Prebisch from the creation of a new Inter-American Development Bank which the Argentine technocrat had earlier championed and which Washington had rejected at the time (Dosman 2008: 321–45).

After leaving the ECLA in 1963, Prebisch served for two years as Director-General of the UN's Santiago-based Latin American Institute for Economic and Social Planning (ILPES) which he had also played a key role in creating. Between 1964 and 1969, Prebish then became the founding Secretary-General of the Geneva-based UN Conference on Trade and Development (UNCTAD). He had thus broadened his vision from *national* to *regional* integration before championing the interests of developing countries at the *global* level in a four-decade career of committed public service. At UNCTAD, Prebisch continued to champion ideas

developed over several decades about a rich Northern center dominating international trade to the detriment of a poorer Southern periphery. He called for a fairer global trading system to help developing countries industrialize through the adoption of tariff preferences by rich countries as part of his 1970s advocacy for a "New International Economic Order (NIEO)." Prebisch also championed increased South–South trade and focused more attention on the responsibilities of developing countries in promoting internal reforms and exporting manufactured goods rather than becoming too dependent on external assistance. His one success at UNCTAD was negotiating a general system of preferences in which rich countries provided tariff-free access to the developing world. But in the end, Prebisch tired of the UN bureaucracy as well as the frustrations of a political body sometimes derided by its critics as standing for: "Under No Conditions Take Any Decisions." He resigned as head of UNCTAD in 1969.

Legend and Legacy

Prebisch's intellectual impact was evidenced by the fact that the ECLA—and later ECLAC—has consistently pursued five constant credos throughout more than six decades of existence: acting as a think-tank to policy-makers based on rigorous, empirical research; adopting a "holistic, integrated and multidisciplinary" approach to development; analysing development issues from a specifically Latin American (and later also Caribbean) perspective based on the region's lived experiences; recognising that the international context often determines domestic structures, providing structural and institutional impediments to development; and maintaining a concern for social justice issues such as poverty alleviation and an equitable distribution of income (Rosenthal 2004: 180).

Though Prebisch has often been criticized for promoting impractical "socialist" ideas, the concept of countries building up protectionist walls to industrialize was one historically championed by eminent figures such as Alexander Hamilton, the U.S. Treasury Secretary from 1789 to 1795, and the German economist Friedrich List (1789–1846). Prebisch was consistently anti-communist and promoted the role of the private sector throughout his career. Nevertheless, he was under constant surveillance by the United States Central Intelligence Agency (CIA) (Dosman 2008: 5). Prebisch was, however, not just an economic technocrat, but politically astute. He was careful not to antagonize the powerful U.S., realizing the indispensability of the regional colossus to the success of his trade initiatives in Latin America. Prebisch had an American official, Louis Swenson (his effective deputy), brief the U.S. embassy in Santiago regularly; he maintained a small office in Washington, DC; he visited the American capital often; and he sought to cultivate good contacts at the U.S. Treasury, the Federal Reserve, and the State Department.

Prebisch also never rejected the idea of international trade, nor did he ever advocate the delinking of the global South from the international system, an idea championed by *dependencia* prophets like the German-American, Andre Gunder Frank, and the Egyptian, Samir Amin. He thus preached reform rather than revolution. For Prebisch, international trade and foreign capital were essential to Latin America's industrialization efforts (Kay 2006: 202). His success at the ECLA, though, may have contained the seeds of its own failure. Having sold structuralism as a theory for economic development, these ideas failed to translate into success in the real world of practice, leading to regional governments losing faith in the gospel of "Don Raùl."

By the 1960s and 1970s, military *caudillos*—often allied to the U.S.—proliferated in the region, and the World Bank's influence grew over Latin American economies. By the 1980s, a serious debt crisis and hyperinflation led to the introduction of adjustment programs backed by the Bretton Woods institutions. The post-Prebisch ECLA was unable to adapt its ideas effectively to these changes. Forced to abandon its holistic framework and to focus increasingly on short-term crisis management, its previous policy prescriptions lost credibility (Rosenthal 2004: 170–8). Prebisch was frank about the failures of his import-substitution strategies, though blaming these setbacks on ineffective implementation by incompetent governments in Latin America in contrast to the success of similar strategies promoted by more able governments in parts of Asia such as South Korea where internationally competitive export firms had been built. The ECLA has never regained its impressive influence over economic thinking in Latin America and the UN since the halcyon days of the Prebisch commission which remains the organization's "golden age" of influence (Emmerij and Rosenthal 2009). In the last years of his life, Prebisch was a scathing critique of the neo-liberal ideas of Reaganism and Thatcherism (Prebisch 1986: 16). By this time, his ideas had been largely neglected even on his own continent. Biographers had also ignored Prebisch's incredible career, until Canadian scholar Edgar Dosman's elegant and definitive work in 2008 (Dosman 2008).

Prebisch helped to transform ideas on international trade and the international division of labor, and influenced both dependency and world systems theories. While he was heavily criticized for his views on unequal terms of trade, the idea of international trade distributing its rewards unevenly between primary products and manufacturers still remains alive today (Kay 2006: 202). But the increasing success of countries such as China, Brazil, India, Singapore, and South Korea in joining the ranks of the international *nouveaux riches* even as Western powers stagnated following the global financial crisis of 2008–9, rendered Prebisch's binary North–South divide somewhat anachronistic. By 2012, China had become the world's second largest economy after the U.S. and the new "workshop of the world," while Brazil had overtaken Britain to become the world's sixth largest economy. The creation of a Group of Twenty (G-20) major economies by 2009 involving more Southern representation, was another clear sign of the changing dynamics of the global economy. Prebisch died at the age of eighty-five in Santiago in April 1986. Cristóbal Kay described him as "the most influential Latin American development economist and probably its most eminent" (Kay 2006: 199); *The Economist* dubbed him "Latin America's Keynes"; while one of his successors as ECLA Executive Secretary between 1988 and 1997, Gert Rosenthal, noted about Prebisch's stint at the organization that: "It would be difficult to find another administrative unit in the UN that had such a decisive impact on so many member countries" (Rosenthal 2004: 170).

Adebayo Adedeji and the Integration of Africa

Our second prophet, Nigerian scholar-administrator, Adebayo Adedeji, grew up in the small southwestern Nigerian town of Ijebu-Ode under British colonial rule. This experience would leave a fierce anti-colonial mark on Adedeji in his later professional exploits. His middle-

class parents were farmers who worked on a cocoa and kolanut plantation and left him in the care of his disciplinarian grandmother "Mama Eleja": an enterprising, shrewd, and determined fish-seller and indomitable matriarch. The precocious Adebayo was an outstanding student who responded well to his grandmother's constant prodding. His father was also an important influence on the young boy, encouraging his son to study hard. Adebayo's father also made his son work on his farm during school holidays, stressing to the young boy the importance of the "dignity of labor" (Sanmi-Ajiki 2000).

After completing his primary and secondary education in Nigeria, Adedeji studied economics and public administration at the universities of Leicester, Harvard, and London, eventually obtaining a doctorate in economics. He returned to Nigeria in 1958—two years before the country's independence from British rule—to take up a senior post in the Western region's Ministry of Economic Planning. Here, he put in long hours and was widely recognized as a rising star. In 1963, Adedeji—who had always described himself as a "reluctant civil servant"—left government service to take up an academic post at Nigeria's University of Ile-Ife (now Obafemi Awolowo University). Four years later, he had become a full Professor of Economics and Public Administration at the age of thirty-six. He transformed the university's Institute of Administration into an effective training ground for both Nigerian and African public servants (Sanmi-Ajiki 2000: 110–22).

Regional Integration and Development

In 1971 at the age of forty, Adedeji was appointed Nigeria's Minister of Economic Reconstruction and Development by the military regime of General Yakubu Gowon. He would help oversee the country's difficult post-war rebuilding efforts. Nigeria's civil war of 1967–70 had resulted in one million deaths and led to much destruction of the country's infrastructure, particularly in the secessionist Eastern region. The discovery of large oil fields propelled Nigeria into the ranks of the world's largest oil exporters. Along with other cabinet colleagues and powerful mandarins, Adedeji crafted and implemented a five-year national development plan (1970–4) that called for rapid industrialization and resulted in the building of dual carriageways, flyovers, and electricity pylons across the country.

Adedeji is widely regarded as "the Father of ECOWAS (the Economic Community of West African States)." He had outlined a vision for regional integration in West Africa in an academic article published in the *Journal of Modern African Studies* in 1970 which identified six priority areas for subregional integration: building a regional road network; creating a regional airline; establishing regional infrastructure to facilitate trade and investment; facilitating the free movement of people, goods, and services; establishing a clearing and payments union; and abolishing foreign exchange controls (Adedeji 1970: 213–31). Adedeji then turned theory into practice by 1975. While serving as Nigeria's Minister of Economic Reconstruction and Development, Adedeji convinced sixteen West African leaders to establish ECOWAS following tireless "shuttle diplomacy" across the subregion between 1972 and 1975 (Adedeji 2004b: 21–49). He has since consistently argued that regional integration must be seen as an instrument for national survival and socio-economic transformation (Asante 1991; Adedeji 1993; Onimode and Synge 1995; Onimode et al. 2004; Cline-Cole 2006).

In 1975, Adedeji became Executive Secretary of the Addis Ababa-based Economic Commission for Africa. The ECA (which had over 1,500 staff in 2012) had been established in 1958

to tackle issues of economic integration; industrialization; transportation; commodity price stabilization; human capacity development; social aspects and financing of development; and improving statistical data and research in Africa (Adedeji 2004a: 234). Adedeji's sixteen-year tenure became the organization's longest and most dynamic: he converted the ECA into a Pan-African platform to continue his efforts to promote economic integration, leading to the creation of the Preferential Trade Area for Eastern and Southern African States (PTA) in 1981 (which later became the Common Market of Eastern and Southern Africa [COMESA] in 1993); and the Economic Community of Central African States (ECCAS) in 1983. (Adedeji, 2009: 373–98). Adedeji, who, like Prebisch, frequently worked eighteen-hour days, collaborated closely with successive Organisation of African Unity (OAU) Secretaries-General in Addis Ababa, and became a confidant and economic adviser to many African leaders whom he addressed at annual continental summits.

Similar to Prebisch's ideas, the foundation of Adedeji's intellectual beliefs was based on his analysis that Africa could not achieve economic development as long as it did not develop national self-reliance to transform radically the continent's inherited colonial production structures which had been built on the export of raw materials. He thus advocated an Africa-centered development paradigm with massive socio-economic transformation preceding and accompanying economic development and growth. Adedeji often focused on the need for Africa to rediscover a sense of cultural self-confidence in order to overcome its psychological dependence on its former European colonial masters. He criticized the discipline of development economics as focusing excessively on economic growth rather than human development, and noted that its ideas were based on the experiences of industrialized countries, and thus not applicable to the African context. He condemned the obsession of the "two-gap model" (which observed that the lack of domestic savings or import purchasing capacity restrict foreign investment and development), arguing instead that foreign capital and foreign aid reinforced Africa's socio-economic dependence and helped to create the continent's debt burden. These ideas which were controversial at the time have since become more mainstream. Adedeji was also critical of African economists who championed what he regarded as the blind imitation of inappropriate Western models (Adedeji 2004a: 253–6). The context for his analysis was one in which Africa had experienced shortfalls and negative growth in agricultural output and commodity exports between 1960 and 1975. He thus surmised that the continent's embrace of orthodox economic theories had resulted in declining growth rates, a lack of diversification, and negligible self-reliance (Adedeji 2004a: 257–8).

Battling the Bretton Woods Institutions

Adedeji established a reputation as a pragmatic economist more interested in solving problems than being constrained by ideological strait-jackets. His most bruising intellectual battles were with the World Bank and the IMF. He led the ECA to develop a "Revised Framework of Principles for the Implementation of the New International Economic Order" in 1976. This provided the theoretical foundation for the subsequent Monrovia Strategy of 1979, the Lagos Plan of Action (LPA), and the Final Act of Lagos (FAL), both of 1980. The focus of these reports—produced with teams of African economists at the ECA and in consultation with African policy-makers—reflected Adedeji's core intellectual concern with the concepts

of "economic decolonization" and "self-reliance." Like Prebisch, he firmly believed that economic growth must be accompanied by social justice and equity (Adedeji 2004a: 258–9).

The ECA's Revised Framework of 1976 called for more African expertise on how to promote socio-economic development, and a move away from orthodox prescriptions on the efficacy of international trade as an engine for growth and social change. Like Prebisch, Adedeji argued against African countries continuing to export one or two primary products and importing consumer goods, as this increased the continent's external dependence. Both Prebisch and Adedeji also shared a passion for national planning as well as for a more effective and developmental state which could allocate resources more rationally. Adedeji criticized Africa's failure to prioritize indigenous factor inputs, its overreliance on foreign exchange from exports for these inputs, and the lack of participation of Africa's masses in production and consumption processes.

The ECA's 1976 Revised Framework advocated more self-reliance; accelerating internal processes of growth and diversification; and eradicating unemployment and mass poverty to achieve a more equitable distribution of income. Self-sustainment was meant to bring about processes of development in which different components would mutually support each other, become linked to internalizing demand and supply processes, and generating its own internal dynamic. Domestic, subregional, and regional markets would replace foreign markets at the core of this approach. The four pillars of development under this framework were thus: self-reliance; self-sustainment; the democratization of the development process; and more equitable distribution of the benefits of development. "Developmental regionalism" was thus to be combined with "developmental nationalism" (Adedeji 2004a).

Led by Adedeji's ECA, the Revised Framework was incorporated into the Monrovia Strategy in 1979 with input from African development and planning ministers. The "Lagos Plan of Action for the Economic Development of Africa 1980–2000" was then adopted a year later by African heads of state. Both documents stressed many of the same points as the Revised Framework and sought to flesh out the intra-sectoral and inter-sectoral linkages needed to develop Africa's agricultural and industrial sectors, as well as the need to involve Africa's evolving subregional bodies in development plans. The LPA identified seven strategic sectors for Africa's development: food and agriculture; industry; natural resources; human resources; transport and communications; trade and finance; and energy. The end-goal would be an African Common Market resulting in an African Economic Community (AEC) (Adedeji 2004a). Eleven years later, in 1991, African leaders agreed in Abuja, Nigeria to establish an African Common Market by 2023.

The World Bank's report *Accelerated Development in Sub-Saharan Africa: An Agenda for Action* was published in 1981, a year after the Lagos Plan of Action (LPA). African finance ministers had curiously asked the Bank to prepare the report despite their leaders having endorsed the LPA. Adedeji described the World Bank document as the "anti-thesis" of his own plan, since its emphasis was on the external market and on continuing Africa's export-oriented trade, with agricultural export being perceived as the engine for Africa's economic development. Where Adedeji stressed *regional* interdependence, the Bank emphasized *global* interdependence. The *Agenda* blamed Africa's trade and exchange-rate policies for the continent's weak incentives for exports and did not place the same emphasis as Adedeji on the deteriorating external environment in which commodity markets had collapsed (World Bank 1981). Though African heads of state at the OAU rejected the Bank's *Agenda*, and insisted on implementing the Lagos Plan of Action, this process revealed the continent's

powerlessness. African governments had agreed the first ever "home-grown" continental development plan in 1980, but then called on the main funders of the World Bank to abandon their own blueprint in favor of an African strategy. The failure of external donors to do so inevitably led to the demise of the LPA.

Adedeji used the ECA to launch the most sustained assault on the Structural Adjustment Programs (SAPs) implemented from the 1980s by the World Bank and the IMF. African governments had accumulated massive debts following the oil crises and economic recession of the 1970s and early 1980s, forcing thirty-five countries to accept the tough conditions set by these institutions in order to obtain loans. These conditions usually involved deep cuts in social spending. Adedeji ridiculed the Bretton Woods institutions for their desperation to claim success stories from SAPs despite all evidence to the contrary. He noted that despite the implementations of the SAPs from 1980, Africa's Gross Domestic Product (GDP) had, by 1988, declined from 2.7 to 1.8 percent; investment ratios had fallen from 20.6 to 17.1 percent; budget deficits had increased from 6.5 to 7.5 percent of GDP; and the ratio of debt service to export earnings had risen from 17.5 to 23.4 percent (Adedeji 2004a: 276). He scathingly criticized the World Bank for asking questions about the neglect of the institutional dimensions of development and the importance of domestic long-term visions and external factors only after its policies had failed. These policies caused widespread economic hardship across Africa (Adedeji 2004a: 256–7), as the continent once again became a giant laboratory for Western-born socio-economic experiments.

Adedeji coined the widely-used term "the lost decade" to describe Africa's rapid decline in the 1980s as GDP per capita fell by 2.6 percent annually, the continent's share of world output and trade stood at 1 percent, and armed conflicts proliferated. He argued against what he regarded as the Bretton Woods institutions' approach of "growth without development" and export-led integration of African states into the world economy on massively unequal terms. He stressed instead the need for Africa to use its own resources to promote greater intra-African growth, prioritizing agriculture (Asante 1991).

Adedeji led the development by the ECA of Africa's Alternative Framework to Structuaral Adjustment Programs for Socio-Economic Recovery and Transformation (AAF-SAP) of 1989 which was the first comprehensive alternative to the SAPs and which all members of the UN General Assembly except the U.S. endorsed. The framework called for policy action in four key areas: strengthening and diversifying productive capacity; improving levels and distribution of income; radically changing patterns of expenditure; and creating appropriate institutional frameworks to support the adjustment of African economies in transformative ways (African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation 1989). The framework further sought to end the dichotomy between short-term crisis management through adjustment programs, and long-term development goals. Consistent with the Lagos Plan of Action of 1980, the plan advocated a revision of the structure of production and demand, and urged African governments to focus on a radical refocusing on domestic development and optimal use of indigenous factor inputs (Adedeji 2004a: 284–5).

This effort was different from the Lagos Plan of Action, in that rather than being solely a "home-grown" African plan, it sought international consensus and support, even including the World Bank and the IMF on an international advisory board. A critical lesson had thus been learnt: it was not enough to win the battle of ideas, Africa also had to have the power and resources to implement these ideas.

This time, the World Bank responded more constructively. Three months after the AAF-SAP was published, the Bank produced the 1989 report *Sub-Saharan Africa—From Crisis to Sustainable Growth: A Long Term Perspective Study* which sought synergy with the Afrcan Alternative Framework. Adedeji would later describe the World Bank report as "a major contribution to the emergence of common ground in laying the basis for concerted action in forging a brighter future for Africa" (Adedeji 2004a: 285). Though there were still some areas of disagreement between the ECA and the Bank, the latter was now modest enough to admit that it may have been wrong in some of its assumption about SAPs and did not have all the answers to Africa's development challenges. Despite the publication of this report, however, the operational and lending arms of the Bank and IMF still continued the implementation of the SAPs as they had before without properly considering its social costs (particularly on Africa's health and education sectors), and without properly consulting African governments and other continental actors (Adedeji 2004a).

Adedeji: An African Cassandra?

Adedeji also led efforts to craft the African Charter for Popular Participation in Development and Transformation of 1990 (Adedeji 2009). Similar to Prebisch in his region, Adedeji often challenged what he regarded as Africa's "mindless imitation" of Western development models, and pushed instead for a human-centered view of development and integration which involved the full participation of Africa's 800 million citizens. S. K. B. Asante, the renowned Ghanaian political economist who wrote a book on Adedeji's development strategies in 1991, described him as an "African Cassandra": a visionary prophet who saw the future clearly, but whose prophesies often went unheeded until it was too late (Asante 1991). In the end, the World Bank and the International Monetary Fund reversed the large cuts in education and health spending that had decimated Africa's socio-economic sector in the 1980s and 1990s. Debt relief also became fashionable over a decade after Adedeji had warned about the unsustainability of Africa's $250 billion external debt in the 1980s.

Critics have, however, noted that Adedeji's Lagos Plan of Action lacked a practical mechanism for achieving its objectives, as well as a time-table and a detailed assessment of the costs for implementing these ideas. The LPA also failed to provide quantitative linkages between sectors and sub-sectors (Browne and Cummings 1984: 23). Adedeji's calls for self-reliance were criticized as vague and impractical; and some critics regarded as foolhardy efforts to delink Africa from the global economy. The LPA also had African critics. During a Council for the Development of Economic and Social Research in Africa (CODESRIA) conference with the ECA in 1982, several authors castigated the plan for being quiet or ambiguous on such issues as: communal versus private ownership of land; the need to define how to prioritize agricultural and industrial exports; and the role of foreign investment in development. African scholars further criticized the LPA as having been naïve about state agricultural policies in Africa, for ignoring the class dimensions of governing regimes on the continent, and for assuming that African leaders were interested in promoting the welfare of their own citizens (Browne and Cummings 1984: 213–15). Other critics like the *Financial Times* dismissed Adedeji's ideas as "statist" (Adedeji 2004a: 287). These criticisms partly reflected the fact that the LPA was a political consensus document adopted by all of Africa's leaders. While the plan was accepted by the OAU, it was, however, ultimately left to gather dust on the shelves of

African development ministries, as the continent lacked the resources to pay for its implementation.

Describing Adedeji's tenure at the ECA, Kenyan scholar, Gilbert Khadiagala, argued that his leadership "did not entirely transform the institution into an autonomous source on African ideas on development." Khadiagala further noted that divergent national practices and Africa's declining international leverage ultimately led instead to the widespread adoption of the World Bank's SAPs (Khadiagala 2010: 379). Even in terms of regional integration—the idea with which Adedeji is most closely associated—bodies like ECOWAS, COMESA, and ECCAS have failed to achieve their integration goals, and less than 10 percent of Africa's trade was still conducted among its own countries in 2012. Adedeji himself conceded in 2004 that "no effective integration has taken place in ECOWAS," and argued that politics and not economics would ultimately determine the success of regional integration efforts in Africa (Adedeji 2004b: 36, 46–7). Like Prebisch in his region, a frustrated Adedeji later lamented the inability of African governments to match their rhetoric with reality (Adedeji 2004a: 252). African leaders provided political support to Adedeji's development ideas, but often lacked the domestic discipline to implement them, and more importantly, the external technical and financial resources advocated by the plans were not provided by foreign donors.

After retiring from the ECA in 1991, Adedeji continued his regional integration efforts in Africa: he served on a committee to review the ECOWAS treaty in 1992; he was on another body to transform the OAU into the African Union (AU) in 2002; and in 2007, he chaired the committee which audited the five-year integration efforts of the African Union. The December 2007 Audit of the AU called for an acceleration of regional integration on the continent, and made concrete recommendations for strengthening the AU and Africa's sub-regional bodies (African Union 2007). The report further advocated strengthening national mechanisms to accelerate economic integration; incorporating decisions of regional bodies into national institutions; adhering to the AU decision to recognize only eight Regional Economic Communities (RECs); focusing the RECs on activities to create an African Common Market and African Economic Community by 2028; and strengthening the AU's internal mechanisms for more effective coordination and harmonization of the RECs. (African Union 2007). Adedeji retired from public service as chair of the African Peer Review Mechanism (APRM) in 2010 after five decades of committed service to his continent.

Concluding Reflections

While Adedeji was widely regarded as the intellectual "Father of African Integration," Prebisch was the intellectual "Father of Latin American Integration." Both men challenged Western-dominated conventional wisdom and won the support of their respective regions through their courageous policy battles with more powerful adversaries. They emerged as historic figures, but, in the end, were tragic prophets whose visions for regional integration and development went largely unfulfilled. Regional integration in Latin America and Africa were concerned with promoting economic development in countries with largely illiterate populations, weak infrastructure, and poor governance. Both regions lacked the requisite

technical skills, with less than 10 percent of their trade being intra-regional, and with both continents lacking powerful external political and financial backing.

The Cold War's proxy wars also negatively affected both Latin America and Africa, creating difficult political environments in which to promote economic integration and development. While the perennial shadow of U.S. neo-imperialism hung over Latin America, that of European neo-colonialism cast a shadow over Africa. The Soviet Union also sought to exploit divisions on both continents and to recruit local allies to its own ideological camp. Both Prebisch and Adedeji, however, had a keen political understanding of what regional governments would support, and championed the idea of "home-grown" development and self-reliance theories built on the specific experiences of Latin America and Africa, as well as on regional ownership of development ideas. Even the most corrupt and venal governments in both regions saw the importance of the ideas being championed by both men. Prebisch and Adedeji consistently sought private sector participation in their regional initiatives. Both acted as public intellectuals who often wrote their own speeches and sought to appeal directly above the heads of government to audiences in universities, think tanks, the private sector and other fora, employing impressive communication skills to explain complicated economic ideas. Both turned the ECLA and the ECA into intellectual think tanks acting as secular monks in monasteries in which disciples were encouraged to dream up heretical plans to transform the global economic system in ways that addressed the acute disadvantages of their respective continents. If both prophets ultimately failed to achieve their goals, it was a heroic failure born not of lack of ambition or application, but of power.

Prebisch and Adedeji headed powerful international organizations—the ECLA and the ECA—through which they sought to promote their ideas. Prebisch appears to have enjoyed greater international influence than Adedeji, operating as he was at a time when development ideas were at the top of the agenda for the "global South." Both traveled the length and breadth of their respective continents to try to understand the problems of regional integration and development through lived experiences. Both insisted on excellence and hard work from their bureaucrats and enjoyed generating new ideas. Prebisch and Adedeji, however, realized that they had to relate such concepts to practical action and muster political support to implement their visions. Both acted as technocrats operating behind the scenes in powerful bureaucracies. Both shared an aversion to the operation of blind market forces, and regarded politics as inseparable from economics. Both regarded regional integration as a means to promote peace and socio-economic development. Both were far-sighted visionaries who often saw the future more clearly than the leaders they sought to advise. In the end, however, both prophets failed to fulfill their visions: Prebisch's dream of a Latin American Common Market remains unrealized; while Adedeji never saw his aspiration of an African Common Market fulfilled. Prebisch and Adedeji both turned out to be visionary Cassandras: their prophesies—on improved terms of trade between North and South; and for health and education cuts by the Bretton Woods institutions to be reversed—often turned out to be correct, but went unheeded until it was too late.

Note

1. I thank Liam Halligan, James Jonah, Khabele Matlosa, Eloho Otobo, and Gilbert Khadiagala for further useful comments.

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PEACE AND SECURITY

Contemporary notions of development have their immediate antecedents in the post-Second World War era, often featuring an emphasis on avoiding the mistakes of the post-First World War peace arrangements, widely seen to have sown the seeds of renewed war twenty years later. Economically crippling reparations schemes were not only avoided, but their political and social costs in the 1920s and 1930 were recognized through Washington's Marshall Plan as of 1948 (and equivalent programs in Japan) to help reconstruct the economies of vanquished powers. These countries were encouraged over a fifteen-year period to adopt political structures and strategies that saw Germany, together with France, emerging as the core of the new European Coal and Steel Community (ECSC) in 1950, and later the European Economic Community (EEC) in 1957. A demilitarized Japan focused on economic prosperity, with considerable foreign encouragement and assistance. They succeeded admirably in reinventing their economies and societies along completely new lines. Indeed, over the ensuing four decades they provided their citizens with greater economic and social development than did a number of the victorious Second World War powers.

The Cold War years, from roughly 1948 to 1989 (symbolized by the fall of the Berlin wall that year), were marked by near universal preoccupation in the industrialized world (and to some extent in the developing world) with the possibility of potentially nuclear super-power military confrontation opposing the Western powers with those of the Soviet Bloc. While many other inter-state conflicts erupted during this era, they often involved an element of shadow-boxing by the two great powers through local proxies, as in Indo-China, Central America, and some regions of Africa. Internal security was seen mostly as a matter for individual states to manage, albeit in conformity with emerging human rights and other norms, behind the shield of sovereignty.

The terms "peace" and "security" are so often conjoined in discourse, for example, in Article one of the UN Charter, that they are too readily conflated. But they are, in fact, quite different. Peace, descended from the Latin *pax* refers to periods of stability free of internal (and subsequently cross-border) disorders. Immanuel Kant in 1795 argued, however, that "the state of peace among men living side by side is not the natural state (*status naturalis*); the natural state is one of war. This does not always mean open hostilities, but at least an unceasing threat of war" (Kant 1795).[1] On the other hand, writing on the years bracketed by the Peace of Westphalia (1648) and the Napoleonic wars (1803–15), Emma Rothschild suggests that "... security was seen throughout the period as a condition of both individuals and of states. Its most consistent sense—and the sense most suggestive for modern international

politics was indeed of a condition, or an objective, that constituted a relationship between individuals and states or societies" (Rothschild 1995: 61). More contemporary conceptions of security include the notion from Arnold Wolfers that "security after all is nothing but the absence of the evil of insecurity, a negative value so to speak" (Wolfers 1962: 153). Johan Galtung suggests less cryptically that "peace also has two sides: absence of personal violence, and absence of structural violence. We shall refer to them as negative peace and positive peace respectively. For brevity the formulations 'absence of violence' and 'social justice' may be preferred" (Galtung 1969).

With the end of the Cold War (in many ways signaled, at least in retrospect, by the ultimately successful efforts of the five permanent Members of the UN Security Council in 1987 to bring about a peaceful conclusion to the murderous Iran-Iraq war of 1980–8), joint efforts to end the so-called "regional conflicts" that constituted the wreckage of the Cold War were mostly successful, for example, in Cambodia, El Salvador, and Mozambique. But inter-state conflicts were soon displaced on the international agenda by the emergence of new wars that were essentially internal in nature (essentially, because they often still spilled in, from, or out into neighboring countries, resulting in regional conflict formations). The root causes of these wars were much disputed—as was whether even examining their purported root causes was useful. A very sizeable new literature studying them arose, including important contributions, themselves of course disputed. Whether these civil wars resulted from lootable spoils, empowering rebel movements, or from horizontal inequalities within societies aggravated by kleptocratic and otherwise injurious governments, is less hotly debated today than it was ten years ago. Scholars and practitioners now recognize that economic opportunities and political grievances interact in different ways according to a variety of local circumstances (Doyle and Sambanis 2010; Berdal and Malone 2000). One striking survey of scholarship on the topic suggested important distinctions between structural and mobilizing causes of conflict (Gardner 2002). Among the former, countries engaged in a difficult, often hotly contested, political transition at a time when their economies were decelerating sharply seemed most at risk (Gardner 2002: 23–4).

International strategies to head off civil wars and also to promote economic development today are more intrusive in their prescriptions than they would have been thirty years ago. While misrule—perhaps better defined as malgovernance—continues to afflict many countries, international interveners are much franker in decrying resource looting, gross political manipulation, and serious human rights abuses than they used to be. The expectation that those individuals and groups in control of the state will actually serve citizen interests is stronger, if often observed in the breach. Nowhere has this been clearer of late than in the Middle East, roiled by the Arab Spring initiated in late 2010 by events in Tunisia. International peace (in Syria), internal security (in Libya after Gadhafi) and economic stability (in Egypt) are all currently under threat from contestation against, and sometimes collapse of, authoritarian, incompetent governance.

Building on the preoccupation evident at the United Nations and also within many development institutions with the prevention of conflict as of the early 1990s, Michael Barnett suggests that "…in order for states to be at peace with their neighbors they must be at peace with themselves" (Barnett 1995: 80). There was only a short leap from such ideas to the emerging concept of human security, and its substantive developmental and rights-based content, advocated in the UN's 1994 Human Development Report:

> The concept of security has for too long been interpreted narrowly: as security of territory from external aggression, or as protection of national interests in foreign policy or as global security from the threat of nuclear holocaust.... Human security can be said to have two main aspects. It means, first, safety from such chronic threats as hunger, disease and repression. And second, it means protection from sudden and hurtful disruptions in the patterns of daily life—whether in homes, in jobs or in communities. (UNDP 1994: 22–3)

But such generous conceptions risked courting confusion. Roland Paris argues that:

> human security is like "sustainable development"—everyone is for it, but few people have a clear idea of what it means. Existing definitions of human security tend to be extraordinarily expansive and vague, encompassing everything from physical security to psychological well-being, which provides policy-makers with little guidance in the prioritization of competing policy goals and academics little sense of what, exactly, is to be studied. (Paris 2001: 88)

Gilbert M. Khadiagala and Dimpho Motsamai (Chapter 20) launch this section with their examination of the political economy of intrastate conflicts, probing the socio-economic and political drivers of conflicts in modern territorial states. They focus on the intersection of resource scarcities, distributional inequities, and political marginalization in causing intrastate conflicts, and on how various actors and constituencies mobilize grievances and discontent to propel and sustain conflicts. They identify a scholarly consensus that institutions are important in the mediation and mitigation of intrastate conflicts. Further, they establish the centrality of socio-economic inequities, weak governance structures, and the availability of opportunities for groups to contest their grievances. They also advance a wealth of ideas to reverse civil wars and help rebuild states and societies emerging from conflicts.

Mats Berdal (Chapter 21) addressing peacebuilding and development (a field of policy making and analysis that has occupied significant international bandwidth since the early 1990s), recalls Robert McNamara, then U.S. Defence Secretary in 1966, focusing on the connection between "security and development" in international affairs, and on the "irrefutable relationship between violence and economic backwardness." Others challenge this view. These include Marxists who have sometimes emphasized the conflict-generating effects of developmental processes and the centrality of violence as a compelling source of historical change, and historical sociologists who have highlighted the role of organized violence in the process of State-formation. The chapter looks at peacebuilding as an activity that has come to involve a major role for development and considers the geo-political and normative background to the rise and implementation of the concept of "post-conflict peacebuilding." The chapter then identifies the practical and operational challenges posed by the involvement of development actors in new, politically sensitive, roles; the transformative effects of war on the socio-economic and political fabric of societies; and key policy priorities of donors and International Financial Institutions' (IFIs) in post-war settings. Finally, it discusses the impact of peacebuilding on development.

Keith Krause (Chapter 22) discusses the gulf between the twin discourses of "security" and "development," noting that ideas about and practices of these two concepts have evolved in disconnected institutional, scholarly, and non-governmental forums. Recent attempts to re-think the "security–development" nexus have encountered resistance and misunderstanding on both sides of the divide. He traces the shifting understandings of the link between insecurity and development, and contextualizes recent debates about the

"securitization" of development assistance; presents an overview of the scope, scale, and distribution of armed violence in conflict and non-conflict (including criminal) contexts; and reviews some of the programmatic responses within the development community to deal with insecurity related to conflict, crime, and violence.

Charles Cater (Chapter 23) highlights current policies aimed at mitigating the resource curse in developing countries, particularly with respect to corruption and conflict. He argues that policy making often reflects conventional assumptions about the nature of the problem: that the traditional financial opacity of the extractive industries enables illicit appropriation of resource rents, with transparency correspondingly being seen as the solution, whether through regulation, commodity tracking, or resource interdiction. Policy making has also been influenced by political and economic interests of states, international organizations, and transnational corporations. Available evidence suggests that increased economic transparency may well translate into enhanced political accountability in developing countries. But the mixed track record of transparency-based policies suggests complementary approaches are required to escape the resource curse.

Pablo de Greiff (Chapter 24) notes transitional justice is relevant because the most serious offenses subject to international prosecution nowadays often occur at the intersection of economic predation and war crimes. Indeed, some of the most grievous crimes of recent decades, enabled by seizure of economically tradable resources, have been enforced through intimidation involving gross violations of human rights. Governments are no longer simply held accountable for the worst crimes, they are also held accountable, more implicitly than explicitly, for their commission in the service of the basest of motives. Given the huge strides in the development of international criminal justice since 1993, when the UN Security Council created the International Criminal Tribunal for the Former Yugoslavia, the worst forms of economic predation, particularly when conjoined with other crimes, may well become subject to international justice.

De Greiff examines why development actors should be concerned about the legacy of human rights violations, and how transitional justice measures support positive development outcomes. He argues that the "Arab spring," in which claims for economic opportunity, political freedoms, and justice have been raised on a par, provides an opportunity to focus on the connections between transitional justice and development. Ever since development ceased to be thought of merely in terms of economic growth and started incorporating concerns about institutions, governance and the rule of law, the chasm between the two related sets of thinkers has been breaking down, to the advantage of both. The author first provides a sketch of the notion of transitional justice; then outlines the impact on development of a failure to address the legacies of the past, concentrating on their weakening of agency and the depletion of civic trust or social capital; and focuses on the contribution transitional justice can make to the rule of law, a notion that has played an important role in recent development thinking through norm-affirmation.

Note

1. Immanuel Kant argued not only that republics—as opposed to more autocratically ruled polities—would not fight against one another, but that they were also more likely to be internally peaceful, with echoes in the contemporary "democratic peace" school of academic inquiry, advanced (see Doyle 1983).

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CHAPTER 20

THE POLITICAL ECONOMY OF INTRASTATE CONFLICTS

GILBERT M. KHADIAGALA AND DIMPHO MOTSAMAI

Introduction

Studies have identified resource scarcities, distributional imbalances, and political marginalization as some of the grievances that cause intrastate conflicts. In the same vein, most analyses stress the significance of institutions in the attenuation, mediation, and mitigation of these grievances. Centuries since Aristotle recognized that "extremes of wealth and poverty are the main sources of evil" (*Politics*, Book VI: 122), consensus has converged about the imperative of economic drivers of intrastate conflicts, particularly questions of access, allocation, and distribution of resources. Given that these questions are mediated primarily through modern territorial states, an understanding of states and their institutional foundations is vital to the appreciation of the sources and causes of intrastate conflicts. Most analysts have focused on the multiple obstacles that confront developing countries as they strive to create institutions to promote order and preempt civil strife. The literature on intrastate conflicts spans over five decades, from the traditional modernization literature of the 1960s to the debates on weak and fragile states in the 1980s and 1990s and the more recent conceptualizations that relate civil wars to natural resource abundance.

This chapter addresses the political economy of intrastate conflicts in developing countries since the 1960s. In our view, the core thread that permeates these theories is the persistence of socio-economic inequities, weak governance structures, and the availability of opportunities for groups to contest and mobilize their grievances. In highlighting the structures of grievances that animate intrastate conflicts, we are also interested in the prescriptions different theorists have advanced for managing these conflicts. The chapter opens with an overview of the literature on modernization and how it articulated questions around the sources of civil wars; this literature is instructive because it informed subsequent discussions about the links between state formation and civil strife. Second, the chapter examines debates in the 1980s and 1990s about the nature and character of Third World states. In focusing on the lack of internal coherence, these studies highlighted the history of state formation as a variable in understanding the causes of civil conflicts. Third, we discuss the diverse literature that has emerged since the late 1990s that discusses the rise of new wars, the role of natural

resources in conflict causation, and the significance of horizontal inequalities in comprehending intrastate conflicts. A brief discussion of political transformations in the Sahel and North Africa will illustrate the continuity between old ideas about intrastate conflicts and new conflict trajectories. The conclusion addresses lessons from the study with regard to institutional innovations and the vital role of collaborative efforts between regional and international actors in helping states to prevent conflicts and mitigate their recurrence.

Formative Debates of the 1960s: Modernization and Intrastate Strife

In the 1960s, modernization theories expressed widespread skepticism about the ability of developing states to maintain social and political order because of the absence of sturdy institutions to deal with the overwhelming demands produced by rapid social change. Steeped in the structural-functionalist paradigm, these studies viewed modernization as a disintegrative process that transformed traditional societies without providing capable alternative institutions to handle the emerging social and political strains. The result, as Pye (1963) suggested in the case of Burma, were tremendous social dislocations that led to political instability:

> People in transitional societies can take almost nothing for granted; they are plagued on all sides by uncertainty and every kind of unpredictable behavior. In their erratically changing world, every relationship rests upon uncertain foundations and may seem to contain unlimited potential for good and evil. People are never sure what they should get from any relationship, so they are never sure whether they are getting what they should. (Pye 1963: 54–5)

Apter and Huntington attributed intrastate strife in the new nations to the "normative disintegration" of traditional structures and the increasing social uncertainties that led to violence (Apter 1965; Huntington 1965). To most modernization theorists, the imbalances and societal unevenness that modernization unleashed upset societal equilibrium to the detriment of social order. In a pessimistic vein, modernization theorists proposed that the expansion of political participation in states riven by the fissures of ethnicity, regionalism, and religion would ignite intrastate conflicts. For this reason, Huntington suggested that in the formative stages of political development, developing countries required "institutionalization" to prevent the instabilities occasioned by modernization. Thus in his famous essay on political development and decay, he observed that "rapid increases in mobilization and participation, the principal political aspect of modernization, undermine political institutions. Rapid modernization, in brief, produces not political development, but political decay" (Huntington 1965: 386).

Similarly, some scholars saw modernization as the cause of rising expectations that induced revolutions born of rising frustration; from this perspective, new nations were susceptible to instabilities because they were confronted by resource scarcities and lacked the capacity to meet the escalating demands for goods and services. Olson (1963: 529–52) stated that rapid economic growth created marginalized classes who were often prone to revolutionary impulses. The idea of the revolution of rising expectations was linked to that of

relative deprivation, which claimed that as collective economic expectations rose faster than the ability of states to meet them, a gap arose between expectations and achievements that produced intolerable political stress. In a prominent essay, Davies (1962: 5–19) argued that revolutions were motivated by frustrations stemming from an economic gap between individual aspirations and actual economic status; thus, individuals' widespread discontent with their social situation triggered conflict, especially where modernization fueled "a revolution of rising expectations" (Davies 1962: 6–8). Gurr (1970) broadened the assumptions of relative deprivation in generating popular rebellions, especially where mass discontent forced people to translate their grievances into political action. In the 1960s and 1970s, Gurr studied a wide spectrum of internal wars and insurgencies in the Congo, Lebanon, Nigeria, Pakistan, and Sudan (Gurr 1968: 27–48, 1972: 1104–24; Gurr and Duvall 1973: 135–69).

Modernization perspectives contributed to the debates on the causes of intrastate conflicts by demonstrating the intersection between political and economic variables in intensifying the dilemmas of state and nation building, economic development, and constitutional development in developing states. Viewing these countries through the optic of advanced Western societies, these theories considered intrastate conflicts as transitional problems on the road to functional institutions that would balance order and prosperity. Moreover, these theories assumed that the processes of nation building would ultimately remove some of the drivers of conflict such as ethnic and communal identities (Kesselman 1973: 139–54; Ake 1974: 576–91; Welsh 1993: 44).

At the height of the Cold War in the 1960s and 1970s, theories of modernization furnished credence to Western policy interventions that sought to preempt the encroachment of the Soviet Union and its allies into developing countries. These theories justified a wide range of foreign aid policies that promoted the building of strong political institutions that would manage the political dislocations produced by modernization. O'Brien (1972: 139–54) captured the links between American domestic politics in the 1960s and the scholarly prescriptions for authoritarian regimes abroad. He noted that the preoccupation of American political scientists with problems of political order at home and abroad was reflected in their singular support for authoritarian regimes that could maintain stable political institutions. Thus, the emergence of Western-supported military and one-party regimes such as those of Mobutu Sese Seko in the Congo, Suharto in Indonesia, and Augusto Pinochet in Chile dovetailed with the prescriptions of modernization theorists. By the same token, the Soviet support to its client states enabled them to withstand the challenges of state and nation building that they faced.

From Quasi-states to Collapsed and Failed Ftates, 1980s–90s

By the early 1980s, there were doubts about whether the policy prescriptions by modernization theories for strong institutions in developing countries had ameliorated the condition that caused internal conflicts. Continued political conflicts combined with global economic pressures seemed to undermine the ability of post-colonial states to enhance stability. These circumstances led to renewed interest in the nature and character of post-colonial states as a

way to deepen insights into the sources of intrastate strife. Specifically, the new literature focused on the origins of states, their geographical and organizational reach, and conflicts surrounding state formation.

In the early 1980s, Jackson and Rosberg probed the causes of intrastate conflicts in postcolonial African states (1982: 1–24, 1984: 177–98). Seeking answers to the perennial political instability in Africa, they concluded (1982: 1) that most governments exercised "only tenuous control over the people, organizations, and activities within their territorial jurisdictions," and "had ceased to be 'states' in the empirical sense"—that is, "their central governments lost control of important areas in their jurisdiction during struggles with rival political organizations."

Jackson (1991) further suggested the notion of quasi-states to understand the rebellions and insurgencies that bedeviled state and nation building processes in Africa and beyond. At the heart of the formulation of quasi-states was the distinction between empirical and juridical sovereignty: empirical sovereignty referred to the relative ability of the state apparatus to control its people and territory, while juridical sovereignty denoted states that had international recognition but lacked effective control over national territories. As creatures of colonial partition, quasi-states were characterized by weak, ineffective, and unstable political institutions; equally vital, since they did not exercise effective jurisdiction over their territories, quasi-states experienced challenges to their rule from opposition claimants. This notion explained the civil wars that raged across the developing world in the 1980s, and in the 1990s, Eastern European scholars employed the concept of quasi-states to study the weak states that rose from the ashes of the Soviet Union and Yugoslavia (Rywkin 2006: 23–6).

Ayoob (1984: 42–51) deployed the idea of quasi-states to study the security problems facing Third World states. In distinguishing between the external orientations of security in Western countries versus the internal orientation in Third World contexts, Ayoob claimed that the latter faced security threats that emanated largely from their national boundaries; hence, because of inadequate capacities to manage communal, ethnic, regional, and religious diversities, Third World states were prone to intrastate conflicts. Apart from the lack of administrative capacity for effective statehood, Ayoob postulated uneven economic development as one of the key factors leading to the absence of social and political consensus that fueled internal threats (Ayoob 1984: 46). Along the same lines, Buzan (1985) viewed the prevalence of intrastate tensions as a general phenomenon of what he described as "societal insecurities" that afflicted peoples and states in the Third World. Lacking the essential variables of "sociopolitical cohesiveness," Third World states were weakened by the lack of political legitimacy and limited economic resources. To cope with these problems, Buzan pointed out that "building stronger states is virtually the only way in which the vicious circle of unstable states and an unstable security environment can be broken."

Drawing from the basic assumptions identified in the quasi-states and weak state literature, theorists of state collapse sought to broaden the descriptive variables; as Zartman (1995: 1) noted,

> State collapse is a deeper phenomenon than mere rebellion, coup, or riot. It refers to a situation where the structure, authority (legitimate power), law, and political order has fallen apart and must be reconstituted in some form, old or new. On the other hand, it is not necessarily anarchy. Nor is it simply a byproduct of the rise of ethnic nationalism: it is the collapse of old orders, notably the state that brings about the retreat to ethnic nationalism as the residual, viable identity.

State collapse was a conceptual tool that tried to explain the large number of states facing civil turmoil from Africa, the Balkans, the Caucasus, Central Asia, South Asia, the Pacific, Latin America, and the Caribbean. In most of these states, collapse denoted the combination of governmental collapse, economic devastation, and societal fragmentation (Langford 1999: 64–5; Osaghae 2007: 691–9).

The popularity of state collapse yielded subsequent studies on state failure, articulated primarily by Rotberg and his colleagues (Rotberg 2002: 127–41, 2004). For Rotberg (2004: 5), the defining characteristic of a failed state is internal armed conflicts: "Failed states are tense, deeply conflicted, dangerous, and contested bitterly by warring factions which may consist of insurgencies, criminal gangs, militias, or other groups." In making a distinction between collapsed and failed states, Rotberg noted that there was a continuum in terms of stateness from the extremes of weak states, failing states, failed states, to state collapse (Widner 1995: 129–53; Rotberg 2004; Brooks 2005: 1159–96; Kraxberger 2007: 1057–8). This continuum has contributed to the proliferation of policy indices that map levels of state vulnerability and failure, including the Fund for Peace *Failed States Index* and the German Development Institute and United Nations Development Programme (DIE/UNDP)'s *Measuring Fragility* (Fund for Peace 2005/6; DIE/UNDP 2009).

Development finance institutions such as the World Bank, African Development Bank (AfDB), and Asian Development Bank (ADB) have also identified different stages of fragility in their intervention repertoires in post-conflict states. In helping to tailor their engagements, development institutions have distinguished four main levels of fragility: marked deterioration; active conflict, prolonged political crisis, or impasse; post-conflict or political transition; and gradual improvement. These distinctions allow development institutions to help break the cycle of volatility by providing tangible assistance at different stages of fragility (Kraxberger 2007: 1059; DIE/UNDP 2009).

In the African context, theories of predatory rule reinforced studies of weak states. Predatory rule is characterized by personality rule that depends on coercion, material inducements, and dependence on patronage for political preservation. Elites extract immediate rents and transfers rather than providing incentives for economic growth leading to the plunder of the national economy through graft, corruption, and extortion (Ake 1996; Holsti 2000). According to Bates (2008: 6–7), predation to leads to disorder: "When thinking about the origins of political disorder in Africa, I can find no way of analyzing insurrection without starting with the behavior of governments. The conditions that led to the breakdown of order in Africa include the authoritarian nature of its states and their ruler's penchant for predation. By rendering their people insecure, they provoked insurgencies." Predatory theory is consistent with the findings by Herbst (2000) and Englebert (2002, 2009) who have argued that post-colonial African states lacked legitimacy because they were not products of legitimate social contracts; as a result, rulers consolidated power through patrimonial practices that enhance personal power at the expense of public institutions.

The literature on state collapse, state failure, and state fragility has occupied conceptual hegemony in the political economy of intrastate conflicts since the 1980s. Its policy prescriptions were also vital in the intervention strategies by international financial institutions (IFIs) to reverse the conditions of collapse (François and Sud 2006: 141–60). In Africa particularly, the World Bank and the International Monetary Fund (IMF) crafted and implemented structural adjustment policies (SAPs) to respond to the interminable economic crises faced by weak African states. In exchange for economic

assistance, the IFIs compelled African states to undertake reforms such as privatization and deregulation that sought to roll back the state from the economy. As Mkandawire (2002: 15) has noted, one of the objectives of SAPs was to diminish the state, which was seen as the key problem to development: "African states which in the 1960s and 1970s had been hailed as the instruments par excellence for modernization were now seen as the incarnation of all the forces of retrograde tradition and underdevelopment." While donor-driven policies attempted to create a balance between states and markets that would reverse the economic crises, critics charged that they further weakened the capacity of African states and impoverished the majority (Lubeck 1992: 519–40; Kelsall 1995: 297–309; Kayizzi-Mugerwa 1998: 219–25).

New Political Economy Approaches since the late 1990s

Since the end of the Cold War and the collapse of the international security umbrella that sustained weak states, there have been many studies that have tried to find explanations for the escalation of civil wars, particularly in Africa, the Balkans, and the Pacific (Reilly 2000: 263–73, 2004: 479–93). These theories operate within the conceptual rubric of weak statehood and the consequences of state fragmentation; they build on previous theories of weak and collapsed states while also enriching economic explanations for civil war causation. In most of these theories, the broad political economy causes of intrastate strife remain anchored in resource inequities, social exclusion and alienation, power asymmetries, and state fragility. In addition, there is consensus that in most developing nations, the old dominant fault-lines of ethnicity, regionalism, and class are coinciding with new conflicts around resources to heighten violence. Three schools—the new wars, the greed and grievances, and the horizontal inequalities literature—have dominated analyses of intrastate conflicts since the late 1990s.

New Wars

Broadly characterized as "criminal, depoliticized, private, and predatory" (Kalyvas 2001: 100), new wars attracted the attention of scholars for several reasons. First, in the post-Cold War period, intrastate conflicts outnumbered inter-state wars. Second, the duration of the new wars was much longer than that of previous wars: on average, the duration of intrastate conflicts outstripped that of international wars (Fearon and Laitin 2003: 75). Finally, the new wars exacted a heavy toll on civilians and communities. In summarizing the distinctive features of the new wars, Kaldor (2001: 6) contended that they were different "in terms of their goals, the methods of warfare, and how are they are financed."

Unlike previous wars that were fought on the basis of political ideologies, new wars are marked by ethnic and religious mobilization. Closely linked to ethnic mobilization is the phenomenon of autochthony, whereby groups use violence to lay exclusive claims to territory and the dispossession of "foreigners" in their midst (Fearon 2004: 394–15; Boas 2009).

The autochthony scholarship questions the role of localized identity narratives in the reformulation of national identities and ethnography of conflict. Autochthony claims have characterized political violence in Rwanda, the Democratic Republic of the Congo (DRC), and Côte d'Ivoire. In the latter case, the civil war that engulfed the country from the late 1990s stemmed from the disenfranchisement of northern migrants by southerners through an exclusionary campaign of "Ivoirité." The civil war was sparked by the introduction of a new identity card system that discriminated against northern migrants (Marshall-Fratani 2006: 29–43). In the Great Lakes region, autochthony claims drove the 1994 Rwandan genocide and have been mobilized by local populations in the north and south Kivu provinces of Eastern Congo against the Banyamulenge, who are regarded as of Rwandese origin (Jackson 2006: 95–123).

The new wars literature also builds on the assumptions of state failure except that it places centrality on global forces that underpin failed states. Thus most scholars claim that the neoliberal economic forces produced by globalization have eroded state capacity and authority and, in turn, created a vacuum that is filled by criminal networks (Shaw 2000: 171–92; Duffield 2001; Jung 2003; Münkler 2005). As Kaldor (2001: 70) has remarked, "the processes known as globalization are breaking up the socio-economic divisions that defined the patterns of politics which characterized the modern period.... The failure of the state is accompanied by a growing privatization of violence... the new wars are characterized by a multiplicity of types of fighting units both public and private, state and non-state, or some kind of mixture."

Another major assumption of the new wars literature is the impact on livelihoods. Most of the writings highlight the social, material, and human impact of conflicts, particularly the patterns of human victimization and human displacement (Newman 2004: 177; Franco 2011). In addition to the forcible targeting of civilians, new wars are characterized by wanton and extreme violence; as Snow (1996: ix) argues: "In places like Bosnia, Somalia, Liberia, and Rwanda, the armed forces never seemed to fight one another; instead what passed for 'military action' was the more or less systematic murder and terrorizing of civilian populations." Kaldor (2001: 100) also showed that "at the beginning of the twentieth century, 85–90 percent of casualties in war were military. In World War II, approximately half of all casualties were civilian. By the late 1990s, the proportions of a hundred years ago have been almost exactly reversed, so that nowadays approximately 80 percent of all casualties in wars are civilian."

Despite attempts to carve out a distinctive analytical terrain for civil war causation, the new wars literature has been criticized by scholars who assert that the claims for novelty are exaggerated (Berdal 2003: 477–502; Newman 2004: 173–89; Franco 2011; Mundy 2011: 279–94). Berdal (2003: 480) criticized what he termed the "totalizing pretensions" of the assumptions of the new wars because of the vagueness in the definitions of core concepts such as globalization. He noted that "much of the writings on the so-called New Wars of the 1990s typically proceed from a loose understanding of globalization as 'the widening and deepening of economic, political, social and cultural interdependence and interconnectedness'" (Berdal 2003: 480). Newman (2004: 179) has also charged that what passes for new wars is not new: "all of the factors that characterize the new wars have been present, to varying degrees, throughout the last 100 years. The actors, the objectives, spatial context, human impact, political economy and social structure of conflict have not changed to the extent argued in the new wars literature."

Greed versus Grievances Debates

This literature puts the emphasis on economic agendas in the causation of civil conflicts, including poverty and inequalities. Some of the literature on grievances claimed that African conflicts had increasingly become apolitical as politics, ideology, and ethnicity were replaced chiefly by economic interests. Keen (1998: 11) sparked the debate by noting that "war is not simply a breakdown in a particular system, but a way of creating an alternative system of profit, power, and even protection." Although conceding that most post-Cold War conflicts were driven by economic agendas, Keen emphasized that some conflicts that often started with political motivations "mutated into conflicts in which short-term economic benefits are paramount" (1998: 12).

Collier and his colleagues at the World Bank's Development Research Group made major contributions to the debate on greed versus grievances (Collier 1999, 2000; Collier and Hoeffler 2002a, 2002b). Their primary assumptions were that while group grievances can be traced back through history, they are not a good predictor of conflicts; instead, economic agendas are important and economic opportunities are far more likely than social or group grievances to cause wars. Using statistical data of civil wars since 1965, Collier and Hoeffler (2000a: 26) found "little evidence for grievances as a determinant of conflict. Neither inequality nor political oppression increases the risk of conflict." Furthermore, in comparative studies of civil wars in resource-rich countries—Angola, Colombia, Cambodia, and Sierra Leone—Collier and Hoeffler concluded that the narrative of grievances was important in maintaining a sense of group cohesion, but the core motivation was greed fueled by the existence of resources. In later writings, Collier and colleagues offered a modified version of the primacy of greed, focusing more on the opportunities for organized violence and how access to financing (including natural resources and diaspora remittances) increases the chances of rebellion (Collier and Hoeffler 2000a: 14).

The greed versus grievances debates inspired subsequent studies that focused not just on Africa but on wide-ranging conflicts in Bougainville, Cambodia, Nepal, Kosovo, Sri Lanka, and Burma (Berdal and Malone 2000; Ballentine and Sherman 2003). These studies were enriched by empirical work that concentrated on the characteristic of natural resources, their geographical location, and typologies of conflict. Le Billon (2001a: 561–84) and Ross (2003: 47–70, 2004a: 337–56, 2004b: 35–67), for instance, focused on links between natural resources and separatist conflicts. Le Billon (2001a: 561–84) proposed that secessionist wars were more prevalent where a resource is physically concentrated, appropriated by the local population, and demanding foreign investment. But if the resource is not geographically concentrated and does not require foreign investment, local populations would support local warlords instead of fighting for secession. In a study of conflict diamonds in Angola, Le Billon (2001b: 55–80) revealed how alluvial diamonds facilitated civil wars by making it easier for rebels to have access to them. Advancing on these arguments, Ross (2003: 47–70) emphasized that the role played by any natural resource depends largely on its lootability, the ease with which a resource can be extracted; obstructability, the extent to which authorities can block the transportation of a given resource; and legality, the extent to which a resource can be legally sold on the international market.

Research and policy analyses since the late 1990s have produced important findings on the political economy of contemporary armed conflicts and highlighted avenues for improved policy intervention by international, regional, and local actors. As Berdal's chapter

(in this volume) reveals, the new knowledge on intrastate conflicts has influenced the design of intervention mechanisms aimed at conflict prevention, peacemaking and peacebuilding. Most of these policies also pay attention to post-conflict reconstruction, including disarmament, demobilization, and reintegration; economic recovery; and service delivery. Given the appreciation of the links between natural resources and conflict, post-conflict reconstruction efforts have incorporated components of management of natural resources to build the capacities of states and communities (Schnabel 2002: 7–30). In addition, African countries that have recently discovered natural resources have shown increasing interest in learning international best practices about managing these resources to prevent future conflicts.

New Horizontal Inequalities Perspectives

Some critics of the greed and grievances theories have proposed the return to conceptions of intrastate strife that privilege the role of horizontal inequalities. Instructive to this research is the resurrection of the pioneering work on relative deprivation by Gurr (1970) and Davies (1962) that argued that economic inequalities increased the risk of internal conflicts (Gurr 2000; Langer 2005: 25–44; Stewart 2008; Cederman, Weidman, and Gleditsch 2011: 478–95). Linking grievances and conflict, relative deprivation theory continues to lend powerful insights into how differences among politically relevant ethnic groups spark widespread violence. In this vein, Stewart (2008) has contrasted vertical (individual-level) inequalities with horizontal inequalities which denote political, economic, and social distinctions among culturally defined groups. Noting the centrality of horizontal inequalities in conflict causation, she has argued that "the majority of internal conflicts are organized group conflicts—they are neither exclusively nor primarily a matter of individuals committing acts of violence against others. What is most often involved is group mobilization of people with particular shared identities or goals to attack others in the name of the group" (Stewart 2008: 11).

Other scholars have expanded on the notion of horizontal inequalities to understand how conflicting claims to scarce resources, notably power and wealth, lead to ethnic conflicts. In an empirical comparison of economic horizontal inequalities around the world, Cederman, Weidman, and Gleditsch (2011: 478) assert that "some of the most intractable and damaging conflicts afflicting the Sudan or the former Yugoslavia are to a large extent about political and economic injustices. It is very unlikely that such conflicts can ever be understood, let alone durably solved, without taking seriously the claims of marginalized communities." Likewise, Langer (2005: 25–44) has stressed the role of horizontal inequalities in the eruption of civil war in Côte d'Ivoire. Although Côte d'Ivoire had a long legacy of severe horizontal inequalities between the north and south, violent group mobilization occurred in the face of the deterioration of the economy in the 1980s and the democratization pressures of the 1990s.

Sustainable conflict prevention mechanisms for managing horizontal inequalities are both short- and long-term; the dilemma is often how to sequence and balance such policies. Long-term measures include fostering economic growth alongside distributive policies that target marginalized communities. But long-term policies require peace and stability in the short term, forcing difficult choices by political elites in violence-prone societies. Constitutional reforms, including power-sharing agreements and electoral reforms, have become the standard prescriptions for countries seeking inclusive governments that accommodate

aggrieved constituencies while also laying the political foundations for stability. In Africa, for instance, power sharing arrangements have become a popular mechanism of dealing with post-electoral violence that derives, for the most part, from horizontal inequalities. In cases such as Kenya, Zimbabwe, and Zanzibar, power sharing arrangements have compelled elite coalescence around constitutional reforms that would check the dangers of state failure (Mehler 2009: 2–10; Matlosa, Khadiagala, and Shale 2010; LeVan 2011: 1–35).

Mapping Future Sources of Conflicts

To stimulate strategic thinking about future insecurity trends and trajectories, some recent studies have used modeling methodologies based on events data to identify factors that cause insecurity. These models or projections include (among many others) the Millennium Project's State of the Future Index (SOFI); the Carnegie Endowment for International Peace Global Trends 2030; and the Peace and Conflict Instability Ledger developed by the Center for International Development and Conflict Management, which ranks states on future risks. These forecasts suggest that future vulnerabilities to civil conflict will hinge on the capacity of states to mitigate the pressures of increased globalization; the intersections of climate change, migration, and security; competing and conflicting energy, food, and water security concerns; and the overlapping challenges of weak governance, maintenance of the rule of law, and economic fragmentation.

Future conflicts are increasingly going to draw from the current conflicts whereby spillovers from intrastate conflicts engulf regional neighborhoods. Conflict spillovers are not new, as demonstrated by the regional insecurity dilemmas caused by state implosion in Africa's Great Lakes region since the early 1990s. Spillover conflicts are nonetheless growing in geographical zones where weak states are incapable of controlling border areas and where there is an escalation of new insurgencies, rebel movements, and terrorist and criminal organizations. Previously used to depict the insecurities occasioned by state collapse in Afghanistan and the Horn of Africa, the concepts of "ungoverned" and "ungovernable" spaces now refer to the new arc of instability in the Sahel, a strategic region that straddles North and sub-Saharan Africa with long-standing trade and migration routes. The core countries—Chad, Mali, Mauritania, and Niger—have tenuous control over their vast territories. Furthermore, the Sahel borders countries such as Algeria, Sudan, and Nigeria with serious internal problems that often spill over in the neighborhood (Cline 2007: 889–99; Lohmann 2011).

In the post-colonial period, the failure by governments in Mali and Niger to address the long-standing grievances of the minority Tuaregs sparked rebellions against political and economic marginalization. The discovery of important natural resources such as uranium in the Tuareg regions magnified the stakes between central governments and the rebel movements. Over the years, Tuareg separatism coexisted alongside a combustible mix of drug and gun smuggling, human trafficking, and Islamic vigilantism. In the 1990s, the Algerian civil war worsened the instability in the Sahel after a minority of Islamists, who had been deprived of election victory, regrouped in terror networks across Algeria's border with Mauritania and Niger. Initially organized in 1998 as the Salafist Group for Preaching and Combat (GSPC), the former Algerian Islamist insurgents regrouped in 2007 under the label of Al-Qaeda in

the Islamic Maghreb (AQIM). With links to Afghanistan, northern Nigeria, and the Horn of Africa, AQIM sought an Islamic safe haven in the Sahel-Sahara, emerging as a major terrorist group in the region (Mann 2012a).

The aftermath of the 2011 Arab Spring gave new impetus to Tuareg separatism after former Tuareg fighters in Muammar Gaddafi's Libyan army overran the weak government structures in northern Mali. Taking advantage of political and military disarray in the central government in Bamako, in March 2012 the loose alliance of Tuareg separatists and AQIM fighters declared an independent state of Azawad. Although denying attempts to annex territory belonging to neighboring countries, Mauritania and Niger watched the insurrection with trepidation because they have large populations of Tuaregs within their borders. The collapse of the initial alliance between Tuareg separatists and AQIM in northern Mali sparked a new war that forced thousands of refugees to flee to neighboring countries. The humanitarian crisis occurred against the backdrop of deteriorating economic, social, and environmental conditions in a region that is prone to perennial droughts and famine (Mann 2012b).

Managing the specter of un-governability in the Sahel recalls the post-Cold War coalescence of regional and international intervention efforts to check the disruptions caused by state failures in Africa and the Balkans. Through the Economic Community of West Africa (ECOWAS), regional actors have contemplated an intervention force supported by the United Nations that would help reclaim northern Mali. Mali's neighbors recognize the enormous consequences of the regional destabilization wrought by the Tuareg uprising, but the dilemma is whether they can mobilize sufficient regional and international resources to check Mali's fragmentation. Previous experiences of external efforts to prevent state failure reveal that a durable solution will need to be crafted through a combination of military pressure and political compromise among the parties to the conflict.

The change in regimes in North Africa and the Middle East through popular uprisings has also driven political forecasts that seek generalization that can inform future assessments of civil and political convulsions. Grasping these trends stems from the fact that the momentous political events in North Africa caught most observers by surprise, and therefore lessons from these events can produce a set of useful generalizations for predicting future intrastate wars (Hewitt 2012: 4–18). Equally germane, it is significant to determine whether these changes are going to result in democratic consolidation or state fragmentation across the region. Gurr, Hewitt, and Wilkenfeld (2012) have developed a set of hypotheses with regard to the drivers of regime collapse, including: (i) the nature of the regime: regimes with a mix of democratic and autocratic features such as Egypt, Jordan, and Yemen are more unstable than governments that are either consistently democratic or autocratic; (ii) regional diffusion effects: armed conflict and massive protests such as in Tunisia increased conflict risks in neighboring countries; (iii) urban youth grievances and broadened civil society: marginalized youth has been an important revolutionary constituency in spearheading the uprisings alongside other civil society groups that arose in the confines of autocratic structures; and (iv) autocratic fatigue: the longer leaders such as Hosni Mubarak and Muammar Gaddafi stay in power, the more likely they will be challenged and ousted (Gurr, Hewitt, and Wilkenfeld 2012: 1).

Forecasts for future stability in the region revolve around whether there is a transition from autocracy to democracy. Frantz (2012: 19) has proposed that democratic consolidation seems more likely in Tunisia and Egypt, countries that had a mixture of democratic and

autocratic systems prior to the uprisings, than in Libya, which was a pure autocracy. With respect to the links between democratization and economic growth, Koubi (2012: 26) has forecast that higher economic growth will occur only once the elites initiate far-reaching reforms that introduce checks and balances, create economic institutions, and enshrine secure property rights.

The analyses that seek to comprehend political trends in North Africa and the Middle East do not depart substantially from prior comparative knowledge about the causes and consequences of intrastate wars. Instead, by borrowing from the rich tradition of how socio-economic grievances are transformed into revolutionary impulses, they reveal the continuities that have marked the study of intrastate conflicts. Thus, as Gurr, Hewitt, and Wilkenfeld (2012: 1) argue, pro-democracy protests against autocratic rulers are the "latest manifestation of a historically familiar but also rare phenomenon." They have included, among others, food riots in eighteenth-century Europe, the decolonization process after the end of the Second World War, and the collapse of the Soviet Union in the late 1980s.

Conclusion

The dominant theories of development and international relations since the 1960s have contributed to an appreciation of the causes and sources of intrastate conflicts. This has been possible in part because the basic assumption of these theories is the centrality of the modern territorial state as the organizer of order, prosperity, and dignity. By the same logic, states can be sources of insecurity, misery, and poverty. A good starting point for understanding why intrastate conflicts occur is, therefore, to probe the nature of post-colonial states and whether they furnished the conditions for improving livelihoods and meeting security needs. The nation and state building objectives of the 1960s in the developing world sought to lend some coherence to states that existed only in name. This is why the structural functionalists were pessimistic about the ability of the post-colonial state to extend its political authority and overcome the demands from society. The civil wars of the 1960s and 1970s confirmed this pessimism, but except for Bangladesh, most of these wars did not lead to widespread state disintegration in the developing world.

The post-modernization theories of weak states recognized the continuing dangers posed by economic inequities, authoritarian leadership, and ethnic nationalism to the construction of states that would better prevent civil conflicts. Jackson's (1991) delineation of quasi-states was accurate in revealing the international actors and forces that sustained the majority of weak states; this depiction was also relevant in the aftermath of the Cold War, when most of these states faced the biggest challenges to their internal cohesion. The intrastate conflicts of the 1990s were essentially the implosion of quasi-states in the developing world and the brittle Soviet and Yugoslav states. The civil wars of the 1990s also resonated with Huntington's earlier injunction (1965) about the dangers of popular mobilization on the basis of weak institutionalization. The emergence of competitive politics in the 1990s compounded the internal pressures on weak states, leading to the disintegration of state institutions and the emergence of warlord politics. These conflicts also had an economic dimension as regime challengers took advantage of weak internal controls to garner valuable resources in contesting their grievances.

Innovative research on conflicts such as those in Sudan, Angola, Sierra Leone, and Cambodia are part of the broad consensus that underscores the need to address the political economy of conflict in improving conflict analysis and policy responses. These studies have contributed to the advancement of knowledge about the centrality of institutional regeneration along social, economic, and political lines, and to greater attention to conflict mediation and reconciliation. Since the 1990s there has been a relative decline in intrastate conflicts across the developing world, attributable largely to creative efforts by feuding parties to find negotiated settlements and the sustained engagement of international actors in these conflicts. The once-raging intrastate conflicts in Angola, the Balkans, Sri Lanka, Sierra Leone, Indonesia, Liberia, and Mozambique have dissipated as parties have latched onto alternative institutional mechanisms for co-existence and amity. In other cases, some of the long-running secessionist conflicts in Ethiopia and Sudan have been resolved through the creation of new states; in turn, the new states have had to find their own institutional feet to preempt the beginning of new intrastate conflicts.

But even as most of these conflicts have ended, the conditions that reproduce weak states (and potentially lead to state failure) have not gone away. In this respect, the "insecurity dilemma" that characterizes most developing states endures, underlining the importance of building effective but accountable and participatory states in managing political change. In most of these states, the sources of intrastate conflicts have remained fairly constant: poverty, underdevelopment, youth alienation, growing class differentiation, and ethno-regional cleavages. Adding to these grievances are the new demands around competitive political process that often exacerbate the management of diversity in the circumstances of horizontal inequities and weak state institutions. Much of the current literature on early warning, democratic inclusion, and the management of socioeconomic strains is relevant in highlighting the fragilities that propel intrastate conflicts.

International efforts to manage intrastate conflicts remain relevant, particularly where multiple international agencies work with regional organizations to mobilize resources toward conflict prevention and post-conflict transitions to mitigate the recurrence of conflicts. The necessity for collaborative engagement stems from the conviction that no single organization has a monopoly of knowledge on dealing with the challenges of intrastate conflicts. Moreover, in countries facing numerous vulnerabilities, collaborative interventions and coordination of energies often foster more effective approaches to promote reforms, revitalize institutional capacities, and rebuild legitimacy.

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CHAPTER 21

PEACEBUILDING AND DEVELOPMENT

MATS BERDAL

Introduction

In May 1966 Robert McNamara, U.S. Secretary of Defense, traveled to Montreal to speak to a group of American newspaper editors.[1] McNamara's "Montreal speech," an unexpected and unexpectedly impassioned presentation by one of the principal architects of America's military escalation in Vietnam, caused a major stir. Making only a passing reference to the war in southeast Asia, McNamara focused his remarks on what he saw as the all-important connection between "security and development" in international affairs, and on the "irrefutable relationship between violence and economic backwardness" (McNamara 1966). Arguing that security had for too long been identified with "exclusively military phenomena," the future president of the World Bank emphasized that without development, security would forever remain an elusive goal. There was, he insisted, a direct and positive correlation between development, political stability, and peace.

The Montreal speech is of interest to historians primarily because of the early evidence it provides of McNamara's growing doubts about the wisdom of America's deepening involvement in Vietnam. To be sure, in terms of substantive content there was nothing very new in his address, nor did it identify "peacebuilding" as a distinctive concept or concrete set of activities in post-war situations. This use of the term is a product of the post-Cold War era.

And yet the address, the reactions it elicited, and the wider philosophical issues to which it spoke, if only implicitly, are not without relevance to contemporary debates about development and peacebuilding. Ideas, concepts, and controversies all have their pre-history, and those surrounding the relationship between economic development and peacebuilding are no exception. In positing a positive, linear connection between development and peace, McNamara's views can be seen as fitting into a long tradition of thought on the subject, from Isaiah's vision of nations beating their swords into ploughshares[2] to the optimism of nineteenth-century liberals and positivists who saw in the "Great Transition" from pre-industrial to industrial society a process that would eliminate the traditional functions of war, gradually turning it into an anachronism.

Others, by contrast, have challenged the view that the relationship between development and peace is quite so benign and straightforward. These include Marxists of various hues who, though sharing with nineteenth-century liberals a belief in the inevitability of progress, have emphasized the conflict-generating effects of developmental processes and the centrality of violence as a compelling source of historical change. They include historical sociologists whose writings have highlighted the pivotal role of organized violence in the process of State formation, as well as political scientists like Samuel Huntington, who in *Political Order in Changing Societies* directly challenged McNamara's claim regarding the "certain connection between economic stagnation and the incidence of violence" (McNamara 1966). To Huntington the problem was not modernity per se but the *process* of modernization leading to it, with "economic development itself" often "a highly destabilizing process" (Huntington 1968: 49).

The present chapter is primarily concerned with the experience and history of thought covering the relationship between peacebuilding and development after the Cold War. There are sound empirical and logical reasons, as well as more narrowly practical ones, for restricting the focus to this period. That said, earlier debates on peace and development remain important for the simple reason that they posed and engaged with fundamental questions that have not gone away:

- What is the precise relationship between the process of development, political order, and stability?
- What happens when wants, aspirations, and expectations outpace developmental gains, and who benefits and who loses by development?
- Does the intuitively appealing view that war always and everywhere "reverses development" (World Bank 2003: 84) require qualification in light of historical and contemporary experience?
- Are there inherent limits, imposed by forces of history, culture, and politics, to externally driven processes of social engineering and post-conflict reconstruction?

Structure and Focus of Chapter

The subject of "development and peacebuilding" remains a broad and amorphous one, much like the voluminous and diverse body of literature it has generated. Inevitably, choices need to be made about approach and focus. The chapter proceeds in three parts.

The first looks at the post-Cold War rise of peacebuilding as an activity that envisaged, and has come to involve, a major role for development and development actors. It considers the geo-political and normative background to the rise, and traces the initial efforts to operationalize the concept of "post-conflict peacebuilding" from its original conception in *An Agenda for Peace* (Boutros-Ghali) in 1992 through to "Obstacles to Peacebuilding," an article by Alvaro de Soto and Graciana del Castillo published in 1994 that helped frame the early debate about peacebuilding and development.

The second part of the chapter identifies three broad, necessarily overlapping, sets of issues around which thinking and debate about development and its relationship to peacebuilding have revolved since the early 1990s. The first of these was central to the concerns expressed by de Soto and del Castillo in 1994: the practical and operational challenges posed by the

involvement of development actors in new, politically sensitive roles and tasks—involvement that has raised complex questions about the sequencing, coordination, and funding of development and peacebuilding activities within politically fragile post-war environments. The second set of issues concerns the *transformative* effects of war on the socio-economic and political fabric of societies, and the resulting challenges—both practical and conceptual—that the distinctive political economies of post-war settings have posed for development actors wedded to "traditional," typically technocratic and apolitical, modes of engagement. The third and, at one level, most fundamental set of issues concerns the key policy priorities of donors and international financial institutions (IFIs) in post-war settings, and has centered on the debate over the so-called "Washington Consensus" advice and its appropriateness to post-war societies.

The final part of the chapter builds directly on the previous discussion and is concerned not just with the contribution of development to peacebuilding but also, conversely, with the impact of peacebuilding on development. It is a subject linked to the growing recognition of the importance of local context, to debates about "top-down" versus "bottom-up" peacebuilding, and to a greater appreciation of some of the negative externalities of donor policies and peacebuilding interventions.

The Post-Cold War Growth in Peacebuilding

There are two reasons, closely connected, for concentrating discussion of development and peacebuilding on the post-Cold War period.

First, it is only with the end of the Cold War that "post-conflict peacebuilding" comes to be identified as a discrete set of activities undertaken by external actors with the *express* aim of consolidating peace and laying the ground for "sustainable development" in countries ravaged by war. The end of the Cold War was significant to this development in two respects.

On the one hand, it removed the global, ideologically driven competition for influence between East and West as the dominant prism through which different forms of armed conflict in the international system had long been viewed. As such, it also removed, at least in theory, an important obstacle to more constructive and less overtly politicized engagement by major powers and donors in conflict-afflicted societies. Crucially, this also permitted international bodies formerly constrained by bipolar rivalry—most notably the United Nations and its specialized agencies, funds and programs—to assume a more proactive role not just in mitigating but also in addressing the deeper causes of violent conflict.

On the other hand, and more indirectly, the Cold War had done much to ensure that the worlds of development and security, those inhabited by policy-makers and practitioners as well as those populated by academics and think tanks, had remained heavily compartmentalized. The end of the Cold War brought those worlds closer together. In part this was a result of the liberating impact of the passing of the old order on the study of "security." As the stable management of relations between East and West ceased to be the overarching preoccupation of policy-makers and academics, traditional conceptions of security came to be questioned more widely on the grounds that they were overly state-centric and too accepting of the distinction—seen as increasingly untenable in a more "globalized" and interdependent world—between issues of "low" and "high" politics. In their place, a broader understanding,

encompassing what the United Nations Development Programme (UNDP) described in its 1994 *Human Development Report* as "new dimensions of security," was called for. Significantly, the same UNDP report—self-avowedly "people-centered" in its orientation—introduced the notion of "human security," a multi-dimensional conception of security that included, inter alia, economic, food, and health security (UNDP 1994). While human security may thus be seen as an invitation to re-think conventional and state-centric understandings of security, it was also an implied criticism of the tendency among neoclassical economists to place the goal of economic growth at the center of the meaning of development (see Harriss in this volume).

These changes in the discourse on security and development have been seen by many as evidence of an epoch-making shift in normative attitudes among members of international society following the end of the Cold War. Whether a "solidarist consensus" has in fact emerged among states, however, remains a moot point and, unsurprisingly, claims to that effect have been far more muted after the events of 9/11 and wars in Iraq and Afghanistan. Still, there is no question but that humanitarian issues, broadly conceived, have become more prominent on the international agenda with the passing of the old bipolar order. This can be seen above all in the remarkable growth of "peace operations" since the early 1990s and the tendency for international military action—whether coercive or consent-based—increasingly to be justified on humanitarian grounds (Roberts 2001). And this brings us to the second major reason for concentrating discussion of the history and practice of development and peacebuilding on the post-Cold War period.

The post-Cold War era has witnessed a dramatic growth in externally aided efforts to consolidate and build, as the jargon would have it, "self-sustaining" peace in countries emerging from war and violence. The vast majority of these peacebuilding interventions have been mounted under UN auspices. By one count, between 1989 and 2011, thirty-four missions incorporating a peacebuilding mandate were launched, ranging in size and scope from comparatively small-scale missions in Central America in the early 1990s to the assumption of full-fledged governmental authority in East Timor and Kosovo (Berdal and Zaum 2012). In addition to these come post-war reconstruction activities, notably in Iraq and Afghanistan, where the UN's role has been more marginal, though the operations themselves have raised key questions and stimulated fierce debates about the role of development initiatives and development actors in post-war stabilization and recovery efforts.

While these interventions have varied greatly in scope, scale, and intensity of commitment by external actors, they have all differed from traditional UN operations in one crucial respect. Concerned with the legacies and socio-economic dislocations brought about by internal conflict and civil war, peacebuilding mandates have typically been framed in deeply ambitious terms, aimed at nothing less than the wholesale transformation of conflict-affected societies. It is the intrusive character and the sheer transformative ambition of modern peacebuilding that have brought to the fore a wide range of practical, conceptual, and even philosophical issues regarding its relationship to development.

From *An Agenda for Peace* to "Obstacles to Peacebuilding"

The term "post-conflict peacebuilding" was coined by then UN Secretary-General Boutros Boutros-Ghali in *An Agenda for Peace*, a report commissioned by the Security Council in January 1992 to provide member states with recommendations on how to improve the

organization's capacity for "preventive diplomacy, for peacemaking and for peace-keeping." The final report defined peacebuilding as "action to identify and support structures which will tend to strengthen and solidify peace in order to avoid a relapse into conflict" (Boutros-Ghali 1992). Its identification as a separate category of action was premised on the conviction that placing "an achieved peace on a durable foundation" required simultaneous, mutually reinforcing action in a wide range of areas, from political to "legal, institutional, military, humanitarian, human rights-related, environmental, economic and social, cultural or demographic" (United Nations 1998, para. 65).

At one level, this was a conception of peacebuilding—aspirational, broad, and ambitious—with which it is difficult to quarrel. It was also a reflection of the optimism that marked debates at the time about the UN's role in a world no longer at the mercy of Cold War rivalry. The initial elaboration of the concept contained little, however, about implementation and, in particular, was silent on how development—and specifically what kind of development priorities—would reinforce the desired end-state of peacebuilding. More problematic still, the catch-all nature of the concept served to obscure the importance of distinguishing strategically between different, potentially competing peacebuilding goals in the aftermath of armed conflict (Cousens 2001: 10 and 13). Among the first to draw attention to this, and thus to raise larger and more searching questions about the connection between development and peacebuilding, were Alvaro de Soto and Graciana del Castillo, in their 1994 article "Obstacles to Peacebuilding" (1994).

The immediate background to "Obstacles to Peacebuilding" was what its authors saw as the perilous state of the peacebuilding process in El Salvador. Since the peace agreement signed by the government and the *Frente Farabundo Martí para la Liberación Nacional* (FMLN) at Chapultepec in January 1992, the UN had remained centrally involved in the implementation of ambitious reforms aimed at "preventing the recurrence of violence—the post-conflict peacebuilding phase" (de Soto and del Castillo 1994: 70). These included, crucially, the creation of a new National Civilian Police Force and a land-transfer program for ex-combatants and FMLN guerrillas designed to facilitate their political and socio-economic reintegration into society; the kind of Disarmament, Demobilization and Reintegration/Security Sector Reform (DDR/SSR) activities that have been the staple of peacebuilding operations ever since. Running parallel to UN peacebuilding efforts, however, was a separate process sponsored by the Bretton Woods institutions, involving an exacting program of macro-economic stabilization and structural adjustment. The UN and the Bretton Woods institutions had in effect ended up overseeing two distinct but simultaneous processes, the result of which was to leave El Salvador with "a very real dilemma:" "Should it sacrifice economic stabilization to proceed with implementing the peace accords, or should it strictly carry out its stabilization and structural adjustment program, perhaps endangering peace?" (de Soto and del Castillo 1994: 70). It was a dilemma, de Soto and del Castillo added, that was immediately relevant to other countries emerging, or hoping to emerge, from civil war at the time, notably Cambodia, Mozambique, Somalia, and Angola.

Key Issues and Controversies

Beyond drawing attention to the crisis in El Salvador, "Obstacles to Peacebuilding" may usefully be seen as having identified three sets of issues that have remained at the centre of discussions about the relationship between development and peacebuilding.

The first concerns the lack of transparency, flexibility, and coordination within the UN "system" and the wider donor community when confronted with the particular challenges of war-torn societies.

The second concerns the importance of recognizing—when aligning developmental priorities to peacebuilding, as well as in the design of specific policies in "post-conflict" settings—the far-reaching and transformative effects that war and protracted violence invariably have on state and society. In part this is about a proper appreciation of the political, social, and economic costs of war and their legacy effects. It is also, however, about the importance of understanding better the distinctive political economies that emerge in the course of war and that persist (if in mutated form) into the "post-conflict" period.

The third issue was only alluded to by de Soto and del Castillo: whether the fundamental priorities of international financial institutions in the case of El Salvador—aiming for macro-economic stability and rapid economic growth through the application of the strictures of the "Washington Consensus," with its emphasis on fiscal discipline, privatization, and liberalization—are *at all* appropriate to countries emerging from war.

Transparency, Flexibility, and Coordination

The principal policy concern of de Soto and del Castillo in 1994 was the absence of any kind of consultation, let alone strategic coordination, among the bodies charged with shepherding forward fragile peace processes on the one hand, and those concerned with development and economic policies on the other. The problem has since come to be described somewhat euphemistically as one of limited "system-wide coherence," and its persistence among UN agencies and donors remains a very real obstacle to the attainment of strategic objectives in peacebuilding (UN 2006). Related to this, however, was a further obstacle, again not confined to El Salvador: the lack of external funding for politically sensitive but critical peace-related programs, most notably for DDR and SSR activities aimed at reintegrating ex-combatants into civil society and productive economic life after the termination of armed conflict (and thus, in theory, also reallocating resources and manpower away from the military sector towards developmental objectives). In addition to the obvious political sensitivities involved, a major reason for this was the lack of "flexibility in the application of the rules of financial institutions or adjustment of such rules when UN post-conflict peacebuilding so requires" (de Soto and del Castillo 1994: 79). Anticipating what has since come to be known as "peace conditionality," de Soto and del Castillo proposed that concessional financing might in the future be granted if and when parties demonstrated compliance with the terms of peace agreements.[3]

To what extent have these concerns about strategic coordination and flexibility been addressed? The answer is mixed. Not long after de Soto and del Castillo aired their worries, IFIs and donor countries formally acknowledged the "special challenges" posed by post-conflict societies. The *Articles of Agreement* of the IFIs—which in theory prevent them from interfering "in the political affairs of any member state"—have ceased to be more than a procedural obstacle to involvement in peace-related activities. The procedural fix for becoming involved in DDR, for example, was to treat it as an innocuous-sounding "public expenditure management" issue. Additionally, a range of new financing facilities and instruments have been established, starting with the Emergency Post Conflict Assistance (EPCA) facility set

up by the International Monetary Fund (IMF) in 1995, initially an extension of existing emergency assistance policy for countries experiencing natural disasters to include countries emerging from armed conflict. Since the mid-1990s, the World Bank's concessional lending arm has provided more than $6 billion in reconstruction assistance to "fragile and conflict-affected states," and technical assistance, training and support for structural reform—covering areas such as banking reform, fiscal capacity, privatization, and "public enterprise restructuring"—have become routinized.

And yet, for all this, the suggestion that these changes in architecture and modalities for engagement in conflict-affected societies amount to a "fundamental change in the way the Bretton Woods institutions address their respective mandates" (del Castillo 2010: 84) remains deeply contested. As will be discussed more fully below, disagreement has centered on whether the underlying or core priorities of the IFIs and donors have *also* changed to take account of the realities of post-war societies and the operational requirements that flow from these.

As for the wider issue of strategic coordination and system-wide-coherence, evidence of progress is still harder to detect. The deeper source of the problem here lies in the functionally fragmented, inter-governmental, and deeply political character of the UN "system." UN agencies, funds, and programs each have their own budgets, charters, and governing bodies (on which sit donors), resulting in a loose confederal system that is resistant to partial reform and remains, in crucial respects, profoundly dysfunctional.

The resulting challenge is not a new one. An early report (produced in 1969) on the UN development system memorably concluded that the UN undertook activities with "very little 'brain' to guide it" and that "its absence may well be the greatest constraint on all capacity" (Jackson 1969). The growth of UN peacebuilding activities over the past twenty years has magnified the tensions built into the system, tensions which a proliferation of new coordinating mechanisms have only partly mitigated. Even the establishment in 2005 of the much-vaunted Peacebuilding Commission (PBC) and an associated Peace Support Office—specifically intended to coordinate the actions of peacebuilding actors—has not managed to overcome the structural and political obstacles to effective coordination and delivery.

The Transformative Effects of War and its Consequences

Behind de Soto and del Castillo's concern with coordination and flexibility lies a more serious issue: the need for donors to recognize that the formal end of hostilities following armed conflict does not signify that either peacebuilding or development ever starts from scratch. In part that recognition involves treating societies emerging from conflict on their own terms, acknowledging historical context as well as the cultural, economic, and political specificities of war-torn societies. Equally important, it requires an appreciation of the transformative effects of war itself, of the destruction and suffering it involves to be sure, but also of its differential impact on societies and groups within it and on the complex and innovative ways that politico-economic elites and ordinary people adapt to wartime conditions and protracted violence. The result of these transformations is to ensure that "post-conflict" situations present challenges very different from those of "traditional" development, including those associated with recovery from natural disasters. There are three aspects to the distinctive nature of "post-conflict" societies to which scholars and, increasingly, practitioners have drawn attention.

The Primacy of Political Considerations in Peacebuilding

Political stability in post-war settings, especially following negotiated settlements aimed at ending civil wars, is invariably fragile and susceptible to reversal and breakdown, as the history of Liberia, Sierra Leone, and Angola in the 1990s showed all too well. In Cambodia, Mozambique, Guatemala, El Salvador, Bosnia, and Kosovo, the formal end of hostilities marked the beginning of peacebuilding, not the end of peace processes. In these circumstances, the requirements of political stabilization must assume priority. This, perhaps the chief lesson from post-Cold War peacebuilding efforts, carries important implications for the design of economic policies and the involvement of development actors in peacebuilding. As James Boyce makes clear, it means, above all, that "'optimal economic policies' are often not possible or even desirable in the short run. Indeed, pursuing policies that are optimal from an economic viewpoint... can have tragic consequences for the political, security and social transitions" (Boyce 2002: 4).

The Socio-economic Costs and Dislocations of War

The direct and indirect costs of war and protracted violence present post-war development challenges that are, arguably, better understood now than they were in the mid-1990s. Even though there is considerable variability across cases, wars are, unsurprisingly, destructive and costly in their effects on society and the economy. In addition to the human toll exacted, war destroys capital and infrastructure, and it acts as a disincentive to saving and investment. Importantly, as Frances Stewart and Valpy FitzGerald have shown in a wide-ranging and comparative study of war and underdevelopment, "the range of capital destruction in wartime is not only broad but also concentrated on those capacities which are recognized as being critical for sustainable development in poor countries" (Stewart and FitzGerald 2001: 16). These include physical assets (e.g. manufacturing plants, government institutions, communications and transport infrastructure) as well as human and social capital.

Countries emerging from war are also hampered by the damage done to legal and regulatory structures needed for attracting investment and stimulating economic activity, with civil wars particularly destructive of systems designed to protect land titles and property rights. This in turn has severely undermined the capacity for post-war authorities to generate and collect revenue (Boyce and O'Donnell 2007).

Another distinguishing feature of post-war settings has been high levels of unemployment and underemployment, especially so where war's end has been accompanied by large-scale demobilization of combatants. The potentially destabilizing impact of restive and dissatisfied ex-combatants—heightened by the abundance of weapons and the continued existence within post-war societies of wartime organizational networks—makes the issue of unemployment especially important to tackle.

Notwithstanding the destruction wrought by years of war, in El Salvador the IFIs followed "their perceived paths as if there were no war" (de Soto and del Castillo 1994). Since then, donor countries and international organizations have routinely come to acknowledge the "special circumstances" of war-torn societies. Even so, individual cases often suggest that formal recognition of special status does not translate into operational policy. Tackling unemployment, in particular, has not received the attention it merits; if anything, donor policies, especially those of the IFIs, have tended to exacerbate the problem (Pugh 2005).

The Political Economy of War and Peace

While the economic costs and developmental damage of war are real and incontrovertible, it is also the case that war does not bring economic activity, or indeed development, to a halt. Groups, individuals, and households do not remain passive in response to violence, the collapse of entitlements, and the weakening of the formal economy. Instead, and as a growing number of micro-level studies of conflict have shown, they adapt—often in dynamic and highly innovative ways—to the conditions and opportunity structures created by violence and the disintegration of formal institutions. Alternative systems of coping and even of governance emerge as economic activities and networks are transformed rather than destroyed by conflict. As a study commissioned by the UNDP noted in 2008, the "severe developmental damage that violent conflict inflicts in the formal sector shifts economic activity to the informal sector," and the resulting war economies "reshape, but do not eliminate, patterns of accumulation, exchange and distribution" (UNDP 2008: 15).

The political economy approach to the study of conflict and peacebuilding focuses on the interaction of these war economies with the political agendas of conflict actors and the informal power structures that exist within "post-conflict" settings. It examines how different actors in conflict often come to acquire a vested interest in the continuation of political instability and disorder. The range of actors involved is often wide and varied: political and military elites; government officials, traders, middlemen, and transnational corporations; neighboring states and regional powers; individuals and populations for whom the requirements of survival may involve some form of accommodation to violent processes. The result of their adaptations to conflict and radical uncertainty is often a resilient political economy of conflict where economic activity and violence are closely intertwined, and which persists into the post-war period. The range of motives and interests held by various actors, and the tendency for these to mutate over time, make, not surprisingly, for a fluid and highly dynamic post-war environment. The implications for development and peacebuilding in "post-conflict" settings are potentially wide-ranging.

David Keen has persuasively argued that the political economy perspective poses a fundamental challenge to the way the development community has traditionally thought about war (Keen 1997). That community's tendency, often implicit in the design of projects and interventions, has been to treat war as a form of "developmental malaise:" that is, to see it merely as the collapse or breakdown of an otherwise peaceful and linear trajectory of growth and development. Thus, the IMF's approach to EPCA, alluded to above, "is based on the notion that conflicts, like natural disasters, are essentially temporary negative shocks that require only a relatively short period of reform and assistance" (IMF 2008: 10–11). In this view, the separation between war and peace is essentially clear-cut and unambiguous.

And yet since war and protracted violence *also* involve the emergence of new socio-economic and political orders that outlive the formal end of hostilities, such a sharp distinction between "war" and "peace" is not tenable. To acknowledge this is also to accept a different understanding of what is actually involved in transitions from war to peace, an understanding based on an appreciation of who stands to benefit and who stands to lose from continued conflict, not on the belief than one is dealing with a clean slate. It also means that pre-packaged or templated solutions to the challenges of post-war development and recovery are likely not only to fail but to have unintended and perverse consequences.

There is a further, thought-provoking implication here. It has been made by Ken Menkhaus and draws on his own extensive fieldwork into local governance in Somalia. The transformation of political economies by war and conflict, he argues, may in some circumstances create new, more promising bases from which to start thinking about both development and peacebuilding. If so, it means that the generally accepted view that "war retards development," creating what amounts to a "conflict trap" (World Bank 2003), requires qualification. "Crises which at the first glance appear to be a manifestation of a 'conflict trap' may in fact be in a state of evolution, with the potential to produce new social orders out of chaos" (Menkhaus 2004: 41). In place of the idea of a "conflict trap," Menkhaus proposes an alternative metaphor: a cyclone, that is, a violent storm that "feeds off itself in the fashion of a vicious circle, but in the process alters its own environment in ways which can eventually weaken if not extinguish it" (Menkhaus 2004: 41). It is a conclusion echoed by Christopher Cramer, who argues, similarly, that "violent conflict, however destructive, may contain dynamics that have the potential to help bring about progressive long-run change" (Cramer 2006: 10).

Goals, Tasks, and Priorities

Alvaro de Soto and Graciana del Castillo were concerned, above all, with the failure of external actors to synchronize economic policies with political processes aimed at consolidating peace in post-war El Salvador. They did not, however, fundamentally question the central objective of the IFIs' adjustment policies in the country. And yet much of the debate surrounding the contribution of development to peacebuilding since the mid-1990s has focused on the approach of the IFIs to post-conflict situations, these having provided the *dominant* template, also for the wider donor community, for the kind of developmental and economic objectives that should be pursued in societies emerging from war.

The debate has revolved around the appropriateness of imposing a set of policy priorities on post-war countries derived from the so-called "Washington Consensus," a term coined by John Williamson in 1989 and at the heart of which, in terms of policy prescription, was an emphasis on "disciplined macroeconomic policies, the use of markets and trade liberalization" (Williamson 2004).

The core principle guiding policy was a reliance on market mechanisms, the effective functioning of which was to be advanced through promoting three key "pillars" of Washington Consensus advice (Stiglitz 2002: 53). The first is fiscal consolidation, to be achieved through the curbing of public expenditures and the control of deficits, necessary to avoid inflation, ensure macro-economic stability, and promote rapid economic growth.[4] The second is privatization, pushing where possible for the breakup of state-owned industries, and, more generally, for the expansion of private sector activity all round. The third pillar is market liberalization aimed at stimulating entrepreneurial activity by removing barriers to the free flow of trade and capital. The combination of these policies, so the Consensus holds, provides the best assurance for long-term and sustained economic growth. Significantly, however, the original Consensus attached little or no priority to *equity* as a goal of policy, and was unconcerned with the distributional impact of the policies advocated (Williamson 2004: 12)—precisely those areas of policy whose neglect in post-conflict interventions, many argue, have placed the long-term sustainability of peace at risk.

Criticisms of the way these policies have been adapted, applied, and promoted by IFIs and donors in post-conflict settings range across a spectrum. It is nonetheless useful to distinguish between two broad categories.

On the one hand, there are those who see evidence of progress and learning on the part of IFIs and donors, while still emphasizing the need to focus greater attention on the negative externalities of their policies. This may be regarded as a "reformist" position, one that accepts the importance of macro-economic stability and growth as objectives for post-conflict peacebuilding but recognizes the vital need for these to be pursued in ways that address equity concerns and the distributional impact of growth. "A single-minded focus on economic growth and efficiency," as Boyce notes, can all too easily end up fuelling "social tensions that jeopardize peace" (Boyce 2010: 119). Minimizing those tensions requires policies that focus on tackling "horizontal inequalities," that promote broad and balanced growth, and that stimulate job creation (Stewart and Samman in this volume). In this view, the problem with the Washington Consensus package, apart from what it leaves out, is not necessarily the policies in themselves but their calibration to the political and socio-economic realities of fragile post-war societies. Even within the "reformist" camp, however, the degree to which progress has been made and learning internalized by institutions and donors is contested. To some, the Bretton Woods institutions "have come a long way since the early 1990s" (del Castillo 2010: 83), and the World Bank itself, in adopting "citizen security, justice, and jobs" as the theme of its 2011 World Development Report (World Bank 2011), appears to acknowledge, at least on paper, the limitations of standard development practices in post-war settings. Against this, however, evidence of actual changes in operational policy and of a more conflict-sensitive approach on the ground has remained patchy and uneven.

This brings us to the second, more radical or uncompromising line of criticism of Washington Consensus policies and their application to post-war settings. These not only emphasize lack of results on the ground but stress the real and lasting damage done to the prospects of peace stemming from a fundamental incommensurability of IFIs' institutional goals and the requirements of post-war peacebuilding. Susan Woodward puts it bluntly: "Neither the IMF nor the World Bank seeks to build peace." Instead, "their goal is to transform the structure of prewar and wartime economic and political power to create a state that facilitates private-sector, market-led growth, particularly its capacity to service its foreign debt while lowering public expectations to that which a country can afford" (Woodward 2012: 13).

It is a line of criticism shared by those who have come to view the IFIs and Western donors more generally as pursuing what amounts to a "liberal peace project," a "project" that not only "ignores the socio-economic problems confronting war-torn societies" but actively "aggravates the vulnerability of sectors of the populations to poverty and does little either to alleviate people's engagement in shadow economies or to give them a say in economic reconstruction" (Pugh 2005: 25). The actual existence of a coherent "project" pursued by Western donors to impose a "liberal peace" has for good reasons been called into question, not only as an empirical reality but also as a useful conceptual construct (Zaum 2012). Even so, writers on the "liberal peace" have offered an important and critical corrective to the more technocratic and unreflective donor discourse on development and peacebuilding. Drawing attention to the "silence surrounding structural violence" and the neglect of the "everyday experiences of people" (Pugh, Cooper, and Turner 2008: 4), they have called for alternative policies and "emancipatory engagement with local populations," giving priority to social protection, inclusive growth, and the systematic incorporation of "welfare considerations"

into peacebuilding (Richmond 2008: 300). Rather than relying on privatization and exports, investment should be targeting public goods, infrastructure, and, above all, employment.

Bottom-up versus Top-down

Understanding local context and informal power structures is one of the central themes to have emerged from the post-Cold War experience, policy, and academic discussion of peacebuilding. Indeed, some of the most trenchant criticisms of international peacebuilding efforts in recent years have centered on its "top-down" character and the concomitant tendency not only to ignore micro-level sources of violence, but also to neglect potentially promising "bottom-up" processes likely to reinforce sustainable peace (Autesserre 2010). In terms of the latter—that is, in terms of seeing post-conflict societies and local actors as a *positive* resource and an essential partner in the quest for peace—two aspects of the debate regarding the contribution of development to peacebuilding merit special attention.

First, as political economy perspectives on war and peacebuilding have all tended to highlight, societies at war do not simply sink into anarchy, chaos, or uncontrolled lawlessness. Those caught up in and affected by conflict and violence find ways of adjusting to the realities of war and the socio-economic dislocations it brings in its wake. In doing so, they often demonstrate great ingenuity and entrepreneurial skill in the development of coping mechanisms. Such mechanisms in turn, though "often informal and undervalued," may involve "collaborative structures [that] can be the basis for local institutions which are vital to the rebuilding of governance and civil society" (Barakat 2010: 262). As the now routine references to local ownership and community development in donor documents suggest, the importance of "placing local actors and resources at the centre of recovery efforts" (UNDP 2008: xix) is widely recognized, at least at the level of declaratory policy. The recognition extends to the role of the domestic private sector whose importance in helping to stabilize post-conflict environments—assisting in the delivery of services, rebuilding infrastructure, even offering direct support to peace processes—has been highlighted in several studies (Banfield, Gündüz, and Killick 2006).

Second, several studies of individual peacebuilding operations have emphasized how development programs and actors are often better placed than more overtly political players to aid local conflict resolution efforts and support bottom-up peacebuilding. In part, so the argument runs, this is because they engage *directly* with local authorities and key community groups (for example, elders or women's groups), and therefore possess a superior understanding of the drivers of conflict. Furthermore, because development and reconstruction touch on the real and immediate needs and aspirations of local populations, they also perforce provide a common and more "non-political" basis for cooperation and reconciliation. By firmly anchoring development and reconstruction in local communities, political tensions are diffused and redirected in favor of reconciliation and peace. This is why, in the words of Roger Mac Ginty, "to be genuinely sustainable, reconstruction and recovery must have an organic quality involving the participation of local people" (Mac Ginty 2010: 48). Echoing the logic of functionalist thought, Mac Ginty makes a wider point in support of local involvement and the placing of development at the centre of peace processes. Citing a specific instance of local level negotiations and peacebuilding in Sri Lanka, he comments:

> Rather than concentrate on constitutional and security issues at the outset, negotiations focused on post-war reconstruction and development.... The rationale behind this approach was that parties who had been acculturated to a process of functional cooperation on reconstruction and development activities would then be able to deal with macro-political issues on the basis of embedded trust. (Mac Ginty 2010: 47–8)

Others have, quite rightly, cautioned against too simplistic, even romantic, an embrace of the "local." As noted earlier, the political economy of many post-conflict settings often involves violent, predatory, and exploitative practices by local elites, spoilers, and power structures. Partnering with these in the interests of development and recovery may prove, and often has proved, anything but "emancipatory" for local populations.

A special challenge is likely to arise in post-war settings where one party has emerged victorious from war and where predatory elites are in a position to set the terms of engagement by external actors. A striking example of this, which also raises wider questions about the real meaning and supposed virtues of "autonomous recovery" (Weinstein 2005), "local ownership," and "indigenous processes," is provided by Ricardo Soares de Oliveira's study of Angola's oil-fuelled recovery between 2002 and 2008. That recovery, impressive in many respects, not least in terms of generating rapid growth, is also a cautionary tale. It offers, Soares de Oliveira suggests, a model of "illiberal peacebuilding" (Soares de Oliveira 2011). This is a form of peacebuilding that is driven by local elites and that is typically "high-modernist, patronage-based and illiberal" (Soares de Oliveira 2011: 308). In spite of, or indeed because of this, it has proven, judging from the Angolan case, more credible in terms of generating durable political order than ill-coordinated and short-term liberal international projects of the kind undertaken in Sierra Leone, the DRC, Liberia, and elsewhere.

But, Soares de Oliveira warns, "stability and local ownership mostly come with a hefty price tag in terms of liberal ideals" since "much that is progressive from a liberal perspective is excised from domestic state-building by empowered political actors" (Soares de Oliveira 2011: 289). Moreover, while this may be considered by some to be a price worth paying for political order and rapid economic growth, such growth is most unlikely to be broad-based or inclusive. Indeed, judging from Angola and other instances of "illiberal peacebuilding" (Soares de Oliveira proposes post-genocide Rwanda under Paul Kagame, Sri Lanka since the end of the civil war in 2009, and Eritrea since independence in 1991), the benefits of growth have accrued, above all, to members of the ruling elite and those—entrepreneurs, businesses, and political allies—with connections to it.

The Impact of Peacebuilding on Development

Much of the discussion in this chapter has focused on the question of what contribution development, specifically what *kind* of development, can make to the building of durable peace in war-torn societies. The scale, scope, and ambitious nature of many post-Cold War peacebuilding interventions, however, justify asking a slightly different if not wholly opposite question: What impact have large-scale peacebuilding operations, usually with a significant development component, had on development?

Ever since the UN operation in Cambodia (UNTAC) in 1993, a number of studies have drawn attention to the potentially distorting impact of large-scale international deployments in economically weak and vulnerable post-war settings. The influx of aid, the sudden arrival of expatriates, and the recruitment of locals for professional services in support of missions have often had a distorting impact on local economies and markets. In the case of Cambodia, one study found that foreign aid and expenditures by UNTAC placed upward pressure on local wages and the price of housing stock, and "diverted labor and investment away from the production of goods towards tertiary sector activities providing services essentially for foreigners living in Cambodia" (UNRISD 1993: 21). Market distortions of this kind have also been compounded by a strong and persistent bias among peacebuilders (especially the UN and its agencies) against using local suppliers for goods and services, something that has acted as a brake on the creation of local capacity and has done little to stimulate local economic activity or help unleash entrepreneurial energies in aid of recovery.

There are other distortions that come from the infusion of aid into weak and fragile post-war economies, one of which is the danger of aid flows "crowding out" domestic revenue mobilization, reducing the incentive for governments to tax their own populace (Boyce 2010: 105). Another anomaly, also highlighted by Boyce, is the "pervasive tax exemptions" that exist on post-war aid flows and that not only deprive the government of much-needed revenue but "[send] an unmistakable message to the local populace: rich and powerful people do not have to pay taxes" (Boyce 2010).

Most of these adverse and distorting effects of large peacebuilding footprints are now recognized, on paper at any rate, by donors and aid bureaucracies. An important step in mitigating them, it is widely accepted, would be to "avoid excessive reliance on parallel mechanisms to deliver development assistance" (UNDP 2008: xx) and to try instead to route aid through national and local government, in so doing also strengthening the legitimacy of local and national governments, itself an important peacebuilding objective. Complementing this, much greater efforts can be made, especially by the UN and its agencies, to procure supplies locally—thus stimulating local investment and private sector activity—and to adopt a wages policy that would counter the worst distortions introduced by excessive salaries. In short, and as a detailed report on the economic impact of peacekeeping found in 2006, UN missions "need to be more conscious of their economic impact and the relationship between economic recovery and other mission objectives" (UN DPKO 2006: 51).

There is a final set of reflections that has emerged from the literature on the role of the development community in post-conflict settings. It concerns the nature of the interactions between donors and development actors on the one hand, and the elites who control the State in war-afflicted and still divided countries on the other. The former, for understandable reasons, have naturally tended to focus on implementing programs and meeting targets, something that has often fostered a technocratic and process-oriented approach to dealing with what are, ultimately, deeply political issues. It also, of course, has required of them that they deal with and work through governmental authorities and the elites in power. These, however, have often been able to shield themselves with the trappings of sovereignty and, in so doing, to ensure that processes that undermine peacebuilding in the long run are left unaddressed; indeed, are even encouraged, and flourish undisturbed by the presence of development activity and development actors (Uvin and Bayer 2012).

The consequences of this can be catastrophic. In an important work on the development community's involvement in Rwanda in the years before the genocide, including the period

of the Arusha peace process, Peter Uvin notes how the country was widely thought of as "a well-developing country—facing serious development problems, but dealing with them much more effectively than were other countries" (Uvin 1998: 2). It now, of course, represents an "extreme example" of the "failure of development aid," one in which "the process of development and the international aid given to promote it interacted with the forces of exclusion, inequality, pauperization, racism, and oppression that laid the groundwork for the 1994 genocide" (Uvin 1998: 3). The story of Rwanda, Uvin concludes, made "one more case for broadening the concept of development" beyond the focus on economic growth at the macro level. While aid agencies have paid "lip service" to this lesson, its "practical, operational implications," Uvin adds, "have still not been well understood" (Uvin 1998: 231).

Uvin's findings echo a recurring theme of the present chapter: while lessons and significant insights have undoubtedly been acquired in the course of more than two decades of development and peacebuilding, translating these into operational policy and practical results on the ground remains, for a complex of reasons—political and bureaucratic, domestic and international—a formidable challenge.

NOTES

1. I am most grateful for the comments provided by Michael Pugh and Dominik Zaum on an earlier draft of this chapter.
2. Isaiah 2:4: "And he shall judge among the nations, and shall rebuke many people: and they shall beat their swords into ploughshares, and their spears into pruning hooks: nation shall not lift up sword against nation, neither shall they learn war any more" (*The Bible*, King James version).
3. For the concept of peace conditionality, see James K. Boyce (2002).
4. Williamson, writing in 2004, stressed that while fiscal discipline was indeed vital, he had been "studiously neutral" in pronouncing on the correct size of the public sector, nor had he argued that cuts in public spending *tout court* were the only way to achieve macroeconomic stability (Williamson 2004).

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CHAPTER 22

VIOLENCE, INSECURITY, AND CRIME IN DEVELOPMENT THOUGHT

KEITH KRAUSE

In 2000 the United Nations General Assembly approved its Millennium Declaration, an ambitious road map designed to galvanize international action to promote peace, security, and disarmament; development and poverty eradication; environmental protection; and human rights, democracy, and good governance. When translated into practical benchmarks for action, however, the eight Millennium Development Goals (MDGs) contained no reference to peace and security, and focused on "traditional" development goals such as eradicating extreme poverty and hunger, improving educational achievement, improving maternal health care, and reducing child mortality. One goal focused on environmental sustainability. No goals were set for two of the pillars of the Millennium Declaration: peace, security, and disarmament; and human rights, democracy, and good governance.

There were complex reasons for this slippage between lofty declarations and practical policies guidance, but it was also emblematic of the gulf between the twin discourses of "security" and "development." Since the eighteenth century, ideas about, and practices of, development and security have evolved in disconnected institutional, scholarly, and non-governmental forums, an evolution that has hampered attempts to understand how violence and physical threats to security are inter-linked with broad development processes. Recent attempts to re-think the "security–development" nexus have encountered great resistance and significant misunderstanding, on both sides of the divide. This has, among other things, hindered the development of effective policies and programs to reduce violence, crime, and insecurity in ways that could promote human, social, and economic development.

Although the relationship between armed violence, insecurity, and crime on the one hand, and human, social, and economic development on the other is complex and poorly understood, many studies point in the same direction. As the World Bank's 2011 *World Development Report* concluded, no low-income fragile or conflict-affected country has achieved a single Millennium Development Goal (World Bank 2011: 1; see also Collier 1999). While focusing broadly on conflict-related violence, this message is also echoed by studies that

focus on crime and other forms of violence (UNODC 2005; Skaperdas 2011). The implication is that insecurity, conflict, crime, and violence are development disablers.

This chapter examines this nexus between insecurity and development through three different optics: conceptual, empirical, and programmatic. It first traces the shifting understandings of the link between insecurity and development, and contextualizes the recent, and sometimes heated, debates about the "securitization" of foreign aid and development assistance. The second section presents an overview of the scope, scale, and distribution of armed violence in conflict and non-conflict (including criminal) contexts, to set the stage for a more detailed examination of the evidence for the different pathways by which insecurity may undermine development. The final section reviews some of the programmatic responses within the development community to deal with insecurity related to conflict, crime, and violence.

Whose security? What Development?

Tracing the relationship over several centuries between concepts as slippery as "development" and "security" is not straightforward. Other contributors to this volume (specifically, Harriss and Williams) deal with the changing understanding of development, which this chapter will treat as "progress in human well-being" (Stewart 2004: 261). "Security," on the other hand, is a different matter, and to capture the impacts of conflict, crime, and violence on progress in human well-being (and vice versa), this chapter will adopt a broad understanding of *threats* to security, including both external (war and internal conflict) and internal (crime and inter-personal violence) dimensions, as well as of the *objects* of security (from state/national security to individual and human security concerns) (Buzan 1991). What will be kept constant is the focus on "freedom from fear": freedom from the threat of physical violence associated with conflict and criminal activity.

The first move to separate the discourses of security and development was taken by the economic thinkers associated with Adam Smith and early political economists (Rothschild 1995; Hettne 2010). Their promotion of liberty of commerce between states, and the freeing of individual enterprise within the state, was a direct disavowal of earlier doctrines of economic mercantilism, which associated *national security* with the accumulation of gold and silver with which to fight wars. Separating economic growth and individual well-being from state security policy was the first move in a long tradition of treating security concerns as distinct from development—and perhaps even considering too-great attention to security concerns a hindrance to development. Of course, economic theory was also part and parcel of the broader currents of the Enlightenment and liberal thought, which associated development with improvements in human well-being, emancipation, and progress, through the progressive application of reason to political and social life.

Throughout the eighteenth and nineteenth centuries the causal arrow ran one way: economic development was understood to contribute positively to the achievement of security from violence and crime within the state (internal security) through the expansion of the state's power and institutional reach. One of the main consequences was the progressive pacification of society through the elimination of domestic threats to governments and the

maintenance of public order through the growth and increased efficacy of security institutions such as the police, gendarmes, and the criminal justice system. Of course, many other factors contributed to what Norbert Elias (1982) called the "civilizing process," and it certainly had negative as well as positive aspects for the security of individuals, societies, and regimes. Overall, however, levels of crime and inter-personal violence decreased enormously from the seventeenth to the early twentieth century. This only confirmed the developmentalist view that socio-economic progress brought about improvements in human well-being in all relevant dimensions, and that ultimately it would bring forth the "better angels of our nature" to reduce violence between individuals and groups (Pinker 2011).

By the early twentieth century, a high level of everyday security from conflict, crime, and violence was taken for granted in Western Europe, and seen as wholly distinct from the processes of wealth creation and development as human progress. Optimistic analysts such as Norman Angell and Ivan Bloch argued at the turn of the twentieth century that economic prosperity and interdependence had made war obsolete or unthinkable, perpetuating the belief that development and progress led to greater personal security, even to the level of national and international security (Bloch 1899; Angell 1909). Unfortunately, these predictions were proven terribly wrong in the trenches of the Great War, and the processes of modernization and industrial development also radically altered the capacity of states to threaten the security of their citizens, and that of other states, through mass warfare and state violence. This paradox of modernity—its ability simultaneously to create unprecedented domestic peace and total insecurity on a global scale—helps explain the twentieth-century preoccupation with inter-state war and large-scale state violence as the main threats to security (Krause 2009).

Development and human progress was, however, still regarded as the "solution" to war and insecurity, especially as influential analyses of the consequences of the Great War (such as John Maynard Keynes' *The Economic Consequences of the Peace*, 1919) pointed presciently to the potentially destabilizing and conflict-producing consequences of failed or incorrect economic policies. Likewise, analyses of the protectionist policies of the 1930s associated them (and the Great Depression) with the rise of fascism and authoritarianism—and the Second World War (Kindelberger 1986). Not surprisingly, this vision of economic development as the solution to the problem of conflict and war informed the Keynesian orthodoxy of "embedded liberalism" that shaped the post-war Bretton Woods institutions (Ruggie 1982; Lombardi, this volume) and the entire multilateral architecture (Jolly, this volume) dealing with reconstruction and development since 1945.

One important illustration of how security was considered as a subordinate or derivative good was the way in which mainstream economic thought considered investments in security as essentially unproductive—captured by the idea of a "guns versus butter" trade-off. Military spending and spending on personal security (through private security or personal protection) were considered inefficient, since they did not enhance productive capacity or (with the possible exception of "military Keynesianism") generate growth. The empirical evidence is mixed, but on balance "suggests that there is little or no evidence for a positive effect on economic growth and that [military spending] is more likely to have a negative effect, or at best no significant impact at all" on economic growth (Dunne and Uye 2009).

This one-way view of development and insecurity posed a dual problem. First, it presumed that conflict, crime, violence, and insecurity are exogenous to development processes, and that they constitute ruptures, pathologies, or disruptions that are not integral to or inextricably

intertwined with development itself. As several analysts have pointed out, the process of development itself may exacerbate insecurity and trigger violence, through rapid social change, the unequal distribution of goods and growth, or differential access to benefits (Cramer 2007). Second, it recognized that the minimal conditions of security (in all its dimensions) *were a precondition for development*, especially in conflict-prone and fragile settings. The trade-off between "guns and butter," if it exists, only kicks in *after* a baseline level of security has been established. Empirically, in many states in the post-colonial world, these basic conditions of security either did not exist or were compromised by large-scale conflict, crime, and violence, thus potentially undermining the promotion of development as a means to attenuate conflicts and enhance security. These observations ultimately reopened the debate on the connection between development and conflict, crime, and violence.

Post-colonial Development Policy

It was some time, however, before the bi-directional linkage between insecurity and development manifested itself in policy circles. Throughout the 1960s and 1970s, national security and economic development concerns continued to occupy two distinct worlds of policy and practice. Geopolitical interests in the Cold War were not absent from the overall aims of development policy ("making the world safe from communism"), and both the United States and the Soviet Union designed their different "aid architectures" around consolidating alliances and winning allies in the early years of decolonization. Development assistance, in this sense, has never been free from security concerns. The security under discussion was, however, that of the West (or East), and not necessarily that of the governments or citizens of newly independent states, and development policies often went hand in hand with some fairly destructive Cold War interventions (Bates 2009; Harriss, this volume). International institutions such as the World Bank, by contrast, excluded the *national security* concerns of recipient states from their mandates because these were seen as touching upon issues of national sovereignty. Defense spending, public order, political violence, and state security forces were all excluded from the ambit of development policy making, which concentrated first on technical assistance, and then on meeting basic human needs and promoting poverty reduction (and more recently on achieving the MDGs).

The mainstream understanding of the link between development on the one hand, and violence, crime, and insecurity on the other rested on two beliefs:

- Economic development was a *precondition* for security, and increased economic development would reduce the incidence of conflict and violence within, and potentially even between, states.
- The process of development and socio-economic change was more or less distinct from the dynamics of conflict and insecurity within and between states.

These two beliefs were firmly anchored in the organizational culture and practices of development organizations. As anyone who has visited development agencies, connected with non-governmental development organizations, or spent time with development practitioners

can testify, the language of "conflict and insecurity" often triggers an allergic reaction, and is seen as deeply threatening to the core mission of alleviating poverty and improving human well-being. The "Birkenstocks versus boots" stereotype tapped into a deep clash of visions and missions.

But the shifting nature of contemporary security challenges, and some specific events, eroded the neat compartmentalization of development and security concerns. Four significant changes can be highlighted.

First, the end of the Cold War meant that local and regional dynamics of insecurity and conflict became more evident in such places as the Horn of Africa and the African Great Lakes region. The end of the Cold War also somewhat muted the geopolitical concerns shaping development assistance.

Second, the genocide in Rwanda served as a wake-up call in some quarters, as Rwanda was a "donor darling" in the early 1990s, receiving the largest levels of per-capita development assistance in sub-Saharan Africa. The massacre of more than 800,000 Tutsis by the genocidaire government suggested, however, that development policy that was not "conflict sensitive" could exacerbate conflicts, and find its entire raison d'être challenged (Uvin 1998).

Third, the changing nature of contemporary political violence—now almost entirely focused on internal, communal or civil conflicts, often between economically motivated armed groups such as the warlords in West Africa—meant that inter-state war essentially disappeared as a source of concern for policy-makers (Kaldor 2006; Brzoska 2007). The changed nature of contemporary conflicts, and their often large-scale impacts on the civilian populations, meant that their developmental consequences could not easily be ignored. This was perhaps best exemplified by the nearly decade-long conflict in the eastern Democratic Republic of the Congo, which involved armed groups and proxy forces from more than seven states, and cost upwards of five million lives, mainly because of increased mortality among the displaced populations of the region (Prunier 2009). The protracted nature of many internal conflicts, captured by the observation that around 20 percent of armed conflicts erupted into renewed violence within five years after a settlement, brought to the fore some of the challenges to achieving "progress in human well-being" in situations where state institutions were weak and conflict-prone (Suhrke and Samset 2007). An entire cottage industry has grown up around the analysis of failed, weak, or fragile states, and the governance and development challenges posed by these countries, home to more than 1.5 billion people, and recipients of roughly one-third of official development assistance (OECD 2011a: 11).

Finally, a more recent concern with the cross-border consequences and impacts of large-scale transnational organized criminal activity has emerged at the margins of the development agenda (UNODC 2005, 2007). As the United Nations Office on Drugs and Crime (UNODC) put it, "The growth of global crime is a threat to the rule of law, without which there can be no sustainable world development" (UNODC 2010: 19). The linkages are complex and under-studied, but the basic argument—that large-scale criminal activity corrodes state institutions, undermines effective governance, and erodes the delivery of services and public goods—can be linked to the broader concerns of the development community.

At the conceptual level, a closer examination of how security and development might be linked was facilitated by the broadening of the definition of security from a narrow concern with the threat to state sovereignty posed by armed forces of external actors, to a concern with societal and human security: the security of people and communities within states (Hampson et al. 2001; Klingebiel 2006). This mirrored the shift in development policies and

practices from attention to "development as macro-economic growth" to concerns with human and sustainable development. Using a human security lens, it became clear that the negative impacts of conflict, crime, and violence on development did not necessarily diminish when armed conflict ended. In fact, various studies suggested that the threat of insecurity was merely displaced—from war and conflict to crime and "disorganized violence" (including sexual and gender-based violence), and sometimes further along the spectrum to more subtle forms of repression (Eriksson Baaz and Stern 2010). One result was a cottage industry in publications and projects exploring the "security-development nexus" (Goodhand 2003; Waddell 2006; Chandler 2007; Stern and Öjendal 2010; Tschirgi, Lund, and Mancini 2010).

An Integrated Approach to Conflict, Crime, and Violence

The previous section highlighted some of the ways in which sharp distinctions between different forms of violence and insecurity, whether caused by conflict or large- and small-scale criminal activity, are increasingly difficult to draw. One implication is that to assess the developmental impacts of violence and insecurity, analysts should adopt an integrated approach to conflict, crime, and violence to gain an overview of their global scope, scale, distribution, and changing nature.

There have been several recent attempts to make such comparative judgments, based on the large-scale aggregation of different indicators in such things as the State Fragility Index (Marshall and Cole 2011), the Failed States Index (Fund for Peace 2011), or the Global Peace Index (Institute for Economics and Peace 2012), all of which include aspects of conflict, violence, and insecurity as key components of their analysis. These efforts highlight the concentration of insecurity and state fragility in sub-Saharan Africa, South Asia, and Central America, but do not isolate the ways in which insecurity and fragility contribute to (or are the result of) underdevelopment. Nevertheless, their findings all point in the same direction: those regions of the world facing the greatest development challenges are also bedeviled by conflict, crime, and insecurity.

A more robust way of making comparisons and finding linkages between security and development is to focus on one indicator—lethal violence—as a proxy for overall levels of violence and insecurity. The 2011 report of the Geneva Declaration Secretariat, *Global Burden of Armed Violence 2011: Lethal Encounters*, does that, based on a composite and comprehensive cross-national data-set covering conflict and non-conflict lethal violence for the period 2004–09 (Geneva Declaration Secretariat 2011).[1] Its main findings are highlighted in the map in Figure 22.1 and the table in Figure 22.2. The map charts the distribution of death rates (per 100,000) from armed violence around the world, while the Figure 22.2 presents the fifty-eight countries with rates of lethal violence greater than 10 per 100,000 (the global average rate of lethal violence is 7.9 per 100,000).

The first observation to make from Figures 22.1 and 22.2 is that the number of people dying in non-conflict settings is much greater than the number dying in conflicts: more than three-quarters of all victims of lethal violence die in non-conflict settings, while only about one-tenth die in direct conflict situations.[2]

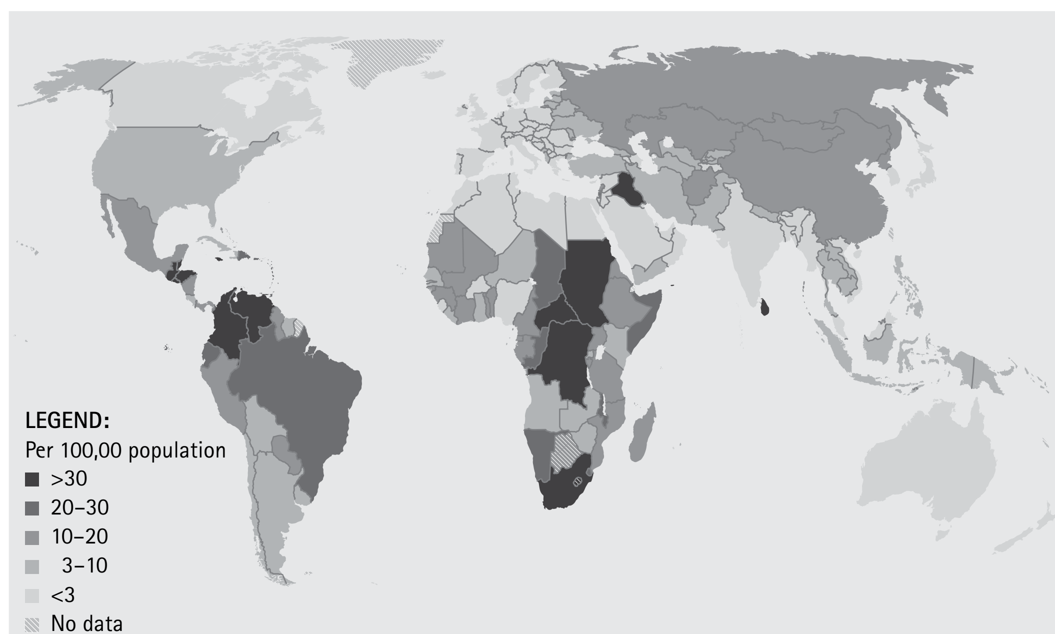

FIGURE 22.1 Global distribution of lethal violence (death rates per 100,000), 2004–9 annual average.
Source: Geneva Declaration Secretariat, *Global Burden of Armed Violence 2011: Lethal Encounters*, p. 52.

More than 526,000 people die violently each year, and countless more are injured and/or suffer from long-term or short-term disabilities or the psychological consequences of violence and insecurity. These violent deaths are concentrated geographically in Central America and parts of sub-Saharan Africa. Most of the fourteen most violent countries (death rates greater than 30 per 100,000) are in these two sub-regions, as can be seen from the top entries in Figure 22.2. These fourteen countries have only 4.6 percent of the world's population, but account for 25 percent of all violent deaths.

What is more important to note is that violence and insecurity are often as great or greater in non-conflict or non-war settings: only six of the fourteen most violent countries were active conflict zones between 2004–09 (Iraq, Colombia, Sri Lanka, Central African Republic, Sudan, and the Democratic Republic of the Congo), and the levels of armed violence in non-conflict settings such as El Salvador and Jamaica are higher than in most war zones.

These observations confirm the need to adopt a holistic approach to how conflict, crime, and violence affect development processes, and underline that the security–development nexus is *not* exclusively about armed conflict and post-conflict challenges. The changing nature of contemporary armed violence has blurred the line between armed conflict and crime, and between politically motivated and economically motivated violence. High levels of gang violence in El Salvador and Guatemala, vigilante justice in post-war and fragile states such as Liberia and Timor-Leste, post-election violence in Kenya and Côte d'Ivoire, and high levels of urban crime in cities such as Kingston, Jamaica and Rio de Janeiro, Brazil amply demonstrate how a distinction between armed conflict and criminal violence is increasingly difficult to make. The growth of networks of transnational organized criminal and non-state armed groups, as well as the resource-exploitation aspects of many contemporary conflicts

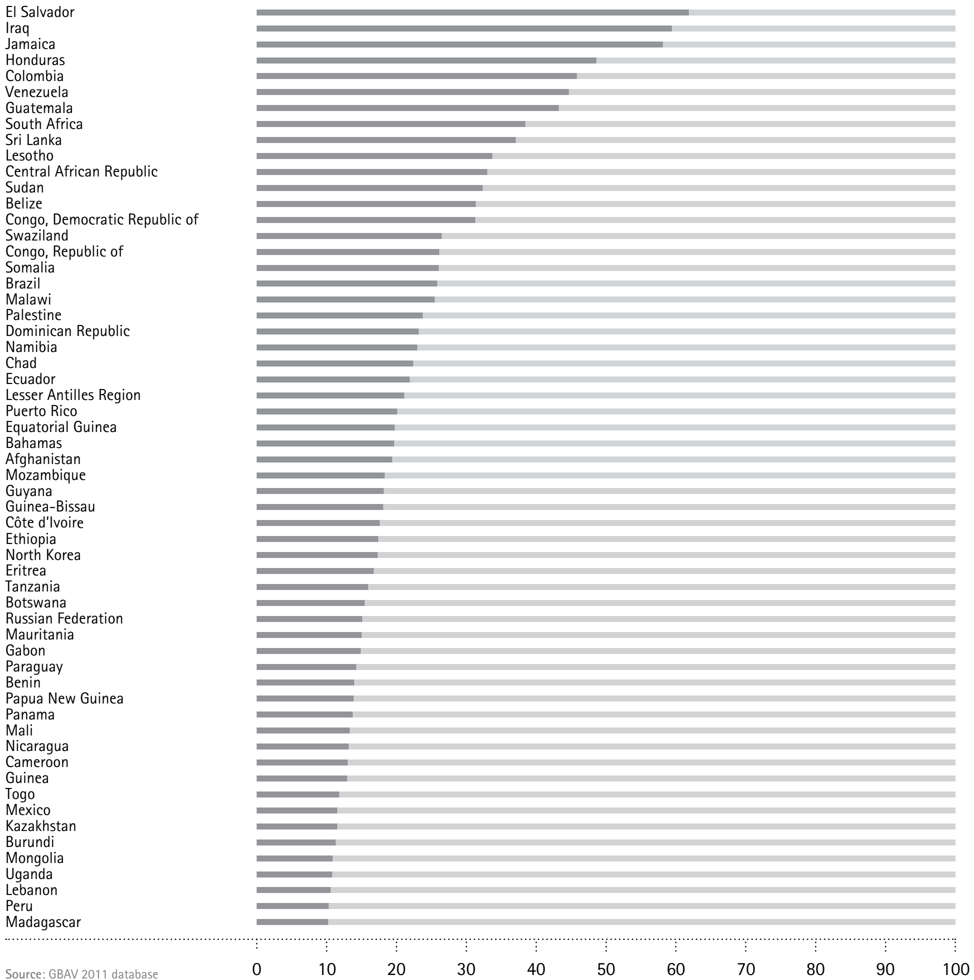

FIGURE 22.2 The most violent states (death rates per 100,000), 2004–9 annual average

Source: Geneva Declaration Secretariat, *Global Burden of Armed Violence 2011: Lethal Encounters*, p. 53.

(such as in the eastern DRC), also underline the weakness of these distinctions (Bannon and Collier 2003).

Different forms of armed violence are also often present simultaneously, and the same armed actors can be involved in politically motivated and economically motivated violence. Even in traditional conflict settings, such as Iraq since 2003, the seemingly arbitrary or criminal targeting of non-combatants by insurgents, militias, and sectarian groups may seem chaotic or random, yet a closer look at underlying patterns of violence suggests that violence also serves the political purposes and goals of armed groups (Green and Ward 2009). In Somalia, pirates—generally pursuing private economic interests—are increasingly entangled in conflict dynamics, as local officials as well as opposing militias increasingly rely on the pirates' firepower and strength to carry out protective and predatory tasks (Geneva Declaration Secretariat 2011: 16). And a focus only on political violence in a country such as

Kenya misses the high levels of everyday victimization that might have greater development consequences than conflict-related violence.

The Development Costs of Conflict, Crime, and Violence

A growing recognition that security from conflict, crime, and violence is a precondition for growth and development, and that persistent inequality, deprivation, and underdevelopment can be a cause of conflict, violence, and insecurity, does not, however, demonstrate empirically how and under what conditions this relationship may hold. This section reviews what is known about these linkages and highlights the obstacles to making the case for precisely how conflict, crime, and violence may have a negative impact on development processes.

Despite the complex and fluid nature of most contemporary violence and insecurity, most analyses of the impact of conflict, crime, and violence on development and human well-being are not based on an integrated approach. Instead, research tends to rely upon two distinctions: the first concerning the level of organization of perpetrators (from highly organized collective groups to individuals), the second concerning the motivation behind the actions (from political/ideological to economic/material and individual psychological motivations). These two distinctions give rise to the matrix shown in Table 22.1.

Each of these types of violence and insecurity poses different challenges to realizing progress in human well-being. It has not been at all straightforward to demonstrate the negative impact different forms of insecurity might have on development, and under what conditions. More importantly, demonstrating a specific link does little to point to what should or could be done to alleviate the situation from a policy-making or programmatic perspective. Research focusing on at least four of the cells of the matrix has tended, though, to confirm that various forms of insecurity are associated with significant economic costs and development impacts.

Economists and development specialists such as Paul Collier (1999) and Frances Stewart and Valpy FitzGerald (2000) have attempted to quantify some of the direct and indirect costs of violent armed conflict (Lichbach 1989; Skaperdas 2011). Although it might seem obvious that conflict destroys infrastructure, lives and social capital, the post-1945 economic miracles of countries such as Germany and Japan did lead some scholars to question how costly war was over the medium and long term. And some economists have pointed out that calculating

Table 22.1 Classifying conflict, crime, and violence

	Political/ideological	Economic/material	Psychological
Collective	Inter-state war, civil war, communal conflict between informal armed groups	Warlords, organized criminal groups, gangs	Riots, social violence
Inter-personal	Some forms of terrorist action, isolated attacks	"Ordinary" crime and inter-personal violence	Domestic violence and violence against women

the economic costs of armed conflict is beside the point—what was the "benefit" of liberating Europe from Hitler, or of the French Revolution, or of various revolutionary or liberation struggles? (Gutiérrez-Sanin 2009). In the longer run, an influential school of thought has argued that the development of the modern state, its bureaucracy, and its representative institutions owes much to the influence of the preparation for and fighting of wars (Tilly 1992), implying that war and conflict may have a long-term net developmental benefit.

Nevertheless, contemporary analysts at least seem to agree on the huge short-term development costs and consequences of armed conflict. One analyst puts the cost of a typical civil war at US$50 billion (Collier and Hoeffler 2004) and estimates that an average armed conflict reduces GDP by 2.2 percent per year for at least five to seven years (Collier 1999), while a comprehensive review of various studies (Lindgren 2005) puts the average cost at 3.7 percent of GDP per year. From a "willingness to pay" point of view, Gregory Hess (2003) estimated that individuals who lived in conflict zones would sacrifice up to 8 percent of their income to live in peace—a considerable, if indirect, estimate of the burden of conflict.

In addition to macro-level economic costs, there are also micro-level impacts associated with particular sectors or development trajectories. For example, Neumayer (2005) highlights the negative impact of various forms of violence (including human rights violations) on tourism, finding a clear negative relationship. Other analysts have focused on such quantifiable impacts of conflict as lower levels of educational attainment, poor health outcomes, increased mortality levels of the under-five and other vulnerable groups (beyond violent deaths from conflict), migration and displacement, and chronic poverty (Ghobarah, Huth, and Russett 2004; Justino 2006, 2010). Once again the evidence points in the same direction: that violent conflict has a negative impact on a range of indicators associated with development and human well-being.

The impact on the development of large-scale criminal and non-conflict violence is less well studied. Organized crime and large-scale non-conflict violence do not have the same effects as armed conflict (there is less destruction of physical capital and infrastructure, state institutions remain functioning, and there is less migration and displacement), so the pathways by which it has an impact on development are less visible. In addition, almost all research has concentrated on one direction of the relationship: the degree to which developmental challenges such as poverty, inequality, or weak criminal justice systems contribute to increased levels of violent crime (Fajnzylber, Lederman, and Loayza 2002; Neumayer 2005; Heinemann and Verner 2006). Nevertheless, among its other human and social costs "crime has potentially deleterious consequences for growth, through reduced productivity and shortened planning horizons for investments in physical and human capital" (Soares 2009: 28).

There are many approaches to calculating these costs, and the more comprehensive the calculation method, the higher the estimate is likely to be. In some Central American countries where such calculations have been attempted, the costs are equivalent to several percentage points of GDP per year. In Guatemala, the United Nations Development Programme (UNDP) estimated health and lost productivity costs, private security costs, security and justice costs, and material losses at 7 percent of GDP per year. In El Salvador, the equivalent figure was 11 percent of GDP (UNDP 2006). In Colombia, a country affected by conflict and non-conflict (especially urban) violence, the government estimated the cost of violence at around 18 percent of GDP in the early 1990s (Heinemann and Verner 2006: 2), and in Jamaica it was 3.7 percent of GDP (UNODC 2005). These figures are greater than the costs of conflict violence calculated above, although the differences are accounted for in part by the different

methods used, as well as by the intensity of insecurity and violence in these four countries. There is comparatively little information on criminal violence in Africa, but the UNODC concludes that "there is good reason to believe that this crime problem is undermining development efforts," based on a qualitative assessment of the social, economic, and governance costs that criminal activity imposes (UNODC 2005: ix).

The figures for the costs of crime include all sorts of criminal activity, including interpersonal violence, gang-related violence, and petty crime (robbery, theft, assault, etc.). When focusing even on the lowest level of violence—interpersonal violence—the developmental costs can still be considerable, especially where such violence is pervasive or chronic. Criminal violence imposes direct costs in terms of policing, health care, and loss of accessibility due to high-violence "no-go zones," and represents a "tax" (via extortion) on legitimate business. One study of productivity losses due only to premature death from homicide in 90 countries estimated the costs as at least US$90 billion and perhaps up to US$160 billion per year in 2004 (Geneva Declaration Secretariat 2008). Another specific example is the cost of domestic violence and violence against women, and although most work on its cost and impact has focused on the developed world (Day et al. 2005), the evidence of its widespread global nature suggests a major developmental burden (WHO 2005).

Regardless of which aspect of conflict, crime, or violence one looks at, insecurity in all its forms imposes significant development costs and is a "development disabler." But the implications for how development programming (or national policies and programs) could be oriented toward preventing and reducing conflict and violence are not clear, and depend on whether one regards conflict, crime, and violence as exogenous to the development process; as "givens" in a socio-cultural context; as negative but unavoidable outcomes of the development process; or as an aspect of development that can (and should) be addressed as part of good development policy and practice. Certainly until recently, conflict, crime, and insecurity were regarded as regrettable but external aspects of the process of development, about which little could be done. This view has, however, been changing in the past decade.

Securitization of Development

What have been the implications for development policies and programs of this changing understanding of the relationship between armed violence and development? Many donors developed both policy and programmatic responses addressing the link between insecurity and development, although there was also significant resistance in the development community to the perceived "securitization" of development. At the policy level, major development actors and agencies—including the World Bank, the Organisation for Economic Co-operation and Development (OECD), the UK Department for International Development (DFID), the U.S. Agency for International Development (USAID), the Swedish International Development Cooperation Agency (SIDA), the German Development Institute, and others—all adopted specific policies to deal with work in conflict-affected or fragile states (DFID 2005; USAID 2005; Klingebiel 2006; SIDA 2006; OECD 2011a).

In general, these policy frameworks recognized that development challenges in fragile, violent, and insecure situations were severe, and that "development as usual" programming

was impossible or inappropriate in such contexts. In some cases, explicit commitments have been made to enhance spending in insecure regions: DFID, for example, has pledged to direct 30 percent of its development assistance to fragile and conflict-affected states, and the Swiss Development Cooperation Agency has made a similar commitment (DFID 2012).

Beyond this, many development actors promoted specific programs and principles that focused on particular "drivers" of conflict, crime, and insecurity, implicitly or explicitly recognizing that insecurity needed to be addressed as part of good development practice. This included a focus on promoting security and justice sector reform, facilitating peace processes, supporting armed violence prevention and reduction work, and promoting state building (OECD 2012).

Two things are noteworthy about this programming agenda. First, tackling broad issues such as "state building" recognizes that development programming without attention to issues of governance, legitimacy, and institution-building is not likely to have the desired long-term results. The idea of "state building," with its resonance of colonial intervention at all levels of governance, represents, however, a huge and contested agenda (OECD 2011b). Second, efforts to work on specific aspects of security sector reform (SSR), including police training, military reform, and violence prevention and reduction, clearly transgresses the divide between development and security concerns of states and ruling elites, and reaches deep into the heart of the power structures of fragile and conflict-affected states (Sedra 2010).

These efforts to rethink the security–development nexus were not uncontested. At a subtle level, the nexus was reinterpreted as "promoting peace and security through development cooperation" (SIDA 2005, 2006), which essentially argued that development practitioners merely had to be sensitive to the ways in which their programs could contribute to broader security-building goals, rather than rethinking where, what, and how they programmed (DFID 2005). Co-optation was also sometimes coupled with more active resistance, as the potential subordination of development assistance and programming to geo-strategic imperatives gave rise to fears of the "securitization of development," either in terms of *where* development assistance was directed, or *how* development programming was done. As Klingebiel notes, "a choice of countries in development policy geared solely or primarily to security or geostrategic thinking would lead to withdrawal from countries and areas of activity... which did not have any (immediately) obvious relevance to security" (Klingebiel 2006: 5). These fears were sometimes justified, as when Ministry of Defense officials argued that development assistance should be directed to places where states had deployed troops. At the programming level, the way in which development assistance was allocated and programmed could also be bent toward military and security imperatives, and the "risk of development policy being subordinated to objectives and strategies with a military bias are plausible in many areas and verifiable in a number of examples" (Klingebiel 2006: 5; DFID 2010).

Future Challenges

The World Bank's 2011 *World Development Report* focused on "conflict, security, and development," and marked a watershed in high-level policy attention to the security–development nexus. Yet as this chapter suggests, untangling the many ways in which conflict, crime,

violence, and insecurity are linked to development processes, affecting each other in reinforcing and reciprocal ways, is not an easy task. What is clear is that armed conflict and criminal violence act as "development in reverse," and impose significant human, social, political, and economic costs on states and societies. Furthermore, the policy challenges—both for donor countries and for national violence prevention and reduction programs—are significant. Among other things, what is needed is a better micro- or local-level understanding of the complex social systems in which violence and crime are embedded, in order to identify clear entry points for policy and programming. Like all effective public policy, a strong evidence base is needed—and is still lacking—for most programming initiatives, with the result that sadly, "for too many in the developing world, insecurity remains the norm and development a dream that cruelly eludes their grasp" (Bates 2009: 115).

Notes

1. A discussion of the methodological and data collection issues involved in aggregating data from different sources can be found at: <http://www.genevadeclaration.org/measurability/global-burden-of-armed-violence/global-burden-of-armed-violence-2011.html>.
2. A significant number (10 percent) are victims of unintentional homicide, while an estimated 4 percent of victims die during exchanges with law enforcement officials.

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CHAPTER 23

THE RESOURCE CURSE AND TRANSPARENCY

CHARLES CATER

Introduction

This chapter critically examines policy responses to corruption and conflict in natural resource-dependent developing countries, including conceptual linkages made between the *resource curse* and *transparency*. The first section explores these concepts, while the ensuing discussion summarizes their institutional manifestation in terms of transparency-based initiatives, advocacy campaigns, laws, and policies intended to reduce corruption and resolve conflict related to the extractive industries: UN commodity sanctions regimes, the Kimberley Process, Publish What You Pay (PWYP) and Extractive Industries Transparency Initiative (EITI), World Bank and International Monetary Fund (IMF) programs, and the Dodd–Frank Act of the United States. The third section analyzes transparency-oriented approaches to the resource curse in comparative context: how underlying assumptions about the efficacy of transparency and the nature of corruption and conflict have translated into policy; and the political economy of participation, implementation, and enforcement. In conclusion, the chapter reconsiders the use of transparency as a tool to address corruption and conflict in the extractive industries from the perspective of recent trends in international development. Ultimately, the available evidence suggests there is sufficient reason to question the core assumption shaping international policies toward natural resource-related corruption and conflict: that increased economic transparency necessarily translates into enhanced political accountability.

The Concepts

The following overview of the resource curse concentrates principally on the political and social (rather than economic) dimensions of the problem, particularly connections between natural resource dependence, conflict, and corruption; while the discussion of transparency

traces the origins of the concept in Western political philosophy and its diffusion as a norm of governance and development. Both are useful as a precursor to subsequent analyses regarding how these two concepts intersect at the level of international policy responses to conflict and corruption.

The Resource Curse

The "resource curse" refers to negative development consequences associated with natural resource abundance or natural resource dependence. The contemporary use of the term can be traced to Richard M. Auty's book, *Sustaining Development in Mineral Economies: The Resource Curse Thesis* (1993). Another similar oft-cited phrase is "the paradox of plenty," which derives from Terry Lynn Karl's book, *The Paradox of Plenty: Oil Booms and Petro-States* (1997). Numerous other economists and political scientists have also been concerned with explaining correlations between natural resource abundance or dependence and a wide range of negative development outcomes, including poor economic performance, the absence of democracy, low societal welfare, conflict, and corruption (see, for example, Sachs and Warner 1995; Leite and Weidmann 1999; Bannon and Collier 2003; Humphreys, Sachs, and Stiglitz 2007; Ross 2012; Le Billon 2012). Although the specific causal mechanisms for these different aspects of the resource curse remain a subject of considerable debate between and within academic disciplines, the risks associated with resource dependence are widely accepted. Extrapolated to their logical extreme, resource curse theories would even seem to suggest the highly counter-intuitive conclusion that it might actually be preferable for certain developing countries to *leave oil and mineral deposits in the ground*, rather than suffer the negative effects associated with their extraction, exploitation, and export (Ross 2001). On the other hand, not all developing countries dependent upon primary commodity exports have experienced a "resource curse." Notable recent counter-examples—such as Chile, Botswana, and Malaysia—would seem to suggest that the typical adverse impacts on development can be mitigated, particularly through improved governance at the national level.

Popular discourse, media coverage, and non-governmental organization (NGO) advocacy reports referencing "blood diamonds," "conflict commodities," and "oil-fuelled war" reflect commonly held assumptions regarding a relationship between natural resources and armed conflict.[1] Paul Collier, while serving as Director of the Development Research Group at the World Bank, made the influential claim that the incidence of civil war correlates with levels of natural resource dependence and that this could be explained by a "rebel greed" hypothesis based on assumptions regarding the rational pursuit of economic self-interest by insurgents (Collier 2000). Collier's theory resonated with policy-makers—including those who implemented UN sanctions regimes on diamond exports by rebel groups from Angola and Sierra Leone—to such an extent that it became the dominant paradigm for assessing "resource wars." In subsequent versions of Collier's work, the "rebel greed" hypothesis was replaced with a less controversial approach emphasizing the *opportunity* (i.e. availability of lootable commodities and lack of state deterrence capacity) rather than *motive* for insurgency (Collier with Hoeffler 2011). Shifting the analytical emphasis to state actors, William Reno and David Keen have explained how extensive resource-based patronage networks can undermine state institutions and thus increase the risk of civil war, while noting that

state political and military elites also frequently engage in war profiteering, thus creating incentives for conflict perpetuation (Reno 2000; Keen 2001). Lastly, Michael Ross and Philippe Le Billon have developed theories regarding how various properties of natural resources (e.g. point versus diffused, labor-intensive versus capital-intensive, distant versus proximate, and lootable versus non-lootable) have differential impacts on intrastate conflict (Ross 2003; Le Billon 2005).

Corruption is another conspicuous symptom of the resource curse. Although accurately quantifying levels of corruption is very difficult, the available evidence suggests a probable correlation between natural resource dependence and corruption. For example, nearly two-thirds of the twenty-five lowest ranked countries on Transparency International's Corruption Perception Index are dependent upon oil and/or mineral exports, compared with just a fifth of the twenty-five highest ranked countries (Transparency International 2011).[2] The capture and distribution of natural resource rents—defined as returns in excess of costs including normal returns to capital—are common mechanisms for corruption. Corruption can be centralized in the form of patronage networks and decentralized in the form of rent-seeking (Kolstad and Wiig 2009). Both forms are prevalent in countries with significant revenues from oil and mineral exports, especially if they are controlled by the public sector or a small number of firms. But why should one care about corruption associated with the extractive industries? Some would even argue that corruption can actually have economic benefits as it functions to "grease the wheels" of capitalism, particularly within a weak institutional environment (Méon and Weill 2008). However, the mainstream consensus is that corruption has a negative impact on development outcomes: it reduces growth, reduces foreign direct investment, increases income inequality, and deters foreign aid. Finally, the facilitation of corruption by international commercial banks and the "supply side" role of transnational resource corporations have been underemphasized within the academic literature but have become areas of increasing focus for policy-makers.

A few points require clarification before proceeding. First, there is a lack of uniformity within the literature regarding what is meant by natural resource dependence or abundance. In general, most resource curse dynamics require an exportable surplus from which rents can be appropriated. Using broad criteria for categorization, IMF data show there are more than fifty countries in Africa, Asia, South America, and the Middle East that are either "hydrocarbon rich" or "mineral rich," defined as at least 25 percent of fiscal revenue or 25 percent of total exports (International Monetary Fund 2007: tables 1 and 2). This would suggest that the resource curse could have significant implications for development processes in much of the global South. Second, not all natural resources have the same impact on development trajectories; the resource curse is significantly more pronounced with high-value, point, and non-renewable commodities (e.g. diamonds, oil, and minerals) than with low-value, diffuse, or renewable commodities (e.g. coal, agriculture, and timber). Accordingly, international policy making thus far has focused principally on the extractive industries (as will the analysis in this chapter). Third, although correlations between primary commodity dependence and negative forms of economic and political development are well documented, there remains a wide range of competing explanations regarding the underlying causal mechanisms for various outcomes (e.g. Dutch Disease, price volatility, rentier state, and declining terms of trade). This lack of consensus among political scientists and economists regarding the nature of the problem does not bode well for policy-makers in search of solutions.

Transparency

The origins of the concept of transparency in Western political philosophy can be traced back to the ancient Greeks and the writings of notable late eighteenth-century thinkers such as Jean-Jacques Rousseau and Immanuel Kant, but it is the English philosopher Jeremy Bentham who is perhaps most closely identified with the idea. Bentham believed in a multifaceted approach to promote accountability and provide "securities against misrule": open and transparent government, or what he referred to as the "Panopticon" principle, a free and vigorous press, and the centrality and power of public opinion, which he termed the "Public Opinion Tribunal" (Odugbemi 2009). In *Writings on the Poor Laws*, a collection of initially unpublished manuscripts from the 1790s, Bentham claimed, "I do really take it for an indisputable truth, and a truth that is one of the corner-stones of political science—the more strictly we are watched, the better we behave" (Bentham 2001: 277). For Bentham, accountability was not necessarily to be found in checks and balances or other similar internal institutional arrangements, but rather through the external weight of informed public opinion. Other thinkers, such as Adam Smith, were primarily concerned with the consistency and transparency of government administration, particularly with respect to the payment and collection of taxes. Foreshadowing current debates regarding financial disclosure requirements for the extractive industries, Smith wrote in *The Wealth of Nations* that taxes "ought be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear to the contributor and to every other person" (Smith 1776).

In terms of the diffusion of transparency as a contemporary norm of national governance, the United States played a central role throughout the twentieth century. Louis Brandeis, who subsequently became a highly prominent and influential U.S. Supreme Court Justice, notably commented in an article for *Harper's Weekly* in 1913, "Publicity is justly commended as a remedy for social and industrial diseases. Sunlight is said to be the best of disinfectants; electric light the most efficient policeman" (Brandeis 1913). Following the defeat of the Axis powers in the Second World War, the United States served as a reference point for open, liberal democracy. Significant institutional reforms promoting transparency included the Administrative Procedures Act of 1946, the Freedom of Information Act (FOIA) of 1966, and the Government in the Sunshine Act of 1976 (Hood 2006). The FOIA seems to have been a particularly important model, as nearly seventy countries had adopted similar legislation as of 2006; more than a quarter of these are developing countries in Africa, Asia, and the Americas, while more than a third are countries in Eastern Europe or the former Soviet Republics (Privacy International 2006). However, in the wake of the September 11, 2001 attacks on the World Trade Center and the Pentagon, the world's traditional proponent of transparency took a substantial step backward as secrecy became the new *modus operandi*, from confidential Energy Policy Task Force meetings to clandestine CIA prisons abroad. Interestingly, a contrary trend concurrently gained momentum globally as other states increasingly adopted transparency as a norm of governance and development.

The contemporary international ascendancy of transparency—as a norm and as a policy tool—can also be observed through various forms of global governance: international law, voluntary codes of conduct, and corporate social responsibility (CSR) initiatives, and the policies of intergovernmental organizations. The General Assembly adopted the *UN Convention Against Corruption*, which mentions the term "transparency" no fewer than ten

times, in 2003. Similarly, the *OECD Guidelines for Multinational Enterprises*, which were first drafted in 1976, underwent substantial revisions in 2000, including updated provisions for corporate disclosure and a new section on anti-corruption measures. Meanwhile, the international financial institutions (IFIs) have also introduced transparency stipulations into their operating procedures and lending requirements. For example, each of the multilateral development banks now has formal policies on access to internal documentation. These reforms may have been prompted by a few different reasons: escalating pressure from civil society, such as public protest at the World Trade Organization (WTO) meeting in Seattle in 1999; a realization that allowing increased transparency could mitigate demands for more substantive organizational reforms, including the democratization of decision making; and an awareness that transparency also complemented the prevailing "Washington Consensus" agenda regarding good governance for World Bank and IMF recipient countries (Blanton 2007).

Two NGOs have also been particularly important for the contemporary diffusion of transparency as a norm of governance and development: the Open Society Institute (OSI) and Transparency International (TI). OSI, founded in 1984 by the Hungarian-born billionaire philanthropist George Soros in order to support countries making a transition from communism, now works on a broader range of issues, including corruption and freedom of information. In terms of his world view, Soros was heavily influenced by his former mentor at the London School of Economics, Karl Popper, whose two-volume *The Open Society and its Enemies* was first published in the immediate aftermath of the Second World War. Popper strongly argued against teleological approaches to the social sciences (i.e. the idea that human events can be predicted and will follow a predetermined path according to certain rules), which he saw as the intellectual basis for authoritarianism, whether in the form of fascism or communism. Soros seized upon Popper's indictment of closed systems of thought, and advocated for the principles of liberal democracy through OSI, including facilitating the widespread adoption of freedom of information laws in Eastern Europe and among the former Soviet Republics. Transparency International, an anti-corruption NGO headquartered in Berlin, was founded in 1993. TI's "branding" of the term "transparency," substantial membership base through more than one hundred national chapters, and highly publicized corruption indices have also been influential with respect to processes of global norm diffusion. Both OSI and TI have been instrumental in promoting transparency as a policy tool, including in relation to the extractive industries.

Institutional History

The following discussion traces how concepts and theories about the resource curse and transparency have translated into advocacy campaigns by NGOs, policies of intergovernmental organizations, multi-stakeholder initiatives, and national laws: UN sanctions regimes, the Kimberley Process, Publish What You Pay, and the Extractive Industries Transparency Initiative, World Bank and IMF programs, and the Dodd–Frank Act. Each shares an underlying assumption that natural resource revenue facilitates conflict and/or corruption and that the solution involves some element of transparency.

UN Sanctions Regimes

War economies interrelated with the exploitation of natural resources in the post-Cold War era have posed a significant problem for UN mediation and peacekeeping. Faced with an intractable intrastate conflict, the UN Security Council has typically imposed targeted sanctions with the goal of reducing the income that insurgencies derive from resource exports, such as in the cases of Angola (diamonds), Cambodia (timber), Côte d'Ivoire (diamonds), Liberia (timber, diamonds), and Sierra Leone (diamonds). This is largely consistent with Collier's initial theoretical formulation identifying rebel economic self-interest as a cause for civil war (although in the case of Liberia, the target was technically Charles Taylor's government for its backing of rebels in Sierra Leone); however, the UN's focus on constraining rebel income fails to address state war economies, including the adverse effects of war profiteering by political and military elites. In practice, the imposition of UN sanctions on the export of natural resources from rebel-held territory may also include the creation of a certification scheme to enable the continued legal export of the commodity. Thus, rather than being perceived as a solution to intrastate conflict per se, in this context transparency is expected to function as a precursor for the facilitation of legal exports and the interdiction of illicit exports. More recently, the UN's Group of Experts on the Democratic Republic of the Congo (DRC) issued industry guidelines for due diligence outlining steps corporations should take to avoid trading in conflict minerals, such as ensuring independent third-party audits and publicly disclosing information regarding their supply chain (UNSC 2011). However, the guidelines are reliant upon voluntary implementation by member states (i.e. are not legally binding). This approach has yielded negligible results thus far in the DRC.

One could perhaps conclude from the preceding discussion that the UN should assume more control over revenue from the extractive sector in conflict situations; however, as the Oil-for-Food program in Iraq demonstrates, there can also be risks associated with UN administration of natural resource finances. As allowed by UN Security Council Resolution 986 of April 1995, Iraq resumed the sale of oil on the international market in order to finance the purchase of humanitarian goods. The purpose of the Oil-for-Food program was to alleviate the widespread suffering of civilian populations caused by the comprehensive sanctions regime imposed on Iraq after the first Gulf War, while at the same time limiting the Iraqi government's capacity to finance further military expenditures through oil exports. However, according to the final report of the Independent Inquiry Committee, chaired by former U.S. Federal Reserve Chairman Paul Volcker, the Iraqi government of Saddam Hussein benefited from more than $1.8 billion in illicit payments though the Oil-for-Food program. There were at least $229 million in illegal surcharges paid by 139 companies buying oil, and more than $1.55 billion in kickbacks by 2,253 companies selling humanitarian goods. An estimated $11 billion in oil exports were also smuggled by the Iraqi regime outside the UN-administered program (Independent Inquiry Committee into the United Nations Oil-for-Food Programme 2005a). While senior UN management were largely cleared of corruption allegations, Volcker nonetheless concluded that "the gatekeepers of the Programme, the Secretariat, the Security Council and UN contractors failed most grievously in their responsibilities to monitor the integrity of the Programme" (Independent Inquiry Committee into the United Nations Oil-for-Food Programme 2005b).

The Kimberley Process

The Kimberley Process Certification Scheme (KPCS), a multi-stakeholder commodity tracking regime to prevent diamonds mined by rebel groups from reaching the world market, came into effect in January 2003. The KPCS was a response to the limits of UN Security Council regulation on a case-by-case basis and the need for a sustained global approach, and also built upon technical innovations by UN sanctions regimes, such as monitoring mechanisms and national certification schemes. As with the preceding UN sanctions regimes on primary commodities, the KPCS is based on an assumption that through increased transparency the income that rebel groups derive from natural resources can be reduced or eliminated, thus preventing and resolving conflict; and although the KPCS is technically a commodity tracking regime, it is designed to function as a sanctions regime since participants are only allowed to conduct business with other participants, thus essentially excluding non-participants from the global diamond trade. The Kimberley Process was initiated by South Africa in May 2000 in response to media coverage of "blood diamonds" and "conflict diamonds" threatening the industry's viability. Other producing countries (e.g. Russia, Namibia, Botswana, Canada, and Australia), centers of sorting and transshipment (e.g. the UK, Belgium, and Switzerland), countries that cut and polish (e.g. Israel, India, and China), and consumer countries (e.g. the U.S. and Japan) also had industries to protect. For transnational diamond corporations, the incentive for joining the Kimberley Process was clear: insulate their business from consumer backlash against the taint of diamond-financed civil wars. NGOs, such as Global Witness and Partnership Africa Canada, have also participated as stakeholders.

Answers to questions regarding the effectiveness of the Kimberley Process will undoubtedly vary according to whom you ask. For corporations involved in mining and marketing diamonds, the KPCS has usefully deflected bad publicity from civil wars in places such as Angola and Sierra Leone, thus protecting the image of diamonds for retailers and consumers of the luxury good. Notably, the diamond industry no longer suffers from the reputational problems it once did, even though there are still actual linkages between diamonds and war economies in the DRC and Côte d'Ivoire. However, the NGOs who saw their role as advocating for a rigorous oversight mechanism and guaranteeing the integrity of the Kimberley Process have a very different perspective. In December 2011, Global Witness quit the KPCS, protesting that about $2 billion worth of rough diamonds from Zimbabwe had been allowed to access the global market. According to Human Rights Watch, these diamonds were mined from the Marange fields following the torture and killing of about 200 artisanal miners by 800 Zimbabwean troops backed with helicopter gunships (Human Rights Watch 2009). Human rights groups—as well as the U.S., Canada, and the EU—objected to KPCS approval for the sale of the diamonds; on the other hand, accounting for the linkages between diamond mining and human rights violations by *state* militaries was never actually part of the Kimberley Process mandate. This was not an accidental oversight by the negotiating parties who drafted the KPCS, but rather an integral aspect of its initial design which solely targeted rebel groups. There is undoubtedly more transparency in the diamond trade, but it is doubtful to what extent the Kimberley Process has prevented or resolved armed conflict.

PWYP and EITI

Non-governmental organizations—particularly U.S.-based OSI and its spin-off Revenue Watch Institute (RWI), UK-based Global Witness, and the Publish What You Pay (PWYP) coalition—have been highly influential in advocating for anti-corruption measures within the extractive industries. PWYP includes more than six hundred member organizations worldwide, many of which are based in resource-rich developing countries. In an effort to promote transparency, PWYP calls for full disclosure in three areas: payments by resource corporations to the countries where they operate, revenues earned by governments from the extractive industries, and licensing arrangements and contracts. The underlying assumption is that publicly available information regarding precisely how much governments earn from oil/gas and mining will then reduce corruption (i.e. more fiscal transparency will yield better political accountability). PWYP also recognizes the importance of civil society in resource-dependent countries as part of the potential equation for better accountability of governments. National coalitions have been formed by PWYP members in at least thirty countries for this purpose, but it is debatable to what extent these have been effective in practice. Perhaps most importantly thus far, the PWYP advocacy campaign was the principal catalyst for the Extractive Industries Transparency Initiative (EITI). Overall, PWYP is more comprehensive in its advocacy for disclosure by corporations and governments than EITI (they differ regarding contracts and licensing arrangements). EITI consequently has more backing from both corporations and governments than PWYP. Corporations typically consider the details of contracts to be proprietary information, the disclosure of which may put them at a competitive disadvantage in relation to other firms; while numerous governments for various reasons (e.g. protecting sovereignty, maintaining negotiating leverage, or concealing corruption) have also resisted disclosing contractual information such as concession agreements and signing bonuses.

Initially launched by the UK in 2002, the Extractive Industries Transparency Initiative now includes thirty-five countries in various stages of implementation (eleven countries are EITI "compliant" and twenty-four are EITI "candidates"). EITI utilizes a multi-stakeholder format that also includes participation by more than fifty of the world's largest oil and mining companies; the PWYP coalition and other civil society organizations; and the World Bank, the IMF, and regional development banks, which also supply financing and technical assistance to EITI. At first glance, EITI's approach appears to be straightforward: companies disclose what they pay to governments, governments disclose what they receive from companies, and the two sets of data are independently verified, with oversight by a multi-stakeholder group. However, there are several weaknesses within EITI that detract from its potential as an anti-corruption mechanism. First, numerous countries and corporations remain outside the EITI framework, including national oil companies (NOCs) from countries such as Russia, China, India, Malaysia, Saudi Arabia, and Angola.[3] Second, participation in and compliance with EITI are voluntary rather than mandatory. Third, it remains questionable whether civil society organization participation has functioned as an adequate oversight mechanism for corporations and governments (Bracking 2009). Lastly, EITI does not cover a broader range of financial information such as concession contracts and government expenditures, which are equally important as aggregate revenue data for promoting transparency and mitigating corruption. Arguably, it may be precisely some of these drawbacks for EITI—narrow scope, voluntary implementation, and limited oversight—that are a source of its appeal for corporations and governments.

World Bank and IMF

Following decades of institutional indifference to corruption, the World Bank has become a prominent advocate for transparency within the extractive industries. The World Bank published an exhaustive, multi-volume *Extractive Industries Review* (EIR) in 2003. The report identifies governance as a key challenge and advocates increased transparency in areas such as revenue flows, project documents, and budget processes. The EIR also notes the fundamental importance of developing governmental capacity for natural resource management and industry regulation (World Bank 2003). Among the key reforms is the International Finance Corporation (IFC)'s requirement for project contract transparency, such as with the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. The World Bank also initiated EITI++ in 2008, which is designed to promote better governance, including regarding contracts and budgets. However, EITI++ relies upon the voluntary participation of governments, which has constrained implementation. For example, an NGO assessment found that while the World Bank promoted extractive industry transparency in nearly two-thirds of the resource-rich countries where it engaged, it specifically addressed contract disclosure in fewer than 10 percent of these countries (Bank Information Center and Global Witness 2008: 15–16). The World Bank Group's involvement in the Chad-Cameroon oil pipeline project further suggests limits to reform. In 2002, the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) agreed to provide nearly $100 million in financing for the governments of Chad and Cameroon, but with conditions applying to the former: the establishment of a dedicated offshore escrow account, financial oversight by an independent panel, and a revenue management plan committed to poverty reduction. In 2008, the IBRD and IDA withdrew from the project because of repeated diversions of oil revenue from social programs toward military spending by the government of Chad (World Bank 2008).

The IMF has also incorporated aspects of transparency into its work with resource-rich developing countries, including the use of staff monitoring programs (SMPs) and the publication of a report identifying best practices related to the natural resource extraction industries. First released in 2005 and revised in 2007, the IMF's *Guide on Resource Revenue Transparency* identifies four key "pillars" for promoting transparency and accountability: clarity of roles and responsibilities, open budget processes, public availability of information, and assurances of integrity (International Monetary Fund 2007). Although the report advocates extensive policy prescriptions in fundamental areas such as legal frameworks and fiscal regimes, implementation has been sporadic, particularly since this has not been required by the IMF (Bank Information Center and Global Witness 2008: 9–10). SMPs, which function as part of the organization's surveillance mandate, are a precursor to potential formal arrangements between the IMF and low-income member states. The IMF's staff monitoring program in Angola offers some insight into chronic mismanagement of natural resource revenue and the limits for IFIs to impose reforms. According to IMF reports, nearly 30 percent of Angolan government expenditures from 1997 to 2002—$8.3 billion of $27.9 billion—either went inexplicably missing or were spent on extra-budgetary items and then inadequately accounted for after the fact (International Monetary Fund 2002, 2003). As a point of comparison, total social expenditures (i.e. education, health, social security, welfare, and housing) averaged merely 13 percent of government spending. Meanwhile, President Jose Eduardo dos Santos publicly criticized the "police action of the IMF" and stated that the Angolan government would not be pressured into disclosing oil sector data (Hodges 2004: 121).

The Dodd–Frank Act

The U.S. *Dodd–Frank Wall Street and Consumer Protection Act* of July 2010 includes unprecedented provisions regarding tracking conflict minerals from the DRC (Section 1502) and reporting requirements for oil and mining corporations listed on U.S. exchanges (Section 1504). The underlying assumption of Section 1504 is that mandatory public disclosure of detailed financial data regarding what oil and mining corporations pay to the states where they operate will promote transparency and therefore mitigate corruption. The Dodd–Frank Act has faced significant opposition from corporations claiming that Section 1504 puts U.S.-based corporations at a competitive disadvantage, that the reporting requirements will impose unreasonable compliance costs on firms, and that disclosure will violate contractual terms of confidentiality with host countries. Unsurprisingly, the private sector has lobbied the U.S. Securities and Exchange Commission (SEC) to weaken the implementing rules that were belatedly released in August 2012, but corporate objections are overstated (Kaufmann and Penciakova 2011). The Dodd–Frank Act will apply to all U.S.-listed firms, which includes nearly all of the largest internationally operating oil and mining companies in the world, and studies indicate that disclosure is not incompatible with most existing contracts (Revenue Watch Institute 2011).[4] The SEC estimates industry compliance costs for Section 1504 at $1 billion, with recurring annual costs of $200 million to $400 million (Viswanatha and Stephenson 2012). Section 1504 represents a major victory for advocacy organizations such as Global Witness and RWI that have been campaigning for transparency. However, the polarized public debate between advocacy NGOs and transnational corporations may have obscured an even more fundamental underlying question: will the Dodd–Frank Act actually work? At best, corporate disclosure of state resource revenue is a necessary but insufficient measure to combat corruption.

Of the two parts of the Dodd–Frank Act dealing with the extractive industries, Section 1502 regarding conflict minerals in the DRC has perhaps been more controversial. Based in part on the guidelines for due diligence submitted by the UN Group of Experts, corporations listed on U.S. stock exchanges will be required to publicly declare whether or not their products contain conflict minerals, which are defined as coltan, gold, cassiterite, wolframite, and other minerals mined in areas controlled by armed groups in the DRC or adjoining countries. In situations where a corporation is unable to certify their products are "DRC conflict free," they are obligated to report to the SEC the measures they have taken toward compliance with Section 1502, including details of independent audits of their supply chain. Essentially, the approach is based on using "naming and shaming" as a deterrent for purchasing conflict minerals from the DRC; however, in practice the result has been a de facto embargo on sourcing coltan from the region by manufacturers of laptops, mobile phones, and other consumer electronics. Unsurprisingly, Section 1502 has also faced strong opposition from U.S. corporations. The National Association of Manufacturers estimates compliance costs at $9 billion to $16 billion, while the SEC's own estimates are an initial $3 billion to $4 billion, with recurring annual costs of $200 million to $600 million (Ayogu and Lewis 2011; Viswanatha and Stephenson 2012). While it remains to be seen how Section 1502 will impact U.S.-listed corporations, the unintended consequences at ground level in the DRC from what has been termed "Obama's Law" may already be apparent. Reportedly, the law has caused massive unemployment among miners in the eastern DRC as Western firms seek to reduce reputational risk by sourcing minerals outside the region; and while the trade in conflict minerals

has diminished, militia leaders and corrupt military commanders still smuggle minerals across borders, and security has not yet demonstrably improved for local populations (*The Economist* 2011; Seay 2012).

Analysis

The diffusion of ideas can be explained partially at the level of concepts and theory and partially at the level of material interests. This section assesses the institutional history outlined above through reference to a two-part framework: first, the analysis explores how assumptions about corruption, conflict, and transparency have translated into various international policies; and second, these policies are re-evaluated from a political economy perspective in order to understand the incentive structures among actors and their influence on policy making and implementation.

From Theory to Policy

The responses to natural resource-related corruption outlined in the previous section—PWYP and EITI, polices of the World Bank and IMF, and Section 1504 of the Dodd–Frank Act—share a common underlying assumption that increased economic transparency will lead to improved political accountability and less corruption. The problem has been characterized as follows: the extractive industries generate resource rents that are highly susceptible to illicit appropriation by domestic political elites, this theft has been facilitated by the traditional financial opacity of the sector, and there are highly negative consequences for political and economic development. Accordingly, international policy solutions have been conceived in terms of increasing the level of transparency in the extractive industries, particularly regarding the amounts paid by transnational corporations and the amounts received by states. While this approach makes sense at a theoretical level, in practice the precise causal linkage intended between transparency and accountability remains ambiguous. Virtually by definition, most developing countries lack the conditions required to translate information about government finances into consequences for corruption: the rule of law, independent media, educated citizenry, and democratic processes. EITI attempts to compensate for these missing elements through the inclusion of domestic NGOs within a multi-stakeholder format, but this has been insufficient. Furthermore, EITI and the Dodd–Frank Act's exclusive focus on state revenue covers only half the equation, while IMF and World Bank attempts to monitor state expenditure have often proven problematic.

While the responses to natural resource-related conflict covered in the previous section—UN commodity sanctions, the Kimberley Process, and Section 1502 of the Dodd–Frank Act—share core assumptions regarding the nature of the problem (i.e. natural resources financing conflict) and the solution (i.e. tracking and/or interdiction), there are also differences between these approaches that are worth noting. The KPCS and UN sanctions regimes in countries such as Cambodia, Angola, and Sierra Leone specifically targeted the exploitation of resources by rebel groups, while Section 1502 of the Dodd–Frank Act focuses on "armed groups" defined as "perpetrators of serious human rights violations," and

UN sanctions regimes in countries such as Iraq, Liberia, and Côte d'Ivoire have broadened the scope to include the state. These mechanisms also vary in terms of the degree of intervention, but the assumed role for transparency in terms of resolving and preventing conflict has been similar: as a precursor to interdiction (e.g. UN sanctions) or as a component of commodity tracking and industry regulation (e.g. KPCS and the Dodd–Frank Act). However, assumptions regarding the role of transparency as a solution can only be as valid as the preceding analyses of conflict associated with natural resources. For example, if one conceives of "resource wars" as principally a function of lootable commodities and the finances they generate for combatants, then sanctions may be an appropriate policy; but if one assesses these conflicts from a perspective conceptually incorporating state institutional weakness associated with natural resource-based development trajectories, then the need to consider broader approaches to state-building and peacebuilding becomes readily apparent.

Political Economy

The degree to which different transparency policies have been adopted as the preferred solution to corruption associated with the extractive industries can be explained partially through reference to political and economic interests among the principal actors. In general, transparency-based approaches are a low-cost and unobtrusive form of regulation for states and industry, which is part of their appeal. But there are also important differences between various initiatives, such as EITI and Section 1504 of the Dodd–Frank Act, which largely explains the seemingly contradictory positions taken by corporations publicly claiming to be proponents of transparency in one context but opposing implementation of transparency legislation in another context. With voluntary participation and no independent oversight, EITI remains popular within the extractive industries, while virtually without exception, these same corporations have strongly opposed the mandatory financial disclosure requirements of the Dodd–Frank Act. Surprisingly, the SEC's belated issuance of rules indicates corporations managed to delay Dodd–Frank's implementation but failed to water down this modest reform effort. In addition to state-corporation relations, state-intergovernmental organization (IGO) relations are another useful dimension of analysis for assessing the political economy of transparency policies. As IMF staff monitoring programs in Angola and the World Bank's involvement with the Chad-Cameroon pipeline suggest, resource-rich developing countries may be resistant to external monitoring of state expenditures and financially insulated from the exertion of pressure by the IFIs as well. This could be perceived as desirable from the perspective of maintaining the sovereignty of developing countries, but that may also be small consolation for civilian populations coping with kleptocratic regimes.

Transparency-oriented approaches to natural resource-related conflict have also been heavily influenced by political and economic interests among powerful states, intergovernmental organizations, and transnational resource corporations. With respect to UN commodity sanctions, policy making by the Security Council has often been shaped by the national interests of the permanent five (P5) members. This manifests itself in different ways, but in general the P5 have been more willing to impose sanctions on commodities that are not of strategic value (e.g. diamonds and timber) against rebel groups or states they do not back (e.g. Cambodia, Angola, Liberia, and Sierra Leone), while at the same time unwilling to impose sanctions on strategic commodities exploited by client states (e.g. China and oil in

Sudan). The choice of sanctions may also reflect economic constraints within the United Nations, as they are a much less costly option than complex peacekeeping operations. The Kimberley Process is another example where the main proponent of a transparency-oriented policy mechanism, South Africa, had significant economic interests at stake in terms of protecting its domestic diamond industry, while transnational diamond corporations benefited from the good publicity associated with participation as they simultaneously opposed NGO proposals to strengthen the KPCS. Lastly, Section 1502 of the Dodd–Frank Act regarding conflict minerals in the DRC has been strongly opposed by mining corporations claiming unreasonable compliance costs, but this transparency-based due diligence scheme is actually a moderate form of regulation compared to interdiction. Consistent with long-standing American concerns regarding access to strategic minerals in the DRC, Section 1502 also contains a clause allowing the U.S. President to waive its provisions on the grounds of "national security."

Conclusion

The future prospects of natural resource-dependent developing countries and international transparency-based policy responses to corruption and conflict could take divergent paths, as the success or failure of one may not be predicated upon the other. On the one hand, it would appear that solving the dual problems of corruption and conflict remains the principal challenge for developing countries suffering from the resource curse, and transparency initiatives could play a useful role. On the other hand, developing countries such as Botswana, Malaysia, and Chile have already emerged as contemporary success stories, each suggesting that national governance may be the decisive variable for escaping the resource curse. However, these cases don't constitute evidence for the success of limited, sector-specific, transparency-based reforms; if anything, they suggest that considerably larger state-building projects are required, something that international actors have not proven very adept at thus far. It remains to be seen whether the transparency approaches reviewed in this chapter (or perhaps other international initiatives such as the Open Government Partnership) will prove effective in reducing corruption and resolving conflict in natural resource-dependent states. In other words, can mechanisms be facilitated so that citizenry can hold their own governments accountable? The evidence to date indicates that predominant assumptions regarding how increased economic transparency translates into improved political accountability may be overstated, although this does not mean that one should therefore take corporate claims about the efficacy of industry self-regulation at face value (as private profit motive and societal good frequently diverge) and oppose modest reforms such as the Dodd–Frank Act. But the mixed track record of transparency-based policies does imply that practitioners should be realistic about the limitations of existing mechanisms so that they do not preclude further policy innovation.

To a certain extent, development processes in natural resource exporting developing countries will also be contingent on the evolution of relations with natural resource importing countries, particularly the emerging economies of China and India. Currently, China and India are the second and fourth largest consumers and net importers of oil in the world,

with future consumption and imports projected to increase. Despite the principle of co-development that dates back to the Bandung Conference of 1955, the reality is that the benefits of increased South–South trade have essentially accrued disproportionately to the emerging countries importing natural resources more than to the developing countries exporting natural resources. The lack of engagement by Chinese and Indian firms with Western-initiated, transparency-based programs has been criticized, but it is precisely this "no-strings" approach—including with respect to associated soft loans and other development projects—that many governments in developing countries find particularly appealing. Of course, as China and India have found with respect to conflict associated with the oil industry in Sudan and South Sudan, there are also inevitable limits to the principle of non-intervention, as increased investment also compels deeper political engagement. How the risks of operating in natural resource exporting countries affected by corruption and conflict are negotiated by the governments and firms of natural resource importing countries—both developed and emerging—will have a strong bearing on whether the former manage to escape the resource curse. Whether or not future risk mitigation by states and corporations integrally incorporates aspects of transparency or alternative approaches emerge instead remains to be seen.

NOTES

1. Interestingly, some of the most influential initial research was facilitated by states and NGOs. Canada and the UK financed a conference in London in 1998, which resulted in the publication of Berdal and Malone (eds.), *Greed and Grievance: Economic Agendas in Civil Wars* under the aegis of the International Peace Academy (IPA) in New York. IPA remained at the forefront of this evolving body of research and also continually engaged with the UN Security Council. This was a clear (if perhaps rare) example of scholarly enquiry influencing policy responses.
2. Among those ranked the least corrupt are Canada (5), Australia (8), Norway (10), Qatar (19), and Chile (21); among those ranked the most corrupt are Central African Republic (154), Congo-Brazzaville (154), Papua New Guinea (154), Russia (154), Democratic Republic of the Congo (164), Kyrgyzstan (164), Venezuela (164), Angola (168), Equatorial Guinea (168), Chad (171), Sudan (172), Turkmenistan (172), Uzbekistan (172), Iraq (175), Afghanistan (176), and Myanmar (176).
3. These include Gazprom, Rosneft, PetroChina, Chinese National Offshore Oil Corporation (CNOOC), China National Petroleum Corporation (CNPC), Sinopec, Oil and Natural Gas Corporation (ONGC), Petronas, Saudi Aramco, and Sonangol. Notable exceptions include EITI participants Petrobras (Brazil), Pemex (Mexico), Statoil (Norway), and QatarPet (Qatar).
4. U.S. exchanges account for 57 percent of global market capitalization for oil and mining companies, including national oil companies such as CNPC (China), Petrobras (Brazil), Sinopec (China), ENI (Italy), and CNOOC (China); foreign oil firms such as Royal Dutch/Shell (Netherlands/UK) and BP (UK); and foreign mining firms such as Vale (Brazil), BHP Billiton (UK/Australia), Rio Tinto (UK/Australia), and Barrick Gold (Canada). Revenue Watch Institute, "Oil and Mining Companies on Global Stock Exchanges," <http://data.revenuewatch.org/listings>.

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CHAPTER 24

TRANSITIONAL JUSTICE AND DEVELOPMENT

PABLO DE GREIFF[1]

Introduction

At the highest level of generality, "transitional justice" refers to measures that are implemented in order to redress the legacies of massive serious crimes under international law.[2] These include prosecutions of those responsible, truth-telling exercises, reparations to victims, and institutional reforms to guard against recurrence of abuses. Given that this chapter makes part of a collection whose audience will consist of readers interested in development, it aims to show why development actors should be concerned about the legacy of human rights violations, and how transitional justice measures support positive development outcomes.

Efforts to establish direct links between transitional justice and development are just beginning to take shape, a delayed response which is surprising given that the two fields have been regularly deployed in the same contexts for more than two decades (see de Greiff and Duthie 2009; Mani 2008). This disconnect has only become more obvious with the trend to implement transitional justice measures in post-conflict and fragile settings which are the objects of intense activity on the part of development agencies (and which along with suffering severe deprivation and other developmental shortfalls suffer also acute justice deficits). The "Arab spring," in which claims for economic opportunity, political freedoms, and justice have been raised on a par, also provides a motivation to think about the connections between transitional justice and development.

Trends in thinking about development likewise invite reflection about the relationship between the field and transitional justice, as I will illustrate. Ever since development ceased to be thought of merely in terms of economic growth and started incorporating concerns about institutions, governance, the rule of law, and, in fact, history (see Harriss, this volume), space has been created—although not occupied—to consider the contribution that redressing past human rights abuses might make to development (for an interesting set of reflections about the role of the past in economics, though not focusing on human rights abuses, see Bayly et al. 2011).

The World Bank's *World Development Report 2011: Conflict, Security, and Development* has the potential to break the virtually absolute isolation between the two fields, to the advantage

of both. This is the first major document from the World Bank—an institution that on the one hand is not well-known for its interest in human rights, but that on the other, has significant impact in setting the international cooperation agenda—that makes reference to transitional justice and that places human rights violations at the heart of its analysis of conflict.[3] If the recommendations in the Report are followed up, one can expect that transitional justice and development programs will be better integrated in the future.

This chapter is intended to clarify why such integration is desirable. The fundamental idea is quite simple; there is no such thing as a radical new beginning. After periods of mass abuse, political and institutional space will not only have to be shared with those who suffered the brunt of the abuses, but the institutions would have shown themselves severely insufficient to guarantee even the most basic rights and interests. Development programs instituted in contexts in which massive human rights violations have taken place need to confront the legacies of such abuses, for some of the crucial institutions on which development relies will need not just to regain the trust of victims, but to demonstrate that they are reliable, generally trustworthy sources for the resolution of social conflicts. Leaving aside for the moment binding legal obligations[4] or perfectly defensible arguments that would show that addressing mass abuses is important in its own right, I will argue that dealing with the past is important for development purposes, both from the perspective of human development, and also because unredressed massive human rights violations undermine dispositions, norms, and institutions that are fundamentally important for future development. Perhaps the argument gains some plausibility for this audience if from the outset we keep in mind that transitional justice, to the extent that it represents an effort to reconstitute the force of basic norms, is neither concerned with victims or with the past *alone*: recognizing moral and legal obligations to address abuses of the past also has profound effects on current and future societal development and rule of law.

This chapter begins with a sketch of the notion of transitional justice and an account of some of the milestones in its emergence as a field. This is followed by a discussion of the impact on development of a failure to address the legacies of the past, concentrating on the effects of massive human rights violations on the weakening of agency and the depletion of civic trust or social capital. The next section addresses the question of how transitional justice can contribute to overcoming those effects by fostering recognition and trust, and beyond pointing at plausible causal pathways mentions a social mechanism through which transitional justice can operate, namely, its capacity to articulate and disarticulate social networks. The chapter concludes with a focus on the contribution transitional justice can make to the rule of law, a notion that has played an important role in recent development thinking, especially but not exclusively new institutionalism, and points out the second, and fundamental social mechanism underlying transitional justice, namely, norm-affirmation.

Concept of Transitional Justice

Obviously, this is not the place to attempt a full history of transitional justice. As is usually the case concerning the history of fields of practice, there is no agreement on the "genealogy" of transitional justice (for contrasting views, see Elster 2004; Teitel 2003; and Arthur 2009). The term itself is of recent vintage, dating from the early 1990s, although the measures that

form its core have a long history; criminal justice is of course as old as legal systems, and so is reparations (despite the differences between inter-state post-war reparations and the more administrative "reparations programs" which have become common in transitional contexts); truth-telling has long been a goal of judicial procedures but also of commissions of inquiry common in parliamentary systems. And the history of vetting as well as other forms of what we now call security sector reform (SSR) includes old practices such as the not so praiseworthy purges following the Second World War.[5]

I will limit myself to mentioning some "milestones" in the development of the field. Regardless of how deeply into the past the origins of transitional justice are traced by different authors, most agree that the Nuremberg trials were a seminal event, taken together with the various and in many ways continuing German efforts to "deal with the past," including reparations (Colonomos and Armstrong 2006; Authers 2006), denazification (FitzGibbon 1969), and memorialization initiatives (see Knowlton and Cates 1993).

The post-Second World War accountability exercises were followed by a lull in criminal accountability that lasted for around four decades. After the war was over, there was a sort of pendular swing in favor not just of de facto impunity but also amnesties, including those in Spain, Brazil, and Uruguay, and the "due obedience" and "final stop'" decrees in Argentina (not all of these amnesties were of a kind: see Weschler 1990 on Brazil and Uruguay; Nino 1996 on Argentina; Aguilar 2012 on Spain; and Freeman 2009 for a general account of amnesties). The policy of trials and punishment seemed to be replaced by one of "pardon and oblivion." At the international level, this sort of swing from prosecutions to impunity has often been explained by the Cold War.[6] Closer to the ground, it was not irrelevant that the transitions in the countries mentioned in what Samuel Huntington (1991) called "the third wave" of democratization and, in some of the transitions that followed, it differed crucially from the German "transition" in having been "negotiated," and consequently, transitions in which members of predecessor regimes retained significant power, sufficient to derail the transitional process if their interests were threatened.[7]

The fact that prosecutions were not carried out, however, did not mean that accountability efforts stopped altogether. They rather took a different form: in the countries of the Latin American Southern Cone, civil society organizations (some church affiliated or supported such as those in Chile and Brazil, some not, such as those in Argentina) never ceased their efforts to collect evidence of abuses. This information would eventually become crucial for the operation of truth commissions, the formation of which constitute another critical milestone in the development of transitional justice.[8] Thus, truth commissions were formed in Argentina (1983), Chile (1990), El Salvador (1992), South Africa (1995), Guatemala (1997), and since then in more than twenty-five countries (Hayner 2011: xi–xii; lists forty truth commissions established from 1974 to 2009).

This process of the consolidation of the field around a core of measures was greatly enhanced by the publication of the first three volumes of *Transitional Justice*, under the editorship of Neil Kritz (1995). Like the appearance of encyclopedias, which have an integrating effect on the disciplines that spawn them, these volumes were both a manifestation of, and a contribution to, the coalescence of a field of knowledge and expertise.[9] The exercise helped to lay out the principal elements of transitional justice measures, comprising criminal prosecutions, truth-telling, reparations, and institutional reforms, including vetting. As noted above, each of these has antecedents in practice. Criminal prosecutions stretch from Nuremberg through the domestic processes undertaken in Chile, Argentina, and other Latin American

countries, to the special courts established for Rwanda, Sierra Leone, and the former Yugoslavia, to the establishment of the International Criminal Court (ICC), and the subsequent debate on complementarity between international and national justice processes. Truth-telling has a long history in public inquiries, but developed a greater depth of practice with exchanges on comparable experiences of truth commissions, from Latin America to South Africa to Morocco. Reparations developed well beyond its original inter-state origins to incorporate administrative reparations from states to victims, both individually and at the community level. Vetting and institutional reforms to ensure civilian oversight of security forces, constitutional guarantees and accountability measures gathered force with the combination of experience from Latin America and the Central and Eastern European countries.

Kritz's collection is only one of many expressions of the accelerated pace in the transmission of knowledge characteristic of a globalized world which helped in the consolidation of the field. Other such manifestations included the various meetings in which expertise gathered in countries where transitional justice measures were first implemented was shared with countries that were grappling with these issues years later (Arthur 2009: 349); the gradual availability of international cooperation funding for work in this area; the formation of a specialized NGO; the increase in the number of courses and fellowships in academic centers in the North and the consequent global circulation of "experts." In short, the elements of a transnational network for the diffusion of expertise and the exercise of advocacy developed quite rapidly around transitional justice issues, and this network was an important factor in the consolidation of the field (see Keck and Sikkink 1998 on the general phenomenon of globalized networks around human rights issues).

The consensus that developed over time about the minimum core elements of a transitional justice policy is reflected, for example, in the UN Secretary General's Report (2004), "*The Rule of Law and Transitional Justice in Conflict and Post-Conflict Societies*. This report defines transitional justice as "the full range of processes and mechanisms associated with a society's attempts to come to terms with a legacy of large-scale past abuses, in order to ensure accountability, serve justice and achieve reconciliation" (UN Secretary General 2004: 4). The report enumerates the main components of a transitional justice policy mentioning explicitly criminal justice, truth-telling, reparations, and vetting, and, furthermore, stipulates that, far from being isolated pieces, these "mechanisms" should be thought of as parts of a whole: "[w]here transitional justice is required, strategies must be holistic, incorporating integrated attention to individual prosecutions, reparations, truth-seeking, institutional reform, vetting and dismissals, or an appropriately conceived combination thereof" (UN Secretary General (2004: 9). Just recently, the Human Rights Council adopted a resolution creating a Special Rapporteur for the promotion of Truth, Justice, Reparations, and Guarantees of Non-Recurrence which incorporates this understanding of the elements of the field.[10]

Impact on Development

Having established what transitional justice is, the main question in this section is why "dealing with the past" in terms of the legacy of human rights abuses is relevant to current and future development. While I have dealt with the conceptual linkages between transitional

justice and development in a more systematic fashion elsewhere (de Greiff 2009, 2011, and 2012), here I will make *use* of this work and concentrate on some considerations that might be more salient to development promoters. Specifically, I will argue first that systematic human rights violations undermine human capacities, and that therefore redressing those violations is a development goal in its own right. Second, that systematic rights violations undermine agency and social capital or civic trust, and that this also makes redressing and preventing these violations important from a developmental perspective.

Systematic Human Rights Violations Undermine Human Capacities: Redressing them is a development goal in its own right

The "phenomenology of victimhood" is dense and complex, but it overwhelmingly gravitates toward the conclusion that the pain and suffering endured through the killing of family members, torture, or disappearances is not only an outrage to rights, but also a direct detraction from development in any common-sense understanding of the term. Atrocities and their legacies clearly undermine most of the basic capabilities in Sen and Nussbaum's version of "human development"—that is, most of those capacities that make a life human (Sen 1999; Nussbaum 2002). These include longevity (life), bodily health, and bodily integrity, all of which are diminished in obvious ways by systematic abuses; the exercise of emotions ("not having one's emotional development blighted by fear and anxiety," Nussbaum 2002: 129); the ability to use practical reason (stunted by atrocities to the extent that their legacies lead to, among other things, great distortions in one's sense of control over one's own life plans); the capacity to engage in forms of affiliation that are free from humiliation and that exemplify respect, including equal worth; the ability to play (in the sense of being able to laugh and enjoy recreational activities); and the ability to have basic control over one's political and material environment—all of which are diminished or undermined in the wake of abuses.

Measures of development that do not take this into account risk missing obvious aspects of individual and societal welfare which are crucial to the experience of the people concerned, despite possible economic growth: in Tunisia before the 2011 revolution, for example, macroeconomic and social measures of development all showed strong progress, but grievances over abuses by the security forces and lack of opportunities for political participation (aside from dissatisfaction with microeconomic opportunities and with governance issues) played a large role in spurring the protests which eventually overturned the regime, and were clearly viewed by much of the population as a key measure of dissatisfaction with their welfare.

Systematic Human Rights Violations Undermine Agency and Social Capital: Restoring them is important for development

Serious human rights violations shatter normative expectations fundamental to our sense of agency in the world. The expectations that get broken whenever human rights are violated are not just whimsical ones; they are based on general norms—that is, they are expectations whose satisfaction we reasonably feel *entitled* to. They are expectations about, for example,

what constitutes legitimate treatment of others and at the hands of others, about situations in which it is "normal" to expect the assistance of others, about the state being the guarantor, rather than the violator, of fundamental rights, and so on. The very basic, fundamental nature of these expectations explains the pervasive fear that their defeat generates: victims experience a deep sense of normative disorientation (How could *this* have happened? If this happened, then *anything* can happen), of solitude (How could *anyone* do this to me, and, crucially, how come *no one* prevented it?), and of resentment (This should have *never* happened, I was entitled to better treatment). (See de Greiff 2009, and references therein.) In contexts of massive human rights abuses, non-victims often have the sense that after what happened to the victims, *no one* can be safe, no one can really know what to expect. The end result is a generalized weakening of agency, trust, and social capital, not only for victims but for society as a whole.

These effects can be parsed out in more detail. Massive human rights abuses can be said to weaken agency in at least two ways. First, through a version of "adaptive preferences." Poverty, for instance, is taken by the World Bank in its *World Development Report 2006: Equity and Development* to be a developmental blockage at least in part because it leads to diminished expectations (World Bank 2006: ch. 2, esp. 48ff.). Arjun Appadurai (2004: 68) frames the argument in terms of how deep poverty stunts "the capacity to aspire." The mechanism is arguably the same in both cases. Both poverty and victimization weaken the capacity to aspire and diminish people's expectations. This may obviously impact very basic developmental dynamics, such as the willingness of people to have their children travel to attend school or health clinics, the functioning of markets and trade, and investment in small enterprises.

Aside from the effects of massive human rights violations on individuals, there is another way in which this type of violations can be said to diminish agency. Systematic violations have effects not only on individuals' capacity to aspire, but also on their willingness to coordinate action with one another. It is not uncommon for the populations of areas which have known massive abuses to lead substantially more reclusive lives than they led before the violations, to withdraw from public spaces, to disengage from social networks. Take, as an illustration, a description of the effects of the years of terror in Argentina: "people avoided sensitive issues unless they were certain of the loyalty of the audience. Careless disclosures were as dangerous as deliberate reports. Vast portions of society sequestered themselves in their own family circle, restricting non-kin relationships to old friends. This tactic proved to be extremely isolating ..." (Malamud-Goti 1996: 114).

Of course, this is no mere fluke effect, but one of the intended (and predictable) consequences of the exercise of terror. The point is to disarticulate possible sources of organized opposition. Hampering social organization makes it significantly more difficult for people to *raise claims* against the institutions of the state. In the long run, however, this diminished capacity for social coordination constitutes an obstacle to development.

The basic insights stemming from the literature on social capital and civic trust can be introduced at this point in order to complete the case for the developmental relevance of dealing with the past. That trust between people is correlated with growth, and even with increased equity, there seems to be no doubt any longer. Large cross-country studies indicate that increases in levels of trust between people are associated with increases in growth both in gross domestic product (GDP) and investments, and that inequality is associated with lower trust levels (see Zak and Knack 2001; Knack 2002). Accounts of the developmental

impact of civic trust have centered on its contribution to diminishing transaction costs, and, when absent, on the decrease in rates of investment. Several cross-national studies using a variety of indicators show strong correlations between respect for civil and political rights and economic growth, and show conversely that violence and political instability are negatively related to growth rates and investment (see World Bank 2011: chs. 2 and 3).

In order to move beyond mere correlations, a few words about civic trust are in order. The sense of trust in question here is not the thick trust that characterizes relations between intimates, but neither is it reducible to a mere expectation of regularity or predictability. Trust, as an alternative to monitoring and the appeals to sanctions, involves shared normative expectations: I trust someone not merely when I experience confidence in the regularity of his or her behavior—I can be highly confident that in grossly corrupt systems officials will predictably try to extort me, but that, of course, does not mean I trust them—but rather, when I am convinced that among that person's reasons for actions is a commitment to values, norms, and principles that we share. In dealing with strangers and with institutions in complex and highly differentiated societies, the relevant values, norms, and principles are abstract and general. So, we trust an institution when we act on the assumption that the institution's constitutive norms are shared by those who run and participate in the institution.

This account of the effects of massive human rights violations, which links a norm-based account of victimhood (rights violations shatter normative expectations fundamental to our sense of agency in the world) with a norm-based account of civic trust, helps explain why dealing with the past should be of interest from the standpoint of development. Aside from the arguments about the effects of systematic violations on human capacities, on agency, and on civic trust or social capital, this account should be helpful in two ways: first, by providing an explanation of how the effects of serious human rights violations ripple from direct victims to much broader constituencies, the account clarifies that justice is not a matter of interest to victims alone. To the extent that the violation of fundamental rights is at the same time the breach of general norms, *everyone* is affected by it. Ultimately, this is not only a function of bonds of concern or even of relations of dependence, but mainly, a function of the nature of the norms that are shattered when human rights are violated—namely, the general norms that give rise to the expectations that undergird basic agency and social competence. Focusing on the diminished agency (at least in the sense of the counterincentive people receive for *raising* claims) not just of victims but of entire communities that comes in the wake of massive violations of human rights helps us to see the developmental relevance of "dealing with the past."

Second, and more importantly, the account clarifies that the reason why confronting past atrocities is relevant for development purposes goes beyond their spill-over effects from victims to others—what in a sense is not an irrelevant issue of numbers. It also deepens our understanding about the way the effects work: massive human rights violations do not simply diminish the capacity for agency, the willingness of people to raise claims, and in that sense their possibility of initiating action in the world; for development purposes, it may be more compelling to stress that the violations thereby diminish the possibility of having people *act together*. One does not need to agree with the details of the social capital literature to acknowledge that unaddressed massive human rights violations make social coordination more difficult, that this has developmental consequences, and therefore to consider seriously whether the type of redress offered by transitional justice measures can, indeed, make a contribution to development.[11]

There is a significant literature on the negative impact of authoritarianism on levels of civic trust and the depletion of social capital in the Central and Eastern European countries (see Kornai and Rose-Ackerman 2004; Rainer and Seidler 2009), and reference has already been made to a similar treatment of the Argentinean case (Malamud-Goti 1996). There is nothing peculiar about these cases. The argument in this section is meant to explain the general mechanisms at play. I will close with a comparison between two countries meant to illustrate the huge developmental blockage that the inability to deal with the past represents and the advantages of finding ways of doing so. Contrast the experience of Bosnia-Herzegovina with that of South Africa. In Bosnia-Herzegovina, while important advances were made in increasing citizen trust in some institutions after the war—notably the judiciary and the army, due to vetting and professionalization measures—the lack of an accepted shared narrative over responsibility for the war undoubtedly plays a role in blocking collective action at national level, constraining important reforms that the society would need to address social, economic, security, and fiscal challenges, not to mention the prior actions necessary to move forward on European Union accession. In South Africa by contrast, while society still faces political tensions and developmental challenges as well as outstanding claims related to accountability for specific abuses, recognitions of the past by leadership, the truth commission's work, and associated measures have created a largely shared narrative of Apartheid history across South African society. This in turn has enabled it to combine redistributive measures with responsible macroeconomic management and to face new challenges, whether on social and economic policy or in dealing with the recent popular debate over appropriate artistic freedom related to images of leadership.

Fostering Trust

Accepting the adverse effects of a failure to address the legacy of the past, there is still, of course, an outstanding question: how can transitional justice measures help? One way of answering this question would be by marshaling the empirical data that would show that in fact, the implementation of the measures contributes to overcoming the developmental blockages mentioned, in particular, that they strengthen human capabilities, help rectify adverse terms of recognition and resolve high degrees of social and institutional mistrust. This sort of empirical work is in its infancy.[12] There is no agreed upon measuring methodology and, indeed, no agreement about what to measure to begin with (see van der Merwe, Baxter, and Chapman 2009; Duggan 2010). While some of the results of incipient quantitative research are heartening (see Olsen, Payne, and Reiter 2010; Sikkink 2011) most of it consists of efforts to establish correlations, and this will rarely be sufficient to settle any substantive disagreement. Here, then, I will rather move to an explanatory plane and sketch, albeit very briefly, the reasons why it makes sense to think that transitional justice can contribute to the accomplishment of developmental ends, trying to illustrate the claims with some examples.[13] Needless to say what follows is not a *substitute* for empirical verification. But it is significant that it is possible to offer an account of the causal links that can lead from the implementation of the measures to these results.

Here nothing more than a sketch of those links is possible.

Recognition

Arguably, the various transitional justice measures aim at providing recognition to victims (see Honneth 1995, 2007; on the notion of recognition). The type of recognition that is relevant is one that acknowledges the victims' status as victims and the abuses to which they were subject, gives public space to their stories, and tries to reverse the marginalization which they typically suffer. But this is not all. In fact, it is even more important to recognize their status as *rights bearers*, ultimately, as co-participants in a common political project, that is, as *citizens*.

How do the measures promote this aim? Truth-telling mechanisms explicitly provide a forum for acknowledgment by the state of victims' experiences and responsibility for abuses; prosecutions by affirming that the violation of the rights of others shall not remain inconsequential; reparations by signaling that the state takes violations of rights sufficiently seriously as to mobilize resources, something that typically involves the expenditure of "moral capital" as well. Finally, institutional reform, with vetting processes as a starting-point, contributes to recognizing people as rights-bearers to the extent that it re-affirms the force of norms according to which state officials are public servants, and that, from these norms, flow rules about job retention, promotions, and dismissals. These mechanisms are often very powerful vehicles for providing voice to marginalized groups in society, which is in itself a poverty reduction goal. In Morocco, for example, the truth commission recognized for the first time, in public hearings, the experience of women subjected to sexual and other forms of abuses as part of state-sponsored repression. In Peru, the truth commission gave voice to men and women from ethnic communities who had long been marginalized from most economic, social, and developmental debates.

Hence transitional mechanisms can promote individual improvements in welfare by acknowledging people's stories, desire for justice, and rights to compensation—and, perhaps more importantly, by giving them channels of voice and recognition as having equal citizenship rights. Transitional justice measures can be seen as a set of judicial and non-judicial measures that serve to signal the significance of the status of citizens as rights bearers. This is a not inconsequential shift when one thinks of the demands displayed during the Arab Spring: polling of citizens in these and other countries have noted that they place justice and accountability among their highest priorities, along with practical concerns such as security and job creation.

Fostering Civic Trust and Positive Social Capital

The argument concerning the trust-inducing potential of transitional justice measures must start by reiterating the point that trust should not be reduced to mere empirical predictability, but that it involves an expectation of a shared *normative* commitment. Trusting an institution, the case that is particularly relevant for us, amounts to assuming that its constitutive rules, values, and norms are shared by its members or participants and are regarded by them as binding. So, to illustrate, predictable abuses on the part of police forces, from extortion to torture, needless to say, do not produce confidence in them. The lived experience of the police force's willingness to protect all citizens regardless of their political, social, religious or ethnic affiliation, and in accordance with the law, does.

How do transitional justice measures promote this sense of civic trust? Prosecutions can be thought to promote civic trust by reaffirming the relevance of the norms that perpetrators

violated. Judicial institutions, particularly in contexts in which they have traditionally been essentially instruments of power, show their trustworthiness if they can establish that no one is above the law. View the effect of the Nuremburg trials, the prosecution of Charles Taylor, or that of both senior and junior military officials in Chile and Argentina. An institutionalized effort to confront the past through truth-telling exercises might be seen by those who were formerly on the receiving end of violence as a good faith effort to come clean, to understand long-term patterns of socialization, and, in this sense, to initiate a new political project around norms and values that this time around are truly shared. This was part of the point behind the South African Truth and Reconciliation Commission. Reparations can foster civic trust by demonstrating the seriousness with which institutions now take the violation of their rights, a seriousness that is manifested, to put it bluntly, by the fact that "money talks"—and so do symbolic reparations measures—that even under conditions of scarcity and competition for resources, the state responds to the obligation to fund programs that benefit those who were formerly not only marginalized but abused. Chile and Morocco, for instance, have valuable lessons to teach in this area. Finally, vetting can induce trust, and not just by "re-peopling" institutions with new faces, but by thereby demonstrating a commitment to systemic norms governing employee hiring and retention, disciplinary oversight, prevention of cronyism, and so on. Bosnia-Herzegovina, post-Dayton, established an ambitious vetting program, and Argentina managed to vet, albeit indirectly, promotions to the highest ranks of the military.

In addition to pointing out the causal pathways that may lead from the implementation of transitional justice measures to the provision of recognition and the strengthening of civic trust which are relevant for the achievement of development goals, it is worth pointing out that the present account allows for the formulation of the social mechanisms through which transitional justice can achieve these (On the notion of social mechanisms, see Hedström and Swedberg 1998). The two main mechanisms are manifestly relevant from the standpoint of development; these are *norm-affirmation* and the *articulation and disarticulation of social networks*.[14] I address norm affirmation in the conclusion.

Dismantling of "Spoiler" Networks and Negative Social Capital

To start with the "negative" first, transitional justice measures have the capacity to disarticulate some social networks, and to respond to pernicious forms of social capital, and both are developmentally relevant. The Central American cases provide ample evidence that networks within security forces who have conspired or been used to carry out abuses are frequently recycled into organized criminal groups involved in illegal trafficking activities, or that they remain as a "standing force" that threatens future institutional and even political change. Transitional justice measures aimed at institutional reform—vetting, civilian oversight of the security forces, professionalization programs—help lower the risks of "spoiler" networks which may challenge future development.

Articulating Civil Society Networks and Fostering Social Capital

Transitional justice measures also serve to help articulate social capital, through incentivizing the formation of civil society networks. There is sufficient international experience with transitional justice measures now to assert confidently that one of the virtually inevitable

consequences of even putting one of these measures up for discussion in the public agenda in a country—let alone implementing one such program—is the formation of a plethora of civil society organizations. Transitional justice catalyzes civil society organization. This is as true of reparations measures as it is of truth commissions, and as true in South Africa as it is in Morocco and Peru. We are currently watching this mechanism in action in Tunisia and even in Egypt, where civil society organizations doing work on transitional issues are multiplying rapidly. This is no mere unintended albeit frequent correlate of transitional justice measures; my point here is that it is an important explanatory mechanism: transitional justice measures work, to the extent they do (that is, they help to provide recognition and to promote civic trust), in virtue of their success in catalyzing the (re)articulation of networks.

Rule of Law

The implementation of transitional justice measures can be considered both as a manifestation of development in its own right—for justice is a part of development rather than outside it—and as an instrumental contribution to the attainment of conditions that are needed for development. This dual character of transitional justice is not unlike that of another concept it is closely related to in both theory and practice, namely, the rule of law, which has also been thought to be both instrumentally and inherently valuable. Virtually all transitional justice measures have been defended on the basis that they promote the rule of law (for a review of some of the relevant arguments, see de Greiff, 2006).

In this final section I will shed this reticence, not the least because of the prominent role that the rule of law arguments have long played in development thought, a role highlighted in institutionalist strains in economics and development (see North, Wallis, and Weingast 2009). North and new institutionalists take a commitment to "liberal" associational norms and to the constraints on the distribution and exercise of powers through formal laws that regulate, among other things, the very process of institutional change, in other words, the commitment to the rule of law, to be a critical if not *the* critical explanatory factor in development.

Instead of rehearsing the arguments for the developmental relevance of the rule of law, I will continue with the explanatory turn I took in the previous section and outline the way in which transitional justice can be thought to strengthen the rule of law. The various transitional justice measures contribute to strengthening the rule of law as follows: criminal trials that offer sound procedural guarantees and that do not exempt from the reach of justice those who wield power illustrate nicely the generality of law; truth-telling exercises that contribute to understanding the many ways in which legal systems failed to protect the rights of citizens provide the basis on which, *a contrario*, legal systems can behave in the future; reparations programs that try to redress the violation of rights serve to exemplify, even if it is ex post facto, the commitment to the notion that legal norms matter; and, finally, institutional reform measures, including those that screen out those who abused their positions, help to make rule of law systems operative for the future in the service of all citizens.[15]

Consistent with the interest in understanding how the measures can be thought to attain whatever ends are attributed to them, and not just in observing correlations, here again I think it makes a difference not just to establish possible causal pathways but to articulate a

social mechanism: the overall strategy I have followed up to this point has been one that emphasizes the importance of norms; a norm-based account of the effects of human rights violations (including the weakening of agency and the depletion of social capital) has been linked to norm-based accounts of recognition and of civic trust, as two of the ends which transitional justice can promote. There is of course, no need to add that the notion of the rule of law is itself norm-based. There is no plausible understanding of the rule of law that does not depend on insisting on the centrality of some norms. More interesting, then, is to point out that providing recognition, promoting civic trust, and strengthening the rule of law, depends upon the successful affirmation of the same norms: recognition and civic trust are closely related to one another: recognition implies respect for a certain status, a specific *standing*, that of a legal subject—and thereby one possessed of rights, defined in terms of basic norms. It is precisely on this ground that persons can develop the attitudes and dispositions in their interactions with others who remain, largely, strangers, and in their interactions with impersonal institutions, which characterize (civic) trust. The status in question, that of *citizen*, and the dispositions that accompany it, rest, in turn, on the web of norms that constitute the democratic rule of law, the basic means both of stabilizing expectations and diminishing risks, on the one hand, and, on the other, of allowing claims-raising as a fundamental activity when the norms are breached.

The policy implications of this approach to the links between transitional justice and development are several. In the context of the wider debate on development goals post-2015, it raises questions as to the incorporation of justice aspects as both an enabling goal and a final measure of development outcomes (by no means only transitional justice, rather transitional justice mainstreamed into other measures of progress in meeting people's aspirations for justice). In operational terms, it would argue for closer links between national processes of decision making to address crimes of the past, with future priorities. This is not an argument for giving absolute primacy to transitional justice measures in national development planning—like other measures to improve welfare and governance, trade-offs will be needed on the timing, cost, and sequencing of measures—but rather to consider transitional justice as an integral part of societal planning (and budgeting) in situations of post-conflict recovery or transition from authoritarian rule.

Finally, this chapter raises questions for a future research agenda. I have noted examples of existing research on how citizens perceive accountability for past abuses as part of their overall welfare, and on the impact of transitional justice measures on economic and social development. An equally promising angle for research is the reverse causal link: how do development measures—in education, in civic and community empowerment, in regulatory reform—support outcomes in terms of accountability for past abuses? Both these angles merit more research in the coming period. This is particularly relevant since the field is seeing a "fourth wave" of demands for transitional justice, most notably in the Arab States, but equally involving countries in Europe, Asia, Africa, and Latin America which have yet to fully grapple with these issues.

NOTES

1. The views expressed in this chapter do not necessarily represent those of the ICTJ. It tracks closely views elaborated in much more detail in de Greiff (2009, 2011, and 2012). My gratitude

to Sarah Cliffe and David Malone who provided extensive comments, and to Shaina Wright for research assistance.

2. In the past that transitional justice measures were applied largely in cases where gross violations of human rights had taken place. Its increasing application in post-conflict settings requires an expanded reference: "serious crimes under international law" including violations of both international human rights law and humanitarian law. In the remainder of the chapter, I relax the use of these terms and mention non-technical terms such as abuse, atrocity, and terror to refer to phenomena to which transitional justice seeks to respond.
3. Full disclosure: I participated in the process leading up to the production of the WDR, advising the team responsible for the Report on justice-related issues.
4. Legally, transitional justice responds to violations of foundational elements of the international legal architecture: among others, the 1948 Convention on the Prevention and Punishment of the Crime of Genocide; the International Covenant on Civil and Political Rights; the 1984 Convention against Torture and Other Cruel, Inhuman or Degrading Treatment of Punishment; the International Convention for the Protection of All persons from Enforced Disappearance; the Geneva Conventions of 1949; the 1977 Protocol Additional (No.I) to the Geneva Conventions of 12 August 1949; and the Protocol Additional (No.II). Several UN documents reflect the specific ways in which transitional justice measures constitute an effort to give substance to internationally binding obligations to secure the rights to justice, truth, and reparations. UN Secretary General, *The Rule of Law and Transitional Justice in Conflict and Post-conflict States*, U.N. Doc. S/2004/616, August 23, 2004. *Report of the Independent Expert to Update the Set of Principles to Combat Impunity, Diane Orentlicher—Add. 1: Updated Set of Principles for the Protection and Promotion of Human Rights through Action to Combat Impunity*, U.N. Doc. E/CN.4/2005/102/Add.1, February 8, 2005; and the *Basic Principles and Guidelines on the Right to a Remedy and Reparation for Victims of Gross Violations of International Human Rights Law and Serious Violations of the International Humanitarian Law*, U.N. Doc. A/RES/60/147, December 16, 2005.
5. Of course, this is not to say that transitional justice has adopted these practices unmodified. The history of transitional justice has included efforts to avoid the vices of some of these practices, including the retroactive application of law in criminal procedures, the politicization and lack of transparency of commissions of inquiry, the state-centric nature of old reparations, and the arbitrariness of mass purges. For some representative samples of literature on each of the four basic measures, see de Greiff (2006); Mayer-Rieckh and de Greiff (2007); Lutz and Reiger (2009); and Hayner (2011).
6. Arthur (2009) usefully reminds us, however, that it was not just the Cold War, but the apprehensions of European colonial powers, particularly of France because of its "Algerian problem," which explain the post-war blockage concerning the establishment of a permanent international criminal court (until the adoption of the Rome Statute of the ICC in 1998).
7. José Zalaquett (1988) presents the first attempt to establish correlations between types of transitions and possible outcomes. This became of interest to political scientists. Huntington (1991: 209) presents a similar model. Correlations between transitional justice and other factors including the predecessor regime's degree of intolerance, post-transitional elite turnover, and previous experiences with some of the measures have been attempted in the literature.

8. The information collected over the years by civil society organizations would also play an important role in the trials that started much later in Chile, and that resumed in Argentina after 2001. Chile and Argentina each have more than five hundred ongoing cases against former abusers. See Filippini (2009) and Collins (2011).
9. Highlighting the publication of Kritz's *Transitional Justice* as a milestone in the development of the field is not to be taken as an argument about the importance of "academic" literature. In fact, the divide between academics and practitioners, especially in the earlier stages of the development in the field, is artificial, for a good number of the individuals who helped give shape to the field in its origins were both academics *and* practitioners (see Arthur 2009: 344–5).
10. A/RES/HRC/18/7, 11 October 2011. The author was elected by the HRC for this position.
11. It may be objected that this implies that economic activity automatically diminishes with the onset of human rights violations, which empirically may or may not be the case. The objection, however, oversimplifies the complicated relationship between politics (broadly conceived) and economic activity. The argument is that trust is one (of many) enabling conditions of social coordination, and therefore weak bonds of ("bridging") trust do not, as in a uni-causal mechanism, impede growth. Obviously, reality is more complicated than that.
12. I hasten to add that this is true not just of transitional justice but of most complex interventions in the social world, even those with a longer history and both synchronously and diachronically larger budgets. These include SSR programs, rule of law and justice reform programs, and, indeed, a good part of development assistance work.
13. Some caveats are in order: the argument is not predictive, but explanatory. Whether the implementation of transitional justice measures will bring about these effects or not in a particular situation is an empirical matter that cannot be decided a priori. And, obviously, the argument is one about contributions to the overcoming of those developmental blockages brought about by human rights violations, not about either causal sufficiency, or about developmental blockages *tout court*. See de Greiff (2011, 2012) for a longer discussion about the assessment of the impact of transitional justice initiatives.
14. I am using "networks" here to refer to both formal and informal, official and unofficial "groups," organizations, or enterprises (and thus in a sense that is akin to the organizational dimensions of the established "practices" to which Douglass North (1991) refers with the term "institutions."
15. This commitment to the rule of law is not exhausted by a commitment to a formalist understanding of the notion, for such an understanding is compatible with many forms of arbitrariness, as long as these are regularly and predictably patterned. If the notion of the rule of law is to have any critical purchase, it has to take seriously the idea that legitimacy refers also to characteristics of the very process of *making* laws and to the substance of the laws thus produced.

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ENVIRONMENT AND HEALTH

In contrast to the preceding sections, the subjects of environment and health are more rooted in the natural sciences. Each of the following chapters tackles a concept associated with the natural world, understanding and describing a biophysical reality independent of human agency or the values of society. At first glance, these are technical fields of knowledge and the domains of agronomists, water engineers, and medical practitioners. Some degree of familiarity with the tools of natural science inquiry is useful, including a comfort with quantitative measures, a critical perspective willing to subject theories to empirical testing, and a willingness to revisit or discard cherished explanations when they are proven false. Yet no reader should be discouraged from entering this section.

In keeping with the spirit of this volume, each chapter is written with the intention to offer something to both the casual and expert audience. The former may gain a basic understanding of each concept and appreciation for its key works and thinkers. The latter may gain insights into how each concept has contributed to the wider social and political dimensions of international development. Indeed although each of the authors refers to the natural world, each chapter quickly identifies how real life decisions over food, water, land, and health are intimately tied to the institutions society uses to govern itself. Thus this section illustrates the interplay of natural and social science, the porous membrane between an impartial "world without us" and the influence of the human condition.

Three sets of observations are useful for introducing this section. First is that natural science has come to provide much of the substance of what is considered as development. Second is that the idea of sustainability, after pulling together thinking about environment and development, has now largely torn apart into discrete topics. Third is that thinking on development has taken a positivist turn, with natural science explanations shaping how development is understood.

The Substance of Development

While thinking on development may not have experienced a paradigm shift, with older theories being displaced by newer ones, the practice of development certainly incorporated multiple scientific revolutions. In the post-war period, natural sciences and engineering were expected to provide the "freedom from want" described by Roosevelt in 1941. Looking

back at the key wins for development, one experiences what historian David Edgerton (2009) describes as the "shock of the old." Vaccines, bed nets, and water treatment trace their roots to nineteenth-century efforts in public health, while the hybrid crops of the Green revolution relied more on centuries-old plant breeding than modern genomics. Science raised the production function to derive more benefit from the limited bounty of a finite world. Sixty years after Roosevelt's address, half of the Millennium Development Goals would have an explicit focus on food, health, and physical surroundings.

In practice, the way science evolves is often longer term, and less predictable, than anticipated. Billions of dollars in development finance were, and continue to be, invested in intentional efforts to create vaccines or improve crops. Meanwhile some fields of science evolve in tandem with application. The first aircraft flew before aeronautics could fully explain how they did so. It was once thought that the basic human needs of food, water, and health would be met long before the luxuries of television or the Internet reached all corners of the world. Yet today more people have access to a mobile phone than to a toilet. Science provides tools, yet its influence depends on whose hands it empowers: whether by governments designing smarter health systems, or poor farmers growing more nutritious food. In sum, natural science contributes much of the substance of what is considered as development.

The Road to Rio and Back Again

Out of the shadow of the Second World War emerged a renewed concern with the idea of international community, of nations and people working together toward a common future. While the roots of environmental conscience can be traced back to historic concerns of preventing famine, conserving wilderness, and securing public health, the 1960s and 1970s saw such threads weave together in new ways. Rachel Carson (1962) warned of a "silent spring" caused by the effects of chemical pollution on animal and human health, and Barbara Ward (1966) offered a vision of humanity inhabiting a finite Spaceship Earth. In 1972, the Apollo 17 mission captured a photo of the Earth from space, which soon became a symbol of the interdependence of humanity. The United Nations convened a conference on the human environment in Stockholm, marking a new awareness of the problems with industrial development, such as acid rain and air pollution. These issues catalyzed action, as their science was well understood, with clearly identified point-source causes, and with measurable impacts on nature and the economy. This same tractability underpinned efforts to curb water pollution in many countries, and the Montreal Protocol to phase out substances that deplete the protective ozone layer in the upper atmosphere.

The 1980s and 1990s saw this consciousness pull together under the idea of sustainable development. The World Conservation Strategy (IUCN 1980) argued that the conservation of nature required alleviating poverty, while the Brundtland Commission (WCED 1987) called for development to "meet the needs of the present without compromising the ability of future generations to meet their own needs." Thinking on the environment acquired the concepts of natural capital and intergenerational equity. The United Nations once again convened a conference on environment and development, this time in Rio de Janeiro, around the issues of deforestation, desertification, loss of biodiversity, and climate change. These

were more intractable issues plagued by diffuse causes and uncertain consequences. They could not be easily addressed through technology or regulation, but instead raised a fundamental question of what type of development to pursue.

In the twenty-first century, thinking on environment and development has once again torn apart into its constituent parts. The Agenda 21 action plan proved unwieldy and has been largely forgotten, while climate change negotiations took on a life of its own. Water, energy, health, and agriculture appear to offer a more tangible set of entry points, gravitating action toward the nation-state once more. Yet what has endured is a realization that the interface of environment and development is not merely matter of understanding the bio-physical reality of ecology or epidemiology. It is instead about how this bio-physical reality is affected, and potentially resolved, by the economic and social processes through which society governs its interaction with the environment.

Development Turns to Positivism

Natural science has subtly reshaped the intellectual rules that guide thinking on development. Early development thinkers were steeped in classical literature and the writing of philosophers. A generation ago, the test for accepting a development theory was whether it helped understand the world: Did it interpret historical events or predict what might happen next? Stages of economic growth and demographic transition were concepts valued for their ability to diagnose the problems facing society and for prescribing action. Today the rules of natural science exercise an increasing influence on the imagination. Thinking on development has become much more data-driven. The apparent success of mathematical models in economics, or randomized-controlled trials in clinical medicine, has inspired the application of these methods more broadly. The search for development shifted from a quest for explanation, to a search for "what works," for narrowly defined links of cause-and-effect between interventions and outcomes.

Development theories must now be falsifiable, and development practice to be based on empirical evidence. Grand narratives still shape global agendas, but in everyday life the practitioner is more likely to speak of policy experiments, measurable targets, and development indicators. Yet the reality of development is messy, full of wicked problems with multiple variables and causal mechanisms, most of which cannot be controlled. Today people are adapting to change in the world's glacier-fed rivers and semi-arid lands often without relying on the computer models of greenhouse gases.

Looking Ahead

This section of the volume assesses concepts associated with the role of environment and health within development. M. S. Swaminathan, Rajul Pandya-Lorch, and Sivan Yosef (Chapter 25) describe how thinking on food security evolved over the past century, from on-farm production of staple crops, to broader concerns of nutrition and links with markets.

Cecilia Tortajada (Chapter 26) examines the drivers of water use, including economic growth, population, energy use, and agriculture, and cautions that there is a tendency to settle for the easiest rather than the right solution. Julio Berdegué, Tomás Rosada, and Anthony Bebbington (Chapter 27) define rural transformation as reorganizing society in a given space, and identify poverty and inequality "traps" that cause uneven development outcomes. Ben White, Saturnino M. Borras Jr., and Ruth Hall (Chapter 28) trace how land reform gained and lost ground in development debates, to regain prominence with contemporary concerns of gender and intergenerational equity. On climate adaptation, Fatima Denton (Chapter 29) encourages looking beyond biophysical impacts, to strengthening institutions and governance as a means to foster resilience and reduce vulnerability. Tim Evans (Chapter 30) traces waves in thinking from tropical health focused on diseases endemic to developing countries, to global health focused on overcoming inequity. Finally, Nandini Oomman and Farley Cleghorn (Chapter 31) identify the conditions needed to eradicate diseases and reflect on future directions given growing demands for health care in a reality of fiscal constraint.

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CHAPTER 25

AGRICULTURE AND FOOD SECURITY

MANKOMBU SAMBASIVAN SWAMINATHAN, RAJUL PANDYA-LORCH, AND SIVAN YOSEF

INTRODUCTION

In the wake of the 2007–8 and 2010–11 world food price crises, agriculture and food security are high on the global agenda. They were last at the forefront in the 1960s and 1970s, when poor weather reduced harvests in many countries, cereal stocks were perilously low, food prices were high and volatile, and food shortages and famines were killing millions of people in Asia (notably Bangladesh and China) and Africa (notably Ethiopia and the Sahel). The World Food Conference was convened in 1974 to assess the magnitude of the food problem and to discuss solutions. National and international policy-makers ramped up investments in agricultural science and technology; in hard and soft infrastructure such as irrigation, electricity, roads, and education; and in improved policies to encourage farmers to grow and sell more food and to conserve natural resources.

These efforts led to enormous gains in agricultural productivity, increased the global availability of food, and lowered food prices. The Green Revolution—the breeding of improved rice and wheat varieties, combined with increased use of fertilizers, irrigation, and supportive public policies—spread rapidly across Asia and improved the livelihoods of an estimated 1.8 billion people (Hazell 2009). Agriculture was a key driver of growth and development for many of the world's poorest countries and helped countless people improve their incomes and thus their access to food. The proportion of the world's population going hungry declined dramatically, from about one-third in the late 1950s to about one-eighth in the late 2000s.

As world food supplies burgeoned and food prices fell, policy-makers became complacent and began to neglect agriculture. Investments in agriculture did not keep pace with other investments and agriculture's profile on the global agenda slowly diminished. Yet the number of people going hungry remains stubbornly at just below one billion. In 2006–8, 850 million people in the world were undernourished, a number virtually unchanged from 1990–2. Of course, while the total number may have remained unchanged, large numbers of people have moved in and out of hunger over this period: in approximate terms, for every

person who moved out of hunger in China after 1990, another one moved into it in Africa or South Asia. In 2011, the hot spots of hunger were South Asia (home to 40 percent of the world's hungry people) and sub-Saharan Africa (25 percent) (FAO 2011). Going beyond calorie deficiency, about 2 billion people suffer from micronutrient malnutrition, also known as "hidden hunger," caused by a lack of critical dietary micronutrients such as Vitamin A, zinc, and iron (WHO and FAO 2006).

The world food price crisis of 2007–8—wherein weather-related shocks such as droughts and floods were compounded by escalating demand for agricultural products from emerging economies, high oil prices, the expansion of biofuels, and panic-induced protectionist policies—sharply raised food prices, ignited food riots around the world, and threw many millions of people into hunger and poverty. The factors that pushed up prices then were again at play a few years later, making it evident that a fundamental transformation of the world food system was underway. Agriculture is no longer about food production only; the purpose of agriculture has broadened to development outcomes such as nutrition and health, sustainability of natural resources, and remunerative employment. An Evergreen Revolution—increases in agricultural productivity without associated ecological harm—is needed.

This chapter reviews the evolution of food security and agricultural development; assesses how agriculture has contributed to improving food security; highlights the experiences of India, China, and Ethiopia; and looks forward to opportunities for leveraging agriculture to improve food and nutrition security.

The Evolution of Food Security

The term "food security" originated in the mid-1970s when the World Food Conference defined food security in terms of assuring the availability and price stability of food: "availability at all times of adequate world food supplies of basic foodstuffs to sustain a steady expansion of food consumption and to offset fluctuations in production and prices." In the early 1980s, the UN Food and Agriculture Organization (FAO) included a focus on physical and economic access to food at the individual and household levels. The 1986 World Bank Report on Poverty and Hunger brought in temporal aspects, distinguishing between "chronic" and "transitory" food insecurity—chronic food insecurity being associated with structural poverty and low incomes, and transitory food insecurity being associated with natural disasters, economic collapse, or conflicts (World Bank 1986). This was complemented by Amartya Sen's entitlement approach toward analyzing famines, which concluded that food insecurity depends as much on people's inability to access food (because of poverty or inequitable distribution systems) as on the actual supply of food (Sen 1981). The "right to food" movement has also been influential in framing food security as a human right, a right that is derived from the International Covenant on Economic, Social and Cultural Rights. Currently, twenty-three countries explicitly refer to this right in their constitutions.

Today the internationally accepted definition of food security is that emerging from the World Food Summit of 1996: "Food security exists when all people, at all times, have physical and economic access to sufficient, safe, and nutritious food that meets their dietary needs

and food preferences for an active and healthy life." This definition reinforces the multidimensionality of food security—availability, access, and absorption/utilization of food:

- *Availability* refers to the physical availability of food in desired quantities as determined by production net of feed, seed, and wastage plus net imports and draw-down of stocks. As noted in the World Food Summit definition, food security also depends upon the ability to obtain food at all times, including through economic or climatic shocks or non-harvest seasons, as well as the availability of locally acceptable foods, as compared to taboo foods which may be proscribed on the basis of culture, religion, health, or economic value.
- *Access* is determined by the bundle of entitlements related to people's initial endowments and what they can acquire, especially in terms of physical and economic access to food.
- *Absorption* is the ability to biologically utilize the food consumed, which is turn is related to the availability of safe drinking water, sanitation, hygienic environment, primary health care, and nutritional knowledge. This broadening of food security toward nutrition security is a recent evolution.

Food Security and Agricultural Development

Agriculture and food security have been intertwined throughout human history. Agricultural growth is critical for improving food security, most immediately by increasing food production and availability. Agriculture grows crops and livestock for food and raw materials and is the main source of calories for the world's population. The availability of food is a necessary but not a sufficient condition to assure food security. The rural poor are often net consumers of food, and poor households can spend over half of their income on food (Headey 2011). Agriculture, as the employer of approximately 50 percent of people in low-income countries, raises the incomes of the poorest and most food-insecure people. Non-farm employment that is linked to agriculture, such as food processing, manufacturing, and transportation, also employs many rural people. By acting as a source of income, agriculture and agriculturally-related sectors enable people to purchase the food they need to augment what they can grow themselves.

Higher incomes also allow households to purchase higher-quality food, safer food, and a more diverse diet, gains that contribute to the more nutrition-focused dimensions of food security. Income growth in households and across countries has been projected to significantly reduce malnutrition, though direct health and nutrition interventions are also needed to ensure the impact (Haddad et al. 2003). Whether a higher income can successfully translate into better nutrition is also influenced by the level of power women have within the household. Women are more likely to spend the income that is under their control on food, health care, and the education of their children (Meinzen-Dick et al. 2012).

Closely related are the linkages between agriculture and ecology. Poor management of natural resources such as land and water can lead to soil erosion, water siltation, water-borne diseases, and even water scarcity. Similarly, poor farming practices can lead to contamination of food and water by microbes, chemicals, and toxic metals. These factors all have a negative impact on sustainable agricultural yields, and producers' and consumers' health and nutrition. Protecting the quality of natural resources, preserving biodiversity, and putting into place better pest management practices that protect farmers from excessive pesticides and consumers from toxins can ensure that the relationship between agriculture and ecology is a positive one. At the same time, though, improving the safety of food cannot raise food prices to the point where poor households can no longer afford to purchase food, threatening their food security (Pinstrup-Andersen 2012).

Agricultural growth is a catalyst for broad-based economic growth and development in most low-income countries. Very few countries have experienced rapid economic growth without agricultural growth either preceding or accompanying it (Pinstrup-Andersen and Pandya-Lorch 1995). Agriculture's linkages to the non-farm economy generate considerable employment, income, and growth in the rest of the economy. Economic growth raises incomes, increases the asset base, and creates wealth; it enables governments and communities to better provide the enabling environment, infrastructure, and services essential for improving food and nutrition security.

Barrett, Carter, and Timmer (2010) review how the discourse on agricultural development has evolved. They note that the critical role of agriculture in the broader development process was first documented by W. Arthur Lewis, who pointed out that "economies in which agriculture is stagnant do not show industrial development" (Lewis 1954). Johnston and colleagues (Johnson and Mellor 1961; Johnson and Kilby 1975; and Johnson and Clark 1982) and Mellor (1966, 1976, and 1986) all saw higher productivity on small farms as the key to rapid poverty reduction and structural transformation. Schultz (1964) made the case for technical change in agriculture as a key driver for higher productivity. As Barrett, Carter, and Timmer (2010) note, "If W. Arthur Lewis built the intellectual framework supporting the 'why' of agriculture's role in economic development, T. W. Schultz built the framework for understanding the 'how' of stimulating agriculture to play that role." Eicher and Staatz (1998) observed that in the 1950s and 1960s many development economists focused on analyzing how the agricultural and nonagricultural sectors interacted during the process of economic growth. During the 1970s and 1980s attention shifted to understanding the rural economy, and in the 1990s to how the rural economy was linked to a broader world market and the role of institutions.

Barrett, Carter, and Timmer (2010) highlight a few salient points. First, they find general consensus that structural transformation is the only sustainable pathway out of poverty. This realization hones in on the role of institutions in both defining a country's pattern of economic growth and distributing the benefits of that growth equally to its citizenry. Second, the rural non-farm sector often facilitates linkages between agriculture and the larger economy, linkages that make agricultural transformation essential to overall economic development. Finally, the food security of individuals and nations depends not only on supply side factors associated with agricultural productivity, but equally on demand factors related to incomes, risks, health status, social protection policies, and caregiving within the household. Higher productivity in agriculture releases capital and labor that can then be used for gains in the larger economy. Agriculture also

spurs industrialization. It provides raw materials for use by the industrial sector, provides markets for industrial outputs, and provides the exports for the foreign exchange that is needed to import capital goods.

The Evolution of Agriculture

Modern worries about the ability to ensure food security for a booming world population are not new. In the United States, the industrial revolution led to a massive population increase, from 5 million in 1800 to 76 million in 1900. Previously, the thinking about the role of agriculture had been dominated by classical theory, which viewed agriculture as a sector with low productivity and decreasing returns which only passively provided food and employment. In this context, agriculture had to release labor and capital for the industrial sector to thrive, and technological innovation in industry occurred independently of agriculture (Diao et al. 2007). In response to this boom in population, the discourse placed agriculture in a more active role characterized by innovation. Farmers, scientists, and engineers developed technological advances such as tractors and harvesters, and pushed improvements in animal breeding and animal health. Agricultural research and extension was carried out by land grant universities, which first appeared in the 1860s and focused on teaching practical agriculture, science, and engineering. Commercial agriculture also began to emerge during this time period with the advent of the commercial fertilizer industry. When the 1930s brought on the Dust Bowl, a decade of drought and dust storms in the Great Plains of the United States, the federal government undertook conservation projects to prevent soil erosion and subsidized farmers so that they could afford to reduce agricultural intensification.

The ideas of Thomas Malthus, who espoused the nineteenth-century theory that population growth will inevitably outstrip the availability of food and other natural resources, were for a long time influential in framing the discourse on agriculture and food security. The experience of the Irish Potato Famine in the 1840s and 1850s, for example, was explained away as the problem of overreliance on a single crop, the supply of which was wiped out making it impossible to feed a booming peasant population. In reality, applying Sen's approach to the famine would have revealed the failings of a larger agricultural political system that reduced Irish farmers' landholdings to subsistence levels and pushed them into famine.

Malthusian sentiments continued into the 1950s and 1960s, when agriculture focused solely on intensifying staple food production, primarily the staple cereals of maize, wheat, and rice. As developing countries emerged from war and conflict, and were buffeted by pests and droughts, agriculture was challenged to address widespread hunger. The Rockefeller Foundation responded to the challenge by leading the formation of a global agricultural research system based in Mexico with the aim of increasing the output (greater production) and yields (greater production from a given area of land) of mainly wheat, but also beans, maize, potatoes, and other staple crops. Research, science, and technology were put to work for agriculture—to fight wheat rusts, to develop improved crop and livestock varieties, to improve resistance to pests and diseases, to better use fertilizers and other chemical inputs, and so forth. The eventual success of the Mexico program in developing semi-dwarf, high-yield varieties of wheat mirrored agricultural research successes in other parts of the world,

such as rice in the Philippines and tropical agriculture in Colombia and Nigeria. In the 1960s, the Rockefeller Foundation and the Ford Foundation helped to formally establish research centers in these four countries. A series of policy consultations with other key actors such as the World Bank, Food and Agriculture Organization (FAO) of the United Nations, and the United Nations Development Programme (UNDP) resulted in the founding of the Consultative Group on International Agricultural Research (CGIAR) in 1971.

The transfer of knowledge and seeds from the early CGIAR centers—mostly new wheat varieties from Mexico, and subsequently new rice varieties from the Philippines—helped catalyze the Green Revolution in India. At its most basic level, the Green Revolution was the introduction of a package consisting of modern inputs—improved seeds, fertilizers, and pesticides—together with a supportive economic and policy environment that included food price stabilization policies as well as substantial investments in irrigation systems, rural roads networks, fertilizer production, and provision of credit to farmers. The Indian government invested heavily in the infrastructure and policies that made this possible. Assured and remunerative marketing, under which a minimum support price for farmers is coupled with a guaranteed procurement at that price, was a major factor in the widespread acceptance of dwarf wheat by farmers (Swaminathan 1993).

While India was at the epicenter of the Green Revolution, the initiative spread rapidly across much of Asia. The global population boom that followed the Green Revolution prompted fear of a Malthusian crisis, but farmers adopted the new farming practices and technologies to such a massive extent that cereal yields and outputs doubled between 1965 and 1990, not only pulling India and other Asian countries back from the brink of famine but also generating food surpluses. An estimated 1.8 billion people benefited from the Green Revolution in terms of improved access to food and increased earnings from agriculture (Hazell 2009). The Green Revolution also worked to confirm the view of agriculture as a growth sector on its own.

In the 1970s, agriculture evolved to include environmental and equity considerations. Sustainable development issues came to the forefront, partly in response to concerns associated with the Green Revolution such as the overuse of agricultural chemicals, the depletion of scarce water resources, and the neglect of farmers and communities in policy-making processes. These concerns encouraged a shift away from a narrow focus on increasing staple food productivity to a more complex perspective on agriculture and rural development. This latter approach coupled intensive agricultural practices with integrated pest management practices, improved water management practices, precision farming, and other tools and techniques that facilitated stewardship of natural resources. Efforts were accelerated to make the Green Revolution not only more sustainable but more pro-poor. New policies, programs, and investments were specifically designed to integrate rural communities into decision-making processes about their own agricultural and rural development as a way of addressing sustainability along with equity issues. There was growing attention on land reform, especially the equitable distribution of land with secure property rights, access to credit and financial services, and programs more geared toward small-scale farmers.

During the 1970s and 1980s, agriculture diversified out of major cereals. As a means of improving food security and increasing farm incomes, investments were scaled up in raising the productivity, cultivating, and marketing of non-staple and high-value crops such as legumes, fruits, and vegetables as well as dairy, livestock, and fish. This period was marked by a few widespread successes. Many countries in Asia, for example, benefited from the diffusion

of improved mung beans, with traits such as higher yields and shorter maturity times, that reached an estimated 1.5 million farmers. The global initiative to eradicate rinderpest, a livestock disease capable of killing more than 95 percent of infected animals, was yet another success that helped avoid enormous losses of milk, meat, and vital income for pastoralists. The initiative represents the first time an infectious disease has been eliminated since the eradication of smallpox in humans in 1977. In India, Operation Flood created a national dairy grid and accompanying infrastructure that transformed the country from being a net importer of dairy products to being a major player in world dairy markets (Spielman and Pandya-Lorch 2010).

During this same time period, agriculture also moved its attention from the farm to markets. Market-driven development became a popular approach in many economies. A major incentive for countries to pursue this approach was the introduction of structural adjustment programs in order to reduce public deficits and improve balance of payments. The terms of these structural adjustment programs often necessitated the liberalization of national markets and a boost in private investment in the economy. In terms of the link to agriculture, market forces were expected to contribute to agricultural development by freeing up seed and fertilizer markets from state-owned monopolies and by removing price-setting policies in agricultural commodity markets to encourage more vibrant trading.

Other countries homed in on food value chains, defined as the sum of the activities and actors that interact with a food product as it moves through research, production, storage and processing, distribution, retailing, and marketing. A value chain is different from a supply chain in that each activity and actor presumably adds value to the product. Value has traditionally been defined in financial terms, but can also be defined according to added nutritional or food safety value (Hawkes and Ruel 2011). During this time period, countries undertook efforts to make value chains more efficient by closing the gaps that link farmers to markets through traders, processors, distributors, wholesalers, and retailers. Value-chain-oriented policies aimed to improve the incentives of farmers to increase production and consequently improve the food security of both producers and consumers.

As the thinking about the role of agriculture in the wider economy evolved, it became clear that agricultural development could be stimulated by policies and developments outside the agricultural sector. Economic reforms could change the traditional urban biases that historically discriminate against farmers, by reducing distortionary effects of exchange rate and lending policies on the agricultural sector, and opening new market opportunities and leveraging trade and aid.

China provides the most compelling example. Between 1978 and 1984, China undertook a series of reforms that transformed the country's food and agricultural sector and reduced hunger on a scale unrivaled in history (Bruce and Li 2009). The reforms effectively reintroduced household farming after more than thirty years of collective agriculture. More than 95 percent of China's farmland was returned to some 160 million farm households. The reforms contributed to enormous increases in rural incomes and grain production, and a dramatic reduction in rural poverty. In Vietnam, similar reforms between 1987 and 1993 led to the decollectivization of agricultural production and improvement of land tenure security, liberalizing of markets, and the promotion of new economic incentives; the reforms transformed the agricultural sector and dramatically increased food security (Kirk and Do Anh Tuan 2009).

In recent years, the development community has begun to pay more attention to the linkages between agriculture, nutrition, and health. There is increasing recognition that agriculture

plays a central role in the production, access, and use of nutritious and safe food. It also influences other determinants of nutrition, such as access to clean water and sanitation. Health is now considered a major goal of food systems, in part because of the triple burden of malnutrition: hunger, nutrient deficiencies, and excess calorie intake that leads to overweight and obesity in many countries. In the 2010s, many donors and governments redesigned their programs to increasingly focus on nutrition alongside hunger. The United Nations launched the Scaling Up Nutrition (SUN) movement, the Comprehensive Africa Agriculture Development Program (CAADP) began looking at nutrition security, and the CGIAR launched a major new program on nutrition and health. These developments reflect a change in thinking about agriculture as a tool that can bring disparate sectors together to create a healthy and safe food system that can meet the food security needs of many.

A few major factors have enabled agricultural development to substantially improve food security and feed billions of people. First, sustained investment in agricultural research and development helped make the link between agriculture and food security in many countries during the past fifty years. Advances in crop breeding formed the basis for the successes achieved during the Green Revolution. Technologies stayed ahead of pests and diseases, and boosted yields in many parts of the world. Research on marketing systems triggered reforms that achieved national level food security in some countries. Although it is difficult for policy-makers and donors to make long-term commitments to science and technology, given the long lead times involved, such investments nonetheless proved vital in addressing global hunger.

Second, private incentives have been an important factor in increasing the likelihood of success in agricultural development. Incentives can encourage investments in agriculture, helping markets provide timely information that can boost production of and access to safe and healthy foods. Different actors can be motivated to cooperate and collaborate with one another along the entire food chain, from inputs and production to processing and marketing.

Finally, many successful initiatives emerged from localized experiments. These allowed participants to adapt incrementally, rather than through a "big bang," to the political and cultural landscape. Great successes in agriculture came not only from scientific progress but from the practical experiences of local communities. Examples include community forestry in Nepal in the 1970s, efforts to regreen the Sahel in the 1980s, and homestead food production in Bangladesh in the 1990s (Spielman and Pandya-Lorch 2010). In all of these cases, creating a space for agricultural experimentation and innovation helped achieve widespread food security.

Country Experiences

The varying agricultural paths taken by different countries during the past fifty years provide an opportunity to place the evolution of agriculture and food security, and the discourse on this evolution, in a national context. Emerging economies offer particularly rich narratives of how the linkages between agriculture and food security play out in the real world. India, which grew at a rate of 4.2 percent per year from 1990 to 2005, has seen very little commensurate decline in child undernutrition, a paradox that remains unexplained (Gillespie and Kadiyala 2012). In this case study, agricultural growth has not automatically translated into

food security, underlining the need to shed light on the factors that complicate this relationship. The second case study follows the evolution of China, highlighting the importance of local experimentation in designing effective agricultural policies and incentives. The Chinese narrative is a success story, showing that agricultural growth can indeed translate into reductions in hunger and an increase in food production and food security. Finally, the third case study focuses on Ethiopia, and the efforts made there to cater to a hugely agrarian society characterized by mostly smallholders working in vastly different agroecological areas. In this last narrative, the relationship between agricultural growth and food security has not yet been clarified.

India

Looking back on India's progress in agriculture since 1947, India has gone through four distinct phases in its agricultural evolution (Swaminathan 2011):

- Phase I (1947–64): The emphasis was on the development of infrastructure for scientific agriculture—establishment of fertilizer and pesticide factories, construction of large multi-purpose irrigation-cum-power projects, organization of community development and national extension programs, and initiation of agricultural universities. Still, the growth in food production was inadequate to meet the consumption needs of the growing population, and food imports became essential.
- Phase II (1965–85): The emphasis was on maximizing the benefits of the infrastructure created during Phase I, particularly in irrigation and technology transfer. The reorganization and strengthening of agricultural research, education, and extension along with the creation of institutions for providing farmers assured marketing opportunities and remunerative prices for their produce led to a quantum jump in the productivity and production of crops such as wheat and rice, a phenomenon christened in 1968 as the Green Revolution.
- Phase III (1985–2000): Organization innovations such as Technology Missions were introduced—the Mission approach involved concurrent attention to conservation, cultivation, consumption, and commerce. This period saw a gradual decline in public investment in irrigation and the infrastructure essential for agricultural progress as well as a gradual collapse of the cooperative credit system. Large grain reserves led to a mood of complacency toward agriculture.
- Phase IV (2001 to present day): Fatigue among policy-makers resulted in stagnant technology, extension, and production. A weak coalition government and powerful lobby interests meant little progress in reforming policies relating to inputs, irrigation, food prices, subsidies, and food distribution. Recent steps, however, seek to reverse this decline, including the Mahatma Gandhi National Rural Employment Guarantee Act. Also being discussed are policies to address the mismatch between production and post-harvest technologies by way of improving crop storage.

The Indian enigma is the persistence of widespread undernutrition in spite of substantial progress in agricultural production. Agricultural growth led to great strides in food production

in India, but chronic undernutrition persists. One part of the solution to this enigma likely involves focusing on crops and livestock that have large nutritional impacts on both farmers and consumers. Another part may involve addressing socio-economic factors that affect the link between agriculture and nutrition, including the distribution of assets, particularly land; the role of women; rural infrastructure; and rural health and sanitation (Gillespie and Kadiyala 2012). The Women Farmers' Entitlements Bill of 2011, for example, was introduced in the Indian Parliament with the aim of establishing women farmers' rights to agricultural inputs, land, water, and credit, among other resources.

India will remain a predominantly agricultural country for much of the twenty-first century, particularly with reference to livelihood opportunities. Enhancing small farm productivity and profitability will likely make a major contribution to reducing hunger and poverty. An integrated crop–livestock–fisheries farming system is the way forward for the country. This calls for an Evergreen Revolution (i.e. increase in productivity in perpetuity without associated ecological harm), focused on rain-fed farming areas and crops suited to these areas (Swaminathan 2010). The technology required has three components: (i) defending the gains—through soil health enhancement, water harvesting and management, credit and insurance, technology and inputs, and remunerative marketing; (ii) extending the gains—through an appropriate mix of technology, services, and public policies; and (iii) making new gains—through improvement in post-harvest technology, agro-processing, genomics and gene pyramiding, and integrated asset reform aimed at equitable land distribution and utilization of water.

Looking forward, the National Food Security Bill 2011 mandates the government to procure wheat, rice, and nutri-millets (often called coarse cereals). Such procurement at a remunerative price is the pathway for stimulating interest among farmers to produce more. India is also just beginning to uncover the potential agri-business, diversification, marketing and exports, as well as increasing the value addition to food production. The country is exploring whether, with proper protections for the poor and vulnerable, commercial agriculture can be a catalyst for economic development.

To sum up, Indian agriculture has undergone considerable technological and management transformation since 1947, when the country gained independence. The human population, which was about 350 million then, has now reached 1.2 billion. There is hence no time to relax. Jawarhalal Nehru said in 1947, "Everything else can wait, but not agriculture," and that message is even more relevant today.

China

During the past thirty years China has implemented significant reforms, catalyzing an agricultural transformation that in turn set off an economic transformation. China has gone through several phases in its agricultural development (Fan, Zhang, and Zhang 2002; Bruce and Li 2009).

- Phase I (1949–52): The Communist Party launched a "land-to-the-tiller" program wherein it confiscated land and redistributed it to peasants. Farming families were still made to sell their crops to the government at fixed low prices and also faced substantial taxes on their farming income.

- Phase II (1952–8): Production cooperatives were created and later scaled up to communes. This collectivization was expected to provide a base for the developing rural industry, an assumption that did not materialize.
- Phase III (1959–78): With full collectivization in the Great Leap Forward, a strict system of controls was placed on price and quantity of inputs and outputs as well as production decisions. Grain production declined, serious famine ensued, and food shortages were widespread. The entire agricultural system was tightly controlled and farmers had few incentives for improvement and efficiency in agricultural production.
- Phase IV (1978–84): A few brigades in the Anuhi Province began to secretly distribute their land among their member households, leading to a two- to five-fold increase in production. The experiment eventually received support from Party leaders, introducing the opportunity to divide communal lands into household holdings. Thus, a shift toward the household responsibility system wherein production teams could choose to produce more food than the quota assigned to them, thus keeping the excess food. While in January 1980, only 1 percent of the production teams had converted to household farming, by December 1983, 98 percent had done so. This shift was accompanied by reforms in the state procurement system for agricultural products, with significantly higher prices for major crops. Farmers were allowed to grow cash crops, like vegetables, and to trade grain.

The household responsibility system created two types of surpluses in labor (due to new efficiencies) and funding (for investing in local enterprises). These surpluses, along with an assortment of old, unused collective factories, created a "perfect storm" that was seized upon by local townships and village governments. Millions of Township and Village Enterprises were formed using inexpensive local labor and infrastructure. This boom in rural industrialization eventually employed more than 135 million people, approximately one-third of the rural labor force. The two-pronged strategy developed in China for enhancing on-farm productivity *and* increasing non-farm employment opportunities through the Township and Village Enterprises is one of the key reasons why China's rural poverty rate is so low.

In just a few short years, the reforms increased calorie consumption among rural people, doubled their incomes, and slashed the poverty rate from 76 percent in 1980 to 23 percent in 1985. This progress has remained relatively constant during the past few decades. China managed to reduce its number of undernourished citizens by nearly 40 percent from the early 1990s to the mid-2000s (FAO 2011). Agricultural growth has also remained on an upward trend. In 2010, for example, China's total grain production exceeded 550 million metric tons for the first time in half a century. Today, China supports more than 20 percent of the world's population with 98 percent overall food self-sufficiency, an impressive feat.

Ethiopia

Ethiopia is one of the most agrarian countries in the world: only 16 percent of Ethiopians live in urban areas, and in 2006, agriculture's share of GDP was 48 percent, one of the highest

rates globally. Nevertheless, the country regularly experiences serious food shortages due to low productivity, droughts, and variable rainfall.

Since 2000, Ethiopia has seen vast economic growth, mostly driven by agricultural production. The country has invested heavily in its agricultural sector through an Agricultural Development Led Industrialization strategy. Much of this strategy is based in previous policies, which evolved through the decades to eventually focus on access to modern inputs and agricultural extension by smallholders, who comprise the majority of the agriculture sector (Spielman, Kelemwork, and Dawit Alemu 2011).

- Phase I (1968–73): Ethiopia's Imperial regime promoted Comprehensive Integrated Package Projects, which provided modern inputs, credit, and agricultural extension, and helped cooperatives to form. The scale of these projects, however, was too small to impact agricultural productivity or to effectively reach the majority of smallholder farmers. Instead, policies in this period mainly served the country's feudal class.
- Phase II (1974–91): Under the military *Derg* regime, Ethiopia's feudal system was dismantled and the gap filled by peasant cooperatives, state-owned farms, and collectives. Research and extension services, which previously had focused on specific areas, were now extended to the entire country. However, by the end of the regime, extension was viewed as a political instrument rather than a service provided to smallholders. In the 1980s, political instability and armed conflict, exacerbated by a sequence of rain failures, led to hundreds of thousands of deaths and a catastrophic loss of livestock. The government responded by forcibly resettling villagers, while the international community invested heavily in food aid and humanitarian relief, much of which is now believed to have been used for military purposes.
- Phase III (1992–2000): The government pursued agriculture-led industrialization, which introduced policies to boost the production of cereals, accelerate agricultural growth, and attain food security. A large extension program reached approximately 40 percent of farm households. The government also liberalized markets for agricultural products and promoted the use of seed and fertilizer packages to intensify the production of staple crops.
- Phase IV (2001–8): Maize prices collapsed, partly because of intensified production. Drought hindered the production of most cereals and highlighted the country's vulnerability to price and weather shocks. Afterwards, though Ethiopia achieved 12 percent annual growth in agricultural GDP, food price inflation soared from 2 percent in 2003–4 to 78 percent in 2007–8 (Spielman, Kelemwork, and Alemu 2011). The government allocated three million hectares of land for commercial agriculture and offered an array of incentives to encourage investors, the majority of whom came from India.

Despite investments in policies that prioritize agricultural production, Ethiopia has not yet seen stable cereal yields, lower food prices, or less reliance on food aid. These obstacles appear to underpin the 2010–11 drought and famine in Somalia and the Horn of Africa. This shows that agricultural development strategies need to be tailored to local contexts in order to achieve food security. Since the agricultural sector is characterized by smallholders

working in heterogeneous agroecological zones, policies need to focus on improving farmers' access to inputs and information and incentives to adopt and use technologies in each area. A vibrant private sector may be well placed to provide flexibility in input and services to a wide variety of smallholders.

Looking Forward

Significant advances have been made in improving the availability of and access to food, but far less progress has been achieved in improving the quality of food. There is currently a shift from the concept of food security at the aggregate level to one of nutrition security at the level of every child, woman, and man. This is evidenced by a number of recent initiatives that link agriculture, nutrition, and health. Opportunities to improve nutrition and reduce health risks exist all along the agricultural value chain, from production to post-harvest processing to marketing and trade. Interventions include biofortification (the breeding of new varieties of food crops with improved nutritional content), and school feeding programs and home food production (to increase consumption of micronutrient-rich vegetables, fruits, and animal-source foods). Some important tools that could help to leverage agriculture for better nutrition and health include *economic levers*, which include, at the broadest level, agricultural growth or overall economic growth (with the caveat that growth alone is not enough to solve the nutrition problem); and s*ocial levers*, which involve bringing people together across sectors and within communities to work jointly toward improving nutrition and health. Work on mainstreaming nutritional considerations in the design of cropping and farming systems research must accelerate.

Looking ahead, agriculture will remain for many developing countries the most effective and frequently the only viable lead sector to generate economic growth. Diversification out of agriculture will occur in the long term, but in the short term many countries lack alternatives.

One major challenge is to produce more and more from diminishing per capita arable land and irrigation water resources and expanding abiotic and biotic stresses. Climate change will put more pressure on agriculture by way of either excess or deficit of precipitation, more extreme weather events, and shifting seasons. On the other hand, agriculture can offer opportunities for mitigating emissions through carbon sequestration, soil and land use management, and biomass production (Nelson 2009). More generally, investments in science and technology will be key, especially in the areas of agricultural research and development, in order to keep the pipeline for innovation, discovery, and dissemination full. Resources must also be targeted to nutrition-relevant projects, like work on nutrient-rich vegetables and other crops and livestock, as almost all agricultural research through the years has been directed toward increasing production of a few staple crops (Fan and Pandya-Lorch 2012).

With long lead times for developing new technologies for small-scale farmers, sustaining public investment in agricultural science and technology in the face of competing demands for public resources will not be easy. The quick uptake of new technologies, such as biofortification, is also complicated by the need to conduct careful research on consumers' willingness to purchase and utilize new crop varieties. While the public sector is critical in directing

attention to the development of crops that can benefit the poor, the private sector can play a significant role in scaling up successful interventions, coordinating disparate actors along the value chain, and reaching a wide array of consumers through marketing campaigns. Considering the different motivations of these two sectors, private–public partnerships will be crucial in order to create win–win propositions for both producers and consumers.

Another key challenge is the ability to reach smallholders, who comprise the majority of farmers around the world. Smallholders often cannot keep up with the rising demand for food and face limited resources, high marketing and transportation costs, and poor access to markets, affordable inputs and technologies, credit, and infrastructure. Creative options—such as insurance schemes to help reduce small farmers' risk from weather and price shocks, group lending and contract farming to link farmers to food supply chains, and investments in smallholder climate change adaptation—are just a few possible solutions (Fan 2011). These and other initiatives can help smallholders increase their agricultural production sustainably as well as achieve food security for themselves and their families.

On the macro level, the food price crisis has given way to a number of proposals meant to smooth global price volatility and ensure the food security of the poor, who are most vulnerable to price shocks. These proposals, some of which are already being actualized, include the reform of biofuel policies, the expansion of social safety nets, the elimination of export bans, the creation of an early warning food crisis system, and the establishment of a globally managed emergency physical grain reserve.

Agriculture has evolved over the past half century from a narrow focus on staple cereals to a wider array of crops and livestock and fisheries, from subsistence farming to commercial agriculture, from the farm to off the farm and toward the larger economy, and from food security to nutrition security. Agriculture has increasingly integrated gender, equity, and sustainability considerations into its portfolio. We should look upon agriculture not just as a food-producing machine but as the major source of skilled and remunerative employment, the backbone of the rural livelihood system, and a powerful engine toward larger economic growth. Still, agriculture and food security are part of a larger system that depends on effective and inclusive institutions, growing non-rural sectors, and attention to demand factors such as incomes, health, social protection, and care practices to pull people out of poverty and help them live long, healthy lives.

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CHAPTER 26

WATER RESOURCES: AN EVOLVING LANDSCAPE

CECILIA TORTAJADA

Introduction

Water management in much of the world is at a critical juncture. Even when it has to fulfill an essential role in promoting development and reducing poverty at the national and sub-national levels, water is often scarce, polluted, mismanaged, misgoverned, and poorly allocated. A main handicap has been that water management has often been considered an end unto itself rather than a means to an end, that end being to achieve overall development, economic prosperity, improvement of quality of life, and environmental conservation.

Overall, developed and developing countries are confronted with the urgent need to support the increasing demands of growing populations and of the energy, industrial, and agricultural sectors, as well as to respond to environmental concerns with sources of water that are scarce, over-exploited, or too polluted for the intended uses. In spite of its relevance in terms of security, water is generally not regarded as a key determinant for development and is conspicuously absent from political agendas.

At present, the fast-evolving global landscape is contributing to the complexity of the management of water resources, as related decision making depends increasingly on other sectors' policies, performance, and prospects. These include the economic growth of emerging powers that are setting their own agendas in the use of natural resources at the global level, including water; increasing urbanization, population growth, and changing consumption patterns; the growing need for clean and reliable sources of water for the expanding domestic, energy, industrial, and agricultural sectors; and the growing influence of new actors in decision making, with players changing in number and type. Clearly, global changes, driving forces, and water-based expectations for the myriad of uses and users present a challenging scenario.

Global drivers of change are also adding to the many old and unresolved issues that plague the water sector and impact development: water institutions that do not function properly, many of them with overlapping and/or conflicting decision-making structures; legal and

regulatory frameworks that are outdated and unresponsive; increasing and unregulated withdrawals for cities, industry, agriculture, and energy; a prevailing focus on increasing the quantity of water supplied rather than reducing consumptive demand; and water prices and tariff structures that do not consider socially desirable outcomes. The sum of these forces has resulted in a large number of "basin closures" around the world, where every available drop is allocated.

Conventional wisdom as it relates to the management of water resources needs to be challenged and reconsidered so that it is able to address current and future development. Looking forward, the water sector will have to become more innovative and develop more effective ways to become part of the development landscape, not as a bit player but as an active participant.

Following is a brief review of the international efforts that have aimed to influence global thinking on the environment, taking water into consideration.

History of Thought

Global thinking on environment and development has been influenced by a long series of international conferences, starting with the United Nations Conference on Human Environment held in Stockholm in 1972. For the first time at a global meeting, participants discussed the notion that environment should not be considered separately from economic and social development, because they depend on each other. Broad environmental policy goals were then proposed in the hopes of fostering a global response toward the goal of preserving the human environment.

Several UN world conferences followed, including the ones on Population (Bucharest, 1974), Food (Rome, 1974), and Human Settlements (Vancouver, 1976). In 1977, it was the turn of the Mar del Plata Water Conference. Fundamental aspects of water policies and water-related problems were discussed by countries that had committed to work toward a new international economic order and whose objective was to achieve collective self-reliance in the development efforts. A direct outcome of this conference was the International Drinking Water Supply and Sanitation Decade, 1981–90, aimed at providing universal access to safe drinking water and sanitation by 1990. In spite of the importance of these goals, it was impossible to achieve them for a myriad of reasons that included political, institutional, legal, policy, and financial limitations.

Many other water conferences followed, among them the Global Consultation on Safe Water and Sanitation for the 1990s, International Conference on Freshwater (Bonn, 2001), and several World Water Fora. The 1992 International Conference on Water and Environment, held in Dublin, was expected to propose sustainable policies and action plans on water for further consideration during the 1992 Earth Summit in Rio de Janeiro. However, the Dublin conference missed this extraordinary opportunity because it was organized as an expert group meeting, rather than as an intergovernmental preparatory meeting under UN rules. Its recommendations were thus not considered at the Rio Conference on Environment and Development.

In 2001, the German government held the International Conference on Freshwater in Bonn. The aim was to develop recommendations to be presented at Rio+10, the World Summit on Sustainable Development in Johannesburg. The conclusions expressed the concern of the international community about the situation of water resources in the world: "Ten years after the United Nations Conference on Environment and Development in Rio de Janeiro, and the Conference in Dublin, and years after the world conferences in Paris and The Hague, there is still a need for greater commitment by governments worldwide to implement the principles agreed in relation to water resources. . . . Although governments have agreed to implement nationally agreed principles internationally, there is a widening gap between theory and practice . . ." (Tortajada 2007).

In September 2000, the UN General Assembly adopted the Millennium Declaration. Among its numerous development goals (known as the Millennium Development Goals, or MDGs) was to reduce by half the proportion of people unable to reach or to afford safe drinking water by 2015. Meanwhile, the 2002 Johannesburg World Summit on Sustainable Development supported that the proportion of people without basic sanitation should also be reduced by half by 2015.

The achievement of these goals represented a major challenge for all countries, considering that 1.1 billion people lacked access to clean water and more than 2.5 billion to sanitation (WHO 2004). From that moment, it was clear that the economic, legal, institutional, and political implications of this decision were immense, and that the goals would be achieved only if governments, the private sector, civil society organizations, and national and international development agencies undertook to act upon them.

In another global effort, in 2003 the UN General Assembly established the International Decade for Action "Water for Life" with the overall objective of promoting a greater focus on water issues. Last but not least came the 2012 Rio+20 Conference on Sustainable Development with its focus on green development, which revealed that many fundamental development issues remain unresolved.

In translating the principle of sustainable development and sustainable water resources into specific targets and actions over the years, the philosophical consensus has shattered into a cacophony of definitional debates, interpretations, recriminations, and slogans. Regardless of the rhetoric, and although most countries have sought to protect their image over more than forty years of global conferences, poor management of water resources continues to have serious social, economic, and environmental impacts at the local level.

Additionally, there appear to be two realities in the world: one that countries and their populations are facing in the field, and a very different one that seems to be the result of the game of global target setting. In the midst of a very complex situation where billions of people face every challenge in terms of access to clean water, the UN announced in early 2012 that the MDG on "improved" drinking water had been achieved in 2010, five years ahead of schedule.

Unfortunately, "improved sources of water" does not mean that the water is safe and clean, much less drinkable and free of potential health hazards. For the UN, it means that people have access to twenty liters of water (not necessarily clean drinking water) from a source that is improved within one kilometer of their premises. Water can come from a polluted well or from a bucket of polluted rainwater that is unfit for drinking: it does not matter as long as it fits the statistics.

Trends

Much of the twentieth century focused on developing water infrastructure. During the early 1990s, the focus shifted to the management of water resources, still largely along sectoral lines. By the end of the decade, the concepts of river basin management and integrated water resources management were being promoted, encompassing a multi-sectoral approach and a wider range of social and environmental issues. It was recognized that many of the activities related to a broader approach to water resources management had little to gain from a paradigm that focused mainly on the construction of water infrastructure. The new policies were expected to take into consideration economic, social, and environmental aspects that would result in more effective regulations, incentives, instruments, and investment plans. Overall views then shifted from sub-sectoral and project-based approaches to broader issues like demand management, private sector involvement, water pricing, environmental protection, and stakeholder participation.

Even though both concepts (river basin management and integrated water resources management, or IWRM) have been part of national policies for years, their implementation continues to represent a challenge for the different countries. Reasons include institutional and legal frameworks that have not progressed over time; lack of coordination between sectors and institutions; centralized decision making; non-availability of financial resources on a timely basis; etc. Additionally, processes like decentralization have yet to produce the expected outcomes, such as availability of investment funds, more efficient and effective decision making, active participation by local institutions and water users, and encouragement of local initiatives, to mention only a few.

The development discourse continues to evolve, moving now into governance and varying concepts of "good governance." According to the UN, water governance includes political, economic, and social processes and institutions by which governments, the private sector, and civil society make decisions about how best to use, develop, and manage water resources (UNDP 2004). It refers to the range of political, social, economic, and administrative systems that are in place to develop and manage water resources and the delivery of water services at different levels of society. It comprises the mechanisms, processes, and institutions through which all involved stakeholders, including citizens and interest groups, articulate their priorities, exercise their legal rights, meet their obligations, and mediate their differences. It emphasizes the causality of water-related problems by pointing out not only the natural limitations of the water supply or lack of financing and appropriate technologies, but profound failures in water governance, such as how individuals and societies have assigned value to, made decisions about, and managed the water resources available to them (Tortajada 2011).

The water resources landscape has been influenced by ideas, concepts, discourses, and paradigms on specific issues that have ebbed and flowed over the years. Nevertheless, their effective incorporation and implementation at the local level have proved to be extremely difficult, irrespective of the country concerned. The fact that the global environmental situation (including water resources) continues to deteriorate seems to indicate that deeds have not matched the words of national and international leaders in terms of actual implementation of policies, programs, and plans, and that much still remains to be done.

Following are some global drivers for change that are having, and are likely to continue to have, substantial impacts on the evolving landscape of water resources. It would not be surprising if they also had a decisive influence on the future direction of the history of thought.

Drivers of Change

The world has become increasingly interconnected, witnessing a historic transfer of power from the West to the East. Unprecedented rates of economic and population growth, positive from many viewpoints, seem to overwhelm the pace of progress in curbing environmental and resource pressure. This, in turn, has negative long-term impacts on the development processes of the countries involved.

Natural resource sectors at the global level are facing increasing demands for their outputs, mostly as large economies like Brazil, Russia, India, and China continue to experience rapid growth. Sectors such as water (including quantity and quality), agriculture, energy, fisheries, forestry, and minerals still need to put stronger policies in place to reduce the environmental impacts of rapid growth.

OECD countries in general have addressed a number of environmental challenges by implementing policies that protect human health and ecosystems, and that tend to use resources more efficiently and aim at preventing further environmental degradation. Regarding water resources, planning and management practices have improved during the last decades in terms of both quantity and quality: institutions, laws, and regulations have been set; baskets of policy alternatives for more efficient management of the resource have been formulated; point sources of pollution (pollution discharges, mostly from industries and municipalities, that originate from a single location, typically a pipe) have been reduced; emerging contaminants and their implications on human and ecosystem health have been identified and studied; and stakeholders' participation is increasingly encouraged through different means. Overall, the interest in preserving sources of water has increased in response to domestic demands that can be supported by sound investments and policy initiatives.

Even then, OECD countries face major management, institutional, and financial challenges to comply with stringent environmental regulations, control agricultural (especially non-point) sources of pollution (those that come from oil, animal waste, pesticides, herbicides, fertilizers, road salts, bacteria, sediments, and any other contaminants that end up on the ground naturally or from human activity), and replace aging water infrastructure. For example, to maintain current services, the OECD estimates that spending on water would need to increase by 20 percent in France and the UK, and by over 40 percent in Japan and South Korea. In the case of the United States, the U.S. Environmental Protection Agency estimates that an investment of $192 billion for wastewater treatment plants, pipe repairs, and the purchase and installation of new pipes will be necessary. Overall, it is estimated that by 2025, annual (current and investment) expenditure on water and wastewater services will reach some $600 billion for OECD countries (half for Mexico and the United States), and $400 billion for large emerging economies (half for China) (Kauffmann 2012).

In terms of water use, even within the OECD, some countries are more efficient than others. According to the U.S. Geological Survey (Hutson et al. 2004), in the United States, water

use at the national level in 2000 was similar to that in the 1950s (1,383 gallons per capita per day) and 30 percent lower than in 1975. Water use for irrigation was 8 percent less in 2005 than in 2000, and withdrawals for domestic supply (the third largest user of water at the national level) were only 2 percent more in 2005 than in 2000.

Nevertheless, not all large economies use water efficiently. The last twenty years have witnessed radical increases in the economic growth rates of several developing countries, which in turn have put enormous pressure on natural resource utilization, often accompanied by their continuing inefficient use.

Limited water resources for different uses have led the world to increasingly consider the use of so-called non-conventional sources of water (e.g. desalinated sea water or treated wastewater). Wastewater is thus increasingly considered as a resource for irrigation as well as for direct and non-direct potable uses in several parts of the world, for example Australia, Singapore, and the United States.

Population and Consumption Patterns

A second driver of water use is the increasing global population, living mostly in urban areas with a decline in rural population. Much of the population growth over the next twenty years will occur in the poorest regions of Asia, Africa, and Latin America (UN 2011). In contrast, the population of the more developed regions is expected to change minimally and even decrease if not for immigration from other countries.

The forty-eight least developed countries are likely to grow the fastest, at 2.5 percent per year. It is predicted that the main increases in population up to 2050 will occur in only eight countries: in descending order, India, Nigeria, Pakistan, Congo, Ethiopia, the United States, Bangladesh, and China. Together they will account for almost half of the expected increase in global population during this period. The drawback of this situation is that water use in these countries is already limited because of physical scarcity and poor management.

In terms of economic growth and total use of natural resources, at one end of the spectrum are the United States and China. At the other end are the countries of sub-Saharan Africa, which remain vulnerable to economic disruptions, population stress, political instability, environmental degradation, and water scarcity. Despite increased demand for commodities, of which sub-Saharan Africa is a major supplier, local populations may not necessarily experience any significant improvement over the long term. The region is thus expected to remain at a disadvantage relative to other parts of the world. Unless the efficiency, management, and governance practices of water use improve significantly, population growth will lead to higher water consumption and greater pollution of surface and groundwater.

Economic growth over the past two decades has contributed to the emergence of a sizable middle class, particularly in Asia, and a corresponding increase in resource consumption. Assuming the growth of consumption continues at around the same rate as over the past twenty years, by 2030 Asia will be at the forefront, accounting for some 43 percent of global consumption. In terms of water resources, important concerns will continue to be reliable supply of clean water for a growing population; development of infrastructure and associated social and environmental impacts; and depletion of good quality water bodies, due mainly to increasing pollution in and around urban centers caused by very low levels of wastewater treatment and poor disposal practices.

Energy and Water Implications

Strongly linked to water availability in terms of quantity and quality is energy production. According to the U.S. Energy Information Administration (USEIA) (2011), the global demand for energy will increase by 53 percent from 2008 to 2035. Most of the increase in consumption will be in non-OECD countries because of sustained economic growth, which it is estimated will increase by 85 percent, compared to 18 percent in OECD economies. Fossil fuels will continue to supply much of the energy used worldwide, but renewable energy will witness the fastest growth, increasing from 10 percent of total energy use in 2008 to 14 percent in 2035.

Demand for electricity, which constitutes a growing percentage of global energy, has increased more rapidly than consumption of liquid fuels, natural gas, or coal in all end-use sectors except transportation. It is expected that non-OECD countries in general, and Asia in particular, will lead annual increases of electricity consumption averaging 4 percent from 2008 to 2035. Since no large-scale electricity can be generated without water (for hydropower, and cooling of thermal and nuclear plants) and since the water sector is a major user of energy (mostly for pumping), reliable sources of water would have to be available for the production of electricity, most likely at the cost of other uses and users. Some examples are France and the United States, where the major user of water is the electricity-generating industry and not the agricultural or industrial sector.

In terms of hydroelectricity, Brazil and Canada are the countries where hydropower produces the largest share of electricity, with 85 percent and 60 percent respectively. For the 2008–35 period, strong growth in hydroelectric generation, primarily from mid- to large-scale power plants, is expected in China, India, Brazil, and countries in Southeast Asia such as Malaysia and Vietnam (USEIA 2011).

Bhutan is one country where the energy sector (mostly hydropower-based) has had a very positive impact on the socio-economic development of the country. According to 2010 figures, with only 5 percent of hydropower potential developed, the country had the highest per capita consumption in South Asia, with the water-based energy sector representing 19 percent of GDP and 45 percent of direct internal revenues. It is also an excellent case of South–South cooperation, where India almost entirely finances Bhutan's hydropower developments and purchases most of the energy produced (79 percent in 2010). Even though energy production is so important economically for Bhutan, it is completely dependent on the sometimes very erratic monsoon rains and receding glaciers (Rinzin 2012). In Chile in 2008, almost 40 percent of the total generation of electricity was hydropower-based. Nevertheless, unusually hot and dry summers raised the possibility of power shortages, forcing the country to seek alternative sources of electricity.

Clearly, water requirements for the electricity sector are very important in order to meet national and international electricity demands. Therefore, they need to be explicitly factored into water use and management policies in order to respond to challenging long-term needs. In countries where available water resources are already allocated, finding additional water for electricity generation will be a very difficult task.

Not only is water required for generating electricity, but significant amounts of electricity are required to extract, pump, transport, treat, and distribute water. An estimated 2–3 percent of the world's energy consumption is used to pump and treat water for urban and industrial uses (Tortajada 2008). One example is Mexico City, where pumping stations have been

used for decades as part of the water supply, sanitation, and wastewater treatment networks, to bring in clean water and pump out wastewater. In 2000, the National Electricity Board estimated that one-fifth of the electricity Mexico produced was used to pump water in and wastewater out of the capital city. Another example is the city of Dhaka, where provision of water for domestic use depends on the availability of electricity for pumping purposes. In the case of India, dependence is even higher, since 60 percent of the urban population and 85 percent of the rural population rely exclusively on groundwater and consequently need electricity for pumping.

Development of thermoelectric power plants has become increasingly challenging because of trade-offs between energy, environment, and water security-related issues, as well as land use and political considerations. In the United States, for example, thermoelectric generation represents the largest percentage of electricity production, with coal-based power plants accounting for about half of the electric supply at the national level. According to the U.S. Geological Survey, thermoelectric power production in 1995 represented 41 percent of freshwater withdrawals (water taken from a source) and 3 percent of freshwater consumption (water that is not returned to the source), or more than three billion gallons per day. Overall, thermoelectric power plants withdraw approximately 94 liters of water for each kilowatt-hour of electricity generated, primarily for cooling. Since thermoelectric generating capacity in the country is expected to increase by nearly 15 percent between 2008 and 2035 (depending on the technology that is used), the associated water consumption nationwide is expected to increase from 28 to nearly 50 percent, resulting in escalating competition for water resources (Feeley et al. 2008). One of the trends at the global level is intense competition for scarce water resources, mostly polluted, to cover the needs of increasing numbers of uses and users.

Problems with finding adequate sources of water to generate electricity have already surfaced. For example, in 2006, in response to environmental and water supply concerns, an Idaho State House Committee unanimously approved a two-year moratorium on the construction of coal-fired power plants in the state. In Arizona, the government decided not to authorize a proposed power plant because of concerns about how much water it would draw from a local aquifer. In South Dakota in 2005, the governor called for the different parties to discuss drought-induced low flows on the Missouri River and the impacts on irrigation, drinking water, and power plants. Water availability is already a serious constraint for the further development of nuclear power, not only in the United States but in many other countries.

Water is also required for extracting oil and gas, with new sources such as oil sands and shale gas being particularly water intensive. The hydraulic fracturing process used to produce shale gas requires significant amounts of water, and many of the areas that have been identified as having shale gas resources in different parts of the world have limited supplies of water. In addition to water availability, there are also concerns about the potential contamination of aquifers from artificial wells or surface spills. Consequently, in the United States, particularly New York State, development of parts of the Marcellus shale is not progressing because drilling permits are not being issued. Similarly, France has taken legislative action to ban hydraulic fracturing, and South Africa has placed a moratorium on hydraulic fracturing while it investigates how best to regulate it to ensure that the environment and water resources are protected. In spite of the real and potential impacts of the above activities, economic priorities continue to prevail in both developed and developing countries.

Agriculture and Environment

Irrigation is the largest user of water at the global level (about 70 percent). Overall concerns are that the amount of land and water currently available will not be sufficient to provide enough food for the increasing global population, and that more crops will have to be produced with less water per unit of output. This could indeed be the scenario if irrigation organizations, services, and techniques do not improve; if technology cannot make irrigation techniques more efficient; and if non-conventional sources of water—such as wastewater, desalinated sea water, and brackish water—are not explored as alternatives for irrigation.

However, this is not the case. Water users associations have been working for decades to improve water allocation in developed and developing countries (including Australia, the United States, Mexico, India, and Turkey). Although their performance and results are still mixed, these projects have enormous potential. Technology has improved efficiency of irrigation tremendously (an excellent example is Nebraska in the United States), while greywater in Middle Eastern countries and wastewater in India and Mexico have long been used for irrigation purposes. They have contributed to the livelihood of millions of people, even though their use raises serious health and environmental concerns. There are thus vast possibilities to improve the efficiency of water use in the agricultural sector, with the distinct potential to feed the world for years to come.

Food production encompasses far more than water and land requirements: it also involves effective policies, efficient institutions, pricing, incentives, management practices, distribution channels, improved crops, technology, etc. Moreover, if the objective is to ensure that the world does not go hungry, the most immediate action for the public and private sectors as well as for the general population would be to focus on food availability, so that the food already produced can be made available to consumers. For example, India produces 15–20 percent of the world's fruits and vegetables, but nearly half that quantity is lost through lack of processing, supply chain, and storage facilities. The country also loses 25–30 percent of cereal production before it can reach consumers (see Swaminathan et al., this volume).

The interrelations between the different sectors often result in tensions because of trade-offs between domestic, agricultural, energy, and industry-related water uses and users, especially when water supplies are already insufficient in quantity and quality to meet the various demands. As for the environment, in spite of the progress made in terms of related policies, water allocation still depends on the water that is necessary for other uses. A noteworthy example of water allocation for the environment is the Murray-Darling Basin Authority in Australia, which has spent millions of dollars to buy water rights from farmers for use by nature. Between 2008 and 2009, water trading is estimated to have increased Australia's gross domestic product by $220 million and gross regional product by over $370 million, representing an important source of revenue for regions and local communities. In fact, water trading has maintained the productive capacity within the southern basin. It has also been beneficial to irrigators because it has offered a way to manage uncertainty around seasonal water availability, and has expanded their options to cope with the impacts of drought.

The use and misuse of water resources have serious impacts in terms of their quality, and thus quantity, available, which will be discussed next.

Water Quality: A Limiting Factor for Development

The perceived global scarcity of water resources does not correlate to the physical availability of the resource, but rather to its poor management and potential to impact countries' economic, social, and environmental fabric. One of the most challenging issues is water quality, where poor management has global consequences as degraded water resources are more limited in their overall use.

Water quality concerns are present in all countries as a result of overall sources of pollution affecting surface and groundwater. While it is often claimed that the main impediment to controlling water pollution is lack of investment funds, failed efforts to clean many river systems point to the complexity of implementing legal and institutional frameworks as well as water policy instruments (regulatory, economic, information, and participation-related). Other factors are lack of coordination among institutions, missing political will, and public apathy.

An example of failed implementation is the attempted cleanup of the Ganges River and its tributaries. The Ganga Action Plan (GAP), introduced in 1986, was a comprehensive set of core and non-core schemes, including sewage treatment plants to reduce point sources of pollution, low-cost sanitation, river-front development, and electric and improved wood crematoria for non-point sources of pollution. Despite investments of $17 billion over fifteen years, the objectives were not achieved. There were shortfalls in the allocation of resources, technical design flaws, problems with land acquisition, contract mismanagement, lack of adequate maintenance, and mostly, lack of interest from the affected states (Wate 2012). In 2010 the Government of India announced a $1.5 billion project for a second attempt to clean the river. The rest of the funds are expected to come from the five affected Indian states: Uttarakhand, Uttar Pradesh, Bihar, Jharkhand, and West Bengal. Only time will tell how successful this latest attempt will be. One thing is certain: policies, management practices, and governance considerations are essential to clean the river. Money alone will never be enough to achieve this goal.

In China, water quality challenges have been growing for decades. Therefore, in its twelfth five-year plan (2011–15), the Chinese government allocated $190 billion for infrastructural development for drinking water and $156 billion for wastewater treatment. However, even such large investments cannot assure the success of the plan. That depends rather on the careful implementation of the individual objectives, which in turn rely on a complex web of politics and policies.

Serious water quality concerns due to point and non-point sources of pollution are not limited to developing countries: they also represent a serious problem in developed countries like Spain, Greece, and Portugal.

Non-point sources of pollution from agricultural activities, especially from nutrients and pesticides, are the major and growing problem for nearly all countries. This is of particular concern where groundwater is a major source of drinking water for human consumption. Agricultural practices are also responsible for an increasing number of hypoxic or dead zones in different parts of the oceans due to the over-enrichment of coastal waters, with the corresponding death of biodiversity, as the chemical breakdown of nutrients absorbs available

oxygen from the water. In the United States, for example, an estimated 383 million fish were killed along the Texas coast between the 1950s and the 2000s (Diaz and Rosenberg 2011).

There have been many global attempts to improve water quality, with mixed results. The Republic of Korea launched a stimulus package in 2009 that allocated $30.7 billion for water and waste management, renewable energy projects, energy-efficient buildings, and low-carbon vehicles. In the United States, an innovative scheme for Chesapeake Bay includes water quality trading programs that allow wastewater treatment plants to buy nutrient "credits" generated by other plants or by farms that reduce the nutrients they release into water bodies. Its implementation is very challenging because of the large number of stakeholders involved, and because it could have an impact on the economic growth of the states involved (Maroon 2011).

Increasing Participation

The involvement of an increasing number and diversity of actors outside the public sector has been a main driver for change in the water sector. This involvement comprises both urban and rural areas and has become global in scope.

Participation of non-state actors has completely transformed water planning, management, development, and governance-related decision making by ensuring that benefit-sharing mechanisms are taken into consideration. Both affected and interested actors now interact through partnerships that, thanks to modern communication technologies, transcend national boundaries. With the emergence first of non-governmental organizations (NGOs) and more recently of social media, the "who," "how," and "where" of decision making in the water sector have increased in richness but also in complexity. Decision making has shifted out of the hands of governments, moving out of the control of a single party. In fact, it has been in response to intense pressure from NGOs that policies for infrastructure development have broadened to include social and environment issues. The involvement of multiple parties has resulted in greater accountability and transparency of the government and private sector actors, although not necessarily of the NGOs themselves, an issue that remains to be resolved.

As emerging donors, China, India, Turkey, and Brazil comprise a new set of actors playing an increasing role in the water sector. Their importance is due not so much to the amount of aid they are disbursing as to the new roles they are playing, challenging the traditional "North–South" aid architecture and broadening it to "South—South" cooperation based on mutual national interests. This emerging architecture is modifying the sphere of influence of donor countries, and challenging the rules under which aid is normally provided (see Kharas, this volume).

Of these emerging donors, the most proactive has been China. Chinese aid to Africa, Latin America, and Southeast Asia has increased from less than $1 billion in 2002 to an estimated $25 billion in 2007 (Lum et al. 2009). It is claimed that China's investments in Africa and Latin America serve the country's long-term economic interests via infrastructure, public works, and natural resource development, while those in Southeast Asia reflect longer-term diplomatic and strategic objectives.

Overall, it is China that has been investing more heavily in the water sector through its support for infrastructure in the several countries, particularly in terms of dams. At present, its support for water infrastructure outweighs that of all the development banks (including the World Bank). In 2008, Chinese companies were involved in 97 dam projects in 39 countries, and by 2011 the country was supporting the development of 251 dams in 68 countries (Tanaka 2011).

A concern at the international level is that social and environmental considerations may not be an important part of dam construction guidelines when funds come from China, in contrast to financial support from development banks, which is normally accompanied by stringent requirements based on past experience (World Commission on Dams 2000). A fact is that China is rewriting the terms and conditions of development aid in the field of water development, and the rest of the world is having to take notice of this new major actor.

Water Resources and Development

As water resources are so vital for overall economic and social development, and thus security, of any country and any region, the question remains as to why their efficient management has been so widely neglected when many countries are facing unprecedented problems of scarcity and continuing deterioration.

Decisions regarding policy making, management, development, and governance of water resources do not originate exclusively from the water sector but from the interactions between the different sectors. It is actually in these interactions that the potential for cooperation and improvement exists, that discussions have to be carried out, alternatives have to be discussed, and trade-offs have to be decided (Tortajada 2011).

For example, sub-Saharan Africa, an arid and semi-arid region, is, and is expected to remain, the most vulnerable region in the world not only because of water scarcity and poor water management, but because of economic disruption, population stress, and political instability. In the Middle East and North Africa (MENA) region, water resources policy and management are comparatively better, but the governments' constrained capacity to manage natural resources, including water, leads to non-compliance of laws and regulations and to further deterioration of the resources. Other serious constraints include inefficient public expenditure on water services and related projects, subsidy regimes that do not promote organizational capacity growth, water organizations that do not attract and retain staff with the skills required for efficient service delivery, and legislation that lacks the necessary implementing instruments. Within the MENA region, Yemen is one of several countries where institutional reforms for water supply and sanitation have been hampered by political unrest. The reforms in the water sector have sought to improve water supply and sanitation services for an increasing population (20 million people according to the 2004 census) and enhance the representation of local authorities and communities in the management of water utilities (Gerhager et al. 2008).

Lack of natural water availability can constrain development, but not when there are platforms in terms of institutions, laws, investment funds, infrastructure, and human

capacities. One example is Singapore, whose broad vision for water resources has relied on holistic planning that goes well beyond the boundaries of the water sector to focus on the overall development of the city-state. Policy making has followed the "think ahead, think again, and think across" philosophy that proposes a comprehensive, holistic vision for the management of water resources. Within this philosophy, decision making considers possible future events ("think ahead"), re-evaluates and modifies decisions taken in the light of different scenarios ("think again"), and looks for experiences and know-how worldwide with the objective of enriching its pool of knowledge ("think across"). The importance of universal principles in the management of water resources has long been recognized in the city-state. Nevertheless, a pragmatic approach has prevailed, and concepts and ideologies have been valued only for their usefulness in real terms.

Much of the world has been trapped for decades in the concepts of sustainable development, integrated water resources management, and recently, green growth, with inaction as an all-too-frequent result. These concepts have permeated the development discourse without necessarily having visible impacts on natural resources management practices, water included. This is not necessarily because of the concepts themselves, but because of the complexity of their implementation, which involves institutional, legal, regulatory, financial, social, and environmental considerations. They collapse under their own weight rather than inspiring practical action in response to the reality facing each country. In contrast, Singapore paid attention not to the concepts themselves but to the search for long-term alternatives for water resources within overall development. This comprehensive policy making process has propelled the city-state along the path to economic prosperity, improved quality of life, and environmental conservation.

There is no doubt that water—for human use and for the energy, agriculture, and environment sectors—will be one of the most critical resource issues of the coming decades. Therefore, paradigms for its policy making, management, governance, and development need to be reassessed and modified on a constant basis within an overall societal and development context. This is what Singapore has aimed at, with lessons worth analyzing in much of the developed and developing world.

Conclusion

In the field of international development, it has long been recognized that there are major gaps between current paradigms and those that may be necessary to address rapidly changing conditions. Poverty is both a cause and an effect of environmental degradation, and societies living in poverty will not have the means or incentives to make their environment an important consideration. Similarly, even in a scenario of robust economic growth, increased income and improved environmental quality are not always related, since more affluent countries and citizens may not necessarily be concerned about protecting their environment and natural resources, including water.

There is no universal blueprint for a transition to a sustainable society—all the more reason why innovative and implementable policies are needed to reduce persistent poverty and

environmental degradation all over the world. In the water sector, policy making is more complex now than ever before in history because of the extent of interdependence and interlinkages between countries, sectors, users, and uses. For it to be effective, policies need to reach beyond the sector into a changing environment that becomes more intricate with time.

Contrary to what would be expected, the influence of global events on water resources policy making, management, development, and governance does not always result in new and innovative ideas but in a homogenization of them. The water community has often settled for the lowest common denominator in terms of thoughts, concepts, and innovations, many of which have failed to provide feasible solutions. The end result has been that, while the complexity of the management of water resources has increased exponentially, related paradigms have improved only incrementally.

The need to address a very broad range of societal challenges cannot be met only by narrowly focusing on strategies within one sector, such as water. It requires instead addressing diverse systems of governance, challenging financial landscapes, promoting evolving technologies, and learning to cooperate with a myriad of governmental and non-governmental actors under competing social, economic, and political priorities at the national and international level. Above all, long-term policies require instilling new mindsets with the capacity to respond to changing conditions and new interdependencies, a fact that is still to be acknowledged within much of the water and development communities.

The changing world order and its associated impacts require a proactive attitude that rejects old thoughts and concepts whose implementation has proved to be a serious problem in the past: if they didn't work in the known environment, they are unlikely to work in an environment where the only certainty is change. Crises provide the opportunity to challenge the unchallenged. The time may have come to engage in the construction of a new series of thoughts that aim at holistic long-term visions for water resources. In the final analysis, it will be the strong, sustained commitment of leaders and societies, and their willingness to challenge prevailing wisdoms, that will contribute to development.

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CHAPTER 27

THE RURAL TRANSFORMATION

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Introduction

About 3.3 billion people live in the rural areas of Africa, Asia, and Latin America.[2] An additional 1.3 billion reside in provincial towns and small and medium cities,[3] most of which are functionally entwined with their surrounding rural areas by their economies and labor markets, their social networks, their culture, and the proximate environment that they share. These 4.6 billion people (two-thirds of the world's population) control about 60 percent of the world's arable land and produce about two-thirds of our food and non-food agricultural products (by value).[4] The bulk of our land-based global biodiversity lives with or immediately next to these people. Agriculture and deforestation in the developing countries are responsible for up to 28 percent of the greenhouse gases emitted on our planet, but rural areas also contain the world's most important carbon sinks, and most areas targeted for carbon capture are also rural. About 1 billion poor people (70 percent of the world's population, living on less than US$1.25 a day) live in areas that are officially considered rural; to this we should add the poor living in provincial towns and small and medium cities that should be considered part of contemporary rural societies (OECD 2006). These places and societies are undergoing change that is unprecedented in speed, depth, and the number of countries and people involved,[5] as well as in the potential of such change to do damage to our world, or—if governed appropriately—to contribute to a much enhanced global society and to our planet.

In this chapter we will examine key features of this change process while reviewing the evolution of ideas that have guided its analysis and inspired policy design. The main message that will emerge is that the rural transformation is a comprehensive process of societal change, driven by global and homogenizing forces that interact with localized structures, institutions, and actors to produce uneven patterns and outcomes of development.

In the next section we introduce the concepts of "rural" and "rural transformation." We look at some of the key global drivers of rural change and go on to discuss institutions, structures,

and human agency as the factors that explain the unevenness of rural societies and rural change. We conclude with some ideas for future work.

Definitions

We define the rural transformation as a process of comprehensive societal change whereby rural societies diversify their economies and reduce their reliance on agriculture; become dependent on distant places to trade and to acquire goods, services, and ideas; move from dispersed villages to towns and small and medium cities; and become culturally more similar to large urban agglomerations. Despite these common trends, the rural transformation within different countries has different outcomes in terms of economic growth, social inclusion, and environmental sustainability. While global forces drive this transformation, they are mediated by localized social structures and institutional frameworks, and local societies at any given time have different potentials to do and see things—that is, they have different levels of human agency.

The rural transformation is about rural societies changing rather than disappearing. Rural transformation is the reorganization of *society* in a given space, rather than about a *space* that empties as people and economic activity move away. The rural transformation is embedded within a wider process of structural change that involves the whole of a country and that sees a decline in the *relative* weight of agriculture in the overall economy, a corresponding increase in industry and services, migration of rural people to cities, and a transitory period of rapid demographic growth (Timmer and Akkus 2008). However, this process transforms rather than destroys rural societies, and in this chapter we are therefore concerned with the changes that take place in the rural space as such wider structural changes unfold.

"Rural development" refers both to the applied study of change in rural societies[6] and to the practice of changing such societies. In either sense, the standpoint of the policy analyst or practitioner is oriented by normative views that usually include elements of economic growth, social inclusion, political democratization, and environmental sustainability.

Our definition depends on how the content of "rural" evolves with the ongoing transformation. By "rural" we understand a society and the space it occupies, where agriculture and other primary activities account for a significant proportion (but not necessarily the majority) of land use, employment, income, and economic output, and where population densities are distinctly lower than those of large cities in the same country. This is a broad definition that includes the "deep rural" areas with very low population densities, distant from major cities, where almost every household has at least one member employed in agriculture or other primary activities. It also includes the provincial towns and small and medium urban centers that are functionally linked to a "deep rural" hinterland, where agriculture and other primary activities still account for a significant share of employment, and where many of the services and industries are also directly related to primary production.

Given this definition within any region or country, there is a *gradient* from "purely rural" to "purely urban," with an important intermediate range of places that are a combination of both. This allows the concept of "rural" to evolve with the changing nature of rural societies.

For example, European rural areas today are very different from what they were a hundred years ago, and they also differ from contemporary rural areas elsewhere, such as in Nepal. Nevertheless, to the European citizen a rural area is distinctly rural, even though that does not mean, today, that its population is mostly employed in agriculture (in fact, starting in the 1970s European manufacturing relocated to rural areas (Keeble, Owens, and Thompson 1983)), or that its inhabitants lack access to basic services or are isolated from the general events of their respective countries.

The rural transformation is, in essence, a process whereby the sharp economic, social, and cultural differences between rural and urban gradually blur and bleed into each other along a continuous gradient. In a contemporary rural village such as Mutambu, in Burundi, you will find elements that are "purely rural": for example, every household in the village practices agriculture. But you will also find characteristics that until a few years ago one would have found only in urban places: many children attend school and have access to some degree of health services; many households have a mobile phone, and almost everyone owns a radio and is informed about current events. Men and women derive much of their income from non-farm jobs, and the young people are fans of the same football teams as children in Chile, Italy, and the USA who have been raised in urban environments.

By the same token, a provincial city such as Latur, in Maharashtra, India, with a population of 400,000, has a number of features (such as, for example, its thirty institutes of higher education) that tell us that it is undisputedly an urban location. However, at the same time, it is intimately interdependent with its surrounding rural region as its economy is based on the production, processing, and trade of pulses, sugarcane, soybean, and fruits. Indeed, without agriculture it would lose most of its urban jobs. Both the Mutambus and the Laturs of this world are part of the rural transformations that are taking place in the global South.

The notions of what is rural and what constitutes rural change have evolved over time. As one would expect, the contents of the definition have been heavily influenced by the dominant or competing meta-discourses on development: structuralism, modernization, dependency or Marxist theories, endogenous development, the Washington Consensus, neo-institutionalism . . . each of these discourses has left its mark on the study of rural societies and on the practice of rural development.

Between the end of the second World War and the 1970s, the notion of "rural" was associated with "agriculture" (including artisanal fisheries, forestry, cattle husbandry, and pastoralism). The rural transformation was synonymous with the structural changes experienced by countries as a whole, as they "left behind" agriculture and moved toward economies based on industry and services. Urbanization was seen as closely associated with this change, as people moved from the places where agriculture was practiced to those where industry and services were located. Rural development policies during this time were fused with those aimed at the modernization of agriculture, as it was understood that the growth of the principal economic activity was the gateway to improvements in the well-being of rural populations. The Green Revolution, one of the most transformative and large-scale policy innovations that rural areas have ever experienced, is iconic of this period.[7] The works of Johnston and Mellor (1961), Lipton (1968), Schultz (1968), and Hayami and Ruttan (1971) are classical references for the student of this period. The 1982 *World Development Report* (World Bank 1982), for example, proposed an almost exclusively agricultural agenda to reduce rural

poverty in the developing world. The transitions that had taken place in the advanced Western societies were seen as the model to be imitated; economists from the North would go to a developing country and the deviations from the developed country model would largely determine the policy prescriptions.

Starting in the 1970s the concept of "rural" begins to take distance from its strict identification with agriculture. One line of intellectual and policy development departed from the realization that small and resource-poor farmers often faced insurmountable challenges in the process of agricultural modernization. Under the umbrella of Farming Systems Research (FSR), social scientists, economists, and agronomists began to work on issues of intra-household dynamics and equity, markets and policy, and historical contexts (Sebillote 1974; Collinson 2000; Mazoyer and Roudart 2006). Led by Chambers (1983), others began to address issues of power and social participation. Despite their origin with a focus on agriculture, these early ideas evolved and provided much of the intellectual background to sustain the development of the "Sustainable *Rural* Livelihoods" approach or framework (Carney 1998). By then, diversified economies and inter-sectoral linkages, rural–urban linkages, gender relations, markets, environment, and policy and institutional contexts had gained firm root in any good analysis of rural issues; the relevant units of analysis were no longer limited to the farm and the household, but encompassed broader, interacting systems.

A second line of intellectual development also emerged in the 1970s, through the concept of integrated rural development (IRD). IRD projects focused on "community well-being," in contrast with the agricultural focus of FSR or its francophone equivalent, *recherche-développement*. IRD was an operational approach to project design and implementation that never had a clear conceptual underpinning. Yet paradoxically, it has continued to have an indirect intellectual influence despite its operational failures and decline as the preferred approach to rural development starting in the mid-1980s. Most assessments agree that the shortcomings of IRD can be attributed to the coordination failures arising from the multiple, diverse, and ambitious objectives that a typical project aimed to achieve simultaneously, acting through large numbers of components and agents. However, the practice of IRD left important lessons and inspired new "area development" or "place-based development" approaches that gained traction after the mid-1980s. These approaches include "community-driven development" (pioneered in Brazil and favored by the World Bank and other international agencies such as the International Fund for Agricultural Development), "territorial development" (which evolved from an original inspiration in European policies and is now widely used in Latin America), and a plethora of other experiences practiced around the developing world under the generic label of "local development."

What is clear today is that rural, the rural transformation, and rural development are no longer synonymous with agriculture, agricultural modernization, or agricultural development. The distinction becomes greater as countries develop. The 2008 *World Development Report*, titled *Agriculture for Development* (World Bank 2007), placed developing countries in three categories based on the share of agriculture in the national economy and of rural poverty in total poverty: "agriculture-based," "transforming," and "urbanized." According to this classification, only 14 percent of the world's rural population live in agriculture-based countries such as Rwanda, while 77 percent are in transforming countries such as India, and 9 percent are in urbanized developing countries like Brazil. Only in the agriculture-based countries does it continue to make sense to think of

rural societies and the rural transformation using a sectoral, that is, agricultural, conceptual lens or policy toolkit. In the following section we will discuss the global forces that are responsible for driving rural societies away from their original characteristic as agricultural communities.

Global Drivers of the Rural Transformation

Despite important regional, national, and local idiosyncrasies, the rural transformation is driven by factors that are active across the globe. In our opinion, three of these factors are particularly important: (i) The *diversification of rural economies* away from an almost complete reliance on agriculture, together with (ii) the progressive *globalization of agrifood systems*, transform the economic base of the rural economy and the livelihood strategies of individuals and households, as well as the conditions under which they and rural organizations, communities, and firms engage with the economic processes of their own country and beyond; (iii) The *urbanization of rural regions* reduces and eventually eliminates the relative isolation in which rural people have lived for centuries. It broadens their access to public services, puts them in touch with new ideas, brings in new social actors, elites, and coalitions, and increases the frequency and diversity of interactions among rural people and between them and outsiders. The development of roads and telecommunications services is an additional factor that is essential to the other three, for there can be no diversification of the economy, no globalization of agrifood markets, nor urbanization of rural regions, if people cannot move around with relative ease and safety and if goods and services cannot be traded beyond local communities. These global forces interact and reinforce each other. Economic diversification stimulates and is supported by the agglomeration of people, organizations, and firms in towns and cities, and that in turn makes it easier to develop effective and stronger linkages with global agrifood systems.

These forces are global in scope, despite the fact that at any given point in time different countries will be experiencing them at different strengths and in different ways. Going back to the typology of the 2008 *World Development Report*, most rural areas of an agriculturally-based economy will demonstrate only incipient economic diversification, globalization of agrifood systems, urbanization, and access of rural people to roads and telecommunications, compared with a country in the "transforming" or "urbanized" category.

Diversification of Rural Economies

As countries develop, not only do the shares of agriculture and other primary activities, industry, and services change across the whole economy; similar changes happen *within* rural societies. The changing composition of *rural* household income demonstrates the shifting importance of farm- and non-farm activities in the local economy:[8] rural China went from 17 percent non-farm income in the early 1980s to 40 percent in the late 1990s; rural Tanzania, from 11 percent in 1991 to 46 percent in 2000; and rural Mexico, from 43 percent in 1997 to 67 percent in 2003. It has been estimated that the shares of non-farm income

in total rural household income in the late 1990s was 47 percent in Latin America and 51 percent in Asia. Even in Africa, Barrett, Reardon, and Webb (2001) cite different sources that estimate that non-farm sources accounted for as much as 40 to 45 percent of average rural household income during the 1990s. Rural women have high participation in the non-agricultural sectors of diversified rural economies, although often in less lucrative activities such as small-scale commerce and cottage industries.

Haggblade, Hazell, and Reardon (2007) summarize the state of the art with respect to the emergence and transformation of the non-farm sector in rural economies, and what follows is largely based on their work. The process can take place under two broad scenarios: one catalyzed by increasing agricultural productivity in some regions, the other observed in stagnant rural areas.

Under the first set of circumstances, rising labor productivity in the agricultural sector releases workers who can then undertake non-farm activities. Simultaneously, a share of the increasing farm income (due to productivity gains) is invested outside agriculture, for example, in commerce of agricultural products or in small-scale manufacturing of low-value goods. The higher income also allows the same households to buy more non-food items. Increased non-farm income can allow new investments in the farm economy, thus substituting for imperfect or missing financial markets that affect agriculture particularly hard in developing countries. Growing demand (due to increased income) stimulates diversification and, eventually, specialization of different households in different activities and in different combinations of farm and non-farm work. Growing trade follows from specialization. The growing number of people involved in services and manufacturing supports the growth of towns and cities, and the agglomeration of economic activity becomes, in itself, a force that attracts new investment and new workers. Agricultural workers respond to the growing demand for labor in the towns and cities sometimes by relocating, and sometimes by establishing labor markets linking towns and hinterlands and involving workers commuting daily or seasonally. Over time, both the farm and the non-farm activities become more sophisticated and productive.

We suggest that the model summarized by Haggblade, Hazell, and Reardon (2007) is, however, dependent upon relatively equitable access to land, such that surplus from growing agricultural productivity is to a large extent captured, saved, spent, and reinvested locally. This is why this model of a virtuous cycle has been observed in the Green Revolution regions of Asia, and in selected parts of Latin America and Africa that for historical reasons had a large class of small- and medium-sized locally-based farmers.

The growth of "township and village enterprises" in China is a good example of this model. The explosion in the number and economic importance of these enterprises since the reforms of the late 1970s is credited with making an important contribution to the rapid development of that country in the years immediately following initial political reforms. In about fifteen years, the number of township and village enterprises increased from 1.5 million to 23 million, and their workers grew five times to a peak of about 135 million, while the value of their annual output rose 37 times to over US$300 billion, producing about 40 percent of China's exports (Han 2010).

In the case of stagnant rural regions, processes are far less positive. What we see there is a process of outmigration of poor rural people who can no longer sustain their livelihood on the basis of subsistence agriculture, as pressure on the land grows because of population growth, natural resource degradation, and declining soil fertility. While many people migrate

to distant regions, others take refuge in low-pay, low-productivity non-farm work, much of it in the form of rudimentary cottage industries. Elbers and Lanjouw (2001) report about half a million non-farm rural enterprises in Ecuador in the mid-1990s, each of them employing on average 1.4 family members, with the largest group engaged in petty commerce. In Ethiopia, in 2003 there were 975,000 cottage and handicraft establishments, employing 1.3 million people (Ayele et al. 2010). Small towns do emerge but often lack sufficient stimulus to grow much. A more diversified, but low-income, high-poverty rural region is the outcome of this type of process. Such conditions may change rapidly, and often dramatically, if large-scale investors come to these regions to develop new activities, attracted by the low value of land and by the fact that local actors are socially and politically too weak to oppose alternative uses of natural resources. Such changes are not necessarily for the better, and to some extent recent literature on "land grabs" has begun to document such transformations (*Journal of Peasant Studies* 2012).[9]

Globalization of Agrifood Systems

While the rural transformation involves the diversification of the rural economy, agriculture continues to be a highly important activity. Decades ago, the agrifood systems of much of the developing world were local and fragmented, and agriculture in many places was predominantly a subsistence activity. Today very few rural places share those characteristics. As a general rule, agriculture, even in poor countries, is now linked at least partially to markets through product, services, and labor networks that extend from sub-national to national and intercontinental trade.[10]

From the 1950s through the 1970s, governments led food modernization policies and programs, investing in municipal wholesale markets, parastatal processing firms, and state-run retail chains (Reardon et al. 2009). As a result, fragmented markets gradually gave way to regional and national networks with a few wholesale markets in provincial and national capitals as the central nodes. These networks grew in importance when conditions such as rural roads, electrification, and other services and infrastructures improved enough to allow the trade of higher-value perishables over longer distances. Cross-regional trade stimulated the emergence of specialized production, and this fed back into the process of rural economic diversification discussed in the previous section.

Starting in the 1980s and as an integral part of economic liberalization strategies and structural adjustment programs, a new phase of change in agrifood systems rapidly took off. One consequence was the doubling of international food trade, but there has also been a remarkable, if less visible, transformation driven by the rapid expansion of modern food retail—the so-called "supermarket revolution" (Reardon and Berdegué 2002). According to Reardon et al. (2009: 1717), this transformation has been "characterized by consolidation, multinationalization, specialization/differentiation, and organizational and institutional change via the rise of vertical coordination . . . and private grades and standards."

This revolution began in the 1980s in the richer countries of Latin America, followed by subsequent waves in East and Southeast Asia, then Central America and other parts of Asia including China, then Southern and Eastern Africa, and finally South Asia. Within each country the pattern is usually the same, with the process first affecting services to the

middle- and high-income classes in the main cities, but quite rapidly moving to secondary cities and eventually to towns and villages.

The growing presence and power of global food retailers is driven by a number of demand and supply factors (Reardon, Timmer, and Berdegué 2004). Demand-side factors include increasing real income of a growing middle class in many developing countries, urbanization, and the increased opportunity cost of women's time. On the supply side, economic liberalization and changes in market protection and foreign direct investment policies were crucial for the arrival in developing countries of multinational agrifood processors and retailers. These firms had the capital and know-how to make use of advanced logistic and inventory management, which were indispensable to establish sophisticated grades and standards systems and to centralize procurement, while at the same time cutting costs. Through product differentiation (i.e. grades and standards) and lower prices, these firms were able to rapidly establish a growing presence in developing regions, often buying out the leading domestic firms. At the same time, the presence of these firms put pressure on domestic players to adjust or perish. This adjustment involved adopting institutional and organizational principles that were the same as or similar to those of the new dominant firms. Market forces are supported by public policies, some of them general in scope (e.g. foreign direct investment) but others quite specific (e.g. programs to promote contract agriculture linking producers, processors, and retailers).

These changes reach the rural areas via the concomitant transformation of food procurement systems, which, across developing regions, has involved three shifts that have radical implications for farmers: (i) from public to private standards of food quality and safety; (ii) from spot market relations to vertical coordination mechanisms; and (iii) from store-specific local procurement to centralized procurement using distribution centers. All of these shifts translate into profound technological, organizational, and managerial changes at the farm level (Reardon et al. 2009).

The revolution in the agrifood systems brought globalization to the door of developing world farms. Modern wholesalers, processors, and retailers source primarily from others when they have the choice. They buy from small farmers when medium or large farmers do not produce certain products or in contexts where there are very few large farms. When companies do buy from small farmers, they will look for those with access to good roads and irrigation, which are in this context more important than area of land, as long as producer associations can supply sufficient volume. Most evidence shows that small farmers participating in the modern food industry have greater net earnings per unit of land or of volume of product sold than those operating only in traditional markets (Reardon et al. 2009). Yet, a concurrent trend that has very significant implications for the rural transformation is the widespread concentration and transnationalization of agrifood markets that has excluded huge numbers of resource-poor and even small and medium farmers and traders.

Urbanization

From von Thünen (1826) to Krugman (1991) and including Marshall (1920), Christaller (1966), Lösch (1967) and Jacobs (1969), economic geography and economics have convincingly shown that urbanization is an integral part of the development process. In this section of the chapter, however, we are not looking at the process of urbanization in a country as a

whole. With our focus on the rural transformation, we will explain specifically the urbanization that takes place *within rural areas*, while accepting without reservation that the rural transformation is part of nation-wide processes of structural change that involve the relocation over time of millions of people to distant urban centers that are not part of the rural sector. What do we mean by "urbanization of the rural areas?"

The three large developing regions, Africa, Asia, and Latin America, are experiencing a rapid decline in what each country officially defines as rural populations, at a rate of between 1 and 2 percent per year over the period 1985–2015. Latin America already has fewer than 20 percent of its people living in what are officially described as rural areas, and in fewer than twenty years from now Asia and Africa will have crossed the 50 percent threshold. But where is the rest of the population? It is often assumed that they have all moved to large cities, populating the vast slums of places like Mexico City, Mumbai, and Lagos. Less remarked upon is that numerous small and medium urban centers (here defined as those with fewer than 500,000 inhabitants)[11] are growing vigorously in Africa, Asia, and Latin America, at a pace that is as fast as or faster than the rate of population growth of large urban agglomerations and mega-cities.

In Latin America the share of the total population living in small and medium-sized provincial towns and cities is already 40 percent. In contrast, in this developing region—as happened before in the USA, Europe, and Australia and New Zealand—we already observe a stabilization and, in several countries, a decline in the share of the total population that resides in large cities, at a level around or below 50 percent, while provincial small and medium urban centers continue to expand quite rapidly. This pattern is consistent with Williamson's (1965) hypothesis of an ∩-shaped curve between growth in per capita income and urban agglomeration: in the early stages of development, agglomeration economies drive a cumulative process that favors greater urban concentration. As cities grow, agglomeration diseconomies and congestion costs begin to accumulate and favor dispersion of economic activity among more but smaller urban locations.

We do not know for sure if or when Africa and Asia (where large cities are still growing in their share of total population) will follow this same pattern in which the population share of large cities stabilizes, "deep rural" areas continue to decline, and small and medium urban centers grow in relative importance. In each of these two regions the share of population in provincial towns and small and medium cities is already above 20 percent, and is growing at a pace that resembles that of Latin America in the 1950s to 1970s.

The relative importance of these provincial small and medium urban centers depends on the degree of urban concentration, that is, the degree to which the urban population locates in a very small number of very large cities.[12] Over one-third of the population of Angola lives in the largest three cities, compared with 19 percent of Brazilians and 13 percent of Pakistanis. Different African countries show quite distinct levels of urban concentration, even for similar levels of urbanization (e.g. Tanzania, Mozambique, and the Democratic Republic of Congo have similar levels of urbanization, at 26, 31, and 34 percent urban population, respectively, but their cities with one million people or more house 29, 16, and 51 percent of all urban dwellers). If the country-wide urbanization process follows a pattern of urban concentration, the result is a very different kind of rural transformation than when the overall urbanization process is distributed among a larger number of small, medium, and large cities. Christiaensen and Todo (2009) argue that the latter type will lead to more socially inclusive growth, compared to highly concentrated urbanization.

The emergence of these provincial small and medium urban centers, and their linkages with deep rural areas, is a critical feature of the rural transformation and of contemporary rural societies in the global South (Tacoli 2006). These urban places and their rural hinterlands are functionally intertwined in rural–urban territories. As countries develop, more and more of the rural population lives in these rural–urban territories. In Mexico, for example, 7 percent of the population lives in 554 "deep rural" territories that lack even a small town, and 43 percent in 399 rural–urban territories with a small to medium provincial city (population up to 250,000). The functional linkages between urban centers and their rural hinterlands are grounded in labor, product, and services markets; public service provision; social networks; and environmental services. People who live in the rural areas of the territory may commute to work or study in the urban center, and urban men and women may work in the fields during peak agricultural seasons. Rural dwellers shop in the nearby town, and urban merchants rely on those consumers to keep their businesses alive. Prosperous small and medium farmers invest part of their profits to open a small shop in the nearby city. The city attracts and retains skilled workers, technicians, bureaucrats, managers, teachers, and doctors. Local radio stations, provincial newspapers, and technical schools are established, and organizations open local and regional offices, providing sources of new ideas.

All these changes give birth to social and political coalitions that would be unimaginable in a landscape that is purely agrarian. Urban centers connect rural societies with the outside world in ways that simply do not occur when the most populated place is a village of a few hundred or, at best, a few thousand individuals. In summary, the emergence and further development of rural–urban territories has the effect of diffusing what once were sharp economic, social, and cultural distinctions between urban places, people, and societies, and rural ones.

And yet, despite these enormously powerful global forces, rural societies are and remain heterogeneous. Why?

Uneven Rural Development

If the global forces discussed above operate across all regions and countries and are homogenizing factors that reduce many critical differences between rural and urban, why are processes of rural change so uneven? In particular, how and why do different patterns of rural change lead to uneven combinations of economic growth and social inclusion (changes in poverty and in different forms of inequality)?[13] Clearly there must be additional forces at play that have a differentiating effect on the patterns and outcomes of rural change and that drive the spatial distribution of rural transformation.[14]

Neoclassical economic geography sees such unevenness as an unavoidable element in gradual and long-term processes of market-driven convergence. In this narrative, regional development policy is considered ineffective, distracting from the benefits of agglomeration economies, and advisable only in extreme cases where cultural or ethnic differences prevent people and capital from moving from lagging places to others where they can realize their full economic potential (World Bank 2009).

For others, however, the "unevenness" is largely the result of poverty and inequality traps (Barca 2009). The concepts of poverty traps and inequality traps have emerged as an analytical framework that is particularly useful to explain the unevenness in the characteristics and outcomes of the rural transformation, despite the presence of the same global drivers.

Poverty traps tell us about situations where people at the low end of the income distribution are stuck in a situation of poverty because they are poor to begin with: a lack of resources generates more constraints. Inequality traps, on the other hand, describe "situations where the entire distribution is stable because the various dimensions of inequality (in wealth, power and social status) interact to protect the rich from downward mobility, and to prevent the poor from being upwardly mobile" (Rao 2006). The difference between the two concepts is that inequality traps involve persistence in a ranking of different individuals or social groups, rather than persistence in absolute levels of deprivation (Bebbington et al. 2008); hence, inequality traps involve individuals or groups across the whole distribution, not just the poor.

If unevenness in the patterns and, particularly, in the outcomes of the rural transformation is a normal and transitory feature not of markets perfectly at work, but of social structures that take the form of poverty and inequality traps, then place-based development policies are not only justified but are a necessary element in the toolkit of rural development strategies.

Social structures and the institutions that create and sustain them play important roles in the long-term reproduction of the inequality and poverty traps in which so many social groups and territories become enmeshed (Acemoglu, Johnson, and Robinson 2001; Ferreira et al. 2004; Bourguignon, Ferreira, and Walton 2007). These institutions[15] are in turn a product of human agency, that is, of the conscious and unconscious efforts of different social groups to sustain or oppose them.

Localized poverty and inequality traps caused by the interaction of structures, institutions, and human agency, together with differential endowments of natural resources and geographical conditions, can explain why global homogenizing forces fail to have the same effects in different rural societies. Such an explanation, however, would predict a largely "path dependent" rural world where long-term equilibria are disrupted only by external forces operating on the existing structures, institutions, and human agents. As we have discussed previously, factors exogenous to the rural areas are critical to the rural transformation, but if taken alone they are insufficient to explain the unevenness of the rural transformation.

One can recognize two sources of endogenous change in rural societies (cf. Mahoney and Thelen 2011). First, there are tensions and contradictions among different institutions that co-exist in the same rural space and society, opening up fissures for change and rule breaking. For example, in a given rural society the institution of communal land tenure may exist in tension with the institutions governing extractive industry concessions and investments, and those governing environmental regulation. Second, people participate in and give meaning to many institutions at the same time. This makes it possible that their experiences and interpretations of those different institutions will highlight contradictions among them. Different groups will give higher priority and attention to different institutions, and as power relations among social groups change, so too will the preeminence of one set of rules over another. Human agency is thus at the core of any explanation of the rural transformation, as any experienced practitioner of rural development will readily recognize. This is why the

rural transformation is not a perfectly predetermined, path-dependent product of global forces and localized structures rooted in history. Human agency resides in the potential to do and see things differently, and institutional change will occur only when this potential is realized. This notion has some resonance with Sen's distinction between human capital—the assets that people have as a result of education, health, etc.—and human capability—the capacity of people to engage meaningfully and fruitfully in the world and ultimately to change parts of it (Sen 1997, 1999).

CONCLUSION

We have discussed the evolution of our collective understanding of rural societies and how they change, since the early sectoral focus on agricultural societies and agricultural development, through to current ideas that put a strong emphasis on "places" and "placed-based" development. Throughout this evolution, rural change has always been conceptualized as resulting from the interaction of global and local factors. For example, the economic theories on agriculture and growth and agriculture and development, which provided the intellectual support for the Green Revolution policies in the 1960s and 1970s, soon realized that they had to take into consideration such local idiosyncrasies as farmer risk aversion or the nature of local input markets.

Rural societies, like all others, bear a heavy inheritance of structures and deeply rooted, difficult-to-change institutions that have repeatedly shown their power in mediating the local effects of global forces and in defeating the "best" policy designs. Yet local rural societies are hardly autonomous from global forces that affect them either actively or by omission. Indeed, to be bypassed by the forces of economic diversification, of integration into regional, national, and global agrifood systems, and of urbanization most likely means that areas will be left, as Amartya Sen (1999) would put it, in a state of "deprivation, destitution and oppression."

NOTES

1. The authors wish to thank Dr María del Pilar Casal for her support in compiling and very efficiently surveying the extensive literature that was consulted in preparation for this chapter.
2. Population estimates for 2010 from the UN Population Division's *World Population Prospects, 2010 Revision*, and *World Urbanization Prospects, 2009 Revision*.
3. Urban areas with populations of less than 500,000.
4. FAO Stat for 2010.
5. At its starting point in the mid-nineteenth century, the rural transformation of Europe, North America, and Australia and New Zealand involved around 250 to 300 million people.
6. Rural development is therefore *not* a scientific discipline, as it completely and quite eclectically relies on the theories and methods of a wide range of sciences.
7. See also the chapter on "Agriculture and Food Security" by Swaminathan, Pandya-Lorch, and Yosef (this volume).

8. These data come from studies cited in Haggblade, Hazell, and Reardon (2007) using the country-specific official definitions of rural.
9. See also the chapter on "Land Reform" by White, Borras Jr., and Hall (this volume).
10. In recent years the globalization of land markets (land grab) has become an important, much studied, and highly debated topic; see the chapter on "Land Reform" by White, Borras Jr., and Hall (this volume).
11. It would be ideal to have comparable data for urban centers of different sizes, since a population threshold of 500,000 may be too high for many developing countries.
12. While urbanization and urban concentration tend to be confused, they are quite different processes (Henderson 2003).
13. We do not address in this chapter the *highly* important environmental dimension of this uneven development.
14. Kanbur and Venables (2005), the *World Development Reports* of 2006 and 2009 (World Bank 2005, 2009), and de Blij (2009) offer excellent entry points for the student of the spatial dimension of development; even if their focus is not specifically on rural societies, we believe that they are useful in understanding the unevenness of the rural transformation process. There are several books and journals dealing with the same issue but with a focus on a particular region: for Asia, the volume edited by Kanbur, Venables, and Wan (2006); for Africa, the *Journal of African Economies* special issue (December 2003) dedicated to the spatial dimension of development in the continent; for Latin America, two special issues of *Cuadernos de Economía* (2004 and 2005), and more recently and specifically for rural regions, the volume edited by Modrego and Berdegué (2012). Also very useful are a number of papers on the spatial distribution of welfare indicators, often using the Small Area Estimates methodology (Elbers, Lanjouw, and Lanjouw 2003), that have been prepared for numerous countries in the three developing regions (e.g., Kijima and Lanjouw 2003; Araujo et al. 2008; Elbers, Lanjouw, and Leite 2008).
15. These institutions are both formal and informal, and include norms, values, and other manifestations of local cultures.

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CHAPTER 28

LAND REFORM

BEN WHITE, SATURNINO M. BORRAS JR., AND RUTH HALL[1]

Introduction

> In the past century, land reform has played a massive, central role in the time-paths of rural and national poverty, progress, freedom, conflict and suffering. For the next half-century at least, where agriculture continues central to the lives of the poor, the role of land reform will not decline.
>
> (Lipton 2010: 10)

Given the predominance of agricultural production and employment in the economies of developing countries, it is not surprising that land has been both an important issue in development theories and debates and a major arena of rural social and political movements and agrarian conflict. In the early history of development thought it was widely recognized that access to land is crucial to poor people's capacity to construct viable livelihoods and overcome rural poverty, and also that existing structures of land tenure were often serious obstacles to improving farm productivity (Warriner 1969; Jacoby and Jacoby 1971). It was also recognized that patterns of landholding were major correlates of political power structure, social hierarchy, and economic relations in poor agrarian economies (Ghose 1983: 3).

This chapter uses both classic and contemporary literature to trace how land policies, and particularly land reform, have gained, lost, and regained prominence in development strategies and debates since the Second World War. We start with some issues of definition, and continue with the experience of land and agrarian reforms during the Cold War period. The next section traces the decline and resurgence of land policies during the post-Cold War decades and the sometimes fierce debates between advocates of state-led redistributive land reforms on the one hand and market-led reforms on the other. In the final section we introduce some contemporary issues and debates on gender and generational issues in land policy and the contemporary "land rush" involving sometimes spectacularly large corporate land deals, and conclude with reflections on the new ideas of food and land sovereignty driving today's agrarian movements.

Land Reforms and Agrarian Reforms

> The redistribution of property in land is a very difficult change to carry through . . . it is inevitably a political question.
>
> (Warriner 1969: xv)

Land reforms generally are efforts to correct what are seen as historical distortions in the allocation of land ownership and use rights. These distortions may have resulted from colonial land grabbing and dispossessions, enclosures, landlordism, or previous reforms themselves (such as some forms of socialist collectivization). It is therefore not surprising to see that national land policies have been shaped by the historical experience of different countries. Land reform objectives also tend to include a broader macro-economic aim of enhancing farm productivity and the farm sector's contribution to overall economic development: reformed land tenure structures are usually expected to promote agrarian transition (whether to capitalist, modernized, smallholder, or collective systems).

The generally accepted definition of land reform as "redistribution of property or rights in land" has not changed much in the past half-century. Normally definitions include some notion of the intended beneficiaries (small farmers, entrepreneurs, the landless, farm workers, labor tenants, women, the youth, the rural poor). Griffin, Khan, and Ickowitz (2002) define land reform as including

> not only redistributive reforms of ownership rights, but also the establishment of collective or communal forms of farming, state-sponsored land colonization schemes . . . and land tenure reforms, i.e., changes in the contractual arrangements between the landowner and those who cultivate the land. In addition, tax (and credit) measures intended to create incentives for large landowners to sell part of their holding sometimes are described as "market friendly" land reforms. (Griffin, Khan, and Ickowitz 2002: 279)

A conventional definition of *redistributive* land reforms is more restrictive, referring specifically to "programmes that redistribute land ownership from large private landowners to small peasant farmers and landless agricultural workers . . . [and] are thus concerned with a redistribution of wealth" (Griffin, Khan, and Ickowitz 2002: 280). One could reasonably argue for inclusion, in a non-normative definition, of those upside-down land reforms—of which there are many historical and some contemporary examples—in which land rights have been taken from the poor and given to the rich.

Most frequently, land reforms have aimed to establish or consolidate a large and solid class of viable, market-oriented, and surplus-producing peasants. This was true not only of the East Asian "success stories" of Japan, Taiwan, and South Korea, but also of the first stages of socialist land reforms (prior to collectivization) in the Soviet Union, China, North Vietnam, North Korea, Cuba, and Ethiopia (Lipton 2010: 192–4). Ajit Ghose, summarizing these experiences in the early 1980s, observed:

> A revitalisation of the peasantry is a necessary first step . . . irrespective of the nature of the new system: whether it is a capitalist, modernised peasant economy or a collective system. . . . [T]he immediate task of agrarian reform is to establish the peasantry as the principal actor on the rural scene. (Ghose 1983: 17)

It is common to distinguish land reforms (which aim to alter structures of access to land) and agrarian reforms, a more comprehensive approach that, besides (and sometimes even

instead of) land reform, aims to promote access of landholders to the various inputs (knowledge, credit, markets) they need to increase productivity and enhance sustainable livelihoods.

The land reform versus agrarian reform distinction is problematic for at least two reasons. First, any successful land reform is necessarily accompanied by the other supporting measures mentioned above, if they were not already in place, rendering the distinction redundant. Second, as Erich and Charlotte Jacoby noted four decades ago, the distinction is untranslatable in many world languages—"land reform in French is *réforme agraire*, and in Spanish *reforma agraria*" (Jacoby and Jacoby 1971: xiv–xv). The notion of "agrarian reform" does, though, serve the purpose of emphasizing the inadequacy of redistributive land reform by itself in bringing about lasting, structural change in the rural economy and society.

The leading international agency concerned with land issues is the Food and Agriculture Organization of the United Nations (FAO), but the World Bank has also exercised powerful influence over land policy thinking and programming in recent decades. The FAO held a major *World Conference on Agrarian Reform and Rural Development* in 1979. Paradoxically, this occurred not long before international and national efforts at land reform began to decline (from the early 1980s onwards), for a number of reasons, principally Structural Adjustment with the emerging dominance of neo-liberal frameworks and the roll-back of the state.

Land Reforms during the Cold War

In the first three decades after the Second World War, various models of land and agrarian reforms were implemented. These were the agrarian components of the multiple different models of "development" that co-existed at the time, from purely capitalist to purely socialist, plus a variety of in-between models, all of them at that time still in the "mainstream" in contrast to recent decades in which a single, broadly neo-liberal model has dominated.

Doreen Warriner, who was associated with the UN FAO's promotion of land reforms from the 1950s onwards, observed how land reform became "an instrument of the cold war, used by Russia and China to promote communism and by America to prevent it," and noted the "stimulating and also stupefying interaction of conflicting ideologies" in this period (Warriner 1969: 37). Cold War politics made its own contribution to confusion about the concept and theory of land reform. The United Nations Economic and Social Council even dropped "land" from the definition of land reform when it adopted a resolution in 1962 defining such reform as "an integrated programme of measures designed to eliminate the obstacles to economic and social development arising out of defects in the agrarian structure." The definition, as Erich and Charlotte Jacoby (1971: 25) note, "reflects the efforts of the West to prevent *land reform* being considered identical with *land redistribution* as the East claimed," typifying the "slipshod approach to land reform which almost paralysed the United Nations agencies in charge of the programmes."

Both the United States and the Soviet Union showed rather inconsistent attitudes to reform, depending on the political context. For some decades the United States backed redistributive "land to the tiller" models in some countries, involving confiscation of excess holdings and their redistribution to smallholders, and revisions in tenancy laws enabling tenants and sharecroppers to become owners of their plots. The best known examples are those of

Japan, South Korea, and Taiwan. The theoretical basis for this kind of "classic land reform" was set out by (among others) Lipton (1974). Many other countries tried to replicate these models, often with support from the West (Walinsky 1977; Christodoulou 1990). But these attempts were generally only partially successful and in many cases outright failures. At the same time, however, U.S. sponsorship of land reform was almost absent in countries where U.S. firms owned large farms, and opposition to land reform was a motive for U.S. support for the overthrow of the governments of Arbenz in Guatemala in 1954 and Allende in Chile in 1973.

From the late 1960s onwards, the U.S. downplayed strategies based on politically-difficult land reform in favor of "green revolution" small-farm modernization through adoption of the new high-yielding varieties of maize and rice and purchased inputs. Other organizations that had sponsored advisory missions on land reforms also shifted their interest at about this time. But there were several notable exceptions in which land-to-the-tiller reforms were thought necessary to forestall rural communist revolution. In this the U.S. government was influenced by Roy Prosterman's "index of rural instability," a theory claiming that when landlessness reached 40 percent of rural households, radical rural insurrection was likely to ensue (Prosterman 1976). The United States supported land-to-the-tiller reforms for this reason, with Prosterman as advisor in (among others) the Philippines, South Vietnam, and El Salvador.

Meanwhile, several countries chose the path of collectivization (China, North Vietnam, Cuba), usually in stages beginning with a land-to-the-tiller and cooperativization phase, as noted above. China and the Soviet Union were also prominent in supporting the establishment of collective agriculture in the countries in their orbit of influence. However, one should not oversimplify the support for such reforms in the Cold War period. The Soviet Union tolerated a large private peasant sector in Poland, and the reversion from collectivism to peasant farming in Yugoslavia from the early 1950s (Lipton 2010: 321).

Many post-colonial land reforms in this period (both capitalist- and socialist-oriented), like the colonial upside-down reforms before them, involved the declaration of the state as the ultimate, sovereign owner of all land and other natural resources. As recent concern and research on large-scale corporate land acquisitions have shown, this often leaves cultivators under "customary" forms of tenure especially vulnerable to dispossession and eviction when large-scale investors (transnational or domestic) make deals directly with governments for the purchase or lease of large expanses of land, through the legal manipulations that "render untitled (but traditionally occupied and used) lands as unowned, and the state, by default, their legal owner" (Wily 2012: 752).

Decline and Resurgence in Development Agendas

In the early 1990s the Bangladeshi economist Rehman Sobhan noted the disappearance of land reform from international development agendas: "The multilateral agencies, once in the vanguard of the intellectual movement for land reform, now mention such proposals for reform not at all or in highly qualified small print" (Sobhan 1993: 3). Byres (2004) notes the virtual disappearance of land reform from policy agendas during the 1970s and 1980s and its reappearance in "market friendly" form in the 1990s. The end of the Cold War led to

decollectivization and a new wave of privatizing land reforms in many post-socialist/transitional countries (Spoor 1997). Since 2000, many new land projects of the World Bank and USAID have focused on "land administration," not involving direct redistribution of land rights from large landowners to small peasant farmers or the landless, but aiming to improve the legal, technical, and institutional framework for land ownership, with the object of promoting "tenure security" and the working of land markets.

In Africa, land reform receded with the introduction of structural adjustment programs through the 1980s, together with the closure of state farms and withdrawal of state roles in input and output markets. By the early 1990s, in the immediate aftermath of the end of the Cold War, it was making a return as part of interventions geared toward market reforms to stimulate agriculture. The World Bank report *Land Policies for Growth and Poverty Reduction* devoted only 14 pages to redistributive land reform policies (Deininger 2003: 143–56), compared to 125 pages on the need to establish secure property rights to land and to make these rights easily transferable through "free" land markets from less to more efficient producers (Deininger 2003: 7–132).

The World Bank's position has been described variously as "market-assisted land reform" (MALR), "market-based land reform" (MBLR), and "market-led agrarian reform" (MLAR). Its main proponents, Klaus Deininger and Hans Binswanger, defined the four key elements of the World Bank's land policy as: promotion of owner-operated family farms on both efficiency and equity grounds; secure property rights to land so as to enhance owners' effort and investment and facilitate land transactions; a policy and regulatory environment that promotes transfers to more efficient land uses; and a role for egalitarian asset distribution and redistributive land reform where the agrarian structure is highly dualistic, characterized by very large and very small holdings (Deininger and Binswanger 1999: 2).

This shift from classic state-led land reform to MLAR has been influenced by the so-called evolutionary theory of land rights. This application of the neoclassical theory of induced institutional innovation holds that rising scarcity and values of land or other resources, when reaching the point where the benefits of private ownership outweigh its costs, will lead to institutional innovation in the form of the creation of private property rights in those resources (Hayami and Ruttan 1985; Fitzpatrick 2006: 998). The evolutionary theory provides the theoretical justification for market-led or market-assisted (rather than state-led) land reforms, in which the main role of the state is seen as the provision of land titling programs and the promotion of a level playing field in which the market can do its work of bringing together "willing buyers" and "willing sellers." Another powerful advocate of intervention to promote private property rights is Hernando de Soto, whose influential book *The Mystery of Capital* advocates land titling programs to bring poor rural people with informal smallholder tenure into the formal system, allowing them to use their land titles to acquire working capital through bank loans (de Soto 2000). Several recent policy reforms in African countries have been framed as ways to empower the poor through titling their "dead capital."

Belgian economist Jean-Philippe Platteau's influential (1996) critique of the evolutionary theory found it wanting both as an exposition of historical processes and as a normative basis for structural reform based on individual, private property rights. The theory loses credence when confronted with the reality of property systems in many parts of Asia, Africa, and Latin America, which—despite growing competition for resources—remain "plagued by widespread legal uncertainty, resource conflicts, and environmental degradation . . . in many contexts,

relatively viable resource-governance regimes have reverted to open access notwithstanding conditions favourable to the creation of property rights" (Fitzpatrick 2006: 999). The World Bank statement on land policies recognizes one part of the problem, noting that "there are many cases where the vicious cycle of increased scarcity of land leading to more precise definition of property rights has not materialized, but instead conflict has arisen" (World Bank 2003: 9). Another problem is that registration (titling) of individual property rights in land is not a neutral process, typically favoring certain more influential categories of cultivators and excluding others (among them women), and may ultimately create less and not more security of tenure (Platteau 1996: 39–49).

Nobel laureate Elinor Ostrom's major contribution to the understanding and strengthening of property rights held in common was showing that competition, conflict, and resource depletion were not the inevitable outcomes of increased scarcity—the commons need not be a "tragedy." She drew attention to the durability of common property regimes that govern the sustainable use of common pool resources like grazing lands, forests and forest products, water, rivers, and marine resources—resources which are central to the livelihoods of most of the world's rural population. Privatizing these resources through titling is not the only policy option. Ostrom's work demonstrated that stable resource use can be achieved through collective self-governance by users themselves, by adopting what she described as eight principles for managing common property resources: clearly defined boundaries, locally appropriate rules regarding use and harvesting, user participation in decision making, systems for monitoring that are accountable to users, appropriate sanctions for violation of rules, cheap and accessible systems for dispute resolution, enabling the community of users to define itself, and to build nested institutions at different levels, on the basis of local common property regimes (Ostrom 1990).

In response to this and other work defending common property against private titling, the World Bank, for some time a major supporter of conversion of lands held in customary tenure to individual ownership titles, has now partly retreated from the "de Soto" position, especially for Africa. "[In] many traditional tenure systems, households undertake investments that range from marking boundaries to planting trees.... Increasing security of tenure does not necessarily require issuing formal individual titles.... [M]any studies indicate that in Africa formal land title had little or no impact on either investment or farm income" (Deininger 2003: 37, 39). The experiences of Brazil, Colombia, and South Africa, considered success stories by proponents of market-led reform, suggest that the model simply does not work in the manner predicted by its proponents, and the market cannot replace the redistributive function of the state (Borras 2003).

In an article that provoked much debate in the *Journal of Agrarian Change*, Griffin, Khan, and Ickowitz (2002) set out the case for radical redistributive land reform as an alternative to market-assisted reform. These authors argue that confiscation of land holdings is a key element in successful land reforms. By themselves, market-friendly experiments are unlikely to make major inroads into landlord power or the distribution of holdings. Fragmented labor markets and systems of labor control prevent land markets from working in favor of the poor, and thus bring limited change in the distribution of landholdings. Debate concerning the theoretical coherence and empirical outcomes of market-assisted reforms appears to be growing and fracturing, as the scope of debate extends beyond the mechanisms for the acquisition of land and the selection of beneficiaries to its location within processes of agrarian and even macroeconomic change.

Arguments for and against various types and directions of land reform are part of the larger underlying debate on the respective merits of large- and small-scale agriculture. Contrasting views on land reform reflect the tensions between opposing standpoints on small-farm viability and the future place of small-scale agriculture in globalized food (and fuel, feed, and fiber) regimes. Rural social movements campaign for the small-scale alternative and claim that it can both provision the world, and do this in environmentally-friendly ways. This alternative is argued to generate more employment for local people than large-scale, energy-intensive monocrop farming, which tends to have an "enclave" character, with only a few exceptions such as horticulture. For example, La Via Campesina, the world's largest and most influential alliance of peasant movements, insists that "small-scale farmers can feed the world and keep the planet cool" (La Via Campesina 2009, 2010). Quite authoritative scientific support for the viability and potential of smallholder futures comes from the important but largely unnoticed international study conducted by the International Assessment of Agricultural Science and Technology for Development (IAASTD), *Agriculture at a Crossroads*. This report, which drew on the expertise of about four hundred specialists from all over the world, concludes that industrial, large-scale monoculture agriculture is unsustainable and must be reconsidered in favor of agro-ecosystems that combine mixed crop production with conserving water supplies, preserving biodiversity, and improving the livelihoods of the poor in small-scale mixed farming (IAASTD 2009). Further support may be found in the report of the UN Special Rapporteur on the Right to Food on agroecology as a scientific framework to "facilitate the transition towards a low-carbon, resource-preserving type of agriculture that benefits the poorest farmers" (UN General Assembly 2010b: 3).

If we take seriously the potential of small-scale farming as the basis for an agricultural future, we need to distinguish between the failures of conception and realization of the original redistributive land reform agendas (particularly as influenced and distorted by Cold War agendas) and "the possibility of reappraising such reforms as an instrument for modernization, technological diffusion, development and democracy as part of a sustained assault on rural poverty" (Sobhan 1993: 3). Notwithstanding its problems, Lipton reminds us, "at least 1.5 billion people today have some farmland as a result of land reform, and are less poor, or not poor, as a result. But huge, inefficient land inequalities remain, or have re-emerged, in many low-income countries. Land reform remains both 'unfinished business' (Walinsky 1977) and alive and well" (Lipton 2010: 8).

(Trans)national Agrarian Movements

In the 1990s a convergence of political processes and events jump-started a renewed interest in redistributive land reforms globally. The post-authoritarian regime in Brazil passed a land reform law in 1988 that has become a key institutional anchor for the mobilization and land occupation campaign by the Movement of Landless Rural Workers (MST). Around the same time, the post-Marcos government in the Philippines enacted a new land reform law around which nation-wide land claim-making campaigns by poor peasants were launched and sustained. The regime transition from the apartheid era in South Africa has resulted in some significant concessions for the poor, including the 1994 land reform law that in turn inspired,

at least for a short while, the birth of a national landless people's movement. In Zimbabwe, the issue of land and land redistribution was central to the 1980 regime transition, albeit initially with a limited, market-assisted land reform combined with resettlement program. But in the mid-1990s, a spark for a nation-wide agitation for land occurred that would ignite the controversial fast-track land reform beginning in 2000. The 1998 regime transition in Indonesia similarly opened up institutional reforms that would encourage further mobilization by the rural poor to claim land. Other places where significant calls and mobilizations for various forms of redistributive land policies have occurred during this period include Chiapas, Honduras, Guatemala, India, Bangladesh, and East Timor.

The rise of transnational agrarian movements that are in turn linked to local-national movements mobilizing for redistributive land policies has amplified the demand for redistributive land reform in the twenty-first century. La Via Campesina coordinated key (sub-)national campaigns for land and aggregated them at the regional and international level to extend the political reach of local and national campaigns. Launched in 1999, La Via Campesina's Global Campaign for Agrarian Reform (GCAR) has been framed against the World Bank's MLAR and aims to promote redistributive land reform. In 2006 this campaign found expression in the successful International Conference on Agrarian Reform and Rural Development, which issued a progressive declaration and vision for land reform.

National campaigns for redistributive land policies have resulted in varied outcomes, with Zimbabwe and the Philippines posting the most significant results in terms of percentage of redistributed lands in relation to total agricultural lands, and number of beneficiaries relative to total rural populations. The Brazilian land reform, while frequently in the global media limelight, did not cover as much of the total agricultural lands and rural population, while the South African land reform has achieved much less. Many land reform settlements established in the past or recently, from West Bengal to Brazil, from Mozambique to the Philippines, have been targeted by corporate land grabbers. Indeed, the current phenomenon of land grabbing has reaffirmed the relevance of land reform, but has also exposed existing land reforms as an inadequate land policy response, as we argue below.

Current Issues and Debates

Among many currently hot issues and debates on land policy, space allows us to mention only three.

Gender Issues in Land Policy

> Land for women has to do with survival; for men it has to do with power . . . the men will be the first ones to oppose our participation in land tenancy.
>
> (A Mayan woman NGO worker in Guatemala, quoted in Deere and de Leal 2001: 1)

> Are you suggesting that women be given rights to land? What do women want? To break up the family?
>
> (India's Minister of Agriculture, responding to Bina Agarwal's submission to the Indian Planning Commission on Land Reform, 1989. Agarwal 1997: 3)

Many studies have documented the importance of women's access to land resources in their own right, and the persistence of gender discrimination in land rights policy and practice (see particularly Agarwal 1994 for South Asia; Deere and de Leal 2001 for Latin America; and Jacobs 2010: ch. 8 and Tsikata and Golah 2010: chs. 4 and 5 for cases from sub-Saharan Africa). The UN's 1979 Convention on Elimination of All Forms of Discrimination Against Women, now ratified by 187 of the UN's 193 member states (CEDAW 2012), firmly establishes women's right to "equal treatment in land and agrarian reform as well as in land resettlement schemes" (Article 14(g)). But land reforms have themselves often affected women detrimentally.

Moser (1993) pointed out that state-codified, individual forms of land allocation and resettlement often annihilate women's customary rights to land. "Household"-based models of land reform and resettlement programs, which in practice assign titles not to households but to "household heads," usually exclude married women as beneficiaries of redistribution, or subsume them under the husband's title (Jacobs 2010: 43). The same applies to many large-scale contract-farming schemes such as the oil-palm ventures rapidly expanding in parts of Asia, Africa, and Latin America. In one Indonesian example, land in customary tenure (in which women had their own rights to land) was first claimed by the state, then allocated to plantation companies and part of it reallocated to contract-farmer households as two-hectare monocrop oil palm plots; although there was no formal gender restriction on who should be the smallholder participant, or what should be the gender of the household head, in practice only the male "Head of Family" is registered as the smallholder (White and White 2012).

Gender relations, thus, are affected centrally by agrarian reform policies, and gendered agency may affect the direction of policies: "land reforms are not democratic unless women achieve rights, autonomy and better life chances within them" (Jacobs 2010: 192).

Generational Issues in Land Policy

Much less is known and written about generational issues in land control. The World Bank's (2006) report on youth, *Development and the Next Generation*, hardly mentions agriculture, even in its chapter on employment, while the Bank's report *Agriculture for Development* (World Bank 2007) does not mention youth at all. But several recent studies have highlighted "youth and agriculture" as a new field of problems and future work (for example, IFAD 2010; van der Geest 2010; Leavy and Smith 2010; Chicago Council 2011; Sumberg 2011; Proctor and Lucchesi 2012).

Just as feminist analysis and feminist-informed policy need to be brought to bear on issues of gender and land rights, we need to bring generational analysis and youth-focused policy to bear on the intergenerational tensions that we see almost everywhere in rural communities. In particular we need to understand young people's problems in getting access to farmland and other agriculture-related opportunities in societies where gerontocracy, agrarian inequality, and corporate penetration of the agrifood sector, in varying degrees, are the order of the day. In many or most agrarian societies, the older generation—parents, or community elders in places where land is controlled not individually but by customary law—retain control of land as long as possible. The tension between the desires of the older generation to retain control of resources and the desire of young people to receive their share of these resources, form their own independent farms and households, and attain the status of

economic and social adulthood is a common feature of many agrarian societies, but surprisingly neglected in research.

Various studies show how access to land is narrowing for young people, and reveal the tensions this generates. Julian Quan, reviewing changes in intra-family land relations in sub-Saharan Africa, notes:

> [L]imitations in young people's access to land, land concentration, and land sales and allocations outside the kin group by older generations can become highly problematic where alternative livelihoods are not available, and can trigger wide social conflicts. (Quan 2007: 57)

It is not surprising if today's young rural men and women are reluctant to wait for the passing of the older generation (when they may be 40 or 50 years old) to be farmers, and decide to move to the city, a trend which now extends to all social classes and (in most countries) both genders. The issue of intergenerational transfer of land rights—or, when that does not happen, intergenerational dispossession, when one generation sells off land that ought to be passed on to the next—deserves our attention. If we are interested in small-farm-based alternatives to industrial capitalist agriculture, there needs to be a generation of rural men and women interested in taking up the challenge.

New Enclosures? The Current Debate on Corporate Land Deals

> Buy land—they're not making it any more.
>
> (Mark Twain)

There is currently much debate about how to tackle the challenges brought about by corporate "land grabs." Large-scale, government-supported corporate acquisition of contested lands and common lands, and the accompanying dispossession of local farmers, pastoralists, and forest users is currently occurring on an unprecedented scale in Africa, Asia, Latin America, and the former Soviet Union, and most particularly in sub-Saharan Africa. Several studies have tried to document the location and extent of land deals in recent years (GRAIN 2008; Cotula et al. 2009; von Braun and Meinzen-Dick 2009; World Bank 2010; Oakland Institute 2011; Oxfam 2011; Anseeuw et al. 2012). With some differences in definition and the time span covered, recent estimates of the total area of large land deals worldwide range from 43 million hectares (World Bank 2010) to 80 million (Anseeuw et al. 2012) or even 227 million (Oxfam 2011). Among these and other reports there is reasonable consistency that at least 60 percent of total acquisitions are in sub-Saharan Africa. Lorenzo Cotula's (2012) critical review of available evidence points to sources of both over- and under-estimation, but confirms that the phenomenon is massive and growing.

These deals are usually accompanied by government and corporate promises to develop modern, industrial forms of agricultural production for export, and to provide good jobs and incomes for local people. But research has long ago shown that these industrial (capital- and energy-intensive) forms of agriculture are unsustainable. They also do not provide employment on any significant scale, tending to create enclaves of capital intensive, monocrop farming with minimal linkages to the local economy.[2]

There has been a wide range of responses to the current land rush—positive, negative, and neutral. Advocacy of a large farm model for agricultural growth, linked to assumed comparative advantages in a globalized economy, is often at the center of justifications for large-scale corporate land deals (Collier 2008). A "dualistic" agrarian economy is envisaged, with large-scale farms engaged in capitalist production often for export, while smallholder farms gradually disappear or are incorporated as part of contract farming arrangements, with the former peasantry proletarianized, providing low paid labor to the new estates and plantations. This is the trajectory envisaged in the World Bank's much-cited (and much criticized) report on *Agriculture for Development* (World Bank 2007).[3] In the increasingly integrated value chains of global agricultural production, it is argued, only large farms or smallholder outgrowers hooked into large agri-business nuclei can compete, and meet the kinds of standards required for successful export. An agri-business-oriented vision for agriculture, with large-scale farms at the core, even if linked through outgrower schemes to smallholders, is one that some see as the logical and perhaps inevitable extension of global capital into rural economies: a culmination of processes of agrarian change and capitalist transformation.

These arguments have been taken on by national governments, investors, and donor agencies alike. This has made many policy actors—eager to promote private sector driven investments but on the other hand committed to a discourse of support for smallholder farming—ambivalent about the process of global land grabbing. The World Bank, for example, does not oppose corporate acquisition of land—and indeed facilitates it through its International Finance Corporation—but proposes corporate codes of conduct to ensure "responsible investment in land." The G20 endorsed Principles for Responsible Agro-Investment, for example, include: respecting land and resource rights; ensuring food security; ensuring transparency, good governance, and a proper enabling environment; consultation and participation; responsible agro-enterprise investing; social sustainability; and environmental sustainability (FAO et al. 2010).

Others are skeptical about the efficacy of codes of conduct (Borras and Franco 2010). The UN Special Rapporteur on the Right to Food, Olivier De Schutter, is a lone voice within the UN family arguing for a broader vision: not to deny the need for investment in agriculture, but to develop an alternative program for agricultural investment based on reorientation of agricultural systems toward modes of production that are both productive and sustainable.

> Land investments implying an important shift in land rights should represent *the last and least desirable option*, acceptable only if no other investment model can achieve a similar contribution to local development. (De Schutter in UN 2010a: 20, emphasis added; see also De Schutter 2011)

In between these two positions is the initiative around the now-approved FAO-anchored Voluntary Guidelines for the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security. The complex negotiations for these Voluntary Guidelines have involved key state actors both for and against stronger guidelines, as well as a range of civil society organizations and social movements with differentiated positions on land grabbing. Their implementation will likely become a key arena of political contestation in the coming years between key actors wanting to influence the institutional rules that govern land deals (White et al. 2012).

Concluding Reflections: From Security to Sovereignty

A full century of modern land reformism has been accompanied by a growing understanding of the politics and social relations of land property. We now know that monopoly control that denies the rural poor access to and control over land is not confined to formal private property rights, but rather cuts across property regimes: elites and corporations control land via private property rights in formal titled systems, and via traditional arrangements in the commons, in state, and public lands. The converse of this is that effective control by the rural poor over land resources does not always have to be through individualized private property rights; it can also be achieved and maintained through communal, community-based, state, and public property arrangements. The essence of redistributive land reform is the shift of power to exercise access to and control over land resources toward the rural poor; but historically and traditionally, land reform has been confined more strictly to redistributing (usually private) lands from monopoly control of landed classes to landless or near-landless classes and groups. Following this conventional framework, land reform remains relevant today, in settings where private land concentration occurs.

Yet, as discussed above, contemporary corporate land grabbing has been targeting lands that do not fall under formal private property systems: state and public lands, and also indigenous peoples' and community lands that are being claimed by the state. This is the key land issue of the moment. Some kind of redistributive reform is urgent and necessary to prevent people from getting expelled from their land. But land reform—conventionally framed as discussed in this chapter—is unlikely to be the most effective policy and political framework in settings such as these. The call for "land tenure security" (almost always interpreted as promoting individual private property titles) by the World Bank and other mainstream institutions may be well-intentioned, but it does not have the pro-poor and pro-peasant farmer bias of redistributive land reform and is likely to facilitate, not prevent, problematic land deals.

If, as our analysis suggests, there is a need to recast popular demands from land reform or tenure security to something else, then "land sovereignty," a concept currently being debated by various civil society and rural social movements, is worth considering. It is defined as "the right of working peoples to have effective access to, use of, and control over land and the benefits of its use and occupation, where land is understood as resource, territory, and landscape" (Borras and Franco 2012). It is both a call to action against a renewed corporate and (trans)national global push to enclose the commons and an assertion of the need for a people's enclosure of the land; supporting working peoples and their human right to control over land. Land sovereignty goes beyond viewing land just as a resource to also considering land as territory and as landscapes. This embraces struggles by indigenous movements, rural laborers, urban activists, and social movements North and South who have sometimes been excluded in traditional land reform campaigns.

Moreover, land sovereignty embraces plural understandings of property rights, encompassing communal, community, state, and/or private rights. It privileges the commons without romanticizing it, and recognizes the importance of state property while confronting the contradictory role of the state in land conflicts. It builds on redistributive land reform,

looking to go beyond it by supporting land restitution for people who previously benefited from land reform but have been displaced and dispossessed in more recent land grabs, and by supporting other land policies whose redistributive content can be shaped through mass struggles: for example forest land reallocation policies, community-based forest management, tenure reform, and leasehold reform. Finally, it connects with the popular demand and movements for food sovereignty—broadly defined as the rights of people to produce, distribute, and consume safe and healthy food in a sustainable manner—allowing for a mutually reinforcing, synergistic interaction between them.

Land sovereignty thus includes redistributive land reform, land restitution, forest land reallocation, and so on; it aims to clarify the basic principles of what a truly pro-poor land policy is, and provide a broad and flexible concept that can bring such policies, programs, actions, and endeavors into a singular, common alternative framework.

Therefore, a relevant "redistributive land reform" for the twenty-first century is one that can provide an overarching policy and political framework for public action and political mobilization. It should build on the proactive stance of conventional land reform that calls for ending land monopolies where they exist, but go beyond it to call for pro-active people's enclosure campaigns where local communities assert their right to have full access to and control over their land resources. A relevant redistributive land reform for the twenty-first century, therefore, is one that is linked—as land reforms were from the 1920s to the 1970s—to broader visions of development.

Notes

1. The authors acknowledge Ian Scoones and Wendy Wolford for their support and encouragement.
2. The classic statement on the link between enclave plantation economy and persistent rural poverty is Beckford (1972).
3. Among many critical views on the World Bank report, see particularly Akram-Lodhi 2008 and Li 2009.

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CHAPTER 29

CLIMATE ADAPTATION

FATIMA DENTON

Introduction

Climate change has been described as the "greatest and widest ranging market failure ever seen" (Stern 2006). While adaptation has focused predominantly on biophysical processes and how they impact on lives and livelihoods, it will be equally important for developing countries to make a transition toward strong governance and institutional arrangements to blunt the negative impacts of climate change. The potential for sustainable development will be realized if certain opportunities in climate sensitive sectors can be "exploited" to accelerate adaptation action. Currently, institutional weaknesses disqualify many countries, particularly in Africa, from taking advantage of opportunities to access new monies available for adaptation. As financing for adaptation grows, institutional vulnerability is an impediment.

Climate change presents developing countries with a "wicked" problem made more difficult by weak institutions and governance (Brown et al 2010). These two fundamental ingredients are necessary for the transition to a transformative development that will make adaptation more sustainable. This chapter unpacks the concept of adaptation and vulnerability, and links this to governance as the hook that enables adaptation. Climate change is shrouded in many of the complex governance and institutional matters that are necessary to manage environmental change. This tendency does not augur well for countries where governance systems and institutional arrangements are already relatively fragile and largely in transition.

Adaptation should go beyond discrete projects designed to reduce vulnerability, to instead bring governments and people to the center of the action. African countries in particular need "new" governance models that take into account local realities. Participatory processes that favor deliberative decision making have the potential to make adaptation action more sustainable and bring diverse social groups together. This aspiration needs transparent governance systems and robust institutions to adopt a sustainable development pathway. In short, adaptation is enabled, coordinated, and sustained within a governance regime that respects a plurality of actors.

Even with strong governance and institutional arrangements, adaptation is the logical response that allows vulnerable groups to re-think new strategies and thus "insulate" themselves from climate threats. This chapter argues that reversing the negative trends of

climate change is essentially about deploying useable knowledge and empowering vulnerable communities. Deliberative processes, in which different stakeholders are able to bring their perspective to bare, provide the much needed "glue" for sustainability. Focusing on the biophysical implications alone ignores the societal and cultural implications that provide a deeper understanding on how societies respond to, and their willingness to participate in, different climate strategies. It also draws from experience in Africa to reinforce the point that institutions are essential to making adaptation work in practice.

Thus this chapter points to a strong governance regime as a pre-condition for adaptation, one that thrives on resilience. It begins with short histories of adaptation; one focused on the concept itself and another on how it has been put into practice. Three key insights are then discussed: that adaptation can entail re-engineering of institutions and organizations to better enable local level experimentation; how governance shapes the opportunities for adaptation in practice; and the need for deliberation among diverse stakeholders to reduce vulnerability

Two Short Histories

Thinking on Adaptation

The concept of "adaptation" can be traced to the influence of Charles Darwin and its use within evolutionary biology. As originally employed, adaptation refers to the relation between an organism and its habitat. Over time, genetic variability gives rise to a variety of traits in new generations of plants and animals, some of which prove more useful for obtaining food, avoiding predators, and surviving in harsh climates. In evolutionary biology, adaptation is an unintentional and accidental process of natural selection, over multiple generations, which shapes the physical and genetic structure of species.

In contrast, human "adaptation" to environmental change is concerned not with the physical ability of people to live in a different climate, but with changes in human behavior and the ability of societies to cope with such change. Dewey (1929) saw adaptation as the capacity of an individual to adjust to changing circumstances, as well as the process where an individual draws on knowledge of the environment to modify it to meet their needs. Such an understanding of adaptation resonates with anthropology and the study of how people coped with changing climate and resource availability over time through changes in technology, behavior, and social structure. Adaptation also carries with it the notion of a certain degree of self-reliance, of people relying on their own agency.

Modern thinking on ecology relates adaptation to the idea of resilience, or the capacity of ecosystems to persist in their original state following a disturbance such as fire, disease, or drought. Resilience is maintaining stability in certain aspects of ecosystem structure or function, such as the mix of animal and plant species, and denotes both an ability to withstand change and to recover afterwards. Holling (1986) describes an iterative four-stage process including release, renewal, growth, and conservation. For example, fire can devastate a forest in the short-term,[1] while the burned material releases nutrients previously tied up in old growth vegetation. Grasses quickly re-establish plant life in the enriched soil, to be succeeded

later by trees and their canopies which capture sunlight before it hits the ground, to outcompete shorter plants for this resource. In time, the forest can regain and conserve an ecosystem similar to conditions prior to the fire. Forests thus both experience short-term catastrophe and maintain themselves over the longer term.

It is axiomatic to state that human societies and their physical environment are interconnected, that people can alter the environment and must adapt to changes in it. As our understanding of the natural world is incomplete, we are limited in our ability to predict future conditions and face uncertainty regarding the effect human actions have on the environment. Embracing this limitation, Holling (1978) coined the term "adaptive management" to describe an approach in which efforts to manage the environment are treated as experiments to be learned from. Studying communities of people dependent on natural resources, Ostrom (1990) found that local people can and do devise norms and institutions to safeguard common property. Folke et al. (2003) incorporate these concepts to argue that human societies and their physical environment co-evolve as joint social-ecological systems. Akin to the forest described above, society must be resilient by learning to live with change and uncertainty, nurturing diversity for reorganization and renewal.

Young (2002) identifies a need for human institutions to "fit" the scale of environmental dynamics. Institutions are seen as collective action based on economics and public choice, which focuses on utility and game theory, or as social practice based on anthropology and sociology, which focused on the role of culture, norms, and habits. These two schools of thought make different assumptions regarding actor rationality, source of behavior, and constraints. A potential mismatch can derive from differences in spatial boundaries or jurisdiction, for example certain fish species, such as salmon, pass through multiple jurisdictions during the lifecycle from upstream spawning grounds, to the open ocean, and back again. As no single institution can encompass all aspects of the environment, society requires "interplay" among different institutions at different levels. Similarly there can be diverse institutional configurations at the same level that are useful for managing common property resources. Dietz et al (2003) argue that such interplay requires complex, redundant, and layered institutions; a mix of institutional types; and designs that facilitate experimentation, learning, and change.

The ability of human society to adapt to environmental change is thus tied to governance, or how power and responsibilities are exercised. Dietz et al (2003) note that governance "conveys the difficulty of control, the need to proceed in the face of substantial uncertainty, and the importance of dealing with diversity and reconciling among people and groups who differ in values, interests, perspectives, power, and the kinds of information they bring to situations." Fabricius et al. (2007) distinguish between the capacity to "adapt" and to "govern." The former is an ability to detect and respond to environmental change, while the latter is an ability to lead, plan, and act; akin to the public policy skills of developing policies, negotiating among interests, and implementing actions. These authors use the capacities to adapt and govern to describe a typology of "powerless spectators" (weak–weak), "coping actors" (strong–weak) and "adaptive managers" (strong–strong). Thus, beyond a technical ability to cope with change, adaptation is tied to the location of power and influence within society. Pahl-Wostl (2009) argues that climate change and variability reveal the "vulnerability" of current environmental resource regimes. Governance sets a context within which adaptation policies are pursued, yet the imperative to adapt can prompt rethinking of how society

governs itself and the development path it chooses to pursue (Pelling 2011). The connection between adaptation and governance is explored further below.

Much of the literature on climate adaptation focuses on case studies of national-level plans or community-level case studies in preparing for hotter, drier, or more variable conditions. The negative consequences of climate change is a public bad, the opposite of a public good, that affects people differently depending on their location and their ability to marshal entitlements to cope with the stress, not unlike Sen's (1981) thinking on how poor people are able to survive famine. According to Sen, a person can acquire food through production, exchange, or donation; acquiring different commodities through various legal channels of acquirements. Adger, Lorenzoni, and O'Brien. (2009) address the issue of fairness in distributing costs between the emitters responsible for climate change and those required to adapt. It is now a widely accepted view that those societies least able to cope with climate impacts will have to contend with the worse vagaries of climate impacts. Those individuals and groups most able to control resources within society, can use them to enhance their own adaptation and impose the cost involved onto others. At the same time, the most vulnerable people and places tend to be those already excluded from decision making. Tropical and subtropical agricultural systems in the developing world will bear the overwhelming brunt of coping with the adverse effects of the climate system (Thomas and Twyman 2005). These aspects of thinking on adaptation connect with Rawls' concepts of distributional and procedural justice, and draw attention to the political economy of who is vulnerable and why they are so.

Adaptive capacity is often seen as the antonym of vulnerability. The term often connotes agency—the ability of societies, individuals, and households to reduce climate-related vulnerabilities, to moderate the inherent damages, cope with and recover from the consequences. The recovery potential of the exposed unit is a significant factor in understanding both the concept and reality of adaptive capacity. The term "adaptation" has been widely used to mean efforts undertaken to enable people to cope and to reduce their vulnerability, and adaptation research is now a discipline in its own right. Adaptation allows us to evaluate and assess the degree and potential outcomes of vulnerability. It also provides an opportunity to evaluate appropriate response options and their effectiveness following vulnerability assessment studies. It is intended to moderate the impacts of climate change, to cope with its consequences, and to take advantage of new emerging opportunities as a result of these adjustments.

Adaptation is not entirely a new and discrete field, but offers a novel framing for a range of existing efforts, including urban planning, public health, and agricultural extension. In particular, adaptation policies tend to act in the realms of human geography or human ecology (Füssel 2007). Human geography offers a tradition of disaster risk reduction and seeks to identify and mitigate exposure to hazards. This can include modifications to physical infrastructure—such as housing, road networks, water storage and drainage systems—as well as land use planning to ensure that people live in safe conditions protected from flooding, disease, or other disasters. Here vulnerability is defined as "the characteristics of a person or group in terms of their capacity to anticipate, cope with, resist, and recover from the impact of a natural hazard" (Janssen et al. 2006).

The human ecology tradition emanates from economics and studies how people cope when change undermines the viability of their livelihood. For people reliant on ecosystem goods and services, the pace and severity of climate variability and change threatens their

means of making a living. One approach is to spread risk through diversification, increasing the sources of income and reducing reliance on climatic conditions. More dramatic coping mechanisms include wholesale change of livelihood strategies, such as switching from farming to paid employment, or seasonal or permanent migration to a more favorable location. Agrawal and Perrin (2009) describes five classes of adaptation practices within rural communities, including: seasonal and permanent migration; storage of food, water, and animals; diversifying assets, occupations, and production; pooling of community resources; and exchange such as access to new markets, and purchase of insurance, seeds, and other inputs. Livelihoods and options do not necessarily insulate vulnerable resource dependent societies from climate change impacts. Wealth and stable livelihoods can be an attribute of adaptive capacity, yet do not necessarily create a sufficient "buffer" potential.

Adaptation in Practice

The term "adaptation" only entered climate change policy about two decades ago. The initial emphasis was on establishing the scientific basis of climate change: understanding how concentrations of carbon dioxide, methane, and other gases affect the balance of solar energy retained within the atmosphere. The World Climate Conference in 1979 led to a number of working groups, including one focused on impacts. By 1985, while admitting that substantial uncertainty remained, the state of the science had progressed to the point that the World Meteorological Organization, United Nations' Environment Programme, and the International Council of Scientific Unions called for greater attention to the analysis of policy and economic options, considering a "range of social responses aimed at preventing or adapting to climate change" (Adger et al. 2009). Despite this early reference to "adapting," the original 1986 structure of the Intergovernmental Panel on Climate Change (IPCC) continued a focus on anticipating impacts. It was not until 1995 when the IPCC renamed this Working Group II to specifically address adaptation, defined as "adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities."

Thus the first decades of climate policy were framed around encouraging a global effort toward mitigating emissions. The focus was on establishing a limit, developing policy instruments to meet it, and negotiating how to share the burden of costs involved. In 1992, the United Nations Framework Convention on Climate Change (UNFCCC)[2] established the goal of avoiding dangerous interference with the climate system, committing its parties to limit emissions with the aim of returning to 1990 levels. The original convention also includes language committing members to "cooperate in preparing for adaptation to the impacts of climate change" (Article 4.1e). Nonetheless climate negotiations largely focused on how to curb emissions rather than how to live within a hotter, drier, or more variable world. Five years later, the Kyoto Protocol introduced a Clean Development Mechanism which allows countries to meet their national targets by investing in projects that reduced emissions in developing countries, such as changes in fuels, land use, or technology. Two percent of the proceeds from the sale of such reductions were directed to an Adaptation Fund to finance additional efforts in developing countries.

A key phrase in the UNFCCC and subsequent agreements is the "common but differentiated responsibility" of developed and developing countries. The early industrialization of

developed countries means they are historically responsible for a larger share of past emissions which contributed to current climate change. At the same time, developing countries largely avoided limits to their own emissions. They looked to developed countries to provide them with access to cleaner technologies, and to assume the costs involved in implementing the convention. Finally, the projected consequences of climate change, ranging from drought, flooding, and changes in crop yields, are expected to hit developing countries the hardest. The original convention calls upon parties to assist the developing countries "that are particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to those adverse effects" (Article 4.4).

In 2001, UNFCCC parties agreed to create two new funds under the Global Environmental Facility, one targeted to Least Developed Countries and another Special Climate Change Fund open to all developing countries. In 2009, the Copenhagen Accord included an agreement "that developed countries shall provide adequate, predictable and sustainable financial resources, technology and capacity-building to support the implementation of adaptation action in developing countries" (Article 3). UNFCCC parties subsequently established a Green Climate Fund to serve as an independent financing instrument to support developing countries to mitigate their emissions and adapt to climate change. This Fund intends to raise up to US$100 billion annually by 2020. By some estimates, in 2010, mitigation efforts attracted 95 percent of the almost US$100 billion available in climate financing (Buchner et al. 2010), yet looking forward, one can anticipate a rebalancing with a greater share of investment going into adaptation.

The past decade has seen a growing acceptance that some degree of climate change is now unavoidable. All countries have been urged to facilitate adaptation through measures in energy, transport, industry, agriculture, forestry, waste management, and land use planning. Access to financing under the GEF Least Developed Countries Fund is contingent on these countries preparing a National Adaptation Program of Action (NAPA) which prioritizes among measures in agriculture, water and coastal management, early warning and disaster risk management, energy, health, and infrastructure. This diversity underlines how adaptation is not one sector, but the interaction of many sectors. Some adaptation plans included special efforts to integrate the voices and concerns of poor and vulnerable citizens in weighing potential investments, whereas others lack a solid base of evidence on which to assess the relative benefits and costs involved in different options. In this sense, the ability to prepare and implement an adaptation plan speaks to the strength of governance within each country.

In many ways, fostering adaptation is becoming synonymous with doing development. For example, Adger, Lorenzoni, and O'Brien (2009) describe the purpose of adaptation as protecting vulnerable populations, providing information for planning, and protecting public goods. These goals could easily fit within the development plans of many countries. Yet the impacts of climate change also threaten to reverse some of the progress realized over the past decades. The impacts of climate change are likely to derail development processes, and much of the hard-won progress made toward realizing the Millennium Development Goals. Many development projects need to factor climate hazards into their planning, as failure to incorporate such risks can cause an increase in disasters, and extreme events can incur losses that will offset decades of development work (Kreimer and Arnold 2000). There is thus substantial attention to "climate proofing" development, investing in policies and programs that will work under a range of potential future conditions.

Conversely, development needs to avoid so-called "mal-adaptation" or investments that are dependent on climate stability. There is growing recognition that not every adaptation to climate change is good. This is most clearly illustrated in large capital investments, such as dams and bridges, which may be compromised if rivers dry up or severe storms become more frequent. Additionally, improving the productivity of certain crops may result in water demand for irrigation systems in dry land areas. This in turn might increase soil salinization or decrease the water available for resource dependent communities who have little or no access to irrigation systems, thus increasing the vulnerability of affected farmers. In addition, some scholars see adaptation as the panacea for correcting mistakes made in social and economic pathways that have led to poverty, inequity, and environmental problems (Eriksen et al. 2011).

The practice of development and adaptation also intermingle in terms of financial flows and the actors involved. Although funding for climate financing is supposed to be new and additional, many donors have pledged new funds for adaptation while flat-lining or cutting back on their aid budgets. Indeed, the estimated US$100 billion dedicated to climate financing in 2010 rivaled the approximately US$130 billion dedicated to official development assistance. Despite the attention garnered by the high profile of Global Environment Facility and World Bank, the majority of public financing for developing countries to address climate change has thus far been directed through bilateral channels. In many instances, aid agencies have assumed a key role in delivering on their countries' pledges. The advantage of this reality is that climate financing is building on the recent principles of development effectiveness, such as ownership and alignment, yet at the same times risks undermining the potential for more global platforms, such as the Green Climate Fund.

Taking adaptation seriously means paying more attention to local efforts. Whereas much of climate policy has focused on global negotiations, the practice of adaptation is rooted in local reality. What adaptation means is specific to the particular landscape and livelihoods of each place. For instance, in Bangladesh, it means local investments in shelters helped to reduce the force of cyclones (Adger et al. 2003). On the Moroccan coast it means dealing with a scarcity of freshwater; around Cape Town it involves modifying irrigation practices; and in northern Kenya it means reviving communal management of pasturelands. As in theory, adaptation practice links existing approaches into a novel way of dealing with the risks society now faces.

Looking forward, the practice of adaptation can be expected to evolve in two ways. First, local communities should not simply implement national plans, but engage in local experimentation. People need the freedom to identify local vulnerabilities and enhance their communities' resilience to changing conditions. Second, adaptation needs to go beyond incremental adjustments to the status quo. In many places, adaptation will prove to be more than simply doing the same under different conditions, but will instead prove to be the tipping point for more radical rethinking of development, including the abandonment of previous livelihoods and old ways of doing things.

Shift from Biophysical to Social

Adaptation tends to be conceived of as a question of technology and biophysical changes. Both adaptation and mitigation require enabling fiscal environments, investment in public infrastructures, effective monitoring and the relevant research and development facilities to

deploy low-carbon technologies. Many countries in the developing world are not well prepared to put in place these kinds of requirements. Yet, by effectively targeting sectors such as agriculture and energy—two sensitive sectors hitherto considered as engines of growth—some opportunities can be exploited. For example, in the agricultural sector, carbon sequestration has the potential to enhance adaptation and sustainability of crop production by increasing carbon concentration in the soil through better management practices, which would yield multiple benefits for biodiversity, soil fertility, and productivity, as well as soil water storage capacity. Also, integrated crop rotation and crop diversification, and zero or reduced tillage has the potential to improve soil carbon sequestration and reduce greenhouse gas emissions. Equally, opportunities exist in carbon trading and Reducing Emissions from Deforestation and Forest Degradation (REDD) that would imply positive spinoffs in forestry and agriculture.

Some actions address adaptation and mitigation simultaneously. Adopting drought-resistant cultivars, such as Jatropha, can have several benefits. It can be used as a living hedge to prevent soil erosion. It is also used traditionally by women to make soap, and thus constitutes a source of livelihood. From an energy perspective, the promotion of the efficient use of biomass, shells, peanuts, and bagasse can both reduce the use of charcoal and wood-fuel as well as the likelihood of deforestation. Other sources of energy such as wind power can be used for crop processing, irrigation, water pumps; and decrease dependence on biomass and wood fuel. Equally, the use of biogas plant can mean the production of sludge for fertilizers, adapting to soil erosion while mitigating emissions. Similarly, conservation tillage can increase soil water retention in drought conditions while sequestering carbon below ground. There is also potential for small-scale irrigation facilities to conserve water and increase crop productivity and soil carbon.

Yet climate change is more than a manifestation of biophysical processes alone. The predominant question remains: how does society manage itself under a changing and uncertain future? Focusing on the biophysical implications alone ignores the societal and cultural implications that provide a deeper understanding of how societies respond to, and their willingness to participate in, different climate strategies. The pursuit of adaptation requires moving beyond narrowly focused, technical projects, to instead embrace the interplay of institutions and governance. Building climate resilience is largely contingent on creating and sustaining institutions with a credible governance regime that create incentives, influence policies and galvanize communities toward collective actions.

Three key insights emerge from such a perspective. First, adaptation can entail re-engineering of institutions and organizations to better enable local level experimentation. Second, governance shapes the opportunities for adaptation in practice, facilitating communication and coordination between local- and national-level action. Third, deliberation among diverse stakeholders is a means of reducing vulnerability, in which different stakeholders are able to bring their perspective to bear and provide the much needed "glue" for sustainability.

Adaptation as Re-engineering Institutions

Institutional economics scholars argue that predictable and stable institutions are important for wealth creation and human well-being. The complexity of the climate system and the nature–

society linkages calls for an "institutional renewal" that helps in moving toward a sustainable development pathway. Indeed, climate change has revealed the magnitude of the institutional challenge, and how unprepared many countries are in dealing with the reality of climate change. Jordan and O'Riordan (1997) argue that organizations are more tangible than institutions, with specific remits, resources, and staff, and they have a more observable capacity to influence events. Organizations are therefore more physical while institutions tend to be more intangible. Although the definition of institution as "behavior" has been criticized (Hodgson 2006), it remains the predominant definition—in short, rules that influence behavior, encompass values, and norms that are held by individuals and organizations (O'Riordan and Jordan 1999).

In many parts of Africa the relatively high susceptibility to climate variability and impacts is largely attributed to the quality of institutions. Climate related perturbations may substantially reduce production patterns and crop yields due to the high dependence on rain-fed agriculture in many countries. Frequent floods and experiences of extreme events, droughts, and heat waves are altering the patterns of disease. Hence, some diseases are spreading to areas where there were relatively few incidences, placing further burdens on a health system that is already under much pressure.

Institutions play a critical role in natural resource management. Managing natural resources is often rooted in issues revolving around entitlements, land tenure and use and access, ownership and control of resources. Adaptation is closely linked to the management of resources that are considered common property, not least, pastures, water, and energy. However, because of the complexity that underpins the management of natural resources, and the commensurate problems of doing so across scales and sectors, adaptation requires an institutional basis to hold the different "players" accountable and to guide the rules of the game. Pelling and Hugh (2005) argue that stakeholders can perceive an institutional architecture as having the authority to influence adaptation. Communities that exhibit a high degree of adaptive capacity are able to do so as a result of the strength of their governance system, institutional support base, entitlements, social network, technology, human resource, and the relevant health infrastructure.

Institutions are important in leveraging power and control and can influence the behavior of individuals and communities vis-à-vis the management of climate extremes and variability. In short, institutions can shape the way in which societies plan, prepare for, and adapt to climate change impacts. Hence, institutions constitute a double-edged sword—either to disable or enable the process of adaptation. Institutions are not neutral—they distribute advantages to some and deny others similar advantages. In the climate change arena institutions through their management and control of natural resources will create winners and losers.

Insufficient institutional capacity can compromise the work conducted by local people on the ground. For instance, many institutions in Africa have been created to deal with single issues relating, for example, to agriculture, desertification, or food security. The complexity of working across scales and addressing multiple risks is quite challenging. Hence, institutional weakness can affect the ability of vulnerable groups to anticipate or plan for negative impacts of climate change. They react rather than initiate. Gupta et al. (2008) argue that climate change compels institutions to enhance their adaptive capacity which may further compel them to go through a process of "renewal" or change commensurate with the pace and speed of environmental change.

Informal institutions can be custodians of knowledge. Knowledge generation and processes can be a principle tool in adapting to climate change impacts. However, in

Africa, traditional knowledge is often not valued as a reference point for managing climate risks and emerging threats. In Kenya, the importance of indigenous knowledge under increased climate uncertainty created strong reciprocal alliances between the Kenyan Meteorological Agency and the indigenous communities commonly known as rainmakers. The Agency consequently decided to establish a center to sustain the heritage of the Nganyi community, following attempts to calibrate indigenous climate forecasts with scientific forecasts and the efficacy of the calibrated results in improving productivity (Ziervogel and Opere 2010).

Institutional discourse tends to ignore informal institutions and the role they play in enabling societies to adapt. Because local and national institutions have a key role to play in the management of natural resources, this role is extended to the way in which they enable or disable adaptation and the incentives structures they put in place to sustain adaptation activities. Subsequently the governance mechanisms they oversee need to be relatively robust in order to deal with processes that are inherent in adaptation regimes. In Tanzania and Malawi, it was found that local institutions helped in shaping the effects of climate hazards in various important ways. They influence how urban and rural people define climatic risks and impacts, and how they shaped the ability of urban and rural people to respond to climate impacts and pursue different adaptation practices. Local institutions are important in leveraging support from within—influencing knowledge flows, and acting as intermediaries in mediating external flows on adaptation and practices.

Governance Shapes Opportunities for Adaptation

A viable institutional architecture together with a sound governance system can determine the success or failure of adaptation process. Africa is largely cited as one of the most vulnerable continents in the world as a result of its limited capacity to offset the varied impacts of climate variability and change. While institutional vulnerability has been cited, it is often perceived as part of a mixed range of factors affecting Africa's overall potential to fight climate impacts. In a continent where institutions are still relatively fragile and governance regimes invariably youthful, climate interventions will have a short shelf life if they are not part of an institutional and governance regime. In addition, the potential for transformative action is reduced in the absence of a credible governance model and viable institutional architecture.

Scholars and practitioners still remember the World Bank's assessment of Africa's development problems as largely attributable to a "governance crisis" (Brautigam and Knack 2004). Indeed, the continent showed little capacity to deal with many of its socio-economic development challenges—many of which had their foundation, putatively or real, in the governance regime or lack of it. While the concept of good governance gained momentum since the 1980s, climate change has unmasked the complexity of governance regimes. Adaptation cannot be divorced from governance. African countries, due to difficulties in managing economic growth, face similar challenges in managing environmental change. Nonetheless, with the severity of climate variability, and the frequency and pace of change, countries in Africa are increasingly under pressure to cope with increased hazards and risks. The transition to a low-carbon pathway and mainstreaming of adaptation and mitigation in policy decisions necessitates good planning processes, regulatory and policy instruments to both enforce and oversee response strategies. Climate variability and change exacerbate weaknesses

in the management of natural resources. The magnitude of impacts and possible response strategies are overwhelming for fragile institutions already weakened by structural difficulties and social and economic problems.

Governance is often perceived within the framework of policy, polity, and political process. It tends to feed on political processes—and how choices are translated into decisions. The notion of governance has traditionally been conflated to a single unitary central decision-making authority where the state assumes full control and sovereignty over people. Yet the definition has gradually evolved to embrace multiple networks, actors, processes, and a more transparent management. Governance approaches that fall under the political category perceive governance as a system of rules that shape the action of actors. Pahl-Wostl (2009) argues that there are four dimensions of governance: institutions and the relationship between formal and informal institutions; actor networks with an emphasis on the role and interactions of state and non-state actors; multi-level interactions across administrative boundaries and vertical integration; and governance modes, including bureaucratic hierarchies, markets, and networks.

The complexity of climate change is such that governance at national and local level needs to be working in close collaboration. In addition, climate change raises unique challenges that will require new knowledge and modes of processing information useful for the benefit of vulnerable communities. Although knowledge remains an important resource in the management of climate change, it is this very knowledge that is in short supply in terms of the policy and governance regimes that will move vulnerable communities toward transformational development. Thus, while climate change has been hailed as the biggest threat to humanity, the "invisible" threats relating to a weak knowledge base and a fragile or non-existent governance mechanism have been downplayed in the face of the seemingly "visible" bio-physical problems.

Governance and institutional arrangements can render climate change adaptation effective. There are many attributes of resilience that tend to mimic good governance. These include the ability to remain flexible, to self-organize, and to adapt. Although adaptation happens locally it is affected by national institutions and the incentives they create. Local institutions can influence collective behavior toward climate change, and institutional arrangements can enhance or derail adaptation activities in a given context. Both the governance regime and the institutional architecture are important in shaping adaptation. Thus, building resilience is rooted in understanding the concept and how much it is linked to every aspect of climate policy, management and sustainable development. Good governance is important to enable societies to avoid mal-adaptation, while opaque systems of governance risk making climate action more problematic. It will mean the ability of societies to rely on robust institutions, mechanisms of checks and balances that are fully functional, and processes of decision making that are imperfect, complex, and non-linear.

Activities relevant to adaptation are essentially about the distribution of resources and the implementation of a fairer system that will benefit the most vulnerable. Addressing vulnerability is complex and messy and involves underlying issues of equity across scales, social groups, and over time. Governance needs to "retrofit" and customize itself to deal with this messiness and current asymmetries. Changes in agro-ecological systems will influence food production systems and affect both agricultural production and growth (El Ashry 2009). Climate variability and change are forcing resource dependent communities to adopt robust and ingenious adaptation practices to resist the impacts of climate change.

Reducing Vulnerability through Deliberation

A strong, transparent and flexible governance regime will enable societies to test both national and decentralized mechanisms to enable adaptation processes. Experience in Africa demonstrates that participatory processes and deliberative forms of decision making are well suited to making adaptation work in practice. They enable governments to understand how development policies and planning can cause vulnerability and disenfranchise segments of society, which is critical to understanding both the physical processes of vulnerability and its underlying social undercurrents. Hence, governance is the "lubricant" of values, principles and practices that form part of the institutional architecture. Transparent governance mechanisms are essential to plan for adaptation action and avoid mal-adaptation.

Often vulnerability is used to describe the extent to which someone's "life and livelihood is put at risk by a discrete and identifiable event in nature or in society" (Janssen et al. 2006). Nearly all societies have some inherent vulnerability to climate. This is largely due to the fact that climate tends to influence the places we choose to live in or the income we rely on (Adger, Lorenzoni, and O'Brien 2003). Nonetheless, vulnerability remains a contested term. Vulnerability refers to the susceptibility of people and systems to the adverse consequences of climate variability and extremes. Understanding vulnerability—who is vulnerable, why, and under what circumstances—is mediated by institutions and governance regimes.

The IPCC identifies key vulnerabilities and attributes several associated criteria. These are, inter alia, the importance of the system-at-risk, the magnitude of impacts, their persistence and reversibility, the potential for adaptation, and the distributional aspects of vulnerabilities, impacts, and adaptation. The IPCC (2007) defines vulnerability as "the degree to which geophysical, biological and socio-economic systems are susceptible to, and unable to cope with, adverse impacts of climate change." Social vulnerability meanwhile, refers to the potential state of human society that can affect the way they experience natural hazards. Social vulnerability is associated with the sensitivity of human agency to the hazard, whereas natural vulnerability refers to the sensitivity of natural environmental processes to the hazards.

Factors affecting who is vulnerable, and to what degree and under what circumstances are invariably dependent on human and physical forces that tend to shape the distribution of assets in society (Pelling and Uitto 2001). According to Bohle, Downing, and Watts (1994) vulnerability has three key characteristics: risk of *exposure* to stress, shocks, and crises; risk of insufficient *capacity to cope* with them; risk of severe consequences of, and the attendant risk of inability or slow *potential to recover* from stress, shocks, and crises.

Vulnerability tends to relate to political economy, class structure and reflecting social hierarchies on gender and class. Vulnerability can have a spatial interpretation—relating to space—local, transnational, and regional and temporally referring to "long-term structural baseline and short-term conjectural conditions" (Bohle, Downing, and Watts 1994). Nonetheless, vulnerability is a composite and relatively fluid term. Populations across the world differ in their ability to organize themselves in a given context in the event of environmental disaster, and can draw upon their assets, entitlements, social safety nets and networks, insurance and livelihoods diversification to manage risks and adapt to given circumstances. Vulnerability can be perceived as a complex mix of exposure to risk, capacity to cope, and ability to recover.

Vulnerability varies between individuals and social groups as well as over time and space. Climate impacts will exact a much heavier toll on some social groups, especially women, in

developing countries who tend to shoulder a greater share of the household and community-based incoming-earning activities. Adaptation processes may become disabled or skewed based on the perception of main power brokers who may willingly exclude certain social groups based on their own perceptions of what different members bring to the table. Hence, in Southern Madagascar women's voices were not heard as the governance process in place was weighted toward social groups that wielded power and authority. Climate change is creating and will cause further inequalities between water rich and water poor societies. Pastoralists, foresters, and other types of livelihoods will suffer when one adds increased climate variability to current stressors. For instance, pastoralists across Africa have remained largely at the periphery of development. Environmental stress mediates the much deeper political, economic, and social forms of marginalization they face.

Adaptation is a process involving multiple actors and multiple vulnerabilities in different social contexts—hence there is an implicit co-ordination problem in bringing stakeholders to work together. Deliberative democracy seeks to bring different perspectives together and lays a good foundation for a governance models that can progressively lead to sustainable adaptation outcomes. In Africa, the creation of platforms constitutes important institutional levers which allowed vulnerable communities to define their own adaptation agenda and response strategies. Participatory Action Research became a clearing house for information—information in Madagascar on crop varieties and how to use these to guard against climate related hazards, information on making strategic choices in Ethiopia and expand farmers' choices. In Benin, associative groups displayed a tremendous role in recovery potential, and played a deliberate and efficient role in helping vulnerable groups recover from climate hazards relating to floods and droughts. Hence, what started as a research method became an institutional innovation through structured platforms, associative groups with rules and a culture of sharing information that allows communities to adapt. Thus, the identification of climate risks and relevant response strategies became important levers for social transformation and collective action.

Conclusion

Climate change has unmasked numerous challenges with implications for governance and institutions. Climate change will continue to challenge governments and people across the developed and developing world as they struggle to adapt. The challenge is that both local and global governance need to revisit and perhaps "retrofit" current governance mechanisms to deal with the scale, severity, and pace of change. Hence, in many ways, across several sectors and scales, climate change compels governance to rethink its business model in which "institutional renewal" can help put in place a strong and viable mechanism that can incorporate risks.

Climate change will continue to peripheralize vulnerable communities and test their coping strategies due to several asymmetries and the uneven distribution of risks. Hence, a governance mechanism that seeks "fair adaptation" becomes a critical model for sustainable development. Indeed, sustainable development because of its links with institutional capacity and social equity has a strong underpinning for distributive and procedural justice

to ensure that both current and future generations do not become short-changed in a climate regime that compensates "winners" and marginalizes "losers." Hence, both good governance and supporting institutions are conduits to drive the process of social transformation. Hence, the transformative change will come full circle if vulnerable communities become more resilient and have greater adaptive capacity, but equally if governance regimes become more adaptable to absorb the complexity that comes with climate change and variability.

Some actors find it difficult to "stagger" into this process of social transformation. It requires a deeper consciousness and resolve, and the relevant institutional and governance architecture to foster such changes. However for a truly transformational change—the challenge and opportunity are not to invest solely in discrete activities—but to use these as a platform for broader, more sustained responses. The transition to a transformative pathway will need political will and a degree of social organization to help vulnerable groups translate adaptation options into climate related win–wins. Nonetheless, a number of adaptation response strategies tend to deal with targeted short-term problems—and do not cater for long-term radical changes. This means building the capacity of vulnerable communities and testing adaptation options to determine their efficacy. It will also mean placing an emphasis on the quality of process rather than an outcome-oriented set of responses. Equally, the complexity of the climate regime, the uneven distribution of climate impacts and the asymmetries in adaptive capacities across the developing world call for a new form of governance in which vulnerable communities are at the center of the development they seek to affect.

Adaptation is not something that can be done for people, but rather a set of actions that they do for themselves to offset climate impacts and hazards. Living with a changing climate may need more than incremental adaptation within infrastructure, livelihoods, and sectors, to instead require more transformative development based on understanding people's experiences of vulnerability, response strategies, and recovery potential. Hence, the test is to identify win–win options in key climate sensitive sectors and to ensure that informal institutions through the wealth of knowledge amassed over the years are in a position where they can steer societies to a less insecure future. They will be able to use their knowledge and experiences as departure points and will equally be in a position where they can test their knowledge against critical climate change and vulnerability thresholds.

Notes

1. A few tree species are able to survive periodic burning, or indeed require it for activating their seeds.
2. See <http://unfccc.int>.

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CHAPTER 30

GLOBAL HEALTH

TIM EVANS

Introduction

In looking back at health in the twentieth century, Bill Foege—a former director of the U.S. Center for Disease Control, a leader in the campaign to eradicate smallpox and the initiator of the Child Survival Task Force—summed it up in four words: "spectacular achievement, spectacular inequities" (Foege 1998). This succinct assessment provides an appropriate backdrop against which to undertake a critical examination of how the global community has marshaled its "development" resources for health in the last fifty years.

The chapter begins by providing an overview of the nature of health change over time pointing to major transitions in the predominant types of health problems. The distribution of these challenges across countries by levels of wealth and over time reveals evidence of rapid improvements in key parameters such as child mortality, but persistent and growing inequities in health between and within countries. Underlying responses to these health challenges among development partners are diverse views with respect to health as a special development good related to its definitions, determinants, valuations, and local/global lenses. These are explored with respect to three periods of health development that reflect major political transformations from the colonial period of "tropical health" through to the Cold War period of "international health" and to the current context of "global health." Drawing on this history, a framework for health development in the post-Millennium Development Goals (MDG) period is presented focused on equity, security, and systems for global health followed by three concluding thoughts.

Health Transitions

The twentieth century witnessed improvements in health that were greater than in any other period in history. Global life expectancy more than doubled (from less than 30 years to over 60 years) accompanied by the eradication of infectious killers, and the treatment and effective control of many other maladies. This rapid improvement in health reflects a number of

transitions. The first is the "demographic transition" whereby societies previously characterized by high fertility transition to low fertility (Omran 1971). Total fertility rates plummeted from a previous average of six–seven per woman to reach two–three per woman after the transition. Indeed in some industrialized societies such as Italy, fertility is well below the "replacement" level of 2.1.

Linked to the demographic transition is the epidemiologic transition in which societies have moved from high to low rates of infant and child mortality due largely to the control of infectious diseases. Accompanied by this transition is the relative growth in the importance of chronic diseases associated with greater longevity of adult populations with the latest evidence suggesting that chronic diseases now account for a majority of the world's burden of disease (Murray et al. 2012). More recently two further transitions have gained attention linked to forces of globalization. The first—the nutrition transition—posits that the rapid shift to more sedentary lifestyles and high fat diets is leading to worrisome increases in levels of over-weight and obesity in the population (Popkin 2001). The second—the injury transition—stems from growth in vehicular traffic and the associated rise in road traffic injuries and fatalities (WHO 2004).

While these transitions are helpful in understanding overall trends in health, they mask the rise of an unprecedented global health divide. Industrialized, or high-income, countries have experienced sustained improvements in standards of living, nutrition, health, and health care. Meanwhile, in low- and middle-income countries with much less favorable conditions, health and health care has progressed much more slowly. The scale of this divide is reflected in the extremes of life expectancy at birth for newborn girls, with those in Japan at the high end (eighty-two years) and those in Sierra Leone at the low end (thirty-two years) (WHO 2003). This fifty-year difference reflects the daunting range of health challenges faced by low- and middle-income countries.

Low- and middle-income countries (defined as per capita income below US$12,000 per year) account for more than 80 percent of the world's population. Average life expectancy in these countries lags far behind that in high-income countries. Whereas the average life expectancy at birth in high-income countries is seventy-four years, it is only sixty-eight years in middle-income countries and fifty-eight years in low-income countries. This discrepancy has received growing attention over the past four decades. Initially, the situation in poor countries was characterized primarily in terms of high fertility and high infant, child, and maternal mortality rates, with most deaths and illnesses attributable to infectious or tropical diseases among remote, largely rural populations. With growing adult (and especially elderly) populations and changing lifestyles linked to global forces of urbanization, a new set of health challenges characterized by chronic diseases, environmental overcrowding, and road traffic injuries has emerged rapidly. The majority of tobacco-related deaths globally now occur in low- and middle-income countries, and the risk of a child's dying from a road traffic injury in Africa is more than twice that in Europe. Hence, low- and middle- income countries in the twenty-first century face a full spectrum of health challenges—infectious, chronic, and injury-related—at much higher incidences and with more prevalence than are documented in high-income countries and with much fewer resources to address these challenges.

The stratification of these challenges by country wealth is further nuanced by looking at the relationship between country life expectancy and GDP/capita (Figure 30.1). Two observations are particularly important. First, over time the curve between health and wealth is

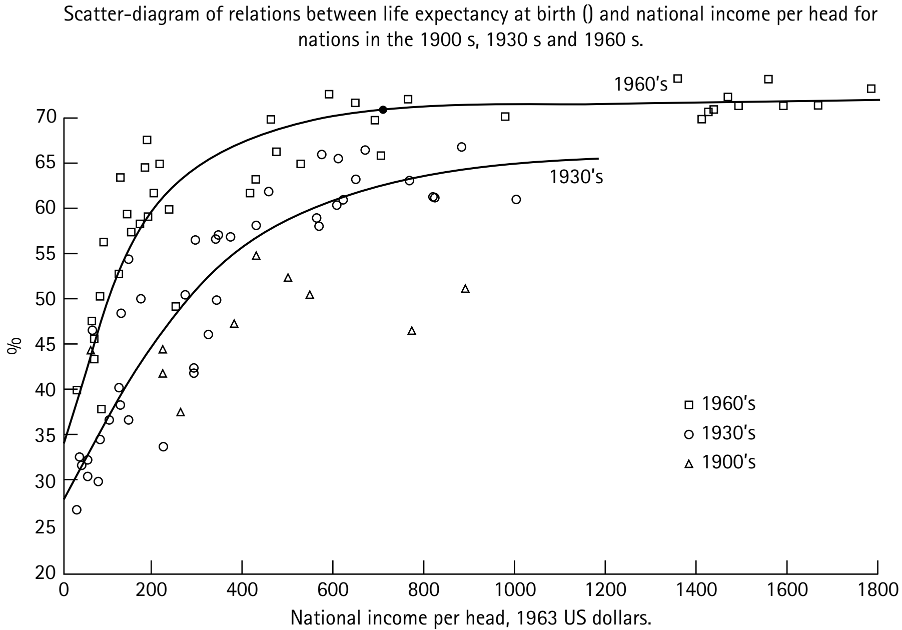

FIGURE 30.1 Scatter-diagram of relations between life expectancy at birth and national income per head for nations in the 1900s, 1930s, and 1960s.

Source: Preston, Samuel (2007). "The Changing Relation Between Mortality and Level of Economic Development," *International Journal of Epidemiology*, 36(3), 484–90, by permission of Oxford University Press.

shifting to the left indicating that for a given level of country wealth, more health is achieved in 2005 than in 1970. This reflects a system-wide efficiency gain in health, or in economic terms a "shifting" of the health production possibility frontier curve. This observation points to the strong improvements in health that have been recorded that have transcended levels of wealth. Indeed, if one looks at the rate of improvement in childhood deaths over the last forty years the figures globally are quite staggering. The total number of childhood deaths has been cut by over half. Whereas in 1970 there were over sixteen million childhood deaths annually, in 2010 there were less than eight million deaths annually. Factoring in increases in population, this translates to a rate of improvement of greater than 10,000 children's lives saved per day over the forty year period (WHO 2008a).

The second observation is that at any given level of GDP/capita, particularly at lower levels of GDP there is substantial variation in health performance. Some countries like Costa Rica, Cuba, and Bangladesh have much better than expected health given their level of wealth while others such as Russia, South Africa, and Pakistan are well below the curve.

As average levels of health vary across regions and countries, so too do they vary within countries. Rural populations have higher mortality rates than urban dwelling populations on average but urban slum populations have worse health status than rural populations (WHO 2008b). And in almost all countries, lower economic quintiles have lower coverage

of essential health services like immunization. Indeed, disparities within countries are often greater than those between high-income and low-income countries. For example, if low- and middle-income countries could reduce their overall childhood mortality rate to that of the richest one-fifth of their populations, global childhood mortality could be decreased by 40 percent. These inequities in health and health care are pervasive across countries (including high-income countries) conforming to the "inverse-care law" whereby those with the greatest health needs are least likely to receive the care they need (Tudor Hart 1971). This social patterning of health has very disturbing dimensions. Amartya Sen's analysis of gender inequities has pointed to more than 100 million missing women in Asia. The world's two largest countries—India and China—in their 2011 Census data revealed worsening discrimination against the girl child with increases in the skews in the sex ratio at birth compared to ten years earlier. In the poorest, most remote counties of the United States, women's life expectancy at birth has declined almost three years since 1980 (Ezzati et al. 2008). The rapid growth of urban squalor now reveals that in a given city life expectancy of the rich can differ from life expectancy amongst slum dwellers by as much as forty years! These and other data on inequities in health led Sir Michael Marmot, Chair of the WHO Commission on Social Determinants of Health, to pronounce boldly and bleakly at the launch of the Commission's report in August 2008 that "social injustice is killing on a grand scale."

Health as a Special Good

Along with these evolving patterns of health, there have also been important developments in our understanding and valuation of health not all of which are convergent. These are worth noting as they have implications on how the global community frames and has dealt with health in the broader context of "development." Here we point to five constructs that are indicative of the diverse understandings and values that are attached to health.

What is Health?

The WHO constitution states that health is not simply the absence of disease but a complete state of physical, mental, and spiritual well-being (WHO 2006a). In spite of this broad definition of health, the world of allopathic medicine is founded on an International Classification of Diseases (ICD) that is over a century old and is currently undergoing its twelfth global revision. As such the basic accounting unit of health, either in terms of causes of death and/or incidence or prevalence, is "disease." Diseases have and continue to be the focus of global campaigns aimed at eradication or control, such as small pox, polio, cholera, and flu. They drive research priorities of national health research agencies and pharmaceutical companies. And interventions to address diseases often inform the contents of "essential packages" of health policies and strategies (Jamison et al. 2006).

However, there are important other dimensions of health that are increasingly valued. First, arising from rapid declines in mortality and emerging from populations with living chronic disabilities, there has been a growing focus on healthy living and "functioning," the

importance of the capability of undertaking activities of daily living and participating in social, family, education, and employment activities (Ustun et al. 2003). These "functionings" have led to the emergence of new measures that value non-fatal health states and permit the comparison of health outcomes across diseases and accord greater importance to highly prevalent but low mortality conditions like mental illness (Murray and Lopez 1996). Second, is awareness of the importance of "risks" to health that often cut across diseases including behaviors such as smoking, sexual and physical activity, and living conditions, such as indoor air pollution, water, and sanitation (WHO 2002). Understanding these risks is leading to a growing set of opportunities to address health problems outside of the traditional doctor–patient setting.

What Determines Health?

Underlying all efforts to improve health are theories related to what determines health. These theories have undergone a vast evolution since the earliest notions of "essences" in antiquity to "miasma" in the middle ages to the break-through "bacteriology" of Pasteur and Koch in the late eighteenth century, to the biomedical and genetic science revolutions of the twentieth century. While we benefit from much more nuanced socio-biological, or rainbow models of determinants of health (Dahlgren and Whitehead 1991; Figure 30.2), there remains a predominant more "popular" view—doctors prescribing drugs to patients for diseases—that defines and drives the mainstreams of policy. This is closely aligned with an (unrealistic) sense that individual choice over lifestyle decisions and care providers makes the individual the primary agent of their health.

In recent years, the hegemony of the individual consumer of health care model is being challenged both from below and above. From below, genetic and proteomic variability along with exposures from air, food, and water-borne toxins are rapidly redefining individual risks into larger sub-groupings and ecosystems that challenge traditional models of individual risk (Rapport, Costanza, and McMichael 1998). And from above, the ground-breaking insights of the British epidemiologist Geoffrey Rose made clear that societal changes in behavioral norms and the circumstances that facilitate their adoption are much more important determinants of behavior than individual choice. Rose's observations related to the constellation of deprivations that are found in lower socio-economic groups leading to a clustering of unhealthy behaviors have also discredited over-simplistic notions of individual choice in health (Rose 1992). The study of inequities in health has opened up more strategic entry points for intervening on the social and environmental determinants of health as important complements and often more cost-effective alternatives to individual health care provision (WHO 2008b).

How is Health Valued?

Health is valued in many different ways from being seen as a consumable product, as an investment, or as a right or entitlement.

Views of health as a consumable product are strongly associated with the notion of individuals exercising choice in purchasing health care, much as they might purchase food or some other commodity. While such a view of health has major shortcomings, the vast

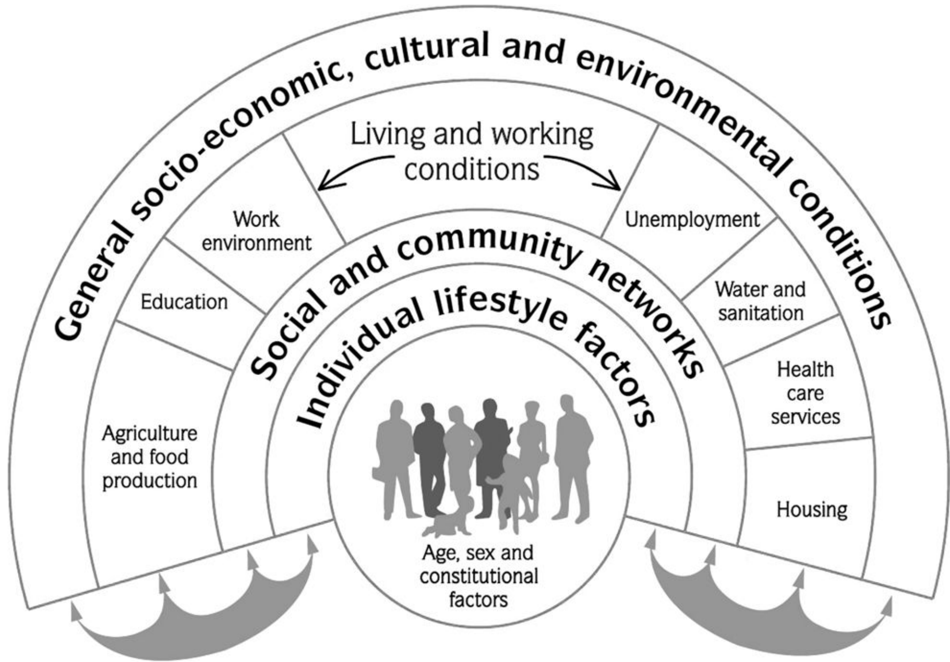

FIGURE 30.2 The Rainbow Model of Health Determinants

Source: Dahlgren and Whitehead (1991).

majority of health care in low- and middle-income countries is provided as a consumable product paid directly by the sick consumer. Indeed, this view of health underlay the structural adjustment reforms of the 1980s whereby publicly-funded health care was seen as a net drain on the economy and a brake on economic growth (Kim et al. 2002). Public budgets for health, therefore, needed to be minimized with costs for health care transferred to the consumer in the form of user fees.

Alternatively, drawing on human capital theory (Schultz 1961), health can be viewed as stock, or health capital, with health care seen as an investment in that stock yielding positive returns to the economy over time. This instrumental view of health was inherent in the landmark World Development Report entitled "Investing in Health" (World Bank 1993). It also underpinned the thinking of the Commission on Macroeconomics in Health in 2001 that advocated that increased public spending for health in low-income countries would contribute to (not detract from) economic growth (WHO 2001).

A third view of health is as a right or entitlement. It differs significantly from the other views of health as either consumption or investment insofar as it places importance on the intrinsic value of health. This view emerges from the WHO Constitution, which states "the enjoyment of the highest attainable standard of health is one of the fundamental rights of every human being without distinction to race, religion, political belief, economic or social condition" (WHO 2006a). This view drove the "health for all by the year 2000" vision of the Alma Ata Declaration on Primary Health Care in 1978 and underlies the global mobilization around universal child immunization and access to HIV treatment.

Local or Global

Health is also viewed with different lenses from local to global. The local view of health places a premium on "community" and "context" as the defining parameters for thinking about how to improve health. It attributes value to local knowledge and ownership through community participation in decision making as regards health and provision of services. It has strong linkages to community development thinking. It eschews top down, one-size-fits-all prescriptions imposed from the "outside" and embraces the concepts of "subsidiarity" and decentralized planning.

In contrast, health is also viewed with a "global" lens. The global view recognizes common challenges that transcend local or national contexts and the scale and scope efficiencies arising from addressing those challenges collectively. It also recognizes the relative disregard that infectious pathogens have for administrative boundaries and the universal truths arising from health science that define the human species. It further recognizes the value of being able to draw on larger pools of financial and technical resources to address health priorities that countries or communities on their own are unable to muster. Indeed the non-rival and non-exclusive properties of global health, or as some have argued its "indivisibility" (Chen and Berlinguer 2001), have invoked the further notion of health as a global public good (Chen, Evans, and Cash 1999).

From Tropical to Global Health

While there is no singular view of health as a special good, many strands of the diverse definitions, models of determinants, valuations, and local—global lenses can be seen to have played out through the development discourse on health. This section looks at how some of these diverse views have been expressed through three relatively distinct periods, corresponding to tropical, international, and global health.

Tropical Health

The colonial era was marked by a keen awareness and concern for ill-health in the "tropics." This concern stemmed not only from the very high rates of mortality amongst colonial officers but extended more generally to the local population whose compromised health and nutrition limited worker productivity thereby directly impacting the efficiency of the "extraction" economies. In the building of the Panama canal, for example, its completion was delayed for years due to the enormous death toll amongst workers arising from yellow fever, malaria, and cholera (McCullough 1978). Ill-health in the tropics thus constituted a major constraint to economic development and as such merited investments to control diseases (Winslow CEA 1951).

Dedicated schools of tropical medicine were established and scientists recruited to generate understanding and responses to these plagues. Societies of tropical medicine brought the scientists together and the Rockefeller Foundation established laboratories across many of the endemic countries sending the world's best scientists to work on these problems

(Jonas 1989). With new knowledge for prevention including vaccines, vigorous village-to-village campaigns were waged with a view to eradicating or controlling disease.

Right through to the end of the colonial period in the early 1960s and for the next two decades thereafter, the development discourse and action was marked primarily by frontal attacks on specific diseases: hookworm, malaria, yellow fever, measles, sleeping sickness (T. Cruzi), and river blindness (Onchocerciasis). This period was marked by global campaigns, the most notable and successful being the global eradication of small pox (Oomman and Cleghorn, this volume). The global campaign against malaria led to its elimination through Southern Europe, the Middle East, and large parts of Asia, however, despite heroic efforts it failed in key areas such as Africa (Carter and Mendis 2002).

International Health

Despite some notable success in tropical health, the failure to eradicate malaria and the recognition in the post-colonial era of the need to develop the health systems of recently independent nations led to the emergence of a subsequent period called international health. Fueled by official development assistance, programs for the development of the health sector in recipient countries began to emerge in the 1960s. These programs focused on medium-term plans to further develop or sustain the health services of the colonial period in a pyramidal structure of local front-line clinics backed up by district and tertiary care referral hospitals. In addition, the development discourse was fueled by concerns about a population bomb—a Malthusian spectre—that the high fertility rates in low-income countries were likely to create a population explosion that would outstrip food production and lead to widespread famine and global insecurity (Ehrlich 1968). As a result, population control campaigns superseded those for disease control of the tropical era. Similarly, there were concerted efforts to address high levels of protein-energy malnutrition thought to arise primarily due to insufficient caloric intake (Berg 1973).

The international health era was marked most prominently from a policy perspective by a jointly sponsored WHO and UNICEF meeting in Alma Ata in 1978. The Declaration of Alma Ata[1] represented the first comprehensive vision of health development with particular relevance to low- and middle-income countries. Primary health care efforts aimed to move care closer to where people lived, to ensure their involvement in decisions about their own health care, and to address key aspects of the physical and social environment essential to health such as water, sanitation, and education. It had a strong focus on the need to work across different sectors, address the social and economic factors that determine health, mobilize the participation of communities in health systems, and ensure the use and development of technology that was appropriate in terms of setting and cost. In many respects, primary health care corresponded with the broader "development" paradigm at that time with its focus on integrated development and the use of "appropriate technology."

Despite the consensus in Alma Ata in 1978, the global health community rapidly became fractured in its commitment to the far-reaching measures called for by the declaration. In a narrow health sector sense this fractionation arose from the continued tension between comprehensive and selective definitions of health of health care and what was most appropriate for poor countries (Walsh and Warren 1979). More broadly, Alma Ata was seen as too much like "socialist" health care in the bipolar politics of the Cold War. Furthermore, economic

recession in the early 1980s with the emergence of monetarist economic policies in the U.S. and the U.K., removed support for grand plans to expand spending on health in the public sector. Finally, the advent of new leadership at UNICEF and the entrance of the World Bank with the creation of its Population, Health, and Nutrition division in 1979, challenged the traditional multi-lateral dominance of WHO in health. UNICEF, with World Bank support, launched in 1981 its own selective primary health care package for child survival called GOBI-FFF (Growth monitoring, Oral rehydration, Breast-feeding, Immunization, Female education, Family birth spacing, Food supplements) (Cueto 2004). A Task Force for Child Survival composed of a coalition of public and private sector partners surged forward in the mid-1980s with a much more "doable vision" of immunizing the world's children by 1990.

Success with these initiatives supported the continued movement of health development efforts away from the comprehensive approach of primary health care and toward programs that targeted specific public health priorities. The tighter focus was fueled by the wider economic context of fiscal retrenchment and structural adjustment leading to a downsizing of the public sector in many countries and the imposition of user-fees for health under the (ill-conceived) theory that local payment for health services would lead to more responsive, accountable and sustainable health care. Neither efforts to create health or social sector exceptionalism (Cornia, Jolly, and Stewart 1987) nor the rapid emergence of a global killer in the form of HIV/AIDS could shake international health out of the clutches of structural adjustment. By the 1990s, primary health care had fallen out of favor in policy circles, rates of childhood immunization were declining, public sector budgets for health were being cut back with a push to decentralize decision-making and delivery of services (Birn, Zimmerman, and Garfield 2000).

Global Health

With the fall of the Soviet Union and the galloping forces of a globalizing economy, the international health era closed and a new era of global health emerged. This era is marked by a whirlwind of change facilitated by the entrance of new ideas and evidence, innovative institutional arrangements, and an impatience for greater global health security and equity. Several key strands of this transformation are described below.

Research Partnerships

A landmark report from the Global Independent Commission on Health Research for Development diagnosed a 10:90 gap in global research resources whereby a minority (10 percent) of the world research resources were directed towards the major burden of disease (90 percent) affecting low-income populations that cannot exercise a market demand for health services to address their needs (Commission on Health Research for Development 1990). In addition to recommending increasing investment in research it also advocated tackling "market failures" in the research and development of new drugs and vaccines for common conditions in low-income countries such as malaria and TB through innovative partnership arrangements with the private pharmaceutical sector. Within a decade, a dozen new public–private partnerships were created focusing on an accelerated development of priority drugs, vaccines, and diagnostics for populations living in low-income countries (Evans 2001; Fathalla 1999; Pablos, Chacko, and Evans 1999).

Evidence and Targets

A novel metric brought two previously incomparable health outcomes of mortality and morbidity together under one measure with the calculation of the global burden of disease (Murray and Lopez 1996). Drawing on this common measure, The World Bank issued a landmark World Development Report entitled "Investing in Health" in which it challenged the prevailing view of health as a consumable product and recommended cost-effectiveness analysis as the basis for informing the choice of health interventions (World Bank 1993). The idea of health as an investment with a positive return to the economy was further advocated in the Commission on Macroeconomics and Health arguing for investing a minimum of $38 per capita in low-income countries (WHO 2001). This linked closely with efforts in the development community to expand government spending on health as seen in the Abuja Declaration whereby African Heads of State committed to spending at least 15 percent of government budgets on health.

More importantly, perhaps, were the rallying points for the global health development community around the Millennium Development Goals (MDGs). The goals were motivated primarily on the basis that they represented minimal development entitlements across all countries. The representation of health was very strong with three goals focusing directly on health issues (child and maternal health, HIV/AIDS, tuberculosis, and malaria), and three others related to the conditions for health (improved food security and nutrition, water and sanitation, and women's education).

Mothers and Children

At a 1999 meeting aimed at revitalizing child immunization, Rotary International transcended the bounds of previous thinking by stating that billions of dollars—not millions—were required to be serious about universal child immunization. Within a year, the first billion-dollar public–private partnership was born as the Global Alliance on Vaccines and Immunization (GAVI). In 2011, GAVI would receive further commitments totaling $4.3 billion in a four-hour pledging meeting. At a similar scale, spurred on by slow progress in maternal health, the Canadian government through its G8 leadership in 2010 launched a $5 billion Muskoka Initiative as a precursor to a broader UN/global community mobilization entitled "Every Woman, Every Child" valued at $40 billion.

HIV/AIDS, Tuberculosis, and Malaria

Activists in South Africa challenged the global pharmaceutical industry's prohibitive prices for anti-retroviral therapy and opened the way for competition from global generics manufacturers and the negotiation of public health provisions within the World Trade Organization discussions on trade-related intellectual property. The HIV/AIDS crisis in sub-Saharan Africa with plummeting life expectancy especially in East and Southern Africa was seen as a threat to development. Moreover, concerns about social stability and the health of UN peacekeepers in 2000, led the UN Security Council to pass its first resolution (#1308) on health, describing AIDS as a threat to security. Corresponding with this, the UN Secretary General Kofi Annan hosted the Presidents of U.S. philanthropic

foundations at his residence to launch a $100 million effort aimed at preventing mother-to-child transmission of HIV/AIDS. The 2001 G8 meeting launched the multi-billion dollar Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFATM). In 2002, the U.S. President announced a $15 billion Presidential Emergency Plan for AIDS Relief (PEPFAR) targeting the fourteen hardest hit countries, soon followed by a similar billion-dollar initiative on malaria.

Non-communicable Diseases

With success against many of the infectious killers and the aging of populations in most countries, there is growing attention to challenges of non-communicable or chronic diseases (NCDs) affecting adult and aging populations. While not typically part of the "development" discourse, NCDs draw attention to the health risks of globalization whereby market forces associated with sales of tobacco and high fat foods are particularly strong in poorer countries. In these same countries, the market in health care for chronic diseases is growing rapidly, raising important issues of equitable access, quality, and safety that are largely unresolved. As such, NCDs represent the new global landscape of health development.

The global community has responded in part with the establishment of the WHO Framework Convention on Tobacco Control in 2003 that has now been signed by over 160 member states. In 2009, a Global Alliance for NCD research was launched involving commitments of $250 million from the world's largest national research councils. More recently, the UN General Assembly Special Session in 2011 focused on NCDs, committing to increase efforts to improve prevention and control of four of the most important contributors to the burden of NCDs. Of note, this agenda was agreed in principle but lacked any commitments of new funding reflecting the continued peripheral status of adult health in the health development mainstream.

Outbreak Diseases

Amidst the ramping up of global efforts to reach the health-related MDGs, in 2003, the world was caught off guard by the sudden appearance and rapid spread of a lethal new coronavirus, soon labeled severe acute respiratory syndrome (SARS). Deaths in China, Hong Kong, Vietnam, and Canada put the global community on alert with an advisory warning against travel to affected cities. While the brush with SARS was short-lived, it raised awareness of the shared health vulnerability arising from the inter-connected global economy and pointed to major weaknesses in stewarding a rapid and effective transnational response. Within five years, two further pandemic events related to flu virus (H5N1 and H1N1) reinforced the premium on strengthening public health systems in all countries to global standards with clear expectations on reporting and capacity for response. Also apparent was the capacity to pool global scientific and institutional resources to address diverse dimensions of the response such as: the rapid genetic sequencing of new pathogens; the development of diagnostics, drugs, and vaccines; strategies to contain reservoirs of infection especially in livestock populations; and ensuring rapid delivery of antivirals and vaccines to at-risk or infected populations independent of their ability to pay.

Framing the post-MDG Agenda

In taking stock of this transformation of the development discourse in health to its current characterization as global health, a number of issues emerge that are important in defining the post-MDG agenda in health. First is that there appear to be equity and security factors as consensual values mobilizing collective action. Second is that progress in the realization of these values is increasingly dependent on flexible and forceful systems for health that operate both within and increasingly across countries. Together these values and the growing demands on systems capabilities can accommodate the wide ranging and rapidly changing health challenges of the twenty-first century.

Equity

The equity value relates to a shared sense of concern that opportunities for health should be equal across context, especially for children. The Bill and Melinda Gates Foundation focuses its global health programs on health equity, believing that a child in a poor country should have the same rights and opportunities to survival as a child in a rich country. Global assessments reveal disparities in health achievement across countries that are considered both avoidable and unfair. The global mobilization around disparities in maternal and child health, and priority infectious diseases, speaks to the ability of equity arguments to drive to redress disparities and to mobilize significant resources. Interestingly in the case of HIV/AIDS treatment and expensive childhood vaccines (e.g. pentavalent vaccines), concerns for equitable access have trumped more "rational" decision criteria, such as cost-effectiveness, that would deem such interventions as too expensive relative to their health benefits. This raises a more complex and unresolved question of the criteria for identifying priorities for global equity in the post-MDG agenda.

The agenda for health equity, however, is not only relevant at the global level: it transcends all countries both rich and poor. Inequities in health in the U.S. with respect to geographic residence or racial-ethnic background constitute a growing policy concern, as evidenced by the "Healthy People 2020" ten-year agenda. Even Canada and the U.K. struggle with pronounced social stratification of health risks and access to care. Further, the majority of the poor will be found in middle-income countries in the immediate post-MDG era. As such, the ubiquity of inequities in health in all countries and their ability to forge consensus for action across countries offers a much more global agenda for health development in the post-MDG period.

Security

The security value relates to the collective concerns associated with the emergence of an ominous threat—classically an infectious pathogen—that transcends national borders with relative ease making it clear that there is no safe haven. Recent experiences with SARS, the flu viruses, drug-resistant tuberculosis, and even the re-introduction of polio through migration,

are among the numerous security risks that threaten to paralyze the global community. In the post-MDG era, the security agenda in health is likely to expand. First, there is the evidence that the intensive crop and livestock production practices associated with meeting global demands for food are driving the emergence of new pathogens at an alarming rate (WHO 2007). Second, there is insecurity arising from global climate change with severe weather events, changes in disease vector habitats, and increasing salinization associated with rising sea-levels. The health impacts of climate change are likely to overwhelm local resources and spill over borders, thereby requiring access to a ready and resourced global response capacity. This shared insecurity in health—vulnerability and unpredictability—informs a common agenda of preparedness and response capacity both within and across countries.

Systems

In pursuing an equity and security guided post-MDG agenda, a third plank of the agenda emerges related to "systems" that (i) effectively prepare and respond to a global pandemic; (ii) to scale-up low-cost interventions to prevent child and maternal mortality; and (iii) provide effective secondary prevention for high blood pressure and diabetes. These tasks require a level of functioning of systems for health that is all-too-often missing. In examining reasons for variations in health performance across countries, Angus Deaton refers to "social-organizational failures including the delivery of health care" that are not automatically ameliorated by higher income (Deaton 2006). Indeed, it has been the impatience for results and inquiries into the reasons for slower than expected progress, that have pointed to a set of systems short-falls found in virtually every country that cut across the spectrum of priority interventions (Travis et al. 2004). These systems deficiencies include massive shortages of skilled health workers, unreliable commodity procurement and supply chains, and inadequately maintained health infrastructures. In essence, it became apparent that the challenge of achieving results in global health was much less about "what to do" and much more about "how to do it" captured in the phrase the "know-do gap" (Pablos and Shademani 2006).

In the last decade, there have been concerted efforts to begin to tackle health systems both in their totality (World Bank 2007, WHO 2008a) and their component parts, be it information systems (WHO 2011), the health workforce (WHO 2006b), or financing (WHO 2010). Concerns about the systems bottlenecks to the performance of global health initiatives (WHO 2009) led to explicit efforts by both GAVI and the GFATM to incorporate systems considerations into their support for immunization and HIV/TB/Malaria grants respectively. Despite these efforts, there are prevailing views of health systems challenges as a "black box" (Frenk 2010) reflecting both the confusion around their complexity as well as the skepticism that there are effective means of improving their performance. In response, a new era of systems science is fast emerging taking its place in the mainstream of research priorities alongside more traditional domains of biomedical and clinical science (Evans, Nishtar, and Atun 2008). Investing in this knowledge agenda is a global enterprise and priority that should help to reconcile the unmet demand for systems knowledge and know-how to achieve equity and security objectives both within and across nations.

Conclusion

In 2012, the UN General Assembly passed a resolution calling for Universal Health Coverage (UHC) in all countries: access to affordable care to all according to need and without economic compromise. This political momentum represents an unprecedented opportunity as indicated by the WHO Director General's statement that "UHC is the most powerful unifying concept that public health has to offer" (Holmes 2012). However, the concept on its own is insufficient to continue to steer the world towards systems that deliver greater equity and security in health. A renewed commitment towards appropriate but ambitious goals and targets that are time-bound and to which politicians, policy-makers, and technocrats and the population can be held accountable is a critical complement to the UHC clarion. These goals must tackle at least three major systems challenges in order to have global relevance and traction: a common measure of comprehensive service coverage; a concerted strategy for financing health; and more effective governance mechanisms for global health interdependence.

Measuring Service Coverage

The pursuit of the MDG agenda in health has been of great relevance to the poorest countries in the world but much less relevant to health challenges of middle and high income countries of the world. While there remains an unfinished agenda related to higher than expected infant, child, and maternal mortality in some low-income countries, the trends are in the right direction and with continued efforts on these fronts, goals like the elimination of unnecessary childhood mortality are within sight. This global convergence around the survival of mothers and children is an enormous achievement. It raises, however, the reality that expectations for health have moved well beyond basic survival to span access to good quality care from cradle to grave, including chronic diseases of aging and the range of settings from community to tertiary facilities where such care is provided.

An index of service coverage is required that is sensitive to cost-effective interventions for priority conditions across this matrix of the life course and intervention settings. Such an index, appropriately constructed, can accommodate the differential health priority conditions across countries (for example those with malaria), as well as accommodate over-time changes in priority interventions to address the most important health conditions. Furthermore, an index could provide important insights into the critical balance between interventions that are population- or community-based interventions compared to those services provided in secondary or tertiary level facilities. Most importantly, an index of universal service coverage could be used to make comparisons across countries over time.

Financing Health

It is disconcerting, to say the least, that in the twenty-first century the primary form of financing for health in low- and middle-income countries is the most inefficient and inequitable: payment out of pocket at the point of accessing services. The magnitude of the impoverishing impact of health care expenditure on households in addition to its deterrent effect on accessing care provides strong economic and health rationales to pay more attention to fair financing for health (Xu et al. 2007).

While national financing systems in low- and middle-income countries are hemorrhaging wealth especially from the poor, at the global level, donor financing for health has expanded to its highest levels in history, peaking at about $20 billion per annum in 2008 (Lu et al. 2010). Both the source of the flows and their forms have undergone a profound transformation in the global health era with the creation of public–private billion dollar funds such as GAVI and GFATM, bonds for immunization (IFFIm), and "advanced market commitments" (AMC) for vaccines (Task Force on Innovative Financing 2009).

However, the longer-term financing issues associated with these instruments and the nature of their interface with national health financing systems raises important policy concerns that thus far have been inadequately addressed. The realization that the commitment to funding treatment for persons with HIV/AIDS is four to five decades, rather than years (a so-called "HIV treatment mortgage") has pushed donors to consider the long-term sustainability of financing. In addition, there is evidence that some countries in receipt of global funds are using then as a substitute rather than an addition to national health budgets (Lu et al. 2010). There are further concerns about criteria for eligibility for these funds in relation to countries with higher GDP per capita such as China or South Africa. This links to the observation of a bigger picture with respect to development assistance: despite increases in donor financing for health, the national expansion of expenditures in health is much faster. As such, the proportionate contribution of donor financing to national health financing is declining over time (WHO 2008a).

There is an urgent need to shift donor discourse and policy towards the development of pre-payment financing as the back-bone of national health financing systems (WHO 2010). This involves the articulation of national financing policies for universal coverage that contextualize the overwhelming evidence on the value of "pooling and prepayment" mechanisms and the development of institutional capacities to carry out these functions (WHO 2010; Rockefeller Foundation 2010). It also requires more direct donor support for the development of these financing systems or at the very least an explicit articulation of how external financing flows are supporting the development of national financing systems. Time-bound targets to achieve more equitable and efficient financing of national health systems could include such indicators as reducing out-of-pocket payments to less than 30 percent of total financing, a threshold that is linked with a minimal level of health-care-expenditure induced impoverishment.

From a global perspective, there will be a growing need to understand the landscape of global financing instruments that balances the needs for accountability and alignment with opportunities for new initiatives and innovation. Short-term thinking with short-lived entries and exits is likely to dampen enthusiasm and even sow a distrust of global financing instruments. A longer-term strategy, focused on equity and security priorities and informed by the magnitudes, duration, and types of global financing support required, is likely to accelerate the emergence of road-worthy national financing systems for universal coverage and nurture the emergence of more sustainable global reserves for health (Ooms et al. 2010).

Governing Interdependence

The mushrooming of global health partnerships, alliances, funds, and initiatives—accompanied by a shift in the resource psyche from millions to billions—has been exciting and

bewildering. The landscape of global health is no longer defined primarily by multilateral institutions comprised of member states but has been forced to expand to consider new types of international institutions with constituency representation from the private sector, civil society, academia, and philanthropy. Complex challenges like those related to pandemic flu or health worker migration or HIV/AIDS are demanding intensive, inter-sectoral coordination and negotiation for which most institutions are ill-equipped to manage. From a governance perspective, it has challenged all institutions to re-think their roles and positions in a new global reality of health interdependence in which there is no single leader, issue, or comparative advantage that one institution can claim exclusively as their own. Not surprisingly, in the midst of such rapid change, probing questions have been posed including "who runs global health?" (*Lancet* 2009), concerns expressed about chaotic and duplicative arrangements and calls for reforms of WHO, or more ambitiously re-thinking the global health architecture (World Bank 2007). While no such blueprint has yet to emerge, any governance reforms will need to accommodate the reality of an increasingly crowded or pluralistic global playing field which David Fidler (2007) labels provocatively as "open source anarchy."

This global myriad of actors and partnerships is mirrored and magnified at the country level. The influx of external initiatives and projects in low-income countries has led to concerns about their duplicative, distorting, disrupting, and distracting impacts on overburdened national systems (Travis et al. 2004; WHO 2009). Yet the underlying reality of national health systems is much less a single coherent system and much more a plurality of actors spanning the public, non-governmental, informal, and for-profit sectors with a host of endemic public and private sector failures referred to by some as "mixed health systems syndrome" (Nishtar 2010). Efforts in the global community to "align and harmonize" around a single health plan have struggled to embrace the complex plural character of national health systems (Hutton and Tanner 2004; Murray, Frenk, and Evans 2007). Moreover, the growing recognition of the inter-sectoral, social, and transnational character of health challenges—be it related to tobacco control, urban slums, healthy diets, medical tourism, or the migration of health workers—is placing demands for flexible and innovative governance arrangements that traditionally structured Ministries of Health are largely unable to meet. The emergence of national strategies for global health and the new field of global health diplomacy are indicative of efforts to begin to embrace the complex and interdependent realities of global health in the twenty-first century (Rosskam and Kickbusch 2011).

Further efforts to redefine and re-vitalize national and transnational governance mechanisms for health will contribute to a badly-needed reservoir of ingenuity to address dynamic and rapidly changing health problems. These problems threaten equity and security both globally and nationally and will in no small way determine the success and sustainability of achieving unifying targets around universal health coverage in the twenty-first century.

Note

1. This city is now known as Almaty, Kazakhstan. The declaration text is available online at <http://www.who.int/publications/almaata_declaration_en.pdf>.

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CHAPTER 31

TARGETING DISEASES

NANDINI OOMMAN AND FARLEY CLEGHORN

Introduction

Global Health as Development

Global health as global development is not a novel idea, but it has taken decades for this concept to crystallize. The past fifty years of health development assistance from rich countries and multilateral institutions to recipient countries has been characterized by philosophical and funding swings that reflect the continuing debates on disease-specific interventions versus strengthening health systems, as well as the need for country ownership of both the problems and the solutions. In 2000 the United Nations Millennium Development Goals (MDGs) included specific health goals focused on maternal and child mortality and infectious disease, as well as other conditions related to health, such as hunger and sanitation.

It was not until the early 2000s that development financing for global health increased dramatically. Even then, donor dollars were motivated by and flowed to specific infectious diseases, namely, HIV/AIDS, tuberculosis (TB), and malaria. For example, funding for HIV/AIDS reached unprecedented levels by 2005. Funding commitments for HIV/AIDS in low- and middle-income countries increased thirty-fold from 1996 to 2008, from US$300 million to US$8.7 billion (Kates et al. 2012). Funding flowed through donor-established mechanisms such as the Global Fund for AIDS, TB and Malaria and the U.S. President's Emergency Plan for AIDS Relief (PEPFAR).

Why are development dollars targeting these three infectious diseases? Looking back at development success stories provides some answers to this question, and explains the persistence of this relatively narrow approach despite concerns that such specifically targeted funding may have the unintended consequence of undermining health systems designed to meet a much broader array of public health needs.

Origins of the Concept of Targeting Disease

Even before it was linked to the notion of enhancing development gains and increasing the effectiveness of public health responses to disease, eradication of specific diseases was

tantalizing to thinkers and practitioners. This was particularly the aim of work on the ancient scourges of humanity, such as smallpox, typhoid, tuberculosis, plague, and leprosy. The promulgation, proof, and acceptance of germ theory and the subsequent rapid expansion of medical knowledge since the nineteenth century was accompanied by enormous reductions in disease burden and increases in life expectancy. These reductions occurred even prior to the widespread use of antibiotics in the late 1940s. Levine et al. (2004) estimate that more than half of all improvements in health indices since the nineteenth century were due to social and economic advances, including housing and education.

The adoption of hygienic practices such as hand washing and proper food preparation and storage, coupled with improved public and private sanitation, had an enormous impact on disease prevention and mitigation. With the advent of antibiotics and vaccines, the concept of conquering disease became closer to reality. This was not necessarily seen as a development assistance priority, but as a worldwide cooperative effort that assumed that the entire world shared the dream of eliminating these ancient diseases and the death, disability, fear, and disruption that accompanied them. If diseases were conquered, it was thought, development would inevitably follow.

A review of the literature and current medical knowledge reveals eight requisite conditions for the eradication of an infectious disease. They are:

Biological conditions

(1) a completely described natural history and pathophysiology
(2) humans as the sole natural host, with only human-to-human transmission
(3) lack of a carrier state, i.e., the infection manifests as recognizable disease in all or the majority of cases

Medical conditions

(4) a safe and effective (and cost-effective) vaccine or treatment intervention that works in almost all cases

Leadership and resource conditions

(5) systems to deliver the vaccine or treatment
(6) surveillance systems that can detect the agent or condition and prove that eradication has been achieved
(7) political will to effect the eradication
(8) resources to effect the eradication

Over the past fifty years, there have been multiple attempts to identify human infectious diseases that possess all the required conditions for eradication. While smallpox is the only human disease that has been eradicated (rinderpest, an economically important disease of livestock, was declared eradicated in 2011) and is explored in greater detail below, other human infectious diseases targeted for eradication include poliomyelitis, dracunculiasis (guinea worm disease), hookworm, malaria, yaws, and yellow fever. Only the first two on this list meet most, but not all, of the conditions set out above for eradication and are still the subject of active international campaigns, notwithstanding enormous challenges in their

implementation. Five other common infectious diseases have been tagged as potentially eradicable with current technology: measles, mumps, rubella, lymphatic filariasis, and cysticercosis.

No doubt increasing knowledge of disease causation, transmission, pathophysiology, and epidemiology will allow multilateral health agencies to set targets for additional candidates for disease eradication, though the above eight conditions are not expected to change significantly. What is likely to evolve is the continued improvement in population health indices in greater numbers of countries, particularly for childhood diseases. The resulting "health and wellness space" may be rapidly filled by non-communicable chronic diseases that are becoming more prevalent worldwide. Both the demand for and supply of modern health practice are becoming significant indicators of social and economic progress in emerging economies. Meeting the MDGs now occupies governments in meaningful ways not seen in the past. At the same time, health goals have become a significant component of development assistance, albeit not always the preeminent one.

A milestone in the evolution of current health and development assistance was the set of conditions that fell into place for smallpox eradication. This was built on over two hundred years of experience with vaccination, predicated on the notion that science held the answers to major health problems and that these solutions could be applied worldwide with international collaboration. Such conditions may prove difficult to reproduce for polio and other diseases, because many countries are not willing or able to guarantee the collaboration and security necessary for such a global campaign.

What follows is a discussion of the targeting of three diseases: smallpox, polio, and HIV/AIDS. These examples illustrate the advantages and limitations of focusing on a single disease, and the accompanying need for political stability, security, and a functioning health system.

Cases of Targeted Disease Approaches

Smallpox, the only example of successful total eradication, was eradicated using a targeted vertical approach that depended on cooperation with local health authorities and surveillance systems. The effort was coordinated through a newly created nerve center at the World Health Organization (WHO) with technical assistance from the U.S. Centers for Disease Control (CDC). The fight against polio is very advanced. However, the need for all susceptible children to receive three doses of oral vaccine maintained in cold chain has hampered the campaign's implementation. Finally, the global HIV/AIDS response, initiated as an "emergency" vertical approach, has of necessity switched toward systems strengthening and country ownership to consolidate the gains made in treatment and prevention of mother-to-child transmission and the potential for similar gains in preventing sexual and intravenous HIV transmission.

Smallpox: Mission Accomplished

> If a house is on fire, no one wastes time putting water on nearby houses just in case the fire spreads. They rush to pour the water where it will do the most good—on the burning house. The same strategy turned out to be effective in eradicating smallpox.
>
> (Foege 2011)

All relevant global organizations enthusiastically adopted the global smallpox eradication campaign within a relatively short time span in the 1960s, prompted by the 1959 12th World Health Assembly's endorsement of eradication as a goal. At that time, it is estimated that there were approximately 10–15 million cases of smallpox in more than 50 countries, and that 1.5 million to 2 million people died from the disease each year. The success of the two-decade eradication campaign was preceded by more than two hundred years of accumulated knowledge and experience with vaccination.

The World Health Assembly declared smallpox eradicated in 1980. Globally coordinated efforts had rid the world of a disease that had once killed up to a third of its victims and left others scarred or blind for life. The last case of indigenous smallpox was diagnosed on October 26, 1977 in a hospital cook in Merca, Somalia. Subsequently, independent experts certified each country was free from smallpox for at least two years, and that the surveillance systems were in place capable of detecting outbreaks.

The smallpox eradication effort started by supporting national country programs to vaccinate people who were susceptible and assuring a supply chain of the vaccine was available where needed. Regional organizations such as the Pan American Health Organization (PAHO) led the effort. A special WHO unit created in 1967 by Donald Henderson, an American from CDC, provided technical support. WHO established a network of consultants who assisted countries in setting up surveillance and containment activities. Production of vaccine was shifted from the United States and then the USSR to multiple sites in developing countries to assure the supply chain.

As case numbers fell, the focus shifted to a combination of enhanced and focused surveillance—rapidly identifying new clinical smallpox cases—and vaccination of all contacts of such cases. This "ring vaccination" meant that anyone who could have been exposed to a smallpox patient was tracked down and vaccinated as quickly as possible, effectively isolating the disease and preventing its further spread. The campaign focused resources where they were needed and provided a stimulus to develop local health delivery systems. According to Levine et al. (2004), "This helped develop immunization services more generally—health staff helping with the campaign received training in vaccination and search and containment. This training was especially important for hospital-based health systems that had no experience in setting up preventive campaigns."

Smallpox was a prime candidate for eradication for several reasons. First, the disease is highly visible in all clinical cases: smallpox patients develop a rash (pox) that is easily recognized. Photographs of the typical rash were used by field workers in case identification. Second, the time from exposure to the initial appearance of symptoms is fairly short, so the disease usually doesn't spread very far before it is first noticed. Third, only humans can transmit and contract smallpox. People who survived smallpox developed lifelong immunity against future infection. For everyone else, vaccination was highly effective. WHO trained and deployed vaccinators quickly, and they could immunize large groups of people in a short time. While logistically difficult, it was operationally possible and manageable as a program.

The campaign proceeded in stops and starts over the 1960s and 1970s, and intensified in 1967. At that time, smallpox was still endemic in twelve countries or territories in eastern and southern Africa, eleven in western and central Africa, seven in Asia, and in Brazil in the Americas. The WHO eradication plan included mass vaccinations using freeze-dried vaccine material, and the development of a system to detect, monitor, and investigate smallpox cases and contain outbreaks. Three principles were vital to the WHO program: participation

of all countries, flexibility in implementing national programs, and ongoing research to evaluate progress and deal with problems that arose.

The campaign was not without its detractors, who did not see the eradication of an already waning disease as a shared global objective. WHO came under criticism from some health workers and human rights advocates who objected to the search and quarantine aspects of the program, in particular charging that campaign workers at times bent WHO and local regulations to use police-type tactics. Later, some critics claimed that physicians used coercion to ensure vaccination of quarantined individuals (Henderson 2009).

Despite its success, the campaign to eradicate smallpox would be difficult to replicate today. In fact, Levine and Oomman (2009) point out that at the time, "No two national campaigns were alike, which points to . . . the need for a flexible approach." One reason is the change in the development paradigm: the "donor-driven," single-minded focus on smallpox would likely face resistance today given the current development approach that emphasizes factors such as country ownership, sustainability of effort, and relative impact on domestic health priorities. For example, it is unlikely that the smallpox eradication campaign could have taken place in the current global environment, with instability and conflict in the countries where the virus proved most difficult to overcome. In an era where infectious diseases co-exist with chronic diseases, hard decisions will have to be made for such success to be replicated: evidence-based allocation of resources, setting health priorities, and maximizing coverage without sacrificing quality of services.

At the same time, smallpox eradication still offers lessons for global health priorities. The disease had loomed large in human history, having killed more than 300 million people in the twentieth century (Henderson 2009). The campaign also exercised a powerful influence on the human imagination, having demonstrated a potential for a one-time monumental effort of collective global will to reach a common goal. Finally, the smallpox campaign left behind a number of important legacies, including the beginning of infectious disease surveillance systems in many countries and an expanded program of immunization for childhood vaccinations against common diseases.

Polio: The Challenge of the "Last Mile"

> We are so close, but we have to finish the last leg of the journey. We need to bring the cases down to zero, maintain careful surveillance to ensure the virus is truly gone, and keep defenses up with polio vaccines until we've confirmed success.
>
> (Gates 2011)

The polio virus was first identified in 1908 in Vienna, Austria, although the disease had struck children all over the world in the late 1800s. Despite advances in medical knowledge, polio persists more than a century later. In the 1980s, PAHO set a goal to eradicate polio in the Americas within ten years, and the World Health Assembly signed on to global polio eradication by the year 2000. Neither of these goals was reached, but the job is almost done. In 1988, polio was endemic in 125 countries and as many as 350,000 children were paralyzed every year. Today, all but three countries—Afghanistan, Pakistan, and Nigeria—have managed to eliminate polio, and just about 200 cases were reported worldwide in 2012. In most countries, the answer lay in routine immunization efforts and mass vaccination campaigns. But why has it taken so long to eliminate polio in these three countries? A review of the conditions for eradication outlined above offers a few suggestions.

Like smallpox, the natural history and pathophysiology of polio is well-known, and there are safe and effective vaccines that work in almost all cases. The live attenuated Sabin vaccine is preferred for population vaccination programs because of its high levels of immune response and low incidence of secondary infection. However, polio differs from smallpox in three ways. First, the polio virus can survive outside the human host, circulating in wastewater. Second, infection is not always recognized, with a small proportion of people infected suffering atypical symptoms such as gastrointestinal illness, and 1 in 100 suffering paralysis. Third, at least three oral doses of the vaccine are required to confer full immunity to a child, so a functioning health system is needed for ongoing vaccine delivery.

All of the above suggests that the "last mile" to eradicate the polio virus is challenging, but not impossible. Consider the case of India, which despite its high poverty and low demand for vaccines in some areas did not shy away from its eradication efforts. Its last reported case of polio was in January 2011, and the country is expected to be declared polio-free in 2014. Recent interviews with practitioners suggest that this success was due to several factors, including political leadership, public–private partnerships to enable delivery of vaccines to hard-to-reach locations (e.g. Bihar and Uttar Pradesh), the use of new technology to identify outbreaks and track the vaccination history of newborns, and the use of community health workers to explain the benefits of childhood immunization to parents (Raina 2012).

The pressure to replicate India's model is high, but different contextual challenges in Afghanistan, Pakistan, and Nigeria do not guarantee success in the short term. Even where health systems may be functional enough to deliver the vaccine to all children in need, issues of insecurity and conflict as well as local misconceptions about and fear of vaccinations complicate the roll-out of immunization programs. In all likelihood polio will be eradicated, but unlike smallpox, eradication requires an ongoing effort that depends on strong health delivery and surveillance systems. Some locations, including China and West Africa, have experienced recent outbreaks of polio, brought in from Pakistan and Nigeria, respectively. This highlights the continued threat of resurgence when every child has not been protected against the virus.

HIV/AIDS: From Emergency to Mainstream

> Let me begin by defining what we mean by an AIDS-free generation. It is a time when . . . virtually no child anywhere will be born with the virus . . . as teenagers become adults, they will be at significantly lower risk of ever becoming infected. . . . So yes, HIV may be with us into the future until we finally achieve a cure, a vaccine, but the disease that HIV causes need not be with us.
>
> (Clinton 2012)

The emergence of AIDS as a global political and scientific target was prompted by the potential for the epidemic to reverse hard-won health gains. Longer life expectancies in sub-Saharan Africa, which took decades to achieve, were being reversed in the 1980s and 1990s. From the first description of the syndrome in 1981 to the recognition of high population prevalence rates in sub-Saharan Africa, the response to the epidemic has been characterized by high and low points: elegant science, social confusion, paranoia and discrimination, heroism, and hard work.

As a disease caused by a newly described human retrovirus, HIV/AIDS has catalyzed an intense biomedical response to find drugs to reverse the effects of immunodeficiency and a

vaccine to prevent infection. The former took more than fifteen years of effort before azidothymidine was licensed in 1996, and by 2012 there were more than thirty-five approved pharmacologic agents and combinations of agents to treat AIDS. The search for an effective vaccine continues and has been beset with numerous setbacks, chief among them the elusive search for a durable correlate of immunity to HIV.

But the biggest challenges are not biomedical. More than 36 million people were estimated to be living with HIV in 2011, the majority in sub-Saharan Africa. Almost half of these people (16 million) are eligible for antiretroviral therapy (ART) under current guidelines, and of those, about half (8 million) have access to such treatment. Enormous global investment in this biomedical model over the past decade has enabled this progress to happen as an "emergency." Given the fact that almost all transmission is via sexual exposure, the challenge before us is to sustain this investment by reducing sexual transmission.

The continuing world financial crisis that began in 2008 has prompted the U.S. government to take a much closer look at the costs of PEPFAR, its flagship program to assist the most affected countries in their progress against AIDS. The Global Fund has also signaled interest in managing program costs and rooting out corruption in grant management. Cost–benefit and cost-effectiveness are the new buzzwords of the global AIDS response, and clearly money is expected to be in short supply for the foreseeable future even as recipient countries are expected to increase their own contributions to the effort.

Yet the unmet need for antiretroviral therapy and awareness-raising about effective prevention is still enormous. Even with full funding, many countries face structural and systemic limitations, from inadequate human resources to losses from corruption and poorly functioning health systems. It takes time and commitment to build systems and operate them for impact.

Much of this effort has focused on establishing country-led systems to deliver and disseminate treatment. Tremendous progress has been made, but treatment needs to be coupled with effective prevention efforts. The latter require both medical technology to ensure safe blood supply and medical procedures, and an integration of health and education into daily social and work life, including HIV testing and counseling.

Prevention also requires targeting young people before and as they become sexually active, equipping them with knowledge of proven approaches (such as barrier methods), promoting behavioral and medical interventions (such as male circumcision), and providing pre- and post-exposure prophylaxis. Yet such efforts are often undermined by the stigma surrounding social taboos around sex in general, and sexually transmitted infections in particular.

Combination prevention programs must be based on current data about transmission, and they must reach people where they live and interact in their communities. Finally, the costs of such programs must fit within the resources available and be able to integrate into country, region, and local health priorities that compete for available resources.

HIV/AIDS donor assistance has been transformative in providing ART to halt and reverse the immune sequelae of HIV and return people to health so that they can resume productive lives. The impact of these interventions is still growing as systems are strengthened to deliver ART successfully and meet the additional needs of patients (for food, water, shelter, etc.). Notwithstanding the debate surrounding the questions of sustainability of and attribution to specific programs, the short-term impact of more widely available treatment has been to extend life and increase hope for millions of affected and infected people. The key

development that enabled this transformation was highly active antiretroviral therapy as defined by iterative clinical trials in the United States and Europe and which mandated a comprehensive package of services (e.g. clinical, social, laboratory) to deliver drugs according to best practice that could permanently suppress HIV replication.

Once it became clear that the efficacy of highly active combination treatment for AIDS was so unequivocal and sustained even in low-resource environments, the barriers to widespread treatment of people in the developing world, including the cost of ART, began to fall and in effect, a best practice model was exported around the world. For example, in 2003–4 the average annual cost of delivering ART to a patient in the United States was $12,000–$15,000. These high costs were met by federally funded entitlement programs administered by states. Through advocates, activists, and donors such as PEPFAR and the Global Fund, by 2008 the cost had fallen to less than $1,000 per patient per year, and fell further to $200–$300 as the program reached a greater number of patients. Even then, costs were shared by recipient governments, donors, and others, including the patients themselves.

Paradoxically, the resounding success of life-prolonging treatment through effective and affordable ART presents a setback in combating the pandemic, in that treatment success is masking the still urgent need to focus on prevention. Under any given program of expanding AIDS treatment, a predictable result is escalating program costs as average survival lengthens (the initial PEPFAR models were computed with an overall five- to seven-year gain in life expectancy, but the need for ART is permanent so long as the patient is alive) and patients eventually need to switch to more expensive second- and third-line drug combinations. This leads to the sobering conclusion that the models for delivering ART assistance are not sustainable in the long term without concomitant prevention successes to ensure a diminished need for treatment over time. South Africa, a middle income country, is a case in point: the country now has the largest ART program in the world, with more than two million people on treatment. However, the long-term costs of AIDS there are unsustainable unless further gains are made in HIV prevention.

Given the sum total of knowledge about how to prevent and treat HIV, is it likely that epidemic control will be achieved within the next generation? From our framework it is clear that HIV does not fit the criteria established for eradication: there is no vaccine or preventive technology that works in all circumstances, transmission is primarily sexual, and successful treatment requires daily medication and extends the period when infected persons may transmit HIV. Problems abound in HIV prevention. Unlike treatment, which is fairly standard whether the patient is a poor woman or a rich man, a heterosexual or a homosexual, an injecting drug user, or a combination of all of these (that is, the same drugs are used in the same combinations to achieve the same effect, all else being equal), an effective prevention approach depends on risk matrix, demography, geography, and other factors.

Some approaches can be broadly targeted. For example, sexual health education can build demand for prevention services, though attaining consensus on what this means is a contentious process. Other approaches require a narrow focus on so-called key populations, such as interventions for young gay men or needle exchange programs for injecting drug users, both of which are evidence-based but neither of which garners much support among recipient governments or even donors. Demand for prevention programs, especially among key populations, still needs to be built and sustained in governments and communities; and like drugs for treatment, once started, supply should not be interrupted. As with treatment, there are severe policy, demand, and resource constraints. However, unlike treatment, achieving

consensus on the approach and scale of prevention programs is highly elusive and subject to political interference, normative confusion about what works and for whom, and a lack of understanding of what constitutes effective prevention. To even start this discussion requires expending political capital and making tough policy and resource allocations. No wonder the task is so daunting. People and politicians may listen to the doctor when it comes to treatment but everyone is an expert when it comes to prevention.

It is also clear that to build on and consolidate the gains of the "emergency" and targeted response to the global AIDS epidemic, the approach needs to change to a more sustainable and systems strengthening one. This change shifts the locus of control to the country, both government and non-government entities, and relieves the donors and their agencies of some of the management burden. This shift has to be a gradual but clear process that spells out roles and responsibilities and does not allow patients and their lives to "slip through the cracks" during the transition. This also shifts the focus from service delivery to technical assistance in building local capacity to manage disease prevention and treatment.

In summary, the continuing global struggle against HIV/AIDS has entered a new phase where there is widespread agreement about the policy goal of an AIDS-free generation. However, given that there is no cure for AIDS, no effective vaccine, and no way to eradicate HIV, determining what it takes to get there and how to finance the inexorably growing commitments to services for people living with HIV, particularly in sub-Saharan Africa, is going to occupy development experts for the foreseeable future. The urgent need to match the treatment success with prevention success, and the fact that the well-articulated AIDS medical treatment model does not impact sexual transmission, point to the need for a new model operating beyond just health and embracing social, education, and financing systems if eradication is to be a real possibility.

Key Debates

In the last decade two key debates have emerged around the practice of targeting a disease. One is whether such intensive focus on one disease comes at the cost of neglecting others, known as exceptionalization. The other is whether efforts that target a specific disease strengthen the ability of health systems to respond to a range of priorities. The extraordinary financial and implementation focus on AIDS in the last decade has heightened these tensions in development discourse.

"Exceptionalizing" a Disease

The thirtieth anniversary of the first description of AIDS occurred in 2011. In those three decades, much has changed in the global history of the HIV/AIDS epidemic, with global access to appropriate therapy increasing exponentially. Yet numerous obstacles to controlling the epidemic persist, including a lack of widespread access to effective prevention programs that directly address major modes of transmission, including sexual activity and injection drug use.

The idea that HIV is an exceptional disease under a set of exceptional conditions and therefore requires an exceptional and emergency response characterizes only the past ten years of global public health and the pandemic. It is important to recall that this apparent exceptionalism, with its accompanying high levels of attention and funding, represents a hard-won public policy debate in the rich donor countries. In fact, in the first twenty years of the AIDS epidemic the response was not exceptional. AIDS was initially characterized in the West, specifically the United States, as a disease of homosexuals, hemophiliacs, heroin addicts, and Haitians (the infamous "four Hs"), none of whom had the clout to marshal the resources required for an adequate response from a skeptical political class cloaked in moral superiority. Most activists would posit that not one iota of the AIDS response was achieved easily, and that it took more than half a million deaths from AIDS in the United States before the first specific treatment was approved.

The sudden global prominence of HIV/AIDS conferred a number of lasting benefits that went beyond simply addressing the epidemic. This new and unique syndrome brought together unlikely allies as it allowed activists to challenge the scientific establishment's control of the public health enterprise and called for an agreement that recognized the role of the individual and the community and the rights and responsibilities of sexual minorities. It advanced the cause of gay rights in the West and called for a new approach to health promotion and disease control. It advanced the rights of women and young girls in Africa and Asia and focused attention on the needs of children and orphans. It helped drive the notion that the entire world's population had the right to expect to participate in the gains of social progress and medical knowledge. And finally, it was the awesome potential of the global AIDS pandemic to cause suffering and death that most marked it for global attention and resources.

A key question is whether the global AIDS response encourages the neglect of other health problems. A related question is whether the singular focus on HIV/AIDS is resulting in missed opportunities for synergy with other health-related policies, programming, and resources. In terms of the volume of scientific and social outputs, the level of funding, the scale and openness of attention, and the contentiousness of the discussion, HIV/AIDS is without precedent. Some criticize the continued growth of the global HIV/AIDS enterprise: the entrenched multilateral agencies such as UNAIDS and the Global Fund, the global research establishments where lifetime careers can be spent, the international organizations that provide technical assistance and support program implementation in beneficiary countries. From a recipient country perspective, one negative outcome of the massive HIV response is the siphoning off of much available talent and resources, sometimes leaving little capacity and resources to address other health priorities in most affected countries.

Articulate arguments can be made that AIDS funding is disproportionate to its impact. For example, some argue that these resources can be better applied to childhood diseases and generate greater gains in life expectancy in beneficiary populations (Over 2012). There are proposals to redirect some donor agencies' missions to more health generalist entities. All these developments should be seen as inevitable given the substantial gains made against AIDS. Broadening the response could not have been contemplated back in 2000 when AIDS treatment emerged as a best practice.

Have there been losers in the singling out of HIV/AIDS for special attention? One could argue that attention, and consequently funding, to maternal/child health and family planning, in terms of both priority and funding, decreased in the age of the expanded global

AIDS response. For example, all available analyses of the U.S. government's PEPFAR program, which was criticized in its initial phase for taking an emergency approach, suggest that the only potential downside was the crowding out of family planning and broader maternal/child health in the USG resource envelope, an issue that is being addressed in phase II.

Diseases and Health Systems

As funding for AIDS increased exponentially in the last decade, a polarized debate began to emerge about whether donor financing for HIV/AIDS programs was strengthening or weakening national health systems (Oomman et al. 2008). This concern was not new, but amplified because of the sheer scale of AIDS programs. Many observers have examined the potential impact of the magnitude of funding on weak health systems, asking if AIDS money was in fact making governments and the private sector better able to deliver a broad range of high-quality health services, or if it was weakening health systems by establishing AIDS-specific systems that were intensely focused on combating a single disease.

A pioneering set of country case studies examined the interaction between AIDS programs and the health system (Oomman, Bernstein, and Rosenzweig 2008). They suggested that large funding inflows were perhaps shifting components of the health system, diverting attention and resources from existing programs to AIDS programs. Skilled health workers and managers who otherwise would be deployed managing and implementing other types of health programs were attracted to AIDS programs by salary "'top-ups'" and better working conditions. Supply chains that bring antiretrovirals (ARVs) and other AIDS program supplies were prioritized over those for other essential drugs. Information was systematically provided to donors, but not necessarily to national health information systems or local governments. Soon, others heavily involved with the scale-up of HIV/AIDS programs in Africa challenged these early observations. Over time, as the evidence base grew, researchers reported more positive observations about HIV/AIDS funding and its effects on the health system (De Cock, El-Sadr, and Adhanom Ghebreyesus 2011).

In fact, evidence now suggests that targeting HIV/AIDS for specific development assistance has had positive spillover effects on other health priorities and systems. Country health systems have been strengthened, not weakened, by the AIDS effort, with procurement and supply chain, laboratory and surveillance infrastructure, and clinical services benefiting most. El-Sadr et al. (2012) argues that PEPFAR investments have catalyzed improvements in health systems in recipient countries. Moving forward, these gains can be expanded as the HIV response matures and directs efforts to embed HIV within the agreed health priorities of countries and states. This longer-term vision should occupy the next five to ten years and see country governments assume greater fiscal control of their country health portfolios and focus on long-term gains.

The definitive answer to the question of whether HIV/AIDS has had an overall positive or negative impact on health systems will remain elusive until rigorous cost–benefit and impact evaluations are conducted. In the meantime, program implementers are acutely aware of the benefits they have seen from AIDS financing; yet key questions remain about the cost and sustainability of vertically funded programs, and the choices that countries make as donor funding commitments for AIDS and global health shrink.

Future of Health as Development

This chapter developed a historical understanding of the concept and practice of "targeting disease" to shape investments in health. We did this by looking back at three key diseases targeted for intervention—smallpox, polio, and HIV—and the heated debates that ensue when a disease appears to be prioritized over other important health conditions and other equitable, sustainable development priorities. Three issues emerge from this reflection that will be important for the future of global health as development.

Finite Resources and Critical Choices

Clearly, communicable diseases like HIV, TB, and malaria are here to stay and will continue to demand a major portion of resources for global health into the future. At the same time, new and emerging infections will require global cooperation, often as emergency responses, as for example with H1N1 influenza and severe acute respiratory syndrome (SARS). In an era of climate change and growing population we are seeing the creation of a global incubator for the rapid emergence of previously rare global health events, including highly pathogenic influenzas, zoonoses, and resistant bacterial infections. New infectious diseases will often require a targeted globally cooperative response, particularly when the biology and transmission of the infectious agent have not been fully described. As all three cases above show, the response to new and important human infections will almost certainly require a targeted response early in the life cycle of the disease, transitioning to a health systems and more sustainable response as more is learned about the disease and how to manage it. Occasionally a new disease can be controlled or eradicated early in its emergence, like SARS, which is unlikely to have more than a sporadic incidence in the future. Yet given the conditions necessary, eradication will be the exception rather than the norm.

The world is also facing a global pandemic of non-communicable chronic diseases (NCDs), such as heart disease, diabetes, and cancer, the collective burden of which now threatens to exceed the impact of infectious diseases for the first time. In 2011, the United Nations General Assembly convened a special session on NCDs. Just as the previous special session on HIV/AIDS helped spur a global response, advocates are working toward a similar movement to fight the impact of NCDs, capturing the attention of the very same players who championed the fight against HIV/AIDS.

Resources for global health are unlikely to grow even as the list of priorities gets longer and advocates get louder. Critical decisions about how to prioritize a long list of health challenges will dominate the next decade of health. Policy-makers struggle with a finite amount of available resources and face diminishing gains from efficiencies in health spending. They must weigh competing criteria for decision making, including considerations of cost-effectiveness, ethics, equity, politics, and diplomacy. Meanwhile practitioners face demands to integrate programs meaningfully to achieve greater synergies among, and greater efficiency and effectiveness within, health interventions. In addition, there is increasing pressure to consider the health impacts of environmental degradation, climate change, and increasing population density in the least resourced parts of the world.

In an era of continuing economic slowdown and uncertainty, there is little appetite for grand schemes and investments, particularly in health, which is often seen by governments as a net consumer of resources. The cancellation of Round 11 by the Global Fund to Fight AIDS, Tuberculosis, and Malaria is a resounding example of pulling back from prior commitments by donor countries as their own economies contract and hard choices need to be made. Yet the lesson of smallpox eradication is that investments in health abroad can be in the enlightened self-interest of developed countries. Though the campaign's success was not guaranteed, stakeholders and country partners still invested heavily and the payback was incalculable. It is estimated that the United States recouped its investment in the global smallpox campaign within two years as vaccination of its own population became unnecessary (Levine et al. 2004). This argument will be easier to make for polio, but much harder for HIV/AIDS or NCDs. Without eradication in sight for the latter two, global cooperation agencies and country governments, both donors and recipients of development assistance, are faced with growing and unsustainable costs.

Long-term Impact on Health Systems

Taking responses to scale for maximum impact for existing health priorities often requires transitioning from a targeted approach to a health system response and sometimes even a multi-sectoral response, as demonstrated by the polio and AIDS scenarios. Targeted approaches can lead to eradication, as for smallpox, if all conditions needed for disease eradication are fulfilled. However, the confluence of all requisite conditions is unlikely for most diseases today. Nonetheless, a targeted approach can still have short-term successes for diseases like polio and HIV, but this requires a shift from donor-led to country-led management of a health systems approach (for example, routine immunization for polio, management of chronic disease for AIDS) for an even greater impact in the long term.

The cases above show that targeted programs can have significant positive effects on health systems in a country and leave behind more robust surveillance systems and laboratories, as well as improved clinical skills and training of health care personnel. These positive effects may initially appear to benefit the disease they are targeting, such as an AIDS-specific health information system or supply chain. A future challenge is to identify and measure whether these early disease-specific effects also provide "hidden" benefits for the health system at large to respond to other priorities. In the case of the smallpox campaign, for example, the expanded program of immunization for childhood vaccinations certainly benefited countries well beyond the eradication of the disease. Such learning will be critical for decision-makers who take calculated risks as they address emerging health challenges.

The broadening of global health priorities (existing and emerging infectious diseases including HIV and non-communicable chronic diseases, maternal and child health, nutrition, reproductive health, and family planning) and the responses they require will pose enormous challenges that go beyond single diseases, sectors, governments, or single-issue agencies such as UNAIDS. Major constraints exist, including resource, market, and demand constraints, to bringing programmatic responses to scale in response to current and emerging health priorities requiring expensive investments in systems for health, as well as other sectors such as education and finance.

Agendas, Accountability, and Ownership

As countries and donors debate how to reach universal health coverage goals (*The Lancet* 2012), it is unclear how this effort will help build the response structure required to tackle a range of existing global health challenges and establish responsive systems for threat reduction.

At the outset of this chapter we asked why it is that, even today, donors' development dollars largely target the "big three" infectious diseases: HIV, TB, and malaria. Even when donors attempt to put a unifying overlay on a disjointed health assistance portfolio, it may not work. Consider the recent case of the United States Global Health Initiative (GHI). Despite a visionary strategy to build a streamlined approach guided by key principles of country ownership and programmatic integration, the GHI has met with spectacular failure (and the pressure on several donors increased because of the global financial crisis) (Oomman and Silverman 2012). Examining the conditions that led to this reveals several complex problems: the tension between political and program accountability, funding silos, disease-specific offices, warring implementing agencies, and a failure of health diplomacy. But the biggest impediment to the systemic response is the U.S. accountability structures for foreign assistance that force targeted programming in global health even when it isn't necessarily the most efficient and effective approach.

Similarly, for the next largest health donor, the United Kingdom, the pendulum swings with every funding cycle or change of government between more basket funding and sector-wide approaches, to project-based implementation seeking "value for money." The fact is that most international aid provided by donors is heavily influenced by political decisions (at home and in receiving countries) and not necessarily by evidence of need or burden of disease. If aid were always expected to succeed (and this is increasingly the pressure on several donors because of the global financial crisis), then only countries with good policies and robust systems would receive aid in the first place, and this is clearly not the case. When a donor would like to strengthen its ties with recipient countries that have weak or dysfunctional health service delivery systems, it makes sense for the donor to target specific diseases through multilateral and bilateral efforts to produce short-term results, push for value-for-money decisions, and ultimately maximize aid effectiveness for health. This push for greater donor accountability creates a tension with the increasing rhetoric about country ownership and how countries must begin to contribute domestic resources for health and take charge of their health delivery systems.

Country ownership of health services delivery is vital. Ideally, donors are helping to support the aims and objectives of countries that have articulated and are implementing plans to address their health priority conditions and commitments. Country ownership is seen as a requisite for sustainability and for delivering results. This does seem to be axiomatic, but begs the question of precisely what is being owned. Even if all service delivery is left to country mechanisms, enormous analytical gaps exist in recipient countries in the design and formulation of health programs based on evidence, understanding the roles of the public and private markets in health, building demand and assuring supply, and maintaining quality and equitable distribution of services. Such gaps should form the basis for ongoing technical assistance from donors, yet servicing long-term objectives seems beyond the scope of donor support focused on implementing projects focused on attributing short-term results. Donors may well be nostalgic for the promotion of targeted approaches to emergencies like HIV/AIDS, where donor accountability and attribution are easier to report back to political operatives.

While this chapter has primarily focused on health and development from a donors' perspective, countries that are beginning to take charge of their health systems will increasingly turn to countries like Brazil as a role model. No longer a recipient of donor assistance, Brazil has strategically targeted diseases (both infectious and chronic) as a component of a larger decentralized entitlement health system funded by federal, state, and local taxes. Looking ahead, global health will continue to be a core component of development. Similarly, targeting diseases will remain an important development concept, especially for new and emerging health challenges, but one that should be applied appropriately and for lasting impact. Invariably, targeted approaches require strong and functioning health systems to "walk that last mile" toward lasting development impact.

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INNOVATION AND TECHNOLOGY

This section addresses how thinking about innovation and technology have evolved within international development. At first glance, these topics can appear out of place as the developing world tends to be characterized by the absence of these attributes, while the success of developed countries is popularly attributed to their technological prowess. Yet there is a rich tradition of thinking about how to harness technology for the benefit of developing countries. Following the Second World War, many newly independent developing countries attempted to reduce their reliance on outside production and jump start their own process of technological progress. At the same time, many developing countries face distinct climates, diseases, and conditions to which outside technology is not always well suited. Despite being far from the global hubs of science, developing countries arguably require an ability to address their own problems by creating homegrown and adapting outside technology.

The first decades of development in the 1960s and 1970s were a period of tremendous optimism over the promise of science, as demonstrated by a series of UN conferences which sought to both foster local science and mobilize part of the global science efforts toward development goals. In contrast, later decades would see deep cuts to higher education and research in developing countries under structural adjustment programs. Ironically, the response of OECD countries to the recession, most recently in the late 2000s, was greater investment in innovation and technology, seen as vital to their own future development. Thus thinking on innovation and development has been schizophrenic, an unaffordable luxury for some countries and an indispensable strategy for others. This duality is now breaking down as parts of the developing world contribute a rising share of world research activity, and many more have inserted themselves into global value chains. At the same time, constraints on foreign aid budgets have heightened demand for evidence of "what works" in development and inspired interest in new ways of encouraging innovation.

Looking back, there have been three critical shifts in thinking: an appreciation for innovation encouraged by incentives within the economy; increasing interest in setting an agenda for technology; and a move from funding inputs to rewarding demonstrated outcomes.

Endogenous Theory of Economic Growth

Previous generations of thinkers explained economic growth as the accumulation of capital, land, and labor. Yet some growth stems from improvements in how such factors are converted into production through improvements in technology or organization (Helpman 2004). With the realization that part of economic growth lay in such advances, there was increasing attention to the role of scientific progress and new technologies in enabling growth. Polanyi (1962) described "the republic of science" as a world onto itself apart from markets and society. Scientific communities were seen as self-organizing in that each member adjusts, or optimizes, how they invest their skills and time based on the work published by others. Rather than the market principles of price, consumer surplus, and efficiency, this coordination was achieved through the principles of plausibility, accuracy, and originality.

Yet investments in innovation and technology also respond to perceived profit opportunities. Firms that produce new products or use new processes can earn monopoly rents, profits over and above the costs of production. To remain competitive, other firms are forced to learn and adapt these improvements within their own operations. When they do, a new equilibrium is realized, ending the period of monopoly rents for the leading firm (Grossman and Helpman 1991). Investments in innovation and technology vary between industries. Some firms must invest in new designs to get the next generation of products to the market, as there is little demand for old products. For example, tablet computers have reduced the demand for scientific calculators, which earlier displaced slide rules. Firms engaged in aerospace, pharmaceuticals, and information technology must keep up with their competitors. Yet the pressure is somewhat less intense for firms engaged in forestry, health care, or food services.

Exogenous Agenda Setting

Knowledge is also a public good. The market is expected to under-invest in research due to indivisibility, uncertainty, and externalities associated with the creation of new knowledge (Arrow 1962). Some benefits accrue, not to the firms that underwrite research, but to others that copy or use the knowledge derived from it (Helpman 2004). Firms have an incentive to invest in near-market research, yet little incentive to invest in research that cannot be easily captured or utilized. Thus the state has a role to play correcting market failure, funding research that is valuable to the economy and society, but for which the market does not provide an incentive.

Historically, the state has been a strong supporter of research. Such investments could be characterized as an expression of national prestige for being at the forefront of world knowledge. Looking at the United States, Slaughter and Rhoades (1996) describe research funding policy up to the 1980s as an era of Cold War science under a Keynesian welfare state. The policy narrative used to justify research funding was based on winning battles against communism and specific diseases. Although the National Science Foundation continued to

respond to curiosity-driven research, the majority of science funding was directed through mission-oriented agencies.

Innovation came to be appreciated as evolutionary. Historical decisions to fund one direction over another can open or close future opportunities to advance knowledge. The implication is that different investments can lead in fundamentally different directions, thus firms and governments need some means of determining which direction is more desirable. Over time, influence over the innovation agenda shifted from inside the scientific community and expert opinion (endogenous) into the realm of business strategy and public policy decision (exogenous). This shift has been strengthened by changes in policy instruments and institutional arrangements used to fund innovation and technology.

Funding Inputs or Rewarding Outcomes

Firms and governments face pressure to rationalize their expenditures, which requires them to know more about the effectiveness and efficiency of the activities they fund. As the UNESCO (2010) assessment of world science notes: "in a context of shrinking public funds, politicians and decision-makers sometimes question whether the . . . research they support is relevant to current public issues, and regret the lack of evidence to inform their policy decisions. In brief, they wonder whether they 'get value for money'." A new governance of innovation and technology has emerged that is characterized by market-oriented funding and goals negotiated among policy-makers, stakeholders, and research "consumers." Whitley and Gläser (2007) note that OECD countries have increased ex-post evaluation of how funded research contributes to strategic objectives. Funders must demonstrate the value of their work, not only in terms of scientific excellence in the eyes of peers, but in terms of its cost-effectiveness, as well as its utility, impact, and relevance to others.

Generic calls to demonstrate "value for money" gloss over potentially incommensurable ways of understanding the utility of innovation and technology. Research can be perceived as a production process and assessed according to the quantity and quality of its outputs. Yet society is arguably more concerned about getting a cure for cancer than having a large number of articles written about it. Rip (2003) suggests there is already a move away from a narrow focus on quality, economy, efficiency, and effectiveness, toward a new interest in the appropriateness of past actions, performance improvement, and strategy development. It is notoriously difficult to demonstrate a return on investment when dealing with complex problems. There is not a simple linear pathway from spending to outcome for many development challenges, such as reducing hunger or improving public health. Instead, the pathways through which innovation and technology can affect change are varied and intricate. What works in one context cannot necessarily be applied in another; for example technologies such as vaccination are less effective in resource-poor settings that lack electricity and refrigerators, or when people are simply unaware of the benefits or suspicious of the risks involved.

Looking Ahead

The chapters in this section provide different perspectives on a renewed interest in applying innovation and technology to international development, as a motor of economic growth and addressing the needs of the poorest members of society. Michele Di Maio (Chapter 32) reflects on the rise, fall, and return of industrial policy over time, noting variation between different regions of the developing world and how contemporary opportunities differ from past decades. José E. Cassiolato, Marcelo de Matos, and Helena Lastres (Chapter 33) trace the origins and evolution of innovation theory, distinguishing between a narrow perspective of science and technology, and a broad perspective of economic growth. Bo Göransson, Judith Sutz, and Rodrigo Arocena (Chapter 34) identify historic ideas on the role of universities, and contrast two models of the university: as a marketplace of skills and innovation for industry, and as contributing to development by solving social challenges. David Brook, Peter Singer, and Caitlyn MacMaster (Chapter 35) describe an evolution in financial mechanisms, moving from grants to stimulate ideas, to prizes and entrepreneurial approaches intended to encourage and scale innovation. Finally, Ronaldo Lemos and Joana Ferraz (Chapter 36) examine the recent history of information and communication technologies for development (ICT4D), which has turned to new business models, defining how connectivity empowers poor people, and new challenges of protecting rights and freedoms.

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CHAPTER 32

INDUSTRIAL POLICY

MICHELE DI MAIO[1]

Introduction

Industrial policy is one of the most controversial issues in development economics. There are several reasons for this. First, there is no agreement on the exact definition of industrial policy. This is obviously quite problematic, because the accepted definition determines the answers to such important questions as whether the use of industrial policy is theoretically justified, what its objectives should be, which measures should be considered part of it, and what its effects have been in both developed and developing countries. Second, the theoretical justification of industrial policy—at least in its most basic version—is based on the existence of some type of market failure. This implies that industrial policy needs to be analyzed in the context of models of imperfect competition and incomplete markets, and thus requires a set of mathematical instruments that, until quite recently, were not common among economists. Third, the analysis of industrial policy is at the crossroads of different research fields, including economic history, development economics, and political science. Finally, and not surprisingly, it is a highly sensitive political topic.

The last decade has witnessed renewed interest in the use of industrial policy as an instrument to favor structural change and foster economic growth and development. This is especially true with regard to developing countries. Interestingly, the emerging discussion now focuses on how industrial policy should be designed rather than whether it should be used (Rodrik 2004; Aghion 2012).

This change of perspective is quite impressive considering that twenty years ago the term "industrial policy" was virtually absent from political and economic discourse and development strategy documents. There are two main reasons for this change. The first is the criticism that has been growing in the last decade against the Washington Consensus approach, motivated by its quite disappointing results as a strategy for economic development. The second is that the debate concerning the pros and cons of industrial policy is now far less ideological than in the past. In fact, new issues (as well as old ones) are at the center of the current debate, but the discussion is now better informed because of the availability of more extensive empirical evidence and improved theoretical analysis.

This chapter is intended to provide a concise but comprehensive discussion of the concept of industrial policy. The chapter focuses on the history, characteristics, results, and evolution of industrial policy in developing countries. The chapter begins by comparing the different possible definitions before describing how approaches changed over time: the early Developmental State as a golden age; the Washington Consensus era abandonment; and the current return of industrial policy. The chapter then considers the performance of industrial policy in different regions and countries, and describes how external conditions have changed in the last decade and shaped the characteristics of the new industrial policy.

Defining Industrial Policy

There are several possible definitions for industrial policy. It can be safely argued that part of the disagreement among economists and policy-makers regarding its pros and cons is indeed due to a lack of clarity about its definition. This is why the starting point of any discussion must be—or should be—a discussion of what is meant by industrial policy. More specifically, what are its objectives and what measures are part of it? Some scholars associate industrial policy with the set of government policies directed to developing the manufacturing sector only. For instance, the World Bank (1993) considers it as "government efforts to alter the industrial structure to promote productivity-based growth," and Pack (2000) defines it as including "actions designed to target specific sectors to increase their productivity and their relative importance within manufacturing."

Other definitions include a broader set of objectives, such as enhancing productivity, competitiveness, and overall economic growth. For instance, according to Pack and Saggi (2007), industrial policy is "any type of selective intervention or government policy that attempts to alter the structure of production toward sectors that are expected to offer better prospects for economic growth than would occur in the absence of such intervention." According to Curzon Price (1981), it comprises "any government measure to promote or prevent structural change." Since one important cause of structural change is international trade, industrial policy is sometimes referred to as policies to "defy" the country comparative advantage and develop its "latent" advantages (Amsden 2001; Chang 2002). It should be noted that these definitions also include measures that are not specifically (or only) directed to industry or manufacturing. Industrial policy may in fact be directed to other sectors which the government expects to have high growth potential, such as non-traditional agricultural products or high-value service activities like software development and tourism (Rodrik 2007; Altenburg 2011). Finally, industrial policy is sometimes given the more ambitious objective of shaping structural change in ways that are socially inclusive and environmentally sustainable (UNIDO 2011).

The more general the objective, the larger the set of measures that are considered part of industrial policy. For instance, according to Cimoli, Dosi, and Stiglitz (2009: 107–43), industrial policy includes targeted industrial support as well as policies related to trade, regulation, innovation and technology, education and skill formation, and sectoral competitiveness. The various combinations of these measures characterize the different industrial policy packages. It follows that each industrial policy model could be ideally located on a continuum

ranging from hard to soft, where the hard end includes interventions that distort prices while the soft end includes interventions that deal with coordination problems (Harrison and Rodríguez-Clare 2010). Somehow different is the approach of Rodrik (2007), who defines industrial policy as a process involving a "dialogue" between the state and the private sector to generate information for identifying and removing the binding constraints to development.

While it is important to acknowledge these different possible definitions, this chapter considers industrial policy as framed by the peculiar role of the manufacturing sector within development.[2] Thus, industrial policy is the set of government measures—targeted at specific industries or firms—intended to support the development and upgrading of industrial output. This definition of industrial policy includes the large set of policies described by Cimoli, Dosi, and Stiglitz (2009).

Arguments For and Against

The economic literature on the justification, limits, and effects of industrial policy (IP) is quite extensive. Therefore, this section will briefly present only the main arguments. The theoretical justification for IP is based on the fulfillment of three conditions (Harrison and Rodríguez-Clare 2010): some market failure is present; the firm/sector is potentially competitive in the international markets; and the discounted future benefits of intervention exceed the costs of the distortion. There are two main arguments against the use of IP in developing countries. The first is that, even in the presence of highly imperfect markets, there is no reason to suppose that the government has better access to information with respect to the market. Since government information is necessarily limited, good selectivity is impossible, which implies—for instance—that the "picking winners" strategy is doomed to fail (see, e.g., Pack and Saggi 2007). A second argument against IP comes from the literature on rent-seeking and corruption (see, e.g., Krueger 1974, 1990). The basic idea is that since any government measure (e.g., import licences, investment permits, etc.) creates rents, firms find it profitable to (legally or not) invest their resources to obtain them. This is a wasteful activity that also distorts the allocation of resources because it makes competition between firms unfair.

In particular, economic theory has shown that government intervention is optimal in the presence of one of the following market failures. The first is the existence of an *informational externality* related to the difference between the private and the social benefit in exploring the profitability of a new activity (see Hausmann and Rodrik 2003). The (partial) socialization of investment risk through government intervention makes private and social returns converge. The second is a situation of investment *coordination failure*,[3] which emerges when—because of a lack of required investments in related actives—private sector investment is sub-optimal. The third is the existence of a *positive* (demand, production or technology) *externality*.

The mainstream approach mantains that the optimal industrial policy should be determined by comparing the magnitude of market failures and government failures. A different perspective on this issue is the view that the debate on the pros and cons of industrial policy

should go beyond the discussion about the respective roles of the State and the Market. In fact it is crucial to acknowledge that industrial policy has a very specific domain of intervention, namely, industry and manufacturing. Thus, the justification of IP can be found in the fact that manufacturing has a special role in the development process: it is a historical regularity that sustained economic growth is associated with industrialization, in terms of growth in manufacturing employment and value added (Maddison 2001; Szirmai 2011). The strategic role of manufacturing in modern economic growth is usually ascribed to the presence of increasing returns and technological spillover effects, high capital intensity, strong and numerous forward and backward linkages, high elasticity of demand, and higher employment potential with respect to the other sectors. These factors have been used—in a variety of combinations—to justify industrialization, considered as a necessary stage of economic development. The next section discusses the characteristics and the historical evolution of industrial policy as the instrument used by the governments of developing countries to achieve industrialization.

Industrial Policy in Historical Perspective

Industrial policy has a long history. Governments of both developed and developing countries have widely adopted targeted interventions to support industrialization. For instance, governments played an active supporting role in the industrialization of the UK, the U.S., Germany, and Japan during the nineteenth and twentieth centuries (Landes 1970). Following the end of the Second World War, governments of newly independent countries started to intervene in the economy to favor industrialization as a strategy to spur their catching-up process. Government intervention took different forms, from complete economy-wide plans to various combinations of trade policies, production subsides, direct credit allocation, and use of state-owned enterprises (SOEs). In this, developing countries were actually doing what developed countries did during their development process (Reinert 1999).

This section provides a brief historical overview of the experiences of developing countries in East Asia, Latin America, and Africa during the last fifty years. The section begins by describing some aspects of industrial policy during the Developmental State period, in particular its content in the different countries, the results flowing from it, and why these results varied widely. Next, we discuss how the Washington Consensus approach influenced the use of industrial policy in developing countries.

The Developmental State Period

The literature on the historical experiences of developing countries with industrial policy is extremely vast.[4] Therefore, this chapter can provide only a brief description of the actual content of industrial policy in those countries, emphasizing similarities and differences while recalling that countries have sometimes implemented similar measures in very different ways. In the following, measures are grouped according to the domains of intervention included in our definition of IP (see Section "Defining industrial policy"). While this categorization provides clarity, it should be noted that industrial policy is something more than and different from the sum of the government interventions in the different domains.

Trade Policy, Import Substitution, and Export Promotion

Trade policy affects the degree of international competition to which firms are exposed. This contributes to the profitability of different production activities and thus plays an important role in influencing firms' investment decisions. Trade policy was a key part of the import substitution industrialization (ISI) pursued by several countries between the 1950s and 1970s. There are several reasons why ISI policies were popular. The first and most important is that industrialization was believed to be necessary for development and that infant domestic industries needed (temporary) protection. The idea was that free trade would increase the economy's dependence on the export of commodities that were expected to suffer declining prices over time (Prebisch 1950).

While initially the use of a protectionist trade policy was commonplace, some countries soon started differentiating their strategies. In South Korea import protection was already coupled with export promotion in the 1960s. Import protection was high, prolonged, and selective, but at the same time, export performance was used as the disciplinary device for both firms and bureaucrats (Amsden 1989). Firms were given subsidies and the right to sell in the protected domestic market under the commitment to export. In Taiwan the government extensively used tariffs and quantitative restrictions, while exporters were given preferential tax treatment and access to credit on favorable terms. Latin American governments largely used protectionist trade policies as part of their ISI strategy, but they were not coupled with incentive schemes to promote export and domestic competition.

The implementation of active export policies has been—with the partial exception of Brazil—much more limited. Immediately after independence, African countries also started a process of industrialization through import substitution. In most of the cases, governments offered protection to domestic firms with little discrimination between activities, no time limit, and no requirements of international competitiveness (Mkandawire 2001).

Targeted Sectoral Measures, Development Banks, and Fiscal Incentives

A basic assumption of the ISI strategy was that some sectors were strategic for the economic development of the country. This was the justification for a number of measures that governments provided to targeted sectors. While almost any government has selectively supported targeted sectors, the degree of selectivity and the degree of direct State intervention have been very different. For instance, India followed the example of the USSR and adopted a strategy based on massive public investments in heavy industry, the state-imposed coordination of investment decisions in both the public and the private sectors, and the bringing of certain strategic industries and firms under public ownership (Singh 1995). In East Asia, on the other hand, it was common for governments to identify priority sectors to be selectively supported but, in contrast to what happened in many countries, the economic initiative remained mostly private sector-led.

Control of the financial sector was another key aspect of the Developmental State approach to development. In many cases, the State nationalized the banks and other financial institutions and created national development banks to influence the private sector investment decisions (Soludo, Ogbu, and Chang 2004). The development bank provided discretionary credit lending to specific sectors and firms, playing a crucial role in funding technological

accumulation and export growth (giving exporting firms access to long-term subsidized capital) (Amsden 2001). Governments used development banks to condition the firms' behavior by providing loans conditional on the fulfillment of certain requirements that were sometimes even firm-specific. These conditions were particularly severe in South Korea and Taiwan (Amsden 1989; Rodrik 1995; Lall 2003), while they were much less clear and demanding in Latin American countries.

Competition and Regulation Policies

Governments have used several measures to influence the market structure of their domestic economy. For instance, in South Korea, beginning in the 1960s the government reduced domestic competition for selected firms in exchange for their commitment to export (see Amsden 1989). In India, the government used a strict licence system to regulate the entry into selected sectors to avoid large firms competing with small ones in the same market. The objective was to preserve some market share for small household firms and avoid rising economic inequality associated with industrialization (Kapur, this volume). In other cases, governments intervened to reduce monopolistic situations so as to decrease costs (of inputs and services) for manufacturing firms and favor their competitiveness in international markets.

Innovation and Technology Policies

The role of the State in the knowledge accumulation process has been preeminent in many countries (Katz 2000; Cassiolato, de Matos, and Lastres, this volume). Governments made an effort to stimulate the domestic production of technological knowledge (Alcorta and Peres 1998). The commitment of governments to technological development has been particularly strong in the East Asian Tigers (South Korea, Taiwan, Hong Kong, and Singapore). From the early 1960s, the South Korean government supported domestic technological upgrading in several ways. The import of technology was strongly subsidized and public funds to finance domestic technological innovation were created. Similarly, in Taiwan the import and diffusion of advanced technologies among domestic firms was subsidized, and science parks and technology clusters were created to improve technology accumulation. Governments of East Asian Tigers acted as venture capitalists and pioneers, especially in high-technology sectors such as informatics, semiconductors, and telecommunications, when the private sector was unable to develop the necessary capabilities. In fact, accumulation of technological capabilities in East Asia was also stimulated by high-quality government demand (for South Korea, see Amsden 1989; for India, see Singh 1995).

Education and Skill Formation Policies

Education and skill formation policies are a necessary complement to technology and innovation policies. For instance, education policies were crucial in the experiences of Germany and Japan at the end of the nineteenth century. Similarly, they have been a fundamental part of the development strategy of latecomers after the Second World War. But the experiences of East Asia and Latin America have been considerably different in this respect. The East Asian Tigers invested heavily in education and technical training, implementing numerous

public policies with the objective of improving the scientific education indicators and creating an education system strongly biased in favor of technical degrees (Kim 1993). The Indian government's intervention in supplying high-quality education (especially engineering) has been a fundamental ingredient of its industrial policy. Latin American governments tried to support high skill formation as part of their ISI strategy, with Brazil among the most active in this area. While the general education level increased, the improvement in technical and scientific education in the region was much more modest than in East Asia.

The Results of Industrial Policy during the Developmental State Period

The debate on the effects of IP during the Developmental State period is still open. The reason is that IP is predicated to be the cause of both impressive successes and spectacular failures. While there are theoretical arguments in favor of it, the critical question remains: Does industrial policy work in practice?

This question is not easy to answer, given the high heterogeneity among the different regional and national experiences. In some cases, the government played a direct leading role in the industrialization process. There was widespread public ownership of industry: public investment was extensive and a number of firms were nationalized. In other cases, the government merely provided incentives to the private sector, which acted as the prime engine of the industrialization process. Furthermore, the same policies have been used by different countries in very different ways.

Analysis of the effectiveness of industrial policy can be grouped into three categories (Rodrik 2007; Harrison and Rodríguez-Clare 2010). The first group of studies focuses on the analysis of one specific industry that has received some kind of support. Most of these studies analyze the effect of protectionist trade policies, and generally show that protection leads to higher growth but that the net welfare effects are negative (see, for example, Head 1994; Luzio and Greenstein 1995).

A second group analyzes whether (more) supported industries exhibit faster growth. Here also, most of the studies have focused on trade protection. The evidence is mixed[5] and no study is able to show a causal link between protection and economic results. In general, trade protection seems to have been granted to protect a special group or to generate tariff revenues rather than as part of an industrialization strategy (see Lee 1996; Goldberg and Maggi 1999). At the same time, the historical experiences of the East Asian Tigers clearly show that trade protection is not per se harmful to growth. On the contrary, one of the keys for the success of these countries has been the mix between openness and protection (e.g., opening some markets to international competition while keeping others closed) (Amsden 1989).

Finally, a third group of studies attempts to evaluate the effects of IP using the cross-country approach. Again, most of the studies have focused on trade policy. Interestingly, some of these studies find a positive correlation between import tariffs and economic growth across countries during the late nineteenth century (O'Rourke 2000; Chang 2002)—as occurred in the U.S.—which emerged in the nineteenth century as economic leaders in conjunction with high domestic tariffs.

In an attempt to summarize the evidence, it would be fair to say that the results of IP under the Developmental State are mixed. While the results were remarkable for East Asian

countries,[6] they were mixed in Latin American countries and were almost everywhere a failure in Africa. This said, there are few doubts that government intervention has been crucial for most of today's developed countries during their economic takeoff. For instance, it is rather difficult to identify cases of current export successes that did not involve government support at some early stage. Among these, the most notable are POSCO in South Korea, EMBRAER in Brazil, the salmon industry in Chile, and the ICT revolution in India, with the first two being clear examples of import substitution under public ownership, the third a case of the success of a quasi-public agency acting as a venture fund, and the last—at least in part—the result of decades of investment in high education (Singh 1995; Rodrik 2007). Still, beside these successful cases, there are numerous—and in some cases enormous—failures.

Why Results Differ across Countries

At the end of the 1970s, the divergence in the growth rates between East Asia, Latin America, and Africa began to increase significantly. The orthodox view explains it as the result of two different development strategies: a successful, market-friendly, export-led model in East Asia as opposed to a failing, state-led ISI strategy in Latin America and Africa. In this account, the role of the State in the "Asian Miracle" is very marginal: the government set the rules to favor export growth and allowed the markets to work freely. Those economies were then able to automatically take off. Selective industrial policy was absent, and other types of government interventions—when in place—were if anything an obstacle to growth (World Bank 1993; Pack and Saggi 2007). Instead, Latin American countries had poor economic performance because they implemented the ISI strategy and used industrial policy extensively to support their industrialization process. This is the view that has long prevailed in the profession.

An alternative view argues that the Developmental State was common to all three regions. The reason industrialization results have been so different is that East Asia adopted a different model of the Developmental State with respect to other developing countries and it modifed that over time. In fact, different countries have implemented similar policies in radically different ways. It is now a shared view—emerging from the vast literature on the East Asian Tigers—that the recipe for their success was the effective combination of incentives with discipline (Amsden 2001; Hausmann and Rodrik 2003). The former were provided through subsidies and protection, while the latter was obtained through direct and indirect government control of economic activity (for instance, using export performance as a selection and monitoring device for both entrepreneurs and bureaucrats). Another peculiarity of the Development State in East Asia was its "embedded autonomy" (Evans 1995). It was a "strong State" and thus able to promote industrialization because it was (at least partially) autonomous from social forces that might oppose industrial policy. At the same time, the State created some beneficial interactions with the entrepreneurial elite that allowed it to promote industrialization.

According to Lall (2003), the main characteristics of the East Asian economic model are: strict selectivity and time-limited government intervention; the temporary use of public enterprises to enter risky sectors; massive investment in skill creation and infrastructure; centralization of strategic industrial decisions in competent authorities; and highly selective use of foreign direct investment.

The first element is particularly important. Governments in East Asia provided stable and predictable incentive schemes and were able to withdraw support whenever they wished. As in any other country, industrial policy did create inefficient firms; yet here, unlike what happened elsewhere, the State was able to withdraw support whenever a firm's performance was not satisfactory. The selecting devices for receiving targeted support were the exporting performance and the domestic competition. Finally, it should be acknowledged that while there are similarities, there are also important differences between the experiences of the different East Asian Tigers. For instance, government intervention was widespread in South Korea and Taiwan, and much less relevant in Singapore and Hong Kong. Moreover, while both South Korea and Taiwan invested heavily in the development of domestic innovation capabilities, for Singapore and Hong Kong the main technology policy was always to attract foreign direct investment (see Lall 2000).

The Developmental State was much less successful in Latin America. The industrialization strategy and the specific industrial policy adopted were indeed very different from the ones in East Asia: this difference can be summarized by saying that firms in Latin America received incentives similar to those provided to firms in East Asia, but they faced much less discipline. An interesting example is how regulation and competition policies modified the domestic market structure. These policies were common to many developing countries but their results were quite different in the two regions. While in East Asia these policies created an environment favorable to the exploitation of economies of scale and increased firms' efficiency, in Latin America they mostly only generated a protected domestic market for inefficient local firms. Other relevant differences between the two models can be summarized as follows: Latin America adopted an "anti-export" version of the ISI strategy; there was a lack of government capabilities; and investments in education, science, and technology innovation were much more limited than in East Asia.

In Africa, attempts at industrialization generally fared poorly. While there are some success stories (such as Mauritius, Botswana, Madagascar, and Kenya), in most cases ISI strategy was a failure. UNCTAD (2007) identifies two possible interpretations. The first argues that the Developmental State could not succeed because of the inability of the African States to design and implement an effective industrial policy. In contrast, the second interpretation emphasizes that the Developmental State collapsed because of the inability of the ISI to adjust to changes in external conditions. To these one can add the political dimension. Robinson (2009) argues that industrial policy has been successful only when those with power wanted industrialization to succeed, or have been forced to act in this way by the incentives generated by political institutions. Apparently, these conditions were not always met in Africa.

The Debt Crisis and the Washington Consensus

The process of differentiation between the three regions reached its climax in the 1980s. While East Asia continued its rapid growth, Latin America entered the "lost decade" caused by the external debt crisis, and Africa entered a long period of economic difficulties.[7] At the beginning of the 1990s, Latin America had become the laboratory for the implementation of the most orthodox version of the Washington Consensus policies (see Stallings and Peres 2000), while in much of Africa, Structural Adjustment Programs (SAPs) were in place.

This was a dramatic change for the two regions. The implementation of the Washington Consensus in Latin America was characterized by economic reforms—including trade liberalization—that eliminated the ISI apparatus and drastically reduced the measures to support industrialization. Something very similar happened in Africa, where through the SAPs the World Bank exhibited its "deep-rooted anti-industrial-policy position": one of the objectives of structural adjustment was indeed to eliminate any selective industrial policy measures (Mkandawire and Soludo 1999). While IP was eliminated from the political and economic discourse in both regions, governments nonetheless continued to implement it under other names (Melo 2001). In the meantime, the rules of the game and the economic environment changed, posing new challenges to the industrialization attempts of developing countries.

New Rules, Competitors, and Challenges

To better understand the current difficulties of developing countries in their attempt to industrialize, one must first consider how the world economy has evolved over the last three decades. There are two differences which are most relevant with respect to the past: new rules of the game and a new international division of labor.

The rules of world trade have changed significantly. The growing number of multilateral, bilateral, and regional trade agreements has increasingly restricted the policy space available for using trade policy as an instrument to promote industrial development, especially for non-Least Developed Countries (non-LDC). For example, protectionist trade policies are now prohibited by the World Trade Organization (WTO) for all non-LDCs. The WTO rules are also progressively forcing countries to reduce export subsidies (and also the establishment of export processing zones) and subsidies for the use of domestic (rather than imported) inputs. Local content requirements and quantitative restrictions on imports are now banned too (Tussie and Quiliconi, this volume).

These changes have caused some concern, because trade policy—including import protection and export promotion measures—was a fundamental instrument of industrial policy during the Developmental State period.[8] In practice, developing countries are nowadays not allowed to use the measures employed by advanced economies during their industrialization period.[9]

While the rules have changed significantly, this does not mean that trade policy can no longer be used. The WTO rules still allow all countries to use trade policy interventions in the form of selective subsidies to promote domestic research and development (R&D), regional development, and environment-friendly activities. Moreover, governments can selectively promote science and technology activities, in particular by subsidizing private and public R&D. This indicates that there is still some room for policies to support industrialization, but governments should design industrial policy, particularly trade policy, so as to take the new constraints explicitly into account.

A second important change concerns the characteristics of the global economic environment, particularly a new international division of labor. The level of competition in global markets has increased enormously with the emergence of new world-level economic powers such as China, India, and Brazil. As world leaders in labor-intensive manufacturing, these

countries have significantly reduced the market for other emerging countries traditionally specialized in those products. This new competitive environment requires that industrial policy include a different set of instruments and measures from the ones used in the past. Since industrialization can no longer be expected to be obtained through infant industry protection or nationalization of foreign firms, IP should be designed to support diversification and production upgrading of firms. Indeed, the new international division of labor obliges firms from developing countries to meet increasingly stringent standard and quality requirements in order to participate in global value chains. It is clear that to achieve this objective, an updated IP is required.

The world economy has dramatically changed since the Developmental State period, and since the decades of the Washington Consensus. The main issue is no longer to understand if and how "old" policies will fit the "new" world. The magnitude of the changes that have taken place in these decades has created the need for a new approach to industrial policy.

Elements of the New Approach

The concept and application of industrial policy have evolved over the last two decades. Recently the literature has moved from discussing whether or not governments should use industrial policy to discussing how to design and implement it effectively. There is an increasing consensus among scholars on the elements that should characterize this new approach to industrial policy (Rodrik 2007; Lin and Chang 2009; Di Maio 2009; Asche, Neuerburg, and Menegatti 2011).

Public–Private Dialogue

The dialogue between the government and the private sector is crucial in order to identify distortions, bottlenecks, and weaknesses to be addressed by IP. The central role of the private sector in the design and implementation of IP suggests the need for a proper consideration of its specific characteristics. Dealing effectively with the private sector implies the acknowledgment of its heterogeneity within and between countries. After having put much effort into learning about the strengths and weaknesses of governments, we should now learn more about the private sector, which ultimately is the target/recipient of IP. It follows that a highly tailored assistance to entrepreneurs is needed in an increasingly complex environment where the challenges are context-specific, country-specific, and even firm-specific.

Awareness and Information

To be effective, industrial policy needs to provide a set of monetary and non-monetary incentives to induce firms to enter new sectors and improve their current production. To this end, the first step is to make entrepreneurs aware of the availability of support measures, their content, and the way to access them. It is not uncommon for industrial policy to fail simply because local entrepreneurs are unaware of its existence. It is also crucial that its results—even if negative—be made public, in order to make credible the commitment of a government that

has declared itself willing to support the manufacturing sector. In particular, it is important that any positive results of IP be properly disseminated, in order to provide a signal to entrepreneurs that it may be useful to apply for the support measures despite the cost.

Coordination

Industrial policy includes measures belonging to different domains of intervention that cannot be considered in isolation: complementarities need to be taken into account. It matters not only what measure is implemented, but in what context and in what policy mix. It follows that a comprehensive policy framework is needed to implement IP effectively. While this consideration may appear obvious, it should be noted that policy coordination across governmental agencies often faces enormous challenges in developing countries because of political economy considerations and lack of human and financial resources and capabilities.

Transparency and Accountability

Industrial policy should be clear as to which specific measures are included and who is responsible for what. This serves two purposes: it reduces the possibility of rent-seeking activities, and it clarifies responsibilities as well as incentives for bureaucrats. Industrial policy has a strong selective component that can be justified only if the process behind its design and implementation is transparent and the government is considered responsible for it.

Evaluation

A crucial component of a successful industrial policy is a monitoring and evaluation mechanism. The evaluation of policy measures can be very complicated because it is difficult to decide what has to be measured and how to measure it. Yet there is no doubt that policy evaluation is crucial, because it provides information that can be used to improve the policies. Without evaluation, there is no mechanism for adjusting and correcting the policies in response to changing circumstances.

Industrial Policy as a Process

Industrial policy is not only a set of measures, but a process through which the government learns which policy mix is optimal given the current and expected future economic situation (see Rodrik 2007). This is why, while the past and current experiences of other countries can provide some insights, each country must find its own way in designing its industrial policy. The dynamic nature of the determining optimal policy implies that its content and objectives need to be continuously re-evaluated and updated—considering the results obtained—under the constraints provided by the available resources and capabilities.

While these are general elements that should characterize IP, the new approach also explicitly recognizes that policies cannot abstract from the current economic situation of the specific country—in other words, from its production structure. This obviously means that IP should be designed to consider the available capabilities both in the government and in

the private sector. As a minimizing failure rule (safety rule), current available capabilities should guide the type and extent of IP to be carried out. In addition, IP should be modeled in accordance with the characteristics of entrepreneurship in the specific country. To be successful, the new approach needs to consider all these elements together.

Conclusion

After a long hiatus, IP is making its way back onto developing countries' agenda. In recent years, a large and increasing agreement is emerging that strengthening industry, particularly manufacturing, is the condition required to benefit from world trade and foster economic growth and development. This renewed interest in industrial policy follows from that, and IP is once again being viewed as a potentially effective instrument in inducing structural change and the growth of manufacturing.

Industrial policy is back but the world economy and the rules of the game have changed. This implies that a new approach is needed. The recent literature agrees that there is no single recipe for the optimal industrial policy. Rather, the emerging consensus is that effective industrial policy needs to be a mix of common practices and country-specific measures in which past experiences and domestic experimentation are both essential components.

While the economic literature on IP is vast, there is still much to be learned in terms of both theory and empirics. One aspect concerning theory that needs to be further explored is the political economy of industrial policy. The history of a country, its economic characteristics, and the political environment all determine what type of industrial policy is feasible and possible to implement. While some contributions have already opened this Pandora's box, there is still much to learn about how the political equilibrium and other country-specific characteristics interact with industrial policy. As for the empirics, a promising approach is the use of randomized controlled experiments. Even if there are still very few such analyses, this approach—if coupled with the precious knowledge coming from detailed case studies and cross-country comparative analysis—could significantly improve our understanding of the characteristics of an effective industrial policy. This would be a very important achievement since, now more than ever, a better understanding of the theory and empirics of IP would contribute to designing better strategies for development.

Notes

1. I extend my sincere thanks to the editors, contributors, and Philipp Neuerburg for useful comments on a previous version of the chapter.
2. Szirmai (2011) provides empirical evidence on the fundamental role of the manufacturing sector in the process of development.
3. Rodrik (2004) notes that direct support is not always necessary to solve this type of market failure.
4. Key references include Rodrik (1995, 2004, 2007); Amsden (2001); Wade (2003); Soludo, Ogbu, and Chang (2004); Cimoli, Dosi, and Stiglitz (2009); Lin and Chang (2009).

5. It is very instructive to see how different are the conclusions reached by Krueger and Tuncer (1982) and Harrison (1994).
6. There is an extensive literature suggesting that the Developmental State has been quite successful in inducing industrialization in East Asia, where the level of industrialization in the 1950s was lower than in Latin America (Amsden 1989, 2001; Wade 2003).
7. On the origins and causes of the African debt crisis, see UNCTAD (2007).
8. Similarly, the TRIPS agreement is making it increasingly difficult for developing countries to access advanced technology since it forbids copying and reverse engineering, two activities that have been important for technology accumulation in developing countries during the Developmental State period (see, e.g., the South Korean case) (Amsden 2000).
9. Note that these concerns may be somewhat misplaced. In fact the evidence on the positive effect of trade restrictions on manufacturing growth is at best mixed. For instance, the results of protectionist trade policy per se on domestic technological accumulation has in general been quite poor in most developing countries (Rodrik 2004).

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CHAPTER 33

INNOVATION SYSTEMS AND DEVELOPMENT

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Introduction

From the 1950s to the 1970s the central preoccupation of the international research and policy agenda was to deal with the challenges posed by underdevelopment. During this period, structuralism was one of the main theoretical frameworks shaping the debate on the issue. Though there are many differences within this line of thought, its contributors did agree about the significant differences between countries. Some authors went even further, arguing that structural inequalities in economic and geopolitical relations were the main cause of underdevelopment. Other consensual points were that government intervention would be required to promote the structural changes necessary to overcome backwardness, and that knowledge and policies specific to the different realities would be needed.

One of the key authors of the Latin American structuralist school, Celso Furtado, argued that true development—not the economic growth that arises from mere modernization of elites—exists when there is a social project behind it. Only if there is a predominance of forces fighting for effective improvement of living conditions of the population will growth turn into development. For Furtado, the essence of development lies in the transformation of national economies where its structural complexity is manifested in a diversity of social and economic forms. Such transformation refers to structural changes in the internal relations of the economic and social system that are triggered by capital accumulation and technological innovations (Furtado 1961: 103).

The development agenda's emphasis on the connections between structural change, social conditions, and innovation changed dramatically in the late 1970s as a crisis—which combined stagnation, inflation, and unemployment—arose in developed countries and spread throughout the world. This had a parallel with the diffusion of orthodox monetary-based economic thinking, which became the hegemonic paradigm throughout the 1980s and 1990s. The leading proponents of what Toye (1987) has called the counter-revolution in development theory and policy introduced a radical neo-liberal agenda in which "development practically

disappears as a specific question, [remaining] only as the welfare achieved by the elimination of obstacles to market functioning" (Arocena and Sutz 2005: 16). The basic premise was that underdevelopment is simply the result of bad allocation of resources and that it is caused virtually exclusively by government intervention (distortion of prices and over-dimensioned public sectors). This reduced the complex problem of underdevelopment to a matter of simply following some basic economic "recipes" (get the prices right, get the property rights right, get the institutions right, get the governance right) based on emulating Anglo-American institutions throughout the world (Chang 2002). Recent efforts to articulate mainstream economic theory with some structuralist elements have also fallen short. Besides maintaining a perspective of static comparative advantages,[1] it does not demonstrate a significant understanding about the knowledge, technology, and processes involved in structural change.[2]

Significant difficulties remained in understanding the characteristics and changes of the present accumulation regime, marked by the growing intensity and complexity of knowledge and its increasing incorporation in goods and services, together with the acceleration of the process of globalization and "financerization." These limitations are even stronger with respect to understanding the challenges and opportunities faced by less developed countries (LDCs) and the resulting policy prescriptions. Most critical is the fact that thirty years of liberal policy experimentation led to a more divided world, with the gap between rich and poor widening.

In the same timeframe of the last thirty years, a fruitful alternative to the neo-liberal consensus was unfolding internationally, benefiting also from many insights provided by the development structuralist literature. It emphasized the role of innovation as an engine of economic growth and the long-run cyclical character of technical change. Freeman (1982) pointed out the importance that Smith, Marx, and Schumpeter attached to innovation and accentuated its systemic and national character. He also stressed the crucial role of government policies in coping with the uncertainties associated with the upsurge of a new techno-economic paradigm and the very limited circumstances under which free trade could promote development.

Since then the innovation systems (IS) framework—a comprehensive understanding of the processes by which societies and economies learn and acquire capabilities both to produce and to innovate—has been increasingly used for analyzing and orienting industrial and technological development. Today, research and policy activities explicitly focusing on innovation systems can be found in most countries.

This chapter provides a discussion of the connection between development and the IS framework. The following sections summarize how the concept of innovation systems evolved over thirty years, examine the connections between the IS framework and development thinking, and present an overview of applying the IS framework to address development challenges.

Innovation Systems: The Evolution of the Concept

From Innovation to Innovation Systems

Innovations are increasingly recognized as central driving forces of the transformation of economic structures and of development. Building upon the analysis of Adam Smith and

Karl Marx, Joseph Schumpeter explicitly incorporated innovation as a central variable in economic analysis. In fact, technology and technical change were important parts of the post-war debate on development. Schumpeter's concept of development contributed to this debate with two central ideas: the connection of technology with production, and the disruptive character of development.

The first idea relates innovation with economic agents, leading to the generation of new products and processes or the establishment of new markets. The second idea encompasses the understanding that the evolution of the economic system is marked by the continuous destruction of old structures and the creation of new ones. This idea was further developed by many scholars, showing how great transformations of the world economy over centuries were related to new modes of production and the diffusion of technologies, such as the steam engine, telegraph, electricity, and information and communication technologies (ICTs). Building upon the pioneering analysis of Kondratiev, the concepts of technological paradigm (Dosi 1982) and tech-economic paradigm (Freeman and Perez 1986) emphasize the disruptive character of such technologies and the opportunities presented by the resulting change in economic context.

The capacity to create, imitate, use, and modify innovations came to be seen as a determinant of successful development for both firms and countries. The emphasis on the promotion of industrialization is, in fact, directly related to the benefits and capacities that are expected to be incorporated in the economic system of less developed countries. Based on the recognition of the importance of innovations, a substantial literature has emerged, building upon the concept of innovation systems. Though it originated in economics, this framework benefited from the insights of many social sciences, including sociology, geography, and history.

The starting point was the understanding, which emerged in the 1980s, that innovation is systemic, involving interaction among agents, rather than a linear process involving discrete steps. Innovation does not rely on the performance of individual firms, but on how they interact with each other. Indeed, the number of firms and other organizations is far less important than their habits and practices with respect to learning and investment. As innovation is partially tacit, embedded in people's lived experience, organizational routines, and professional relationships; thus, learning by doing matters as much as searching for outside technology. The national level matters, as a country's development trajectory shapes its system of innovation, and firms are embedded within a confluence of economic, social, and political factors.

An innovation system refers to a group of firms and other actors who implement new products, new processes, and new forms of organization. This definition focuses on innovation as an interactive process, occurring among and between firms and other actors, embedded in a socio-economic and political context. Hence, the most fundamental characteristic of an innovation system is the interaction among actors. The concept of national innovation systems (NIS) was introduced by Freeman (1982) and Lundvall (1988). Since the 1990s, the concept has been applied in developed and developing countries.

Narrow and Broad Approaches to Innovation Systems

With the advent of globalization, some have argued that the national character of innovation has become less relevant. In order to counter argue, the distinction between two definitions of national innovation systems is recalled.

In a narrow approach, the national innovation system is regarded as a follow-up to earlier analyses of national science and technology (S&T) policy (Nelson 1992). The key issue is to map indicators of national specialization and performance regarding innovation, research and development (R&D) efforts, and S&T organizations. The issues raised are typically related almost exclusively to explicit science policy. The analysis may include markets for knowledge—intellectual property rights and the venture capital aspects of financial markets—but hardly the broader set of institutions, in particular overall government policies, financing, and education and learning organizations.

In contrast, a broad approach to national innovation systems (Lundvall 1985) includes these additional dimensions. Early on, Freeman (1982) argued that not only was the macroeconomic performance of countries tied to innovation, but that factors beyond the realm of S&T influenced the innovative performance of firms; he noted the limited relevance of short-term competitiveness strategies—such as manipulating wages and exchange rates—and the importance of government's promoting a coherent approach to industry, science, technology, and innovation. Freeman's early study of Japan (1988) takes into account the role of firms, education and research organizations, government, financing, and other actors that influence the acquisition, use, and diffusion of innovations.

Thus, focus on interactive learning and on the localized nature of the generation, assimilation, and diffusion of innovation is in opposition to the idea that national boundaries are being loosened and that there is a tendency to a sort of "techno-globalism." Innovation is context specific. Acquiring foreign technology cannot substitute for local efforts, as a lot of local knowledge is needed to select, buy (or copy), use, and transform technologies.

Building upon the IS Framework

A number of contributions have helped refine the idea of innovations systems. First is the recognition that *macroeconomic conditions* influence the dynamics of innovation. This was already present in the work of the OECD Expert Group on Science, Technology and Competitiveness, which met between 1980 and 1983, that pointed out the effect of financial markets, education systems, and nationally determined institutions on industry competitiveness and international specialization.

Second, a *broader understanding of the innovation process* cautions against overemphasizing R&D and encourages policy-makers to take a far-reaching perspective on the opportunities for learning. A major source of innovation relates to interactive learning that takes place among production, sales, and technological development, and that involves non-price elements of power, trust, and loyalty (Lundvall 1992).

Third, *historical processes* account for differences in socio-economic capabilities and different development trajectories. Institutional evolution creates systems of innovation with very specific local features and dynamics. The recognition that innovation is embedded in specific contexts reaffirms the importance of capturing the specificity of different actors and the type and quality of relationships, and of understanding the *role of institutions* in its broad sense—as informal and formal norms and rules (Johnson 1992).

Economic performance can be explained by how new technological systems come forward and co-evolve with and reshape existing institutions. This co-evolution is shaped by history and the social, political, and cultural dimensions that are specific to each reality. Both

Freeman and Lundvall favor a method of "reasoned history" rather than quantitative analysis based on abstract models. These authors argue that *national institutions* (both formal and informal) determine how people relate to each other, how they learn and use their knowledge, and the rate and direction of innovative activities (Johnson 1992).

Fourth, innovation requires *trust* in these institutions. The level of trust determines the degree of learning that can take place. Beyond formal and legal arrangements, trust is influenced by the level of social cohesion and solidarity, education and training opportunities, labor market and corporate laws, contract laws, arbitration institutions and collective bargaining, etc. These are all historically determined, and analysis of innovation systems has to understand their national specificities, their international differences, and how they affect development paths of different national innovation systems (Lundvall 2007).

Innovation Systems and Development Thinking

Some of the most important conceptual pillars of innovation theory are rooted in international development (Freeman 1982; Johnson, Edquist, and Lundvall 2003). Reinert (1996) even suggests that one can find explicit connections to a discussion about development centered on the role of technology and innovation in a systemic way in the Renaissance economics debate, while other insights come from the development debates during the twentieth century.

The "Renaissance canon" of the seventeenth century already emphasized that the fundamental causes of economic welfare are *immaterial* production factors, namely, humans' productive creativity and morality. Antonio Serra (1613) pointed out that the difference between the wealth and poverty of cities and countryside, and between cities of the period, could be explained in terms of the different "qualities" of economic activities, the presence or absence of diverse occupations, and the capacity to initiate "virtuous circles" or positive feedback mechanisms. Once the focus was on production based on human creativity, emphasis was put on incentives for education, science, and entrepreneurship (Reinert 1996).

Lundvall (2007) notes that a major inspiration for the IS concept was the work of the nineteenth-century German economist Friedrich List on the "National System of Production." List discussed the opportunities for promoting development in countries lagging behind the dominant country at his time. He highlighted the capacity to acquire, use, transform, and create knowledge (mental capital) and its articulation for productive purposes (material capital). The systemic perspective was present not only in the articulation of knowledge and productive structures, but in the consideration of the role of the government and of institutions, which evolve along a specific historical process (List 1841).

Joseph Schumpeter, steeped in the tradition of the German Historical School of economics, put innovation in the center of economic analysis and stressed the disruptive character of development. These notions shaped subsequent contributions by Prebisch (1949), Singer (1950), and Myrdal (1958) on the long-term deterioration of terms of trade for primary products and of the distribution of gains between developed and developing countries. Their work constituted what became known as the "triple alliance" on the discussion of terms of trade.[3]

Many studies have similarly argued that technical change plays a central role in explaining the evolution of capitalism and in determining which hierarchies of regions and countries are formed. Furtado (1961), for instance, established a direct relation between economic development and technological change, pointing out that the growth of an economy is based on the accumulation of knowledge, understanding development within a systemic, historically determined, view. These contributions have a close correspondence with Myrdal's (1958) proposition that contexts and institutions matter, positive and negative feedbacks have cumulative causation, and cycles may be virtuous or vicious. Also central to this thinking is Hirschman's (1958) point that interdependencies among different activities are important.

A significant milestone was the joint effort, at the University of Sussex in the late 1960s, of Chris Freeman at the Science Policy Research Unit and Hans Singer at the Institute of Development Studies. Their contributions combined the discussions on poverty, self-reliance, and the role of science and technology. The synthesis of this endeavor is the *Sussex Manifesto* (Singer et al. 1970), prepared for the debates of the UN Second Development Decade. This document proposed that developing countries should have their own scientific and technological capability, in order not only to increase production but to improve their capacity to produce.

Inspired by these ideas, a literature emerged in the 1970s and 1980s about how firms in the less developed world acquire and develop technological capabilities (Katz 1987; Ernst, Ganiatsos, and Mytelka 1998). Key concepts of these contributions were the notions of technological capabilities and learning. Several empirical studies have shown how less developed countries have managed to develop skills, leading to more "efficient" production, at least in the short term. These studies focused mostly on the knowledge and skills required for production (where shop floor experience and "learning by doing" play an important role) and for investment, as well as adaptive engineering and organizational arrangements required for the continuous updating of product design and performance features (Dahlman, Ross-Larson, and Westphal 1987). A limitation of these studies was that they were circumscribed by the connection of technology with production.

Over the same period, Latin American authors stimulated by the structuralist approach developed a number of firm-level studies. This work not only showed successful stories of technological up-grading, but noted that a learning approach to technology ignored key elements, such as the role of institutions, the macro-economy, and conflicts over power. For example, the S&T Policy Instruments Project (Sagasti 1978) found that implicit policies (general macroeconomic, industrial, and trade policies) had a much deeper effect on innovation strategies by firms than explicit ones. Such implicit policies inhibited technological development by firms (Herrera 1975). This work also pointed out that by concentrating on learning processes within the firm, the technological capabilities literature ignored external economies associated with the capacity to generate innovations.

There was a surge in Latin America of work on innovation deriving from the need to address paradigmatic changes and problems and options deriving from the diffusion of the information technologies. Building on Furtado's (1958) study of the industrial revolution, authors like Herrera (1975) and Perez (1983) analyzed the opportunities and challenges associated with the introduction of radical changes. It was only then that the literature started to integrate the empirical work on learning inside firms with the contributions on new technologies and systems of innovation. The role of government policies in orienting the speed and direction of technological changes was also highlighted (Freeman and Perez 1988).

Applying the IS to Development

Since the 1980s, conceptual and empirical work have co-evolved and the concept of national innovation systems has been adopted by international organizations (particularly the OECD, the European Commission, and UNCTAD) as a tool for policy making. More recently, the U.S. Academy of Science began to use it, and Sweden created a new central government institution, VINNOVA, which stands for Systems of Innovation Authority (Lundvall 2007). A set of empirical studies began to apply the innovation systems perspective to development analyses. These studies start with the country characteristics and address specific challenges, opportunities, and hurdles for their development. Such efforts have consolidated the IS framework. Drawing on work in Africa, Asia, and Latin America, they offered important inputs for its enrichment, stressing aspects that proved especially relevant for less developed countries. Such work contributed five advances in our understanding of innovation systems and development, which are described below.

From Catch-up to Unique Development Paths

There is a frequent misleading perspective in a broad set of literature on the concept of catch-up that suggests a fundamental difference in the innovation systems of developed and developing countries. It focuses on the evolution and "shaping" of innovation systems in the former and "construction" or "creation" in the latter. As discussed above, the IS concept was inspired in part by development thinking and its emphasis on how countries could overcome underdevelopment. An important aspect is the recognition of asymmetries in (and the dual character of) the international economic and technological development process.

It is therefore unrealistic to expect a linear process of catch-up, in the sense of an accelerated process of constructing and strengthening similar institutional and productive structures to those of a leading country—thus following the same path as the leader. The only dimension in which an effective "reduction of the leader's advantage" is proposed is in the capacity to acquire, use, transform, and create knowledge, applying it for productive purposes. This relates to the substantive challenge of "borrowing" and adapting technologies that the technological lead countries control, through a combination of reverse engineering, licencing, sending scholars abroad, inviting foreign firms and experts, and engaging in international scientific collaboration (Lundvall 2007). The institutional setup could be adapted, redirected, and even enriched, but necessarily based on its specific characteristics, determined by its historical evolution process. Thus, the resulting institutional, scientific, technological, and productive setup that would allow a country to catch up with the leaders would necessarily be specific and unique.

Underdevelopment is not a phase in a country's linear development, but a result of structural and historical elements in a global context, in a certain sense complementary to the existence of developed countries (Furtado 1961). This perspective calls for the construction of a unique path that takes into account the specific natural, social, and cultural contexts. Development is not a matter of "creation" or benchmarking innovation systems, as there is no linear catch-up path to be followed. Every country has different institutions and more or less developed scientific, technological, and productive capabilities in different areas. Even

in the poorest countries there are productive activities, formal or informal structures and processes of knowledge generation and diffusion, and institutional and political setups. In any country one can find innovations, even if only incremental. Thus, every country has an innovation system.

Such considerations are even more relevant after five years of deep international crisis, which underline the limitations of catch-up policy based on modes of production that make extensive use of natural resources.

There are at least two important corollaries to this discussion: (i) there is no inevitable trend from any given stage of progress to another supposedly superior, and (ii) development has to be understood as a historical process specific to each country and not as a universal process. National and local conditions may lead to completely different paths and to a growing diversity instead of the standardization and convergence suggested by the more radical theses about the influence of globalization on national and sub-national systems. Therefore, the importance of elaborating and answering questions about the type of development being pursued, about its sustainability, and about how innovation systems are geared toward sustainability should not be overlooked.

The Broader Context

The IS framework recognizes that the evolution of any economic system depends to a large extent on its place in the *hierarchy and power structure* of the world economy. It also takes into account the *micro*, *meso*, and *macro dimensions* and their linkages as important for the understanding of a country's performance. From this derives the following conclusions: that macroeconomic systems contain and condition the microeconomic decisions that form the standards of financing, corporate governance, international trade, competition, and technical change; and that innovation strategies (and outcomes) depend on and reflect macroeconomic regimes and geopolitical forms of insertion in the world economy.

Macroeconomic instability and vulnerability can hinder learning and the creation and diffusion of innovations. Problems such as high external debt and high interest rates constrain technological and industrial development. The "implicit" policies related to macroeconomic contexts in developing countries are of much greater importance than specific innovation policies (Herrera 1975; Sagasti 1978; Coutinho 2003).

Knowledge, Learning, and Innovation

Besides the complex processes of knowledge generation, diffusion, and use, the innovation system framework stresses the capabilities among organizations to generate, diffuse, and use knowledge. Studies focusing on less developed countries, regions, and localities underline the importance of understanding learning and innovation efforts in all kinds of organizations, even those far behind the technological frontier. A broad set of studies focused on "traditional sectors," such as the clothing and furniture industries and agriculture. From a development perspective, knowledge and innovation processes with far-reaching impacts are not the only ones worthy of consideration: in countries with little economic dynamism, centered on traditional activities, even minor transformations of production processes, organizational aspects, product variety, or elements that enable access to new or broader markets may have

considerable impact. Such modest innovations, commonly overlooked and ignored in official S&T indicators, translate into a substantial increase in the ability to produce and compete on a sustained basis, generating income and jobs and enhancing living standards. Innovation includes any element of novelty that is new to the agent that introduces it. A broad search for elements of novelty can reveal much innovation occurring in places where standard indicators would suggest that very little is going on (Cassiolato and Lastres 1999). This has inspired recent attention to "grassroots" or "below the radar" innovation.

Directly related to this discussion is the emphasis on accumulating capabilities and knowledge for sustained competitiveness. This emphasis stands in clear opposition to the supposed comparative advantages of developing countries, such as low-price products, low labor cost, and the intense use of natural resources (Fajnzylber 1988). Countries that depend on the import of existing technologies need substantial learning efforts in order to absorb and effectively use these technologies. The capacity to learn (having access to the means and opportunities) turns out to be much more important for inclusion than the access to ICTs. Thus, overcoming the "learning and knowledge divide" constitutes a much more fundamental challenge for policy action than targeting the "digital divide" (Arocena and Sutz 2003). Once more, empirical investigation in developing countries reveals a diversity of learning based on the very use of knowledge that results in modified technologies, adapting them through minor modifications and combinations to address specific problems and needs (Cassiolato, Lastres, and Maciel 2003).

Such innovation often relies in part on knowledge that is not directly linked to the formal education and S&T system. Important transformations and the key elements for the sustained use of limited resources often derive from knowledge that is rooted in a specific territory and that relates to specific conditions and cultural habits and practices. This perception gave rise to considerable research efforts focused on the use of "traditional" or "indigenous" knowledge and its articulation with more formalized and technological knowledge (Lastres, Cassiolato, and Maciel 2003).[4]

This broader and systemic understanding of knowledge and innovation also has clear advantages for less developed countries and encourages policy-makers to consider opportunities for learning and innovation in any productive activity, not just in sectors considered dependent on advanced technology (Mytelka and Farinelli 2003). As innovation is essentially a context-specific and socially determined process (Freeman 1988), acquiring technology from abroad cannot substitute for local effort. A lot of local knowledge is required to select, buy (or copy), transform, and use technology. Such findings have helped broaden the scope of S&T policy, but there is still a long way to go.

Addressing Specific Development Challenges

The IS framework is also useful for addressing specific development challenges, such as environmental sustainability, social development, education, housing, health, and infrastructure (sanitary, transport, communication). In order to tackle such challenges it is necessary to search for convergence and interaction among many different actors with different interests, power positions, and capabilities. It has been suggested that the evolution of innovation systems should be oriented toward specific *development challenges*. This may have implications for policy choices related, for example, to the priority given to certain technologies (high-tech

and with pervasive impacts) or types of institutions, such as the creation of "world class" niches and firms.

A more focalized approach argues for targeting action toward innovation intended to advance social and environmental outcomes, such as adequate provision of food, health, education, and housing systems. These issues have been studied and targeted in policy action under the headers of social and environmental innovations. A framework for analyzing these types of innovations stresses the importance of close interaction with the people who stand to benefit from the outcomes: in this view, empowering and engaging intended beneficiaries is fundamental. Successful cases involve people as protagonists in user innovation, drawing on their experience and knowledge to design solutions according to their needs. For example, participation by poor people has proven critical for diffusing soil conservation techniques, capturing rainwater in semi-arid areas, and using ICTs in basic education. Considering the broad and diversified set of actors, institutional setups, and knowledge types involved in understanding and addressing these development challenges, a systemic approach is useful.

The characteristics of the productive agents—their formal or informal character and their size—can also be seen as critical for promoting socio-economic development. Thus, much research has specifically addressed issues like informality, inclusion and exclusion, and the challenges faced by small enterprises. The threats and obstacles faced by these agents, and their integration into the economy to help them move away from subsistence toward sustained competitiveness, are a major challenge for policy (Freeman 2000).[5]

Emphasis on the Territory and Interaction

The issues discussed underline the importance of understanding the social process that facilitates innovation within a specific territory (the definition of which extends beyond geography and considers social, economic, and political factors). This territorial dimension is particularly important for addressing development issues.

First, the experience of many developing countries—Brazil is an outstanding example—showed that aggregate or average levels of social development, output, income, performance in specific sectors, or technological fields hide huge imbalances. The historical trajectory of many developing countries led to a great heterogeneity of the productive and social structures. In large countries like Brazil, India, and Mexico, one can find both advanced and very archaic production and innovation systems within the same sector or technology field.[6] Local areas that are less dynamic in economic terms often present considerable challenges related to social development. More generally, every productive activity has to be understood within that particular location's specific social, cultural, institutional, and natural context.

In this context, a main challenge of the innovation system framework is understanding how specific structures evolved, which are the specific challenges and potentialities, and how specific policy initiatives could foster the learning and innovation processes and induce a dynamic and sustainable local development process. The needs are specific, and so must the initiatives be. In many cases job and income generation on a sustained basis, preventing the disruption of social structures and poverty, may be the most important goal for public policy.

Second, most learning occurs locally. Each agent possesses a specific and limited set of knowledge, and new knowledge is generated and diffused via interaction among different

kinds of networks. Even if the new information and communication technologies enable greater codification and anonymous diffusion of knowledge, an ample set of empirical findings stresses that tacit knowledge is fundamentally important. Diffusion requires a close, essentially personal, interaction among organizations and people.

Research and policy efforts addressing the issues cited above have focused on the local dimension and so-called local (or regional) innovation systems. Different conceptual and analytical frameworks have emerged for analyzing productive and innovative activities in the local dimension (e.g., industrial districts, clusters, and *milieu innovateur*).[7] For example, case studies of the textile and clothing and electronics industries in Taiwan and Korea confirmed that inter-firm linkages, including subcontracting arrangements, were crucial channels of technological learning—in some cases, even more important than foreign direct investment (Gee and Kuo 1998). In Africa, Djeflat (2003) analyzes the local flows of knowledge in Maghreb countries and the incentives that support innovation among small and medium-sized enterprises, and Baskaran and Muchie (2005) discuss the role of regional economic poles for development in South Africa. In Latin America several initiatives incorporating the notion of IS have been introduced, covering industries such as aerospace, biotechnology, automobile, software, textiles/apparel, agro-industry, tourism, footwear, and music and other creative industries (see, e.g., López and Lugones 1999; Vargas Alfaro 2000; Segura-Bonilla 2000; Cassiolato, Lastres, and Maciel 2003).

Since 1997 the Brazilian research network RedeSist (Resarch Network on Local Innovation and Production Systems) has focused on innovation systems in the context of a large developing country. Seeking to apply the IS framework to this reality and combining it with the Latin American development thinking led to the consolidation of the conceptual and analytical framework of Local Innovation and Production Systems (Cassiolato, Lastres, and Maciel 2003). This framework has been applied to the analysis of over two hundred innovation and production systems in different regions of Mercosur countries to capture dynamic evolution of systems in advanced (such as aircraft production) and traditional manufacturing (textiles and clothing) and in agriculture and services (including audiovisual), as well as in informal activities and traditional knowledge and technologies that affect local production and development.

These studies have focused primarily on knowledge and learning processes for capacity building, and the link between innovation and development challenges. They stress that the specific territory in which production, learning, and innovation take place constitutes a key unit of analysis, as each territory or country faces specific challenges and takes a very specific development path. Further, they suggest that there is not necessarily a contradiction among economic, technological, and social/environmental goals and that a systemic perspective is essential to envisage the potential convergence of these goals and to guide policy action in that direction.

Conclusion

This chapter has argued that the innovation system (IS) approach represents a powerful instrument for understanding and orienting policies to promote learning, innovation, and competence building processes in all countries, including so-called less developed countries.

The chapter has articulated some advances and advantages of this approach: it positions innovation and learning—understood as systemic, specific, and cumulative processes—as central elements of development; it sheds new light on how organizations generate, assimilate, and diffuse knowledge; and it encourages consideration of how different actors are linked across agriculture, extractive industries, manufacturing, and services.

As discussed above, in Latin America and especially in Brazil, the convergence of this new way of understanding production and innovation with the knowledge accumulated by the structuralist school has contributed to extending the list of arguments in favor of a systemic approach—notably by considering inequality as a main cause of underdevelopment and stressing the role of government intervention in this respect, and by highlighting the need to develop and use contextualized knowledge and policy models capable of dealing with the specific realities of different countries and regions. It is important to orient the innovation systems to attend to development needs: addressing capabilities to enhance food security and nutrition; to improve access to housing, education, health, and culture; and to promote the expansion of substantive freedoms, that is, participation in public life and political processes (Sen 1999).

A closer look at the performance of Brazil in the last ten years reveals important facts and tendencies capable of inspiring and invigorating the innovation and innovation policy debate. Particularly relevant are the outcomes of the "Brazil Without Misery" anti-poverty plan.[8]

With the per capita income of the poorest 20 percent of the population rising by more than 8 percent per year, the country has been able to reduce extreme poverty by half in five years (from 17.5 percent in 2003 to 8.4 percent in 2009). A significant part of these transformations is due to a significant increase in the minimum wage and a better implementation of public transfers, especially the *Bolsa Família* cash transfer program; however, the productive insertion of the low-income population was even more instrumental in increasing per capita income. Expanding and improving public services such as health care, education, and housing has also contributed to the recent transformations (Brazil 2011).

The results of the Brazil Without Misery plan reinforce two main arguments of this chapter. First, in order to achieve development it is necessary to tackle inequalities, and therefore that objective should be at the center of the research and policy agendas. This requires widening the perception of innovation systems, understanding that innovation is not restricted to a group of "advanced" actors, activities, and regions of the world. This will probably shed light on the group of activities capable of mobilizing productive inclusion and improving essential public goods and services. Second, the above results underline the need to overcome the trap of ignoring territories and contexts and dissociating economic from social development, in both research and policy programs—hence the importance of understanding production and innovation systems centered in activities such as health, sanitation, etc.

However, the adoption of the innovation system framework is not without its problems. Many initiatives are based on a distortion of the original concept, which reflects remnants of the linear innovation model and the narrow definitions of innovation as synonymous with formal science and technology. This has led to highly problematic attempts to subordinate all academic scientific work to a very limited economic logic. Calling attention to the usual resistance and misuse of new and more advanced concepts, Reinert and Reinert (2003) warn that "by integrating some Schumpeterian variable to mainstream economics we may not arrive at the root causes of development. We risk applying a thin Schumpeterian icing on what is essentially a profoundly neoclassical way of thinking." Time, history, geopolitics, and

specific territorial conditions are fundamental to the analysis of how production and innovation capabilities are acquired, used, and diffused.

It is worth mentioning the challenges of working with new concepts, particularly those aiming to capture and evaluate intangible resources or involving high levels of inequality and informality. The complexity inherent in the requirement to include simultaneously many different dimensions, actors, and institutions would puzzle the uninformed analyst. Reductions have to be made, but their implications have to be considered.

As argued in this chapter, innovation is essentially a social process. If the main development constraint of a region or a country is misery eradication, innovation has a very relevant role in the provision of possible solutions. This of course requires focusing on production and innovation systems capable of contributing to new forms of inclusive, cohesive, and sustainable development.

There are both challenges and significant opportunities to the development and use of more advanced approaches to understanding and orienting innovation. Facing them will lead to new avenues of possibilities, from broadening and refining concepts and methodologies to transforming them into more advanced and useful instruments. By discussing experiences already in place, we hope this chapter will contribute to expanding our knowledge about innovation and its role in development.

Notes

1. Using the examples of Japan and South Korea in the past and of China today, Rodrik (2011) criticizes the so-called new structural economics in this regard.
2. As pointed out by Stiglitz (2011) in a critique of the new structural economics, "focusing on absorbing and adapting, and eventually producing knowledge, provides markedly different perspectives on development strategies than those provided by the neoclassical model" which center on increasing capital and the efficient allocation of resources.
3. All three authors played an important part in the setting up of the UN. Prebisch became Executive Secretary of the UN Economic Commission for Latin America, Myrdal became Executive Secretary of the UN Economic Commission for Europe, and in 1947 Singer joined the Economics Department of the UN on a provisional assignment that lasted 22 years.
4. Muchie (2007) and Adeoti and Adeoti (2010), for example, discuss the importance of such knowledge for the transformation of agriculture in Africa.
5. These discussions converge with those proposed by Berry (this volume), underlining equality and inclusiveness as central guidelines for promoting human satisfaction in a broad sense.
6. Some critics may argue that most of these structures do not actually constitute a system. This relates to the mistaken view of an innovation system as an object. It is a rather a framework of analysis. Wherever goods or services are produced, there will be a system around them comprising different activities and actors, particularly those associated with the acquisition of raw material, machinery, and other types of input. These systems range from extremely simple, modest, or disjointed to highly complex and articulated.
7. Though some authors suggest that these concepts are equivalent to the local IS concept, we claim that the IS framework offers a broader and more comprehensive tool for understanding links with an entire system and the interactive learning processes.

8. In June 2011, President Dilma Roussef announced a new multibillion-dollar anti-poverty plan called *Brasil Sem Miséria* ("Brazil Without Misery") designed to eliminate dire poverty in the next four years.

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CHAPTER 34

UNIVERSITIES AND HIGHER EDUCATION IN DEVELOPMENT

RODRIGO AROCENA, BO GÖRANSSON, AND JUDITH SUTZ

Introduction

Universities and higher education are increasingly seen as critical for economic growth and development. The tendency to regard academic institutions as important carriers of knowledge and social stability is not a new phenomenon, but it is after the turn of this century in particular that universities are being considered an indispensable vehicle for economic and social progress. In this chapter we discuss how contemporary perceptions of the role of universities have been interpreted by and incorporated into theories of development.

First, we trace the historical roots of the modern university and describe how it has evolved into the present-day institution. The next section summarizes ongoing transformational trends in response to external and internal pressures for universities to evolve toward higher efficiency and societal relevance. After examining the implications of these transformations for development theory, we discuss the emergence of new models for university–society interactions. We then examine the prospects for universities, particularly in the South, to evolve toward developmental universities as an alternative to a narrower interpretation of universities primarily as providers of market-driven knowledge production. In the final section, we outline what signifies a developmental university and provide an example of a program toward this end.

A Brief History of the University

Historically, universities have never been totally separate from the rest of society, or at least not from the demands of the rulers and governments endowing financial support for their operation. The precursors to the modern university, the medieval cathedral schools and monastic schools of Europe, were dedicated to the study of religious thought. As such, they provided education for a clergy supporting the secular state. Venturing beyond the ecclesiastical sphere, the medieval universities arose from a desire to apply knowledge and improve the functioning of society by educating students in law, medicine, and theology, but not so much through the creation of new knowledge as through the application and reproduction of tried and tested truths. The early medieval universities' emphasis was thus more on reproducing existing knowledge and maintaining the status quo than on creating new knowledge for the advancement of society.

Briefly recalling some main changes and continuities in the evolution of universities from medieval times helps the understanding of present trends and conflicts. According to Müller (1996), four successive stages can be distinguished in a long and complicated history: the university of faith, the university of reason, the university of discovery, and the university of calculation.

A fundamental structural change occurred when "the university of faith transformed itself into the university of reason" (Müller 1996: 15). The change came to be called the Academic Revolution; it is usually symbolized by the foundation of the University of Berlin in 1810. The University of Berlin, which was based on the ideals of Wilhelm von Humboldt, is seen as the eponymous modern institution of higher education. It was the emergence of the Humboldtian ideal of *Bildung* (German for "education" or "personal development") that firmly established the notion that education should be integrated with the task of research. Von Humboldt's main idea was that research is as important and legitimate a role for the university as teaching, and that both would benefit if jointly performed. The "Humboldtian project" is the joint practice of teaching and research (Clark 1997). It shaped the classic "idea of University" in Germany, and gave rise to the so-called research university characterized by the combination of those two roles.

The consequences of such a change were enormous, including the institutionalization of research and the emergence of the professional scientist (Ben-David 1984). Academic communities with shared interests and purposes expanded. Moreover, technological research found its ways into the academic realm, augmenting the interactions and related benefits between scientific knowledge and techniques. The Humboldtian university thus prescribed that teachers also be researchers in their efforts to instill *Bildung* in shaping the student's character and perception of the world. The concepts of research and *Bildung* were thus indissolubly linked (Anderson 2004). The cornerstone of university governance, academic freedom, further guaranteed the researchers the right to formulate their research agenda free from external pressure and based on personal interests. In other words, new scientific knowledge emerged as a result of a peer-guided process within the academic community that provided indirect benefit to the development of society. With the rise of the nation-state in Europe, higher education came increasingly under the auspices of the state, and modern governance structures began to emerge, prompting some scholars to proclaim that "the

university is a European institution; indeed, it is the European institution par excellence" (Rüegg 1992: xix).

The academic freedom and autonomy of the universities did not mean that universities engaged only in obscure and self-oriented research, as they sometimes were caricatured. Universities have always maintained certain ties with influential parts of society. Tacit demands from funding institutions or through public debates could influence the choice of the area of investigation. In Victorian England, for example, social commentary and debates prompted an inquiry into the causes of poverty, eventually leading to the foundation of systematic empirical research in political economy. Public opinion at the time was divided as to whether economic growth and social justice were incompatible. Theories forwarded by economic thinkers such as Adam Smith and Thomas Robert Malthus were interpreted by some to imply that economic injustice was inherent in the system, leading critics of capitalism like Karl Marx to conclude that social inclusion could not be achieved within the present economic system.

Many of these theories were hampered by a lack of solid empirical observation on the effects of economic growth over time, and it fell to a new breed of political economists to provide it. Prompted by the public discourse, economists like Alfred Marshall and Beatrice and Sydney Webb helped establish the academic inquiry into the actions of economic agents and the distributive effects of economic growth. The latter two went on to co-found one of today's most prestigious universities, the London School of Economics and Political Sciences.

A further example from the nineteenth century of society's expectations of the academy is the establishment of land-grant universities in the United States. Created in the second half of the nineteenth century, the land-grant universities were tasked with a new mission: to promote development and fight poverty in rural areas by complementing the more abstract liberal arts of the existing university system with practical knowledge and research in subjects pertinent to the rural population, such as agriculture and mechanics. The land-grant universities were an important innovation in technological teaching at tertiary level; soon their "research centers became a second component" of them and in "the early 1900s, state extension activities became another component of the land-grant colleges" (Rogers 1995: 358). Thus, collaborating with regional economic development was included as a new role.

With a different meaning, "extension" also appeared as a role of universities in Latin America during the first decades of the twentieth century. It was defined as a third mission centered in cultural diffusion and technical assistance oriented to deprived groups; extension should be carried out in close connection with teaching and research; its aim was to engage students, graduates, and universities as such in social transformation. In Latin America from the 1920s to the 1980s, prevailing ideas and relevant changes concerning higher education converged with the search for alternative routes to autonomous development. Such processes shaped a specific Latin American "idea of University."

Also in other regions of the South, the emergence of national higher educational systems has been central for national education efforts and for the shaping of post-colonial nation building. In Africa, national universities were established after independence with a mandate to confront poverty and underdevelopment. The new universities could generally not live up to expectations and were long characterized as providing education for an elite few, with marginal impact on development (Mosha 1986). Also, countries in Asia struggled to fulfill their objective of addressing local needs. For countries following the Soviet model of separating education and research institutions, the evolution toward increased relevance has

been particularly challenging. Universities in countries like China and Vietnam have only recently combined education and research to address third mission issues.

The wide use of the expression "third mission" or "third role"—adding to the two original ones, teaching and research, coming from the Humboldtian tradition—is quite recent. It can be seen as a consequence of the growing direct impact of new knowledge in productive activities. The emphasis on discovery and invention as explicit tasks for universities was greatly fostered during the last century by major events with immense impacts in economic activities. Computer sciences and the new genetic technologies emerged in universities. As research became more relevant, the "mission of the university began to be described in such terms as expanding the frontiers of knowledge and penetrating the hitherto unknown"; in this context, the "university of discovery" flowered in the second half of the twentieth century (Müller 1996: 16–17).

Changing modes of knowledge production (Gibbons et al. 1994) started to be discussed: should university research be shaped mainly by academy or by negotiations with external actors? In a similar vein, the concept of post-academic science (Ziman 2000) was proposed to describe the transformation of academic ethos, from the ideal Mertonian rules to rules that express the process of knowledge privatization.[1] A shift was seen in the perception, particularly by governments, of the mission of universities. Discussions and changing perceptions were fostered by a central fact: at the end of the century many universities became direct producers of goods and services for end users (Sutz 1997).

Growing attention came to be paid to the concept of a "third role" of universities, mainly associated with economic growth. According to Etzkowitz (1990, 1997, 2003), capitalization of knowledge is a new mission besides teaching and research, and the university characterized by assuming such a mission should be termed the "entrepreneurial university." This theory, carefully elaborated and based on several case studies, is at the same time a description, a prediction, and a prescription: it asserts that the rise of the entrepreneurial university is an empirically testable phenomenon, that its consolidation will be a main trend in the future, and that fostering it should be a fundamental goal of policies for higher education. In this sense, the theory of the entrepreneurial university is a distinguished member of the prevailing approach, which at the same time gives priority to a "third role" of universities and identifies it with direct collaboration with firms.

It is worthwhile stressing that similar descriptions and predictions of the evolution of universities can generate widely different normative evaluations. The fourth stage in Müller's view is a reality akin to the entrepreneurial university: clearly thinking about the North, although he does not say it explicitly, he characterizes the emerging university of calculation as:

> a huge, expensive institution, highly functional in terms of training and continuing innovation in science and technology, no longer committed to learning per se not to character development, and representing a convenient aggregation of talents more like a marketplace of research and training than an intellectual community. A further implication of such an institutional evolution is that participants in its activities would not necessarily share any common set of values beyond the economic imperative of producing well enough to be compensated, and vice versa. If this forecast is justified then the university of calculation would play no institutional role based on its own set of values in the public affairs of society. (Müller 1996: 21)

If that is the prevailing trend, an alternative is clearly needed, both in the South and in the North.

Ongoing Transformation

Alternatives to Müller's "university of calculation" must be discussed in the context of main changes within universities and in their relations with society at large. They include an increase in the number of tertiary students, that roughly can be seen as a shift from an elitist to a mass (though quite stratified) higher education system; new curricula focused on tailor-made study programs, problem-based learning, an increased focus on entrepreneurship, and life-long learning activities; increased collaboration with external partners; increased dependence on external funding such that different universities and disciplines have quite different possibilities of accessing resources; and a changing governance structure, fostered at least since the 1990s with an emphasis on top-down management, external representation on boards, productivity measurements, and activity-based financing.

Of these, the significance of the rapid expansion of higher education cannot be overemphasized. The higher education system has been deeply affected by the massification of the universities in the North from the 1960s to the end of the twentieth century, and later for transition economies and other countries. As an example, enrollment in higher education in China expanded from 3.4 million students in 1998 to over 21 million in 2010, a six-fold increase in just over a decade (China Statistical Yearbook 2012). Such massive expansions have brought with them a host of new demands and new realities for the university system to deal with.

The impressive growth of the higher education system has been accompanied by an equally remarkable change in the gender balance. Women's enrollment in higher education has expanded rapidly, and today more women than men are enrolled in higher education around the world. According to UNESCO (2010), the gender balance in enrollment in higher education has shifted from men, who historically have comprised the overwhelming share of students, to women, who today have an advantage in terms of level of participation. In the Americas and Europe, the figure is as high as 25 percent greater participation by women. While a number of countries in Africa and Asia have yet to achieve gender parity in enrollment, they have nevertheless experienced a steady increase in female enrollment.

What explains this rather rapid change? UNESCO (2010) notes that affirmative action policy or legislation mandating women's participation in higher education remains relatively rare. Instead, this phenomenon seems to reflect changing values and attitudes toward the role and aspirations of women in society, stemming in part from global social movements that emerged in the 1960s.

However, almost all over the world, higher enrollment and graduation levels on the part of women have not led to a leveling in their career prospects. In many countries, the rise of women's enrollment is more pronounced at the undergraduate and master's level, but has not translated into greater participation at the doctoral level, nor in the formal research and development (R&D) workforce (UNESCO 2010: 77). To some extent this gap may simply reflect the time lag needed for a new generation of women to progress through the education

system. Yet there is no doubt that substantial barriers to women's achieving higher degrees and employment exist. At the same time, enrollment rates also suggest both different alternatives in the labor force for men and women, and potential new barriers that discourage men from pursuing higher education (UNESCO 2010: 71).

The demands on universities for greater relevance for society have grown over time as increasing public funding has turned universities into institutions open to everyone, not only the privileged few. The growing demand is the result of mounting external and internal pressures on universities to redefine themselves in an increasingly integrated, competitive, and globalizing world and to take on a multitude of new challenges, including outreach functions and technology transfer activities.

With the demise of the linear model of innovation (the notion that technological progress and innovation expand in a linear relationship from basic research to industrial applications), universities are charged with taking on a more active role in technological development and university–industry relationships. Research policy measures to support this development have been enacted in a number of countries, most famously through the Bay—Dole act in the U.S. in 1980, which granted universities the intellectual property rights to inventions resulting from federal government-funded research. Moreover, universities are under pressure to provide industry with an increasingly specialized workforce, to comply with the students' demand for relevance in education and good prospects for finding a job after graduation, while at the same time addressing pressing social, medical, and other ills. This has prompted scholars like Burton Clark to declare that the university as an institution is facing a crisis where demand outruns the capacity of the universities to respond (Clark 1998).

How have the universities responded to these challenges? The reaction from universities to the call for more relevant and deeper interactions with society differs considerably between countries. Modern universities have evolved to include all three tasks of universities (education, research, and "third mission"), but how they do it is path dependent and does not follow any "best cases" or standard models (*Science and Public Policy* 2009). A common trend appears to be that in countries devoting a high share of resources to R&D, the third mission of universities is narrowly interpreted to mean transfer of technology from university to industry. Conversely, in countries with fewer resources available for R&D, the third mission is more likely to include a broader societal involvement (Göransson and Brundenius 2011). Thus, the more money a country spends on R&D, the more the universities tend to become focused on industrial development and competitiveness, much in line with Müller's characterization of the "university of calculation" discussed above.

New models are being proposed for guiding the evolution of universities, such as Triple Helix models involving private–public partnerships, the creation of entrepreneurial or specialized universities, large-scale excellence-driven environments, or the concept of developmental universities, more in tune with supporting the social and economic development of a country. Pioneering work by Rosenberg and Nelson (1994) shows that entrepreneurial managers in various industries tend to value more the advance of knowledge in scientific fields than the concrete university research results obtained in the same fields. In a Humboldtian perspective, linking teaching with cultivating knowledge helps to develop creative thinking and problem-solving capabilities.

The innovation potential of a firm is based on its "absorptive capacities" to recognize the value of external information, assimilate it, and use it; such capacities are highly dependent

on knowledge previously accumulated by the firm; accumulating advanced and sophisticated knowledge requires an internal team of scientists and technologists who are at the same time highly competent in a variety of fields and well acquainted with the different aspects of the firm and its external relations (Cohen and Levinthal 1990: 128, 135).

Thus, innovation studies offer some clues to gauge the contribution of universities to economic development, suggesting that at least as important as their direct involvement in solving problems of immediate interest for firms is that universities provide high-level teaching, which requires performing high-level research. That holds also in the South. Twenty years ago, the engineers who had created in Uruguay an unexpectedly efficient set of professional electronics firms asserted that their high-level training in basic sciences was fundamental to their success as entrepreneurs, because it developed their capabilities and self-reliance for problem solving, that is, for innovating (Sutz 1986).

The preceding overview of the role universities really play in innovation activities tends to be corroborated by innovation surveys. Such surveys have an important feature: they offer an overall view of the innovative behavior of the productive sectors of a country. Although they do not fully capture the complexity of the special relations that some sectors—pharmaceuticals, for instance—hold with universities, they do provide a global picture of the interactions that firms in all sectors maintain with external knowledge and information providers. In spite of several differences, surveys tend to show three similarities between countries: (i) firms are much more engaged in expenditures devoted to internal R&D than to external R&D; (ii) firms rely heavily on clients and suppliers, as well as on internal sources, for innovation-related information; (iii) only a very small proportion of firms consider universities important as a source of innovation-related information. For some business sectors, particularly those more science-based, and in specific settings that have a special tradition of academy–industry interactions, the picture depicted above may not be accurate. The "open innovation" model, with its emphasis on business collaboration with universities as well as with other firms, works well there, but in general terms, recent literature confirms the trend already mentioned.

Universities in Development Theories

The role of universities and higher education in economic growth and development is historically closely connected with how science and technology are perceived in society. As discussed above, the Humboldtian ideal of seeking knowledge for its own sake and for personal development was long the norm in academia. New knowledge was basically a luxury item produced in the proverbial ivory tower. Accordingly, universities were perceived as playing only a marginal or indirect role in economic growth and development. Even with later recognition of the importance of knowledge production, scientific progress was long conspicuously absent from mainstream economic growth models or was considered an exogenous factor taking place outside the models. In neoclassical economic theory, the role of technology in economic growth emerged late as an explicit topic of interest.

Mainstream economics has primarily been interested in problems associated with making optimal use of given resources at any point in time, not with dynamic adjustments

caused by the application of new knowledge. The allocative mechanisms and the static efficiency of the economic system have thus tended to attract more attention than the structural changes and dynamic performance. This is perhaps surprising given that the writings of classical economists in the nineteenth century, as well as pioneering research in innovation-based economics by Joseph Schumpeter, pointed to the importance of technological change in economic growth. As early as the 1950s, Robert Solow demonstrated in economic models that the production factors of capital and labor accounted for only a small part of total economic expansion, and that technological progress was in fact driving economic growth (Solow 1956).

Further exploration in the following decades revealed the necessity to open up the "black box of technology," in Rosenberg's terminology (Rosenberg 1982), and saw the emergence of the field of evolutionary economics, which treated technological change as a logical outcome of an evolutionary process (Nelson and Winter 1982). It was not until the 1990s that technological progress entered mainstream economic mathematical models as an endogenous factor in economic growth, in the new growth theory proposed by Robert Lucas (1988) and Paul Romer (1990).

So what does this mean for how universities and the knowledge they produced were regarded in development theory? The inability of economic models to explore the origins of growth obviously has had practical implications for development agencies and policy diffusion organizations in their strategies on universities and competence building in developing countries. According to the prevailing economic development theories, should the limited resources available be allocated to long-term capacity building in higher education, or would alternative strategies be more efficient?

In terms of understanding the role of science in development, the dominant paradigm since the Second World War has been the modernization theory. This theory has in different ways guided the strategies pursued by international organizations and the donor community, and thus the conditions in which universities in developing countries were to function and evolve. The modernization theory widely held the view that, although the application of science was instrumental in development, universities and higher education in developing countries could not function as a credible source of new technology; they were either not sufficiently advanced or were disconnected from society. Instead of building local capacity through higher education and research, the required knowledge could preferably be imported from more advanced countries. Higher education was not perceived as particularly relevant to solving the pressing needs of the developing world.

In its extreme, this view culminated in drastic and crippling cutbacks to the higher education system, particularly in Africa, under Structural Adjustment Programs in the 1980s and 1990s that required fiscal contraction for the reduction of public sector deficits. Since that time, higher education in Africa has recovered in quantitative terms, with tertiary enrollment expanding at a pace higher than the world average, but the achievements are again threatened by the failure of governments to maintain adequate funding. A World Bank report concluded that in sub-Saharan Africa (SSA), "public expenditure per tertiary student has fallen from USD 6,800 in 1980 to USD 1,200 in 2002, and recently averaged just USD 981 in 33 low-income SSA countries" (World Bank 2009: xxvii).

Not all observers agreed that fostering science and technology capabilities in developing countries should be low on the priority list. From the 1960s on, a growing body of scholars argued that the only viable long-term solution to addressing a broad range of pressing

problems in developing countries would be to enhance the indigenous capacity for technological development (see, e.g., Moravcsik 1966). While recognizing that the immediate need for technology developed in the North was at odds with the need to create an indigenous science and technology infrastructure, it was still argued that the only sustainable solution would be to strike a balance between the imminent short-term need and the long-term goal of building a science and technology capacity (Moravcsik 1987). Consequently, the donor community should complement its technological upgrading strategies through imports with efforts to reform science education curricula and strengthen the emerging research community at universities and research centers.

In the new millennium, much of this has indeed happened. The donor community has responded with increasing support to capacity building at universities and research centers in an effort to enhance the relevance of local science-based knowledge production. The World Bank—which in the late 1990s restructured itself into a "knowledge bank"—is now emphasizing knowledge and learning (World Bank 2002), and most donor organizations offer support to universities and research projects in developing countries. This inflow of funds is a considerable source of revenue for universities and research centers. In Tanzania, over 50 percent of funds for research come from donor sources, and in Mozambique that share is over 70 percent. While this development undoubtedly reflects a much-needed injection of research funds, the resulting dependency also raises issues of who determines the research agenda.

For universities in developing countries, it is often still an uphill battle. Competence building is costly and takes a long time, often without any tangible or immediate results. As in the North, pressure for relevance and high quality is increasing from funders and society at large. Carden (2009) identifies a number of features that effectively hinder universities from producing relevant and timely research results for evidence-based policy making and weaken the links between the university researchers and policy-makers: there is high staff turnover and brain drain in research organizations, policy-makers lack confidence in their own researchers, researchers in development often lack hard data, Southern countries too seldom share research among themselves, demand for research can be low, and researchers sometimes must construct their own research-to-action machinery.

Addressing these issues is a formidable task for the political as well as the academic system in developing countries, but history shows that it can be done and that investment in higher education and research can yield high dividends for development and economic growth.

The Developmental Role of Universities

As we have seen, the search for a new third role of universities is progressing in different directions. A most constructive idea is the notion that in an emerging knowledge-based and innovation-driven economy, with its lights and shadows, universities can greatly contribute to the betterment of human life. In a developmental context, such an idea is underscored by the changing nature of some indications of underdevelopment, notably those related to the rising impact of the learning divides. Possibilities for learning at an advanced level expand quickly in the North, where, for example, the majority of young people access tertiary

education, and important opportunities exist for working in knowledge-demanding contexts, thus fostering learning by using in problem-solving what has already been learnt. That is far from being the prevailing situation in the South, so capability building is hampered, a phenomenon that greatly contributes to the persistence of underdevelopment.

In such a context, development—normatively characterized by the expansion of freedoms and the betterment of human life—demands the overcoming of the learning divides. That points to two main tasks. The first is the extension to the majority of the population of the possibilities of acquiring capabilities by accessing various types of life-long higher education, closely connected with work. The second main task is to extend the opportunities of using and improving capabilities by upgrading the knowledge content and problem-solving demands of every productive activity, including the so-called traditional sectors, in order to improve competitiveness, particularly in sectors related to the attention of social needs. Thus, the developmental university can be defined, in a first approximation, by a commitment to development as its third role (Arocena, Gregersen, and Sutz 2010).

A more precise characterization can be proposed. As already recalled, the Humboldtian project is not exactly defined by the adoption of research as a second role of universities, but by the joint practice of the fundamental missions of teaching and research. As suggested by the evidence previously discussed, performing those missions is essential for the contribution of universities to innovative activities. Thus, the developmental university is characterized, in a neo-Humboldtian perspective, by the joint practice of three missions: teaching, research, and cooperation for development with other institutions and collective actors. That means that developmental universities can only exist in active partnerships with external stakeholders. It also implies that the developmental role of universities demands more and better teaching and research, not less.

Compared with so-called developed countries, most other countries are more or less poor in terms of access to and use of knowledge. One relevant cause among others for the persistence of that situation in the South is the weakness of market demand for knowledge addressed to endogenous sources, combined with a preference for seeking knowledge from abroad. Since production and use of knowledge are increasingly intertwined, it is increasingly difficult to use imported knowledge without hampering the endogenous generation of knowledge. Knowledge is not a commodity that can be bought and put to work with little additional effort. To put knowledge to work successfully, a strong local knowledge base needs to be created and nurtured. Without it, the world's information riches are out of reach, and therefore become meaningless and of little value. One relevant consequence of such situations is the generally weak use of knowledge for coping with the problems of deprived sectors, which are frequently highly context-dependent. This means that quite specific research and innovation is required to solve them. This situation can be seen as the core of the problem of knowledge for development. Giving priority to the needs of deprived people is one of the ways to cope with such problems. It leads to thinking of innovation policies as social policies. It means that fostering socially relevant knowledge demand should be a fundamental aim of developing policies in general. The contribution of universities to fostering and meeting such demand can be seen as a main clue for strengthening their developmental role.

The Humboldtian notion was both an ideal type *à la* Weber and a normative project. Real universities are heterogeneous and ever-changing organisms, where the combination of a high level of teaching and research is seldom the only game in town; but approximations to the ideal type could be found in practice and the project was to enhance them. Something

similar happens with the notion we are discussing: it would be a good thing if relevant traits aligned with the idea of the developmental university were detected and fostered in existing universities.

If a trend toward the emergence of developmental universities can be detected, the best traditions of universities as learning communities that share some values are not doomed to vanish, as will happen if the forecast of the "university of calculation" is justified.

Developmental universities ought to achieve a fine tuning between traditions that are worth keeping and new features that are worth taking on board, between long-term commitments to knowledge and immediate involvements with society. That cannot be achieved in isolation or by imposition: it can only grow out of multiple and respectful dialogues within universities, and between universities and widespread social actors.

In empirical terms, the developmental university in the South is first of all a set of questions. In what ways and to what extent are specific universities fulfilling their mission by making connections with the main tasks of development? How are they changing their internal structure in connections with such missions? How are they interacting with external stakeholders?

Expanding the Developmental Role of Universities

The above stated general questions lead us to consider a number of issues of descriptive and prescriptive interest, because they can be seen both as indicators of what is really happening and as goals for policies. Let us mention some of those issues, stressing in each case some aspects that can be seen as indicators of how "developmental" a given university is becoming, so they deserve special attention both from researchers and policy-makers.

Closing the Enrollment Gap

Ten years ago the World Bank (2002) pointed to the damage for development stemming from the "enrollment gap" due to the different rates of increase in tertiary enrollment between North and South. To close this gap, the generalization of advanced life-long education is needed. Almost by definition, permanent education has to be permanently connected with working activities. In connection with this issue, at least three aspects deserve close examination:

(1) How can universities cooperate with other institutions and agencies to create a wide and diversified system of tertiary education that offers learning opportunities to the majority of the population?

(2) What efforts are being made, at practical and theoretical levels, to cope with the fundamental challenge posed by life-long education: offering advanced education to people of different ages and backgrounds?

(3) To what extent does tertiary education employ the human and material resources available in the best ways for socially useful production?

Commitment to Solving Social and Productive Problems

Teaching can and must foster the acquaintance of students with social and productive problems of the region where the university is located. In public universities, when enrollment is free or tuition is very low, the privilege of access to advanced education should go hand in hand with social duties; these could be implemented by a "social duty" of the university, where students and graduates could cooperate in the socially valuable use of their specific capabilities. Those are ways of systematizing the connections of teaching with the third mission, understood as "extension." In order to connect them with research, specific problems of productive sectors and those derived from the social situation should be considered in defining research agendas, in ways that foster all capabilities and do not give the humanities and social sciences a second-rate treatment. Neo-Humboldtian projects should be evaluated according to the different ways the university cooperates with external actors to open new opportunities for using advanced capabilities, which was stressed is a main task for development.

Adapting the Evaluation System to Development Imperatives

The research agenda of the university is a main indicator of its true role in society. What is researched and what is not researched there reflects a complex web of interests, power, and voice, both within the academic community and coming from the "external" world. Even if in many cases indirectly, the universities' research agendas shape to a great extent the possibilities, direction, and scope of innovation. In the South, the latter presents some important specific challenges. There are problems that are not researched in the North but are of great significance in the South: while some of these problems have been researched in the South and suitable solutions found, some problems—for example, several "diseases of the poor"—have not been researched nor solutions found, either in the North or in the South. On the other hand, there are problems that have been researched and solved in the North that also provide suitable solutions for the South: this is the type of innovation whose diffusion occurs through the diverse mechanisms of technology transfer.

But many of the solutions/innovations found in the advanced industrialized countries (AICs) are not applicable to the same kind of problems in the developing countries (DCs), typically because they are unaffordable there. Table 34.1 presents a taxonomy of situations in this context.

So, in order to address the lack of research and/or the non-suitability of existing results, several issues of great importance for development should enter the pipeline of academic research. The content of such a pipeline emerges from academic research agendas, which are shaped by different factors, including the academic reward system. The evaluation of academic work follows more or less common criteria and procedures around the world. The justification for using similar criteria in widely different contexts has its merits: it is intended to assure suitable and consistent standards of quality for academic work.

However, this formal homogeneity also has significant drawbacks. One of the most serious relates to evaluations heavily biased toward publication in international journals, thus shifting the research agendas of the South toward the study of problems highly ranked in the research agendas of the North, although priorities in many cases are different. This is why

Table 34.1 A scarcity-induced innovation framework

	Problems for which solutions have been found in AICs	Problems for which solutions have not been sought or found in AICs
Problems for which solutions suitable for DCs conditions exist	The vast majority of solutions acquired through technology transfer	Solutions to problems arising mainly in DCs and developed locally
Problems for which solutions suitable for DCs conditions do not exist	"Canonical" solutions exist, but for various scarcity reasons they are not suitable for DCs conditions	No solutions (yet), typically health issues such as vaccines against malaria

Source: Srinivas and Sutz (2008).

promoting the developmental university includes changing the academic evaluation system to encourage dedication to local needs. High-quality research devoted to problems of local relevance, regardless of their international acceptance or impact, should be rewarded by monetary or career-advancing means. That requires avoiding both international isolation and subordination; as well, discussing different approaches and seeking cooperation at the international level should both be promoted. Strong research groups identify their own problems and are able to cooperate with other groups in solving those and other problems. One indicator of success for research groups in developmental universities is their capability to foster international cooperation with an agenda that includes issues and approaches stemming from the South.

Example of a Program Inspired by the Notion of a Developmental University

Thinking of innovation policies as social policies implies a radical shift not only in the innovation policy agenda, but in the research agenda. In Uruguay, the research council of the public university attempted to foster such a shift through a call for research projects that would contribute to social inclusion by addressing problems that prevent marginalized people from achieving a better quality of life (defined by actors outside the academic realm), and that involved commitment from others to implement the results of the project. Three rounds of the call were made, leading to thirty projects.

Researchers found the program difficult to grasp, as they were accustomed to working from the supply side, that is, they tended to identify "their" own problems. This program required them to work from the demand side, on problems identified by others. This led to two difficulties, the first of which was to transform needs into demands. When an actor voices a problem (in Hirschman's sense), it becomes a demand and it becomes visible, even though it may be a non-effective demand in economic terms. Several problems of social inclusion do not have a voice or the actors able to voice them are weak or isolated, making it particularly difficult to detect demand. The second difficulty relates to demarcation (Alzugaray, Mederos, and Sutz 2012). Not all the problems related to social inclusion are

suited for research: only those that require new knowledge to find a solution are eligible. But quite often the following question arises: Is new knowledge necessary to solve an identified problem, or is the solution already known?—in which case what is needed is for the problem to be prioritized in the policy agenda.

Some projects failed to achieve the academic results sought: this was a research failure. Other projects represented a program failure: they should not have been supported in the first place. Learning from these experiences, successive calls were modified to make the requirements more precise and to try to eliminate confusion.

Some successes were notable. A first group can be labeled "new research results available," such as cheap artificial skin made from collagen-rich bovine tendon, and an alternative strategy to communicate health messages to very deprived teenagers and young women. A second group consists of "new research results that are in use," such as software to analyze digital images of the brain with the aim of detecting epilepsy. The user of the software was a pediatric surgeon working in the university public hospital.

A third group is "capacity for future inclusion." It is unrealistic to expect to solve complex social problems in one step. Yet some projects served as laboratories for gaining experience in dealing with social problems, which later contributed to policy. For example, a team supported in 2003 that evaluated the nutritional impact of the food given to children in public schools subsequently helped shape the Uruguayan government's National Social Emergency Plan.

Such programs offer lessons on how to stimulate more meaningful dialogues between communities (or those that act on their behalf) suffering from different forms of social exclusion. The lessons include an assessment of the difficulties involved in scaling up the program into a demand-side innovation policy at the national level. One difficulty is the weakness or non-existence of research units in different spheres of public policies or public enterprises, which considerably complicates the detection of such demand. Another difficulty is the isolation of the different research and innovation support programs at the national level. The consequence is that projects cannot easily evolve, for instance starting at the research stage in the university and continuing at a development and scaling-up stage through a different national program.

Conclusion

Promoting research in support of development—understood as a process whose aims are the expansion of freedoms and the betterment of human life—shapes a mission for universities. Such a mission, as this chapter has argued, is particularly important in developing countries, given that new knowledge and innovation are needed to find solutions to issues that hinder the social inclusion of vast parts of the population.

This mission need not be seen as opposed or contradictory to the contribution to expanding knowledge or interacting with productive actors to enhance their economic performance. Cooperating with development requires first-rate knowledge production capabilities to address problems of social exclusion, given that new heuristics are often needed to solve them. Cooperation with productive actors, besides its intrinsic merits, is also needed to

foster development and social inclusion. This is so because solutions need to be developed at scale in order to be realized and implemented, something only productive actors can do.

Universities are accustomed to rewarding the advancement of knowledge. In recent times several mechanisms have been devised to reward the university–productive actors relationships or, moreover, those university actors who become directly entrepreneurial. In contrast, the academic reward system has done little so far to recognize research devoted to fostering development. A different metric is indeed needed, given that academic papers in this area will probably not be produced at the usual rate, and patentable results will hardly follow from these R&D efforts. However, promoting research in order to cooperate with development can be highly rewarding both in intellectual terms and in social terms.

The conjecture that developmental universities may exist as communities with some shared values and a specific role in society is partly based on another conjecture: that many researchers really want to be as socially useful as possible. Studies of academic diasporas have shown that the motives for returning to their home country for people able to get a very good university position abroad often relate to a feeling of social usefulness. Such a feeling is also valuable for university people who work in the challenging conditions of developing countries. Social usefulness, though, is related not only to individual will but to the institutional building of conditions that allow people to put their knowledge at the service of social goals. This is a main justification as well as a main challenge for developmental universities.

Note

1. The Mertonian rules, known by their acronym CUDOS (communalism, universalism, disinterestedness, originality, and [organized] skepticism), refer to the ethical norms the academic community should follow while pursuing its task of advancing knowledge (Merton 1973).

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CHAPTER 35

INNOVATION FOR DEVELOPMENT

DAVID BROOK, CAITLYN MACMASTER, AND PETER A. SINGER

Introduction

The twentieth century saw vast scientific and technological innovations that improved the quality of life around the world. Twentieth-century medical advances included vaccines against yellow fever and polio, Banting and Best's 1921 discovery of insulin, Fleming's 1928 discovery of penicillin, and the first heart transplant in 1967. These and many other discoveries transformed medicine and health care, extending and improving lives and bringing benefits unimaginable in the previous century (Conway and Waage 2010: 5). The health and nutrition of rapidly growing populations benefited, in turn, from the agricultural revolution that started in Mexico in the 1940s and spread to other countries and continents, increasing crop yields fourfold over twenty-five years through irrigation, fertilization, and changes in tilling and harvesting practices (Sonnenfeld 1992). More recently, the development of information and communications technologies (ICTs) and the Internet have fostered increased communication, knowledge sharing, and opportunities for education and international collaboration. Innovation, science, and technology—and the entrepreneurialism that sees these breakthroughs adopted into mainstream use—have had profound impacts on development and standards of living around the world, and the pace of discovery shows no signs of slowing.

Given the historical importance of innovation in advancing development objectives such as improved health, quality of life, and economic outcomes, the past decade has seen an even greater emphasis placed on developing and testing new strategies to support and accelerate innovations that address critical development challenges. Over the past three decades thinking has evolved from seeing such advances as spontaneous and exogenous to seeing innovation as something to be consciously fostered and directed toward the achievement of particular goals and outcomes. This shift, in turn, has led to the development of a broad range

of mechanisms including traditional grant funding to support new *ideas* and emerging strategies to enable the development of *products and services* that drive *outcomes and impacts*. This change has been driven arguably both by the scope of current development challenges—which will require far more resources than are available through public development funding—and by downward pressure on development funding as a result of a worldwide economic slowdown and shifting national priorities. Ultimately, many of these strategies aim to mobilize private finance and effort to entrain additional funding for development purposes and to shift risk away from governments.

In this chapter, we briefly review the history of innovation for development, then provide an overview of a range of potential strategies to support innovation for development, with a particular focus on the recent Grand Challenge approach, arguing that it provides a schema or framework that can bring together and align a broad range of mechanisms for financing innovations.

Throughout this chapter, we use the following definition of innovation: "the introduction of new approaches, methods, processes, inputs, resources, and other elements—based in large measure on the results of recent or older scientific and technological research—into production and services activities" (Sagasti 2004: 8). Innovation may involve the creation of new technologies or processes, the development of novel combinations of existing technologies, or the development of new uses or applications for existing technologies to achieve a particular outcome (Conway and Waage 2010). It is important to emphasize that this is a broad definition of innovation, which could include changes in policy, practice, cultural norms, society, or business delivery models, or some combination of these. The recognition of the importance of combining different types of innovation in specific contexts has been called *Appropriate Innovation* and *Integrated Innovation* (Conway and Waage 2010; Singer and Brook 2010).

A Brief History of Science, Technology, and Innovation for Development

Perceptions of the importance of science, technology, and innovation in international development have fluctuated over recent decades from a predominantly optimistic view in the 1950s and 1960s to a more skeptical perspective in the 1980s and 1990s because of a perceived lack of results from earlier efforts (Sagasti 2004: 79–80). The early twenty-first century, in turn, is witnessing a renewed emphasis on innovation for development and a commensurate surge in programs and funding for science, technology, and innovation.

The history of innovation for development is closely linked with the history of the concept of development more broadly. One of the first references to innovation for development was in U.S. President Harry Truman's inaugural address in 1949, which called on Americans to "embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of under developed areas," a comment that has been hailed as "the foundation stone for the whole modern development enterprise" (Muirhead and Harpelle 2010: 4). Over the following two decades international development was focused on encouraging economic growth, a goal which became virtually synonymous with "development" during this time.

Most development planners in the 1950s and 1960s believed that the North's development experiences were directly transferable to the South and that developing countries could achieve prosperity by following the planners' prescriptions. During these decades, development theory emphasized a linear innovation model, in which scientific discovery led to technology development and, ultimately, to the increased production of goods and services (Sagasti 2004: 80). In these models, innovation was viewed as being an exogenous constant that arose spontaneously over time.

By the late 1950s development planners acknowledged the important role that science and technology played in the welfare of developed nations. This is reflected in Nobel laureate Robert Solow's seminal 1957 paper, which demonstrated that over the previous four decades technological advancement had contributed more than 87 percent of gross output per person, while increased financial investment explained only 12 percent (Conway and Waage 2010: xiv).

The notion of directing exogenous science and innovation efforts toward challenges of the developing world first emerged in 1961 at the United Nations Scientific Advisory Committee and was the rationale behind the 1963 convening in Geneva of the first United Nations Conference on Science and Technology for the Benefit of Less-Developed Nations. The Committee's 1961 report, entitled *Science and Technology for Development*, influenced global thinking on development: the final declaration from the Geneva conference argued, "Science and technology provide short cuts to development and can help to reduce the gap between rich and poor countries" (Sagasti 2004: 102). Low- and middle-income country delegates to the 1963 conference pushed for a new UN agency specifically mandated to address the application of science to development; however, as the proponents lacked the finances to support and influence the development of such an agency, the idea was rejected by then-Secretary General U Thant and UN senior management (Muirhead and Harpelle 2010: 25). Instead, the UN established a subcommittee on science and technology.

The 1970 report of the United Nations Advisory Committee on the Application of Science and Technology (ACAST), *World Plan of Action on Science and Technology for Development,* proposed that 5 percent of developed countries' research and development expenditures should be targeted toward issues of concern to poor nations[1] (Sagasti 2004: 104). It was in this environment that the International Development Research Centre (IDRC)—created in 1970 through the unanimous approval of the Canadian Parliament—was conceived and established, with the mandate to assist the global South in developing endogenous scientific and technological capacity. Although the U.S.-based Rockefeller and Ford Foundations had already pursued programs in support of research "by Southerners for Southerners," IDRC was the first public-sector organization created to do so. IDRC was considered a great success, as highlighted in the 1982 comprehensive audit by the Auditor General, which lauded the IDRC for its role as catalyst, adviser, and supporter of research in the developing world (Muirhead and Harpelle 2010: 2).

The prevailing development paradigm of the mid-1970s to mid-1980s emphasized science and technology policy implementation. In 1979, a second UN Conference on Science and Technology for Development (CSTD) convened in Vienna; it emphasized the importance of endogenous science and technology capabilities in development, and thus established a United Nations Financing System for Science and Technology for Development (UNFSSTD), with voluntary contributions expected to reach US$250 million annually. In the confrontational international political climate of the early 1980s (at the height of the Cold War),

these contributions did not materialize and the UNFSSTD was replaced by an interim fund for science and technology within the United Nations Development Program (UNDP) (Sagasti 2004: 105). The interim fund never amassed more than a fraction of the amount envisioned at the Vienna Conference and was ultimately dismantled in the early 1990s.

On the heels of the Washington Consensus and the growing popularity of economic neoliberalism, international development in the late 1980s and early 1990s was characterized by a deemphasizing of science and technology policies and an emerging emphasis on the free play of market forces. Economic crises in Latin America, sub-Saharan Africa, and South Asia led to decreased government revenues and reduced domestic spending on science and technology. Despite this generally bleak outlook, however, on the occasion of the tenth anniversary of the Vienna Conference, the members of the UN ACAST issued a forward-looking declaration intended to revitalize international cooperation in science and technology for development: "We have never had so much power to influence the course of civilization, to shape the way our species will evolve, and to create an ever-expanding range of opportunities for human betterment—but we remain unwilling or unable to use this new-found power to achieve our full potential as human beings." The declaration closed with a call to action, encouraging the development in the 1990s of "a multiplicity of innovative approaches to bilateral, regional and global cooperation in science and technology for development" (Sagasti 2004: 107). This call to action has gone largely unheeded.

The late 1990s witnessed a return of strategic planning to the forefront of development theory and practice, with the revival of centralized national development strategies that emphasized competitiveness and innovation systems (Sagasti 2004: 81, 84). This era of innovation for development saw a re-emerging emphasis on scientific capacity building in low- and middle-income countries through both grants to support basic research (the creation of new *ideas*) and investments in scientific *infrastructure*. Examples of these kinds of funding mechanisms include a range of traditional granting programs through development agencies and institutions, and infrastructure investments by the same institutions such as the Biosciences eastern and central Africa (BecA) laboratory hub in Nairobi.

The focus on capacity building had shifted, however, by the early 2000s as is evident in the targeted problem-solving approach of the Millennium Development Goals (MDGs). Science and innovation have been hailed as playing "an important role in accelerating progress toward the MDGs" (Conway and Waage 2010: 90). A task force was struck to identify and describe approaches for effectively applying science, technology, and innovation to achieving the goals. The task force report (Juma and Yee-Cheong 2005) emphasizes the importance of: infrastructure as the foundation for technology; investment in science and technology education; business activities in science, technology and innovation; and the development of governance mechanisms for global technologies.

In the early part of the twenty-first century, a variety of new organizations, institutions, and programs emerged that made use of a problem-solving approach: they include the Global Fund to Fight AIDS, Tuberculosis and Malaria, the Bill & Melinda Gates Foundation, the President's Emergency Plan for AIDS Relief, and many others. At the same time, a series of global economic crises led to a decrease in public funding for development and, looking forward, it is considered "unlikely" that official development assistance will dominate transfers to developing countries in the twenty-first century as it did in the previous half century (Sagasti 2004: 109; Conway and Waage 2010: 76). These organizations developed and employed a range of new mechanisms to encourage innovation in development, including product development

partnerships, impact first investments, innovation prizes, advanced market commitments, pay-for-performance, and social impact bonds. All of these mechanisms shift from a previous focus on the exploration of new *ideas* and support for *scientific infrastructure* to an emerging focus on the development of *products and services* and, ultimately, on *impacts and outcomes*. These mechanisms are described in more detail later in this chapter.

A final mechanism that has played a particularly significant role in shaping both policy and investments in innovation for development since the turn of the century is the Grand Challenge approach. Although this approach does not in and of itself address the twin challenges identified in the previous paragraph, it can serve as an operating system through which to align and enable a broad range of mechanisms to encourage innovation that can engage and entrain additional funding and resources from the private and not-for-profit sectors. The following section of this chapter takes an in-depth look at this approach.

The Grand Challenge Approach

The idea of a "Grand Challenge" originated with Dr David Hilbert in the early twentieth century (Varmus et al. 2003). Working in the field of mathematics, Dr Hilbert identified twenty-three significant problems that, when solved, were expected to significantly advance the field. There are several different working definitions of grand challenge, all of which focus on identifying a specific critical barrier whose removal would have significant impact.

This approach was revived by the Bill & Melinda Gates Foundation which, in 2003, undertook an extensive process to identify a set of Grand Challenges in Global Health. These included challenges like developing needle-free delivery systems, preparing vaccines that do not require refrigeration, creating a full range of optimal, bioavailable nutrients in a single staple plant species, and many others. The Foundation also conducted a global competition to fund world-leading groups of scientists to address these challenges. Over 1,500 letters of intent and over 400 full proposals were submitted, and in June 2005 the Foundation announced a commitment to fund $450 million in specific projects, in partnership with the Wellcome Trust and the Canadian Institutes of Health Research. The Bill & Melinda Gates Foundation has continued to refine its approach by introducing the Grand Challenges Explorations program in 2008, which uses an agile, accelerated grant-making process to fund innovative and transformative ideas.

Another example of a "challenge" approach to innovation for development was the set of Challenge Programs developed by CGIAR in the late 1990s. The focus of these programs was to drive collaborative research and implementation across the entire agricultural value chain, from research to on-the-ground implementation of innovations. Projects brought together researchers with suppliers and manufacturers and end market users. Some of the lessons from this program include the longer timeframe to impact for innovations in agriculture and, at least qualitatively, the utility of the innovation platform approach that emerged from initiatives like the Sub-Saharan Africa Challenge Program (Lynam, Harmsen, and Sachdeva 2010).

Building on the original Grand Challenges in Global Health, a group of global health researchers and innovators led by Dr Abdallah Daar undertook a structured process to identify a set of grand challenges in non-communicable disease, which were announced in 2007

in the journal *Nature* (Daar et al. 2007). This led to the creation of the Global Alliance for Chronic Disease, an initiative that brings together six of the world's largest health research agencies to coordinate research investments to address these challenges. Working with the National Institute of Mental Health in the U.S., the Alliance undertook a further exploration of grand challenges in global mental health (Collins et al. 2011). More recently, the approach was adopted by others, including Grand Challenges Canada and the United States' Agency for International Development. The former is similarly focused on global health and has identified challenges in point-of-care diagnostics, maternal and child survival, the cognitive development of newborns, and mental health. The latter has expanded beyond the health sector to address the reading skills of primary school students as well as access to electrical energy within rural agriculture.

In 2010, the Bill & Melinda Gates Foundation took a look back at the first five years of its Grand Challenges in Global Health. One of the key lessons learned was that innovations of the kind that were supported are a longer-term proposition that will take upwards of ten to fifteen years to bring to commercial scale (McNeil 2010). Overall, the approach was deemed to be successful at bringing focus, attention, and resources to scientific approaches to saving lives. At the same time, however, there was recognition of the importance of accelerating the timeline to impact for new ideas and innovations. This is where early adoption of an Integrated Innovation perspective and a strong emphasis on entrepreneurship—which has historically been neglected in development work (see Naudé, this volume)—can facilitate faster timelines to uptake, adoption, and scale.

At its core, the Grand Challenge approach is a mechanism to mine the intellectual capacity of innovators from across disciplines and sectors for transformative and bold ideas to solve global health challenges; support the validation and refinement of these bold ideas into practical and implementable innovations; and catalyze the engagement of partners from across sectors to sustainably take these innovations to scale. This latter point emphasizes the importance of entrepreneurship as part of an integrated approach to development; despite its historical relegation to the sidelines of the development arena, entrepreneurship is critical to getting innovations to market and enacted into policy.

One of the recognized strengths of the Grand Challenge approach is its ability to capture the imagination and interest of a far broader audience than typically focuses on development challenges. The approach is guided by five core principles:

- *Focus*—strategic and well-articulated grand challenges serve to focus research efforts and to capture the imagination and engage the world's best researchers.
- *Best ideas*—projects are selected based on public, transparent calls for proposals seeking the best ideas.
- *Collaboration*—funders, investigators, and other stakeholders actively collaborate to accelerate process and integrate advances to ensure these advances serve those most in need.
- *Impact*—projects are selected not only for scientific excellence, but for the likelihood of their achieving the desired impact, and they are milestone-driven and actively managed to that end.
- *Global Access*—projects and investigators make global access commitments to ensure the fruits of their research are available to those most in need.

The Grand Challenge approach can also serve as a governance model that enables a broad spectrum of public, private, and not-for-profit organizations to organize and align their contributions to address and overcome a specific challenge in a coherent manner. A good example of this is the *Saving Lives at Birth* program. This program is a partnership between three national development agencies (USAID, the Norwegian Ministry of Foreign Affairs, and the UK Department for International Development), a private foundation (the Bill & Melinda Gates Foundation), and a not-for-profit organization (Grand Challenges Canada). Rather than launching five separate funding programs with five different application processes, the *Saving Lives at Birth* program allowed these diverse funding bodies to come together and agree on a single challenge, a single request for proposals, and a single, integrated community of innovators to address the challenge.

Although the Grand Challenge approach is traditionally associated with grants, in recent years its proponents have realized that even in broad partnerships like *Saving Lives at Birth*, the partner organizations are not going to be able to scale and solve these challenges by themselves. Instead, there is an increasing focus on capturing the imagination and interest of, and ultimately catalyzing action by, others outside the traditional development community, including the private and not-for-profit sectors and other academic disciplines not traditionally associated with development.

Building on this recognition, the Grand Challenge approach could go beyond simply providing grants to stimulate ideas: it could provide a structure through which to engage, coordinate, and align a broad range of partners and mechanisms to encourage innovation and promote entrepreneurship in seeing that these innovations are scaled and implemented. The remainder of this chapter provides an overview of the financial mechanisms that have emerged over the past decade, and concludes with a discussion of the potential of this model to align these mechanisms.

Financial Mechanisms to Support Innovation

As outlined in the historical overview earlier in this chapter, over the past decade a number of strategies for enabling and supporting innovation for development have (re)emerged, including: grants, product development partnerships, impact-first investments, innovation prizes, advanced market commitments, pay-for-performance, and social impact bonds.

Grants

By far the most common mechanism for enabling innovation for development is the provision of grants, often through peer-reviewed academic competitions conducted by national development agencies or major international not-for-profit organizations. Grants are primarily targeted at the development of new ideas and concepts and the creation of new scientific infrastructure, although they can extend their support through to the proof-of-concept/validation of the new idea. For the most part, grants are focused on scientific excellence

through curiosity-driven research. More recently, some development innovation grants have focused on funding innovations that are further upstream, with a focus on proof-of-concept. Examples of the use of grants to support innovation for development include the Bill & Melinda Gates Foundation's Grand Challenges Exploration grants, *Saving Lives at Birth* grants, and Canadian International Food Security Research grants.

The strength of this mechanism is that it can lead to the development and/or proof-of-concept for new ideas to address a broad array of issues and challenges. Its primary weakness is the need to provide up-front funding for all of the innovation that takes place, with no guarantee of results.

More broadly, traditional mechanisms to encourage innovation provide few incentives for researchers to validate their ideas, ensure that they are translated into products or services, and take them to scale so that they can make a lasting impact. Instead, while traditional incentives for researchers—including the need to publish, requirements for tenure and career advancement, and many others—provide strong motivation to develop new ideas, they provide few or even negative incentives to take the ideas to scale through public or private channels. Further, the cost of taking an idea to scale can be orders of magnitude higher than that of developing and validating that idea, particularly in areas like vaccine and drug development. In short, grants typically perpetuate the neglect of entrepreneurial aspects of development projects.

Product Development Partnerships

Having recognized some of the limitations of traditional grant-based mechanisms, this new model emerged at the turn of the twenty-first century. The purpose of these partnerships was to overcome barriers to investments in research and development—including high capital costs, low potential returns on investment and a high risk of failure—to address health challenges in the developing world.

Product development partnerships are structured to bring together a broad range of stakeholders, including innovators and public- and private-sector organizations and institutions. Funding is generally provided through grants from public-sector partners to offset some of the barriers identified above. These grants, however, are targeted not at the creation of novel ideas but rather at the development and implementation of new products and/or services. Private-sector and academic/research partners, in turn, make in-kind investments of time and, potentially, intellectual property (Grace 2010). To date, product development partnerships have been successful at developing new health technologies and beginning to move these technologies toward commercialization. It remains to be seen whether these products will have an impact in the marketplace leading to improved health outcomes in the longer term.

Impact-first Investments

Impact-first investment funds are another mechanism to fund the development of new or improved products and services. In general, impact-first funds are investment funds where some or all of the returns are forgone in exchange for tangible social benefits such as improved health. Probably the most well-known example of an impact-first investment fund

is the Acumen Fund, which provides patient capital to support investments in critical areas including water, health, housing, and energy. Impact-first investment funds make investments through loans and/or equity placements rather than through grants.

The strength of the impact-first investment model is that it helps to bridge the gap between potentially transformative new ideas and the resources necessary to take those ideas to scale where they will have significant impact. Because of the concessional nature of the investments made through these funds, companies have the opportunity to develop new products and services that can have transformational social impacts that would not attract investment on the basis of their projected financial returns alone.

A weakness of the impact-first investing model is that it can be very difficult to quantify and assess the value of social outcomes. As such, a significant portion of an impact-first investment fund's capital can be consumed in ensuring that potential projects can have the intended impact and in measuring the impact once the investment is made.

Innovation Prizes

Innovation prizes comprise a third mechanism that focuses on providing incentives to develop innovative products or approaches. The concept of awarding a prize as a driver for innovation is almost three hundred years old. Arguably the first such innovation prize was that offered by the British Government in 1714 for the development of a methodology to accurately determine a ship's longitude (Rosenberg 2012). The concept of innovation prizes has been used over time to spur such disparate innovations as canning (as a solution to the need to preserve food) and the design of a trap for cane toads in Australia (Love 2008). The basic concept of an innovation prize is to provide a significant financial reward for the first innovator or team of innovators to achieve a tightly defined target. Prizes are, by definition, intended to reward problem solving and not capacity building. They often focus on proof-of-concept without an explicit need or focus on taking to scale the solutions that emerge. Innovation prizes are an example of a demand-pull mechanism, giving innovators an incentive to focus their resources to solve the challenge and win the prize.

The use of prize competitions to spur innovation has enjoyed a renaissance over the past decade, with McKinsey (2009) reporting that $250 million in new prizes had been established between 2000 and 2007. Examples of innovation prizes include the Google Lunar X PRIZE, the Bright Tomorrow Lighting Prize from the U.S. Department of Energy, and the Night Rover Challenge from the National Aeronautics and Space Administration. More recently the concept of innovation prizes has been popularized by the X Prize Foundation, which conducts prize competitions in four areas: Education and Global Development, Energy and Environment, Life Sciences, and Exploration (Ocean and Deep Space). They focus on two types of competitions: *X Prizes* of over $10 million given to the first team to achieve a specific goal that has the possibility of impacting individuals around the world, and *Challenge* awards of up to $2.5 million for the solution to a well-defined technical problem that currently has no clear path to a solution.

There is also increasing interest in the public sector in the use of innovation prizes. For example, in the United States, the America COMPETES Reauthorization Act of 2010 provided government agencies with authority to use prize competitions to advance their core

mandates and drive innovation. This Act built on the previous "challenge.gov" website as a single portal for innovators to access information about innovation prizes. As of March 2012, forty agencies had posted more than 150 prizes on this site.

The main benefit of the prize mechanism is that it can drive significantly more innovative activity than a similar investment in a grant. The weakness of this mechanism is that by their nature, prizes require tightly defined specifications that clearly articulate when and under what conditions the prize will be awarded. As such, it is very difficult for a prize strategy to drive novel thinking in areas where the desired outcomes cannot be readily articulated or measured. There can also be significant challenges around sustainability, since only the first successful approach is rewarded; the efficiency and effectiveness of the first successful innovation is not necessarily the best overall.

Advanced Market Commitments

Advanced Market Commitments (AMCs) are a financial tool designed to address a specific and pressing market failure associated with the perceived level of risk and profitability of developing and marketing innovative products and services to low- and middle-income countries. AMCs provide a guaranteed purchaser and purchase price for a product that is supplied at a sharply discounted rate to low-income countries and communities. AMCs bridge problem solving and capacity building, offering a guaranteed market for a product that addresses a specific problem, but provide funding support for the uptake of that product only by subsidizing the sale of that product in low-income countries. In the same way, AMCs also bridge supply-push (by providing incentives for the development of new products) and demand-pull (by delivering the incentive only in the context of the rollout of the product in low-income countries).

For example, traditionally it takes between ten and fifteen years after their introduction in high-income countries for new vaccines to reach children in low- and middle-income countries. This means that children in these countries face unnecessary health risks that could be addressed through earlier access to these vaccines. Further, there are no vaccines for some of the most prevalent childhood diseases in low- and middle-income countries, including malaria, tuberculosis, and HIV/AIDS. To address this challenge, five countries (Canada, Italy, Norway, Russia, and the United Kingdom) working in conjunction with the Bill & Melinda Gates Foundation committed $1.5 billion through an Advanced Market Commitment to purchase pneumococcal vaccines, providing manufacturers with the necessary financial certainty to invest in vaccine development and new manufacturing facilities. The Bill & Melinda Gates Foundation estimates that by 2030 this single AMC could save as many as seven million lives.

A similar mechanism called AgResults was launched at the 2012 G20 meeting in Los Cabos, Mexico to help address issues around global food security. This initiative aims to "pull" innovation and leverage private resources to promote food security and agricultural productivity, particularly among smallholders.

As with the Innovation Prize model, the strength of this mechanism is that it can leverage significant external/private sector resources to develop products and services by ensuring that there is a guaranteed market for the product or service once it is developed. The weakness of this mechanism is that it is unlikely to spur new ideas or to attract transformative

ideas from outside of the sector, as there is no return on investment for higher-risk but potentially transformative ideas that do not succeed.

Pay-for-performance

Pay-for-performance mechanisms, sometimes called cash-on-delivery, are another strategy to drive innovation for development with an emphasis on outcomes. Again, the fundamental concept of pay-for-performance programs is simple: rather than funding a prescriptive methodology that is intended to achieve a specific result (and evaluating the methodology on process outcomes), this model makes payments in return for specific defined outcomes, without bias as to the specific process or methodology through which the results are achieved. This strategy focuses expressly on problem-solving, with payments made only for the implementation of successful solutions, and is another example of a demand-pull model. It is agnostic to proof-of-concept or scale, as the parameters for payment can be established to favor one or both.

An example of a pay-for-performance mechanism is a program run by the Global Alliance for Vaccines and Immunization (GAVI) to encourage the immunization of children in fifty-three countries through a three-dose series of DPT (diphtheria, pertussis, and tetanus). Through this plan, for every child who is immunized above the baseline, the government of that child's country receives a $20 payment. Through this plan, governments receive a fixed allocation of funds for the first two years of the program, with the pay-for-performance component coming into effect in the third year of implementation (Rosenberg 2011).

Effective pay-for-performance mechanisms are dependent on three core factors: a clear baseline against which to measure (and reward) progress; clear and agreed metrics; and effective, accurate, reliable, and affordable methodologies through which to measure results in relation to these core metrics. One concern that has been expressed about pay-for-performance programs is that they can distort the behavior of recipients such that they focus exclusively, and potentially detrimentally, on those indicators that will be used to judge performance. Another concern is that there is a strong bias toward the reporting of positive impacts, given that these impacts are the direct basis for performance payments.

Early evaluations of the impact of pay-for-performance incentives are promising, as suggested by a recent study in *The Lancet*: "Financial incentives aimed at patients and individual providers are effective over the short term for 'simple and distinct, well-defined behavioral goals'" (Montagu and Yamey 2011). This same study cites a survey undertaken in 2005 by Paulin Basinga and colleagues to determine the impact of pay-for-performance programs to increase the number of facility-based deliveries in two districts in Rwanda. Although they are cautious about overstating the impact of the results of this study, the authors conclude that it "provides a welcome piece of good news, showing that pay-for-performance can increase the uptake of maternal and child health services" (Montagu and Yamey 2011).

Finally, much research remains to be undertaken to understand the interactions between pay-for-performance programs and pre-existing programs and incentives and other motivations (Miller et al. 2011). An important strength of this model is that it helps to move products and solutions closer to scale in terms of impact. Its primary challenge is that it depends on clear and measurable metrics, and it is critical to understand from the outset what is being measured and why; in many cases, such metrics are ill-defined or inconsistent across jurisdictions.

Social Impact Bonds

A final model that has emerged to spur innovation in development is social impact bonds. This model, pioneered by Sir Ronald Cohen in the UK and similar to the pay-for performance model, pays directly for outcomes but shifts the financial risk (and benefits) of the program onto third parties. At their core, social impact bonds are a vehicle through which to leverage private capital to address pressing challenges. Social impact bonds are focused on problem-solving at scale by providing a strong demand-pull incentive for results.

A social impact bond is a formal contract between a government or other payer, private investors, and service delivery organizations (including not-for-profits, charities, and social enterprises). It is a financial mechanism where investors make an up-front investment to support an innovative social program or service and receive returns based on the outcomes of that program or service. The funds to pay for the returns are derived from the funds that the government would otherwise have paid in the absence of that outcome. The four elements of a social impact bond are: a contract is negotiated wherein the government agrees to pay a rate of return on invested capital for improved social outcomes based on a clearly defined baseline and performance metrics; based on the contract, an intermediary raises upfront capital from investors to invest in social service delivery organizations; the social service delivery organization(s) use(s) this capital to fund the programs to deliver the desired outcomes; and based on the degree to which the social outcome is achieved, the government pays investors as negotiated in the original contract.

The first social impact bond was launched in September 2010 at Peterborough Prison in the UK by an organization called Social Finance UK. Essentially, this social impact bond funds rehabilitation services for short-sentence prisoners released from the prison, with the aim of reducing re-offending. It is currently in the process of evaluating its anticipated outcomes. The anticipated benefits of such bonds include: shifting the focus to outcome from inputs (i.e. government spending); the capacity to leverage private capital for social purpose; and shifting risk from government to private investors.

Although there is a high degree of interest in social impact bonds across a number of jurisdictions, several commentators have urged caution as this type of financial innovation is still in its very early stages and, as such, should be approached and implemented cautiously (Palmer 2012). It is worth noting that social impact bonds are not really "bonds" in the traditional financial sense, in that that they do not offer a fixed return to investors over a fixed period of time. While such bond contracts operate over a specified period of time, the financial returns that investors will receive vary according to the success that is achieved in relation to the social outcome(s) specified in the contract. In this way, social impact bonds can better be considered a variation on a pay-for-performance model, albeit one in which the risk and reward are shared between the delivery organization and the private-sector investors.

Because of their comparative novelty, social impact bonds have yet to be implemented in the development sector. One of the primary barriers to doing so is the need to identify a "payer" who would make payments upon the validation of performance outcomes. It has been posited that this role could be played by large multilateral organizations, aid agencies, or private foundations interested in the social outcomes that are produced.

While each of the financial mechanisms outlined in this section has its respective strengths and weaknesses, individually, none of them has the scope to enable the entire innovation process, from new ideas through proof-of-concept and the production of new products and services to sustainable scale. The final section of this chapter outlines a potential model that expands the traditional Grand Challenge approach to capture and align each of these mechanisms in a single coherent model.

A Holistic Model of Innovation for Development

As outlined earlier in this chapter, the continuum of innovation for development activities can be thought of as moving through three areas of focus, as follows. First, *ideas and infrastructure* for articulating, testing, and modeling specific concepts or groups of concepts that can impact on a single or multiple aspects of the problem, and funding new scientific equipment, human resources, and facilities. The end point of this stage is the proof-of-concept of new or modified ideas to address the problem or challenge. Second, *products and services*—this can be thought of as the process of converting ideas into specific social, business, or scientific techniques or technologies. The end product is a technique or technology, or set thereof, that is ready for deployment in the market. Third, *outcomes and impacts* focused on bringing a solution to scale where it can have the greatest and most transformative effect. This can include but is not limited to the marketing and manufacturing of the product or the dissemination of new ideas through media such as journals or various social media technologies. Entrepreneurial spirit is critical to success at this stage and is therefore an imperative part of innovation for development.

Traditionally, programs or strategies to enable innovation for development have focused on a single mechanism within this continuum. There is an increasing realization, however, that it is critical to think of and plan for scale, even during the very early stages of the innovation process. To do so requires a focus not only on scientific innovation (e.g. new products or services), but also on innovation in the social (e.g., enhanced health systems or adaptations for local culture) and business spheres (e.g. cost-effective local manufacturing and delivery strategies). This strategy of combining scientific, social, and business innovation to drive impact has been called *Integrated Innovation* (Singer and Brook 2010).

Similarly, by aligning different strategies for funding development innovation it should be possible to leverage the strengths of each individual mechanism to form a coherent and comprehensive process, to drive impact and lasting change. The potential for the Grand Challenge approach is to align these seemingly disparate financial mechanisms (Figure 35.1). Rather than pursuing any single mechanism, future systems might align multiple funding streams in the expectation of a greater likelihood of identifying meaningful solutions to tackle a critical development problem and a greater likelihood of these solutions' being taken to scale. The power of such a model is its ability to harness each of the financial mechanisms to deliver on the element(s) of the innovation continuum to which it is best suited, bearing in mind that in reality the mechanisms often spill over to both earlier and later elements of this continuum.

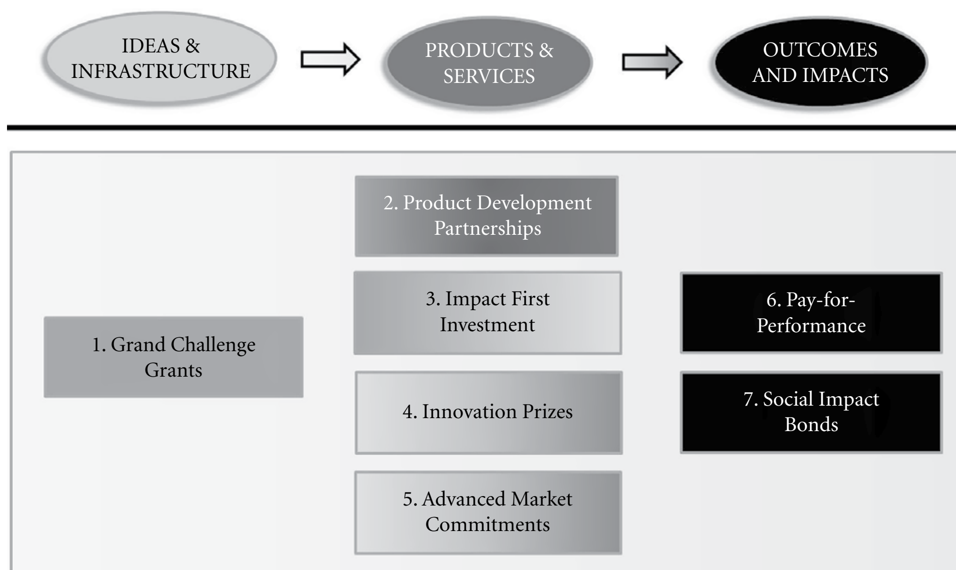

FIGURE 35.1 Aligning funding mechanisms to encourage "Innovation for Development"

Note

1. "However, with the minor exception of a few fields such as medical research and health care, the mobilization of developed country scientists for focus on the problems of the developing world has not been very successful" (Sagasti 2004: 104).

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CHAPTER 36

INFORMATION AND COMMUNICATION TECHNOLOGIES FOR DEVELOPMENT

RONALDO LEMOS AND JOANA VARON FERRAZ

Introduction

The use of Information and Communication Technologies (ICTs) in the developing world has raised many questions and debates. Where do ICTs stand compared to other development priorities? What roles do the state and market play in their deployment? How can one assess the development impact of ICTs projects? Are these impacts scalable or sustainable? What comes next once ICTs are readily available to all people? And how are these technologies connected to policy making?

To approach these questions, this chapter briefly describes the field of Information and Communication Technologies for Development (ICT4D) and maps key debates surrounding it. The concepts and dynamics of ICT4D theory are described through an analysis of empirical experiences, examining their relation with the state and the market, and the conditions under which they become an infrastructure for innovation. These examples include telecentres, LAN houses, mobile devices, and their appropriation and use by the poor. Emphasis is placed on how the use of ICTs can emerge spontaneously in an open and uncontrolled context, rather than out of an ideological position in favor of provision through either the state or markets. This is followed by a discussion of current trends, including access to ICTs through markets, the growing number of devices affordable to the poor, and the benefits of ICTs in terms of empowering wider social transformation. While the state has an important role, new business arrangements are also promoting access to ICTs in the developing world. As connectivity expands, practical examples of the impact of ICTs emerge, both in connection with economic opportunity and with the exercise of basic civil rights.

Looking forward, the future of ICT4D involves threats to Internet rights and the freedoms connected to the deployment of ICTs. Are the practices and policies related to ICTs leading to democracy and public access to knowledge, or are they leading to increased surveillance and control? This field is evolving beyond the debates described above, to encompass questions on internet governance and policies that foster or threat online rights and freedoms.

Emergence and Evolution of ICT4D

The debate about the importance of Information and Communication Technologies (ICTs) in the context of development studies dates back to the mid-twentieth century, yet exploded in the 1990s when the G7/8[1] began to address the governance of cyberspace and electronic commerce. At the time, the main issues were the norms for interconnecting networks, rights to access such networks, and taxation of goods and services delivered through the web (Hart 2004). But as criticism from anti-globalization movements increased, pressure against the G8 governance became stronger, reaching a peak in 1999 during the World Trade Organization (WTO) meetings in Seattle. One of the main complaints was the lack of space in the decision-making processes for non-G8 countries and the international institutions that were supposedly more representative of their interests. In response to such pressure, the G8 established a Digital Opportunity Task Force (DOT Force) in 2000. The goal was to bring together forty-three teams composed by government, private sector, non-profit, and international organizations from both developing and developed countries to debate the "digital divide." The idea, as put by Castells (1999) was that ICTs represented an opportunity for countries to leapfrog stages of economic growth, yet could further disadvantage those economies unable to adapt to the new technologies. DOT Force meetings were held in Tokyo, Cape Town, Siena, Dubai, Berlin, Davos, Berlin, Cairo, and Naples.

In 2000, the same year that the DOT Force was established, the G8 adopted the Okinawa Charter on Global Information Society which argued in favour of the potential for ICTs to transform economies and societies, and in which the G8 committed to address the digital divide. This commitment carried over into the United Nations' Millennium Development Goals, which expressly included the role of ICTs as target 8f: "make available the benefits of new technologies, especially information and communication." From that moment on, several international organizations addressed access to ICTs, including the OECD, the World Bank, the International Labour Organization, and other UN agencies.

In 2001, the G8 DOT Force released the report *Digital Opportunities for All*, focusing on access in terms of connectivity and human capacity. In November of the same year, the UN Secretary-General, Kofi Annan, established an ICT task force in response to a request from the Economic and Social Council (ECOSOC). As a multi-stakeholder initiative under the umbrella of the UN, developing countries considered this forum more legitimate than the G8 DOT Force. The goal of the UN ICT Task Force was to provide policy advice to government and international organizations for bridging the digital divide, through partnerships within the UN system and other stakeholders, from states, to private sector and donors, in order to "lend a truly global dimension to the multitude of efforts to bridge the global digital

divide, foster digital opportunity and thus firmly put ICT at the service of development for all."[2] The UN ICT Task Force had an important role in the World Summit on the Information Society (WSIS). Established by the UN General Assembly, through resolution 56/163, the WSIS recognized the urgent need to harness the potential of knowledge and technology, and to find ways to put this potential to the service of development. This summit convened twice, in Geneva in 2003 and, interestingly, in Tunis in 2005, the country which six years later captured world attention at the start of the Arab Spring.

The idea of using ICTs to advance development goals consolidated under the acronym of ICT4D. In accordance with the international debate, many organizations in the private, public, and third sectors became part of the discussion and implemented projects based on the assumption that access to technologies would have a positive impact on development. ICT4D activities were carried by the World Bank, the Massachusetts Institute of Technology, Canada's International Development Research Centre, the Open Society Foundation, and private companies (including Microsoft, Intel, and Cisco). While developed countries rely on high-tech infrastructure and human expertise to innovate in the field of ICTs, emerging and developing economies are falling far behind. Figures from the International Telecommunications Union (ITU) show that in 2011 two-thirds of households in the developed world had access to the Internet, while in the developing world the figure was less than one in six households. Overcoming this "digital divide" was therefore the main concern in the beginning of the debates regarding ICT4D.

Yet as technology evolved, the strategies and theories to deal with this challenge shifted. Initially, the central policy idea was to provide access to low-income populations through "telecentres," government-funded public spaces where people could have access to computers and the Internet. The telecentre approach inspired a number of programs and generated passionate discussion, yet this first wave of ICT4D was criticized in terms of sustainability, scalability, and lack of evaluation. Criticism also arose in connection to programmes aiming to giving laptops to the poor, as such devices were costly and relied on communication and power infrastructure than was often not available. Richard Heeks (2008) labels this initial phase of projects as "ICT4D 1.0" analogous to the first generation of web services.

From the mid-2000s, telecentres began to lose ground as mobile phones became more prevalent within ICT4D debates, and soon became the new symbol for providing access to low-income populations. In contrast to telecentres, mobile phones depend on lower infrastructure costs than landline broadband connections. Also, private markets for mobile telephony seem to thrive in almost any context, even when states fail to foster competition, meaning that mobile telephony is capable of reaching a larger portion of the population. This change in focus to mobile phones reflected an increasing perception that markets had a role in providing access to ICTs. Though influenced by public policy, the spread of mobile phones were the result of market forces. This example illustrates conflicting views in the ICT4D field and development theories. On one side, a market-oriented approach argued that a search for profit would lead to the spread of ICTs. On the other side, the market was seen to have insufficient incentive to provide ICTs to the poor and other action was required.

Nevertheless, new criticism soon emerged towards advocates of the mobile phone as the new means of achieving digital inclusion. Notably having a mobile is not equivalent to being connected to the Internet. In many countries, the majority of mobile phones work as prepaid accounts which have limited connection to the Internet. Therefore, it is important to

consider what kind of access is possible through these devices, which tend to have a restricted set of features and are not a perfect substitute for desktop or laptop computers. In short, mobile phones have mitigated, but did not resolve, the digital divide.

Yet ICTs continued to change at a fast pace leading to tablet computers and increasingly an "internet of things" which allows various objects (such as video players, cameras, and vending machines) to be connected online with their own address. Such technologies have immediate and direct consequences for the assumptions underpinning ICT4D. Accordingly, projects increasingly consider the different levels of technology available in a particular context, even where such availability does not correspond to the ideal connectivity reached in a developed country.

ICT4D also increasingly paid attention to the availability of broadband infrastructure, a resource seldom available in much of the developing world. Access to broadband once again raises the role of state and market in deploying the necessary infrastructure. Many broadband plans work under the assumption that market forces have failed to provide the investment to expand infrastructure or foster competition. Mainly because the private sector usually finds adequate incentives for investing in certain areas, such as those densely populated and with attractive markets, but find little incentive to expand service to rural areas, smaller cities, and less populated areas. Facing this situation, a number of countries invested in broadband plans as part of the stimuli packages adopted after the financial crisis in 2008. Thus, in the early 2010s, many countries had some sort of broadband plan including Argentina, Botswana, Brazil, Chile, Colombia, Ghana, Indonesia, Kenya, Lebanon, Malaysia, Mexico, Nigeria, Romania, South Africa, and Uganda.

Recently the literature has gone in new directions, moving from "bridging the digital divide" towards "impact assessment." Recent work responds to criticism based on the perceived lack of sustainability, scalability, and evaluation. In short, the goal has shifted from promoting access to ICTs, to a focus on the consequences of such access. Richard Heeks (2008) describes "ICT4D 2.0" as a renewed focus on:

- *Readiness*—having the policies and infrastructure to make ICT availability possible;
- *Availability*—rolling out ICTs to the poor to help them become users;
- *Uptake*—implementing and applying ICT to make it useful, taking into account demand and usage; and
- *Impact*—using ICTs to make the greatest developmental impact, in terms of efficiency, effectiveness, and equity.

As ICT4D struggled to evaluate the relation between connectivity and development, numerous methods for measuring impact were introduced. For instance, Heeks and Molla (2009) developed an overview of different frameworks that could be used for impact assessment of ICT4D projects, classifying then into six categories: *Generic:* frameworks used to assess a variety of different types of projects (e.g. cost–benefit analysis); *Discipline-specific:* an integrated perspective drawing on computer science, information systems, and developmental studies; *Issue-specific:* focused on a particular development goal (e.g. gender); *Application-Specific:* centered on a particular approach (e.g. telecentres); and *Sector-Specific:* assessment centered on an individual development sector. The relative strengths and weaknesses of each framework are still being assessed.

The struggle for impact assessment has even led some Western donors to view ICTs as a luxury, something to strive for once basic needs are met. In contrast, some advocate ICT4D on moral grounds, claiming that access is a matter of fairness. For example, Weigel and Waldburger (2004) argue that "[f]or the poor, the real issue is not whether ICT are desirable because the technology is already part of their broader context. The issue is whether we accept that the poor should, in addition to the existing deprivation of income, food and health service, etc. also be further deprived of new opportunities to improve their livelihoods." Indeed, there is a clash of views regarding the importance of ICT for development; this divergence of opinions has been present in the literature, even questioning the existence of ICT4D as a research field.

Key Debates within ICT4D

If the emergence of ICT4D in the past few years has become an ineluctable force, with various practical consequences to academia, international organizations, NGOs, and the private sector, the debate about the efficiency, validity, and existence of the field is a lively one. While proponents see ICT4D as a crucial component of development, critics see it as a fad or distraction from development priorities. In the words of Bill Gates[3] "[t]he world's poorest two billion people desperately need healthcare, not laptops." His words raise, rather bluntly, the question of what is the priority of ICTs compared to other needs of the poor. This view stresses the fact that uncritical enthusiasm for ICT4D creates expectations of "leapfrogging" over development obstacles, diverting attention from other factors that are needed for development to occur (Estherhuysen 2009). Besides this clash of priorities, critics tend to add that there is an abundance of case studies, and intensive debates about how to measure the impact of ICTs over development, but so far little consensus. Proponents tend to ascribe a positive value to technology, with academic inquiry making only modest contributions to determining priorities or assessing the impact of ICT4D initiatives.

In summary, the main criticism of ICT4D is that it can be an isolated field, which ascribes a positive value to technology, without fully establishing the links to development, and little academic critique informing its agenda. It is important to assess the priority and value of ICT4D initiatives (Oura 2009). Besides this fundamental argument, there are also specific critiques based on implementing projects. These points are also raised by some enthusiasts, willing to improve upon experiences in the field, improving their sustainability and scale, and refining the role of the state. In terms of sustainability and scalability, projects can lead to obscure relationships between business suppliers and government, and many projects have ended up dependent on continuous public or donor funding to continue their activities. Such projects are clearly unsustainable and have tended to be implemented in a top-down fashion, rather than relying on bottom-up experimentation.

In terms of the approach to technology, connectivity has ambiguous implications. The consequences of investing in any type of connectivity need to be examined from a variety of perspectives. The adopted technology must give people chances to use them in ways that

help them to escape from poverty and to make improvements in their lives (Mansell 2006). In addition, there has been an unhelpful dichotomy between productivity and leisure, or work and play. ICT4D has tended to focus on the former, ignoring that "play" has been integral to the dissemination of ICTs. Similarly ICT4D has tended to focus on modern electronics, ignoring traditional media, such as radio and television, even though these technologies are widely used by poor people. There is also an assumption that market-led expansion of products and services, particularly in mobile telephony, are solving the problems that governments and international organizations have failed to adequately address. This is a simplistic view that sees ICT access as a by-product of liberalization and privatization, which ignores the role of the state in policy reform that drive markets to expand, for instance in fostering National Broadband Plans.

Despite critiques, strong arguments remain for considering ICTs in development. Economic, social, and political life in the twenty-first century will be increasingly digital and those without access to ICTs will be increasingly excluded. The lack of access to ICT amplifies present inequality. There is a complex re-adaptation of old power relations into the digital era, posing a significant threat to the ability to develop in the knowledge economy, where information is the primary resource. While a lack of ICTs could widen the inequality gap around the world, access to them can contribute to narrowing it.

ICTs can enable greater participation in economic and civic life, permitting the creation of "smart" systems that allow for more efficient use of scarce resources, access to education, and health care through distance learning or telemedicine, or mechanisms that enable rural enterprises to connect with new markets. Yet ICTs are not an end in development policies themselves. They are an opportunity for development, but not a panacea. Rather ICTs are tied to fundamental issues at the heart of development, such as infrastructure ownership and governance. ICTs have become a strategic field worldwide, not only for business purposes, but also leading to initiatives intensively focused on the public interest, such as e-government, e-health, and distance education. For example, the Chinese government views ICTs not as a luxury or consumable good, but as a form of infrastructure capable of generating efficiency and positive externalities to all social systems. In the words of Jia Zemin (2009), "One might prophesize that the ubiquitous network [of ICTs] will become a general infrastructure, just like power grids and pipelines, merged into people's daily lives and work, and become a key platform for economic, political, cultural, and various other social activities."

At one level, realizing ICT4D in practice requires the four prerequisites of computing, connectivity, content, and (human) capacity (Tongia, Subrahmanian, and Arunchallam 2005). At another level ICT4D is intrinsically linked to broader issues such as infrastructure, governance, transparency, and an understanding of local needs and aspirations. ICT4D also raises important issues that normally are not at the core of development debates, including concerns about how to foster innovation, the transformation of the public sphere, and the promotion of linguistic diversity, privacy, and freedom of expression. The debate is no longer about privileging ICTs above other development priorities, but how ICTs can further development goals more generally. Ultimately, the consequences of connectivity depend on whether they aid people to escape from poverty and improve their lives.

The following section analyses empirical examples of a mix of state-led, market-led, and bottom-up initiatives, to highlight examples of new approaches to the role of state, sustainability, and scalability.

Looking ahead to New Debates

New Business Models for Enhancing Connectivity

Beyond a shift from telecentres to mobile phones, other relevant models have emerged in the past decade, such as the "LAN house" phenomenon in Brazil.[4] Originally created to allow people to play multiplayer games, LAN houses work as cybercafés and have proliferated in poor communities, including favela slums. Charging a small fee, generally between US$0.70 to $1.0 per hour, LAN houses have become the main internet access point for low-income families. Far from being a marginal phenomenon, in 2011 they were used by over thirty-two million Brazilians, 46 percent of whom had incomes below $300 per month (Fukuyama 2012).

The LAN house phenomenon is partially an accidental side effect of the federal program "Computers for All." Rather than simply distributing computers to poor people, this program created credit lines that allowed low-income families to purchase computers by paying small instalments every month for a few years (approximately US$25 per month). The result was an entrepreneurial wave since 2002, in which people bought a handful of computers and opened shop for others to play games. These new entrepreneurs soon contracted broadband connections and resold them "retail" through their computer terminals, charging by the hour in both cases. Interestingly, LAN houses began to offer assistance with government procedures, banking services (such as the payment of utility bills), searching for employment, and even partnered with local schools that lacked access to computers.

LAN houses illustrate new avenues for ICT4D, emerging spontaneously as people appropriate consumer technology in new and creative ways. They result from entrepreneurial activities by and for the poor, expanding connectivity without direct government or donor support. LAN houses began to face competition as smartphones and home computers became more affordable, but they remained important public spaces for their communities, acting as meeting places and offering services of interest. According to CETIC (2010) most people use LAN houses to connect with other people, as the most popular uses include email and communicating with friends and relatives. Other popular uses include leisure—playing games and following sports—work, research, and searching for jobs.

As mentioned above, ICT4D debates often disregard the connections between work and play. They assume ICTs must be used for "serious" content, directly related to top-down initiatives deemed important to the poor. Nevertheless, low-income populations have their own ideas about how to use ICTs when they are deployed autonomously, driven by demand. The poor use ICTs not only to access websites, but to connect with other people, which is itself an important capability in the context of development.

Within a bottom-up approach to technology, LAN houses can act as a locus for the multiplication of initiatives. For instance, in Cidade de Deus—a slum in Rio de Janeiro during 2012—the "melhora comunidade" project created an online research tool for LAN house owners, enabling a rapid feedback on public policies and to capture policy demands from the population.[5] The project spread widely through social networking among youth at the LAN houses, and captured the youth perception of social changes and their demand for policies in that particular community. The platform was developed in an open source format and could

be used and modified by anyone with some knowledge in programming in order to implement other surveys. Thus it is an example of the usage of open technologies with a clear impact on the possibilities of scalability.

Tablets and Mobile Phones

A symbol of the first generation of ICT4D projects is the *One Laptop per Child* (OLPC), championed by Nicholas Negroponte, founder of the MIT Media Lab. The project sought to design and build a low-cost connected device—originally a laptop, and then a tablet—and gather a number of governments to purchase them, so that the economies of scale would bring down prices further. By 2011, over 2.4 million XO laptops had been supplied, which while an impressive feat in itself, it remained modest compared to the potential population of users. What kept the OLPC from reaching scale? One of the reasons is price. Originally designed to cost US$100, by 2011 prices were still above US$200. Moreover the OLPC pursued a top-down approach offering a single product for all users, and that product has experienced issues related to usability, technical support, security, content filtering, and privacy. Lee Felsenstein, who played a lead role in developing the first mass-produced portable computers, argues that OLPC design and distribution were disconnected from local needs. Warschauer and Ames (2010) agree, noting that the production, distribution, and use of millions of educational computers must be sensitive to specific local demands. In sum, the OLPC experience suggests that no one single technical solution is able to improve life in the developing world. Instead different communities may adopt different mixes of technologies.

Indeed the late 2000s saw the emergence of a new generation of cheap ICT consumer products without any state subsidies. While only a small percentage of the global population can afford to buy top-tier globally-branded products, low-income populations are purchasing cheaper ICT products, designed by less popular brands that cater to their needs and reality. One example is low-cost tablets priced below US$70 that run on open-source operating systems. Another example is low-cost smartphones with limited internet connection that are sold for less than US$20. These affordable products are not merely copycats, but can contain features valued by low-income consumers, such as built-in television and radio receivers. Others are capable of using multiple SIM cards simultaneously, allowing the user to switch between phone carriers, thus enjoying price promotions, and selecting the carrier with the cheapest price at a given moment. These are features highly valued by low-income people, and are often missing both from top-tier consumer products and from top-down ICT4D projects.

By designing products based on the preferences of poor populations, markets innovate and tap into latent consumer demand. Increasingly the most effective products may be those designed in the developing world itself, driven by users' needs. This illustrates exciting possibilities for future work, based on cooperation between technology companies and innovation centers in the developing world. Access to ICTs has increased dramatically, with 5.3 billion mobile phones by 2011, many of them in the hands of poor people. Yet this has happened not as a result of top-down ICT4D initiatives, but due to complex economic, governance, and regulatory forces. Given this access, and as the prices of consumer products continues to decrease, new avenues open for ICT4D to examine how their use enhances freedoms and creates a vibrant public sphere.

Impacts on Civic Life

Besides examples for narrowing the digital divide, there have been a series of groundbreaking initiatives in the developing world that use ICTs to foster democracy and provide access to public services, civic rights, and human rights which would have been difficult to achieve without ICTs.

For instance, in late 2007, Kenya was drawn into a disastrous humanitarian crisis after accusations of electoral manipulation. Ethnic-based violence erupted, resulting in the deaths of over thirty unarmed civilians. The creative usage of the Internet was crucial in overcoming this situation as civil society mobilized to produce a web platform called Ushahidi that allowed the public to report the location of violence via email or mobile text messages. This information was used to generate online maps of the unfolding crisis. Since then, such "activist mapping" has proved successful in tracking attacks on immigrants in South Africa, violence in eastern Congo, medicine shortages in East Africa, monitoring elections in India, and distributing humanitarian aid in Haiti.

Web-based activism was also instrumental in Indian anti-corruption legislation, or the *Jan Lokpal* bill. A broad social media response arose in support of a hunger strike by pro-reform activist, Anna Hazare. From an initial 500,000 mentions through top social networking sites, two days later this number had shot up to nine million. The resulting public pressure forced the government to include civil society in redrafting the anti-corruption bill.

In Brazil, civil society mounted an online petition against draft legislation on cybercrime. The "Mega Não" movement collected over 165,000 signatures and distributed information on the threats it posed to privacy and internet freedom. This pressure resulted in the House of Deputies delaying the bill and opening debate about which legislation would be most appropriate for the country. Subsequently, a civil rights bill for the Internet, or *Marco Civil da Internet*, was written based on principles contributed by the online public. The full text of this new bill was open for line-by-line comment from the public. Related blog posts, tweets, institutional and individual contributions, and published articles in the traditional media, were all sent to the Ministry of Justice, and made available on the consultation website to promote and enrich the online debate.[6] The result was crowd-sourced legislation establishing rights and obligations for the internet in Brazil.

While such initiatives are promising and only a few highlights among many others on the go, they are threatened by other trends in internet policy and telecommunication regulations, pointing to an important aspect to be incorporated into future debate.

Rights and Freedoms

According to Amartya Sen's capability approach (1999) development means advancing human well-being and freedom. Conversely, poverty is seen as a deprivation of basic capabilities, rather than merely as low income. Thus, enhancing substantive freedoms and providing individuals with the capability of exercising choices is integral to development. The examples previously mentioned, of new business models for addressing connectivity and positive impacts of ICTs to civic life, show how the usage of ICTs can build capacities and create societies where individual potential can be realized. Thus ICTs can have a positive impact on development.

Sen's approach also emphasizes the importance of political freedoms, economic facilities, social opportunities, transparency, and other factors that allow individuals to make choices free from the interference of others. As ICTs emerge, political debates concerning their use and development has circled back somewhat to the initial debates of the 1990s, focusing on policy proposals with international scope regarding network management, cybersecurity, electronic commerce, and intellectual property rights. Emerging and developing economies are therefore facing a double challenge: while they are constantly chasing affordable access to telecom infrastructure, they also need to seek greater technical expertise so they could establish their own position in the global political debates regarding ICT policies. Approaches taken in international forums can influence innovation and online freedoms, such as the right to privacy, freedom of speech, and access to the network, potentially to the detriment of using ICTs for development.

For instance, the Convention on Cybercrimes within the Council of Europe has already become an instrument for political pressure to establish severe intermediary liability laws, even over countries that are not signatories. Holding internet service providers liable for users' content without safeguards means to establish arbitrary and non-transparent mechanisms to filter, block, and remove content, sometimes taking down entire domains, interfering with the internet's end-to-end architecture. This Convention and other proposals have been used to criminalize legitimate expressions and disconnect users on the pretext of preventing the transmission of illegal information, copyright violations, drug trafficking, and cyber-attacks.

These debates on ICT policies are even reaching technical forums, with the same potential to harm rights and freedoms. That was the case of the latest and very polemical meeting to review the international telecommunications regulations (ITRs) at the World Conference on International Telecommunications held in 2012. This meeting centered on debate over the scope of the treaty, with some proponents arguing to expand the treaty to encompass content issues, in addition to questions of network infrastructure. Content goes far beyond the goal of the ITRs, envisioned to guarantee the interoperability of international telecommunication services. Additionally, the decision-making process within the International Telecommunication Union is based on member states and does not enable a multi-stakeholder debate. As Sir Tim Berners-Lee, inventor of the World Wide Web, cautioned "some attendees would push for a UN agency to 'run the internet' rather than leaving it to groups already doing a good job."[7]

During the conference, many member states pushed for debating issues of internet governance, such as cybersecurity, under the new ITRs. Such an approach would disregard the best practice fostered in other international forums that act according to a multi-stakeholder approach, such as the Internet Governance Forum (IGF) and the Internet Corporation for Assigned Names and Numbers (ICANN). This is problematic in terms of procedure and content. Mainly because proposals under debate were setting forward provisions that could fragment the Internet and even justify blocking and filtering practices performed by authoritarian governments, severely restricting freedom of expression and privacy rights. Fortunately, these proposals did not move forward because of the strong opposition from developed countries, such as the U.S. and the UK, interested in maintaining a free and open market for their IT companies, yet citing human rights concerns to support their view. Ironically, these same countries push for the strong enforcement of intellectual property and cybersecurity provisions in other forums and political contexts, such as the Budapest Convention or bilateral trade agreements.

Such efforts can impose new regulations on ICTs in disregard to their potential contribution to development, as has already happened in the case of intellectual property. As Ha-Joon Chang (2002) argues, there is a need for a greater awareness of history, as Western countries themselves treated intellectual property less rigorously when they were at earlier stages of their own development. Chang argues that almost all rich countries made use of subsidies and tariff protection at some point to develop their industries. Developing countries may benefit from other kinds of arrangements, with flexibility in intellectual property protection. For instance, South Korea fostered a catching-up process that enabled the country to occupy a prominent position in the world economy in part through reverse engineering of outside technology. Developing countries advocate for ICT policies consistent with their stage of development, as international decisions ultimately affect the potential for implementing and scaling up ICT4D.

Access to Content

Once ICTs are deployed and the infrastructure is in place, there remains the question of what content is available for access? The answer leads to consideration of the current state of the intellectual property debate, and the different perspectives regarding access to knowledge. An important milestone was the 2007 adoption of a Development Agenda in the World Intellectual Property Organization (WIPO). Initially proposed by Brazil and Argentina, the original document argued that "intellectual property protection cannot be seen as an end in itself, nor can the harmonization of intellectual property laws leading to higher protection standards in all countries, irrespective of their levels of development." The Development Agenda consists of forty-five recommendations to the member states. Part of the Agenda addresses technology transfer, ICTs and access to knowledge in the development context, within which recommendation 27 calls for "facilitating intellectual property-related aspects of ICT for growth and development."

The Development Agenda represents a refocusing of the intellectual property debate, from promoting stronger protection everywhere, to considering how the rules surrounding intellectual property affect the incentives for local creativity. The World Trade Organization agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) promotes the former, with harmonization of intellectual property law. This approach has been critiqued as ultimately promoting a flow of resources to developed countries, as a result of increased royalty payments in regard to copyrights and patents. In contrast, the Development Agenda seeks to promote a more balanced system, which requires proponents to demonstrate the need for stronger intellectual property regimes. The issue has a direct impact on the lives of underprivileged populations, as ICTs become more accessible, an unbalanced intellectual property rights system can create new divides, this time in terms of access to content rather than access to technology per se.

ICT4D increasingly looks to promote local content, and the infrastructure needed to access that content. Developing countries pay higher prices for internet connection than developed countries due to the costs of information exchange. Developing countries tend to pull more content from abroad that they provide to the world, creating an imbalance in internet traffic. Consequently local service providers tend to lack "peering" agreements that facilitate low-cost data exchange in developed countries. The smaller the customer base, the less

content developing countries create and host on local servers. In many cases, even the content created in the developing countries is hosted on the servers in a developed country. The more a user in developing countries needs to access content hosted in North America, Europe, or other developed regions, the more expensive internet access becomes locally.

Furthermore, access to broadband content, such as streaming videos or using social networks, is gaining traction and represents a growing share of the total internet traffic in developing countries. Therefore connection costs related to the exchange of traffic tend to increase. This suggests a role for ICT4D to inform public policy through data-driven analysis of content demand on connectivity prices.

Privacy, Cybercrime, and Expression

The Universal Declaration of Human Rights and the International Covenant on Civil and Political Rights ensure every citizen's right to seek, receive, and impart information. Likewise, the Tunis Agenda for the Information Society[8] addresses these rights, reaffirming a "commitment to the freedom to seek, receive, impart and use information, in particular, for the creation, accumulation and dissemination of knowledge."

Freedom of expression relies on the free flow of information. Yet this flow is threatened by well-intentioned efforts to address copyright infringement and the transmission of illegal information (such as hate speech or child exploitation). Several governments have proposed that internet intermediaries filter, block, or remove online content, deactivate users' accounts, and hand over their subscribers' information. Draft legislation in the United States included provisions to seize website domains while the UK Digital Economy Act included provisions for blocking entire websites. In Europe, the Court of Justice ruled that an injunction issued to an internet service provider to undertake filtering for potential copyright infringement was not proportional and violated fundamental human rights.

Such subjects are also debated in developing countries. The challenge is to strike a balance between security, privacy, and freedom of expression. In Venezuela, radio and television legislation[9] already restricted the broadcast of messages that "may constitute media manipulations aimed at creating social unrest or disturbing public order." Amendments proposed in 2010 would have further restricted access to websites that distributed messages or information that sought to "discredit legitimately constituted authorities." Congress proposed to create a single access point to handle, and presumably monitor, all traffic originating in and sent to Venezuela (Varon et al. 2012). Access providers would be required to establish mechanisms capable of restricting the dissemination of messages, access to portals, and disclosure of information related to the actions subject to the regulations. In Mexico, similar provisions appeared in a bill that proposed to monitor and regulate the use of social networks in the country. Under the draft legislation, the mere exchange of information that helps others violate the law would be considered a crime. Proponents sought to create an online police force to monitor and hamper drug cartels using the net. Yet the Mexican public feared the proposed law would merely lead to increased government surveillance. In Colombia, draft legislation to regulate the Internet would allow service providers to remove or block access to content preventively in the event someone claimed that such content violated copyright. These and other efforts to police the Internet pose serious threats to citizens' rights of privacy and freedom of expression. Thus ICT4D is increasingly interrelated to issues of internet governance.

Prospective Paths for ICT4D

The past decade has been marked by unrealistic expectations that ICTs offered automatic gains in all sectors, from e-government and e-health, to telework and distance education. Technology does not automatically result in development. Instead results emerge with a fine tuning of implementation and building a local capacity that sees ICTs not as "taken for granted" products, but as the infrastructure for other services. In this sense, the choices made at an early stage, and the regulatory framework, do matter. Certain regulatory frameworks can lead to market entrenchment and reduced competition, saddling countries with specific—soon outdated—technologies. In contrast, the right mix of policy and market forces can foster a flexible environment open to future technologies.

In the coming years, ICT4D is likely to move from the theoretical perspective that dominated the last decade to a more positive perspective based on real-world experience (Heffernan et al. 2012). Considering that ICTs are a reality for many low-income populations, it is important to evaluate their impact. Such evaluations will prove more valuable if it leaves behind the controlled context of ICT4D projects, and explores spontaneous use by the poor, in an open and uncontrolled context. Thus, a path forward for ICT4D is to focus on the conditions that enable such adoption. Governments, non-government organizations and donor agencies create incentives for ICT design and adoption and these must be grounded in local needs and reality. However, there are new obstacles ahead. In spite of the importance of ICTs to promote positive externalities, lower transaction costs, provide new ways for people to live, work, foster political organization, and pursue democracy, the last few years has seen an increase in ICTs being used as a form of political repression, manipulation, and control. Practices such as internet filtering and surveillance are a growing concern in developing countries where basic civil rights may be weak or seldom enforced.

Therefore, besides encouraging ongoing local experimentation, a good ICT policy will help support fundamental internet principles in order to maintain an innovation friendly environment in the web and respect users' rights. These become important tasks of ICT4D when market forces have provided universal access. Developing countries in particular stand to gain much from the implementation of principles such as net neutrality,[10] from fostering a free and open source software market, pursuing balanced intellectual property regimes, open licensing, and general-purpose computing.

Accordingly, moving forward, ICT4D must address the following issues directly connected with the idea of development in a broader sense:

Impact assessment—As noted by Richard Heeks (2010), the emphasis in the ICT4D literature has shifted from "readiness" to "impact." Another aspect of the move towards impact is that ICTs, especially mobile phones, are now readily available in many developing countries encompassing a significant proportion of low-income populations. Accordingly, further research about impact assessment can take place from a practical perspective, under real-world conditions, rather than from a theoretical project perspective. ICTs affect a much broader group than those who are directly connected through them. Positive impacts include entrepreneurship and job creation, as well as a vibrant public sphere and greater social connection. This broader perspective on the impacts of ICTs reflects the findings by Jensen

(2007) that South Indian fishermen benefit from the presence of mobile phones, even when they personally did not own one.

Policy-making after access—What next for ICT4D when the technologies have become available to most people? Market forces can play a significant role in expanding access, at times aided by efforts to encourage local design efforts, such as the Aakash tablet in India, that take into consideration the local infrastructure and needs. This suggests a role for developing countries in fostering a diversity of solutions rather than a one-size-fits-all approach. Furthermore, intellectual property rights will play a significant role in a world where ICTs become accessible to the poor. The Development Agenda at WIPO has initiated new debate about the links between intellectual property regimes, ICTs, and development. Arguments in favor of more balanced intellectual property regimes gain new importance, given that much of the positive impact expected from ICTs lies in the promise of facilitating access to knowledge and information. Investigating new opportunities for development at the intersection of ICTs and intellectual property is one of the tasks for ICT4D in the years to come.

Infrastructure and governance—ICT4D needs to examine policy for net neutrality, infrastructure governance, and content. Depending on how infrastructure is governed and regulated, it can result in higher costs of data exchange. New efforts might promote local content and servers, rather than relying on those located in developed countries. Similarly there are opportunities for optimizing network architecture so local users do not rely on internet exchange points (IXPs) located in developed countries.

Freedom, privacy, and filtering—With the spread of ICTs in developing countries, including mobile phone networks, cybercafés, computers, and tablets, the threat of ICTs being used for surveillance is real. Accordingly, ICT4D is increasingly concerned not with the issue of access, but with the concrete and direct impact of ICTs in promoting local development. The Arab Spring is only a recent demonstration of the impact of ICTs in political movements and public participation. Long discussed in theory, proposals for using ICTs to improve representative democracy are increasingly applied in practice. Examples include the use of social networks in the debates for a new constitution in Iceland, and crowd-sourced legislation in Brazil. The misuse of ICTs for the purposes of political persecution, surveillance, and limiting speech deviate from this goal.

Notes

1. The policy debate began in the earlier 1990s; the G7 became the G8 in 1997 with the addition of Russia to the group.
2. <www.unicttf.org/about/>.
3. Helmore and McKie (2000).
4. LAN stands for Local Area Network.
5. Accessible at <http://www.melhoracomunidade.com.br>.
6. <http://culturadigital.br/marcocivil/>.
7. <www.bbc.co.uk/news/technology-20594779>.
8. The Tunis Agenda was a consensus statement drafted at the World Summit on the Information Society in 2005. The document also called for the creation of the Internet Governance Forum and a new multi-stakeholder governance structure for the Internet.

9. *Ley de Responsabilidad Social en Radio y Televisión.*
10. According to Tim Wu, professor at Columbia University that popularized a proposal for a rule on net neutrality: "Network neutrality is best defined as a network design principle. The idea is that a maximally useful public information network aspires to treat all content, sites, and platforms equally."

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PART 3

EXPERIENCES

Geographic Diversity

Development is ultimately about what actually happens to people and places. Having covered theories and approaches to development, and its key constituent concepts, we now turn to the experiences of selected countries and regions. In doing so, dilemmas abound. Regions (that is, collections of contiguous countries) harbor a variety of structures and cultures, while some countries are "regions" in themselves. And what of countries that were once developing, like the UK and Germany? In keeping with the post-war orientation of this volume, the truly historical episodes of development have been excluded from detailed treatment in this section. Instead, reference is made in other chapters in this book to the historical experience of the industrial revolution and after, to the extent that it helps illustrate a point being made about the contemporary development discourse.

We are mindful of the artifact of the nation-state. It is only one of several "cuts" that might be made to understand development. Part 2 of this volume covers one such cut, by sector and concept. The section that follows this one covers actors in development. Countries and regions are a central manner in which we understand development. Three broad categories are covered in this section—countries deemed to be successful developers (East Asia and Chile); countries where the lack of adequate development is a puzzle (the Middle East and sub-Saharan Africa); and countries too big to not be studied (Brazil, China, India, and South Africa).

This form of organization prompts a reflection on national identity and the development experience. The emergence of cross-regional groupings like the BRICs and the G20 has encouraged us all to think about the world in non-traditional ways. The jury is out on whether either of these groups will have a lasting effect on national or global policy making but the broader point that country experiences need not mirror that of the average of the region in which it is situated is an important one often forgotten in the development field, particularly among funders and lenders. It seems intuitively apparent that Chile and South Africa, for example, have about as much in common in terms of their recent history and

fundamentals as they do with their neighbors. Some sub-Saharan African countries might fit the analysis used to understand oil-rich Middle Eastern states, and not all countries in the Middle East are oil-rich.

A focus on the country and region also highlights an important theme running throughout this volume, the importance of history, politics, society, and economics, jointly, in understanding development. This section of the book harks back to the debates some years ago around "area studies" in many universities and think tanks. On the one hand, it should be self-evident that every country and region has its own particular identity shaped by history and culture, and therefore it should be studied on its own terms. On the other hand, rational choice theory attributes a core common set of values and motivations to individuals and policy-makers.[1] What country experiences demonstrate is that even with rational behavior, initial conditions and shocks to the system vary so much across countries that the final outcome is seldom pre-ordained, much less predictable from study of a seemingly similar episode elsewhere. Rather, we must be content enquiring into conundra (such as the curse of mineral wealth) that seem to repeat themselves, and the broad lessons that the answers might contain. Staying with the example of the curse of mineral wealth, is the answer to corruption in government a fund containing the proceeds of the sale of minerals, run with significant levels of external oversight? In all corrupt countries? For all sorts of mineral wealth? For how long?

Organization of this Section

This section starts with an examination by Simon S. C. Tay (Chapter 37) of the East Asian experience. Widely dubbed a "miracle," the experience is just as widely critiqued for not being applicable elsewhere in the world, and for the over-statement of the achievements and down-playing of the negatives. There is no *ex ante* reason to have assumed, say in 1950, that this is the region that would grow the fastest. The countries in it are natural resource-poor, distant from Western markets, multi-ethnic and (with the exception of Korea) tropical. Like the proverbial blind men feeling an elephant, outside observers have mostly drawn lessons that feed into their pre-conceived notions of the role of the State, markets, and democracy. Tay allows that this will always remain contested territory. Although he does not say as much, with this degree of uncertainty about what happened and why, it follows that lessons for other parts of the world should be drawn with great care if at all. Instead, Tay argues for the pragmatic nature of governance and resilience of systems in the region. As a result, the region weathered the financial crisis of 1997 with aplomb, and has chosen to strengthen regional cooperation as a result. The current global crisis, when global value chains are much more entrenched than they were even in 1997, poses another test to the Asian model, as do other of its consequences that will inevitably kick in as incomes grow—the quality of the environment (and awareness of and demand among residents for higher quality), inequality, and more responsive forms of government.

Starting with a lower base of standards of living and at a more recent time (the late 1970s as opposed to East Asia's 1950s), China's development experience appears to follow an "Asian" pattern. Xue Lan and Ling Chen (Chapter 38) show that after the centralized and

ideology-focused era that ended in 1978, China's development policies have been pragmatic ones, leading to both spectacular success in reducing income poverty and troubling social and environmental outcomes. How the political system reacts to this and changes as a result is also open to conjecture. The emergence of a "Beijing Consensus" and China's role on the world stage has yet to unfold. If ever there were a story "to be continued," China is it.

Renato Galvão Flôres (Chapter 39) describes eighty years of Brazilian history, covering three periods: the first beginning in 1930 with Getúlio Vargas, the second in 1964 with the military coup, and the third in 1985 with the return to civilian rule. Specific attention is paid to the administrations of Collor–Itamar and the Cardoso–Lula, as both periods represented substantial shifts in government priorities. What emerges is not so much an intentional, long-term pursuit of development, but rather a succession of measures intended to solve specific short-term problems, such as: increasing exports, improving the balance of trade, controlling public debt, fighting inflation, enhancing industrial productivity, and reducing poverty and inequality.

If the East Asian countries represent a form of success that might not be easily replicated elsewhere in the world, might Chile provide a model more amenable to follow? Ernesto Ottone and Carlos Vergara (Chapter 40) describe the social democratic path that Chile has followed since emerging from dictatorship in 1990. Like the case of South Africa detailed by Mthuli Ncube, Abebe Shimeles, and Audrey Verdier-Chouchane (Chapter 41), the story is one of explicit attempts to enhance growth with equity while locking in freedom and democracy. The irony is that in each case the social and economic policies that were implemented, while contentious in terms of their costs and benefits, have still resulted in widening inequity. But as the authors suggest, the counter-factual might have resulted in worse outcomes, and almost certainly jeopardized the emergent democratic state. If the Washington Consensus is not being replaced by a Beijing Consensus, it is because of the existence of several models of mixed success, of which Chile and South Africa are a part.

An Indian model might not be far behind. After over four decades of a Hindu growth rate (3.5 percent in the aggregate, 1.3 percent per capita) the reforms triggered by the economic crisis of 1991 eventually generated "India Shining" rates of growth where a decline to 6 percent in 2011 is seen as a slowdown. But poverty and other social indicators have not improved as expected, and inequality of all sorts has increased. Devesh Kapur (Chapter 42) places the burden of performance entirely on its public institutions. If these do not rise to the challenge of meeting the expectations of the poor and recently poor, then its famed democracy will have failed a key test, the provision of good governance.

The East Asian miracle and "India Shining" have given way to a new phrase heard increasingly in global policy circles, that of Africa Rising. Olu Ajakaiye and Afeikhena Jerome (Chapter 43) cover the large and diverse region of sub-Saharan Africa. They confirm the platform on which a renaissance is occurring—abundant natural resources, more democracies than ever before, less civil conflict, smarter governments, and the existence of local role models to complement and temper the abundant external advice the continent has received. But the authors' cautions are noteworthy. Growth has not been accompanied by a diversification of the economic structure; it is still (therefore) driven by primary commodity exports. Patterns of employment are accordingly narrow, and sub-Saharan Africa as a whole is unlikely to achieve the Millennium Development Goals. But the chapter ends on an appropriately hopeful note. The conditions for sustained growth and development are stronger now than they ever have been in the post-independence era. If government structures are agile, then Africa will continue its rise.

The final chapter in this section by Ahmed Galal and Hoda Selim (Chapter 44) addresses development in the Arab region. Although the most obvious dichotomy here is between the oil-rich states and the others, their core thesis is that both groups of countries suffer a common set of problems rooted in poor political institutions which pre-date the discovery of oil. Given their circumstances, the non-oil countries' governments have performed better than those of the oil-rich countries. But neither group may be termed success stories. The Arab Spring might change this dynamic but at the time of writing it is not clear how the interplay between the traditional (if deposed) elites, the Islamic parties, and the secularists will turn out.

Note

1. For basic treatments of the approach see Michael Allingham (2002), *Choice Theory, A Very Short Introduction*, Oxford: Oxford University Press, and Kenneth J. Arrow's entry on "Economic Theory and the Hypothesis of Rationality" in *The New Palgrave: A Dictionary of Economics* (1987), London: Palgrave Macmillan.

CHAPTER 37

THE ASIAN MODEL OF DEVELOPMENT: FROM CRISES TO TRANSFORMATION

SIMON S. C. TAY

Introduction

The rise of Asia has captured the imagination of policy-makers, businesses, and the public around the world. Even after 2008, in the wake of the global financial crisis, the region has largely continued to grow despite the downturn in Europe and the United States. This phenomenon of growth has driven the search for explanatory theories, as well as prescriptions for policies to foster development in other developing regions with slower or non-existent growth. In this context, some Asians have allowed pride in their progress to swell to assertions that Asia's rise is predestined and irresistible, and that the region will go on to quite rapidly surpass the West. The claim is based not only on current trajectories of continuing growth in the region; there is also talk about millennia of Asian history and civilization suggesting an inevitable rebalancing of the global system. In this view, the modern period of European colonialism is something of an aberration that temporarily shackled Asia and placed even the giants of China and India on the sidelines.

This chapter is founded on significantly different premises. While I join many in believing that Asia has shown real progress from the Second World War to the present, markedly in the fifteen years after 1997, this chapter seeks to critically evaluate the idea of the Asian model of development, the ways that this model might seem to differ from others, and then consider its omissions and further development needs. In this regard, this chapter approaches with skepticism the idea that Asia's rise is somehow predestined. The chapter reviews the developmental experience in Asia, especially the "tiger" economies, and considers periods of crisis, specifically the 1997–8 Asian crisis and the 2008 global financial crisis. It then considers the patterns of development that are emerging in the wake of the crisis, as Asia seeks ways to sustain growth and deal with social, institutional, and other challenges to its further progress. These include the efforts to increase and deepen Asian regional economic and financial cooperation.

The chapter suggests that while its precise content remains contested, an Asian model of development has informed debate about government policy. This chapter argues that in response to the 1997–8 Asian crisis, Asian governments effectively upgraded and changed this first Asian model not only by focusing on national level reforms, but by expending considerable efforts to build intra-Asian economic interdependence and a wider sense of regionalism. However, this post-crisis Asian model of development and regionalism is now under stress following the global financial crisis, and for both internal and external reasons it must again transform itself. There are consistent questions about the role of the state and markets, and the degree of openness and liberalization that have fostered growth and development. In some ways, this can be seen as a philological discussion about liberalization, both economically and in systems of governance.

The Rise of Asia

The so-called "tiger" economies of Hong Kong, Singapore, South Korea, and Taiwan, while different from each other and from others in Asia, were an early exemplar of Asia's rise in challenging the starkly state-centric and state-controlled systems at the time. The examples provided by these "tiger" economies have played a role in re-thinking and re-directing economic opening efforts across Asia, especially in China, across Southeast Asia, and to some degree in India.

From this perspective, what may be called the Asian model of development is not millennia old but has emerged in the last two to three decades. It is not historically preordained but rather is dependent on policy and actions by government, corporations, and others. Asia's model of development has been re-prioritized and re-shaped in the face of geopolitical and geo-economic events; it has been pragmatic, rather than based on a fixed and unchanging ideology.

Asia's economic rise has already gone through a number of challenges and changes, especially the regional crisis of 1997–8. It is also coming to a juncture of further transformation, driven not only by economic exigencies in the wake of the global financial crisis, but also by social and political factors arising from the region's rise. These have affected what we may identify as the Asian model of development: not only the practices and policies of development, but also the theory of what elements constitute and measure development, the role of the state in development, and the resilience and sustainability of Asia's rise.

Discussing an Asian model is significant not only to Asians, but to emerging economies in other regions. Proponents of Asian development inevitably differentiate it from the model of Western development, which has been increasingly questioned in the wake of the global financial crisis.

Post Global Financial Crisis

The crisis that began at the end of 2008 in the United States had global implications. The aftermath of the crisis continues to impact growth and amplify social and political tensions in the U.S. and Europe, as witnessed in the "Occupy Wall Street" movement and protests against austerity measures in several countries. Asia has not been unaffected, but most Asian

economies have continued to grow even as growth rates in the United States and Europe have slowed or even reversed.

When markets first slumped in 2008, Beijing was alarmed by the potential drop in trade due to reduced demand from the West. But China's GDP growth still reached 9.6 percent in 2008, and has remained around that point since (World Bank 2012). Similarly, although India's GDP growth rate slid to 4.9 percent in 2008, by 2009 the country's growth had recovered to around the 9 percent mark. The story of growth amidst the global crisis has raised Indonesia to prominence. In recent years, Indonesia's annual GDP growth has remained stable around the 6 percent mark, only slipping to 4.6 percent in 2009 before returning to previous levels. Notably, Indonesia's economic performance was relatively unaffected by Europe's sovereign debt crisis in 2011, thanks to strong domestic consumption combined with macro-economic stability and booms in commodity and resource exports. Some smaller Asian economies also continued to do well. Bangladesh has shed long-held stereotypes to emerge as one of Asia's fastest growing economies, maintaining an annual GDP growth rate of around 6 percent throughout this period. Cambodia's economy has been similarly impressive.

Other Asians, including Japan, South Korea, and some countries in the Association of Southeast Asian Nations (ASEAN), have been more seriously affected by the global downturn. According to World Bank data, Thailand's GDP growth rate dropped from 5 percent in 2007 to 2.5 percent in 2008, while Singapore's GDP growth rate fell from 9.0 percent in 2007 to 1.7 percent in 2008. That said, most of these economies had largely recovered by 2010, thanks to links with others in Asia, especially China.

From these facts, several questions arise about future development. Will Asia's rise continue, and will the main drivers originate within its own region rather than in Western and global markets? Will Asia rise to overtake the West and usurp its position in the global order? Are there key elements in the rise of Asia that should be better integrated into our ideas about how countries develop, and our definitions of what constitutes "development?"

Former Singaporean ambassador Kishore Mahbubani is one of the key proponents of the "Asian rise" school of thought. Having earlier championed the "Asian Values" debate in the 1990s, he asserts in his 2008 book, *The New Asian Hemisphere*, that in the wake of the 2008 global financial crisis the West will have to give up its domination of global institutions like the International Monetary Fund and the World Bank: "Any illusion that the Western economies are better prepared to handle great crises has vanished. This, in turn, has accelerated the end of the Western domination of world history" (Mahbubani 2008: xi).

At the other end of the scale, there are some who anticipate that Asia's rise will end, whether gradually in what many call the "Middle Income Country" trap, or else precipitately as countries collapse. The predicted factors are often economic mismanagement with underlying politics and governance malfeasance. American commentator Gordon Chang, author of *The Coming Collapse of China* (2001), predicts that worsening demographics and rising wages will make China uncompetitive, and popular uprisings coupled with a weakening Communist Party will bring the country down in the near term (Chang 2011).

Along the spectrum of discussion between seeing Asia's irresistible rise and its impending collapse, there are many other positions. Most recognize the rise of Asia, but some believe the U.S. will remain ahead for the foreseeable future. Two such authors are Fareed Zakaria in *The Post-American World* (2008) and Parag Khanna in *The Second World: Empires and Influence in the New Global Order* (2008). My own book, *Asia Alone: The Dangerous Post-Crisis*

Divide from America (Tay 2010), takes Asia's rise to be real and substantial. However, it is questionable whether there has been an irresistible shift of power from the West to Asia. I also recognize that there are many challenges to this process, and it is not assured that Asian governments will always make the right decisions and changes, so there will be ebbs and flows, and indeed plateaus and backsliding.

This chapter argues that Asia's current rise must address economic, socio-political, and environmental challenges if it is to be sustained. Recognizing the challenges tempers the urge to see Asia's development as predestined or smooth. Rather, we should recognize that Asia's future, even if on a good trajectory, will be a period of change with both positive and negative dimensions. Perhaps the best place to start this argument is not at the global financial crisis of 2008 but at the preceding crisis of 1997.

Rise 2.0: From Miracle to Crisis and Back Again

The devaluation of the Thai baht in July 1997 triggered similar, competitive devaluations in several other Asian economies. The problems quickly spilled over from the financial sector to the real economy and then to the political dimension. The starkest example of this was the downfall of Suharto's government in Indonesia. It is humbling to re-read literature about the region from before the 1997–8 Asian crisis. Humility is due from the Asians who touted their own system and provocatively suggested that their models of soft authoritarian government—based on "Asian values"—were better than those of the West. Clearly those views were devalued together with their currencies. Similar humility must be sought from international bodies and non-Asians who did not detect the crisis.

Prior to 1997, the rapid industrialization of Asia was viewed as a blueprint for other developing countries. On closer examination, there were as many differences in East Asian economies as there were similarities. Nevertheless, much of the literature in this period espoused an East Asian model. In 1993, the World Bank released *The East Asian Miracle*, identifying eight high-performing Asian economies: Japan; the four newly industrialized countries (NICs) of South Korea, Taiwan, Hong Kong, and Singapore; and the three second-generation Southeast Asian NICs of Malaysia, Thailand, and Indonesia. The World Bank praised these countries as models of neo-liberal development, though even at the time, critics questioned this characterization of Asian economies. Many industries in Asia were supported by heavy government intervention, public ownership of banking and industry, high levels of domestic tariff and non-tariff barriers, patent and copyright infringements, and other policies at odds with the prescriptions of the International Monetary Fund (IMF) and the World Bank.

One influential book of this period was Robert Wade's *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (1990), which offers a different view. Wade describes the economic success of Japan, Taiwan, South Korea, Hong Kong, and Singapore by what he refers to as Governed Market theory. This combines strong government control with market elements, and encourages capital accumulation and investment through state intervention, such as redistribution of land, controls on domestic and cross-border credit, and stabilization of exchange and interest rates. The state also promotes exports by providing assistance to domestic industries, encouraging technology acquisition, and modulating the impact of foreign competition.

Wade (1990) acknowledged that history, geography, and other specific circumstances contributed to the success of such strategies in East Asia, but he argued that the Asian example of exercising tight control over trade and finance through government policy was a better strategy for developing countries to follow, rather than adopting ad hoc liberalization. However, the 1997–8 Asian financial crisis dealt a strong blow to benign views about the role of the state in development. In the calls against "crony capitalism," government intervention and protectionism in Asia were discredited as negative, rent-seeking behavior. The Governed Market model was re-evaluated as little more than statism. After 1997, development orthodoxy became pessimistic regarding the East Asian "developmental state." The neo-liberal model prevailed, and a number of previously successful Asian countries had to accept IMF recommendations and economic reforms.

In the years since the Asian financial crisis, some theorists have argued that Asian governments were not to blame for the region's troubles. Rather than the crisis being caused by a failure to follow neo-liberal prescriptions, some blame neo-liberalism itself for harming Asian economies, for instance by applying too much pressure to rapidly liberalize capital flows. But in the immediate aftermath of the Asian financial crisis, most accepted the dogma of the Washington Consensus (Rodrik 2001). However, from 1997 to 2008, Asia managed to recover from the downturn and grew strongly, outstripping Western growth rates (albeit from a lower starting base). This growth included not only the so-called Asian miracle states and China (which had stood outside of the Asian crisis), but also India as a large new factor with its own impressive rates of growth, and countries such as Bangladesh and Mongolia. These strong and widening patterns of economic growth have reinforced the sentiment among many that there is something special about Asia. Nonetheless, there have been shifts from the pre-Asian crisis paradigms and regional patterns. The pre-crisis Asian model has often been likened to a "flying geese" pattern, with Japan in the front, followed by the "tiger" economies in the second row. The post-crisis Asian model has focused on China as an emerging center for region-wide trade and investment, and includes many more economies, making it less symmetrical, more diffuse, and less certain.

Although Asian countries began trading more with each other following the 1997 crisis, exports to the West and Japan were also important to recovery. According to the ASEAN Secretariat, total exports of countries in the ten-member group regained an upward trend within two years after the financial crisis in 1997, reaching a peak in 2000 when ASEAN's total exports were valued at $408 billion, based largely on trade links with the U.S., Europe, and Japan (ASEAN 2010).

Globalization allowed firms to move more of their production to Asia and source more parts of their supply chain from Asian producers. This effectively created a pan-Asian production base, centered on China but with inputs from many other countries before final assembly and shipment from China to developed countries. Underlying this, a system arose that underwrote the deficits of the U.S. from the surpluses of Asia. Chinese, Japanese, and other Asians bought U.S. treasury bonds, which helped ease credit and feed American growth up to 2008.

Thus neo-liberal medicines were taken, but the state hand in Asia did not disappear entirely. The state role in the economy is overt in China. Through holding companies, state-owned but market-responsive and often listed companies are major engines in the economies of Singapore and Malaysia. Influential and powerful elites figure in the economies of Thailand, India, and Indonesia. There have been changes—for instance, efforts to clean up corruption and the

worst practices of crony capitalism in South Korea—but in many countries the relationship between government and corporate elites remains intact. Wade's (1990) analysis of a "governed markets" approach has not been explicitly reinstated. Yet while the role of the state is under greater market discipline and under increased scrutiny given new norms, that role has persisted. Moreover, the legitimization of that role is evident in how many Asian governments have utilized various macro- and micro-policy tools to restart growth post-1997, allowing many to stave off collapse in the wake of the 2008 global financial crisis.

Another understated aspect of current thinking about Asian growth is the degree to which values and culture can be said to play a part. There has been no widespread revival of "Asian values" in the sense the term was first used in the early 1990s. But the Asian rise school has gone beyond mere confidence to near hubris. Some commentators criticize the West for having come to this point of crisis, and also allege hypocrisy in the differences in the IMF's response to the Eurozone crisis compared to the earlier 1997–8 Asian crisis.

Less International, More Regional

From this perspective, something (though not much) changed in the Asian model of development between 1997 and 2008. Beneath the mantle of the Washington Consensus and neo-liberalism, more markets were opened, but the role of the state and the underlying political economy continued to have many differences from the Western system. Moreover, the export-led nature of growth continued. The financial crisis that began in the West in late 2008 was followed in 2011 by sovereign debt problems in the Eurozone. In 2011, many Europeans hoped that Asians would mobilize their considerable reserves to buy European bonds and open up to investments. The Asian response was less than forthcoming, with then Chinese Premier Wen Jiabao saying European "countries must first put their own house in order" and not rely on Asia (Lim 2011). However, Asia is not unaffected by troubles in Western economies. Asia probably has enough momentum and regional drivers to ride out slow growth in the West, but prolonged and deeper recession in the West holds substantial risks for Asia. Falling exports to the West could force firms in Asia to cut jobs and capital expenditure. This could then combine negatively with falling asset prices and capital outflows.

The events of 2008 and 2011 prove Asians cannot rely on traditional Western markets as a destination for Asian exports. Instead, Asian countries must rebalance export-driven growth with domestic demand-led growth. Boosting Asian demand will make growth more self-sustaining. The painful experience of the 1997–8 Asian financial crisis also taught Asian countries to build their own barriers to withstand financial stress, rather than relying solely on multilateral institutions. Many Asians do not view the IMF favorably, associating it with the harsh reforms imposed after 1997, measures that are now viewed as being more harmful than beneficial. Asians are also conscious of the fact that their current vote share in the IMF does not fully reflect their economic strength; the IMF's governance system, quotas, voting rights, and procedures have changed little since its establishment in 1944. Recent calls to reform the Bretton Woods Institutions reflect a period of change in the global system. The trend is for emerging economies to seek representation in these international institutions, aiming to influence policies in the IMF and World Bank, rather than be merely passively impacted. There will be contestation over the future roles for these global financial institutions, and the question of who leads them will be a rallying point.

But this transition in global multilateral arrangements has not been the main focus for Asians. Instead, Asians have tended to work out cooperation at the regional rather than global level. One example of such a regional mechanism is the Chiang Mai Initiative, a multilateral currency swap arrangement among ASEAN + 3, consisting of the ten ASEAN members plus China, Japan, and South Korea. The initiative grew from a series of bilateral swap arrangements and was formalized in 2010 with a foreign exchange reserves pool worth $120 billion, accessible by participating central banks to counter financial shocks. In 2012, countries agreed to expand the pool to $240 billion. An independent surveillance unit under the Chiang Mai Initiative, the ASEAN + 3 Macroeconomic Research Office (AMRO), was also created in 2012 to monitor the economic situations of countries in the grouping, and is tasked with providing objective assessments and recommendations in the event a country requests a currency swap.

This regional architecture remains relatively new and untested, but it demonstrates how Asians have taken steps to greatly strengthen their own capacity to prevent or manage future financial crises. It is notable that China and Japan have come to a kind of working compact. After some debate, the funding for the Chiang Mai Initiative has been shared between the two giants, with South Korea and ASEAN assuming smaller shares. In the symbolically important question of the leadership of AMRO, China and Japan have also accepted a compromise to share the appointment for the first three-year term.

In trade, a number of agreements have been reached amongst Asians. For instance, the ASEAN–China Free Trade Area (ACFTA), which came into effect in January 2010, is the world's largest Free Trade Area by population size. Following the 2008 global financial crisis, trade with China made up 11.6 percent of ASEAN's total trade in 2009, up from just 3.5 percent in 1998 during the Asian financial crisis. ASEAN–China trade is rapidly growing, and talks have begun for an ASEAN-Hong Kong FTA. Other trade agreements also link ASEAN to its other major partners besides China—Japan, South Korea, India, Australia, and New Zealand (the ASEAN + 6 grouping). However, Northeast Asians—China, Japan, and South Korea—lack agreements among themselves, despite the considerable volume of trade between them and the depth of their real economic integration. There has been talk of a trilateral Northeast Asian FTA, but this has not yet materialized. Moreover, Asia has yet to reach an agreement to cover the entire Asia-Pacific region. ASEAN has proposed a Regional Comprehensive Economic Partnership (RCEP) at the ASEAN + 6 level, but talks are still in their early stages.

It is significant that much of these concerted efforts to institutionalize regional interdependence is centered on ASEAN, a grouping of ten small to medium-sized states (with the exception of Indonesia, which is a G20 member). This is counter-intuitive, as ASEAN is neither a major political-security power nor a large single economy. Yet in many ways ASEAN's centrality in Asian regionalism is not in spite of these limits but because of them. Given differences among other Asian powers (especially in Sino-Japanese relations, but also Sino-Indian), ASEAN provides neutral non-threatening diplomacy to increase exchange and develop trust. As a group, the ten ASEAN member states have developed norms and practices for dialogue and cooperation that have been useful in the broader regional context.

Yet ASEAN-led regionalism in Asia faces many limits. Looking at the many FTAs in Asia, studies suggest that the actual utilization rates of ASEAN's FTAs have lagged significantly compared to the utilization of FTAs in other regions, such as the North American

Free Trade Agreement (NAFTA). One reason cited is that the administrative costs of using FTAs in ASEAN are high, for instance because of cumbersome procedures for obtaining a certificate of origin (Hayakawa et al. 2009). Therefore, some critics have denigrated ASEAN-led agreements as mainly political. Similar concerns are leveled at ASEAN's target of creating an ASEAN Economic Community (AEC), which aims to make the grouping a single market and production base by 2015. Many question whether ASEAN can achieve its integration targets in the specified timeframe, given that the grouping has already experienced delays in ratification of ASEAN-wide agreements and putting them into practice in national law.

To be fair, ASEAN countries have signed a wide range of agreements covering various aspects of integration and connectivity, from customs facilitation to Mutual Recognition Agreements (MRAs) on the flow of services and skilled labor. Infrastructure development has received particular attention. Under the ASEAN Plan of Action on Energy Cooperation (APAEC) 2010–2015, ASEAN has made considerable progress in connecting sub-regional electricity grids with the eventual aim of unifying the region in an ASEAN Power Grid. Plans are also in the works for a Trans-ASEAN Gas Pipeline, with cooperation also focusing on areas such as renewable energy. Such efforts can be seen as modest but incremental steps toward a new regional economy. The ASEAN Secretariat has also consistently recommended increased engagement with the private sector to encourage the goals of integration and connectivity. However, private firms are unlikely to treat ASEAN as a single entity or market until the right policies and legislation are put in place, with proper enforcement to make doing business consistent and predictable.

Thus, while Asians have generally put more effort and reliance into regional (rather than global) institutions, these institutions remain quite rudimentary, without a strong and permanent institutionalization or clear and autonomous powers.

A New Agenda?

In the argument of this chapter thus far, the so-called Asian model of development has changed somewhat in the wake of the Asian crisis. In some respects, like the role of the State, pre-crisis elements have persisted. In others, like the role of China and the emergence of regional institutions, new factors are to be noted. Yet even as the region has been relatively less affected by the global financial crisis, Asians are now re-thinking their model of development for the future. Consensus is indeed emerging that this model needs to be transformed and the nature and scale of these changes potentially go further than anything seen in the wake of the Asian crisis.

The changes that many now prescribe for Asian development relate to: (1) growing internal and intra-Asian demand; (2) ensuring environmental and social sustainability; (3) dealing with demographic trends and migration; (4) increasing intra-Asian investment; (5) addressing inequality; (6) exploring new markets; and (7) facilitating regionalism. These areas will be discussed in the following sub-sections.

Internal and Intra-Asian Demand

Many Asians acknowledge that the region must grow its own intra-Asian market and encourage internal demand. Growth in the U.S., Europe, and Japan, traditional destinations for Asian exports, has yet to return to the levels reached before the 2008 crisis and the 2011 sovereign debt problems in the Eurozone have further dampened prospects. Currently, much of Asia's economic success relies on global value chains, but these are susceptible to shocks from a steep drop in final goods demanded by developed countries. However, there is potential for Asian companies to move up the value chain, not just by running factories and production lines for the world's multinational corporations (MNCs), but by creating new products, diversifying destinations for final goods, and creating more domestic demand.

An Asian middle class is emerging which, depending upon definitions, constitutes between 500 million and over a billion people.[1] According to the Asian Development Bank, developing Asia's middle class has increased rapidly in size and purchasing power over the past two decades and Asia-wide consumption may reach $32 trillion by 2030, making up 43 percent of worldwide consumption (ADB 2010). As this middle class rises, companies may increasingly produce *for* Asians, rather than just in Asia. Even though this middle class currently has lower income and spending relative to the Western middle class, it may someday assume the role in the world economy currently occupied by the U.S. and European middle classes as global consumers.

Rebalancing Asia's economy to promote consumer spending will require policies to shift. It is commonly stated that Asia saves while the West spends. Maintaining high public savings has been deliberate government policy in many Asian countries, possibly rooted in traditional Asian principles of frugality. But after decades of locking away high savings, Asians may need to spend more, both in public spending and consumer spending. Changing ingrained habits in Asia will be difficult. Many in government still believe strong reserve positions are necessary. According to IMF figures, as of September 2012 Japan had over $1.3 trillion in official reserve assets, while South Korea had around $317 billion and India had $290 billion. China does not report international reserve figures to the IMF, but a March 2012 statement by the People's Bank of China said the country's foreign exchange reserves stood at $3.31 trillion, the world's largest (Bloomberg 2012). Even if Asian governments can be convinced to spend their savings, there are few instruments or pipelines to get Asian savings directly to Asian borrowers. At present, Asia's financial systems still have only a limited capacity to allocate savings to those who need capital. Much of Asia's public reserves are locked in the United States as treasury bonds or other instruments, holding them captive to the value of the U.S. dollar. Similarly, without more productive outlets, private savings in Asia are flooding into assets such as housing, creating artificial bubbles. Many Asian households still keep a large part of their wealth in real estate, gold, and other non-financial assets. Many do not have bank accounts because they lack access to banks, or simply do not trust them.

Thus Asian countries must consider ways to harness savings to fund necessary investments, ultimately boosting Asian demand to make growth in the region more self-sustaining. Asians should consider creating bonds to provide for investment in areas such as infrastructure and education. Public bonds could also potentially provide some discipline to government spending. Governments also need to create deeper and more effective financial markets, unlocking savings and directing them to firms that need capital to yield higher returns. Aside from domestic policy, cross-border cooperation must also be considered, especially among the smaller economies of Asia.

Environmental and Social Sustainability

Asian countries must also deal with the consequences of rapid economic growth. In particular, many Asians are now conscious of the need to protect the environment. Rapid growth means rising energy demands, competition for increasingly limited resources, and huge strains on the environment. As a whole, Asia is presently consuming more than what is sustainable. Urbanization has also brought issues of traffic congestion and overcrowding. Many Asian cities have passed the three million mark and face major environmental challenges. With rapid industrialization, pollution has become an everyday nuisance in many cities. Governments recognize that bringing back blue skies can bolster a city's competitiveness in attracting talent. However, Asian countries seeking to be green face a tough balancing act, as environmental regulations could inadvertently serve as constraints or trade barriers, making developing countries uncompetitive. The biggest challenge for countries in the region is to find ways to address environmental concerns without being disadvantaged economically. Investment in key sectors is needed to kick start a greener economy.

With extreme weather patterns being observed all across Asia, carbon emissions have taken center stage in the discourse on air pollution, with the spotlight on China and India as the major carbon emitters. However, the focus on carbon emissions has led to a neglect of other pollutants. This has proven to be an oversight, as levels of airborne pollutants other than carbon emissions in many Asian cities have spiked, causing respiratory ailments to skyrocket and even grounding flights because of poor visibility. Often in response to popular demand, many national and regional governments have recently taken on the challenging task of bringing down the surging levels of air pollution in Asia's rapidly developing cities.

Southeast Asia faces a yearly haze caused by forest fires, caused mainly by slash-and-burn practices to make way for farms and plantations. In 1997–8, raging forest fires coupled with the El Niño phenomenon created a massive respiratory attack on the region which transcended country borders. Spurred on by these fires, Southeast Asian countries signed the ASEAN Agreement on Transboundary Haze Pollution in 2002. A select group of ASEAN countries have also made positive moves to resolve this issue in the region. Since 2002, a Ministerial Steering Committee has explored a myriad of initiatives to combat the decade-long forest fire problem, ranging from village-based workshops to multilateral talks, as well as arranging for provincial authorities to work directly with other ASEAN member states. Even with such concerted efforts, many issues with regard to governance and implementation continue to hamper efforts to resolve the haze and forest fire problems. This is a reflection of the obstacles to regional and international cooperation in addressing cross-boundary environmental sustainability issues in Asia.

In addition to environmental concerns, another key dimension of sustainability is the social factor. There is much more awareness today of a widening gap between rich and poor and the emergence of two faces of Asian growth. The first face is of a small segment of the population benefiting from the economic boom. The second is of a large segment with low wages, little or no social services, and limited or no prospect of social mobility. For some, Asia is a middle class purgatory, with salaries unable to meet the rising costs of living. The worst off are those with few or no skills to allow them to participate in the modern economy. Rising income inequality is a danger to Asia's sustained progress. Economic disparities in Asia are starker than in the developed world. According to the Asian Development Bank

(ADB)'s *Outlook 2012*, Asia's Gini coefficient, which has long been used as a common measure of inequality, increased from 39 in the early 1990s to 46 in the late 2000s (ADB 2012).

Although Asia has not yet seen widespread protest movements like the Arab Spring or Occupy Wall Street, the prospect cannot be ignored. Recent years have seen some unrest in parts of China, while Malaysia, Thailand, Indonesia, and the Philippines have also faced domestic protests. Governments across the region are grappling with new expectations from citizens. In Myanmar, once a pariah state, the current civilian government has freed many political prisoners and allowed pro-democracy activist Aung San Suu Kyi to lead her National League for Democracy party to victory in parliamentary by-elections. Thailand, Malaysia, and Singapore have also seen changes that pave the way for greater participation and more complex politics. If Beijing cannot maintain domestic stability in China, the impacts will be outsized across the region. If governments cannot keep inflation down, problems may flare up not only in the streets of Beijing but in Jakarta or Kuala Lumpur as well. If protests break out in Asian cities, government use of force may be tougher than some think legitimate, as seen in the crackdown on the opposition demonstrations in Malaysia. Protests may be exploited by rival elite groups in attempts to unsettle each other, as witnessed in Thailand. Violence and casualties can therefore spiral, as we have seen across European capitals between 2008 and 2011.

Demographic Changes and Migration

As Asia grows, it faces demographic and migration challenges which it will have to overcome. Some Asian countries, such as Indonesia, have young populations. Others, like Singapore, face an aging population, with the percentage of citizens over 65 set to double to 20 percent by 2020. Changes in the age structure of Asian populations will affect labor supply per capita and national savings rates. Systems of support for the elderly in the region are still underdeveloped, with most being supported by family groups. With current trends, countries with an aging population face the prospect of increasing dependency as the young are still experiencing low levels of income. At the same time, Singapore and other East Asian countries depend highly on foreign labor. In Singapore, the government has been criticized for allowing too many foreigners into the country, especially during the 2008 financial crisis, while Thailand has been criticized by international non-governmental organizations (NGOs) for its treatment of migrant workers in terms of wages, benefits, and freedom of movement. Foreign workers are often viewed primarily as cheap economic stop-gaps rather than legitimate stakeholders in the economy. China has similar tensions regarding domestic (rather than foreign) migration, with workers from rural areas complaining of exploitation in urban centers, causing riots in 2011.

Short-term migration for the purposes of employment also has societal effects on the migrants' home countries. In Indonesia and the Philippines, children are being raised by grandparents and relatives while their parents work overseas. There are also concerns in these countries over the welfare of foreign workers. Remittances from overseas workers make up a large percentage of GDP for several Asian countries. Notably, the Philippines received over $21 billion in remittances as of 2010–11, some 12 percent of the country's GDP (World Bank 2011). However, the 2008 crisis weakened foreign labor employment for Asians in Western countries. After 2008, this was offset by surging remittances from the Gulf.

However, the 2011 beheading of an Indonesian maid convicted of murdering her employer in Saudi Arabia has caused Southeast Asian countries to rethink sending domestic workers to the Middle East. Economic uncertainty and unrest in the region have also made the Middle East a less attractive destination for Asian workers.

Intra-Asian Investment

The ADB estimates that between 2010 and 2020, ASEAN countries will require $60 billion a year in infrastructure investment, covering a wide range of needs such as energy, transport, and sanitation. In 2010, ASEAN leaders issued a Master Plan on ASEAN Connectivity (MPAC), with the goal of building closer connections in infrastructure, capital, labor, goods, and services. However, there is a perceived high risk in infrastructure investment, which discourages private finance for such projects. Multilateral institutions also cannot lend enough to cover the costs.

The ASEAN Infrastructure Fund (AIF) is an example of efforts to address this issue. Launched in May 2012, the fund has an initial equity of $485.2 million, $150 million of which comes from the ADB, while the remaining $335.2 million comes from nine ASEAN members (excluding Myanmar). The scheme aims to translate regional savings into investments, encouraging Asians to invest in their own future. The fund is intended to involve the private sector by financing select public–private partnerships. In the long term, the fund's total lending commitment through 2020 is expected to be some $4 billion, with the eventual aim of leveraging more than $13 billion (ADB 2011).

China has also made an attempt to reach out to its neighbors through regional financing arrangements. The China–ASEAN Investment Cooperation Fund (CAF) was announced by Chinese Premier Wen Jiabao in 2009. CAF is a private equity fund for the development of infrastructure, energy, and natural resources in the region. CAF made its first investment at the end of 2010, and eventually aims to provide $10 billion in financing. The ASEAN China Investment Fund (ACIF) has also been operating since 2004, focusing on support for small and medium enterprises. The ACIF's capital is more modest, but its wide range of backers includes the ADB, the China Development Bank, the Japan Asia Investment Company, and the United Overseas Bank of Singapore.

Such new regional financing initiatives are highly significant, because they demonstrate how Asian countries are taking charge of their own development rather than relying on global arrangements. Asian regional financing allows countries to pool economic resiliency, contributing to overall sustainable growth for the region.

Addressing Inequality, Leveling Up

As noted, Asian countries need to construct policies to provide better wages, as well as basic welfare and health care services. These should act as a safety net as well as a springboard for social protection. Those in the informal economy are most at risk, and these people constitute the majority of the population in developing Asia, which poses a challenge for traditional models of social security. They are usually among the poorest in their country's population and are least likely to be able to contribute to the taxes that fund the state's provision of social protection. They are also least able to purchase their own forms of protection or

to build up savings that might provide them with a degree of resilience in times of crisis. To move toward inclusive growth, more opportunities must be created for people to move up the social ladder. This will also help control migration and curb brain drain.

As wages in Asia rise in light of the region's development, the skills and productivity of workers must also increase if countries are to remain economically competitive. Many Asian countries have grown based on lower costs in the region for manufacturing and services. But as Asia's middle class grows, policy-makers must find ways to achieve a new economic balance.

In October 2011, Thailand's newly elected government approved an increase in the minimum wage, to be rolled out over two years. Increasing Thailand's minimum wage was an election promise of the Pheu Thai Party, leader of the ruling coalition. The eventual aim is to increase the daily minimum wage to 300 baht ($9.70) nationwide, up from as low as 159 baht ($5.10) in some provinces. However, this move has come under fire from opposition critics, who argue it will damage Thailand's competitiveness, as the country is still recovering from the severe flooding that occurred in 2011.

Throughout the region, there is great concern among policy-makers that a rise in wages could cause companies to cut jobs or move to other countries where labor costs are lower. At the same time, it is also clear that there are both practical and ethical pressures to improve the employment conditions of workers. Governments and the private sector are becoming increasingly aware of what could be termed the "Foxconn Dilemma," referring to the high-profile case of poor conditions at the Chinese factories supplying electronics giant Apple.

Social cohesion and political compromise will be key factors in avoiding such scenarios. For some countries, religion or nationalist institutions can provide such cohesion. Asia's elites and ordinary citizens must be prepared to cooperate and indeed make sacrifices. Such elements are neither unknown nor alien to Asia. During the 1997–8 Asian crisis, many workers in Singapore and elsewhere were not summarily laid off but instead cooperated with companies by staying at home until economic conditions improved. In 1997–8, following the example of the country's monks, many Thais made donations of gold to the Bank of Thailand. Where finances allow, Asians should construct policies to provide better wages, as well as safety nets of basic welfare and health care. The political imperative is to close the stark gap between the haves and the have-nots. Asset bubbles in housing and inflation in basic commodities like food and energy have been testing governments to make growth more inclusive. Although a huge amount of capital is coming into regional markets, most of it is going into short-term portfolios, not long-term investment. Across Asia, ways must be found to invest and ensure citizens participate in and gain from growth.

Exploring New Markets

Even as Asians strengthen domestic policies and explore intra-Asian regional cooperation, it is critical that Asians continue to look beyond their neighborhood. In the long term, growth will need to be bolstered by links to new markets, notably in Latin America, the Middle East, and Africa.

The Forum for East Asia-Latin America Cooperation (FEALAC) is an association of thirty-four countries from East Asia and Latin America, serving as a regular official dialogue channel. FEALAC was initiated by then Singapore Prime Minister Goh Chok Tong in 1998,

and adopted by member countries in 2001. FEALAC aims to improve political ties between member states, and also tap the potential of cooperation in trade, investment, technology, and people-to-people exchange. At present, most trade between the two regions consists of Asians buying Latin American commodities, while Latin Americans buy Asian manufactured goods, but there is a great deal of interest on both sides in furthering and deepening economic links. Individually, Asian countries have signed bilateral FTAs with several states in Latin America. Countries in both regions are also participating in wider-reaching multilateral agreements, such as the Trans-Pacific Partnership, the prospective extension of an existing free trade deal to eventually include Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States, and Vietnam. Japan has signaled it will join the negotiations, while Canada, Mexico, the Philippines, South Korea, and Taiwan have also expressed interest.

Similar to Asia's links with Latin America through FEALAC, Asian countries have a similar forum with Middle Eastern states, the Asia-Middle East Dialogue (AMED). This forum covers some forty-nine countries in Asia and the Middle East, plus the Palestinian National Authority. AMED has been meeting since 2005, with the inaugural dialogue in Singapore. Interesting possibilities have arisen in recent years as prosperous oil-rich Middle Eastern states have sought to tap Asian expertise in urban development and policy making. Singapore planners and consultants have led major initiatives in the Middle East, such as the $27 billion Saadiyat Island Project in Abu Dhabi, a new cultural hub for the United Arab Emirates.

Ties between Asia and Africa are also growing stronger. According to the African Development Bank, in 2008, total trade between Africa and China reached $100 billion, while foreign direct investment from China to Africa amounted to $5.4 billion. In January 2012, the African Union opened its new headquarters in the Ethiopian capital of Addis Ababa, a $200-million tower complex funded by Beijing as a gift to African countries. But beyond China, there is a great deal of untapped potential for other Asian states to deepen relations with their emerging counterparts in Africa. Moreover, Africa is often seen simply as a source of resources or a destination for infrastructure investment, but African countries should also be viewed as rising markets in their own right.

Facilitating Regionalism while Remaining Open

As the economies of Asian countries mature, they are facing familiar challenges: for instance, pressure to increase wages and yet remain competitive. If Asian policy-makers can get the balance right, Asia's new regional economy will be more self-sustaining, with healthy finance mechanisms and strong consumer spending. Economic activity in the region is already reflecting the changing global climate. As Asian countries grow and develop, they will need to balance their own interests with those of larger powers exerting influence over the region. The U.S.–China relationship may be the most prominent one in Asia, but other Asian countries are not passive actors vis-à-vis Washington and Beijing. It also remains to be seen whether countries within ASEAN will be able to find coherence and balance as part of a more tightly integrated grouping, or go their own way. Although ASEAN has ambitious goals regarding regional integration, it remains a diverse grouping with no common security or foreign policy, unlike the European Union. But ASEAN has banded together before to deal

with conflicts, like the occupation of Cambodia and the Vietnam War. In the interests of economic stability, it may now again be timely for members to harmonize their policies.

However, even as Asian countries build stronger intra-Asian ties and a higher-quality regional economy, it is important that the region remain open, not just to existing ties with developed countries but also to opportunities with new partners, such as countries in the Middle East, Latin America, and Africa. In the same way that Asians are working more closely with each other, there is great potential for cooperation among developing or emerging regions—what used to be referred to as South–South partnerships.

While developed countries will remain important partners, Asia needs to find ways to decrease its dependency on trade and investment links with Western countries and work more with its neighbors in the region or new partners further afield. Ultimately, Asian countries can play a greater role in their own development, and in the development of their peers, rather than relying on the West or global institutions.

Note

1. The ADB defines "middle class" as per capita consumption of $2–$20 per day, and "developing Asia" as Armenia, Azerbaijan, Bangladesh, Cambodia, People's Republic of China, Georgia, India, Indonesia, Kazakhstan, Kyrgyz Republic, Lao People's Democratic Republic, Malaysia, Mongolia, Nepal, Pakistan, Philippines, Sri Lanka, Tajikistan, Thailand, Turkmenistan, Uzbekistan, and Vietnam.

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CHAPTER 38

CHINA

LAN XUE AND LING CHEN

Introduction

It has been more than thirty years since China adopted a policy of "reform and opening" in 1978, which led to rapid economic growth and social development that lifted millions of people out of poverty. Chinese society has also changed from a relatively rural and closed, to a rapidly urbanizing and open society. In addition, China's governance system transitioned from one that is primarily based on individual will and charisma, to one that is increasingly institutionalized and strives to achieve efficiency and professionalism. Debates have raged as to what accounts for China's success and what lessons can be drawn, on whether a "Beijing Consensus" offers an alternative to the "Washington Consensus." This chapter looks beyond ideological debate and provides a richer account of the development process that reflects upon the mistakes and pitfalls of China's experience. It focuses on the role of government both as managing the evolution of an economic system, and as adaptive learning in the arena of public policy. The chapter ends by identifying challenges and prospects for China's future development.

An Overview of Development

The rapid change in every aspect of China's economy and society makes it hard to see a clear pattern of change. This section provides a "before and after" look at China's economy and government in order to provide a benchmark for later discussion.

The Legacy of Central Planning

The Chinese success story comes after 1978, when China abandoned the planned economy system. But the legacy of the central planning period is complicated. On one hand, it saw China rapidly create a basic framework and foundation for education, science, technology,

and industry. Public health services were extended to the bulk of the population, and the quantity and quality of China's human capital was greatly improved. On the other hand, the planned economy—and the system of centralized authority that it embodied—deprived the grassroots of initiative, and occasionally led the country in disastrous directions. In this sense, the planned economy laid the basis for later success in market reforms, while also creating the need for comprehensive reform.

After its founding in 1949, the People's Republic of China adopted a central planning economic system in an effort to emulate the Soviet Union. A large share of the country's economic output was directed and controlled by the state, which set production goals, controlled prices, and allocated resources throughout most of the economy. During the 1950s, all of China's individual household farms were collectivized into large communes, and industrial and commercial enterprises were transformed into public enterprises. It was taken for granted that a socialist country would make public ownership the foundation of its economic system, and private enterprise and foreign invested firms were nearly non-existent.

To support the country's rapid industrialization, the central government invested heavily in physical and human capital from the 1950s to 1970s. A public health care system, covering most of the population—urban and rural—was established for the first time, with a tremendous impact on public health. From 1950 to 1982, life expectancy rose from forty-two years to sixty-six years, while child mortality plummeted by 75 percent, from 146 per thousand live births to 36 per thousand live births (Wang and Mason 2008), leading to a doubling of the population (from 552 million to just over one billion). The quality of human resources also increased, as the illiteracy rate dropped substantially from 34 percent in 1964 to only 4 percent in 2010. Meanwhile a highly centralized science and technology system was established, starting in the 1950s, with scientists, researchers, and engineers organized to serve various national goals, laying the cornerstone of China's military and industrial development.

By 1978, centrally-controlled, state-owned enterprises (SOEs) produced nearly three-quarters of industrial production. Since the government aimed to make China's economy relatively self-sufficient, foreign trade was generally restricted to those goods that could not be produced domestically. Government policies kept the economy relatively stagnant and inefficient due to a lack of profit incentives for firms and farmers, the absence of competition, and the widespread distortions which were caused by unrealistic price and production goals. China's standard of living was substantially lower than that of many other developing countries at the time.

From 1966 to 1976, the Cultural Revolution swept the country,[1] as millions of people were persecuted in violent conflicts and suffered a wide range of abuses. The country's political system was paralyzed and the economy was pushed to the brink of total collapse. Most people suffered tremendously from the constant political movements and yearned for stability and a better material life. The emerging leadership after the Cultural Revolution, led by Deng Xiaoping, was a group of vanguards who had experienced the era of central planning system and the disaster of the "Great Leap Forward."[2] They recognized the limits of the planned economy—after thirty years of unsuccessful experiments and ten years of chaos—and as a result were much more practical than their predecessors.

Major Outcomes since 1978

China has undergone a fundamental economic transformation over the past thirty years; among the more salient features of this reform era are: rapid growth, structural change, privatization, and improved living standards.

Rapid Growth

China's gross domestic product (GDP) in 2010 was twenty times that of 1978, and the official annual GDP growth rate during 1978–2010 was around 10 percent. By 2011, China's overall GDP was second only to the United States, yet the per capita GDP, even though it exceeded US$4,700, still fell short of the US $7,500 average for upper-middle-income countries.

Industrial Structure Change

China experienced rapid structural change, most prominently in the transformation of employment. While 70 percent of China's workforce was engaged in agriculture in 1978, this figure had fallen to 37 percent by 2010. The shift from low-productivity agriculture to more productive industries and services provided a crucial driving force for rapid economic growth. At the same time, high investment stimulated rapid growth of the capital stock, which in turn created a large number of employment opportunities in non-agricultural sectors. Investment in national infrastructure included a network of expressways, electrified railroads, an electricity grid, and a modern electronic communications infrastructure. By 2010, China had a total of 32,700 kilometers of electrified railway and 74,000 kilometers of expressway, connecting the country and allowing people to ride between Shanghai and Beijing in less than five hours by high-speed rail.

Increased Privatization

The ownership structure of the economy also changed dramatically with the government's effort to develop the private sector. In 1978, public ownership took up 99 percent of GDP, which decreased to 30 percent in 2008. While the private sector has become the main force to boost China's economy, the state-owned sector remains dominant in some of the most important industries, including infrastructure, energy, and telecommunication. After 1978, China's economy accelerated its integration into the global economy, with foreign direct investment's share of GDP peaking at 5.7 percent in 1994 and the international trade share of GDP peaked at 70 percent in 2006. As a result, China became the "world's factory" manufacturing a wide range of goods.

Improved Living Standards

Despite a strict family planning policy since 1980, the total population exceeded 1.3 billion by the end of 2010, up 40 percent from 1978. Nonetheless the rate of population growth decreased from 12 percent in 1978 to less than 5 percent in 2010. Citizens' living standards

rose rapidly, with a substantial rise in incomes for both urban and rural areas. According to the domestic poverty standard, the number of people living below the poverty line in rural areas fell to several million in 2010, compared to approximately 250 million in 1978.

Domestic Reform and Global Integration

The enormous changes that transformed China since the beginning of the reform era have their origin in the evolution of the economic system. The transition from a planned to a market economy was not the outcome of a blueprint, or a pre-determined step-by-step process, but an evolutionary process driven by the interaction between government and enterprise, and between institutional incentives and individual behavior. This type of incremental reform has been labeled as "crossing the river by groping for stepping stones." This section, analyzes three stages of the post-1978 development process, and provides an account of the political and social rationales behind it.

Decentralization and Opening up (1978–93)

Beginning in late 1978, China launched a series of major economic reforms which started in the agriculture sector. The central government allowed farmers to sell a portion of their crops on the free market after fulfilling state grain quota obligations, and local governments began to sign long-term leasing contracts of farmland with local farmers. Therefore, vast numbers of agricultural workers became available for non-agricultural employment, especially in township and village enterprises (TVEs) which grew rapidly to meet pent up demand for consumer goods. Reform in this period can be characterized as an evolutionary process of administrative and fiscal decentralization to local governments and enterprises. Local officials gained greater autonomy over the local economy, including the power to set prices, to invest with self-raised funds, and to restructure their firms and issue licenses to newly established firms. More importantly, authority over state-owned enterprises devolved to local governments at the provincial, municipality, and county levels. By 1985, the state-owned industrial enterprises controlled by the central government accounted for only 20 percent of the total industrial output at or above the township level, while provincial and municipality governments controlled 45 percent and county governments 35 percent (Qian and Xu 1993).

This administrative decentralization was also accompanied by a fiscal contracting system between central and local governments. Although fiscal contracting schemes varied across both regions and time, the main idea was that provincial governments contracted with central government on the amount of fiscal revenue to be remitted for the next year(s), while they could keep the rest. This system was maintained until the end of 1993 (Montinola, Qian, and Weingast 1995). Fiscal decentralization provided powerful incentives for local authorities to seek revenue in order to pay for their expenditure responsibilities (Oi 1992; Wong 1992; Walder 1995). With decentralization, local governments now had an incentive to develop local economies and to step up their efforts in revenue collection. At the same time,

local government also started many local state-owned enterprises, as well as TVEs. Therefore, as economic control of various enterprises was given to provincial and local governments, these firms were generally allowed to operate and compete in the market rather than under the direction and guidance of state planning.

Opening up to the outside world began in the earliest stage of economic reform. New forms of trade started in Guangdong province and gradually spread nation-wide. The huge gap in technology and living standards gave local governments a strong incentive to import production lines and initiate cooperation and joint ventures with foreign companies. In this way, new and used production lines for automobiles, integrated circuits, and color televisions were imported. Because many of these products were not previously available in China, there was relatively little business risk in making industrial investment, yet—as competition between regions intensified and regions followed similar development strategies—investment became excessive and led to surplus capacity. Under these conditions, local protectionism reared its head, national market integration was obstructed, and bad investments led to an increase in non-performing loans in the banking system (Yang 2004; Naughton 2007). It became essential to make fundamental choices about the strategy of China's market reform.

In addition, during the 1980s, Special Economic Zones and Coastal Open Cities[3] became an important symbol of reform in which governments adopted preferential tax, land, and trading policies for foreign firms and joint ventures. By watching and participating in this activity, Chinese enterprises learned modern market practices and gained management experience, especially on entering the international market. With the local economy dominated by local government-owned enterprises, regional competition for the foreign direct investment (FDI) was not yet a big story during the 1980s and early 1990s, since FDI was highly concentrated in a few pilot cities and competition for such investment from other regions was minor.

Market Institutions and Integration (1994–2001)

By the mid-1990s, reforms based on decentralization lost impetus, creating momentum for reforms based on a more complete system of markets and property rights. What followed was an astonishing period of radical and comprehensive institutional reforms between 1994 and 2001. Wu Jinglian (2010) sees this as the beginning of the comprehensive reform that created the basis for a market economy, while Naughton (2007) argues that the 1990s reforms represented a move in the direction of a competitive market economy with a "level playing field." As China became a more competitive society, there were also social costs to bear, not the least of which was a widening gap between the winners and losers of market competition. For example, Huang Yasheng (2010) sees 1993 as the beginning of policies that favored government and corporate interests at the expense of ordinary citizens.

From the mid-1990s, China carried out a series of reforms for a *normal* market economy, such as price reform, tax and budgetary reform, foreign trade, banking, SOEs, and entry into the World Trade Organization (WTO) (Qian and Wu 2003). As a result FDI increased, inter-regional trade barriers declined, and a much more integrated domestic and global market emerged.

The transition toward a market economy was also forcing government policy-makers to adapt. Two parallel tax collection systems were built up during the tax reform in 1994, which

dramatically enhanced the fiscal centralization of the central government, and disrupted the decentralized incentive bases of the locals. Many local governments began to divest from SOEs they owned. A large-scale restructuring of these public enterprises was inevitable (Li, Li, and Zhang 2000). By the end of 1996, 70 percent of small SOEs were privatized in pioneering provinces and half were restructured in other provinces (Cao, Qian, and Weingast 1999). In 1978, nearly four-fifths of the total industrial output in China came from SOEs. By 1997, the SOEs' share had shrunk to slightly more than a quarter. As SOE and TVE reform gained pace in the late 1990s, about twenty-five million SOE and collective employees were laid-off from 1998 to 2002 and most local SOEs and TVEs were privatized by the late 1990s (Qian 2002).

As most state-owned firms were privatized, central and local governments could no longer extract resources from bankrupt SOEs and TVEs. The role of government in economic development gradually changed from the shareholder of state-owned or collective enterprises to a tax collector from the market. Local governments became keen on cultivating new local tax bases by attracting private investment, especially manufacturing investment from overseas. Local officials eagerly courted foreign as well as domestic investors to invest in the thousands of industrial parks that have mushroomed across the country. By the end of 2003, China has more than 3,800 local "development zones" or "industrial parks," of which only 6 percent were approved by the central government. This change of attitude and behavior on the part of local governments brought about a new form of local development in the mid-1990s. Land development and competition for investment—both driven by local government—became a major driver of China's national economic growth. At the same time, it has helped to produce an extremely pro-business environment, resulting in over-investment in manufacturing capacity and lax environmental and labor regulations.

This period of reform culminated with China's entry into the WTO, committing the country to a new level of openness and a set of globally-accepted norms and practices. At the same time, following a policy of "exchanging market access for technology transfer," Chinese firms began to accumulate experience and participate in international production networks in sectors such as automobiles, communications equipment, home appliances, and computers. China became the "world's factory," and foreign trade increased from 24 percent of GDP in 1994 to 44 percent in 2001. However, China continued to lag behind in product design, development, and technological innovation.

Innovation and Harmony (2002–present)

Lately China has begun to reap the benefits of the 1990s reforms, gaining a surge of rapid growth in GDP. A well-funded central government shifted its attention to economic and social issues, while local development trends were much more difficult to change. After entry into the WTO, to the surprise of many, most industries survived in the expected onslaught of foreign competition. Growth peaked in 2007, when GDP grew by 14 percent, an economic success that once again changed the relationship between government and the economy. The central government was now well-funded as tax reform ensured that the central government's financial needs were met. The remaining central government enterprises were restructured and rationalized under the State Council's State-owned Assets Supervision and Administration Commission (SASAC). Helped by their monopolistic market positions, large SOEs began to generate healthy profits that further improved the central government's financial position.

At the same time, powerful interest groups were created, including those associated with the newly profitable central state enterprises. In some respects, the successes of reform and opening-up created a new systemic inertia (Xue and Chen 2010). Many new interest groups rely on the early reform-oriented policies and resist any new changes that might hurt their interests; thus slowing the pace of reform. In addition, the dramatic disruption in the social fabric owing to the 1990s reforms also reached an alarming level that called for a new focus on social policy. When Hu Jintao became party leader in 2002, he began to push a broad array of policies designed to improve social security, protect the disadvantaged, improve living conditions in rural areas, and improve the environment. This agenda sought to follow a "scientific approach to development" in order to build a harmonious society.

The most dramatic set of policies were those in rural areas for which the central government assumed budgetary responsibility, with transfers to fund primary education and significant contributions to a new rural health insurance program.[4] At the same time, the agricultural tax was abolished and grain growers received new support to increase the profitability of farming.

Social policies in the urban areas also saw major change as the State Council established the legal rights of migrants to live and work in cities, and for their children to be educated in urban areas. A new Labor Contract Law came into effect in 2008 to provide new protection for workers, improving workplace safety, with a special focus on coal mines. Great efforts have also been taken to address the problem of the environment, with the 11th Five Year Plan (2006–10) aiming to reduce emissions and energy intensity by 20 percent. There is some evidence that China is reaching a "Lewis turning point" (Cai, Meng, and Bai 2008), with the central government attempting to shift to a new economic model propelled by knowledge and innovation rather than cheap labor, resource depletion, and environmental pollution. Such a transition requires not only a more skilled work force, but also a better market environment that fosters innovation. The government set out to build an innovation-based country in 2006, and introduced reforms to science and technology policy in 2011 aimed at putting enterprises at the center of a national innovation system.

Local governments in a difficult position were left out of the robust fiscal increase that the central government enjoyed. Local governments plunged into land development and infrastructure investment, but also struggled with "unfunded mandates" from central government. During the global financial crisis (2008–9), local governments were encouraged to initiate ambitious local spending plans, which often included the issuance of local government debt. In comparison to previous periods when the incentives for central and local governments were compatible, this period saw different incentives for central versus local government. Central leaders took advantage of the healthy financial situation to address long-deferred social issues and put further economic reforms on the back burner, while local officials turned their attention to local economic growth and gaining resources to run their "pet" projects.

Governance since 1978

Most studies on China's development over the last thirty years focus on economic reform and rapid growth, neglecting changes in the country's governance. This is partly due to the fact that, until the early 2000s, many reforms in the public sector were either bundled with

economic reform or perceived as being for the sake of economic development. While the transformation of China's governance system is far from complete, the interaction between economic reform and governance reform has characterized development processes over the past thirty years. The following discussion briefly describes China's governance system and pre-reform conditions, then identifies three aspects of change: political stability, gradual government reform, and adaptive learning.

Governance and Pre-reform Conditions

At the national level, the central government comprises five major subsystems: the National People's Congress (legislation); the State Council (administration); the Central Military Commission (defense); the Supreme People's Court and the Supreme People's Procuratorate (judicial). The CCP retains its control of the entire system through the Politburo of the Central Party Committee and the relevant party organs, and recommends leaders to all other subsystems. This governance system is duplicated at the provincial, municipal, and county levels. The system functioned relatively well in the early years after 1949, however, as Mao Zedong became increasingly authoritarian, the system ceased to function normally, leading to the disastrous "Great Leap Forward" and the Cultural Revolution.

Deng Xiaoping felt strongly that major reforms were urgently needed to bring China out of political and economic crisis, yet his leadership faced several challenges. The first was to maintain political stability when the Party faced attacks from both Mao loyalists and those calling for a Western-style democracy. A second was the challenge of reconciling economic reform with classical Communist doctrine, and a third challenge was ensuring succession in the leadership. Deng and his colleagues were all in their seventies or older when the Cultural Revolution ended, raising questions regarding the future transition of power to a younger generation.

There are many interpretations of how China responded to these challenges. Some credit China's success to one party rule (Yu 2002; Hu, Wang, and Zhou 2009), while others point to political patronage networks created at different stages of transition (Naughton 2008). In contrast, this chapter argues that political stability, gradual government reform, and adaptive learning combined in the evolution of China's governance system over the last thirty plus years, and allowed for "taking bold initiatives and then scrambling to adjust to the consequences and keep the effort moving forward" (Lieberthal 2004). In particular, China's gradual approach toward governance reform manifested itself differently when compared with reform in the economic system. With reform of the economic system, the fundamental structure of the economy changed gradually from a central planning system to a market-based system, yet political reform left the governmental architecture largely intact while changing the subsystems within it.

Maintaining Stability

To address the three above-mentioned challenges, Deng Xiaoping wasted no time in rehabilitating thousands of cadres which had been persecuted, shifting society's focus from political movements to economic development. However, debates and tension soon began to rise between those who insisted that China should stick to Mao Zedong's approach, and those

who felt that China needed to reflect on the what had led to the Cultural Revolution and engage in fundamental political reform. Such differences existed both inside and outside the Party. A clear direction and strategy was needed. In March 1979, Deng Xiaoping articulated the "four cardinal principles," calling for adherence to the socialist road, to the people's democratic dictatorship, to the leadership of the Communist Party, and to Marxism-Leninism and the thoughts of Mao Zedong. These four principles struck a balance between the two sides and indicated that China was not interested in the kind of open political debates, such as "Glasnost," that later became a signature of political reform in the former Soviet Union. Deng intended to maintain political stability. These principles reaffirmed the leadership of the Party and helped it to stay focused on economic development during the "primary stage of socialism" which was expected to last more than fifty years. The principles also set boundaries for debates and decisions about the directions of reform in later years.

To address the second challenge, namely, reconciling the potential contradictions between a reform agenda and Mao/Communist doctrines, Deng advocated "seeking truth from facts" which allowed unconventional thought and bold experimentation. A new conceptual framework would be created every several years, including the concept of the *Socialist Market Economy* (1993),[5] the *Three Represents* (1997),[6] and the *Scientific Development Perspective* (2003).[7] While the effectiveness of these frameworks varied, they represented an earnest effort by the Party to keep pace with the progress of society.

The third challenge related to the issue of succession. The failures of Mao Zedong in selecting his successors made Deng Xiaoping keenly aware of this problem, and he began to build a stable and predictable succession, including placing limits on the power of the core leader, the selection and grooming of two successors, retiring leaders of his generation, and enhancing the importance of institutions and procedures (Lieberthal 2004). While such efforts did not ensure smooth transitions for Hu Yaobang and Zhao Ziyang in the 1980s, it paid off for the transition to Hu Jintao in 2002 and to Xi Jinping in 2012. Recently new experiments have improved institutions and procedures, particularly a vote for the top leaders in the Politburo of CCP by its Central Committee members starting in 2007, which contributed to the selection of Xi Jinping and Li Keqiang as the core of the new leadership in 2012. Succession at lower levels is largely the responsibility of the Party's organizational departments which are in charge of selecting, fostering, and appointing/recommending party and government officials. This institutional arrangement has allowed the party to maintain a firm control over the country. In the early 1980s, Deng Xiaoping promoted several criteria in the selection of party and government officials, including age, professionalism, education, and loyalty to the party. Under these criteria, a major turnover of political elites in the 1980s and 1990s brought in many younger, better-educated, and more reform-minded officials. More recently, the selection and appointment process has been further institutionalized along with reform of the civil servant structure.

Gradual Reforms in Government

While China's leadership chose to maintain political stability, gradual reforms in the government continued. These were driven by the need for government function, organizations, and behavior to fit with the new market-based economic system; pressure from local governments for more authority and resources; and integration into the global system following

entry into the WTO. The Chinese government made a great effort to restructure agencies, streamline processes and procedures, and improve behavior to fulfill its commitment to WTO. During the five years following 2001, nearly 3,000 pieces of legislation were abolished, revised, or created at the central government level, and a further 200,000 pieces of legislation and regulations at the local level (Xue and Zhong 2012).

Changes in the government were carried out through public administration reforms in 1982, 1988, 1993, 1998, 2003, and 2008 respectively, corresponding to the terms of the National People's Congress. These reforms sought to improve the effectiveness and efficiency of the government by simplifying organizational structures and streamlining operations. The 1998 reform carried by Zhu Rongji abolished several ministries and reoriented the remaining ones to focus on macro-management, policy guidance, and coordination. In the end, the State Council shifted 280 functions from the central government agencies to state-owned enterprises, social intermediate organizations, and local governments. It also closed fifteen ministries, created four new ministries, and cut the size of the central government workforce by over 47 percent (Zhang 2009).

Adaptive Learning in Policy Making

The policy-making process also underwent gradual change, starting in the late 1970s with a loosening of control by the central government, giving greater autonomy to local governments. Subsequently, domestic and international influences led to a recentralization of some decision-making authority so that major reform measures could be pushed through. More recently there was a gradual involvement of the general public in the public policy process. The decentralization and recentralization of decision power within government, and the increased participation of the general public in the policy process, has been an adaptive learning process of experimentation, synthesis, and institutionalization.

During the first stage of reform, China's policy-makers followed the experimental approach, adopting policies cautiously and incrementally (Qian and Wu 2003). For example, Special Economic Zones were created in four coastal cities (including Shenzhen) and then gradually extended nation-wide. While Deng Xiaoping and a small group of political elites set up the reform agenda and tried to control the pace of reform, the result was more freedom and autonomy being ceded to local governments for experimentation. External advice was sought from time to time while an internal policy research system was also established (Wu 2010). Many reform proposals, such as the "dual track price system," were often debated among senior officials and scholars.

By the end of the 1980s, the consensus among the CCP leadership was shattered, with the Party feeling a sense of crisis in the wake of the Tiananmen Square incident and the collapse of the Soviet Union. The central government was concerned about eroding revenue and that it had lost much of its control over the economy. These events inspired a recentralization, with Jiang Zemin and Zhu Rongji reconsolidating the power of the central government in an effort to institutionalize the policy making agencies and procedures. Decision making was elaborately organized, and opinions from outsiders were carefully channeled and filtered by government ministries. Although the final decisions were still made by the top leaders, consensus and a balance of interests among ministries were essential for policy success. Procedures were also improved, for example with the introduction of a system of public hearings

for the price of public services in the *Administrative Penalties Law* in 1996 (Peng, Xue, and Kan 2004).

From 2003, the government's focus gradually shifted from economic growth to social development and technological innovation. Major policy decisions began to go through expert consultation, feasibility review, and public consultation. This process created a competitive policy–idea market (Xue and Zhu 2009) open to decision-makers and outside stakeholders. At the same time, policy-makers became more professionally educated, often with foreign experience, providing further impetus for the institutionalization of the policy-making process.

A China Model?

Synthesis

Looking back at China's development experience over the last thirty years, it is difficult not to see China's experience as unique and of limited potential for repetition in other developing countries. From a global perspective, China's high rate of economic growth was not a "miracle," but mirrored the rapid economic growth accomplished earlier by Japan, Korea, and Taiwan. Each of these economies grew rapidly through the change from a rural to an urban economy, driven by high investment, and enabled by access to an expanding global market. China was lucky since the new global production networks that started to emerge in the 1970s allowed for entry into higher stages of the global value chain. However, external factors alone do not explain why China was unable to capture such opportunities earlier or why other countries were not able to seize the same opportunities. The previous discussion identifies three key relationships that help explain China's experience, namely the tension between domestic reform and international opening, economic and governance reform, and central and local governments. China's success over the last thirty years was built on striking a balance within each of these three areas of tension.

First, China built a virtuous cycle between domestic reform and opening up to the outside world. As a closed society for much of its history, there were huge gaps between China and the outside world in terms of levels of economic development, access to technology and information, etc. While opening up provided fresh new ideas and the financing needed for reform, the vulnerability of a closed society made it difficult for a sudden and complete opening up, explaining why China's approach was gradual: starting with select sectors in coastal areas, learning from these experiments, and then expanding their scope. At the same time, huge differences between how domestic and international systems worked meant reforms were needed in order for opening up to succeed. The impact of such reforms often went beyond the narrow scope of those areas that are needed for opening up. Consequently a virtuous cycle was created in which the opening up required domestic reform, while further reform reduced gaps within and outside China, creating further room for opening up.

Second, China was able to maintain a delicate balance between economic and governance reforms. Much analysis of China's reform process largely ignores governance, yet it was essential that such reform influenced the ideology and operation of government. The government continuously adjusted its goals and structure to satisfy the increasingly diverse

demands coming from the economy and society, and in so doing, pro-actively maintained its position as the leading force for social and economic change. The government was also mindful of the potential threats of change to the stability of the Chinese society, and strived to maintain the basic political structure and avoid "unnecessary" ideological debates.

Third was the careful balance between central and local governments. A great challenge in China's development is the inherent contradiction between a unitary governance system and the great diversity in terms of geographic, economic, cultural, and societal conditions. China's reform and opening up needed the dynamism and creativity to come from the bottom up, and a weakness of the central planning system was the total suffocation of local ingenuity. Yet local initiatives without some form of overall control could also mean chaos and waste, and Chinese history is full of lessons on when too much local autonomy weakened central control and let to the disintegration of the entire country. The challenge was to manage the central–local relationship. During most of China's reform era over the past thirty years, the overriding theme was of loosening up and giving more autonomy to local government. Many successful reform measures and policies were based initially on local experiments, and local efforts were the major driving force of China's economic development. At the same time, the central government has retained two powers that enforce its will on local governments, namely the power over appointments and promotion of local officials, and the control over major investments (Tsui and Wang 2000). All industrial and infrastructure investment projects above a certain scale had to be approved by the central government, which helped monitor local investment but also created rent-seeking behavior by central government agencies.

Challenges

Despite the rapid rate of economic and social development in China since 1979, serious problems have emerged related to unfinished economic reforms; a growing civil society and widespread use of social media; environmental pollution and ecological damage; and adjusting to new global expectations.

Unfinished Economic Reforms

The remarkable growth of the economy over the last decades was partly due to the economic reforms that were started in the early 1980s. Recently there have been concerns that the reform process has stalled, or, worse, is reversing. Many of the halfway, or temporary, reform measures have become de facto fixed institutional arrangements that are now difficult to change, with various interests groups that are reliant on them now blocking continued reform. To continue the economy's healthy growth, these hurdles must be addressed and the government must move forward with the necessary reforms in state-owned enterprises, investment, and taxes. First, although the share of SOEs in the economy has declined to 28 percent in 2008, these enterprises still benefit from non-market based advantages and should withdraw from competitive industries. Second, an investment-oriented development model driven by government is unsustainable. It has not only resulted in extremely high debt within the state's banking system, and twisted the natural process of technological choice and industrial development. The government should gradually withdraw from direct

economic activities and strengthen the function of market regulation. Third, China must reduce the high tax burden on industry and improve the transparency of fiscal expenditure by local governments.

Civil Society and Social Media

Despite the cautious attitude of government, civil society has grown rapidly. By the end of 2010, there were 431,000 registered non-governmental organizations in China, with over 5.4 million employees and ¥44 billion in donations (Zhang 2012). An ongoing challenge is to give these organizations more space to address various social problems, without eroding the authority of the government. In addition, widespread use of the Internet and the Weibo microblog have made it much easier for the general public to gain access to, and disseminate, information. There is an increasing demand for government transparency and accountability from the general public, who are dissatisfied with the government's inability to address seemingly widespread corruption. The continuing revelation of corruption among high-level officials has severely eroded public trust in the government, and encouraged the use of social media tools to expose further cases of corruption. The general public is also increasingly concerned about the widening gaps of income among various groups and want more channels through which to express their interest in and value of the policy-making process.

Environmental Pollution and Ecological Damage

Rapid economic growth in China was achieved at a huge price in terms of environmental pollution and ecological damage, as loose environmental regulation made China a destination for pollution-intensive manufacturing. The annual losses incurred due to pollution may be as high as 5–10 percent of China's GDP, and nearly 358,000 people die from air pollution annually (Xu 2011). Since the 11th Five-Year Plan (2006–10), the central government has adopted environmental indicators in its evaluation of local government officials. However, the effectiveness of such a top-down approach is limited without strong regulation and public participation, and widespread problems with smog raise the question of whether the ecosystem can sustain China's continued development.

New Global Expectations

China's rapid development has generated international concerns about geopolitical changes, with some observers viewing the rise of China and emerging countries as a threat to the current international order, while others see the potential for a new system of global governance. Such debate will continue without clear answers, and Chinese leaders must assure the international community that the country's development will contribute to global peace and prosperity. Additionally, Chinese leaders face rising expectations from the international community to contribute to thorny issues of global governance, complicated by the fact that Chinese society has become an important force in shaping the country's foreign policy.

Prospects

The year of 2012 was an important turning point, with the 18th Party Congress and a new generation of leadership taking office, vowing to make China a well-off society by 2020. Few doubt the determination of this leadership to fulfill this promise, and China has positioned itself to make the transition to a "higher quality" growth path. Education standards have risen dramatically, new green industries have emerged, the urban middle class is growing, and consumer living standards are increasing. One can confidently predict that the next five years will see the country become more sophisticated, more prosperous, with an older population, and a much more desirable living environment. At the same time, the challenges outlined above demonstrate the risks inherent in China's development process, and China's development could still derail if the government fails to provide for disadvantaged provinces, to curb corruption, to handle social unrest, or simply manage the complexity innate in such a large and diverse country. To manage these risks, China must continue the path of openness and reform Deng Xiaoping charted more than three decades ago; but this time embracing simultaneous political, social, and economic reform.

Notes

1. The Cultural Revolution, from 1966 through 1976, sought impose Maoist orthodoxy within the Party and enforce communism by removing capitalist, traditional, and cultural elements from Chinese society.
2. "The Great Leap Forward," from 1958 to 1961, aimed to transform the country from an agrarian economy into a modern communist society through a process of rapid industrialization and collectivization.
3. The four Special Economic Zones (1980) and the fifteen Open Coastal areas (1984) not only imposed lower tax rates, but enjoyed a favorable institutional and policy environment to attract foreign investment.
4. The central government funds these programs in western and most central provinces, but requires wealthier coastal provinces to fund these same programs out of local fiscal resources. This further redistributes benefits from higher to lower income regions.
5. The concept of a Socialist Market Economy was first proposed by Deng Xiaoping to incorporate the market into China's planned economy. It was formally introduced by Jiang Zeming in 1993.
6. This ideology is credited to General Secretary Jiang Zemin and guided the CCP at its 16th Party Congress (2002). It states that the Communist Party of China should be representative of advanced social productive forces, advanced culture, and the interests of the overwhelming majority.
7. The Scientific Development Perspective is credited to Hu Jingtao. It was first introduced in 2003 and guided the 17th Party Congress (2007).

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CHAPTER 39

BRAZIL

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Introduction

Growth is a mystery. Economists have been struggling to unveil the determinants of this process, yet it continues to defy and baffle their insights and theories. Since Solow's pioneering paper (1956), a series of preconditions have been identified that formed the basis for formal models from which the corresponding growth dynamics were assumed to ensue. The myriad extensions of, and additions to, Solow's original model testify to the power of mathematical modelling, while other theoretical strands, like endogenous growth, have borne out particular families of growth processes. Yet all models leave open the broad question of what determines, causes, or makes for a supportive environment for sustained growth.

The development narrative has produced various attempts to resolve this fundamental question. Trade, institutions, absence of red tape, a clear regulatory framework, human capital, technology and innovation, industrial policy, enlightened autocratic regimes capable of fostering sustainable investment, a democratic environment for business and entrepreneurship, foreign direct investment, wise mastering of the Dutch disease, a sizeable domestic market, quality education, and a thriving middle-class... the ideas are almost endless. Ironically, each of these conditions is associated with a particular model, the experiences of a handful of countries at a given point of time. Quite often, there are annoying counter-examples, which make room for the addition of further explanations.

Thus growth remains a mystery, an elusive and seemingly random process, triggered by unique circumstances. Hence country studies are still needed and Brazil offers an interesting case combining both unorthodox and out-of-textbook policies and outcomes, with seemingly reasonable explanations underpinning development during different periods of time. This chapter is a modest attempt to understand the Brazilian dynamics in their entirety, identifying the main features that affect the process of growth and development.

The analysis covers more than eighty years, paying more attention to the period after 1989, from President Collor de Mello to President Lula da Silva. Of course, this latter period cannot be understood without an (inevitably selective) discussion of preceding times, particularly the dynamics of the military regime and the dramatic periods of attempts to control

high inflation. Ideally, a detailed economic history would start at the beginning of the twentieth century, when the young Brazilian republic faced the challenge of designing countrywide economic policies. This chapter opens with the beginning of the "modern" period when a shrewd dictator, Getúlio Dornelles Vargas, seized power in 1930. Regulatory measures—related to labor, industry, energy, and infrastructure—moved the economy closer to the spirit of the times, though still far from it. Vargas' successor, Juscelino Kubitschek de Oliveira, was a pro-growth, charismatic personality who set the country on a path that was ironically continued under the military government, which was precipitated by the temperamental and controversial figure of Jânio da Silva Quadros.

This chapter argues that the personalities of particular Presidents, and the policies they pursued, were critical in shaping Brazil's development experience. This is not to discount more classical explanations of Brazil's growth, including factor productivity accounts and the interplay of external and domestic markets. On these issues, the interested reader is encouraged to consult the works of Baer (2008) and Roett (2010) which provide a didactic view of the evolution of the Brazilian economy. In contrast, this chapter identifies forces that shaped the behavior of different Presidents and compounded the struggle for development within Brazilian society that is neither simple nor peaceful. If development is understood as the intentional pursuit of a clear objective, it requires both intention and agency, and these qualities are not easily identified in Brazil. Concentrating on the actions of different Presidents is a way to somehow overcome this difficulty.

The directions of economic policy are described and assessed in general terms, rather than through detailed statistical analysis. Figure 39.1 displays the growth trajectory over time. It should be used as an indication of key periods covered. The chapter opens with a *tour d'horizon* condensing the formative period of 1930–89 within a few pages. Next the five-year

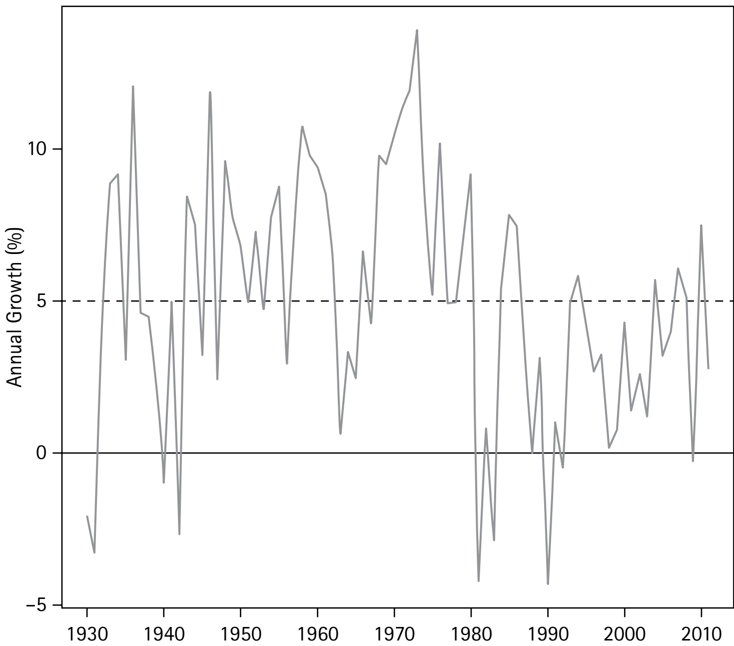

FIGURE 39.1 Brazil annual GDP growth, 1930–2011

period of the Collor–Itamar presidencies are examined more closely as this was a watershed in Brazil's development, clearly marking a break with the past. Subsequently, the Cardoso–Lula presidencies are examined and explained to be the fortuitous product of good luck. The conclusion is deliberately intended to be somewhat off-putting: to propose the controversial idea that development as an intentional pursuit is not present in Brazil. This is not a Scandinavian country, and few African and Asian nations share the historical path which has deeply affected Brazil's development process. While there was undoubtedly an evolution in the country's circumstances over time, it requires novel instruments and concepts to be fully understood. What emerges is not so much an intentional, long-term pursuit of development, but rather but a succession of measures intended to solve specific short-term problems, such as: increasing exports, improving the balance of trade, controlling public debt, fighting inflation, enhancing industrial productivity, and reducing poverty and inequality.

Sixty Years of Economic Policy

From Vargas to the Military (1930–64)

The man from Rio Grande do Sul, Brazil's southernmost state, arrived in the capital on horseback and proved to be a savvy politician with a deep knowledge of the fractures dividing Brazilian society. Getúlio Dornelles Vargas was acutely aware of a power struggle between the established elite—largely land barons spread across the country and the emerging bourgeoisie produced by the *paulista* industrial complex—and the new working class created by the same industrialization spurred by São Paulo. By allotting the former to the *Partido Social Democrático* (PSD), and the latter to the *Partido Trabalhista Brasileiro* (PTB) founded in 1945, Vargas managed quite successfully for most of his rule to pit these groups against each other to achieve a delicate and clever equilibrium which kept him in power.

A rebellious movement saw Vargas installed as a temporary President in November 1930. He was duly elected in 1934, after nearly four years of a "provisional mandate." His government became a dictatorship from 1937. While he was ousted by the military in 1945, he was re-elected in 1951 and closed his career dramatically three years later. In spite of his ability to manipulate the divisions within Brazilian society to his favor, he overlooked the other side of the bourgeoisie, made up of public servants, liberal professionals, and intellectuals largely concentrated in Rio de Janeiro and São Paulo. This segment, which also attracted the middle and upper levels of the military, especially the young, urban, and more cultured generation in the Air Force, found its voice in *União Democrática Nacional* (UDN) and eventually contributed to Vargas' definitive fall from power.

Vargas'[2] economic policy was mostly a compromise between the two groups that supported his administration. For the industrialists, he created a national development bank (*Banco Nacional de Desenvolvimento Econômico, BNDE*) and offered an import substitution policy, starting in 1930 and re-emphasized several times during his nineteen years in power. For labor, Vargas offered a minimum wage in 1940, and seminal legislation on labor relations in 1943 in the *Consolidação das Leis do Trabalho*. His nearly intuitive management of the economy was strongly impacted by the Second World War, when the U.S., acting in its strategic interests, forced some key features of modernization, including a major steel smelter

Volta Redonda in 1941 with *Companhia Siderúrgica Nacional*, the beginning of motor vehicle manufacturing in 1942 with *Fábrica Nacional de Motores*, and the presence of air force bases in the northeast.[3] The country became more closely linked to Western international production and corresponding developments in services and logistics.

The dictator returned after a six-year interregnum, now duly elected but without a reliable majority in congress. During this second period in power, Vargas' ever present nationalist and populist strains were exacerbated and this time his ability to compromise was not so successful. The former heightened U.S. suspicions towards his government, especially after 1953, when Eisenhower led the Republicans back to the White House. The economy had become strongly dependent on the U.S., which had important investments in the country. Vargas nationalized the energy and oil sectors, creating the state oil monopoly, *Petrobrás* against the interest of the U.S. companies. Through the *Instituto Brasileiro do Café*, Vargas attempted to exert supply management in the vital coffee exports, of which the U.S. was the largest consumer. Starting in 1952, the Vargas government also exercised greater control over, and imposed taxes on, remittances by foreign companies. State intervention in the economy, always present since the early twentieth century, reached new levels.

On May 1, 1954, Vargas doubled the minimum wage, a move still debated by historians and one which raised tension with the opposition during an already clear crisis in governance. He subsequently ended his political career, committing suicide in the Presidential Palace in the early hours of August 24th. Was his suicide an impulsive act of a strong-willed and possessive man who realized that he would never achieve the kind of encompassing control he desired? Or was it the final gesture of a shrewd and meticulous strategist, who clearly saw that he had plunged into a deep and complex mess—political, economic, and moral—from which there was no way out, the best solution being to play the martyr for the sake of his beloved people? While historians continue to debate these questions, what is clear is that Vargas' death and his well-crafted "letter to the Brazilian people" had the impact of solidifying support for his policies for the next ten years.

A new equilibrium had been slowly nurtured, the PSD elite leaning towards the intellectual and liberal UDN bourgeoisie. Both parties perceived that a new development model was needed to liberate the economic forces in the post-war period and new world order created under Bretton Woods. At the same time, the parties feared the somewhat haphazard way in which Vargas had tried to increase the share of wages in total output. While the economic record of Vargas' final four years was not bad, the new alliance sought to foster faster growth, setting aside the awkward and obtrusive social pact Vargas had championed.

The man behind this new alliance was Juscelino Kubitschek de Oliveira, an extremely gifted, affable, and charming personality elected in 1955. Kubitschek was to unleash latent productive capacities. He worked with foreign companies to launch the Brazilian car industry to generate new employment, create new industrial linkages, and new sources of tax revenue. A first wave of *maquillas* industrialization delivered goods to the final consumer at very high prices, due to a string of taxes attached to each step of manufacturing. Kubitschek also encouraged foreign investment in the energy, transport, and food sectors. In June 1959, he boldly ended negotiations with the International Monetary Fund (IMF) closing the country to the Fund's resources.

Then, as now, Brazil's large size was a powerful advantage. The open-minded Kubitschek allowed the flourishing of experiments in the northeast—led by Celso Furtado—and elsewhere in the country, establishing a modest network of fairly diversified production. Even if

most of this eventually came to supply the *paulista* industrial core, a domestic market was emerging that supported the success of the import substitution idea. Construction of a new capital city in Brasília had a major Keynesian effect and saw Kubitschek's mandate end with an impressive growth rate and rising life expectancy, albeit that these achievements were plagued by escalating public debt, high inflation, and a rising imbalance in external accounts. Industrialization had initiated a rural exodus, feeding a process of uncontrolled urbanization that would last for decades (see Table 39.1), heightening social inequality between urban and rural areas.

While Kubitschek had governed successfully using the industrial–labor alliance forged by Vargas between the PSD and PTB, these political parties were increasingly at odds by the end of his mandate. Kubitschek was a PSD member, and for some reason PSD–PTB presented themselves as a unified ticket in the 1961 elections. The election resulted in a UDN victory for President Jânio da Silva Quadros, sharing power with PTB Vice-President João (Jango) Goulart, a former Vargas' protégé and Minister of Labor (1952–53). This awkward arrangement testified to the weakness of the post-Vargas social pact, which to a certain extent had persistently attempted to marginalize the still powerful PTB. Although Quadros was intelligent and extremely witty, he was unable to sustain himself as a credible President. He resigned in August of the same year, creating a political crisis. Goulart became the President and, despite strong opposition from the traditional elite, successfully negotiated to hold on to power after a complex game of threats and compromises. His tenure was punctuated by strikes and an economic crisis, and ended in a military coup in March 1964 that was widely supported by the urban bourgeoisie and the eventual ascension of the old, conservative elite.

Military Government (1964–85)

During the two decades of military rule, the country experienced sustained growth through five presidents, all of whom were top generals. Figure 39.1 gives a summary of the growth rates which accounted for what came to be known as "the Brazilian miracle." Cysne (1993) and Skidmore (1988) provide classic discussions of economic policy making during this period. What is less prevalent in the literature is an historical and geopolitical perspective of how military rule in Brazil cannot be dissociated from U.S. global strategy during the Cold War. In Latin America, this strategy was upset by the Cuban missile crisis, by widespread agrarian movements from Mexico to Brazil, and by the election of Salvador Allende in Chile.[4] Argentina and Uruguay, key neighboring countries, also experienced a shift to military rule, aided by covert American intervention. In Brazil, the U.S. had been active in the twin crises of the Vargas administrations, in 1945 and 1954. Rural unrest and the ensuing organized social movements had been active since the second half of the Kubitschek mandate, and a source of worry to the Americans. During the post-war period, the U.S. cultivated close ties with the Brazilian army, by a variety of means, coupling training and education with several soft power initiatives.

For several reasons, the degree of violence of the Brazilian military dictatorship—apart from the *Bleche Jahren* under Garrastazu Medici (notably 1969–72)—cannot be compared to the ones prevailing in Argentina and Uruguay. This is important because, though the social fabric was damaged, with serious and sad ruptures at certain points, the impact of this disarray on the economy was comparatively small. Growth, even if it fed inequality, contributed

Table 39.1 Growth in urbanization, 1960–80

	1960			1980		
	Total*	Urban (%)	Rural (%)	Total*	Urban (%)	Rural (%)
Brazil	70,070	44.7	55.3	119,003	67.6	32.4
North	2,562	37.4	62.6	5,880	51.6	48.4
Northeast	22,182	33.9	66.1	34,812	50.5	49.5
Centre	2,943	34.2	65.8	7,545	67.8	32.2
Southeast	30,631	57.0	43.0	51,734	82.8	17.2
South	11,753	37.1	62.9	19,031	62.4	37.6

Source: 1960 and 1980 Population Census; *Instituto Brasileiro de Geografia e Estatística* (IBGE).
** Total population in 1000s.*

to maintaining a degree of social cohesion that in turn helped the economy to function and improve over time.

The military had a clear vision of national development, one which entailed the rise of an autonomous and powerful Brazil. They ruled with the crucial help of a technocratic elite, largely drawn from middle- and upper-class families related to the former PSD and UDN political parties. These were extremely bright people, honest and engaged in the "big Brazil" pursuit. Urbanization accelerated, rural–urban migration peaked, and the government, in a clear example of its pragmatic approach, inspired by engineering, created specialized agencies to tackle the problem. At the end of the regime, at least nine conurbations had emerged, nurturing significant portions of a marginalized population that would turn to violence and crime, particularly in Salvador, Recife, Rio de Janeiro, and São Paulo. Notwithstanding, there were remarkable developments in infrastructure, notably telecommunications, energy, housing, water, and sanitation. Improvements within the federal public service—including the statistical, internal revenue, and social security systems—were also relevant and welfare-increasing (see Table 39.1).

The government system was highly centralized and pursued central planning systematically, with the federation of states often existing more in rhetoric than practice. The budgetary process was significantly improved, and the management of federal institutions of was greatly modernized. The economic model was based on a constant and generous inflow of foreign capital, giving way to what came to be known as the "pharaonic" civil works, such as the Itaipú Dam, which greatly contributed to external debt. Growth, outstanding in many years, was achieved with high inflation, taxes, and by running deficits. The exchange rate was managed accordingly, meaning that the U.S. dollar was constantly appreciating, and dollar bills—hidden below the mattress—became a form of savings.

Sarney's Economy (1985–89)

José de Ribamar Ferreira de Araújo Costa Sarney, until then a representative of the class of political chieftains from the northern states—in his case, the borderline Amazonian state of Maranhão—was undoubtedly the luckiest politician of his generation. Vice-president to a President-elect who fell mortally ill just hours prior to the inauguration, Sarney became the

first civilian leader in two decades. The military had released their hold on power for several reasons: an exhaustion of both their mystique and socio-economic capabilities, the renaissance of opposition parties, and rising demands from the excluded. Yet above all there was failure of the economic model, with inflation sweeping the middle-class that had originally guaranteed support to the regime. Between 1980 and 1982, annual inflation averaged around 100 percent, and in the three subsequent years it rose to above 200 percent. Thus Sarney received an economy that, while still booming, was plagued by problems.

Sarney was a master of compromise and formed alliances in any conceivable direction and with any existing group that might fulfill his constant goal of political survival. He soon realized that inflation was a monster that threatened to swallow his office and career: not only was it hurting the middle class, but it contributed to serious and ever-rising inequality. Power had returned to the liberal-conservative elite of the old Vargas period, yet Sarney was obliged to make a gesture to the lower classes and the segments of society kept out of power during the past two decades. He was forced to continually arbitrate among the old elite (including land barons), the labor class, and the São Paulo entrepreneurs and associated *intelligentsia*. All kept a restive eye on the security and military community, who had just recently left the government.

Sarney decided to rely on a group of economists based at the Catholic University at Rio de Janeiro, who had been actively debating the dynamics of inflation. They were creative, linked to the mainstream of economy theory, with good connections in the U.S. and beyond. These economists were palatable to the different forces around the Sarney administration and came to play an important part in his government. The story of this somewhat funny marriage, and its series of inflation-abating plans, has been well-covered in the literature. Most were short-lived, quick fixes that gave the government a brief respite to design the next experiment. Brazilian society docilely endured a succession of plans, always hopeful that the most recent one would prove successful.

As a political figure, José Sarney became one of the most intriguing examples of political acumen in recent Brazilian history. Yet in 1987, the government was obliged to default, unable to pay the interest on its external debt. Disarray was evident and, at the end of Sarney's mandate, annual inflation exceeded 1,700 percent. The fiscal monster had won (see Table 39.2).

Setting the Stage

A few salient points arise from these three time periods, spanning sixty years of economic development. First, there was the constant of state intervention in the economy, despite brief spells of more market-oriented conduct. The usually centralized character of the federal government, be it out of fear of overly strong regional opposition forces, or as a means to deal with the considerable size of a relatively unpopulated space, helps explain this *dirigiste* style. Within this reality, regional disparities were blatant. The northern society, still following the class structure of the sugar cane economy, was more resilient to economic transformation. It is no wonder that the revolution that brought Vargas to power was triggered by the south and southeast of the country. The brief, more innovative spell for the northeast, under Kubitschek with Celso Furtado at *Sudene*, and the road and highway network built during the military era, were not enough to fully engage sizeable regions of the country in the industrialization of the south and create a more balanced economy through greater connectivity.

Second, industrialization took place throughout this period,[5] but the incentives for innovation and the creation or adaptation of new technologies were diffuse or non-existent. Within an economy strongly dependent on the export of a single export (coffee), at least until the Kubitschek era, there were further barriers to altering income distribution whether at the regional or national level. Some importation of technology did take place, but never reached the desired levels. Export dependency on the U.S. during the post-war period, further complicated the development project.

Third, since the late 1940s, inflation started to slowly creep into the array of problems. During his second term, Vargas—like Argentina's Juan Domingo Perón[6]—perceived inflation and distribution as the key conflicts that needed to be solved. Very broadly, inflation is the result of poor macroeconomic management. The exchange rate management associated with a single export commodity, combined with import substitution policy and the leniency towards inflationary growth adopted by Kubitschek and the military, compounded the original inflationary sin. Support for the banking system, which quickly learned how to extract formidable rents from the process, became one of the key pillars to its persistence. Inflation had become out of control, and some form of rupture was needed.

The Collor–Itamar Period: True Transition

This period is worthy of distinction as it included two radical turns in the tiring sequence of approaches to inflation and a presidential impeachment that is unique in Brazilian history—entirely within democratic rules and less than ten years after the military had lost power. Fernando Affonso Collor de Mello represents, in a rather awkward way, the earthquake that was needed to change the course of economic policy. As with any earthquake, it caused excessive damage, and eventually amounted to further waste of precious time, resources, and confidence. But the bold shudder in macroeconomic management, trade and industrial policies, and government intervention in the economy awakened the old conservative alliance and part of the progressive forces needed to renew domestic policy.

Soon after Collor's inauguration in March 1990, he unleashed a previously inconceivable assault against inflation. Beside consistent measures to reduce the public debt, and a frontal attack on the indexing of wages and other payments, the Collor Plan enforced a generalized confiscation of monetary assets held by citizens in the Brazilian financial system. As mentioned above, the sociology of the Brazilian people, with regards to their relationship with authority, and economic policy in particular, over the past four decades deserves to be thoroughly studied. The amazingly peaceful reaction of the population—despite several individual tragedies—to this most abusive, illegal, and unfair measure can only be explained by the fatigue experienced after a decade of growing and uncontrolled inflation and misguided attempts to address such during the Sarney administration.

The population absorbed in the best possible way the confiscation and the sudden, drastic reduction in their income. Meanwhile President Collor, sometimes in an apocalyptic way, abolished old structures and all sorts of bureaucratic barriers. Most of his initiatives proved useful, including the liberalization of trade and reduction of tariffs with the General Agreement on Tariffs and Trade, drastic reduction of red tape for imports, the closure of federal

agencies and institutes that had become the core of *cartorial* activities (a Portuguese word denoting crony capitalism involving specific groups within the private sector and a few bureaucrats who control strategic decisions in key institutions). Collor de Mello also streamlined the public sector, encouraged the privatization of services, and cut subsidies to protected industries. He was young, assertive, bold, and in a hurry, but without a clear destination.

The speed of the reforms and a generalized lack of confidence following the drastic confiscation, soon led to an exaggerated emphasis on reducing the public debt. Faithful to the Brazilian tradition of excessive reliance on public spending—enhanced during the military period and the Sarney years—the economy entered a brutal recession aggravated by the fear of a return to inflation. Indeed, growth was minimal following the disarray introduced by the Collor Plan which made it impossible to stabilize prices. By the end of January 1991, inflation was back and a renewed Collor II plan was produced. But the year was dominated by the turmoil in the President's political trajectory, triggered by accusations from his own brother. Collor de Mello was impeached in October and, to avoid further complications, he resigned in December, opening the way for his Vice-President, Itamar Augusto Cautiero Franco.

In spite of an adverse political climate, Collor de Mello managed to successfully convene the UN Conference on the Environment and Development (UNCED) which produced key conventions on biodiversity and climate change, as well as the Agenda 21 roadmap for sustainable development. The conference set Brazil as a focal actor in the environmental debate, something the country has yet to use to its full advantage.

A shrewd and cautious politician, Franco spent the year establishing his base and probing the latitude of his government. He named Senator Fernando Henrique Cardoso as Minister of External Relations in 1992, and then as Minister of Finance in 1993. Cardoso acknowledged Collor de Mello's achievements in restructuring of the economy, and pursued many of the same measures, including privatization, albeit with a more moderate and gentle style. Cardoso also retreated somewhat from trade liberalization and, with the help of key figures from the Sarney plans, crafted a new scheme for controlling inflation. The credibility enjoyed by Itamar Franco and the support he personally gave to all phases of the operation were decisive. Launched in July 1994, Cardoso's *Plano Real* (Real Plan) saw the creation of a new currency and a clear transition away from the old one. Neither prices nor wages were frozen. New measures regarding the public debt were seriously enforced. Privatizations received a further boost, and consumption was indirectly restrained. The new currency was accompanied by an artificially high exchange rate (parity with the U.S. dollar), with a very narrow band for flotation, and excessively high interest rates to maintain the international attractiveness of the new currency.

What explains the success of the *Plano Real*? One explanation is generalized weariness, even from the financial institutions that had extracted considerable rents from high inflation. A learning process undoubtedly had taken place among the pundits who had concocted so many previous failed attempts. And the world and Brazil had changed: inflation had become a serious nuisance to the elites, even more than to the population writ large. The success of *Plano Real* gave Cardoso two mandates as President, after the end of the Itamar period. He would pursue his reforms and correctly perceived the several measures still needed, but would become a hostage to the instruments that guaranteed the success of his Plan. Growth would be timid (see Table 39.2).

Table 39.2 Annual rate of inflation in Brazil for selected years

The last two years of General J. B. Figueiredo		
1983	211%	Inflation peaks at the end
1984	224%	of the military regime
Sarney's five-year mandate		
1985	235%	Inflation continues to escalate
1986	65%	"Cruzado" Plan and "Cruzado" Plan II
1987	416%	Bresser Plan
1988	1,038%	Inflation defeats Mr Sarney
1989	1,783%	Summer Plan
Collor de Mello–Itamar Franco transition		
1990	1,477%	Collor de Mello's confiscation
1991	480%	Broad contraction; inflation still high
1992	1,158%	Collor de Mello is withdrawn
1993	2,708%	Itamar Franco's first year
1994	1,094%	*Plano Real*

Source: Instituto Brasileiro de Geografia e Estatística (IBGE).

The Cardoso–Lula Period

Spanning sixteen years of continuity in many areas, the Cardoso–Lula era is at first sight a perfect example for those who place institutions and the role of government as the key engines of growth. Blessed by the victory over inflation, and with the knowledge gained in the Itamar government, Cardoso easily won his first presidential mandate. He was eager to give the country a modern outlook, suitable for a globalized world where the benefits of growth should accrue to everyone. His mandates were characterized by his personal charm and capacity to form alliances with actual or potential opponents, coupled with his own critical reassessment of the rapid pace of the Collor-led reforms. Shrewd and open to the world, he aimed to hitch the country to the bandwagon of the European Union, rather than to the U.S. model, notwithstanding his good relations with President Clinton.

Luiz Inácio Lula da Silva was an exceptionally gifted negotiator who cannot be classified as a true leftist. He came to power after three courageous, but failed, attempts at the presidential election. With a strong intuition and fast intellect, he had the ability to perceive the nearly optimal path leading to the results he wanted. Rather than a being the leader of an abstract, but largely unknown mass called the "Brazilian people," he was truly a legitimate leader thanks both to his personal qualities and the formidable, Stalinist-like machine built by his *Partido dos Trabalhadores* (PT). Lula represented the "other Brazil," the opposite dimension of that part of the nation represented by Cardoso. The auspicious, almost wonderful irony, is that Brazil needed both.

Cardoso pushed for basic structural reforms, regulatory frameworks, privatizations, and trade liberalizations; not always to the full, nor in the most desirable way, but nearly all

successful. He made the country and its economy more modern. Lula, in a certain way, did the opposite. Suspicious of regulatory agencies and frameworks, cautious in his approach to privatization, he concentrated on the dire social inequalities plaguing Brazil. Through massive, bold, and well-managed social programs, he showed Brazilians and the world that inequality could be reduced at a fast pace and better living conditions for the poor were an obtainable goal for those who held power. A less unjust Brazil emerged from his rule.

However, a thin thread ties together these two Presidents, avoiding an otherwise drastic fracture which could have taken place, in spite of the democratic transition of power in 2003. This stability is largely a credit to Lula. The change of power—an expression that few times had been as meaningful in Brazilian history—occurred through a transparent, democratic process, amidst great uncertainty and relatively high tension among the financial markets and the middle and upper classes. The economy had not fared well during Cardoso's final two years (see Table 39.3). Argentina's economy had collapsed between December 2001 and February 2002, and many feared that Brazil would be next, that Lula would be the pilot of a sinking ship. Instead, to everyone's surprise, the new President maintained the monetary policy of his predecessor. He displayed a new, but not radically new, rhetoric and incorporated into his economic staff a wise combination of experts with proven technical credentials and, more importantly, conservative tendencies. Lula thus aborted a looming crisis, the country resumed its daily life, and Brazil achieved eighteen years of democratic and economic continuity, something it dearly needed. The conditions for a new era had been set.

Four Mandates

Cardoso (1995–98, 1999–2002)

Surfing on the success of *Plano Real*, Cardoso started his first mandate with a strong liberal drive which aimed to open the economy to market forces. He abolished the state monopolies in oil, telecommunications, gas, and shipping. The mining company *Vale do Rio Doce* was privatized along with a number of state-owned enterprises. Cardoso further liberalized trade and declared the country open to foreign investment. However, these steps were not without their costs. Inflation was under control thanks to an overvalued exchange rate that progressively became unsustainable, coupled with high interest rates, responsible for attracting a sizeable portion of speculative capital. Moreover, these market opening measures were, in overall terms, more timid than those introduced by Collor, as Cardoso struck sophisticated compromises with the old elites, notably with the manufacturing sector.

The sudden drop in the inflation rents extracted by the banks, which were at around 4 percent of GDP before the *Plano Real*, obliged the government to create a special program in 1995 known as *Programa de Estímulo à Reestruturação e ao Fortalecimento do Sistema Financeiro Nacional* (PROER). This program rescued several financial institutions, avoiding a serious collapse of the system. The volume of PROER operations amounted to roughly three percent of GDP during 1995–7. The programme was strongly criticized by opposition parties and many segments of the society (Maia 2003), however the resulting streamlining of the financial sector, along with prudential measures enforced by the Central Bank, would later

prove useful during the 2008 financial crisis. The outcome of Cardoso's first mandate was a timid growth rate and signs of a looming recession by 1998.

Unable to resist the temptation of a second mandate, Cardoso employed considerable personal energy in enlarging the spectrum of political commitments in order to change the legislation forbidding the re-election of the President. In spite of the modest performance indicators, the modernization drive and the control of inflation rewarded him with a second term. In 1999, soon after his inauguration, the situation in the foreign account was close to untenable and pressure on the Brazilian real (R$) was high. The stubborn conduct of the Central Bank, evident since the second half of his first mandate, now underwent an internal leadership conflict, threatening to ignite a crisis. An ill-timed, and delayed, devaluation of the Brazilian currency cost the reserves over U.S.$40 billion dollars. The President eventually acted and replaced the Central Bank administrators, putting Arminio Fraga Neto into the top position.

Fraga Neto is largely responsible for the success of Cardoso's second mandate. The President, unfortunately, had his hands tied by the compromises he had to make to assure his re-election and now showed a more discreet, even hesitant, economic leadership. Public debt returned to less orthodox levels, unemployment increased, and Cardoso was unwilling or unable to pursue much needed reforms. In contrast, Fraga Neto's cool manner and clever implementation of inflation targeting ensured the consistent macroeconomic management of this period, at the price of high interest rates. Apart from the smart Central Bank policies, perhaps the greatest accomplishment of Cardoso's second mandate was the Fiscal Responsibility Legislation (*Lei de Responsabilidade Fisca)* in 2000, which established clear and well-designed guidelines for managing public funds at all levels of the federation. It is correctly considered a major step in improving public administration in Brazil. In February 2002, the long awaited crisis in Argentina took a dramatic final turn, with the dismantling of the Currency Board and the peso to U.S. dollar parity that had amazingly endured for a decade. Uncertainty prevailed in the financial markets and spirits heightened with the possibility of a Lula victory in the November elections. Volatility was pervasive and Fraga Neto again excelled in his ability to keep the macroeconomic framework under control. As a result, Cardoso's departure from government was low key.

Lula da Silva (2003–6, 2007–10)

Lula started amid great tension and uncertainty regarding the path of the economy. He retained Fraga Neto for a time, eventually appointing Henrique Meirelles, a former banker and conservative, to the Central Bank. As noted above, Lula's economic staff included moderates and technocrats that helped calm markets and reverse expectations. This allowed the President the latitude needed to concentrate on the social policies that would become the imprint of his government.

It is debatable who designed the *Bolsa Familia* and *Fome Zero* programs, the former originating at the very end of Cardoso's period. What matters is Lula's leadership in emphasizing the social agenda: changing the rules of the game and placing government machinery at the service of poverty alleviation and social improvement nation-wide. This was something that had never taken place in Brazil. It is not that the governing elites had been oblivious to the

ever spreading social ills, but it tended to enter the official narrative as an afterthought, to be addressed through the spill-overs of policies to grow the economy in general. This was an approach that targeted at most 65 percent of Brazil's population, thus leaving the remaining 35 percent as hungry outcasts. Even Cardoso, a sociologist with serious social concerns, largely overlooked the dire conditions of at least one-third of the country.

On the domestic front, this is the essence of Lula's contribution. Everything gravitated around a core mission of poverty reduction: from measures to make credit available to the poor, to improved access to health care. At the same time, both *Bolsa Familia* and *Fome Zero* were improved, expanded, and became increasingly efficient. A conservative macroeconomic policy, secured by Meirelles' credentials at the Central Bank, and the maintenance of excessively high interest rates, assured a stable environment for the government and the support of the ruling financial class.

On the international front, Lula's fine perception and emotional intelligence established an image of a confident Brazil that was active, serious, and successful in addressing its critical problem of stark inequality coupled with absolute poverty. Lula realized that his victory—a union leader from the bottom rungs of society and with a modest education—represented an achievement for Western democracy and an acceptable face for capitalism. He conspicuously employed this engaging, symbolic image, aided by an innovative and competent Foreign Minister.[7] Brazil became a model experiment: the BRIC member without nuclear weapons and the country which was acting quickly to change its pattern of social injustice. Brazilians could take pride in their country's standing on the world stage.

Lula's disproportionate emphasis on the social agenda, of course, had its toll. The regulatory framework for public services and infrastructure was neglected. The country's capital stock (ports, airports, highways) was ignored with a serious impact in subsequent years. Few of Cardoso's incomplete reforms progressed. At the same time, the macroeconomic instruments whose origin lay in the *Plano Real* were showing signs of exhaustion. In spite of achieving growth, interest rates were still abusive and the exchange rate was moderately overvalued.

During Lula's second mandate, he successfully coped with the international financial crisis, thanks to the sound macroeconomic management in place for more than ten years, the healthy status of the banking sector, and the lucky counter-cyclical moment the country was living in when the crisis struck. Lula's optimism, bold statements, and confident reassurances played a role as well, countering accusations of vapid rhetoric and wishful optimism by the opposition. Lula also continued to boost foreign policy, giving special weight to relations with the African continent. However, corruption, ingrained in Brazil since at least Vargas, did not decrease under Lula's rule. Hopes that the federal administration would become impeccable were soon abandoned. Perhaps worse, nominations were tightly controlled by the political party, and unqualified affiliates were appointed to many important technical positions.

Apart from the inflationary peak, a superficial analysis of growth during the two decades of military and sixteen years of civilian rule might suggest that performance during the military years; but many more dimensions are at stake. Stability was a major achievement during the Cardoso–Lula years, but volatility is still high in both eras. The country was still far from a mature economy.

Development to Nowhere, Change Everywhere

In the introduction to this volume, the editors suggest that "consensus on what constitutes development, and how to best pursue it, may well be a thing of the past." One might go further and argue that development does not exist at all, and that the whole concept needs to be rephrased. The Brazilian experiment, briefly outlined in these pages, supports this argument, and brings a new perspective to how we might think about development. What can be learned from the eighty years of Brazilian history?

First, growth versus distribution is a false dichotomy. If one places too much emphasis on one side, a high price is paid for having overlooked the other. Vargas and Lula seemed to have perceived this. Vargas, as happens to nearly all dictators, even shrewd ones, tried to accommodate the different forces within his own personal schemes, which lacked a democratic framework, and eventually lost credibility among a large fraction of the elite. Meanwhile Lula was obliged to play a fireman in addressing social inequity, tipping the scale to the distribution side of "development management." Kubitschek and Cardoso cannot be fully blamed for neglecting income distribution, but they certainly pushed the scales more in favour of growth. The irony is that Kubitschek really achieved growth, while Cardoso had a poor record on this indicator. Meanwhile, during the mandates of both presidents, the social problems plaguing Brazilian society remained largely unresolved.

Second, public funds play an important role. This is especially so in young capitalist economies. The key issue is how to moderate, target, and measure their use. Brazil clearly "progressed" during periods of substantial public investment, unfortunately often uncontrolled, and given the size of the country, a constant flow is needed even if only for replacement purposes. The mystery is how to combine such contributions with the active participation of private investors. The duality—alleviated, but not solved, by privatization—of an overstretched public sector together with unused capacity in the private sector has been pointed out by some as a persistent Brazilian problem.[8]

Third, stability matters. This point may partially answer the previous question of what one can learn from Brazil's history albeit in a rather conservative way. The much praised virtues of stability—political, macroeconomic, and regulatory—coupled with credibility gained through consistent behavior by government, increased global credibility and attracted a diversified group of agents to participate, together with the government, in the "pursuit of development." The Cardoso–Lula sequence is a good example of this. The miracle years, under the military, even if more imperfect and partial, share something of this logic.

Fourth, social classes—and the divides between them—are essential for understanding a large country with a diversified society, such as Brazil. Without entering into a simplistic Marxist analysis of the Brazilian phenomenon, it is clear that the development narrative of these eighty years is a narrative of class struggle; a strong and violent struggle in the way the top elites defend their privileges and position, notwithstanding the docile behavior of the Brazilian people. Those who held power, even the generals-presidents of the military decades, did perceived this, but few were successful at navigating around and through class struggle. Vargas, Kubitschek, and Lula demonstrated a deeper understanding of the contradictions, and achieved, in different ways and with varying degrees of success, reasonably

constructive pacts between classes. Lula was perhaps the most successful, but lacked a broader and better technical staff. This aspect of the Brazilian experience is perhaps the most relevant for understanding other large countries with complex societies, such as India, Indonesia, and China.

This chapter overlooks the question of culture and education, but a couple of points might be made here by way of explanation. It is almost a cliché to say that education plays a key role in development with social progress (see Langoni 1973). What matters more is something beyond formal education and that encompasses broader aspects of culture. It is not that formal education, whether in natural sciences or humanities, is not vital for innovation and an improved society, but rather it is neither necessary nor sufficient. During the decades covered, Brazil did not excel in its education policies, but was extremely innovative in agribusiness and particular industries, such as manufacturing mid-sized aircraft. Naturally, education played a role in this, whether through the scientific staff of the state agricultural research company, EMBRAPA, or the top engineering institute funded by the Air Force, where EMBRAER started. But a clever mixture of Ricardo's and Smith's advantages, coupled with broader cultural traits of the agrarian sector and the military, created favorable conditions for innovation.

The country is also extremely creative in music, now a powerful industry and world brand. Brazil is also well-known for the peaceful and surprisingly efficient management of colossal popular events, such as the Rio Carnival, a reputation which likely contributed to Brazil winning the right to host the 2014 FIFA World Cup and the 2016 Summer Olympics. These are activities are reasonably distant from the classic understanding of formal education, yet they matter tremendously in a narrative of development in Brazil. In contrast, Brazil has so far missed the opportunity to become a model for sustainable development. While natural resources are abundant, the country lacks the technical skills required for their management. Since Collor de Mello hosted UNCED in 1992, Brazil has tried to find a path toward sustainable development, and Brazilian diplomacy has played a constructive role in the international arena, often thanks to its superior matchmaker abilities. But the nation does not yet fully qualify as a model of sustainability.

The four considerations above unavoidably draw attention to the regional differences within the country. Often it is almost silly to speak of "Brazil" as a single entity, given the multiple realities encompassed by the name. Over the twentieth century, having occupied a vast land, new territorial tensions emerged, coupled with varied geographic patterns of development. This obliges any analyst to be careful in making broad statements about a country that is discovering and asserting, in increasingly affirmative and modern ways, its multiple regional identities.

In synthesis, what has the *sturm und drang* of these eighty years led to? Is there a trend or tendency to be discovered in the kind of economy and social structure that has emerged? Rather than continuity, the succession of policies and measures described above speaks to several staggering efforts to solve specific problems, and orient the economy to partial, ultimately short-term targets, including increasing exports, improving the balance of trade, controlling public debt, fighting inflation, enhancing industrial productivity, and reducing poverty and inequality. Yet development and an encompassing social project are nowhere to be found. This does not mean that accomplishments and change, sometimes substantial, have not taken place. However, taking into account historical context, is Brazilian society fairer in 2011 than it was in 1931? Very likely, yes, but proving this is not easy.

Brazil is now a democratic capitalist society, but this statement is as vague as saying that China is a socialist republic undergoing a capitalist experiment. Only sound and specific knowledge of procedures, proceedings, cultural traits, structural assets, shortcomings, and of the daily functioning of institutions and the varied economic agents, can shed light on such omnibus statements. Change took place everywhere during these eighty years. If, like in physics, dynamics is what matters, the overall direction is probably positive. But the situation is more complex: explanations need simultaneously a broader and deeper view. And this is what makes the study of Brazil so attractive.

Notes

1. The author is indebted to Timothy Hobson for his invaluable assistance.
2. Throughout the text, the name of the President is used interchangeably to refer to the historical facts and dealings of the personas well as for the policies, measures, or appraisals related to his or her respective mandate.
3. On U.S. military presence in Brazil, see Conn and Fairchild (1989: 302–30).
4. It is also interesting to point out the anti-U.S. incidents in the Panama Canal in 1964, which eventually led to the handing of canal to local authorities in 2000; as well as a wave of protests in Asian countries, including the Philippines and Vietnam.
5. A comprehensive account of such is found in Malan et al. (1977).
6. The two dictators—Vargas in Brazil and Perón in Argentina—reflect distinct contexts, but is nonetheless a common comparison. Both undoubtedly shared certain sensitivities, including a desire to increase the portion of GDP dedicated to wages.
7. Lula's Foreign Minister, Ambassador Celso Amorim, was ranked among the 100 Global Thinkers for 2010, by *Foreign Policy* magazine.
8. Ignácio Rangel (1914–94) was one of the pioneers of this interpretation.

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CHAPTER 40

CHILE

ERNESTO OTTONE AND CARLOS VERGARA

Introduction

Chile has a long and solid tradition of democracy, and has shared in the social and economic development experienced by the countries of the southern cone of South America. In the midst of the Cold War, Chileans elected a socialist president despite strong opposition at home and abroad. The nation was dramatically divided and faced difficulties in both economic growth and social development. Democracy was interrupted by a military coup in September 1973, and a dictatorship ruled the country until March 1990. The economic policies of the Pinochet régime were shaped by students of Milton Friedman from the Chicago School of neo-liberal thinking on development. A plebiscite in 1988 rejected the Pinochet leadership, leading the way for presidential and parliamentary elections. In returning to democratic rule, Chileans had to change their former political alliances, breaking through old roadblocks to form a new majority coalition known as *Concertación por la Democracia*. This coalition defeated the Pinochet leadership at the ballot box, but then needed to offer the country a new model of development built around a vision that balanced economic outcomes with social development.

By and large, Latin America is a middle-income continent whose self-image, particularly in Chile, has often been defined by the idea of being "backward."[1] Chileans regard themselves as similar to Europeans, at least prior to the financial crisis, except that they were at an earlier point on the development path and seemingly destined to remain behind. Overall, Chileans see themselves in the middle of, not at the head of nor last in, the class, occupying a diffuse space between the world's poorest nations and the reality of the developed countries.

Chile is a country of mixed ethnic heritage, defined by international organizations as upper middle income; however, because of unequal income distribution, a higher proportion of its population lives in conditions of poverty than would be expected at this income level. But it is also a country that for centuries has struggled to emerge from its backwardness and has eagerly sought a path leading to development. In its two centuries as an independent nation, Chile has explored different paths, but beyond short-lived prosperity brought about by certain cycles of the economy, the country has not been able definitively to overcome its backward status, and sustained development has remained elusive.

"Development" is not only a concept but a particular relationship between state, market, and society. It is also, ultimately, a set of measurable results in economic, political, and social variables. This chapter analyzes Chile in terms of the concept, process, and results of development. At times, the concept of development has been synonymous with economic growth, measured in per capita GDP. Yet a society can also be considered developed when its people experience well-being. As Amartya Sen (1999) has suggested, having a place in society means that even those with low income can lead a decent life and enjoy opportunities to shape their future. One can describe an evolution in thinking about development as Chile, perhaps more than any other Latin American country, experienced dramatically different models of development within the space of a few decades, with varying effects on the country's economic, political, and social life.

Development Prior to the Coup

After the 1929 global economic crisis, a decrease in world trade inspired Chile and several other Latin American countries to pursue a development model based on import substitution. This was a model of inward industrialization that sought to grow domestic industry through a combination of protection from foreign competition and incentives for local private investment. At the time, there was a collapse in the supply of goods and services coming in from abroad. High tariffs and the low cost of local credit attempted to foster a domestic business class, while the state invested directly in industries seen to be of strategic importance, such as electrical utilities and steel manufacturing.

By the 1950s, a group of intellectuals led by Raúl Prebisch,[2] under the auspices of the UN Economic Commission for Latin America and the Caribbean (ECLAC), elaborated theories about the causes of underdevelopment and the requirements for a transition to development. Analyses based on the center–periphery axes[3] and dependency theory argued that development required countries to foster domestic industrial production capable of absorbing technical progress. It is worth noting that the location of ECLAC's headquarters, in the capital of Santiago, meant that a number of Chilean intellectuals contributed, and were very sensitive, to ECLAC's thinking and theories over time (see Adebajo, this volume).

Within the Latin American context, Chile experienced an early rise in the proportion of its population living in urban centers, a feature it shared with the other southern cone countries. This means that the process of migration from the countryside to the city happened earlier than in other developing countries, leading to public policy that attempted to integrate this new population into the daily life of the city. For example, a National Health Service, modeled after the United Kingdom system, was established in the 1950s, and a policy for social housing and integration of the urban poor was developed in the 1960s. The country also experienced a high and growing rate of primary school enrollment. In this sense, Chile was an early adopter of policies and mechanisms for social inclusion. This economic and social development placed Chile among the most advanced countries on the continent. Even when growth was slow, wealth was concentrated, and levels of inequality and social exclusion ran high, Chile compared relatively well with many of its neighbors in the region. However, in the 1960s, tax revenues derived from the growth of the economy were insufficient to support this social spending, while marginal urban sectors and excluded farm workers pressed for greater inclusion.

The Chilean political system was composed of various parties that, one way or another, tended to split popular support three ways, creating persistent blocks occupying the right, center, and left of the political spectrum. None of the three could obtain a clear majority, resulting in a continuous impasse. With separate elections for the president and a proportional parliament, the candidate chosen to lead the country at any given time could count on support from only one-third of the legislature. The 1960s were years of reform and revolution: the Cuban revolution was beginning, the Cold War was in full swing, and students were rioting in the streets of Europe and the United States. In this context, there was no culture of forming political coalitions, leading each third of the political spectrum to become progressively more ideologically polarized and making the effectiveness of such minority governments increasingly precarious.

The election in 1970 of Salvador Allende, a socialist leader with democratic convictions, marked a contradiction. In the highly polarized society of the time, the political system had become completely ineffective, with falling tax revenues and increasing demands for social spending. Allende's government was trapped by a model of growth and development that no longer worked. On September 11, 1973, a military coup overthrew the government and ushered in seventeen years of military dictatorship.

Development during Dictatorship

The military government violently wiped out democracy and introduced a radical change in the country's model of development. Import substitution or inward development was quickly dismantled and replaced by a model of economic opening to the outside world, with complete dominance of self-regulated markets and an almost complete withdrawal of the state from its previous role in the economy. Unlike the experience in other countries, from day one the Chilean dictatorship sought advice from a select team of young economists trained in Chicago under Milton Friedman. The perspective these "Chicago boys" brought to economic and development policy resonated with what would later become known as the Washington Consensus. In a sense, Chile was the first Latin American country to open its economy to international competition, structuring an export-based production system.

Though this shift gave Chile new advantages in world trade, it came at an extremely high social cost, forced through under the military. Union leaders were persecuted, political parties were banned, freedom of expression and of assembly were circumscribed, and human rights were systematically violated. Unsurprisingly, poverty and inequality rose precipitously. The elements of protection and redistributive policy that had existed in Chile, while modest compared to the European model, were seen as an obstacle to development, to be replaced with the concept and practice of a "subsidiary" state. Under this approach, all goods were to be produced by the private sector and purchased through the market. This opened the way for the privatization of education, health, and pensions, creating a new social divide between those who could pay to get better quality goods, and those who could not and were forced to rely on scaled-back state provision of increasingly inferior quality goods through a much reduced "public" system. This had devastating effects on social cohesion and national identity.

The civil elite who ruled together with the military blindly believed in the benefits of this model of development, advocating an orthodox view of self-regulated markets as the only

way to grow the economy. Social welfare and equality would come later as a complement to such growth. In the 1980s, the idea of growth as the sole means of achieving development was gaining traction, inspiring the belief that, as Ronald Reagan put it, "the state [was] the problem, not the solution,"[4] or that, as Margaret Thatcher stated, "there [was] no such thing as society"[5] and that the market could organize social life and find the necessary balances. This way of thinking, of imagining the future, dominated the spirit of development under the military dictatorship. The economic creed of the Chilean military dictatorship is well described by Krugman (2007), who wrote that the "history of economic thought in the twentieth century is a bit like the history of Christianity in the sixteenth century... completely dominated by free-market orthodoxy. Heresies would occasionally pop up, but they were always suppressed... classical economics said that the answer to almost all problems was to let the forces of supply and demand do their job."

After seventeen years of dictatorship, Chile ended up with some needed modernization, with advantages of trade liberalization and steady growth, but at the cost of more poverty and inequality, a shameful record of human rights violations, and the destruction of its democratic institutions.

Development during Democracy

Chile faced two major problems with the restoration of democracy in 1990. First was the high level of poverty, which affected nearly 40 percent of the population. Second was the need to rebuild the foundations and institutions of democracy, restore citizens' confidence in their rulers, and banish the fear and terror the dictatorship had imposed. At the same time, the government had to prove it could manage the economy, against a skeptical belief that maintained that authoritarianism was economically efficient and political parties were not (Meller 2005; Ottone and Vergara 2006; Boeninger 2007).

The relationship between the worlds of academia and politics proved vital. Not only did ideas from academia enter into policy making, but numerous individuals moved from academia into politics, becoming relevant leaders in rebuilding democracy and development (Puryear 1994). Over the years of dictatorship, many academics were forced into exile, continuing their studies in North America, Australia, Europe, and elsewhere, learning how social and economic policy was pursued in different locations and acquiring new visions of development. Many of the intellectuals who entered politics drew inspiration from the work of Aníbal Pinto (1959), perceiving the economic growth that Chile had achieved at the end of the nineteenth century as an opportunity for real development that had been frustrated by the short-sighted mentality of the oligarchy. The challenge ahead was to avoid a similar capture by the elite. Chileans were absolutely convinced that democracy and development should go hand in hand.

The vision of development that took hold included defeating poverty, rebuilding democracy, and growing the economy. This concept went beyond merely growing incomes to ensuring that social development occurred in practice, not merely assuming that it would inevitably follow from economic growth. This new concept postulated that development, in addition to achieving sustained economic growth over time, had to achieve considerable improvements in income distribution, in probity and efficiency of public spending, in fostering a diverse and active citizenry, and in consolidating a culturally pluralistic society. Such

development could not be measured by a single dimension or indicator, but required a combination of factors. Increases in annual per capita income were important, but these needed to occur alongside an increase in relative earnings in the bottom quintile, a sustained reduction in the portion of the population living in poverty, and the eradication of extreme poverty. Development would be measured not only by average figures, but by the level of dignity of the less advantaged.

Between 1990 and 2005, the Chilean government introduced major reforms in labor relations, fiscal and trade policy, infrastructure, science, education, and health. The minimum wage was increased by 70 percent in real terms, employment insurance was introduced, and welfare and minimum pensions were increased. In 2000, the government committed to maintaining a 1 percent structural surplus, which proved vitally important for establishing the confidence of international investors. Trade was enhanced through reduced import taxes and export incentives, and most of all through entry into over twenty separate free trade agreements with various countries in Latin America, North America, Europe, and East Asia. As a result, trade increased sevenfold over the course of two decades.

Chile became one of the most competitive economies in Latin America, driven by new investments in transportation. Across the country, air connections improved with investments in both new and remodeled airports, and the capacity of the Valparaiso and San Antonio seaports was expanded. Over land, a 1,500-kilometer divided highway connected La Serena to Puerto Montt, and 5,000 kilometers of improved roadways facilitated access to and among rural communities. In the capital of Santiago, expansion of the subway system and 200 kilometers of new roadways improved public transportation and eased congestion.

Meanwhile the government invested heavily in science, technology, and innovation. Following 2010, Chile aspired to invest 1.5 percent of its gross domestic product in research and development (R&D), of which half would be contributed by the private sector. However, this proved difficult to achieve, as the private sector funded roughly one-third of the country's R&D, whereas in developed countries the private sector can contribute upwards of two-thirds of R&D investment.

The educational opportunities for vulnerable families improved remarkably. In the first five years of the millennium, Chile extended compulsory education to twelve years of age and opened more than 2,800 new schools (equivalent to more than one per day). By the end of 2010, fourteen million textbooks were distributed each year free of charge, and school feeding programs had expanded to serve more than 1.4 million students each day. The number of students pursuing higher education increased fivefold between 1990 and 2010, with more than 70 percent of students being the first in their family to study at university.

During the same period, the public health budget more than doubled, expanding access to quality and timely health care through improvements in hospitals, medical equipment, training, and working conditions for medical personnel. The AUGE program (from the Spanish *Acceso Universal con Garantías Explícitas*, or "Universal Access with Explicit Guarantees") introduced public financing to guarantee access to treatment for the most common illnesses, which accounted for the majority of cases of hospitalization. The program began with the five most common illnesses and was subsequently expanded to cover forty illnesses. This became the most ambitious reform in the health sector since the establishment of the National Health Service in the 1950s.

Building the Coalition

Following the return to democracy, a remarkable effort was made to break through the political impasses of the past and establish a new sense of national unity. The Chilean transition to democracy was consolidated through a new political coalition built around a vision of development that balanced economic outcomes with social development. This model was based on the interaction of five pillars: (1) reaching out to the opposition to form a new political majority, with (2) a longer-term perspective that embraced (3) globalization, (4) social justice, and (5) expanded freedoms.

Reaching Out to the Opposition

As noted above, for much of the twentieth century Chilean politics was fragmented into three blocks under which right-wing, center, and left-wing parties each commanded roughly one-third of popular support. Thus, the president was often elected with less than 40 percent of the vote, and continuously relied on a minority in parliament. Minority governments were thus the norm, with the government of President Frei Montalva (1964–70) marking an exception, enjoying the support of the political right motivated to oppose Allende. This trend to minority governments had become a serious obstacle to the country's governance.

Over the years the presidential office gradually acquired an increasing amount of power, in particular following constitutional reforms in 1925 and again during military rule after 1973. Thus the executive branch grew more influential compared to the legislative branch of government. A distinct presidential regime emerged, combined with a divided political geography, an explosive combination that made it difficult to advance policy between administrations. A party that lost the crucial presidential election would take refuge in parliament, and while it could not govern, it had enough power to block proposals and prevent the proper functioning of government. This combination of a powerful president hobbled by a polarized legislature was the antithesis of the culture of coalitions, or the construction of majorities. An openness to negotiation and concession is needed to form a coalition government, but this attitude was rather despised, as politicians on the left, center, and right all preferred to remain committed to their minority positions. The three-way division of the political spectrum appeared to be irreconcilable, with each faction offering a distinct vision for the country. In this political culture, intransigence was regarded as a sign of strength, while the search for agreement was a sign of weakness.

In the 1970 elections, two candidates proposed revolutionary visions: the Christian Democrat, Radomiro Tomic, campaigned on a platform of a non-capitalist path of development, while Salvador Allende outlined a Chilean road to socialism. When Allende won with 36 percent of the vote, the governance problems that had long plagued the country's political system reached a breaking point. The lack of governance was evident not only in Parliament but in the streets and in the homes of Chilean families, and combined with the economic model that no longer worked, contributed to conditions leading to the military coup.

The difficult task of building opposition to the Pinochet dictatorship forced previously irreconcilable rivals to seek and build political agreements to end the dictatorship and form

future governments. Building a majority was vital, through the essential acts of building agreements and forming a coalition. Collectively adopting a new attitude of negotiation was the great revolution in Chilean political culture. The product of this opposition was a political alliance of the democratic left and the progressive center, with Social Christian roots. This alliance became known as the *Concertación de Partidos por la Democracia*, or Coalition of Parties for Democracy. Initially formed to defeat Pinochet in the 1988 plebiscite, it intended to offer a progressive and governable future for Chile through the formation of a new social and political majority.

This was no tactical, short-term alliance forged merely to win an election: each party fundamentally evolved its positions, moving beyond a mere collection of old left and old center. Nor was it just a marriage of convenience, where each party awaited opportunities to bring out the arguments and weapons of the past and ultimately to displace its temporary partner: it was a new social space in politics, built on strong, long-term convictions shared by both parties, including beliefs in democracy, freedom, human rights, social justice, modernity, and the need for growth. Hence, the origin of Chile's development success over the last twenty years was the formation of a new political consensus.

Longer-term Perspective

Just as minority governments were the norm throughout much of Chilean history, so were medium-term visions of development. No government could risk setting objectives beyond its own term in office; government objectives needed to be achievable within the presidential term, as there was no guarantee of either staying in office or that their successors would continue. Thus development was pursued with a view of the country that did not reach beyond five or six years at best. The incoming government team often held a political orientation contrary to that of the outgoing team. The new arrivals entered the arena convinced that those who were leaving had accomplished little, while the ones who left took refuge in Parliament to form a relentless opposition to the new government. Thus each successive government erased what had gone before and started afresh with its own vision of development. What was needed was a shared strategic objective based on the virtuous circle between growth and equity, combined to achieve the level of development to which Chile aspired.

A country is primarily a moral community. It has a past and a present, and aspires to a particular future. Having a long view and working with a strategic perspective means placing oneself within a continuous thread running through the history of the nation, setting a horizon, and advancing toward a shared vision. Advancing with a strategic sense is not simply adding good public policy to what went before, but having a clear horizon toward which these are directed. In a comparative study of the United Kingdom against other countries, Geoff Mulgan (2005), the Blair government's Director of Strategy, concluded that countries that did well "found new ways to combine open economies and political systems with high levels of capacity . . . they had focused on the long term and the strategic . . . bureaucracies whose job was to look at long-term strategy and to challenge complacency."

Working with a strategic perspective goes hand in hand with building a social and political majority. Sharing national objectives allows a government to build on what previous

governments have achieved. An apt analogy is the construction of an apartment building: a shared idea of design is required, including the layout of apartments, lighting, windows, gardens, spaces for children, and facilities for the elderly. But the fourth floor is built on the third, and the fifth on the fourth. If the first floor is repeatedly torn down and rebuilt because of a radical disagreement over design, the second floor will never be built.

Embracing Globalization

Under the previous polarization of Chilean politics, the right was concerned with growing the economy and the center-left was concerned with redistributing wealth. The former drew support from entrepreneurs, while the latter spoke for the working class and the poor. The political right felt it embodied the industrious spirit, while the political left felt that the state should provide solutions to pressing problems. This impasse had to be broken. The coalition needed to demonstrate that it could not only foster both growth and equity, but surpass the growth generated during military rule. Growth of the economy became a strategic objective of democratic governments: without growth there are no jobs, no resources for investment in equity, and no progress. There is no development without growth, but it was equally clear that growth alone was insufficient.

The emphasis on growth was based on the conviction that growth was, in the words of President Lagos,

> an indispensable condition in order that a society may consistently improve the standard of living of the most disadvantaged sectors. The dilemma of growth [versus] distribution is false. Growth without distribution, or distribution without growth, inevitably leads to social and political crises, and to the loss of freedom. Distributing better as growth is achieved is the only responsible and lasting way to social progress. (Lagos 2005)

This strong will to generate economic growth is one of the least understood and most controversial aspects of the recent Chilean experience. It inspires respect and admiration in many circles, yet it also inspired rejection and distrust among those nostalgic for the political positions of the past.

This distrust stems from the political center-left adopting a goal customarily associated with the political right. Yet the twenty years of coalition governments proved to be among the strongest for the Chilean economy. When the coalition government assumed power in 1990, 40 percent of the population lived under the poverty line, yet within two decades the level of poverty had declined by nearly three-quarters to just over 11 percent of the population. During the same interval, per capita GDP increased threefold in terms of purchasing power parity, from US$4,500 to $17,000, buoyed by internal reforms and strong performance on the world stage of Chile's mining, aquaculture, wine production, and forestry sectors. The main elements in this model of development were economic growth, reducing poverty, and converting growth into social well-being. Engaging the global economy was vital, as Chile is quite distant from world markets and its relatively small population (sixteen million) means that the internal market will always be modest. In this sense, Chile stands in contrast to Brazil or Mexico, whose larger populations provide a stronger internal motor for growth. If the internal market is not large enough to support a growing economy, one must turn to external markets. In this sense, globalization was seen as a great opportunity rather than a cultural menace to national traditions.

One interpretation of the Chilean experience attributes such success to the legacy of policy introduced during the previous military regime. Yet this argument has been discredited by Manuel Castells, a renowned sociologist, who notes that democratic Chile represents a fundamentally different model. Castells (2005) describes the military leadership as pursuing a "model of development that excludes most of the population from the benefits of growth by means of the authoritarian and uncontrolled exercise of the power of the state, while prioritizing the market mechanisms over the values of society, without applying policies to correct inequalities and privileges of the social and economic elites." In contrast, Castells characterizes the coalition as pursuing "a development model… that, while maintaining market mechanisms as an essential way of allocating resources, implements public policies aimed at the inclusion of the entire population to the benefits of growth." This model includes redistribution and public policy intended to improve education, health, and housing for the least privileged members of society. This model also establishes mechanisms for consulting and negotiating with different stakeholders in society.

Another change with respect to the past is in terms of globalization. Many people tended to perceive globalization as more of a threat than an opportunity, presenting dangers to cultural identity, domestic producers, and sovereignty. Yet as a small, open economy located on the confines of the world, Chile needed to be open to the opportunities available. The only way to achieve sustained growth was to go out to foreign markets and sell Chilean products in other countries. Globalization was not only the world coming into Chile, but an opportunity for Chile to reach out to new and larger markets.

Social Justice

The state alone is capable of distributing the benefits of growth to the entire population through policy that provides quality public goods to those disadvantaged in the market. The state has a political role in crafting social justice and gradually building the equity that is not produced by markets. Politics guides where the benefits of growth will go. While this may seem self-evident, it has not always been so. In the long hegemony stemming from Rostow through to the Washington Consensus, Chile under military leadership was perhaps the most extreme expression of neo-liberal thought, which saw social development as an automatic complement of economic growth. The state was seen as an obstacle to such growth, a deficiency that had to be minimized.

While the market can facilitate the distribution of resources and generate incentives for investment, the market alone cannot solve the endemic problems of poverty and inequality that afflict Latin America. Chileans desired a society that did not merely reproduce the inequalities of the market. In the words of President Lagos (2005), the "market is made up of consumers, unequal in their purchasing power; society and democracy are made up of the citizens, equal in rights and duties." Growth and distribution should happen simultaneously, not in sequence. Growth with equity became the political essence of the coalition.

Deepening Chile's integration into the world, fully embracing globalization and international trade, required that the country be united. Rekindling the rifts of the past was inconsistent with the strategic objective. Thus, the government established itself as guardian of the national interest in its deepest and democratic sense. This meant breaking the old "friend/enemy" dichotomy of past politics under which anyone who opposed prevailing views or thought differently was considered a target to be eliminated. Politics needed

to end the practice of negating the positions, interests, and needs of others. Forging and consolidating national unity required a forward-looking agenda that looked beyond a simple reorganization of fragments from the past. The country's self-image needed to look ahead to what could be, while acknowledging what had been. Some believed that the traumas of the past could be overcome by simply turning the page or whitewashing over painful memories; however, a society does not become more humane by denying the pain in its past. On the contrary, doing so only serves to deny, denigrate, and degrade any sense of national unity.

First, the country needed an honest accounting of what had occurred during the years of dictatorship, to honor the memory of those who had suffered human rights violations. This involved multiple initiatives to reveal the truth, the most prominent of which were the National Commission for Truth and Reconciliation under the Aylwin government, the *Mesa de Diálogo* between civilians and armed forces convened under the Frei government, and the Commission on Torture under the Lagos government. These and other efforts sought to restore the relationship between the armed forces and government leadership.

Second, government needed to repair its relationship with the business community. For decades, business leaders were seen as the natural allies of the right-wing political parties and stalwarts of the military dictatorship. The opening of new markets and business opportunities in Canada, Europe, the United States, and Asia required a sincere and efficient public–private partnership to expand the frontiers of the Chilean economy. This unity was also required to meet the internal clashes of the global economic crisis, to maintain the rules of the game in difficult situations.

Expanding Freedoms

Chilean history is marked by an imbalance between order and freedom. This increased exponentially during the dictatorship, with unlimited economic freedom accompanied by harsh restrictions on all other freedoms, including the right to life. Following the return to democracy, government faced a question of how to expand the horizon of freedoms and individual rights, including freedom of expression, and the right to cultural identity and historic memory. Film and press censorship were abolished, and legal reforms saw the introduction of divorce, improved juvenile justice, and reforms to the inheritance law that eliminated discrimination against children conceived outside of marriage. A new relationship, still incomplete, began to emerge between the government and Chile's indigenous peoples.

A pluralistic and tolerant society is not devoid of soul, cohesion, or values. On the contrary, pluralism requires an understanding that in the social, political, and cultural spheres there is no single truth: democracies are built on dialogue and agreement between different views whose sole arbiter is citizenship. The state cannot be neutral or indifferent to cultural development. Cultural development is not an ornament of economic growth, it is at the core of the idea of development. It defines a country, particularly a small country that sees globalization as an opportunity to achieve the required levels of dignity for its people. The cultural products that Chileans are capable of producing express our identity: movies, theater, painting, music, and literature provide an imprint of Chile on the world.

The reduction in poverty from 40 percent to 11 percent also stemmed from a number of policies dealing with employment and salaries, as well as agreements with the trade unions

and low inflation. In particular, the "Chile Solidario" program was based on input from poor families, and addressed their specific reality in order to improve school attendance for children, as well as access to social nets such as cash transfers. Key to converting growth into social well-being was the AUGE program, which provided vulnerable populations with universal access to certain health benefits. Previously there was a two-tier health care system: one private, high-quality service accessible to one-fifth of the population, and one public, low-quality service for the rest of Chileans. The former was funded by private payments, including insurance premiums, while the latter was funded by tax revenues. People affected by a catastrophic illness faced the choice of either paying for expensive treatment in the private system or languishing on long waiting lists in the public system. In contrast, the AUGE program established a list of forty priority diseases and guaranteed prompt access to treatment for all citizens, regardless of income.

Results and Ongoing Challenges

Pritchett (2011) notes that Chile is one of only ten countries since the end of the Second World War to have achieved a combination of rapid and widespread economic growth, consolidated democracy, and a competent bureaucracy with low corruption. The twenty-year period since the return to democracy has been one of the most fruitful in Chile's history in terms of economic development, respect for freedom and human rights, social well-being, and integration into the world. During the seventeen years of military rule, the economy grew on average 2.4 percent annually, while after 1990 the growth rate more than doubled. By the end of the century, the country's GDP had doubled compared to 1989, and increased again by one-fifth by 2005. Adjusted for purchasing power parity, per capita income increased threefold. According to the Global Competitiveness Ranking, Chile ranked twenty-third in the world in 2005, ahead of all other Latin American countries. In 1989, Chile had yet to sign a single free trade agreement, yet by 2009 it had entered into twenty-four agreements, and the total value of the country's exports had risen from $8 to $53 billion dollars.

No other country on the continent experienced such a drastic fall in poverty levels. According to ECLAC figures, the rate of poverty fell from almost 40 percent to just over 11 percent of the population between 1990 and 2009. The poorest fifth of the population saw their monetary income double and their access to goods and services quadruple. The country achieved universal access to primary and secondary education, and expanded coverage of pre-school education during the Bachelet government (2006–10). In higher education, student enrollment rose fourfold in ten years, from 245,000 in 1990 to about one million in 2010. Seven out of ten new students were the first generation in their families to receive a university education.

Beyond gradual advances in many areas, the key reforms in health and social security stand out. The AUGE program under the Lagos government guaranteed free, timely, and quality care to the entire population for the most devastating illnesses. Social security reform under the Bachelet government not only increased the minimum pension amounts, but also incorporated women homemakers into the pension system. Numerous indicators in the social, housing, and infrastructure fields helped secure a high position for Chile (often first

in Latin America) in international rankings, such as the UNDP human development index and the World Bank governance indicators.

In short, the two decades following the return to democracy transformed the country, and witnessed continuity in the model of development across four presidential administrations. The face of Chile had changed, commanding the dignity of its citizens and the respect of the international community. The soundness of Chile's development was tested in the Asian crisis of 1998 and its effects on Latin America when the regional economy experienced a sharp decline. Thanks to the fiscal surplus, the Chilean economy could implement countercyclical policy that allowed it to continue growing, albeit at slower rates. The financial crisis of 2008 presented a second test, and while the economy suffered, it recovered quickly and the social effects were quite minor.

While the coalition parties were finally defeated in the 2010 elections, the new center-right government is largely building on rather than replacing the model of development already in place. The return to democracy may well have reached its full potential, as there is not only continuity between governments, but the promise of a "Swedish" alternation of power between parties. Chile had come to the end of a political cycle, one defined by the restoration of democracy and marked by reduced poverty and high economic growth. A remarkable effort was made to break through the political impasses of the past and establish a new sense of national unity. The Chilean transition to democracy was won peacefully, and consolidated through economic outcomes and social development.

However, there is still a long road ahead. Inequality remains a problem throughout Latin America. The distribution of labor income, before tax transfers, shows that the Gini index has increased over the past twenty years. The wealthiest 10 percent of the population still enjoys over twenty-eight times the income of the poorest 10 percent, and the gap is widening, as the growth of income per capita of the richest 10 percent was 34.6 percent and the second richest was 25.1 percent, while the second poorest was 11.4 percent and the poorest was just 0.7 percent. It will take much effort to reverse a long history of inequality that stems from the colonial era and runs through to the modern era. It will require strengthening social cohesion, the sense of belonging, for all citizens including Chile's indigenous people (6 percent of the population), respecting their diversity, and providing autonomous channels for integrating into or coexisting with the country.

Moving forward, the key challenge to be overcome is inequality in the distribution of income, wealth, well-being, and power. In other words, beyond merely achieving economic growth, the country requires an economic development that enhances equality and social cohesion, and fosters a more inclusive society. Achieving this involves renegotiating the relationships among state, market, and society, and redefining a notion of public interest based not on an arithmetic average of individual interests but on the creation and provision of public goods for the benefit of society as a whole.

Chile now faces a new cycle defined by the challenge of inequality, but equipped with a new quality in its political system and new rules regarding the relationship between the state and market. Moving forward will once again require building a new majority. As shown by recent social movements, particularly student protests, Chile's development is far from over, and while access to education may have improved, there remains the challenge of providing quality service to all. The number of students in higher education has increased fourfold since 1990, but the system is expensive, fragmented, and of varying quality. A new reality has

set in as the emerging middle class expresses new demands for equality. Toward this end, the next stage of Chile's development requires further investments in public education, health services, and pension reform, as well as in the science and technology needed to maintain growth. In this sense, Chile is already facing a dynamic that lies in the near future of many developing countries.

Achieving higher levels of equality requires a more rapid progression among those with lower income, which requires more and better jobs, a profound transformation of the educational system, and tax reform that provides permanent resources to finance public goods. Renegotiating the roles of state, market, and society does not mean discarding the advantages and virtues of markets and free competition, but does mean letting go of unrealistic expectations of what markets can deliver. If politics are the deliberations and decisions of citizens—what Sen (2005) calls "government by discussion"—then the state has an inalienable role in providing public policy and goods that embody the will of its citizens.

Chile is expected to soon reach a threshold where per capita GDP will exceed US$22,000. The unresolved question facing Chile's future is how to convert economic growth into development to ensure that high income results in a more egalitarian society where everyone lives better. This is the major challenge facing Chileans.

Notes

1. See the Seventh Raúl Prebisch Memorial Lecture, delivered by historian Tulio Halperin Donghi at ECLAC, August 16, 2007 (<http://www.eclac.org/publicaciones/xml/7/33817/RVI94Halperin.pdf>, accessed February 15, 2013).
2. Beyond Prebisch, many others contributed to this school of thought, including Celso Furtado, Osvaldo Sunkel, Aníbal Pinto, and others. Cardoso and Faletto (1977) gave substance to the dependency theory, while José Medina Echavarría, Jorge Graciarena, and others linked these economic processes to the social and political variables.
3. An important and influential work on this issue is Cardoso and Faletto (1977).
4. Ronald Reagan's inaugural address on January 20, 1981, <http://www.reaganfoundation.org/pdf/Inaugural_Address_012081.pdf>.
5. Margaret Thatcher interview September 23, 1987, <http://www.margaretthatcher.org/speeches/displaydocument.asp?docid=106689g>.

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CHAPTER 41

SOUTH AFRICA'S QUEST FOR INCLUSIVE DEVELOPMENT

MTHULI NCUBE, ABEBE SHIMELES, AND AUDREY VERDIER-CHOUCHANE[1]

INTRODUCTION

THE end of apartheid and the coming to power of the African National Congress (ANC) redefined the development paradigm in South Africa. After many years of social and economic malaise, the new government adopted a neo-liberal approach to economic development.[2] As a first step, prudent macroeconomic policies combined with political stability had positive effects on investment and GDP growth. To foster inclusion, the government launched the Black Economic Empowerment (BEE) program in order to address the huge racial economic inequality inherited from the apartheid regime. Democracy, together with macroeconomic stability helped to transform South Africa into a regional economic power with a strong influence in Africa and around the world. In 2011, the country joined the BRICS (Brazil, Russia, India, China, and South Africa) as an emerging economy with an important regional influence.

However, neither neo-liberalism nor the BEE and a few other social protection initiatives could address the poverty and inequality that remained entrenched to this date. In the last two decades, South Africa has faced a very low standard of education and one of the highest unemployment rates in the world. When it comes to racial and regional disparity, South Africa is also one of the most unequal countries in the world. Furthermore, economists have often pointed out the disappointing levels of growth the country has recorded since the democratic transition. Compared to other emerging countries such as Chile and Malaysia, it appears that South Africa's GDP growth could have been much higher with a more inclusive growth policy. The huge social problems that are apartheid's legacy remain a threat to the socio-political order. Recently, South Africa attempted to consolidate the neo-liberalism practice with an inclusive development approach into a common framework by adopting the New Growth Path (NGP). The challenge for the government is to accelerate a shared and balanced growth.

The objective of this chapter is to show the interplay of ideas and experiences that have shaped South Africa's development path in the pre- and post-apartheid era. The chapter opens with an overview of the change in the development paradigm and socio-economic

performances from the days of apartheid to the democratic South Africa. It then focuses on the neo-liberal shortfalls and South Africa's challenges in achieving high and inclusive growth, and concludes with a review of the concept of growth inclusiveness for the future of South Africa's social democracy.

From Apartheid to a Democratic South Africa

South Africa's experience confirms that development is a combination of economic, institutional, and political factors. Democracy has been crucial in attracting foreign investment, building confidence, and creating an environment conducive to growth. As argued by Faulkner and Loewald (2008), growth trends revolved around political change. As shown in Figure 41.1, after reaching a peak in 1980, South Africa's economy deteriorated steadily until the end of apartheid in 1994. The recovery in the post-apartheid period was slow, with momentum achieved only in the mid-2000s. Recently, per capita GDP has been growing at a rate higher than the country's historic potential; however, most of the growth has come from expansion in domestic demand, putting pressure on the government budget which has deteriorated significantly since the global economic crisis in 2008–9.

The willingness to integrate previously disadvantaged groups within the formal economy has expanded both the domestic demand and supply. The reintegration of the country within the world economy has increased foreign investment and demand for South African products, which in turn has boosted economic growth. In contrast, the apartheid era clearly appears as a period of economic and social stagnation.

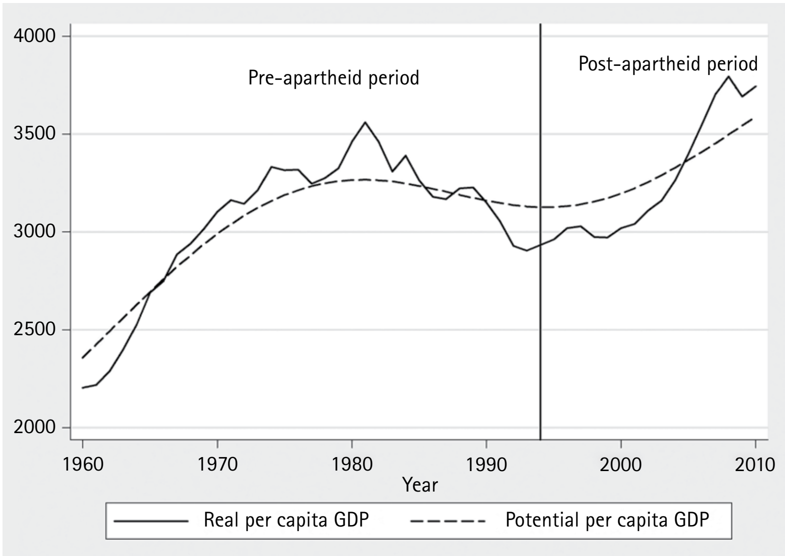

FIGURE 41.1 Trends in actual and potential per capita GDP in South Africa, 1960–2010

Source: African Development Bank statistical data portal (<http://dataportal.afdb.org>, accessed 16 August 2012).

Malaise of the Apartheid Era

Prior to 1994, South Africa went through a period of declining and volatile economic growth and high inflation. Economic growth was driven mainly by changes in commodity prices, notably gold and other minerals. Faulkner and Loewald (2008) demonstrate that between 1970 and 1994 investment declined, employment growth slowed, and competitiveness worsened. Reflecting its opposition to the apartheid government, the international community imposed trade and financial sanctions on the country.

Apartheid was a political system "predicated on a racially exclusive institutional framework that eroded political rights and freedoms, property rights and generated high levels of political uncertainty" (Fedderke, de Kadt, and Luiz 2001). During apartheid, black South Africans were legally excluded from any political and economic participation. They were discriminated against in employment, skills development, and business ownership and control, as well as in access to basic social and physical infrastructures. The social security system was designed mainly for whites.

The result was predictable. South Africa relied for decades on natural resources to continue to grow, with little investment in human and physical resources to stay competitive and dynamic. As a result, the economy rapidly lost its competitive edge, a loss from which it has yet to recover fully. The historical exclusion of the majority of citizens from sharing the country's wealth and opportunities created structural rifts that would take decades to mend. In consequence, inequality and chronic poverty persist in the midst of wealth and prosperity. For the ruling party, the dilemma of ensuring a successful transition without disrupting the social, political, and economic fabric is evident; hence it will not be surprising if its quest for an inclusive development strategy continues to be elusive.

South Africa's Development Paradigm

After apartheid, development policy in South Africa focused on the debate over the superiority of either state-controlled or market systems. Like many other developing countries, South Africa expected that globalization and the replacement of traditional industries by modern sectors would become a panacea for economic development. In consequence, and in line with its neo-liberal approach to economic policy, South Africa's government has restrained its intervention in the economy so as not to obstruct the free market. It was also clear that the legacy of racial and regional disparity left by the apartheid era could not be resolved by the market: the active involvement of the state was needed. The government took steps to address the needs of the disadvantaged groups through improved public service delivery (low-cost housing, water, and electricity), social safety nets, and most important, the Black Economic Empowerment (BEE) initiative, which has attracted enormous interest on both sides of the ideological divide.

Figure 41.2 summarizes the policy orientation of the government of South Africa as it evolved in a post-apartheid period. The recent emphasis on job creation and a much more active engagement of the state give the redistributive strategy more a streak of a developmental state than a neo-liberal stance. These apparently two-track approaches are discussed in turn in the following sub-sections: the Growth, Employment and Redistribution (GEAR) strategy was the first to implement the neo-liberal model, while some of the elements of the redistributive strategy reflect a developmental state approach, particularly the BEE and the recent New Growth Path (NGP).

Growth, Employment, and Redistribution

In 1996, the Growth, Employment and Redistribution (GEAR) strategy followed the Reconstruction and Development Programme (RDP)[3] that had been put in place in 1994, at the end of the apartheid era. The origin of the RDP could be traced back to the labor movement that since the 1950s had strived to institute social security and welfare programs for all industrial workers, irrespective of race. The emergence in 1985 of the powerful Congress of South African Trade Unions (COSATU), which brought under its umbrella close to 450,000 workers from a wide range of industries, ushered in a new phase in the struggle against apartheid. The movement ratified the Freedom Charter introduced in 1955 by a multiracial trade union with a strong emphasis on civil and democratic rights. By the time the ANC came to power, it was natural for its policy to be influenced by the unions, as they had provided the core power base and support during the struggle and its immediate aftermath. The RDP became an election manifesto and ideological reference point for the ANC that established continuity between the Freedom Charter of 1955 and the post-apartheid world. "The RDP originated in an attempt by labor to produce an accord that would tie a newly elected ANC government to a labor-driven development program" (Visser 2004: 6). The RDP's mantra was "growth through redistribution," which focused on meeting people's basic needs in such areas as employment and access to clean water, electricity, housing, land, health, and education services.

However, as it became clear that the objectives of redistribution would not be feasible without a growing economy and a vibrant private sector, the RDP began to lose supporters within the policy circles. The 1994 White Paper on Reconstruction and Development was the first official document that clearly indicated a departure from the tenets of RDP, with an emphasis on fiscal conservatism and managing economic transformation. The pressure on the ANC to steer the economy toward faster growth reached a turning point in early 1996, when the country faced a currency crisis with the rand losing nearly 25 percent of its value in a short time.

To reassure investors, both domestic and international, the ANC-led government announced a conservative macroeconomic strategy known as Growth, Employment and

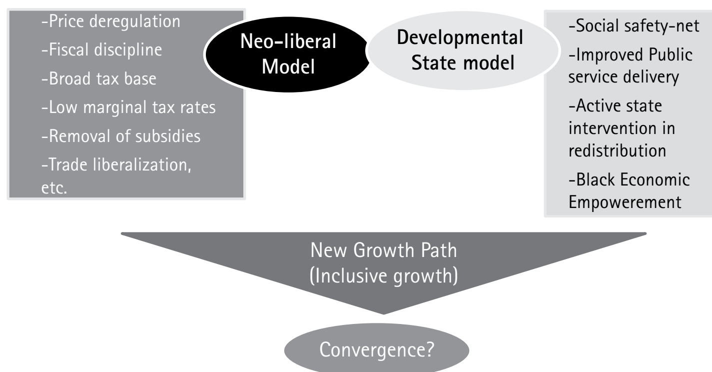

FIGURE 41.2 Evolution of growth and redistributive strategies in South Africa

Source: Authors

Redistribution (GEAR), with the emphasis this time on a neo-liberal framework. The ministry of RDP was abolished in March 1996 and the technocrats in government (Development Bank of South Africa, South Africa Reserve Bank, Treasury) took charge of leading policy reforms. The World Bank published three growth scenarios for South Africa recommending sound economic policies and increased levels of private investment (Fallon and Pereira de Silva 1994). In 1996, two representatives of the World Bank joined the small technical team—which contrasted with the broad consultative approach of the RDP—in charge of drafting the GEAR.[4] This new strategy focused on macroeconomic stabilization, and trade and financial liberalization, as the means to foster economic growth, increase employment, and reduce poverty. As a consequence, the South African government reduced fiscal deficits, lowered inflation, maintained exchange rate stability, privatized state assets, cut the tax on company profit, decreased barriers to trade, and liberalized capital flows. The final objective was to achieve a 6 percent annual growth rate by 2000 by encouraging private investment.[5]

According to Khamfula (2004), fiscal policy has been the major success of the post-apartheid era. Following the autonomy of the South African Revenue Service (SARS) in 1997, there has been significant improvement in revenue collection. Moreover, within the Medium Term Expenditure Framework (MTEF), budgeting gained greater certainty for planning and implementing policy programs in a three-year rolling framework. Fiscal restraint combined with a strategically efficient allocation of resources led to a significant reduction of the fiscal deficit, which remained below 3 percent of GDP from 1998–9 through 2008–9. Public debt levels were below 40 percent of GDP. The South African government is committed to transparency and good governance in allocating public resources.

However, the GEAR strategy faced several challenges. It was a single strategy—adopting market-oriented reforms—with multiple objectives. The assumption that redistribution would come from job creation in a context of reduced public expenditures was not realistic. The global economic crisis in 1998, coupled with a decline in world demand for South Africa's exports such as gold, put an end to the GEAR strategy. Both monetary and fiscal policies had to be relaxed. First, the exchange rate stability—which was maintained by high interest rates to avoid capital flight—was dropped in mid-1998 in favor of the independence of the monetary policy. In February 2000, South Africa formally adopted an inflation-targeting monetary policy framework to hold inflation between 3 and 6 percent. On the fiscal policy side, the country adopted a counter-cyclical fiscal policy stance in 2006. Fiscal policy has become expansionary since 2009–10. As a result, the neo-liberal policy adopted by South Africa was not sustainable. In 2006, the Accelerated and Shared Growth Initiative for South Africa (ASGI-SA) was adopted as a new framework for economic and social development in South Africa.

A First Step toward Inclusive Development

The first democratic government faced the enormous challenge of having South Africa's development based on cohesion, inclusion, and opportunity. The ANC therefore launched the Black Economic Empowerment (BEE) initiative to rectify inequalities by giving economic opportunities to disadvantaged groups. At inception, BEE garnered political support, as it was widely believed that the participation of disenfranchised groups in economic spheres grew proportionately to their numerical-political power. Thus the potential for civil strife was expected to decline, preserving business confidence in the economically-dominant minority (white South Africans) and eventually producing a non-racial "growth coalition"

necessary for sustainable capitalist development (Bräutigam, Rakner, and Taylor 2002). Correspondingly, BEE is described as "a coherent socio-economic process that brings about significant increases in the number of black people that manage, own and control the country's economy and a way of reducing income inequalities" (Sartorius and Botha 2008). In 1994, corporate South Africa appointed black non-executive directors and sold businesses to black empowerment groups. Financial institutions provided funding for black people without capital to go into business. However, the BEE program was interrupted by the global market crisis in late 1998.

The year 2003 marks a reversal of priorities in South Africa's development approach, with a focus on equity and social development. This change emerged with the publication of a very critical report on socio-economic rights by the South African Human Rights Commission (SAHRC 2004). As a consequence, the South African Social Security Agency (SASSA) was created in 2005. In 2003, BEE was replaced with the Broad-Based Black Economic Empowerment (BBBEE) policy. Indeed, the 2001 report of the Black Economic Empowerment Commission[6] pointed out that the BEE needed to be broader and more inclusive. A second generation of empowerment was slower, but more meaningful. Over the years, BEE has changed from white businesses' efforts to increase black acquisition in small to medium enterprises (SMEs) to a process with specific measures aimed at increasing black equity and participation at all levels of society.

The BEE (through the Broad-Based Black Economic Empowerment policy) envisions the creation and development of new enterprises that produce value-adding goods and services, and attract new investment and employment opportunities with the aim of redistributing wealth by transforming the ownership of companies and eliminating the racial divide. The seven pillars of company transformation are: ownership, management control, employment equity, skills development, preferential procurement, enterprise development, and socio-economic development. A company's BEE status is determined by a scorecard that quantifies performance based on predetermined weights assigned to the seven pillars. According to Sartorius and Botha (2008), BEE has led to a gradual increase in the black middle class, while ownership of capital on the Johannesburg Stock Exchange (JSE) has, as at 2008, grown to 4 percent due to direct intervention through BEE industry charters and legislative measures.

Detractors, on the other hand, claim that the lack of any coherent definition of BEE measures distorts beneficiary groups and as a result has only served to enrich the politically connected elite, and that in its current form the program is patrimonial and an instrument for accumulating patronage (Engdahl and Hauki 2001; Boshoff and Mazibuko 2003; Andrews 2008). For Tangri and Southall (2008), the government has been too cautious in implementing BEE, as ANC leaders have feared the consequences for economic growth and investment if white business is obliged to relinquish large ownership levels to black investors. The authors conclude that "reconciling populist goals with capitalist-led economic growth remains problematic for ANC rulers." Others fear that BEE measures could impede foreign investment (Southall 2004 and 2005; Jackson, Alessandri, and Black 2005) and contribute to a widening premium to the foreign ownership of firms. While foreign firms are exempt from the BEE ownership provision, they are expected to comply with other elements, including preferential procurement of inputs from Previously Disadvantaged Individual (PDI)-owned companies. However, Mebratie and Bedi (2011) show that after accounting for firm level fixed effects, foreign firms were not more productive than domestically owned firms in South Africa. In other words, since foreign direct investment (FDI) is considered to disproportion-

ately favor more productive firms, and since there are no productivity premiums to foreign ownership, compliance with BEE procurement measures is not bound to favor foreign firms vis-à-vis domestic firms. As a conclusion, the outcomes of the BEE program have been mitigated, and have generated a lot of controversy.

The Geopolitical Transformation of South Africa

South Africa's strong geopolitical position sits in stark contrast to the enormous internal socioeconomic challenges the country faces. Since the democratic transition, South Africa has displayed remarkable socio-political stability, which has resulted in a strong influence in Africa and internationally. South Africa has the most advanced and diversified economy in Africa, and its geographical position grants it a privileged role as the gateway to sub-Saharan Africa. Trade liberalization in particular has been at the forefront of the country's post-apartheid economic strategy, reflecting a commitment to outward-stimulated development. South Africa also accounts for a significant proportion of global foreign trade, even if its share has recently declined (Kappel 2010).

South Africa's key role in economic cooperation and regional integration initiatives is underpinned by the size of its economy (the largest in Africa) and positive growth spillovers to the rest of the continent. Through its membership in various regional and sub-regional groupings, the country supports efforts to deepen economic integration in Southern Africa and the continent. Economic integration has accelerated among the Southern African Development Community (SADC), the East African Community (EAC), and the Common Market for Eastern and Southern Africa (COMESA), covering twenty-six countries with a market of around 600 million inhabitants and a GDP of about US$1 trillion. The establishment of the Grand Free Trade Area (FTA) is expected to be launched at the end of 2013 (AfDB et al. 2012).

In 2011, South Africa ascended to the position of leading emerging economy, adding an "S" to the BRIC (Brazil, Russia, India, and China) group. South Africa is the smallest of the BRICS in terms of population (about 49 million in 2010) and land area (1.22 million square kilometers) but it ranked third in 2011, ahead of China and India, in terms of nominal per capita GDP (US$8,342 at purchasing power parity/PPP).

South Africa is also the only meaningful economic power in the Southern Africa region and in Africa (Kappel 2010). It exercises leadership with respect to investment, trade, monetary integration, and institutional influence. Within the Common Monetary Area (CMA), the South African Reserve Bank influences the foreign exchange regulations and the monetary policy of its member states. Lesotho, Namibia, and Swaziland have a fixed currency to the South African rand. The CMA is also allied with the Southern African Customs Union (SACU), with the exception of Botswana, the only SACU member that is not part of the CMA. South Africa businesses clearly dominate the fifteen member states of the Southern African Development Community (SADC).

South Africa also took the lead in resolving conflicts in many countries, proving itself as an advocate of peace and stability in the region. It was much easier for the policy-makers to build regional integration than to deal with domestic issues.

The evolving geopolitical position of South Africa has fed into domestic policy stances primarily through business climate improvements. Since the end of apartheid, South Africa's growth strategy has focused on increasing both domestic and foreign private investment.

Nowadays, South Africa's private business regulatory climate is one of the most conducive in Africa. The 2012 *Doing Business* report (World Bank and IFC 2012) ranks South Africa the 35th easiest country to do business globally.

The Challenges of Post-apartheid Strategies

Following the 1994 democratic transition, South Africa's pattern of growth has not affected racial and regional disparity significantly. The GEAR strategy was not acceptable to the trade unions, which favored the BEE because it involved a very tight fiscal policy and a reduction in social expenditures. For example, while significant achievements have been made in areas such as access to basic water supply, improvement in service delivery remains a priority in South Africa. The quality of health care and education is extremely heterogeneous across provinces. Primary and secondary schools often fail to provide useful employment skills, thereby prolonging the severe skills gap inherited from apartheid and hampering economic development and the reduction of unemployment. The gap between disadvantaged (black) and advantaged (white) schools persists, with dramatic differences in repetition and drop-out rates. In addition, important provincial disparities persist in terms of the availability of medical staff and the quality of health care services. A further problem is that most urban black South Africans are highly concentrated in suburban townships, far from economic opportunities. High transport costs and crime inhibit job searching in townships. Skills development is a high priority.

The Shortfall of Neo-liberalism as a Development Strategy

Some of the weaknesses of the neo-liberal model of economic policy have been discussed extensively.[7] Since the RDP was abandoned in favor of the neo-liberal policy, serious clashes have taken place between the government, the South African Communist Party (SACP), and the Congress of South African Trade Unions (COSATU). The former called for social security programs and a coherent industrial policy to create and maintain jobs, while the latter requested the end of the privatization process, which it blamed for creating unemployment. In the neo-liberal discourse, economic growth was given primacy, with the benefits spreading gradually to the whole society through a trickle-down process. However, the growing gap in income between social groups, the slow pace of growth, and growing public dissatisfaction and frustration prompted South African policy-makers to adopt new priorities, new consultations, and new decision-making mechanisms.

Disappointing Socio-economic Performances

Before 1994, separate and mostly unequal education services contributed to the creation of large urban communities with no schooling or a very low level of education. On human capital development, South Africa is sometimes far above average regional values (Table 41.1).

Table 41.1 Selected social indicators in Southern Africa

	Net Primary enrollment ratios (%), 2006/10	Under 5 mortality (per 1000), 2010	Maternal mortality (per 100,000), 2008	Adult HIV prevalence rate (aged 15–49), 2009	Human Development Index, 2011
Angola	N/A	192.5	610	2.0	0.486
Botswana	86.9	44.3	190	24.8	0.633
Lesotho	73.1	96.2	530	23.6	0.450
Madagascar	98.5	92.8	440	0.2	0.480
Malawi	90.8	110.8	510	11.0	0.400
Mauritius	94.0	17.0	36	1.0	0.728
Mozambique	92.3	140.2	550	11.5	0.322
Namibia	89.1	43.1	180	13.1	0.625
South Africa	**84.7**	**60.5**	**410**	**17.8**	**0.619**
Swaziland	82.8	88.1	420	25.9	0.522
Zambia	90.7	146.5	470	13.5	0.430

Source: AfDB Database (2011) and UNDP online.

South Africa has one of the highest unemployment rates in the world, close to 40 percent if discouraged workers are included (Rodrik 2006b). The unemployment rate has increased significantly since the democratic transition and has particularly affected the young, unskilled, and black populations and those living in homelands and in remote areas. Rural unemployment rates are higher than urban ones. For Rodrik (2006b), the situation is due to the shrinkage of the non-mineral tradable sector since the early 1990s and the weakness of export-oriented manufacturing, which have reduced the demand for unskilled workers.

Dani Rodrik was part of the Harvard team of economists in charge of assessing the ASGI-SA policies put in place in 2006. It was an interesting attempt to bring global thinking to the heart of South African policy making. At that time, the Harvard economists were concerned about the rapid increase of the trade deficit due to the surge of imports, particularly if exports didn't grow and commodity prices declined. Therefore, they recommended the strengthening and diversification of the non-commodity tradable sector such as manufacturing by using a stable and competitive exchange rate. However, once again macroeconomic stability was favored over the strategic objectives of creating jobs and reducing inequality and poverty.

In opposition to the neo-liberal macroeconomic policies, South Africa's labor law has been quasi-corporatist. The National Economic Development and Labour Council (NEDLAC), which is a corporatist institution, was created to discuss public policies. A debate over a considerable degree of rigidity in labor laws and in hiring and firing workers is currently ongoing. While firms are reluctant to hire workers without enough flexibility to fire them, the minimum wage for nineteen-year-old workers and the ratio of minimum wage to value added is almost three times the average for other BRICS countries (AfDB et al. 2012).

Given the importance of labor income in total household income, unemployment across regions and different socio-economic groups is strongly correlated with the

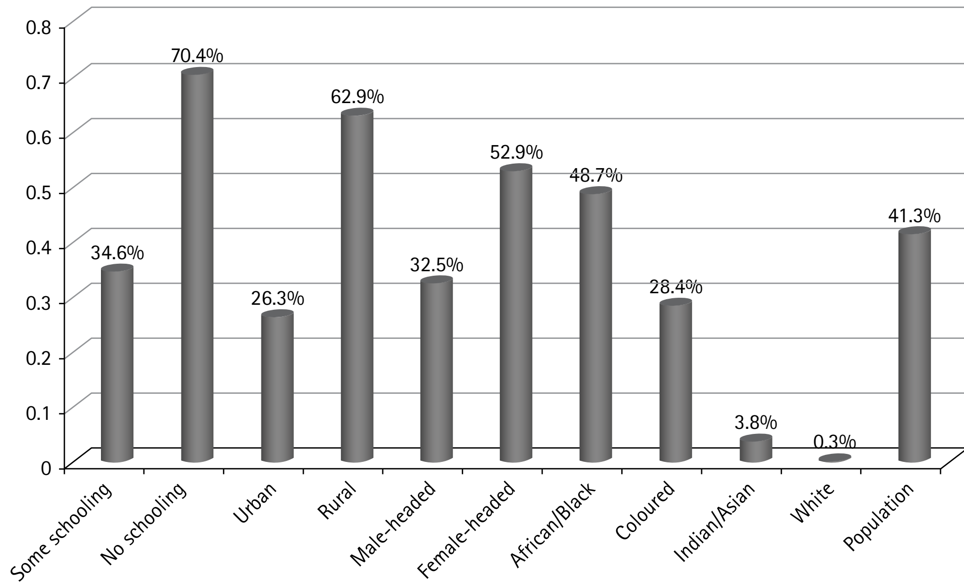

FIGURE 41.3 Poverty (headcount) in South Africa, with a poverty line of US$3 in 2005

Source: Duclos and Verdier-Chouchane (2011).

geographic and socio-economic distribution of income and poverty (Duclos and Verdier-Chouchane 2011). Poverty levels in South Africa have remained high since the advent of democracy (Figure 41.3).

South Africa's relatively sophisticated formal economy coexists with a large informal economy such as near-subsistence agriculture. The country further suffers from large socio-economic inequalities in incomes, mostly resulting from the apartheid regime. These disparities manifest themselves geographically and racially, in the form of a high unemployment rate, widespread poverty, high rates of crime and insecurity, and a high degree of economic informality. Most of the economic activity takes place around the province of Gauteng, where Johannesburg and Pretoria are located. Poverty varies significantly across regions, while the Gini coefficient, reflecting the degree of inequality, is high in all regions. The political and economic oppression of the blacks has indeed skewed the country's poverty profile along racial lines (Duclos and Verdier-Chouchane 2011).

The more deprived population in terms of income and wealth also has more limited access to economic opportunities and basic services. All of this poses important challenges for South Africa's economic and social development. Land redistribution is an ongoing issue. Most farmland is still owned by the white population. Land transfers have so far been mutually agreed by buyers and sellers, but there have been hints of possible expropriations to attain the official objective of transferring 30 percent of farmland to black South Africans by 2014. As of 2008, however, only between 5 and 7 percent of land had been transferred, raising doubts about the achievability of the target. New legislation was proposed in 2011 to replace the current willing seller–willing buyer model (AfDB et al. 2012).

Beyond the limited progress in social development, South Africa has not realized its full potential in terms of economic growth. The absence of high levels of economic growth is a concern in South Africa, especially when compared to Brazil, India, China, or other developing countries. The disappointing level of growth has been highlighted by many experts and has opened the way for a renewed growth policy based on inclusiveness and human development.

Future Path for Inclusive Development in South Africa

As previously indicated, the gravity of weak socio-economic performances emerged dramatically with a very unfavorable report published by the South African Human Rights Commission (SAHRC 2004). The report exposed faulty land rights, poor working conditions, a deteriorating safety and security environment, weak economic opportunities, and infringement of social rights, and concluded that "whether unintended or not, unfortunately the outcomes of some of the programs and projects have given birth to results not entirely different from those under the system of apartheid" (SAHRC 2004: 57). As a consequence, since 2004, the government has been mandated to reverse the damage done by the GEAR and to halve poverty and unemployment by 2014 through balanced, accelerated, and shared growth.

Accelerated and Shared Growth

The Accelerated and Shared Growth Initiative for South Africa (ASGI-SA) was launched in 2006. Contrary to the GEAR, this new strategy involved a broad consultation of stakeholders, members of civil society, and partners, as well as an expert review from abroad, for example by the team of economists and social scientists based at Harvard University. Recently, official policy has attempted to reorient government spending to fight deprivation in areas such as access to improved health care and quality of education, provision of decent work, sustainability of livelihoods, and development of economic and social infrastructure.

South Africa's government is one of the few governments in the world that has committed itself to being a developmental state. The term "developmental state" has increasingly been used to describe governments that strive to promote social, economic, and political inclusiveness by relying on creative interventions where markets fail and complementing them through partnerships where they thrive. In 2007, the ANC announced that the South Africa developmental state will have to be undergirded by the principles of democratic government. However, Van Eck (2010) disagrees with the notion that a developmental state can coexist with a democracy and prefers the concept of "social democracy" based on the Scandinavian model. In her opinion, developmental states refer to the East Asian authoritarian regimes. Three years after the implementation of the ASGI-SA, the government of South Africa decided to go one step further toward economic inclusiveness. The idea that sound macroeconomic policies have to be supplemented by social measures has become the new objective of the development strategy.

Social Democracy and the New Growth Path

In his State of the Nation address, President Jacob Zuma (2009) stated,

> It is my pleasure and honor to highlight the key elements of our program of action. The creation of decent work will be at the center of our economic policies and will influence our investment attraction and job creation initiatives. In line with our undertakings, we have to forge ahead to promote a more inclusive economy. (Zuma 2009)

President Zuma's speech reflected the deep structural challenges the South African economy had been confronted with in the post-apartheid world: jobless growth fuelled mainly by expansion of domestic demand which coexisted with extreme inequality and a severe rate of unemployment (South Africa, Ministry of Economic Development 2011). It is indeed a statement that called for a new and bold approach to overcome the social and economic woes the new South Africa faces. In 2010, the unemployment rate among the young was close to 40 percent and inequality during the 2000s was one of the highest in the world: close to 40 percent of the national income went to 10 percent of the population. South Africa's growth in the post-apartheid period came mainly from expansion in the services sector (often non-tradable) while traditional sources of growth—such as agriculture, industry, and mining—became increasingly less important for growth, in the process shedding thousands of jobs (Figure 41.4).

The New Growth Path (NGP) embraces the concept of the developmental state where the government assumes a crucial role in directing resources to attain pre-defined social and economic programs. The NGP's priority is the creation of decent jobs in areas identified as

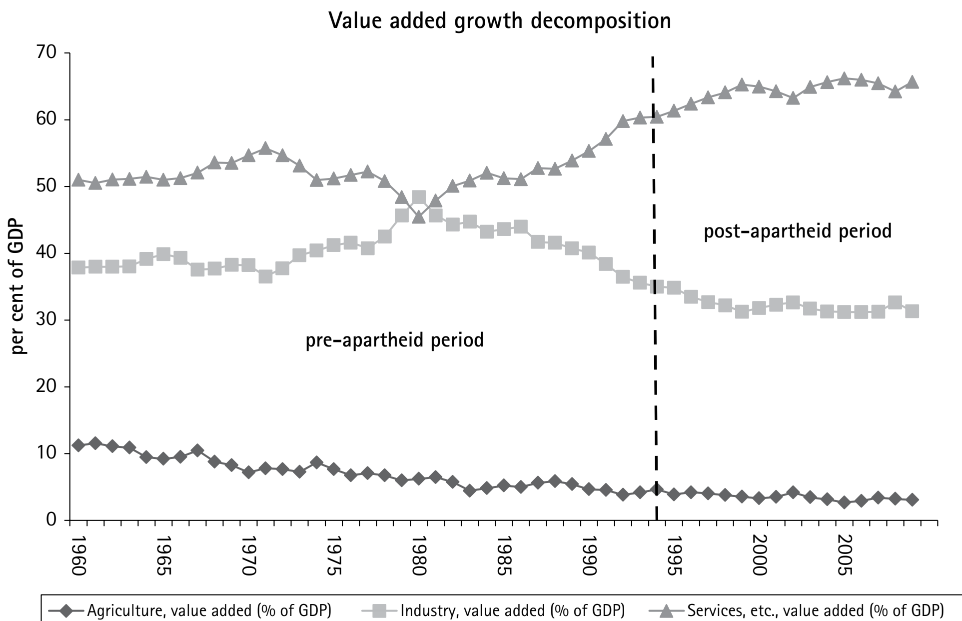

FIGURE 41.4 Growth decomposition of GDP from 1960 to 2010

Source: African Development Bank statistical data portal (<http://dataportal.afdb.org>, accessed 16 August 2012).

"job drivers." In this setting, public investment is expected to be directed at the promotion of infrastructure development, improving the value chain in agriculture and mining, investing in the green economy, and encouraging light manufacturing sectors, tourism, and other high-level services. According to the NGP, the government would like to expand employment by five million jobs by 2020 through high GDP growth rates and improving the employment intensity of growth, which has seen a significant decline in the past decade, from 0.8 to 0.67.[8] A number of policies should reduce the mismatch between the demand and supply of labor and ensure an effective interface between employers and job seekers.

The NGP is a very ambitious framework that encompasses a wide range of sectors and fields and reconsiders South Africa's policies in education, skills development, labor, technology, and trade. However, the NGP, inaugurated in 2010, is still too recent to be assessed in terms of socio-economic performance. A draft *National Development Plan: Vision 2030* issued by the National Planning Commission is currently undergoing public comment.

Is the NGP a Significant Departure in ANC Policy?

The COSATU critically responded to the government in a document entitled *Government's New Growth Path Framework: One Step Forward, Two Steps Backward*,[9] which concludes that the NGP is not a "new breakthrough in economic thinking and policy. It re-states positions that are, in one way or another, found in GEAR, the Employment Strategy Framework, ASGI-SA and the series of Budget Statements." More precisely, for the COSATU, the NGP should incorporate priority industrial sectors, change in patterns of control and ownership of the economy, and an activist role of the state, particularly with regard to employment and direct delivery of infrastructure. The document also argues that certain conceptions on BEE have to be reviewed as the social pact idea is problematic in the context of massive income inequalities. One could wonder whether South Africa's development strategy does not focus more on form than substance.

Conclusion

South Africa's successful transition from apartheid to full democracy in 1994 has given the world a powerful and enduring lesson that a peaceful transition from a polarized, undemocratic, and repressive regime to a democratic and cooperative social order is possible. The country has moved from segregation, marginalization, and exclusion to cohesion, inclusion, and opportunity. The new institutional framework provided political and property rights and freedoms to the previously disadvantaged population, generating political stability. The transparency and predictability of the country's fiscal policy have been widely acclaimed. South Africa's economy has also undergone a rapid opening to the rest of the world. The interactions between growth, policy, and institutions have been crucial.

The 1994 RDP was a very promising program regarding rights, justice, and poverty alleviation with a focus on openness, civil liberties, and land redistribution. However, the GEAR strategy adopted in 1996 was based on neo-liberal theory and barely mentioned poverty.

Between 1996 and 2003, only a few sporadic initiatives took social inequalities and well-being into account. South Africa therefore reversed its priorities over the mentioned period but came back again with some poverty and inequality reduction measures with the adoption of the ASGI-SA in 2006 and the NGP in 2010.

The development path of South Africa has followed the political dynamics over very short periods with some back and forth. The main deduction is that short-term policies and policy reversals are not favorable to long-term structural change and development. The second main conclusion is that despite several internal challenges, South Africa did extraordinarily well in terms of external leadership and geopolitical transformation. Internal contradictions between economic and social performance pledge for a new activist role of the state. Apparently, the NGP is still not the ideal development strategy because it cannot fulfill this role.

South Africa's social performance has shown deficiencies in the labor markets and very low progress in terms of education, skills, health care improvements, and poverty and inequality reduction. South Africa has not achieved its full economic potential. Despite modest rates of growth, unemployment and persistent inequality continue to haunt the country. In the last decade, the sources of growth in South Africa have shifted from agriculture and mining to services, which in relative terms are skill intensive. As a result, unemployment, particularly among the young, stood at an alarming 40 percent, one of the highest rates in Africa and the world.

The government has recently stepped up to the challenge by introducing the NGP, informed by the notion of a developmental state, which in some ways is a departure from its earlier neo-liberal stance. The NGP plans to generate at least 500,000 jobs every year for the next decade by focusing on what the government calls sectors with high employment potential such as infrastructure, agriculture, mining, industry, and tourism. The NGP also lays out plans to reform land ownership, mineral reserve rights, business regulations, etc., to improve efficiency of the utilization of natural resources. In its sectoral and structural focus, the NGP is comprehensive in what can be done. Although Finance Minister Pravin Gordan's National Budget Speech[10] in February 2012 highlights that priority programs required for implementing the NGP are funded, it fails to address how this can be achieved given the fiscal implications of such a huge public investment underlying the NGP. Particularly intriguing is the lack of a clear export promotion strategy, which seems a natural source of sustained growth for South Africa; labor market reforms to reduce persistent high unemployment; and industrial policy to improve the country's competitiveness in the global economy.

In spite of a strong democracy, good macroeconomic performance, and clear engagement in regional and global affairs, South Africa faces serious development challenges. Levels of income inequality and unemployment are among the highest in the world. South Africa's well-developed economy coexists with an underdeveloped and marginalized economy, and violent crime and the HIV/AIDS pandemic constitute considerable social challenges.

Notes

1. The findings, interpretations, and conclusions expressed in this chapter reflect the opinions of the authors and not those of the African Development Bank, its Board of Directors, or the countries they represent.
2. This is close to what is popularly known as the Washington Consensus. Williamson (1989) first used the term "Washington Consensus" to describe the reform package based on pri-

vate sector development, trade, and financial liberalization and market deregulation that the World Bank and the International Monetary Fund imposed on developing countries as a precondition to receive aid. It has since become synonymous with neo-liberalism.

3. Details of the RDP can be found at <http://www.africa.upenn.edu/Govern_Political/ANC_Recon.html> (accessed February 17, 2013).
4. For further details on why and how the RDP was switched to the GEAR, see Kotzé (2000).
5. This target of 6 percent growth in GDP was finally reached in 2006.
6. The report is available online at <http://www.kznhealth.gov.za/TED/commission.pdf> (accessed February 17, 2013).
7. Krugman (1990), Fischer (2003), Easterly (2005), and Rodrik (2006a) have extensively discussed the basic precepts of the neo-liberal theory.
8. Employment intensity of growth or elasticity of employment with respect to growth measures the rate of change in employment per 1 percent growth in a country's GDP.
9. COSATU's response is available online at <http://images.businessday.co.za/Cosatu.pdf> (accessed February 17, 2013).
10. Pravin Gordhan's speech is available online at <http://dchetty.co.za/2012/02/south-african-national-budget-speech-2012-by-pravin-gordhan/> (accessed February 17, 2013).

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CHAPTER 42

INDIA'S ECONOMIC DEVELOPMENT

DEVESH KAPUR

INTRODUCTION[1]

IF the dizzying transformation of the Chinese economy has been the defining story of economic development in the last three decades, economic changes in India, while considerably less dramatic, have been no less transformative. This chapter examines growth and structural change in the Indian economy since independence (August 1947), focusing on the key drivers and critical junctures that led to changes in economic policies and their consequences for growth and distribution.[2]

It then analyzes three central puzzles of Indian economic development: (1) Why, despite a persistent policy and intellectual concern with poverty, has India's record on this score been modest, with several human capital indicators that are not much better than sub-Saharan Africa's? (2) What explains the disjuncture between reasonably sound macroeconomic policies amidst a litany of microeconomic inefficiencies? and (3) Why did India experience only modest growth in the early decades after independence, despite good governance, but much more rapid rates of growth in recent decades, even as corruption has mushroomed?

The chapter concludes with some observations on the Indian State and why its health will be critical for the country's economic future.

HISTORICAL LEGACIES

The historical legacies of British colonialism are a necessary starting point to understand the trajectory of independent India. At the beginning of the eighteenth century, India's share of world income was between a fifth and a quarter. Over the next 250 years—between the collapse of the Mughal Empire and India's emergence as an independent country—India's share dropped precipitously to just 3 percent in 1950. It dropped further to 1.7 percent (2.5 percent

in purchasing power parity/PPP terms) in 1980 before gradually climbing to 2.6 percent (5.5 percent in PPP terms) in 2010.

Given that this period coincided with colonial rule, there can be little doubt that policies that favored colonial interests played an important role in this decline, which was especially marked between the mid-nineteenth and the mid-twentieth century. But the precise reasons are severely contested, ranging from the extractive nature of land revenue systems put into place by the British, to the use of these revenues mainly for security purposes, to the manner of India's insertion in the global economy (favoring British manufacturers). Whether globalization or weak agricultural productivity was the principal cause, the extent to which the widening gap between India and the West was due less to India's decline than to rapid increases in productivity in the West (Williamson 2011), or why in the last half century of colonial rule, despite stable property rights, free markets, and openness to trade, growth was so anemic and whether at least some of the onus lay in India's social institutions (Roy 2006), was not just a matter of academic debate. It would fundamentally shape the policies of independent India.

At the time of independence India was overwhelmingly rural, largely illiterate, and exceedingly poor. The country lacked a bourgeoisie and a middle-class; its society was deeply stratified and extremely heterogeneous, and the administrative apparatus was geared to serving the controlling interests of the colonial power rather than broader development goals. Yet, compared to many other newly emerging countries, India's colonial legacy had some positive features as well: substantial foreign exchange reserves (arising from its substantial contributions to the Allied war effort) and share in world trade that led India to emerge as one of the founding members and one of the five largest shareholders of the newly formed Bretton Woods Institutions; a meritocratic elite civil service that was rare among bureaucracies in its integrity and competence; an integrative infrastructure in the form of the railways; and a small but solid foundation of legal and higher education institutions.

It was hardly surprising that colonialism left deep cognitive scars on India's nationalist elites which fundamentally shaped the economic policies of independent India, and whose path dependency had significant long-term effects. At the same time economic policies in India had to be consonant and sometimes defer to the multiple political challenges facing the leadership of independent India. As B. R. Ambedkar, the co-author of India's constitution, famously lamented in 1950, "Democracy in India is only a top dressing on an Indian soil which is essentially undemocratic."[3] Although India's political leadership inherited a territorially unified country after independence, it did not inherit a nation in the classical sense of the term. In contrast to virtually every Western democracy, nation building in India followed the introduction of universal franchise. What made India exceptional was the constitutional consensus that resulted in democracy as the principal tool for nation building, which meant accommodating the political aspirations of India's multiple nationalities, weaving them into the fabric of a distinctly "Indian" nation, and granting universal franchise all at once (rather than gradually). Consequently, economic policies had to accommodate these political imperatives, whose yardstick for effectiveness went beyond efficiency and growth to underpinning one of the most audacious political experiments in the modern era.

A critical legacy of colonialism was a deep wariness of global economic integration, be it international trade or private capital flows. After all, it was at the time the largest multinational trading company—the East India Company, a "great money engine of the [British] state"[4]—that had spearheaded the British colonial enterprise in India. While the Great

Depression had also seemingly shown the benefits of autarchic policies, the visible success of the Soviet Union in the aftermath of the Second World War was seen as vindicating the logic of central planning in allocating scarce investment resources as well as the need for India to develop its own industrial and technological base. While the political underpinnings of the Soviet model were unacceptable in India, the Fabian socialist policies of the post-war Labor government in the UK, where many of India's nationalist leaders had been educated, appeared to offer a more humane alternative.

The lessons of the Bengal famine of 1943, in which millions of people died because of the colonial government's inaction, further underlined the limitations of market forces in addressing the acute poverty and deprivations of the majority of the country's population.

For all these reasons it was almost inevitable that the Indian State would seek not only to occupy the "commanding heights" of the Indian economy, but to camp out in the lower valleys where the Indian masses lived and toiled.

Growth and Structural Change

The economic model that India chose to follow was therefore not surprising: an Import-Substitution Industrialization (ISI) model that was relatively autarchic, with planning and bureaucratic controls rather than markets as the principal tool of resource allocation. The historical legacy, the prevailing *gestalt*, poorly developed global and domestic markets—all pointed in this direction.

Prior to independence, economic growth in India was meager. Per capita incomes had stagnated over the last half century of British rule (1900–50), although there was some structural transformation with the development of the cotton and jute textile industries. At the time of independence India was an overwhelmingly impoverished country, not just in income terms but also in human capital, with the literacy rate just above 18 percent and life expectancy barely 32 years in 1951. Six decades later the literacy rate had increased to 74 percent and life expectancy had more than doubled, to just under 67 years in 2011. In the first three decades after independence (1950–80), India's average annual rate of growth of GDP was a modest 3.5 percent. In the next three decades that figure nearly doubled even as growth volatility declined. Importantly, a decline in the population growth rate meant that per capita income growth tripled in the latter period compared to the earlier period. If one places India's record against the global economy in the *longue durée* from 1900 to 2010, it lagged global growth for the first eight decades and has only subsequently been growing faster than the world average.

Initially the economy grew reasonably well until the mid-1960s; it then slowed down until around 1980, then accelerated in each subsequent decade (Table 42.1). While agriculture was not neglected, the thrust of the first decade and a half was on capital goods—capital-intensive projects such as dams, power plants, and heavy industrialization—rather than consumer goods. This created a savings and foreign exchange gap and India soon ran through its foreign exchange reserves, necessitating a greater reliance on foreign aid (Lewis 1962). In this regard India undoubtedly benefited from the Cold War, with the Western alliance seeing it as a democratic model for the countries emerging from decolonization and a counter to the

possible attractions of Communist China. While the United States was the largest donor until the 1960s, multilateral lending became more important in subsequent decades and by 2010 the only significant bilateral source of official financial flows to India was Japan. India would continue to face chronic foreign exchange shortages and periodic foreign exchange crises, and it was not until 1994 that India finally accepted its Article VIII obligations (on current account convertibility) with the International Monetary Fund (IMF).

The mid-1960s saw the first major shift in Indian economic strategy. With back-to-back failures of the Indian monsoon in 1966 and 1967, India's dependence on the United States for food aid was seen as a national humiliation and led to a major change in agriculture policies. The new strategy relied less on the earlier efforts at institutional change, such as land reforms which had been only modestly successful, and more on new "green revolution" technologies, including new seed varieties and intensive use of water, fertilizer, and pesticides. In the first phase (mid-1960s–early 1980s), agriculture growth rates were moderate and confined to the northwest and parts of the coastal south. Growth accelerated in the 1980s with the adoption of the new technologies in eastern and central India, but then ebbed from the early 1990s onwards, especially in foodgrains (Bhalla and Singh 2012). More recently, the growth in Indian agriculture has come mainly from the non-cereal sector (horticulture, poultry, and dairying) and cash crops, especially cotton.

The green revolution was successful in sharply raising foodgrain production from 82 million tons in 1960 to 197 million tons three decades later. The specter of famine that had haunted India for centuries was laid to rest. However, the law of unintended consequences gradually began to make its presence felt as the policies that underpinned the success of the green revolution began to have major effects on the political economy.

Distributing water required irrigation, and with canals expensive to build and maintain (especially as dam building began to meet more and more resistance from displaced peoples), tube wells proliferated, and with them the demand for highly subsidized if not free power for farmers. This had cascading effects on India's power sector, which continues to be one of its biggest infrastructural constraints. And with water virtually free, overuse was inevitable, resulting in declining water tables across many parts of India. Similarly, with farmers hooked on chemical fertilizers whose costs were determined by increasingly expensive hydrocarbon feedstocks, fertilizer subsidies ballooned to about 1 percent of GDP by 2011. Thus, despite the high rates of return on public investments in rural roads, irrigation, and agricultural research and development (R&D), short-term electoral exigencies inexorably pushed public spending towards input subsidies (especially fertilizer and power). Moreover, the increased use of inputs led to greater demand for credit and, in turn, periodic political demands for farm loan write-offs that undermined the rural credit and banking system.

Ironically, pressures arising from the political economy of agriculture grew even as the share of agriculture declined, from two-thirds of GDP in 1950 to one-sixth in 2010. However, agriculture's share in employment declined much more gradually, accounting for about half of all employment even by 2010. Thus with rural incomes stressed and rural voters continuing to matter electorally, political pressure on the economy was not surprising.

On the external front, the economic and balance of payments crisis of 1966–7 precipitated a major intervention by Western donors (especially the U.S.) and the Bretton Woods institutions. As was the practice in the years preceding the breakdown of the Bretton Woods system, India's exchange rate regime operated as a fixed nominal exchange rate. By the end of the 1950s and in the first half of the 1960s, mounting inflation led to an appreciation of the

Real Effective Exchange Rate (REER), and despite severe trade and capital controls and foreign aid, India's Balance of Payments (BOP) problems mounted. In June 1966, under pressure from the United States and the Bretton Woods institutions, India undertook a large nominal devaluation (36.5 percent) but because of a complex tax regime and high inflation, the REER depreciation was only about 7 percent (Joshi and Little 1994).

The devaluation of 1966 was widely regarded as a political disaster and significantly impacted India's macroeconomic policies over the next two decades. India had signaled that along with the devaluation, it would liberalize domestic industrial licensing as well as trade policies and change tack on its agriculture policies in return for substantial increases in external support. In the end that support did not materialize. While India drastically changed its agriculture policies, the government, confronted with mounting economic pressures, instituted even more stringent administrative controls on both trade and industrial licensing and launched a wave of nationalizations (from banks to mines). State controls not only adversely affected the economy directly but created a new political economy of rent-seeking whose effects proved even more pernicious (Bhagwati and Srinivasan 1975).

The *license-raj* and autarchic policies that dominated the 1960s and 1970s, and external shocks—including three wars (in 1962, 1965, and 1971), major droughts (especially 1966 and 1967), and the oil shocks of 1973 and 1979—all contributed to the two worst decades for the Indian economy. While domestic savings and public-sector investment continued to gradually rise, productivity growth was negligible. By the end of the 1980s, the collapse of the Soviet Union fundamentally undermined the intellectual legitimacy of central planning, while the widening gap between East Asian countries (including China) and India had become painfully evident. And when the balance of payments crisis of 1990–1 struck, leading India to humiliatingly hock its gold reserves to stave off external debt default, India had little option but to change course.

While there is little dispute that India's economic policies changed sharply after 1991, there is also no dispute that India's growth rate accelerated a decade prior to that pivotal year, from around 1980. However, there is much less agreement on the causes of growth and its sustainability. One view attributes this to modest trade and investment licensing liberalization and higher levels of public expenditure funded by a sharp increase in external and internal borrowings (Panagariya 2008). Others argue that reforms in the 1980s were less pro-liberalization than pro-business in that they helped boost profits of existing business without threatening them with real competition (Rodrik and Subramanian 2005; Kohli 2012). But were the attitudinal changes a necessary precursor to the later policy changes, and if so, why did they occur? Yet another explanation puts the onus on the "output gap" and "credibility" of reforms (Virmani 2004). Since the mid-1960s the Indian economy had underperformed, increasing the gap between potential and actual GDP. The policy changes during the 1980s provided an opportunity to catch up and in particular make better use of underutilized capital. In addition, politically credible signals of the intent to reform failed policies gave greater confidence to the private sector to invest, and reassured policy-makers that economic liberalization could deliver results.

Although economic growth between the 1980s and 1990s differed little with the passage of another decade, three facts stand out.[5] First, fiscal expansion and foreign borrowing were responsible at least in part for raising growth rates in the 1980s and the unsustainability of this approach precipitated the balance of payments crisis at the end of the 1980s. Second, if the post-reform period is extended into the first decade of the new millennium (which

recorded the fastest growth rates ever), the growth story is perceptibly better (and even more on per capita terms). Third, productivity rose markedly in the post-reform era, especially in services, whether because of access to new technologies, greater competition, or the growing role of the private sector (Bosworth, Collins, and Virmani 2007).

But perhaps the most significant change was the transformation in India's engagement with the global economy.[6] In 1990, India had one of the world's most closed economies, with a trade-to-GDP ratio lower than in 1950. The reforms instituted in 1991 aimed to move the economy toward greater market orientation and external openness. Dismantling the Maginot Line that had been built over four decades to safeguard India from the threat of international trade and foreign investment was critical. From that point on, quantitative import controls on manufactured goods were almost entirely eliminated while tariffs were drastically cut (from 145 percent in 1990 to 9 percent in 2010), although agriculture (as in most countries) still remains fairly highly protected (the average agricultural tariff has come down from 134 percent in 1990 to 33 percent in 2010). Restrictions on inward and outward foreign investment were also significantly reduced.

These changes brought about a pronounced increase in the openness of the economy, manifest in a radical change in the structure of the balance of payments. Exports of goods and services tripled between 1990 and 2010, from just 7 percent of GDP to 22 percent, while imports increased even further. The decades of autarchic development policies had resulted in a sharp drop in India's share of world exports, from 2 percent in 1950 to barely 0.5 percent in 1990. The pendulum gradually swung the other way, and by 2010 India's share of global merchandise exports had tripled (to 1.5 percent) while its share of services-climbed to 4.5 percent.

However, it must be kept in mind that over the same period China's share of global exports increased sixfold. The principal reason was India's failure to rapidly expand labor-intensive manufacturing exports (such as garments, footwear, and electronics assembly). India's labor laws, ostensibly meant to protect the interests of organized labor, simply discouraged industries that could harness its principal comparative advantage, an abundant supply of low-skilled labor. Infrastructure deficiencies, weak human capital, and the high transaction costs in starting and running a manufacturing unit in India due to innumerable bureaucratic obstacles have further impeded labor-intensive manufacturing. As a result, unlike China, India has not become closely integrated into global manufacturing networks (the automobile sector is an exception) while it is deeply integrated into global networks in information technology (IT)-related services.

Indeed, India emerged as an outlier among emerging markets in that it bypassed the normal sequence of economic development where low-income economies are dominated by the primary sector (agriculture), middle-income by the secondary sector (manufacturing) and high-income by the tertiary sector (services). In India's case, services came to dominate the economy even when it was still a lower middle-income country. The success of India's services sector is epitomized by the remarkable success of the IT sector, which rose from less than $1 billion in 1990–1 to over $100 billion in fiscal year 2011–12 (7.5 percent GDP). With nearly 80 percent of its revenues derived from exports, the IT sector more than any other epitomized the goals of the historic shift of the 1991 economic reforms: a private-sector-driven economy that was much more globally integrated.

Yet the limitations of this shift have also been evident. By the end of 2011 the IT sector provided direct employment to 2.8 million people and indirect employment to around 9 million

people, which, while substantial, still represents only a small part of India's burgeoning work force of nearly half a billion people. The failure of India's rapid growth to create substantial numbers of jobs in the formal sector for India's rapidly expanding labor force remains one of the biggest weaknesses of the Indian economy.

The greater importance of trade for the Indian economy led to a considerable change in India's attitudes to international trade negotiations, from reluctant participant to a proactive role. Before 2000, India had signed just one inconsequential preferential trade agreement (with the Maldives). It negotiated another three between 2000 and 2005. With the Doha Round stalemated, it followed up with another sixteen in the next five years, and in 2011 was negotiating another seven agreements (including, significantly, with the EU). In contrast to its earlier protectionist stance in the pre-reform era, from about a decade after the onset of economic reforms, domestic business became a major lobby for greater global integration, reflecting India's growing self-confidence.

Capital inflows, especially non-debt capital inflows, have been the second important mechanism driving India's integration into the global economy. Inward foreign direct investment (FDI) increased steadily throughout the 1990s, but really took off in the mid-2000s after India partially deregulated its financial sector and started achieving GDP growth rates of 8 percent a year. A new development was the growth of outbound FDI from India, which moved more or less in step with inward FDI, albeit at lower levels. In 2010, inward FDI was around $25 billion and outward FDI around $15 billion. The substantial net capital inflows compensated for the current account deficit, allowing the country to accumulate sizable foreign exchange reserves.

International migration has been the third leg of India's growing engagement with the world economy, in addition to trade and capital movements.[7] Outward migration from independent India was initially driven by the large demand in the United Kingdom for unskilled and semi-skilled workers, following the end of the Second World War. From the late 1960s onward, two major streams of migration emerged. The first, to the Middle East, was dominated by unskilled or semi-skilled temporary workers; nearly four-fifths of these labor flows were to just three Middle Eastern countries (Saudi Arabia, the United Arab Emirates, and Oman). The second stream, comprising skilled professionals, migrated to OECD countries, especially the United States, where the Indian-born population grew from around fifty thousand in 1970 to 1.8 million in 2010.

Unlike China, the economic effects of international migration from India have not yielded much in the way of FDI. Instead, the Indian migrants have been an important source of financial flows into India in the form of remittances. Remittances emerged as an important component of the country's balance of payments in the mid-1970s and increased dramatically after the onset of economic liberalization in 1991, growing from $2.1 billion (0.7 percent of GDP) in 1990 to $53 billion (3.1 percent of GDP) in 2010.

The fears of influential sections of Indian elites notwithstanding, greater integration into the global economy has been transformative for the country. An important reason was the decision of Indian policy-makers to eschew the "big bang" approach, opting instead for a more gradual transition, especially with regard to capital account and financial sector liberalization. As a result India has avoided the sort of major financial crisis that has engulfed many industrialized and emerging market economies (Joshi and Kapur, forthcoming). However, in contrast to the strong and positive effects on growth and macro-stability, the effects of greater global integration on poverty and distribution are more ambiguous. It is this subject that we now address.

Three Central Paradoxes

The Poverty Paradox

Independent India's commitment to democratic politics meant that its polity had to grapple with the harsh reality of India's poverty: the sheer number of the poor (who were also now voters), the intensity of poverty and destitution, and a deeply stratified and hierarchical society. Addressing the needs of vulnerable and marginalized groups in society has preoccupied intellectuals and policy-makers, and informed political rhetoric in India, to a degree uncommon among developing countries. Levels, changes, and measurement of poverty have been a major preoccupation of (often contentious) Indian policy debates, in considerable part because the benefits of the large array of redistributive programs deployed by the Indian state have been linked to so-called BPL (Below Poverty Line) status.[8] The puzzle is not that India's policy has been preoccupied with addressing poverty, but that the large number of directed poverty programs that India has put into place over the decades have yielded such modest results. Like Sisyphus, the Indian state appears condemned repeatedly to launch poverty programs, and then, with limited results to show for its efforts, begin the process all over again. What explains these modest outcomes and why does the Indian State persist with these programs?

The salient features of changes in human development in India are provided in Table 42.1. While clearly there have been improvements in all aspects (except the gender ratio), the changes have been modest, both relative to other comparable countries and in light of India's rapid growth in recent years. Poverty has declined considerably, but for the most part it has been the result of broader growth (including for example the green revolution and the acceleration in growth in recent decades) rather than redistributive programs targeting the poor per se. It should be emphasized that the Indian base line for poverty is extremely low, so that trends over time are a better indicator of progress than absolute numbers, since many millions of people just above the poverty line also have very low incomes.

There is considerable variance in outcomes of India's poverty programs across both states and types of programs. Self-targeting programs like the National Rural Employment Guarantee Scheme (which guarantees one hundred days of wage employment annually to a rural household whose adult members undertake unskilled manual labor) have performed better than the Public Distribution System, which has been notorious for leakages.

The mainstay of India's anti-poverty programs have been specific purpose transfer schemes, designed to address issues of categorical equity. Most of these schemes have been launched by the central government, even though actual implementation is undertaken by state and local governments. Initially these schemes focused on area development (backward areas, arid areas, hilly regions), wage employment, and promoting self-employment (by transferring a productive asset).

The first area development program, the Community Development Program, began in the early 1950s and sought to involve the rural community in a specific location in development. However, while the pilot projects were promising, weaknesses became evident as the program expanded. A critical review by the Indian government in 1957 placed the blame on the acute administrative burdens imposed by the program on ill-trained and ill-equipped local bureaucracy. Little has changed since.

Over the years, other types of schemes came into being, particularly new forms of transfers, such as old age pensions and housing and basic services like education and health. Their numbers grew from the 1980s as a weakening federal government sought to route funding directly to the local level, bypassing the states. These schemes grew especially in the post-reform era, and in part served as a compensatory mechanism for the central government to exercise influence within states, after instruments such as industrial licencing were abolished, and in part for intellectual and policy elites who could exercise more influence on the central government than in the states.

Innumerable reports on and analysis of India's poverty programs agree on seven broad conclusions. First, the lowest level "front-line" functionaries are poorly trained and often overburdened. Second, a large fraction of the resources in these programs is spent on the administrative costs of the programs or are siphoned off, with their intended beneficiaries receiving only modest amounts. Third, the mismatch between the incentives of the implementation agents on the one hand and the design and funding of these programs on the other ensures that implementation is the Achilles' heel of India's poverty programs. Fourth, the large-scale corruption in these programs stems from the discretionary power of public functionaries. Fifth, to curb these discretionary powers a labyrinth of rules has been put into place, which both slows work and simply redistributes the rents elsewhere. Sixth, these facts are well-known to the state functionaries who are supposed to implement and monitor these programs, and to the intellectuals who push for them. And finally, all this persists because there is little accountability in the system. If anything, the accountability is perverse in that punishment is more likely to be meted out to someone who does not participate in the hierarchical systems of corruption than to someone who does.

Nonetheless, there have been some striking successes, with the "Kerala model" the best known example (Drèze and Sen 2002). In general, the anti-poverty effort in the southern and some of the northern and western states has been better than in the central and eastern states (where the bulk of the population and the poor live). While poverty did continue to decline in the post-1991 era, the elasticity relative to growth was less, with the lack of expansion of labor-intensive manufacturing an important reason. In contrast, the demand for skilled labor has risen, and with it the wage premium for skills, which is one reason why income inequality has increased over this period. While pressures for redistributive policies have grown, the large growth in government spending has had a limited impact on India's substantial inclusion deficit, which has deep historical roots.

At the time of independence India was a highly unequal country, and so it remains six decades later. However, the characteristics of inequality have changed. Most accounts of inequality focus on the simple Gini coefficient. In reality India simply does not capture data on income distribution, and the Gini measures used for India are simply household expenditure distributions acting as a surrogate for income distribution. The Gini based on household expenditure was 35.6 in 1951 and gradually dropped over the next two decades to 30.4 in 1960. Over the next two decades it was reasonably steady, then began climbing upwards in the early 1990s, reaching 36.8 in 2004. By 2010 it was 30.6 in rural and 40.2 in urban India, which implied that urban income inequality in India is probably close to levels in Latin America, long regarded as an outlier.

With India's population overwhelmingly rural in the early decades after independence (82.7 percent in 1951), the critical factor affecting inequality was land ownership. This was especially true in Eastern India, where the British land revenue system had created a small

rentier class of large landlords (*zamindars)* and millions of small and marginal farmers and landless laborers. While the *zamindari* system was abolished, overall attempts at land redistribution were at best modest, and reform of the land tenure system was only slightly better. For half a century Indian intellectuals have lamented the absence of meaningful land reform, imagining it as the magic elixir to alleviate both rural poverty and inequality. The reality is that drastic land reforms have occurred only in the aftermath of revolutions or external occupation, never under a democratic regime. An even harsher reality is that there just isn't that much arable land in India relative to its rural population. The net sown area per rural household was less than three hectares in the 1950s and less than one hectare six decades later. If anything, a major problem facing Indian agriculture is extreme land fragmentation rather than land concentration. Asset inequality in land over the decades was less about a few having a lot and more about many (namely, landless laborers) having nothing.

The insistence on land reforms as the pathway to reduce inequality meant that policies that could have done much more to help cultivators and small peasants—such as rights of tenants on lands they had been cultivating (the states of Kerala and West Bengal were exceptions), transparent and low transaction land registration, and titling—were largely ignored. But most egregiously, the only other viable instrument for addressing the roots of inequality in India, namely, a sound and egalitarian primary education and primary health system, was given short shrift.

Under the Indian Constitution, primary education and public health are state subjects. Consequently it is not surprising that in the early decades the federal government left this issue to the states. Since the politics of most states was dominated by upper-caste males, it has been argued that they had little interest in educating the lower castes and women (who formed the majority of the population), preferring to maintain their historical social advantages (Weiner 1990). However, over time the iron law of numbers inherent in universal franchise led to the middle and lower castes' capturing power in most states; yet even this did not lead to a reorientation of priorities. India has had powerful women politicians, but there is little evidence that they gave greater emphasis to girls' education. The fact that the state of Kerala is an outlier on social indicators and has had a strong Left tradition may lead one to conclude that political ideology was the key. However, the communists held power in West Bengal for twice as long as in Kerala and the record there is much weaker, while the small northern state of Himachal Pradesh, where the Left never had a presence, has a record second only to Kerala. The major impetus for a substantial increase in central government spending on primary education came in 2001, with the launch of a multi-billion-dollar education *Sarva Shiksha Abhiyan* program for universal elementary education, and in 2009, when the right to primary education was given constitutional status with the passage of the Right to Education Act.

These efforts notwithstanding, India has a long way to go in fulfilling this most basic instrument of empowerment and social mobility. While the quantitative goals of enrollment have been reached, the quality of education is still severely deficient. The principal reason for this lies in the multiple weaknesses of the country's basic administrative systems. Despite reams of evidence that public teachers and health workers have very high absenteeism rates (despite being paid substantially more than their private-sector counterparts), Indian intellectuals and politicians are reluctant to press for firing them—the interests of powerful public unions are better protected than those of powerless children.

It is arguable, however, that the inequalities that matter for the daily lived experience of most people in India are not changes in the Gini but rather the complex and deep social inequalities that have been a pernicious feature of Indian society, with gender and caste being salient examples. The former has been most manifest in intra-household inequality. While the Indian constitution and subsequent legislation have sought to eliminate gender-based discrimination in matters such as inheritance, divorce, sexual discrimination in the workplace, etc., social institutions have proved tenaciously resistant to change. While on some indicators (such as education) the male–female gap has been narrowing, on others (such as employment) this is less the case. The most troubling aspect has been the decline in sex ratio, falling from 972 females per 1,000 males in 1901 to 933 in 2001, before slightly recovering to 940 in 2011. More disturbing is the decline in the child-sex ratio, from 945 in 1991 to 927 in 2001 to 914 in the 2011 census—an indication of how, despite being illegal, son-preferences have been amplified with new wealth and technologies that allow sex-selective abortions.

The biggest change in inequality in India has been a more subtle but profound change, namely, a significant decline in the deep social inequities that were a hallmark of the stratified and hierarchical Indian caste system. At the time of independence, large parts of rural India were feudal in character, with labor relationships akin to serfdom. Many of the specific features that characterized these stratified social relationships, such as commensality (rules of purity and pollution), the correspondence between caste and occupation, servility, and social exclusion, have considerably weakened in recent years, although they have by no means been eliminated. While multiple causal factors—the direct and indirect effects of economic growth (the latter manifest in significant circulatory migration), the ascendency of lower caste political parties, technological change, and lagged effects of prior public investments—make precise attribution difficult, it does point to the wrenching role of markets in driving social change. Finally, there is strong evidence of convergence in human capital (years of schooling, life expectancy) and occupations across social groups, an indicator of gradually improving inter-generational mobility.

The Macro Paradox

The Indian state's noteworthy record in macroeconomic management has long been recognized, whether compared with other developing countries or weak performance in microeconomic policies and ground level implementation. Thus for much of the period prior to the 1991 reforms India's record was the most "conservative" (among seventeen countries studied) with respect to inflation, monetary policy, and external debt (Joshi and Little 1994). India's superior inflation record (at least until the 1990s) owed much to the political aversion to inflation institutionalized by democracy, given the negative impact on the large number of poor voters (largely because the poor do not have access to financial instruments to protect themselves against inflation) and the relatively low levels of income inequality in India. Thus, instead of an independent central bank and monetary targeting, democratic politics has anchored and reined in inflationary expectations.

Despite the lack of conventional statutory independence, the Indian central bank (RBI) has competently conducted monetary policy, albeit within the mandate laid out by the

government. Exchange rate management, once the *bête noire* of Indian macropolicies, has also improved considerably and is an important reason why India has weathered major global crises better than in the past.

The reasons are several. First, the breakdown of the Bretton Woods system depoliticized exchange rate policy in that it allowed the central bank to intervene in ways that led to a gradual depreciation of the rupee (compared to the earlier fixed exchange rate system where the IMF's involvement was inevitable and hence political fodder). Second, an important factor that had undermined the RBI's role in exchange rate management was India's economic model. With macroeconomic policy in India yoked to planning, adherence to the fixed exchange rate was necessary (from the narrow perspective of the planned model) because any change in its level would have upset the careful balance that was part of a plan's design (Khatkhate 2004). As the role of centralized planning ebbed, so did the importance of a fixed exchange rate. Finally, as trade's importance in the Indian economy grew, so did the importance of exchange rate management, since it affected both the competitiveness of India's burgeoning exports (and hence business interests) and inflation (through higher-priced imports), whose adverse effects on India's poor are well-known.

If the Indian state's handling of exchange rate policies has been reasonably adept, this is also true (albeit to a lesser extent) on one side of the fiscal ledger, namely, tax revenues. As a fraction of GDP, tax revenues increased slowly but steadily from 1950 to 1990 and then declined somewhat in the 1990s before again increasing after 2000 to nearly 15 percent of GDP in 2010–11 (Table 42.1). The increase in the first four decades was due mainly to increases in indirect taxes (such as excise and trade taxes), which have more distortionary effects. India's complex fiscal federalism, with assignments of tax powers and tax sharing arrangements at different levels of government, has influenced the incentives for revenue mobilization and made it difficult to enact and implement comprehensive tax reforms. Selectivity and discretion, both in designing the structure and in implementing the tax system, contributed to erosion of the tax base and created powerful special interest groups (Rao and Singh 2006). Nonetheless, there has been a sharp reduction in the rates and dispersion of trade taxes and a shift to direct taxes driven in part by the introduction of the value added tax (VAT) in 2005. At the time of writing, India was attempting to integrate taxes on goods and taxes on services into a common goods and services tax (GST), which if implemented will anchor India's fiscal federalism in the foreseeable future.

Government expenditures, on the other hand, have had much less discipline, especially in recent decades, and India's persistently high fiscal deficits—reflecting innumerable microeconomic inefficiencies—have been a major drag on the Indian economy. Predictably, these expansionary fiscal policies have had monetary consequences, notably higher interest rates and (to the extent that the deficits get monetized) greater inflation or an external debt problem (if financed externally). It is this interconnectedness between microeconomic inefficiencies and macroeconomic problems that fed the growing fiscal crisis in India by the late 1980s and soon spilled over to the balance of payments.

Why has India fared better with its monetary and exchange rate policies than with its fiscal policy? Explanations for India's large fiscal deficits put the onus on the fragmentation of the Indian polity, with weak coalition governments more susceptible to distributional conflicts and the growing limitations in the state's capacity to mediate and moderate the many demands being placed on it. Even by the early eighties it was argued that India's public economy had "become an elaborate network of patronage and subsidies. The heterogeneous proprietary

classes fight and bargain for their share in the spoils of the system and often strike compromises in the form of 'log-rolling' in the usual fashion of pressure groups" (Bardhan 1986: 65–6). With no group hegemonic, as each group sought to grab more public resources, fiscal deficits grew. However, these distributional compromises may have contributed indirectly to the maintenance of democratic processes. The increasing political assertiveness of socially marginalized groups who have been politically empowered—by the emergence of regional and identity-based political parties and by greater representation in public offices at all levels—has forced the Indian state to manage these pressures through a range of instruments that seek to give something to each pressure group, ranging from agricultural subsidies to efforts to extend the scope and duration of affirmative action programs.

In the mid-2000s the fiscal deficit began to decline, primarily because of an increase in tax revenues (rather than a cut in expenditures) due to technological upgrading of the country's tax infrastructure. However, despite unprecedented growth India's fiscal situation deteriorated again, because of the failure to deepen and broaden the tax base, massive increases in expenditures in new social programs, and a political unwillingness to rein in subsidies. However, while the growth of subsidies has been driven by a political logic, the expansion of social programs has been strongly influenced by small groups of activists. The net effect has been an increase in government spending directed towards consumption rather than investment. Paradoxically, this has led to greater de facto privatization in much-needed public infrastructure as cash-strapped governments turned to public–private partnerships, the very change some of this consumption spending is trying to stem.

The Paradox of Governance

In the early decades after independence, India's ruling elite was drawn from a narrow social group and by and large its probity was well recognized. Yet the policies it chose ensured that India's growth was modest, even though they did result in a gradual structural transformation of the economy. In contrast, since the late 1970s, as democracy has deepened and Indian growth rates have more than doubled (and in per capita terms, tripled), there is widespread acknowledgment of a sharp deterioration in probity in India's public institutions and manifest corruption at all levels of government. At the macro level, what explains the mismatch between conventional indicators of corruption and economic growth? And at the micro level, why has India persisted with directed poverty programs rather than supplying broad-based public goods whose long-term benefits to the poor are widely acknowledged?

Several explanations have been advanced to address the puzzle on why India has persisted in relying on targeted transfer programs and subsidies while severely under-provisioning basic public services for the poor, such as education, health, water, and sanitation (Keefer and Khemani 2004). Poor farmers might prefer targeted transfers to public services such as education because they have high discount rates (the benefits of transfers are immediate while the returns from education emerge over time). Alternatively, the poor might not matter electorally. However, India is rare among democracies in that the propensity to vote varies little by income, education, or social group—the votes of the poor certainly matter electorally.

Another explanation argues that rather than electoral participation per se, it is the clientelist nature of that participation, which results in materialistic inducements targeted to particular individuals and small groups of people as opposed to the provision of public goods

through institutional means. This behavior is due partly to social polarization (itself a cause and consequence of a first-past-the-post electoral system) and lack of credibility of political promises to provide broad public goods (as opposed to private transfers and subsidies). Electoral competition therefore revolves around distributing public resources as club goods (goods with excludability characteristics) rather than providing public goods to a broad base.

Finally, those who have the voice (the middle and upper classes) have de facto exited from the system, preferring market solutions over poor quality and unreliable public services, further reducing pressures to change the system.

Perhaps the biggest driver of India's growth despite poor governance has been entrepreneurship. Although it has long been recognized that entrepreneurs are the central actor stoking the animal spirits of capitalism, conventional neo-classical growth models have little place for them. Behind the dynamism of the Indian economy in recent decades is the sharp increase in the number of entrepreneurs from much wider social groups than in the past (Damodaran 2008).

Historically, traders and merchants had a none-too-respectable status in India. In Kautilya's *Arthashastra*, the classic Indian treatise on governance, traders and merchants are seen as "persons to be regulated, taxed and kept under watch for sharp practices."[9] While social stratification kept out much of the lower castes, many of the educated upper castes who controlled India's policy-making apparatus regarded business and entrepreneurship as somewhat dubious activities. While the loss of political power by the upper castes certainly made the private sector and entrepreneurship more attractive to them, the sheer demographic pressures relative to available employment opportunities, from agricultural labor to government jobs, have made entrepreneurship a virtue out of necessity despite numerous infrastructural bottlenecks and government obstacles. Writing of the United States in the nineteenth century, the American historian Walter McDougall referred to the country as "a nation of hustlers," capturing the spirit of a people relentlessly on the make—and doing whatever it takes. In many ways this is an apt metaphor of the raw capitalism unleashed in India.

But unlike the scenario in the United States a century or so ago, the contemporary Indian version is inextricably intertwined with a state that while weak in its implementation capacity has remarkably strong rent-seeking abilities. India's economic reforms unleashed market forces and capitalism, but the parallel strengthening of the institutions that underpin a market economy did not occur. The resulting crony capitalism has been especially potent in sectors with high regulatory intensity, especially in natural resource-related sectors (such as land, mining, spectrum, water, and forest resources). This has undermined both competition and the very legitimacy of capitalism, and poses the single biggest challenge to India's long-term growth.

Conclusion

With a sixth of the world's population, India's economic development has not only important implications for its citizens, but global ramifications. While there is little doubt regarding the substantial economic transformation after 1990, compared to most other large developing countries India has moved more gradually on most measures of market-based reform, be it privatization, trade, or financial sector liberalization. Nonetheless,

during this period its growth has been nearly twice the average for developing countries outside Asia and much better compared to its own past. Yet, while all political parties have more or less accepted the broad thrust of the shift to a market-oriented economy (although differing on specific priorities), even after more than two decades reform does not have an overt political constituency.

If India continues to grow at the rate it has achieved in recent years, its global presence will become much more significant. Indeed, it is likely to emerge as the world's third largest economy by around 2030.[10] Of course, this outcome is by no means certain: India has significant assets but also major liabilities.

India's recent success has in many ways created new and difficult challenges. Its creditable performance in recent decades notwithstanding, Indian agriculture faces serious long-term obstacles. Excessive use of water relative to supplies and distortions in the application of chemical fertilizers have led to the gradual building up of severe environmental problems. With yields stagnating as the after-effects of the green revolution take hold, the diversion of scarce agricultural land for urbanization and industrialization, and India predicted to be one of the countries most adversely affected by climate change, the pressures on Indian agriculture are likely to become more severe over the next few decades and to impose major constraints on future development.

Rapid economic growth is also imposing severe resource constraints, be they land, energy, or water. The allocation of these scarce resources will require a degree of fairness and transparency that has been markedly absent in the non-market discretionary and opaque government actions that have contributed to a range of growing ailments, including a Maoist insurgency in India's central tribal belts, unprecedented levels of corruption, and a policy paralysis from the public backlash.

But perhaps the foremost challenge India faces is strengthening public institutions and governance. Its democratic success and the demographic dividend mean that tens of millions of young people will be joining India's work force with aspirations that their parents couldn't even dream about. Managing their expectations will be no mean task. In the two decades after the onset of economic liberalization India added 364 million people to its population—more than the stock at the time of independence, a stock accumulated over many millennia. Understanding the implications of this immense demographic change in such a short period of time and limited land mass is not easy. Managing it will be even harder.

The challenge India faces is to create a state that enforces laws impartially, rather than simply to create new rules at its convenience and enforce them arbitrarily. While in the foreseeable future the expansion and growth of India's private sector and all-too-vibrant civil society will certainly fill in for some of the shortcomings of the public sector, there are a wide range of core functions, from regulation to security and from social inclusion to public goods provision, where the State is—and will be—indispensable. The integrity and responsiveness of the Indian state to the multiple challenges facing the country, both internal and external, will fundamentally determine India's future.

Table 42.1 The Indian economy, 1900–2010

	1900–50	1950–60	1960–70	1970–80	1980–90	1990–99	2000–10
Growth rate (%) (annual average)							
World	2.1	4.2	5.3	3.6	3.2	2.5	3.7
India	0.5–1.0	3.7	3.6	2.8	5.8	6.1	7.3
Population growth rate (%)	1.0	2.3	2.3	2.3	2.1	1.8	1.5
Population (millions)	361	439	548	683	846	1,028	1,210
Tax/GDP (%)	6.2	7.8	10.3	13.7	15.4	14.5	14.7
Gross domestic capital formation/GDP (%)	8.4	14.0	15.1	19.9	26.0	24.3	35.1
Exports/GDP (%)	6.2	3.9	3.6	4.6	5.8	9.9	14.5
Agriculture as share of GDP (%)	65.4	49.8	43.9	38.3	33.0	25.3	16.7
Rural population (% of total)	82.7	82.0	80.0	76.7	74.3	72.2	68.9
Per capita net national product (Rupees constant 2004–05 prices)	5,708	7,121	8,091	8,594	11,535	15,172	35,993
Total public sector employment (millions)		7.1	11.1	15.5	19.1	19.1	17.9
Life expectancy	32.1	41.3	45.6	50.4	58.7	62.5	67.0
Literacy rate (%)	18.3	28.3	34.4	43.6	52.2	64.8	74.0
Infant mortality rate (per 1,000 live births)	146	129	134	104	80	68	47

Sources: RBI, *Handbook of Statistics on Indian Economy*; Census of India; Planning Commission; Economic Survey.

Notes

1. I am grateful to Galileu Kim for his research help in putting together this chapter.
2. For a comprehensive understanding of almost all aspects of the Indian economy, see Basu and Maertens (2012).
3. Quoted in Pankaj Mishra, "How India Is Turning Into China," *New Republic*, December 21, 2012 (<http://www.newrepublic.com/article/politics/magazine/111367/how-india-turning-china>, accessed February 18, 2013).
4. Brown (2009: 314).
5. Variations in the period covered in different studies lead to differing growth rates when comparing pre-reform and post-reform or 1980s and 1990s. The discussion in this section draws from Kapur (2010a).
6. The following discussion draws on Joshi and Kapur (forthcoming).
7. This section draws on Kapur (2010b).
8. Poverty estimates in India are based on monthly per capita consumption expenditures based on national household surveys, with official poverty lines defined in terms of a threshold monthly per capita expenditure linked to minimum calorific intake. For an excellent overview, see Deaton and Kozel (2005).
9. The *Arthashastra* (4th century BCE) is an ancient Indian treatise on statecraft, economic policy, and military strategy which identifies its author by the names "Kautilya" and "Viṣhṇugupta," both traditionally identified with Chāṇakya (c. 350–283 BCE), a teacher and scholar.
10. This would be so at both market and purchasing power parity (PPP) exchange rates, although India's per capita income will be well below those of industrialized countries. Currently India is the world's fourth largest economy based on PPP exchange rates.

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CHAPTER 43

ECONOMIC DEVELOPMENT: THE EXPERIENCE OF SUB-SAHARAN AFRICA

OLU AJAKAIYE AND AFEIKHENA JEROME[1]

Introduction

Sub-Saharan Africa's development experience over the past six decades has been varied, cyclical, and sporadic, and until recently it has lagged behind the rest of the world. After a spurt of post-independence economic growth and nascent structural and social transformation, external shocks, poor policy responses, and ineffective development strategies resulted in economic stagnation in the 1980s; the gains of the first two decades of independence were quickly wiped out, and poverty intensified. This contrasts sharply with the rest of the developing world, where per capita income more than doubled and, in some of the most successful developing countries, increased fourfold or more.

Similarly, while the successful developing countries experienced economic transformation from primary production to more diversified industrial production and subsequently to more sophisticated service industries, with considerable progress toward becoming knowledge economies, virtually all African countries have remained primary producers, the only exceptions being Mauritius and South Africa. In addition, while the successful developing countries have witnessed remarkable progress in human development, especially in the areas of health and education, virtually all African countries remain at the lower end of the Human Development Index (HDI). Correspondingly, while successful developing countries were able to pull the majority of their people out of poverty, most Africans continue to wallow in poverty.

Recent years have, however, brought some respite to alleviate this picture of gloom for Africa. The past decade has been characterized by sustained economic growth and considerable political maturity, leading to the recent euphoria on African renaissance. While the global commodity price boom has certainly contributed to Africa's recovery, there is a different mindset and a new confidence in Africa's ability to forge its development path

as a result of improvement in governance. Africa's private sector has become an increasingly powerful engine for change, driving innovation and transforming outdated business models. Foreign direct investment has also increased by a factor of six over the past decade. It is increasingly evident that Africa is on its way to becoming a preferred investment destination, a potential pole of global growth, and a place of immense innovation and creativity.

However, there are still some palpable challenges. Recent growth in Africa has not been accompanied by significant structural transformation. Indeed, the economic structure of several African countries, especially resource-rich countries, has become more concentrated, making them more vulnerable to external shocks. Moreover, Africa's recent growth has not been inclusive, as it fails to provide remunerative employment opportunities, propelled as it still is in several countries by primary resources (principally fossil fuel and mining sectors), with low employment elasticity; as a result, the majority of the people are still enmeshed in poverty and rising inequality. Achievements in the area of human development have remained dismal, and, with the exception of Mauritius, African countries are unlikely to achieve the Millennium Development Goals (MDGs) by 2015.

This chapter briefly appraises Africa's development experience, especially since the 1960s when several African States became independent. It reviews the development experience and development policy practice in Africa over time, while recognizing that because of the diversity of African countries and their experiences, interpreting Africa's development experience is no simple endeavor.

The chapter is structured as follows: The next section sets the stage by reviewing Africa's economic development performance from 1960 to 2010. It is followed by an appraisal of development policy and practice on the continent, then by some concluding remarks.

Review of Africa's Development Experience, 1960–2010[2,3]

In this section, we briefly review Africa's economic development experience since independence in comparison with what obtained in the rest of the world, especially East Asia and the Pacific (EAP). Using historical context and in order to presage the evolution of development thinking (as well as development policy and practice in Africa, discussed in the following section), the review period has been decomposed into three distinct phases, each corresponding to a dominant development policy regime and strategy. The three phases are: the immediate post-independence era (1960–85) characterized by state-led development strategy marked by pervasive market failures and the imperative of meeting the high expectations of the population in a post-colonial era; the structural adjustment program era (1986–95) when, on account of pervasive state failures, market fundamentalism reigned supreme; and the neo-liberal policy era (1996–2010), which is essentially rooted in market fundamentalism but nuanced to accommodate poverty, inequality, and other concerns of the international community, such as good governance and climate change.

Immediate Post-independence Era, 1960–85

On attaining political independence mostly in the 1960s, African countries adopted the import substitution industrialization (ISI) development model, which was then the dominant economic model, inspired largely by the Latin American School as the framework for growth and development strategies. While the initial focus was on consumer goods, the expectation was that as the industrialization process advanced, there would also be domestic production of intermediate and capital goods needed by the domestic consumer goods industry. It was widely assumed that domestic production of hitherto imported goods would eventually enhance self-reliance and help prevent balance-of-payments problems.[4] This development strategy seemed to have been successful during the first fifteen years of independence, when the GDP growth rate hovered around 4 percent on the continent and trended well with the other developing regions. By the mid-1970s, Africa and Latin America and the Caribbean (LAC) regions had lost momentum while the EAP region continued to forge ahead, as shown in Figure 43.1.

With respect to structural transformation, the expectation is that as the economy grows, contributions of various sectors to GDP should change as factors, especially labor, move from lower productivity to higher productivity sectors (Lewis 1954; Kuznets 1955; and Chenery 1986). At early stages of development, contributions of primary production (agriculture and mining) to GDP tend to dominate. As development proceeds, the contributions of primary production tend to decline while those of secondary activities (particularly manufacturing) tend to rise. As the economy advances towards becoming a knowledge

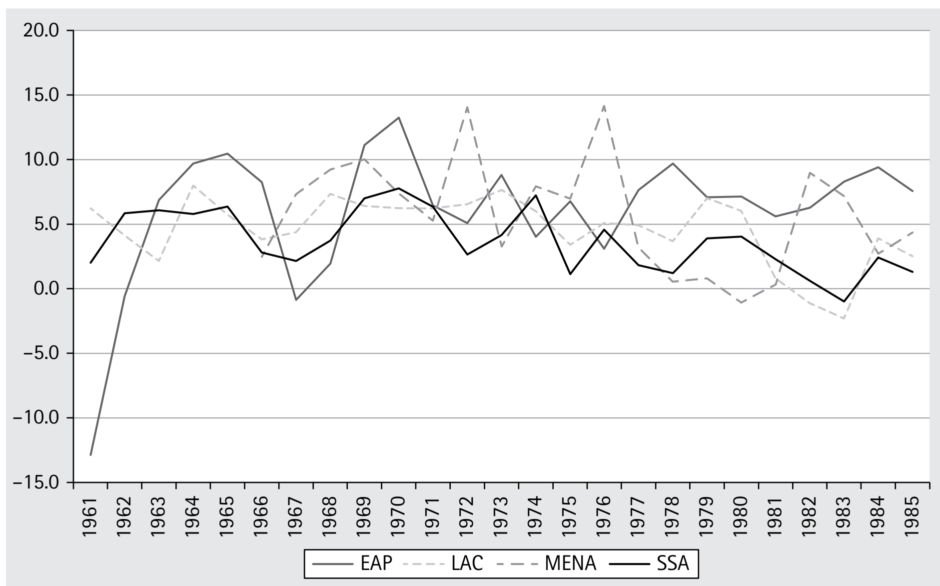

FIGURE 43.1 Annual GDP growth rates: Africa and other developing regions, 1960–85

Note: EAP = East Asia and the Pacific, LAC = Latin America and the Caribbean, MENA = Middle East and North Africa, SSA = sub-Saharan Africa.

Source: World Bank (2011) World Development Indicators.

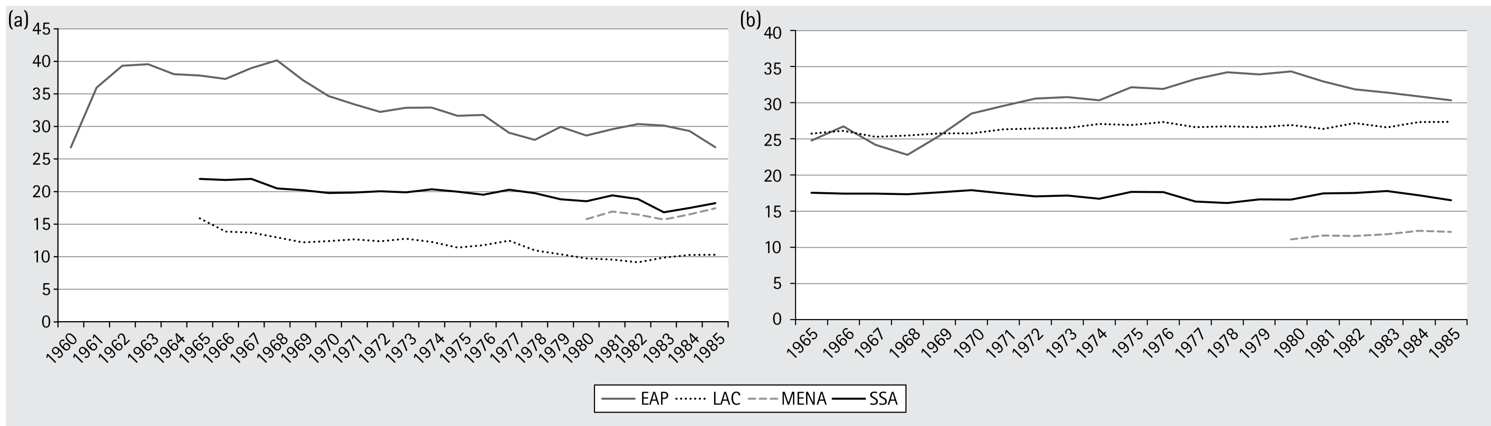

FIGURE 43.2A Contributions of agriculture to GDP: Africa and other developing regions, 1960–85

Note: EAP = East Asia and the Pacific, LAC = Latin America and the Caribbean, MENA = Middle East and North Africa, SSA = sub-Saharan Africa.

Source: World Bank (2011) World Development Indicators.

FIGURE 43.2B Contributions of manufacturing to GDP: Africa and other developing regions, 1960–85

Note: EAP = East Asia and the Pacific, LAC = Latin America and the Caribbean, MENA = Middle East and North Africa, SSA = sub-Saharan Africa.

Source: World Bank (2011) World Development Indicators.

economy, the contributions of the modern sophisticated services sector to GDP tend to become dominant, as is the case in many OECD countries.

Against this background, the decline in the contributions of agriculture to GDP was very pronounced in EAP and less perceptible in other developing countries, including Africa. Correspondingly, the increase in contributions of manufacturing to GDP was quite steep in EAP and also imperceptible in Africa (see Figures 43.2a and b). Just like economic growth, which lost momentum in Africa after the first fifteen years of the post-independence era, the structural transformation that appeared to have commenced during this period also plummeted thereafter. As a result, the much-desired development (growth plus structural transformation) did not materialize in Africa. In contrast, indications in Asia show that development was underway by 1985.

Structural Adjustment Era (1986–95)

The Structural Adjustment Program (SAP) era in Africa commenced in the mid-1980s, when many African countries lost the growth momentum of the first fifteen years of independence and also experienced a severe balance of payments crisis resulting from the cumulative effects of the first oil shock, the decline in commodity prices, and the growing import needs of domestic industries. In order to manage the crisis, many countries sought financial assistance from the International Monetary Fund (IMF) and the World Bank. African countries that obtained the financial support of the IMF and World Bank had to adopt the SAP, which required them to implement certain policy reforms. As a result, the mid-1980s witnessed the formulation and implementation by most African countries of wide-ranging economic policy reforms, including: (a) deregulation of interest rates; (b) trade liberalization; (c) privatization of state-owned enterprises; (d) withdrawal of subsidies; and (e) currency devaluation.

A key objective of SAP was to reduce the role of the state in the development process and give market forces a greater role in the allocation of resources. The assumption was that markets are more efficient than the state in resource allocation and that the appropriate role of the latter should be to provide an enabling environment for the private sector to flourish.

Despite the vigorous implementation of SAP in many African countries, economic performance continued to lag behind that of other developing regions. Indeed, by the beginning of the 1990s, when the impact of SAP policies had become manifest, Africa had become the slowest growing region in the world (see Figure 43.3). However, beginning in the mid-1990s African countries started to experience considerable growth revival, but structural transformation remained imperceptible as the contributions of agriculture to GDP in Africa increased slightly while the contributions of manufacturing continued to decline. The picture is quite different in EAP, where manufacturing contributions to GDP remained high and rising, as shown in Figures 43.4a and 43.4b. Evidently, the declining contributions of manufacturing to GDP in Africa are stark manifestations of the de-industrialization that occurred during the SAP period in the region.

By the end of the 1990s, poverty headcount ratios in twenty of the thirty-two African countries for which data were available exceeded 50 percent. This, along with the burgeoning informal service sector, suggests that the growth revival of the 1990s in Africa was neither inclusive nor pro-poor.

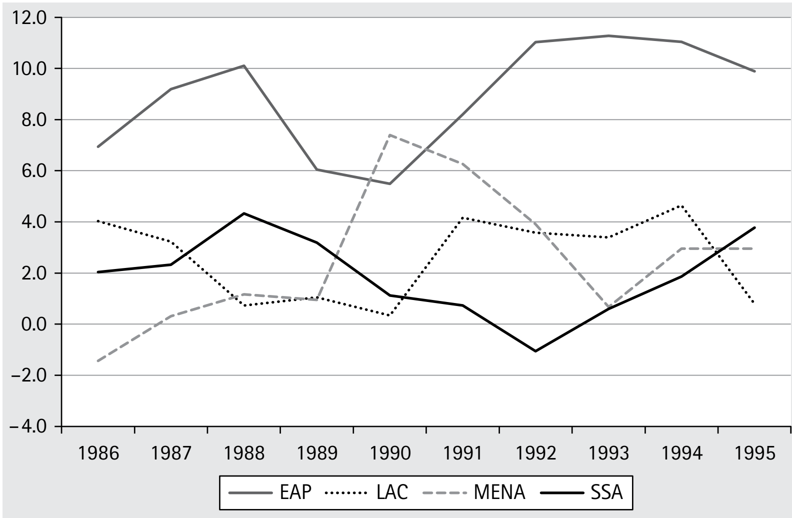

FIGURE 43.3 Annual GDP growth rates: Africa and other developing regions, 1986–95

Source: World Bank (2011) World Development Indicators.

New Orthodoxy Era (1996–2010)

Clearly, the SAP policies failed to deliver on development in Africa, the growth revival of the first half of the 1990s notwithstanding. Africa suffered serious de-industrialization which swelled the rudimentary service sector dominated by low productivity distributive trade activities, and poverty became a serious concern in the region. By the end of the 1990s, therefore, the IFIs had started to reconsider their approaches and practices in the developing countries. Eventually, a joint initiative launched by the IFIs at the end of 1999 put the fight against poverty at the heart of growth and development policies.

Apparently, the IFIs ignored the deleterious effects of the SAPs on structural transformation in Africa. As a result, low-income countries wishing to apply for financial aid or for debt relief under the HIPC (Heavily Indebted Poor Countries) Initiative, were required to draw up poverty reduction programs known as Poverty Reduction Strategy Papers (PRSPs). At the same time, the United Nations system was actively engaged in setting the millennium development goals (MDG) targets culminating in the Millennium Declaration in 2000, with poverty reduction at its heart, while remaining silent on the issue of structural transformation. A hallmark of these initiatives is the continued reliance on market fundamentalism to undergird development policies; state intervention remained anathema.

It turned out that the growth revival of the early 1990s could not be sustained, and by 1998 Africa was one of the slowest growing regions in the world. The sharp growth decline experienced in EAP between 1996 and 1998 is attributable to the impact of the Asian financial crisis, from which the region recovered quite dramatically. Africa's recovery, which also started in 1999, was sustained, such that by the beginning of this century and as shown in Figure 43.5, Africa had become the second fastest growing region in the world, next to Asia. Meanwhile, poverty is still a concern in Africa: the headcount ratio exceeds 50 percent in twenty-two of the forty countries for which we have data, and the

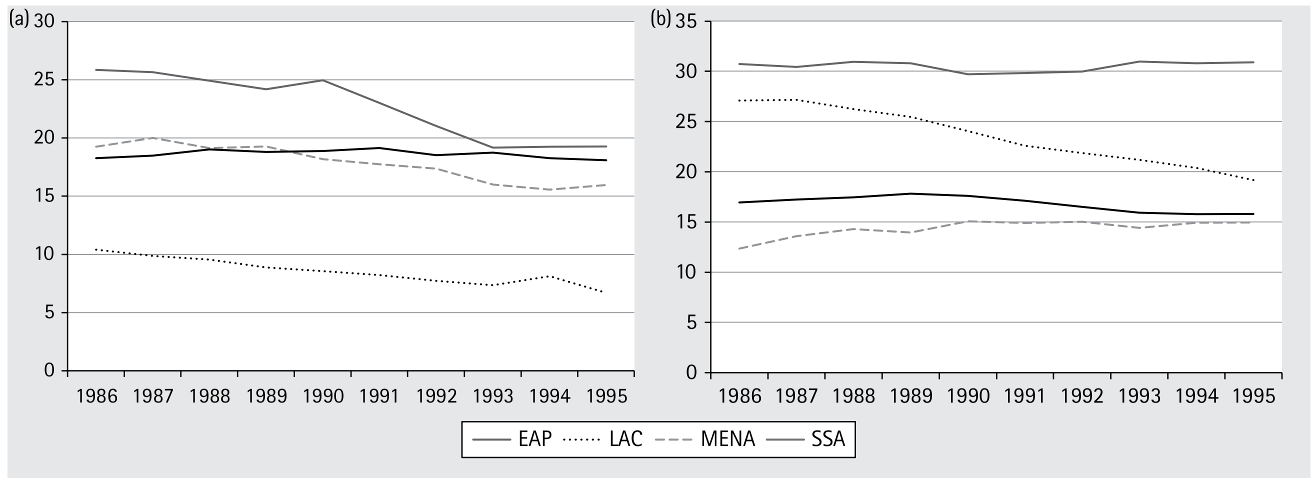

FIGURE 43.4A Contributions of agriculture to GDP: Africa and other developing regions, 1986–95

Source: World Bank (2011) World Development Indicators.

FIGURE 43.4B Contributions of manufacturing to GDP: Africa and other developing regions, 1986–95

Source: World Bank (2011) World Development Indicators.

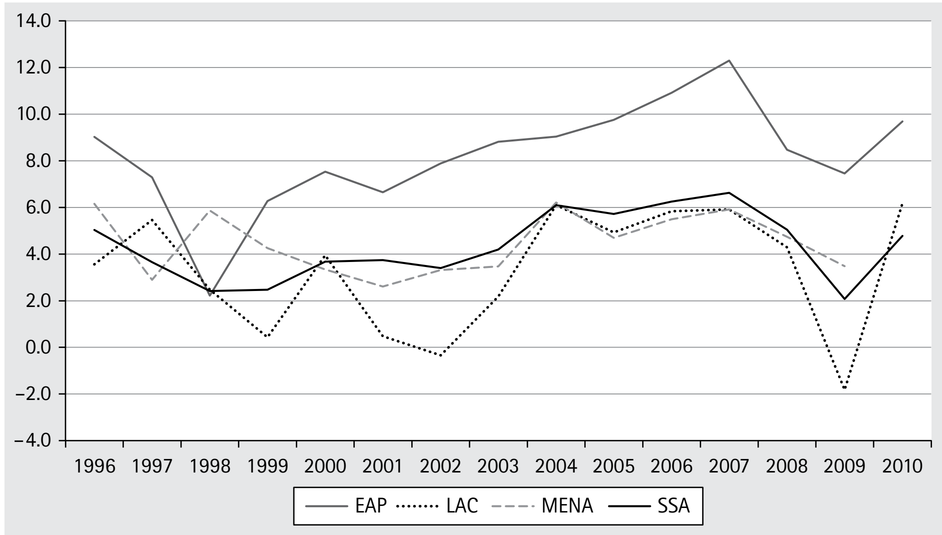

FIGURE 43.5 Annual GDP growth rates: SSA and other developing regions, 1996–2010

Source: World Bank (2011) World Development Indicators.

Gini index exceeds 40 for twenty-three of the thirty African countries, indicating considerable inequality. Clearly, the growth renaissance experienced in Africa during the first decade of this century has been neither inclusive nor equitable (Ajakaiye, Jerome, and Chigunta 2011).

In terms of structural transformation, the contributions of agriculture to GDP have been declining in both Africa and EAP, as shown in Figure 43.6a. However, the contributions of manufacturing to GDP were also declining in Africa whereas they were increasing in EAP (see Figure 43.6b). Correspondingly, the contributions of services to GDP remained high and rising in Africa, whereas they were rising gradually in EAP, suggesting that the regions might be witnessing gradual progress toward becoming knowledge-driven economies.

In essence, the remarkable growth performance and declining incidence of violent conflicts[5] notwithstanding, Africa still faces a number of development challenges. Foremost, after sixty years of post-independence efforts, economic development encompassing growth and economic transformation is still elusive in most African countries, with Mauritius and South Africa as notable exceptions.[6] Moreover, Africa is the only region of the world that has experienced an increase in poverty over the last three decades, in stark contrast to the dramatic gains in the fight against poverty that have been achieved elsewhere, particularly in Asia. Thus, despite comprising only 10 percent of the world's population, Africa is still home to a disproportionate 30 percent of the world's poor. Worse still, the number of people in extreme poverty has doubled to some 300 million people since the mid-1980s and is expected to reach as high as 400 million by 2015.

Most countries in the region are also grappling with the problems of climate change, high disease burden, poor infrastructure, brain drain, violent conflicts, and lack of development of domestic research and development as well as productive industrial capacity. Further, in the last few years African countries have had to deal with the effects of rising food and energy prices and the complications arising from the global financial and economic crisis, especially

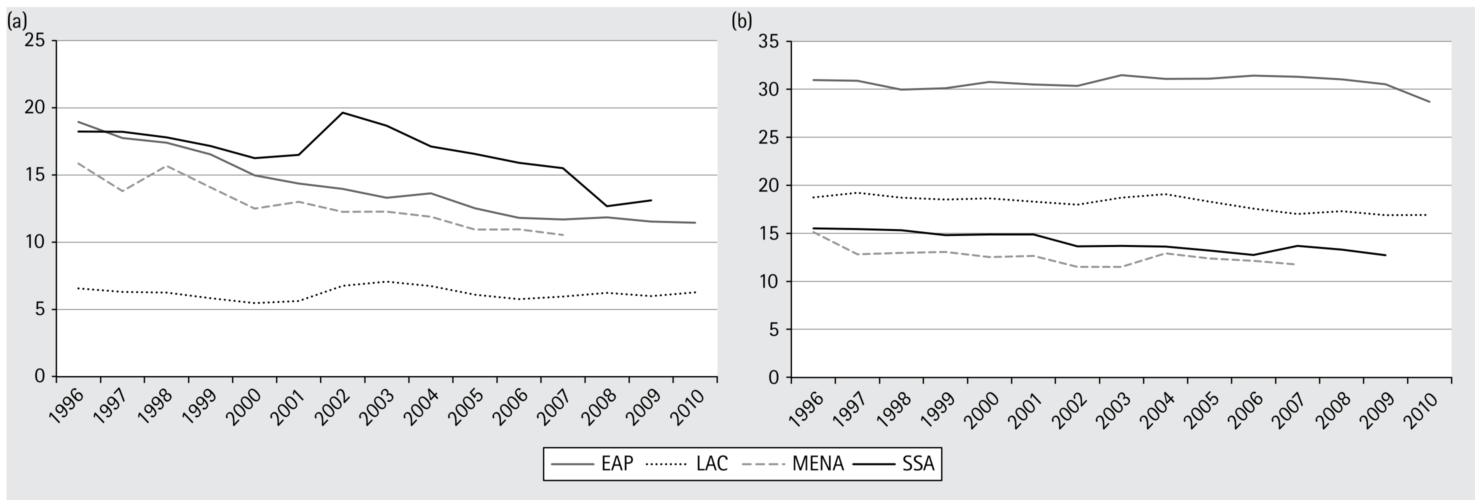

FIGURE 43.6A Contributions of agriculture to GDP: Africa and other developing regions, 1996–2010

Source: World Bank (2011) World Development Indicators.

FIGURE 43.6B Contributions of manufacturing to GDP: Africa and other developing regions, 1996–2010

Source: World Bank (2011) World Development Indicators.

the financial turmoil generated by the intensification of the fiscal crisis in Europe. These multiple crises pose threats to the recent progress made by the region in economic growth performance, and are jeopardizing efforts by African countries to achieve the MDGs; meanwhile, the challenges of poverty, inequality, and economic transformation persist.

Development Policy and Practice in Africa

The intellectual underpinnings of development have grown and evolved over six decades into a daunting and formidable array of ideas, concepts, theories, empirical studies, and distinct schools of thought. Consequently, there has been a fundamental change in development policy thinking over time. The "twists and turns" in the field, especially the role of the state in accelerating development, have had profound implications for development policy and practice in Africa over time.

At independence, most post-colonial African governments inherited economies characterized by low levels of education, poorly developed infrastructure (designed primarily to evacuate raw materials and minerals to the ports), few African entrepreneurs, little technical change in agriculture, undiversified economies with small manufacturing capability, a reliance on a few crops or minerals for export earnings, and state structures and policies that were quite interventionist. African governments faced enormous pressures and challenges after independence. The frustration and anger of local populations coalesced into independence movements, leading to a very rapid transfer of power. The same anger was rapidly transformed into enormously high expectations and aspirations as to the potential of post-independence governments. The rapid pace of independence, and little investment by colonial states in an African civil service, created a large administrative and political vacuum that left the state open to patron-client pressures. Poor policy choices were also due to the impact of prevailing orthodoxy and the character of investment and aid. The structural nature of African economies dictated the need for a gradual transformation to build institutions and capacities, which would expand future economic options.

Post-independence Development Strategies

Immediately after independence, therefore, the development strategies adopted in Africa were oriented toward catching up with the developed world through industrialization and accelerating the pace of human development. These were to be achieved within long- and medium-term development planning frameworks whose objectives were to eradicate the "colonial structure" that had been imposed on African economies and to speed up economic growth and structural transformation, thereby improving the living standards of the people.

The key feature of African development initiatives in the 1960s was the important role envisaged for the state. In consonance with the prevailing development thinking of the time, the state allocated to itself a central role in the development process—building social and economic infrastructure and providing social services to the impoverished people of the

continent. Another feature of the development initiatives in the 1960s was, as noted elsewhere, the import substitution industrialization (ISI) strategy, which aimed at ensuring adequate protection of local industries and employment. This development strategy, with the central role for the state and the protection of local industries and employment, would come to be condemned and dismantled by the international financial institutions just a few years later.

However, as pointed out earlier, by the mid-1970s the momentum of Africa's development had slowed considerably. The economic slowdown of the late 1970s can be attributed to several factors related to "over-investment" in the social sector, corruption, and the debilitating effect of the Cold War. Although hardly acknowledged, perhaps the most important factor is the collapse of the prices of Africa's exports, primarily agricultural commodities and minerals. The developed countries' gravitation toward knowledge economies significantly reduced the primary commodity intensity of their production activities, and Africans had not developed local capacity for processing and adding value to these commodities to meet local demand by other industries and domestic consumers. Loans were taken out from international lenders by newly independent governments, many of which were dictatorships strategically backed by the Cold War superpowers. By the late 1970s, many African states had been seriously weakened by the spate of political instability across Africa (including seven civil wars), as well as by the beginning of the economic decline and the marginalization of Africa.

Initiatives by African Leaders

It is important to note that African leaders have been articulating their own ideas on how to combat the problem of underdevelopment in the continent. Specifically, in response to the loss of growth momentum in the late 1970s, African governments came up with their own economic blueprint—the *Lagos Plan of Action for the Economic Development of Africa 1980–2000*, known as the LPA—crafted by Africans working through two major institutions, the United Nations Economic Commission for Africa (UNECA) and the Secretariat of the Organisation of African Unity (OAU), for the Conference of Ministers of Finance and Economic Planning; the plan was later endorsed by the Heads of State and Government meeting in Lagos in 1980.

The LPA enunciated the goals of collective self-reliance. It sought to adopt a new, inward-looking development strategy to replace the inherited externally oriented pattern. The Plan emphasized, among other factors, the development of domestic markets in Africa rather than reliance on external markets, the control of natural resources by states, the role and importance of domestic factor inputs in development, the imperative of self-sufficiency in food production, the development of human capital, and the provision of social infrastructure for the African people. Clearly, by concentrating on sectoral programs, the LPA, like the preceding ISI strategy, envisaged structural transformation of African economies. In spite of its rigor and clear vision of sustainable, equitable, and poverty-reducing growth accompanied by structural transformation, the LPA achieved very little and was scarcely implemented.

The LPA repudiates the whole logic of the neo-liberal development thinking of the time, and hence did not elicit the necessary support from the IFIs and the international community. Instead of supporting the LPA, within a year after its adoption by African leaders, the

World Bank released a report entitled *Accelerated Development in Sub-Saharan Africa: An Agenda for Action* (1981), otherwise known as the Berg Report (after its principal author, Professor Elliot Berg). The report was a scathing criticism of the LPA, eulogizing the role of the market and external trade in economic development, with a spirited attack on the state in Africa. Ignoring underlying structural causes of Africa's development challenges and the efficacy of increasing intra-African trade, the report blamed Africa's economic weaknesses on domestic "policy inadequacies and administrative constraints" and advocated for substantial currency devaluation and trade liberalization, along with dismantling industrial protection measures. These recommendations formed the basis of structural adjustment programs (SAPs)—market-oriented policy packages—that became conditional to the IMF and World Bank loans made to African countries desperate for convertible currency needed to service external debts. The path to economic development in Africa, the report concludes, was for Africa to liberalize its economy, cut back on the role of the state, and privatize public enterprises. Meanwhile, the World Bank used its financial leverage in many debt-ridden African countries to compel them to jettison the LPA.

While the IMF was initially responsible for short-term, typically anti-inflationary macroeconomic stabilization programs, and the World Bank for more medium-term market-liberalizing structural adjustment programs (SAPs), their policies converged around what was subsequently dubbed the "Washington Consensus." That Consensus is generally seen as spearheading the global trend toward greater economic liberalization since the 1980s. While its policy priorities have changed over time (partly in response to poorer-than-expected economic performance in implementing countries), it has remained the "conventional wisdom" at the core of economic policy making across most of the African continent (see, for example, Stiglitz 1998 and Stein 2008).

Throughout the adjustment years, the IFIs seized much of the policy initiative, and foreclosed the debate by literally insisting that there was no alternative; with African scholars, the non-governmental/civil society organizations and policy-makers largely relegated to reactive protest against the policies "imposed" by the dollar (loan/grant)-dangling IFIs.[7] With the shift in emphasis from broader development to macroeconomic stability (as recommended by numerous IMF and World Bank reports), the ministries in charge of agriculture, industry, rural development, education, health and employment, and infrastructural development were downgraded. Instead, the ministries of finance and the central banks, which normally would be serving and supporting the real sectors of the economies (i.e. agents of African growth and structural transformation), were dealing directly with the Bank and the Fund, whose interest in these issues was not obvious, to say the least. In several African countries, the Ministry of Finance and Economic Planning was stripped of its economic planning functions in order to focus all its attention on short-term financial issues, mainly inflation and exchange rate management, ignoring the implications of their policies for real sector growth and structural transformation.

While the LPA could not be implemented, African leaders and their institutions continued to tinker with alternative development strategies separate from the neo-liberal doctrine of SAP. Examples include the UN Programme of Action for Africa Economic Recovery and Development, 1986–90 (UN-PAAERD); the UNECA Alternative Framework to Structural Adjustment Programme for Socio-Economic Recovery and Transformation (AAF-SAP) of 1989; and the African Charter for Popular Participation and Development adopted in Arusha, Tanzania in 1990. All these economic proposals for Africa's development remained

merely statements of intent, as the dominant forces in the global economy, spearheaded by the IFIs, were either opposed or gave cold reception to them. The tendency was for the IFIs to deploy their political and economic leverage on African countries to sway them away from such blueprints as they, like the LPA, challenged the orthodoxy, emphasizing the imperatives of structural transformation and the inevitability of government intervention in pursuit of an inclusive and equitable development agenda with the emphasis on job creation.

The fight against poverty took center stage in the preoccupations of public authorities in Africa and the international community from the mid-1990s. Based on a 1995 World Bank report (*A Continent in Transition: Sub-Saharan Africa in the Mid-1990s*), and under intense and sustained pressure from international civil society organizations as the problems of implementing liberal reforms contained in the structural adjustment programs of the 1980s and early 1990s became evident, the World Bank and other international actors began to lay out a new approach to development that placed greater emphasis on poverty reduction and the participation of civil society organizations. Thus, poverty reduction strategies became the framework for economic policies and development choices in most African countries.

This reorientation of economic policies was reinforced by the adoption of the HIPC initiative for debt reduction, with the adoption of a poverty reduction strategy as a precondition to accessing support. Most African countries committed to the poverty reduction path from the mid-1990s, and a great number of them have reached the HIPC completion point that allows them to benefit from significant external debt reduction and to increase social sector spending in order to combat poverty and assist vulnerable populations.

Despite these initiatives, growth remained weak and fragile, and far below the levels required to achieve the Millennium Development Goals and reduce poverty by half by 2015. Like the underlying development thinking of the period, issues of structural transformation and the role of the state did not receive any attention.

New Partnership for Africa's Development

In the last decade, a renewed urge to reclaim development agenda setting in Africa by African leaders was galvanized with the establishment in October 2001 of the *New Partnership for Africa's Development* (NEPAD 2000).[8] NEPAD is the second major attempt by African leaders, after the aborted Lagos Plan of Action, to muster a collective will to engineer economic development in Africa. It represents a pledge by African leaders, based on a common vision and a firm and shared conviction that they have a pressing duty to eradicate poverty and to place their countries, both individually and collectively, on a path of sustainable growth and development, and at the same time to prepare them to participate actively in the world economy and global politics.

NEPAD has seven priority areas of intervention:

1. strengthening mechanisms for conflict prevention, management, and resolution;
2. promoting and protecting democracy and human rights;
3. restoring and maintaining macroeconomic stability;
4. revitalizing and extending the provision of education, technical training, and health services, with high priority accorded to HIV/AIDS, malaria, and other communicable diseases;

5. promoting the role of women in social and economic development;
6. building the capacity of the states in Africa; and
7. promoting the development of infrastructure, agriculture, and its diversification.

To achieve the above, NEPAD[9] calls for policy reforms and increased investments in the priority areas of agriculture and food security, science and technology, environment, trade and market access, governance, infrastructure (energy, transport, and water sanitation, and information and communication technologies), gender, and capacity development. NEPAD, in conjunction with the African Development Bank and the UNECA, also continues to emphasize the participation of the private sector, civil society organizations, and the African Diaspora in fostering development on the continent.

Unlike previous initiatives by African leaders and their institutions, NEPAD neither challenged the orthodoxy nor emphasized structural transformation and government intervention. Accordingly, the developed world typified by the G8 has given tacit approval and overwhelming support to the NEPAD initiative, apparently because it is perceived to be in tune with the prevailing new orthodoxy in development thinking.

Developmental State and Economic Transformation

Paradoxically, the first decade of this century has also been a period of intellectual ferment inspired by the global economic crisis of 2008–9, during which past experiences were evaluated, basic assumptions and theories questioned, complexity of development processes acknowledged, and new approaches to development thinking and practice encouraged.

The weaknesses of the Washington Consensus, which was paraded as the intellectual showpiece of the so-called reform movement, have been widely discussed. The general consensus is that the Washington Consensus policies have not lived up to expectation, not only in Africa but around the world. As a package, they were neither necessary nor sufficient for growth; and too often, even when they brought a modicum of growth, it was not accompanied by structural transformation and hence it was not inclusive, as the bulk of the benefits were appropriated by relatively few people, leaving the majority in poverty.[10]

In recent years, following the global economic and financial crisis, there seems to have been a convergence of ideas, at least within the African Union Commission (AUC) and UNECA, on the imperatives of a democratic developmental state in Africa as a spur to rapid economic development in the region. This is given impetus by two reports: the UNECA/AUC *Economic Report on Africa (ERA) 2011* on "Governing Development in Africa: Role of the State in Economic Transformation," and *Good Growth and Governance in Africa: Rethinking Development Strategies*, edited by Noman et al. (2011). The two reports suggest that the state has a crucial role to play in meeting the current and emerging development challenges in Africa. In particular, the UNECA/AUC *ERA 2011* advocates that Africa's developmental states should undertake three major tasks for achieving economic transformation: planning the process, formulating appropriate policies, and implementing the plans and policies. The report therefore recommends that the developmental state approach should be operationalized through disciplined planning while avoiding the pitfalls of state intervention, such as capture, through a competent and autonomous bureaucracy responsible for planning and

implementation as well as constructing a developmentalist coalition among committed political leadership, the bureaucracy, private sector employers and employee associations, and civil society.

Clearly, this admonition, while in line with the emerging development thinking—especially the new structural economics articulated by Lin (2011)—may not enjoy the same tacit approval and overwhelming support of the developed world as did the NEPAD initiative. However, in view of the success of the emerging markets, particularly those of the EAP region, in implementing a judicious and pragmatic combination of government intervention and market mechanisms in the process of economic growth and structural transformation, and the spate of significant government interventions in the OECD countries in dealing with the ongoing economic and financial crisis, Africa should find support for a judicious and pragmatic combination of government intervention and market mechanisms as a strategy for achieving the inclusive, poverty-reducing, and equitable growth and structural transformation that has so far proved elusive.

The challenge this time, however, is that financial assistance from the traditional partners may not be as forthcoming as before. African countries should therefore capitalize on the opportunities and manage the risks presented by the emergence of a multi-polar world and resource shifts toward Asia and other developing regions, as elucidated by UNECA/AUC (2012: 77–81).

Conclusion

The upshot of the foregoing is that during the past six decades Africa has experienced spurts of economic growth that were not accompanied by reductions in poverty and inequality. Most of the policy initiatives, especially those inspired by the IFIs, ignored the issue of structural transformation. The indication, therefore, is that economic development characterized by robust and sustained economic growth, poverty reduction, inequality reduction, and economic transformation has remained elusive in Africa.

Meanwhile, development economics, which crystallized as a separate discipline in the post-war period, embracing the instrumentality of government intervention in advancing growth and structural transformation, evolved to become increasingly hostile to government intervention, and over time (especially after 1980, as a result of the neo-classical counter-revolution) jettisoned the issue of structural transformation.

Correspondingly, development policy and practice, which also initially (in the 1950s) advocated a strong role for the state, gradually switched (particularly since 1980) to dogmatic reliance on market mechanisms, which, in fact, became the new orthodoxy until recently when it is increasingly being challenged. Not surprisingly, initiatives by African leaders that were not in tune with the new orthodoxy were vigorously resisted and failed to find the support of the international community.

Meanwhile, experience shows that policy advice based on either of the two extremes—that is, exclusive reliance on government intervention or market mechanisms—has failed to produce development encompassing inclusive, equitable, and poverty-reducing growth and structural transformation.

The experience of successful developing countries suggests that a developmental state capable of maintaining a judicious, dynamic, and pragmatic combination of government intervention and market mechanisms is a crucial recipe for success. Recent evolution in development thinking, especially the conclusion of the Growth Commission and the new structural economics emanating from the World Bank, is quite propitious for Africa. This is particularly so as this is occurring at a time when many African leaders are adopting a democratic developmental state approach to development (growth plus structural transformation), as outlined above (*Developmental state and economic transformation*).

Underlining all this is the need for strong and visionary political leadership with the capacity to mobilize the population around a common national vision. This must be complemented with an effective institutional framework that defines and enforces the roles and responsibilities of the three drivers of change—the *state* through pragmatic and dynamic government intervention, the *private sector*, and *civil society*—for implementing the common national vision and ensuring mutual accountability among them. This also calls for an enabling policy environment and a stable and predictable rule on the operations of all stakeholders necessary for fostering economic development. If this perspective persists for the next three decades, African countries may not only grow at a decent rate but also structurally transform their economies, shifting from the current chronic dependency on agriculture and export of commodities to a more industrialized model where manufactured exports account for the bulk of total exports, as Malaysia did over a thirty-year period (Yusof 2011).

African leaders can also take advantage of the ongoing global financial crisis to work with old and new economic partners and lay the foundation for a stable, prosperous continent anchored in democracy, rule of law, and sound, people-oriented development policies. Perhaps what is needed is a deepening of continent-wide institutions and initiatives that are providing the continent with a vision for Africa in the twenty-first century.

Crucially, African countries can develop faster by unleashing their productive potential—by aggressively investing in infrastructure, science and technology, and human capital, harnessing the potential of their youthful population, and promoting good governance. With decisive leadership at home and sustained support from development partners, there is now an opportunity to unlock that potential and set the course for a future of shared prosperity, more equal opportunity, and political stability.

The contemporary development history of Africa also underscores the misconceptions of a "one size fits all" approach to economic development, which has largely failed. We should not repeat the mistakes of the past. The appropriate mix of government intervention and market mechanisms will depend on the initial conditions of each country and the pace of development over time. Accordingly, careful, detailed, and contextually relevant country-level studies should regularly underpin the articulation of policies and programs necessary to initiate, sustain, and advance the goals of inclusive, equitable, and poverty-reducing growth accompanied by structural transformation in Africa.

Notes

1. The authors would like to thank Francis Chigunta for his editorial assistance.
2. For the purposes of this chapter, "economic development" is defined as growth accompanied by structural transformation.

3. Data underlying the analysis in this section were obtained from the World Bank's *World Development Report 2011*.
4. Although there are country-specific differences in policies adopted, the implementation of ISI in Africa generally involved: (a) restriction of imports to intermediate inputs and capital goods required by domestic industries; (b) extensive use of tariff and non-tariff barriers to trade; (c) currency overvaluation to facilitate the import of goods needed by domestic industries; (d) subsidized interest rates to make domestic investment attractive; (e) direct government ownership or participation in industry; and (f) provision of direct loans to firms as well as access to foreign exchange for imported inputs (Mkandawire and Soludo 2003; UNCTAD/UNIDO 2011).
5. Africa has become more peaceful: in 2002, 55 percent of worldwide violent conflict took place in sub-Saharan Africa, but by 2011 the share had dropped to 24 percent (Africa Progress Panel 2012).
6. Indeed, there are indications that Mauritius and South Africa are well on the way to becoming knowledge economies, as they are the only two African countries whose knowledge economy index exceeded 5 as at 2009. The remaining twenty-nine African countries covered in the 2009 report scored below 5; indeed, of the thirty-three lowest scores, twenty-six are from African countries.
7. See Ajakaiye (2007) for a discussion of the implications of this relegation for policy implementation in Africa.
8. In all, four African leaders, namely, Thabo Mbeki of South Africa, Abdoulaye Wade of Senegal, Olusegun Obasanjo of Nigeria, and Abdelaziz Bouteflicka of Algeria, were critical of the establishment of NEPAD.
9. As part of the process to integrate NEPAD into the African Union structures and processes, the 14th African Union (AU) Summit (held in 2010) decided to strengthen the NEPAD program by transforming the secretariat into an implementation agency, the NEPAD Planning and Coordinating Agency (NPCA).
10. East Asia and the Pacific (EAP) is a notable exception, apparently because it did not comply with the tenets of the Washington Consensus.

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CHAPTER 44

ECONOMIC DEVELOPMENT IN THE ARAB REGION: A TALE OF OIL AND POLITICS

AHMED GALAL AND HODA SELIM[1]

Introduction

The experience of the Arab countries offers a rich experiment for a study of the evolution of thinking on international development. Admittedly, the region shares many of the characteristics of other parts of the developing world; hence its study can only provide supporting evidence to what may be observed elsewhere. However, because the modern history of Arab countries is also defined by oil and most countries in the region are ruled by non-democratic regimes in an increasingly democratic world, its study offers a distinct opportunity to review the literature related to the oil curse and the influence of politics on development.

We start from the observation that the Arab countries today are not considered developed by international standards. Furthermore, they are not converging toward the standard of living in advanced or even successful emerging countries. The main question we address in this chapter is why.

Explanations of underdevelopment vary and have evolved over time. We do not intend to review this vast literature here, but would like to single out three broad explanations. The first attributes underdevelopment to the failure of governments to provide the necessary conditions for markets to function well and the Schumpeterian creative destruction to flourish. A recent vintage of this view is the Washington Consensus, which argues fundamentally that higher economic growth requires reducing market distortions, increasing competitive pressure, getting rid of ill-designed selective interventions, and reducing state domination of economic activities. In natural resource-rich countries, this approach would emphasize smoothing out consumption and savings over time, safeguarding against volatility and avoiding the Dutch disease.

Other explanations beyond economics have also been advanced, blaming underdevelopment on culture and/or geography. According to Max Weber, development in Europe benefited from the Protestant work ethic. By implication, other cultures, including the Islamic culture,

may not be compatible with the accumulation of wealth. As for geography, Collier (2007) has argued in the context of Africa that landlocked countries tend to be underdeveloped. Both arguments could be interpreted to suggest that some countries are destined to remain underdeveloped because it is difficult to change culture or geography within a reasonable period of time, if ever.

Finally, the last few decades have seen the rise of institutions as a critical factor in underdevelopment (North 1991). This argument has recently been elaborated by Acemoglu and Robinson (2012), who demonstrate convincingly, drawing on centuries of history and a compelling framework, how political (and economic) institutions influence the fortune of nations. If political institutions are inclusive of most citizens, they tend to produce rules of the game that foster economic growth and shared prosperity. In contrast, extractive institutions have the opposite effects, even in the presence of temporary spurts of economic growth. Institutions are path dependent, but they can change over time at what are called "critical junctures."

In exploring the relevance of these explanations to the Arab world, we argue that economic policies, culture, and geography cannot fully account for the region's poor performance. Since the Second World War, most Arab countries have adopted development strategies that mirror the evolution of development thinking. They share some cultural characteristics, at least in terms of religion, with more successful countries such as Turkey, Malaysia, and Indonesia; the region is centrally located geographically, and has ample access to multiple seas and oceans. The more relevant explanation seems to be the extractive nature of their institutions, which predate the discovery of oil. The interesting question now is whether or not the Arab Spring will be viewed in the future as a critical juncture that put at least some countries in the region on a positive trajectory.

The rest of the chapter covers as many as twenty-two countries.[2] Notwithstanding their common culture and geography, these countries are heterogeneous at least in terms of size (population and income) and natural resource endowment. Because of the central role of oil in economic development, we find it analytically useful to divide them into oil-rich and non-oil-rich countries.[3] Admittedly, countries within each group are also heterogeneous in other ways and merit an in-depth historical analysis in their own right, but such an analysis is beyond the scope of this chapter.

The chapter is structured as follows: We begin by placing the Arab countries on the development ladder and assessing their track record in catching up with advanced countries. In the following section we explore how oil-rich countries managed their resources, how oil may have impacted their institutions, and how institutions may have shaped their utilization of oil revenues. Next, we focus on the oil-poor Arab countries, exploring their economic reform efforts and how these were influenced by political institutions; we then briefly discuss the potential implications and possible trajectories of the Arab Spring. The final section offers some concluding remarks.

The State of Development in the Arab World

In measuring development outcomes, attention was earlier given to such measures as economic growth, GDP per capita, and to a lesser extent poverty and income distribution. In the early 1990s, the United Nations Development Programme (UNDP) championed a measure

of well-being that relies on human development, which is a composite index of life expectancy, educational attainment, and income. More recently, increasing attention has been given to other measures such as inequality of opportunity, environmental sustainability, political voice, human rights, and even happiness.

Clearly not all of these concepts are easy to measure, nor are the data to measure them readily available in the Arab countries. However, available indicators unambiguously support the assertion that Arab countries are not among the most advanced regions in the world, nor are they likely to catch up in the near future.

Per Capita Income and Income Convergence

At a growth rate of 1.7 percent per annum, it took the region from 1973 to 2010 to double GDP per capita. Over time, the region's GDP per capita relative to that of the OECD declined from 15 percent in 1980 to 9 percent in 2002 (Figure 44.1). In contrast, East Asian countries, whose GDP per capita was similar to that of the Arab countries in the mid-1970s, made substantial progress: in 2010, average per capita income in East Asia was 18.5 percent of the OECD average, up from 15 percent in 1980. Some countries, like South Korea, did even better, reaching 58 percent of the OECD's GDP per capita in 2010, up from 13 percent in 1960. The Arab countries also fell behind Latin America and were only ahead of sub-Saharan Africa.

Within the region, the oil-rich economies exhibit a low per capita growth/high volatility pattern. The oil-poor Arab countries did better, averaging 2.5 percent per capita GDP growth during the period 1961–2010, compared with only 1.4 percent during the same period for the oil-rich economies. Volatility of economic growth (measured by the ratio of standard deviation of growth over the mean) was also higher in oil-rich countries because of the adverse effects of volatile terms of trade between 1970 and 2007, which offset the positive impact of commodity booms (Cavalcanti, Mohaddes, and Raissi 2012).

In terms of catching up, oil-rich economies show alarming trends. In 1975, average per capita income in the member countries of the Gulf Cooperation Council (GCC)—namely,

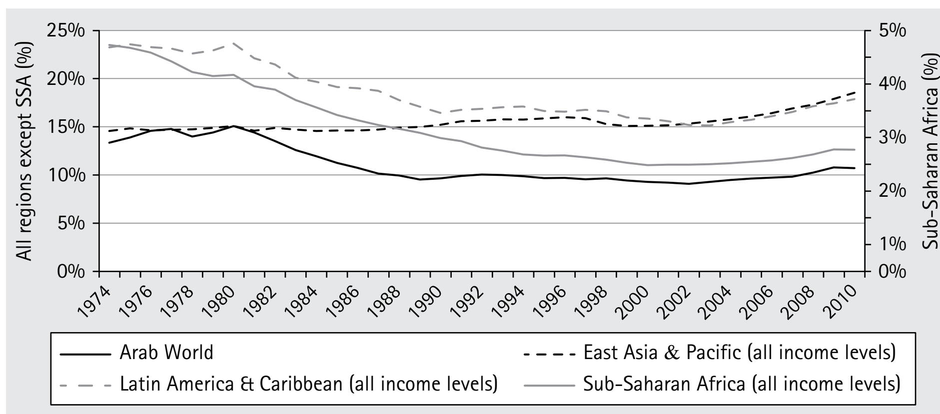

FIGURE 44.1 Convergence of GDP per capita in developing regions relative to OECD average, 1974–2010 (constant US$2,000)

Source: Authors' calculations based on World Bank World Development Indicators (WDI) data.

Saudi Arabia, Kuwait, Qatar, the United Arab Emirates, Oman, and Bahrain—was almost the same as in the OECD; in 2010 it was slightly less than one-third. Correspondingly, the trend is more favorable for the oil-poor economies, although the average per capita income never exceeded 12 percent of the OECD average.

Poverty and Inequality

Notwithstanding the modest per capita growth rates since 1961, poverty in the region is relatively low and has in fact declined over time. Using the US$1.25 poverty line (in 2005 purchasing power parity/PPP), poverty in the region is only around 4 percent, which is less than one-fifth of the average poverty rate for developing countries and close to the figure for the much richer Latin American region. Based on the US$2 a day higher threshold, poverty in the Arab countries is still less than half of the average for developing countries. The rate declined in 2008 to 2.7 percent (Abu-Ismail, Taleb, and Ramadan 2011).

Turning to inequality, Bibi and Nabli (2010) survey the literature on the Arab world and conclude, on the basis of average Gini coefficients, that the region is a "medium inequality" region. Arab countries fare better than Latin America (where inequality is the highest) and sub-Saharan Africa, but are more unequal than East Asia, South Asia, and (by far) Europe and Central Asia.

The above conclusion takes the Gini coefficients at face value. However, their accuracy has been called into question on the grounds of limitations of coverage and the shortcomings of the data. It is therefore important to look at other measures of inequality, such as inequality of opportunity, for example in terms of access to education and health care. In this context, Assaad et al. (2011) show that the Arab world faces unequal opportunities in child health because of circumstances that lie beyond the control of families.

Human Development and Unemployment

By various measures of human development, the Arab countries fall behind advanced countries as well as developing regions except sub-Saharan Africa. As shown in Table 44.1, this observation holds whether we consider enrollment in primary or secondary schools, life expectancy, or infant mortality rates. Fertility rates also remain much higher than elsewhere, averaging 3.3 births per woman.

Table 44.1 Human and social development indicators, 2009

	Arab countries	East Asia	Europe and Central Asia	Latin America	Sub-Saharan Africa
School enrollment, primary (% gross)	**97.7**	110.5	101.6	116.7	99.9
School enrollment, secondary (% gross)	**73.6**	77.8	96.6	89.6	36.0
Life expectancy at birth, total (years)	**69.9**	73.0	75.5	73.9	53.8
Fertility rate, total (births per woman)	**3.3**	1.8	1.7	2.3	5.0
Mortality rate, infant (per 1,000 live births)	**37.2**	18.8	11.8	18.1	76.4

Source: World Bank World Development Indicators (WDI).

Over time, human development indicators improved significantly in the region. Between the 1960s and 1990s, access to free education and primary health care services was broadened, especially in Egypt, Tunisia, Sudan, and Algeria. By 2009, close to 100 percent of the children in the region were enrolled in primary school, and secondary school enrollment went up from 20 to 74 percent of the relevant age cohort. Life expectancy went up by some 25 years, fertility rates declined by 4 births per woman, and infant mortality rates dropped by more than 100 per thousand live births.

Notwithstanding this progress, the increased supply of skilled labor was not put to productive use. At the same time, unemployment persisted at around 9.3 percent and was concentrated among the young and educated. The gender bias is also evident, with unemployment rates for women at about 18 percent compared to 8 percent for men. These rates are almost double the corresponding rates in Latin American and the Caribbean (LAC) and Europe.

Within the region, unemployment in the oil-rich Arab countries is low at around 4 percent, with the notable exceptions of Yemen and Algeria. The GCC labor markets rely on foreign labor to the extent that the proportion of the domestic work force to total labor force is invariably under one-half (Assaad and Ramadan 2008). Most employed nationals work for the government. As for non-oil-rich economies, unemployment rates tend to be higher (approximately 11 percent), especially in Tunisia and Jordan.

Over time, the oil boom in the 1970s led to a decline in unemployment in resource-rich countries, which has remained low since then. In the resource-poor economies, however, unemployment has been on the rise. In Egypt, from the 1960s to the 1990s, under the influence of populist policies, all graduates were assured employment in government. However, Assaad and Ramadan (2008) argue that the policy of hiring at higher than market wages encouraged new entrants into the labor market to queue for years for a public sector job. They further argue that the education systems were adapted to meet the strong demand for credentials that allow entry into the public sector, to the detriment of the skills required in a private-sector economy. This observation may also apply to other countries in the region.

In sum, then, the state of development in the Arab world, oil-rich or not, is not satisfactory. To be sure, poverty in the region is relatively low, by available evidence inequality is moderate, and notable progress has been made in the area of human development, including enrollment in education, life expectancy, and fertility and infant mortality rates. However, economic per capita growth has remained modest and volatile, especially in oil-rich countries. Inequality of opportunity and possibly wealth is high and employment opportunities are meager relative to a growing labor force. The situation is particularly acute with respect to youth and women. So what went wrong?

Economics and Politics in Oil-rich Arab Countries

For a group of eight Arab countries, the share of oil rents to GDP, excluding other hydrocarbon sectors, fluctuated around 38 percent between 1974 and 2009 (Figure 44.2). The percentage is much higher for Iraq (60 percent), Kuwait (48.5 percent), Saudi Arabia (44 percent),

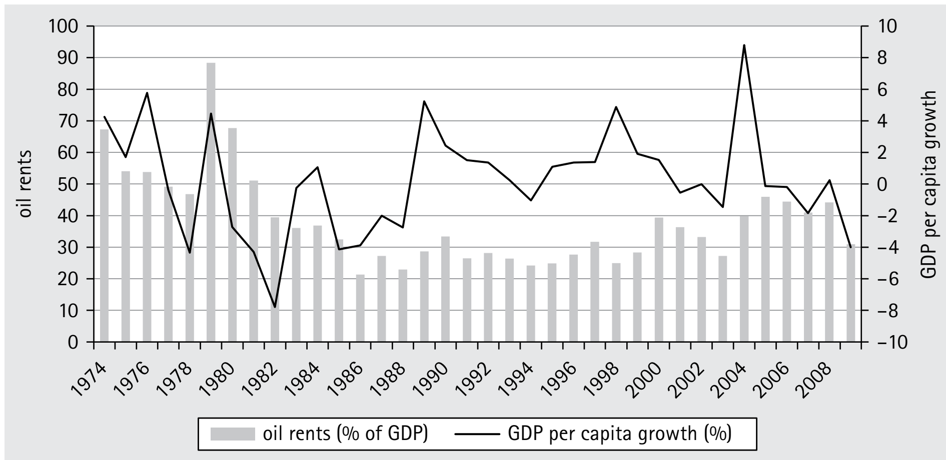

FIGURE 44.2 Oil rent and GDP per capita in oil-rich Arab countries, 1974–2009

Source: World Bank World Development Indicators (WDI).

and Oman (42 percent). Figure 44.2 also indicates that their economic growth mirrors oil revenues. This observation suggests that these economies are defined largely by oil booms and busts. And given that these economies have not been successful in joining the group of advanced countries, it is tempting to attribute their failure to an oil curse.

This interpretation contradicts the early literature, which considered natural resource abundance a source of economic development because of its ability to generate income, savings, and investment that would sustain future output growth and enable governments to provide public goods (Nurkse 1953; Rostow 1960). It is consistent, however,with subsequent country experiences, which showed that resource abundance is associated with poor development outcomes. This curse has been attributed to several causes, the most important of which are: (1) the Dutch disease and low savings, (2) "political resource curse," and (3) "extractive institutions." This section explores these transmission mechanisms.

The Dutch Disease, Export Diversification, and Savings

One of the potential channels of the resource curse is the Dutch disease. Corden (1984) provides a theoretical framework in which the appreciation of the real exchange rate due to increased resource revenues spent on non-tradable goods leads to a decline in the competitiveness of the non-resource sector, or skews the composition of exports away from manufacturing exports (Sachs and Warner 1995).

In some oil-rich Arab countries there is evidence of real exchange rate appreciation between 1975 and 2005 (Diop, Marotta, and de Melo 2012). This misalignment has undermined the competitiveness of non-oil exports, especially manufacturing. According to Nabli (2007), the exchange rate overvaluation reduced manufacturing exports by 18 percent (as a percentage of GDP per year) between 1970 and 1999.

Compared to other regions, the Arab region's non-oil merchandise exports relative to total exports are much lower (Galal and Selim 2013). This suggests that countries of the region were unable to diversify their economies, which is problematic given that oil is not a renewable

resource. This is a reminder of the fear once expressed by King Faisal of Saudi Arabia, who said (in an interview with his oil minister, Sheikh Yamani), "In one generation we went from riding camels to riding Cadillacs. The way we are wasting money, I fear the next generation will be riding camels again."

Turning to savings, because oil revenues are subject to depletion, rational governments need to smooth out consumption well beyond the period of peak resource revenues and stock precautionary savings to ensure inter-generational equity. They also need to gradually transform their oil wealth into assets whose income stream would sustain a stable level of government spending. This literature advises resource-dependent governments to develop counter-cyclical fiscal policies, resisting the temptation to overspend during oil booms.

The empirical evidence shows the opposite: fiscal policy in commodity-exporting countries in general is pro-cyclical. Arab resource-rich countries are no exception (Abdih, Lopez-Murphy, and Sahay 2010). More generally, there is some concern related to the way governments are engaged in the depletion of natural resources and the minimal concern they show for the environment (Galal and Selim 2013). Finally, the high volatility of oil revenues was costly in terms of economic growth in oil-rich Arab countries (Cavalcanti, Mohaddes, and Raissi 2012).

All this is to say that macroeconomic management in oil-rich Arab countries leaves much to be desired.

The Political Resource Curse

Turning to the impact of oil on politics, modernization theory predicts that rising income is associated with democratization. However, Ross (2001) argues that this prediction may not hold in oil-rich countries. He identifies three mechanisms through which oil revenues enable governments to maintain their authoritarian rule. First, income from natural wealth is said to breed a "rentier state." Second, it enables governments to "repress" the population by acquiring the means to do so. Finally, oil revenues are not always associated with bringing about the cultural and social values that promote democracy and "modernization." A fourth mechanism, not mentioned by Ross, is that oil wealth could sustain autocratic regimes by insulating them from the pressure from the West to democratize.

There is a large body of literature that supports the claim that oil hurts democratization (Ross 2001), recently disputed by Haber and Menaldo (2011). Studies focusing on the Arab region (e.g. Elbadawi and Makdisi 2011) reach a similar conclusion.

The logic behind the assertion that oil sustains authoritarianism rests on several grounds. The first is that oil revenues breed "rentier states," a proposition made by El Beblawi and Luciani (1987). If governments derive large sums of money from oil, they can afford to apply low tax rates and reduce the pressure for more accountability. The figures provided in Table 44.2 point out that most oil-rich Arab governments derive a large fraction—in fact, more than two-thirds—of their total revenues from oil. As a result, tax revenues as a percentage of total revenue are less than 6 percent in all countries except Algeria. Oil rents thus break the link between taxation and representation.

Large oil rents also enable Arab governments to engage in patronage and appeasing of citizens through public expenditure. These expenditures tend to rise sharply at times of threats to the regime. For evidence, between 2003 and 2010, subsidies and transfers in the countries

listed in Table 44.2 range between 14 and 35 percent of total expenditures. Beyond explicit subsidies (electricity, water, and fuel) and transfers, citizens in the GCC receive free health care, education, and social security. Perhaps more important, the most frequently used mechanism for patronage is the provision of well-remunerated and stable public jobs to nationals. The average salary of Saudi civil servants is three times the average wage for Saudis in the private sector (Hodson 2011).

When political unrest mounted in 2011, oil rents were used by the GCC governments to calm down citizens. Kuwait and Bahrain responded by giving out cash, Bahrain and Oman provided public-sector jobs, and Saudi Arabia and Oman raised workers' wages and benefits. Clearly, while these transfers increase citizens' welfare, they are also politically motivated.

Turning to the "repression" channel, it is evident that political demonstrations are a rarity in the Gulf countries. Is this a reflection of satisfaction or repression? Recent events in Oman and Bahrain are instructive. Encouraged by neighboring countries' success in toppling their autocratic rulers, pro-democracy protests took place in these two countries in early 2011. In response, governments resorted to the security apparatus. Moreover, Bellin (2004) adds that these regimes often maintain strong personal linkages with the coercive apparatus by appointing family members to key branches of the military and security forces. In Algeria, the military is very strong, to the point that Mohammad Harbi was quoted as saying, "Every state has an army but in Algeria the army has a state."[4]

With respect to the "modernization effect," certain occupational specializations, urbanization, and better education are supposed to accompany economic development, and these changes should produce a population better able to organize and bargain for greater political demands (Inglehart 1997). The problem is that oil money could be used to at least slow down these social changes. Many of these features characterize oil-rich Arab countries. Farsoun (1988) argues that those who benefited from social changes were those related to the ruling family. Other intellectuals were absorbed in unproductive government bureaucracies.

Finally there is the "external" factor. The abundance of oil made the region of geopolitical strategic importance to the West, motivated as it was by self-interest. This reality made these regimes less vulnerable to external pressure to adopt political openness (Diamond 2010). Further, Bellin (2004) suggests that the West has supported the regimes in Saudi Arabia and Algeria because of the belief (perhaps mistaken, as she says) that their stability would assure a regular supply of oil and containment of an Islamist threat.

Extractive Institutions and Oil

In the above section, the argument ran from oil to democracy. However, the inverse causality—from political institutions to oil—is even more compelling. In this scenario, rulers do not face significant restraints on their power and enjoy ample access to rents, which they use primarily for private rather than public good. Accordingly, oil wealth is not a curse in its own right, its management is. The political resource curse is a symptom; extractive institutions are the primary cause.

This argument has been developed by Acemoglu and Robinson (2012). They attribute the failure of nations to the concentration of power in the hands of a narrow elite who make the rules in their own favor at the expense of the majority. These rules tend to create barriers to entry, provide special concessions, limit opportunities, and discourage entrepreneurship and innovation.

Table 44.2 Government revenues and expenditures in selected Arab countries, averages 2003–10 (percentage)

	Algeria	Kuwait	Oman	Qatar	Saudi Arabia	UAE
			(% of total revenue)			
Hydrocarbon revenue	72.5	76.3	77.4	62.0	86.8	76.2
Non-hydrocarbon revenue	27.5	23.7	22.6	38.0	13.2	23.8
Tax revenue	24.2	1.7	6.9	5.4	na	2.6
			(% of total expenditure)			
Current expenditure	59.0	87.6	66.5	71.5	78.3	75.3
Wages and salaries	22.5	29.2	21.6	18.9	30.2	13.2
Subsidies and social benefits	26.8	35.4	9.0	13.9	4.2	16.7
Defense and security	9.5	21.4	29.5	9.8	27.3	22.5

Note: Because of the unavailability of data for some variables, data are included until 2009 only.
Source: Galal and Selim (2013).

Focusing on oil countries, Robinson, Torvik, and Verdier (2006) built a theoretical model explaining how institutions impact the rate of extraction of oil, how oil booms impact the extraction path, and how abundance of revenues affects the behavior of politicians. They conclude that:

> The overall impact of resource booms on the economy depends critically on institutions since these determine the extent to which political incentives map into policy outcomes. Countries with institutions that promote accountability and state competence will benefit from resource booms since these institutions ameliorate the perverse political incentives that such booms create. Countries without such institutions however may suffer from a resource curse. (Robinson, Torvik, and Verdier 2006)

These predictions are supported by several studies, the key conclusion of which is that the oil curse is not destiny and depends on institutions (Mehlum, Moene, and Torvik 2006). Elbadawi and Soto (2012) also show that resource-rich economies with a high degree of inclusiveness (a measure of democracy) and strong political checks and balances turn the resource curse into a blessing.

It is of course possible that oil abundance can and does provide an opportunity to weaken institutions and increase corruption. And indeed there is some evidence to that effect (Leite and Weidmann 1999). However, this evidence does not negate the view that institutions are the primary driving force of how oil impacts development. These institutions often predate the discovery of oil, and they tend to linger on.

Currently, institutions in oil-rich Arab countries seem to carry the features of extractive institutions described above. In 2011, out of the 115 electoral democracies in the world, 87 were considered "free," of which none is an Arab oil-rich economy (Freedom House 2012).[5] Only one country, Kuwait, is considered partly free. This pattern worsened between 2000 and 2010, especially with respect to measures of voice and accountability, political stability, and corruption (Figure 44.3). Areas of observed improvements (government effectiveness and regulatory quality) relate to private sector's interest, not the population at large.

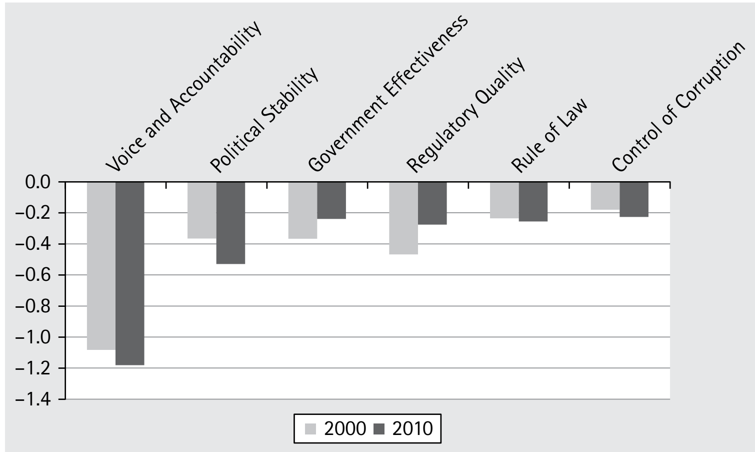

FIGURE 44.3 Governance indicators in oil-rich Arab countries, in 2000 and 2010

Note: Values vary from −2.5 (bad governance) to 2.5 (good governance).

Source: Worldwide Governance Indicators 2010, World Bank.

Historically, these institutions are not the product of oil; they predate the discovery of oil. In tracing their roots, Atallah (2011) offers very useful insights. For Oman, Bahrain, and Qatar, their geographic proximity to India, where Britain's colonial interests lay in the early twentieth century, shifted the balance of power in favor of the local rulers who were loyal to the British in return for military and fiscal support. Enjoying external rents, the rulers could ignore demands for political participation. In these countries, the discovery of oil (or natural gas) merely replaced the subsidies from the British.

Countries that were geographically distant from Britain placed more emphasis on coalition-building with internal players, either religious or economic groups. In Saudi Arabia, the ruling Al Saud family built an alliance with the religious police, commonly called the mutaween. In return for support, the ruling family gave the mutaween a platform through which to promote their interpretation of Islam. The discovery of oil did not change this coalition and may in fact have strengthened it.

In Kuwait, the setup was different and more conducive to political representation. Atallah (2011) explains that in the absence of oil, the rulers depended on the merchants for revenues, which pushed them to concede some political power in return for fiscal backing. An assembly was created as early as 1938, even though it was dissolved soon afterward. The discovery of oil provided the ruling elite with enough financial leverage to weaken the link with the merchants. However, the strength of this class enabled them to negotiate giving up some political rights in return for a share in the rents.

Over time, all rulers in the region gradually expanded their patronage networks to include friends and family. Saudi Arabia and Kuwait "institutionalized family members into government positions, partly to give them a stake in the system and partly to monitor them" (Atallah 2011). An elite of "rent-seeking pseudo-entrepreneurs" became intertwined in the state capture of resource rents (Dauderstädt and Schildberg 2006). And according to Nabli (2007), governments in these countries failed to create a dynamic and competitive private sector;

rather, they extended favors to a privileged group, which over time has become the guardian of the status quo.

In sum, the modest progress made by oil-rich Arab countries cannot be blamed solely on the way the economy was managed or on the abundance of oil. Extractive institutions, which predate the discovery of oil, seem to be the true culprits.

Economics and Politics in Oil-poor Arab Countries

The oil-poor Arab countries share many of the characteristics of other developing countries. Furthermore, most of them adopted the development strategies that mirrored the evolution of development thinking. However, more than half a century later, none of these countries was able to join the group of successful emerging countries. In the remainder of this section, we review their reform efforts and explore the roots and nature of the political bargain the ruling elite struck with the population.

Reform Efforts

Just like many other developing countries, oil-poor Arab countries started their attempt to develop after independence in the post-Second World War era by employing an import substitution strategy (ISS). The state played the leading role in the development process to compensate for incidents of market and coordination failures. Countries like Egypt, Tunisia, Jordan, and Morocco pursued industrialization through large public-sector projects, protection, and central planning. They also committed themselves to a grand welfare agenda, including land reform, free access to social services (health and education), and employment guarantee schemes.

This strategy had strong intellectual underpinnings. Keynes gave the state a good name in the context of dealing with the great depression in the 1930s. Well-known development economists like Rosenstein-Rodan and Lewis provided powerful arguments for state leadership of development, and pioneers of the structuralist approach (e.g. Raúl Prebisch) argued that underdevelopment in the south was due to an exploitative relationship between the rich countries (the center) and developing countries (the periphery).

In its early phases the import substitution policy produced positive results, particularly in terms of economic diversification, inclusion of marginalized groups, and higher levels of employment. However, the limitations of this development model and the drying up of resources to finance social programs led to a shift toward market forces and private-sector initiatives in the 1980s and 1990s. The shift in countries like Tunisia, Egypt, Morocco, and Jordan was supported by the international financial institutions (IFIs).

The "Washington Consensus" agenda was credited with bringing about macroeconomic stability, higher economic growth, and in some cases poverty reduction. However, these achievements were associated with corruption and an increased concentration of power and wealth in a few hands, which may have contributed to the recent wave of upheavals in the region.

The Underlying Social Contract

So what went wrong? Was poor economic performance due to the wrong kind, mix, or sequence of recommended policies? Or was it due to the adoption by the ruling elite of policies that supported its persistence in power? We argue it is the latter, without entirely dismissing the former view.

In attempting to understand the nature of the social contract that led the ruling elite to behave the way it did, some analysts developed what is now called an authoritarian bargain model (ABM) (Yousef 2004; Desai, Olofsgård, and Yousef 2009; and King 2009). In this model, autocratic leaders provided their citizens some economic benefits (welfare and public employment programs) in return for consent to relinquish political rights.

The ABM was defended by the leaders of nationalist movements as necessary to pursue the larger cause of rapid industrialization, social justice, and greater equality. Anderson (1987) argues that in reality, populist measures aimed to inhibit the development of an independent bourgeoisie that might have threatened political stability. Along the same lines, King (2009) argues that the undeclared aim was to build new constituencies in support of the regime instead of the bourgeoisie that consisted of rich landowners who were seen as the main ally of colonial powers. Thus, Arab socialism favored workers, peasants, and the lower middle classes generally, including the administrative elite and bureaucrats in the public sector. These preferences were often expressed explicitly in constitutions, laws, and public policies. In return for these generous benefits, governments expected unconditional political support from the masses. They also imposed control over organized labor and other political and intellectual movements: in Egypt, for example, strikes were forbidden. When necessary, the state became sharply coercive and repressive.

The ABM came under strain in the 1980s and 1990s, in part because of the decline in oil prices (and associated remittances to oil-poor countries) and the structural reforms carried out in Egypt, Jordan, Morocco, and Tunisia under the umbrella of the IMF and the World Bank. The ABM survived but not without consequences. As governments were reluctant to curtail many of the interventionist–redistributive policies inherited from the 1960s, they were compelled to proceed with some political liberalization. In countries like Egypt, Jordan, Morocco, and to a much lesser extent Tunisia, the autocrats gave opposition political parties more political space, expanded civil liberties, and increased the participation of civil society (King 2009). These experiments fell short of democratization, and merely provided a façade of multi-party politics.

Meanwhile, economic reforms, particularly privatization, generated new rents and contributed to the formation of a new coalition composed of a rent-seeking bourgeoisie, instead of the old 1960s coalition of workers, peasants, and the middle class (King 2009). This new group contributed to the transformation of populist authoritarian regimes into elitist crony capitalist forms of authoritarian rule.

One piece of supporting evidence for the above analysis is the set of indicators provided in Figure 44.4, which show that all governance indicators in the oil-rich Arab countries were negative between 2000 and 2010. Moreover, these indicators have in fact deteriorated over time. This observation applies to voice and accountability, political stability, the rule of law, and control of corruption. Where some improvements were made (regarding the quality of regulation and government effectiveness), it can be argued that they were adopted because they served the private sector, which was seen as supportive of the regime.

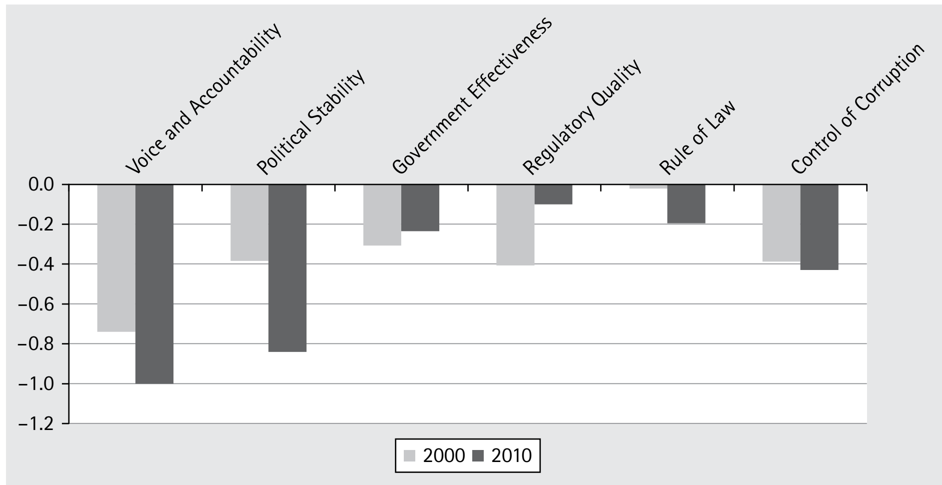

FIGURE 44.4 Governance indicators in oil-poor Arab countries, in 2000 and 2010

Note: Values vary from −2.5 (bad governance) to 2.5 (good governance).

Source: Worldwide Governance Indicators 2010, World Bank.

The role of the West in this process was very similar to its role in the oil-rich countries. In the 1960s, the West supported autocratic leaders in oil-poor countries to limit the influence of communism. Later, it turned a blind eye to autocratic regimes in order to maintain regional stability, contain a perceived threat of Islamists, and protect leaders with a moderate position in the Arab-Israeli conflict.

The Roots of Institutional Imperfections

Notwithstanding major shifts in the political life of many countries in the region in the last century or so, the roots of extractive institutions can be traced to earlier periods. During the Ottoman occupation, some two hundred years ago, the Sultan himself was "accountable to few and sharing power with none," according to Acemoglu and Robinson (2012). He created a system in occupied territories where the land was the property of the state, commerce was under state control, and the economy was strictly regulated by monopolies. The Ottomans resisted serious institutional reforms in their provinces as their interests were narrowly confined to control and taxation. They opportunistically relied on a small group of allies, like the Mamluks in Egypt or local governors in Syria, who had enough power and authority to collect land taxes in return for a regular salary or a portion of land for their own use. In turn, these agents allied themselves with small but loyal local networks through a combination of "threats, patronage and largesse." In time, both the agents and their allies accumulated significant personal wealth and retained large parts of revenues to maintain force to deter potential rivals (Owen 1981).

When the European colonialists replaced the Ottoman Empire, they tolerated some political and civic representation, allowing a vibrant civil society to emerge, including polit-

ical parties, trade unions, and professional associations. However, power continued to be concentrated in a few hands, mainly those of feudalists and emerging industrialists who were the main allies of the colonial powers (Owen 1981; Anderson 1987; Yousef 2004). This institutional setup, along with the rise of anti-colonial/nationalist movements, paved the way for the 1960s populist social contract, as discussed above.

In short, then, oil-poor Arab countries did follow evolving development strategies after independence. While some progress was made, their political (and economic) institutions were not conducive to achieving sustainable development. The form of extractive institutions changed over time, but their essence remained the same. The Arab Spring movements appear to be a potential disruption of this trend.

The Arab Spring

If there is one thing the 2011 uprisings made clear, it is that governments in the Arab Spring countries failed to provide a satisfactory life for the majority of their citizens. The social contract, which had survived economic hardships and waves of democratization the world over, finally broke. Surprisingly, it first broke in Tunisia and Egypt, the two countries in the region that were hailed right before the uprisings for achieving high levels of economic growth. The youth who took the lead in these uprisings were educated, middle class, and well versed in social media. In both countries, they demanded freedom, dignity, and social justice—precisely the values that previous governments had failed to achieve. Intuitively, the revolutionaries came to the conclusion that it was bad politics, not bad economics, that produced undesirable outcomes.

In attempting to explain what happened in a rational framework, Diwan (2012) expands the ABM to include three players: the rich (the autocratic coalition who benefited from the 1990s liberalization policies), the middle class, and the poor. In a game theoretic setting, he shows that the middle class, traditionally allied with the autocrats and supportive of the ruling regime, chose to tip their support away from the autocrats toward democratic transition. The rationale for their behavior is that they were no longer the main beneficiaries of the social contract. They were also facing increased repression and abuse of human rights. At the same time, they saw that crony capitalism was flourishing and driving up inequality.

Two important questions are now on the minds of many in the region: Will these revolutions spread beyond the current set of countries, and will these changes constitute a step toward building inclusive institutions in the Arab Spring countries? On contagion, it is remarkable how fast the fire caught across countries in the region. Within a year, the revolutions moved from Tunisia and Egypt to Yemen, Libya, and Syria. The potential for these uprisings to spread to oil-rich countries at a significant scale in the short run may not be high, in part because of oil rents and in part because many of the rulers derive their legitimacy from religious or tribal associations. Nevertheless, it is interesting to note that the kings of both Morocco and Jordan are trying to be ahead of the curve by adopting some institutional reforms to impose more checks and balances on their relationships with their citizens.

Will these uprisings constitute "critical junctures" toward more inclusive institutions? This is a difficult question to answer. For a clue, Acemoglu and Robinson (2012) seem to be advancing two preconditions: (1) the existence of a centralized state, and (2) signs that the institutional changes are allowing political competition, participation, and restraints on the ruling elite. Clearly it is not easy for a country like Somalia to have inclusive political institutions under the current fragmentation of power and low order. And it is equally difficult to see how North Korea could make its institutions more inclusive in the short run, given the tight grip of the communist party on political life. For countries in between, alternative scenarios are possible, fully recognizing that the process is likely to be non-linear and may take years to bear fruit.

Applying the above framework to the Arab Spring countries, Tunisia and Egypt seem to have the potential to turn their uprisings into a move toward inclusive institutions. Both countries have well-established centralized states with well-recognized boundaries and no history of significant internal conflicts. In 2011–12 both countries took steps toward drafting a modern constitution with checks and balances, and have been able to hold free parliamentary and presidential elections. This is not to say that these countries will immediately be able to create consolidated democracies. The events of 2013 reveal that transitions can be lengthy and non-linear. Two questions remain unanswered regarding the future of Arab countries: whether political change will lead to more inclusive economic institutions, and whether political Islam will foster or hinder this change.

It is worth recalling that institutions both persist over time and can be path dependent. Acemoglu and Robinson (2008) caution that changes in political institutions, that alter the distribution of *de jure* political power, can lead to "captured democracy" whereby the new democratic regime continues to choose economic institutions that favor an elite. In this case, economic or policy outcomes persist despite changes in political institutions. In both Egypt and Tunisia, the pre-revolution elites still enjoy substantial influence and are likely to exercise their power to foster institutions that would sustain their interests.

The Islamist parties rose to power due to a head start in organization and their ability to present themselves as an alternative to the old regimes, thus rallying popular support in the wake of the 2011 revolts. The year 2012–13 revealed some evidence of their willingness to influence the new rules to favor their own members and political agenda, resulting in new tensions with other groups that equally had opposed the old regimes and continued to aspire for more inclusive political and economic opportunities.

The path forward depends on the evolution of—and interplay among—the political parties in each country, both the Islamist and the secular. The agenda of various, competing Islamist parties range from the Turkish vision of moderate principles within a secular economy, to the Saudi Arabian vision of religion guiding everyday life. Meanwhile, secular parties remain fragmented, unable to present a coherent counter proposal, and frequently upstaged by spontaneous movements and calls for street protests. Competitive politics remains nascent, but it exists within and between both the Islamist and secular camps. In some countries like Egypt, citizens have resorted to "crowd democracy" to influence policy-making (Nawara 2012) until political actors learn to: present their ideas and critique those presented by others, to exercise their responsibility as opposition parties, and to govern through negotiation with others. What becomes of the Arab Spring will depend on whether this slow process continues, or stumbles along the way due to economic crisis or violence.

Conclusion

This chapter reviewed the development experience of the Arab countries since the Second World War in the context of the evolving thinking about economic development, oil abundance, and the nature and history of political institutions. It has been argued that limited development outcomes in the oil-rich countries can be traced much more directly to the nature of politics in these countries than to mismanagement of resources or the oil curse. On the contrary, the abundance of oil offers these countries an opportunity to make progress on the development front that was missed because of their extractive institutions. The claim that modernization will take hold as per capita income rises and urbanization and education spread seems illusionary.

The paradox is that over the past few decades, oil-poor Arab countries have performed better than oil-rich countries in terms of per capita growth rates. However, these countries were similarly held back by their exclusive political systems and the domination of authoritarian regimes that worked for the benefit of the few. The recent uprisings in some of these countries offer an opportunity to break with past regimes, but the outcome remains uncertain. The positive signs of adopting and implementing new election rules, the drafting of new constitutions with more checks and balances, and the rise to power of new political groups promise a brighter future, even if the process is likely to be protracted and non-linear.

The broader conclusion in terms of development thought is that the experience of the Arab countries is not dramatically different from that of other developing countries. However, this experience brings to the forefront the critical role that natural resource abundance and politics play in economic development.

Notes

1. We thank Bruce Currie-Alder, Rohinton Medhora, and James Robinson, as well as the participants of the Bellagio workshop in May 2012 for their constructive comments on earlier drafts. We are also thankful for the excellent research assistance provided by Ramage Nada.
2. The Arab region refers to members of the League of Arab States, including Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, the United Arab Emirates, and Yemen.
3. Of the 22 Arab countries, 11 account for 55 percent of global oil reserves.
4. *Le Soir de Bruxelles*, January 11, 2002.
5. A country is free where there is open political competition, a climate of respect for civil liberties, significant and independent civic life, and independent media.

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DEVELOPMENT ACTORS

Having explored the motivations, experiences, capabilities, successes, and failures of several important regions and a number of critical emerging powers, both large (India, China, Brazil) and medium-sized (Chile, South Africa—the latter a private-sector driven economic powerhouse, active throughout much of sub-Saharan Africa), we now turn to other key players in development. While it may be inappropriate to think of countries and regions as "actors"—although the government of the countries included are—this term applies very much to those whose role is explored in the ensuing chapters, be they multilateral institutions, civil society organizations, or policy-driven groups which have created extensive communities around their activities, notably development assistance.

This section returns to the distinction between state and society. Indeed, its first chapter, an examination of the state, by Celia Lessa and Jaques Kerstenetzky (Chapter 45) address the "developmental state…one that pursues well-being—not merely power—and highlights contemporary welfare states as core actors." Notably, the chapter examines the welfare state as "a critical [agent] for economic transformation." Others harbor greater reservations over state capacities and motivations, preferring to supplement or counter what states can do with non-governmental initiative. Kumi Naidoo and Sylvia Borren are leaders within the Greenpeace environmental movement and add the perspective of activists committed to promoting development. In part written onboard the third Rainbow Warrior vessel, their chapter (46) focuses bracingly on the role that civil society actors have played and can play in advancing shared interests, the idea of justice, and new ideas on development. Civil society provides a check on the exercise of political and economic power, and challenges the assumed roles of governments, corporations and individuals.

Multilateral institutions are not new. A floating system of diplomatic conferencing (the Concert of Europe) flowed from the Congress of Vienna convened in 1815 after Napoleon's downfall with the aim of preventing the recurrence of continent-wide conflict. As we have seen, notions of international arbitration and of a more structured approach to the prevention of war marked the last years of the nineteenth century (through such bodies as the Inter-Parliamentary Union and meetings such as the first Hague Peace Conference) and the first decade of the twentieth. But it was due to the unprecedented devastation of the First World War that the most ambitious effort up until then to order and regulate international relations was devised through the Covenant of the League of Nations by U.S. President Woodrow Wilson (influenced by South African Prime Minister Jan Smuts). With U.S. participation ultimately ruled out by the U.S. Senate, the League, lumbered by a peace treaty that imposed punitive reparations on Germany and other losers of the war, and with few autonomous powers of its own, proved incapable of promoting and protecting peace.

Nevertheless, after the League's failure and the outbreak of the Second World War, U.S. President Roosevelt and U.K. Prime Minister Churchill were undeterred. They spent much time during the war years improving on the League's design by adding significant institutions to promote economic stability and prosperity and by promoting a UN Security Council with some meaningful coercive powers that the League had lacked. It is these institutions, including the International Monetary Fund (IMF), the World Bank (and the still-born International Trade Organization, for which a weaker General Agreement on Tariffs and Trade and more recently the World Trade Organization, ultimately substituted) that now form the core of a complex, indeed bewildering network of multilateral institutions, including a range of regional and specialized economic and humanitarian ones.

Several of these multilateral organizations are addressed here, namely the World Trade Organization (WTO) (at the time of writing somewhat becalmed, given the paralysis of its Doha Round of trade negotiations, but busily engaged in trade dispute resolution); the International Monetary Fund, created to buttress a monetary system founded on the gold standard, which disappeared in 1971, but serving a variety of financially stabilizing purposes since then; and the World Bank, globally the most influential and best funded of a range of development financing and policy institutions, much favored by Western donors, and powered by talented staff. Diana Tussie and Cintia Quiliconi (Chapter 48) document how preoccupations of developing countries have evolved from an early focus on differential treatment for them under global trade rules, to a focus on policies—their own and those of the major industrialized powers. Danny Leipziger (Chapter 49) argues that the "intellectual contributions of both [the IMF and the World Bank] were unparalleled in their early decades." However, in the last decade and particularly since the recent global financial crisis, the Fund and Bank have considerably declined in global significance, both as generators of ideas and as sources of financing. Ultimately, all three institutions have struggled to refine their role and adapt to new realities—including the migration of intellectual leadership to emerging powers—thus perhaps leaving their future relevance in doubt.

While each of these bodies is much criticized, no convincing alternatives for their role or activities have been advanced. Meanwhile, consultative groups of Finance Ministers and Heads of State have sought indirectly to steer the work of multilateral bodies. The initial club of leading industrialized countries expanded from a Group of Five, to a Group of Seven (G7) then Eight (G8) through the 1970s–1990s, and to a Group of Twenty (G20) in the wake of the global financial and economic crisis of 2008. Looking back, after promising beginnings, none of these forums retained much policy traction or public credibility. Importantly, the composition of the G20 marked the entry of a number of emerging countries (ranging from China to Brazil) as full partners of the industrialized powers. The G20's elevation in 2008 to the level of leaders also produced some excitement. But early enthusiasm soon yielded to media and public disappointment over the forum's equivocal, often opaque, pronouncements that seemed to produce very limited results in the quest to revive the world economy.

Jorge Heine and Gregory Chin (Chapter 51) remind us that much high-level diplomacy nowadays takes place within groupings from which the industrialized countries are excluded, such as the BRICS formation and the IBSA cohort (India, Brazil, South Africa). These various forums neither substitute for nor claim to give direction to the more formal multilateral institutions but they can, indirectly through their positions, influence them in varying degrees.

Richard Jolly (Chapter 52) addresses the United Nations, often decried for its cumbersome bureaucracy and variable effectiveness, in a refreshing way. He argues convincingly

that while the UN has not always been impressive in conducting developmental activities, it has been intensely influential at the level of ideas, doubtless much more so than several considerably better funded multilateral actors.

A drive within civil society in Western countries to assist the poor and oppressed in and from developing countries is not new—the anti-slavery movement of the eighteenth and nineteenth centuries is a successful (if slow-moving) example from the past. So were the principles and actions of Florence Nightingale, founder of modern nursing, and others driven by a desire to provide humanitarian relief to (some of) those caught up in warfare and to those, for example in India, afflicted with abject poverty. Her contemporary, Henri Dunant, whose experience of the aftermath of the battle of Solferino inspired the creation of the International Committee of the Red Cross (ICRC) in 1863, leading to the Geneva Convention of 1864, lived to see his ideas translated into a large, highly organized network of local and global institutions under the Red Cross (and also later the Red Crescent) banner that has continued to grow in ambition, capacity, and policy effectiveness. Another form of civil society action intended to improve the lives of those in poorer territories and regions of the world was that of missionary movements of various Christian denominations, some with counterproductive methods and results, but many spreading modern education to regions whose poor had not previously been offered any.

On the other hand, as Homi Kharas (Chapter 50) points out, official development aid is comparatively recent, initially focused on post-war reconstruction in Europe and Asia. Aid flows have been influential at certain times and in certain places, both in terms of size and more importantly in terms of the conditions that accompanied them. Given the severity of the financial and economic crisis gripping the industrialized countries, it may be that official development assistance (ODA) has reached its high water mark. The club of Western donors that launched the aid business has now expanded to an ecosystem, with a multiplicity of actors, agendas, and methods of operation aided by the digital revolution. Carol Adelman and Yulya Spantchak (Chapter 47) point out that private charity (often faith-based), foundations, and such financial transfers as worker remittances and foreign investment contribute considerably more than ODA does to financial flows toward developing countries. Indeed, they challenge ODA's delivery model as expensive and outdated and suggest that private entities are more likely to prove successful and efficient, thus refocusing political attention on "results, demand-driven development, transparency, and sustainability."

While this introduction tends to pair or group together several chapters, in fact the various chapters of this section dialogue with each other and make clear what a rich (and constantly contending) array of development actors vie with each other for space, and sometimes dominance, in the global conversation over development aims, policies, and outcomes.

CHAPTER 45

THE STATE AS A DEVELOPMENTAL ACTOR: STATE FORMS FOR SOCIAL TRANSFORMATION

CELIA LESSA KERSTENETZKY AND
JAQUES KERSTENETZKY

Introduction

The topic of the state as a developmental actor is as vast as it is under-theorized, for alongside the absence of a theoretical corpus, a plethora of ideas and practices reflects the fragmentation of the experience and plurality of perspectives. Benefiting from this rich ideational reservoir, our narrative focuses on a broad notion of the developmental state as one that pursues well-being—not merely power, let alone ill-being—and highlights contemporary welfare states as core actors.

Thus, taking an historical perspective, we begin by noting a shift in views on state forms from power to development and justifications of states' progressive involvement in economic transformation. In the following section we point out a change in perceptions on intervention, from positive to negative, which invites a political approach of the state, introduces democracy as a subject of attention, and qualifies the welfare state as a critical state form for economic transformation. Following that, we pause to remark that historical processes and the variety of experiences reposition the perennial question of what development is or should be about, so we review the Capability Approach's objections to development as economic transformation and the view of development as social transformation, as these are consequential to (welfare) state models. In the next section, a short presentation of the Danish socio-economic model illustrates new state ways and strategies of capability-delivery in recent decades. We conclude with hints of what lies ahead.

The Need for the State

Historical accounts of the origins of the modern state trace it back to the 1648 Westphalia Treaty, which set a new political topography of the world as a system of nation-states: the Treaty formally established the sovereignty of the state over its territory. Expansions on this power–state notion later included the claim for legal limits to be imposed on the sovereign ruler (as in Bodin and Locke), and the Enlightenment's and French Revolution's notion that power entails responsibility. Thereafter, ideas spread that the business of the state goes beyond defense and order and comprises sheltering the freedoms and well-being of the individuals in the territory, even warranting assistance and work when needed, as for example in Article XXI of the French Declaration of Human Rights. And eighteenth-century liberal views of a natural order, which emerged on both sides of the English Channel, represented the legal system in its capacity of securing individual freedoms and public assistance as pillars of that order.

According to historical-comparative studies, negative and positive duties of the state invited its involvement in economic transformation, if anything, to secure revenues and advance interests that converged with state purposes (Evans 1995; Chang 2002). Evidence of this development can be found in the myriad mercantilist policies that were undertaken in Europe, and the commercial and industrial policies that were amply utilized to assist nascent industries in the British catch-up and Industrial Revolution in the nineteenth century (Chang 2002).

Hitherto mostly driven by revenues, state assistance to economic transformation found yet a new style with the Meiji restoration (1868–1911) in Japan. In fact, forced into trade openness and facing poor private entrepreneurship, Japan turned to industrial policies as the centerpiece of a strategy of structural change that led the state to play many roles: entrepreneur, financier, facilitator, coordinator, and regulator of economic activities (Chang 2002; Wade 2003). Economic (industrial) transformation appeared to stand as much for material prosperity as for the affirmation of national independence and self-determination in the system of nation-states. By tracing out a path that would lead to much success after the Second World War with the Ministry of International Trade and Industry (MITI) experiment (Johnson 1982), Japan set an example to be followed by other countries in the twentieth century, one which was especially appealing to countries such as South Korea whose development initiatives were undertaken under duress, after the ravages of war.

While being transformational, states have diverged when it comes to planning changes. Some of them established "development plans" with explicit and coherent objectives, strategies, and coordinating agencies, whereas others were non-planners that nonetheless undertook industrial, commercial, and technological policies on a pragmatic basis (e.g. pre-Second World War England, Germany, France, the Scandinavian countries). Among the planners, some were "holistic," with a comprehensive plan, but lacking effective feedback (Soviet Russia and post-war Eastern European countries), and others took more "piecemeal" approaches, making room for learning and experimentation (post-

Meiji Japan, Korea, Taiwan, and arguably most of the developed nations after the Second World War).

Unsurprisingly, the need for a plan was felt most keenly by countries that had a long way to catch up with the industrial leaders. But if it seems quite clear why the search for material prosperity captured the imagination of leaders—self-financing, self-determination, and internal legitimacy being the more likely candidate-reasons—there still remains the need to figure out, both in actual practices and more abstract theories, how and why the state was necessary for economic transformation. Most countries turned into planners after the Second World War, and while this was for reconstruction reasons in those directly involved in the war, it was for outright construction reasons in the limitedly independent and newly independent nations that had escaped the war's destruction (Judt 2005).

It was then that the "problem of development" drew the attention of economists: the economics of development emerged as a theoretical field in its own right soon after the war. Prima facie, economic development means increasing the domestic output; thus, growth models (such as Harrod–Domar or Solow), which identified capital accumulation as a requirement for economic change, could be of use. However, these models originally applied to the case of early industrialized countries and thus represented economic transformation as a natural consequence of market allocations from given endowments. This encouraged the emergence of additional theoretical frameworks, which envisioned a discontinuous transition from a backward to a modern economy, to fit the case of latecomers—the so-called structural theories of the first generation of development economists (Agarwala and Singh 1958).

In most versions, structural change, that is, industrialization, needed state intervention to coordinate investments that due to externalities would otherwise (i.e. through sheer market forces) not materialize. Famously, a Latin American ramification emerged in the United Nations Economic Commission for Latin America and the Caribbean (CEPAL/ECLAC) under the lead of the Argentine economist Raúl Prebisch, illustrating a case of two-way interaction between practice and theory: the CEPAL "school," through its policy-oriented inductive account of Latin American underdevelopment, influenced policy-makers, intellectuals, and entrepreneurs in the region (Bielschowsky 2009) at a time when many countries there were trying out import substitution industrialization, with varying degrees of success.

Even as the problem of development was being detected by the theoretical radar of economics, giving rise to analytical justifications for the economic action of the state, the need for the state was reinforced by authoritative historical observation. Remarkably, the Russian economic historian Alexander Gerschenkron (1962) identified, in nineteenth-century Europe, a continuum of situations in which institutions, such as the state, were instrumental in overcoming economic backwardness. While in Germany universal banks had performed the role of coordinating investments, cases of extreme backwardness such as Russia and other East European countries—where entrepreneurs, a disciplined labor force, and finance were all lacking—required intensive and extensive state intervention. Later, his nuanced account of state activism would, alongside structural theories, fertilize numerous late twentieth-century historical-institutional approaches (Hirschman 1958; Herrick and Kindleberger 1983; Evans 1995; Chang 2002). Structural theories also echo in contemporary "new-

structural theories" (Lin 2011), which advocate state activism only as a complement to market allocation.

In the end, except for the pure market view, the need for the state in economic transformation found justification along a variety of perspectives, and much of the theoretical thinking resulted from the observation of the development practices more than the other way around, though indirect ways of diffusing theories should not be underestimated, as the case of CEPAL suggests.

But precisely what state capacities were involved? This question, though not drawing much attention from economics, resonated in historical-institutional studies. Inattention is rooted in public choice theory's warning about the dangers of state capture by private maximizing agents—and that public interest is but private interest in disguise (Krueger 1990). Others would contest the sequitur. In fact, historical-institutional studies took a subtler approach and looked into actual state capacities and connections that were enlisted for the big leap of industrialization and their effects. Early contributions came from studies of the East Asian takeoff in the 1960s and 1970s (Amsden 1989; Chang 2002; Wade 2003) and originated the concept of the "developmental state" (Johnson 1982). And the Asian experiences were rich in innovations and invited different representations. In a World Bank report (1993), for example, the Asian Tigers exemplified the benign workings of free markets, the lesson to be learned. But institutional studies would establish that state action was pervasive and multiform, less in ownership or control, more in enabling private capital to thrive. As it turns out, the experiences stimulated a refined study of structure and agency aspects of the state. Paramount among these was the presence of an autonomous, coherent, and cohesive Weberian bureaucracy and state connections with civil society, especially with entrepreneurs—"synergy" (Evans 1995).

Different roles of the autonomous but connected state were spotted in actual transformation processes: "custodian," "demiurge," "midwife," and "husbandry" (Evans 1995), as the state acted respectively as regulator, owner, birth-giver, or facilitator, with private capital. Some of the former experiences of industrialization relied more on regulatory roles, while later ones, such as Korea's and Taiwan's, resorted to birth-giving, through credit and other facilitating interventions. Generally speaking, it is the existence of certain preconditions that defines the appropriate role: bureaucracy and connections in combination with external circumstances, which at different junctures would indicate the dynamic sectors. In short, even if state protagonism is retained, in keeping with the Gerschenkronian historical tradition, no roles, sectors, or set of policies are advocated in abstraction from circumstances and actual state capacities and connections.

However, insofar as national projects in the narratives conflated with industrialization, state–society relations reduced to bureaucracy–private capital links, that is, "elite connections," a move that posed new problems. For even though in some cases it was quite clear that an autonomous and capable bureaucracy was lacking and hindered sustained growth, as in Brazil in the 1970s and 1980s, in others, as in Korea, where an autonomous and capable bureaucracy was in place, top-down development strategies were insulated from the influence and control of broad sections of the population (which was also the case in Brazil). Unsurprisingly, then, the industrialization synergy ended up raising concerns and indeed political protest contesting the legitimacy of the particular path undertaken toward capital accumulation. The question relates to the appropriate means to define the content of the public interest in a development context. In the next section, we explore two alternative

mindsets: public choice theory's market view (and skepticism about political life) and potentialities of democratic experiences.

Politicizing the State for Economic Transformation

Starting in the 1980s, two circumstances contributed to discrediting the intervention of the state for economic transformation. First and foremost, many experiences of state-led capital accumulation, though conducive to economic growth, did not translate into sustained growth, let alone well-being, failing on theoretical expectations and political promises of alignment. This was particularly true of Latin American, African, and South Asian countries, which experienced non-sustained growth paths with growing inequality and/or poverty and slow improvement of social indicators during the state-led import substitution industrialization of the 1960s and 1970s (Sen 1983; Lin 2011), followed by a debt crisis later in the 1980s. And although historical-institutional studies would at some point argue that the failures had roots in the lack of proper state capacities and weak civil–society connections (Evans 1995), the new mood, reverberating public choice theory's mantra, was that the economic intervention of the state was to blame for interfering with market forces and creating opportunities for capture and bad political economy.

Second, stagflation and fiscal crises spread in the developed world as early as the 1970s, and these too were largely attributed to government mismanagement. It was under this changed ideological climate that a second generation of development economists emerged, this time from within neoclassical economics, forcefully arguing that development should be about reinstating market mechanisms and thus "get[ting] all policies right" (Meier 2001): liberalization of foreign trade and investment, stabilization programs, privatization of state-owned enterprises, and restoration of the market price system.

Among the countries that were first influenced by this strand of thought and got their policies right—with relative success if growth rates are the focus, much less so if inequalities and democracy are factored in—is Chile. Even more consequential was the redirection of the World Bank lending policy toward structural adjustments in indebted countries, accompanying the substitution in 1982 of economist Anne Krueger, of the second generation of development economists, for first-generation chief economist Hollis Chenery: at a certain point indebted countries were paying back more than they were gaining from the loans. And yet by the end of the decade, and in spite of criticism including a famous UNICEF report of damage to the health and education of Third World children associated with the adjustment programs (Goldman 2005), the idea of getting policies right had the upper hand and was absorbed in the ten recommendations of the Washington Consensus (Williamson 1990).

In time, however, persistent problems of bad economic performance—poor or no growth, volatility, poverty, and inequality—following the adoption of the recommendations, while inflating criticism and protest, also had the effect of turning international financial organizations' attention to the developing countries' institutions. New Institutional Economics (Williamson 1985) had for some time been claiming that markets do not

emanate from a societal vacuum; its account of the development trajectory of industrialized countries (North 1990) and the obnoxious construction of market economies out of the ashes of East European socialist societies contributed to make clear that, for better or worse, "institutions matter."

Despite theoretical uncertainty as to which institutions qualify as "good" (Bardhan 2005), institutions in developing countries, as they were seen as differing from the ones in developed countries where markets thrived, became the object of variable reform recommendations (Williamson 2004; Singh et al. 2005). Integrated into international financial institutions' arsenal of policy reform, an enlarged list of recommendations now included liberalization of labor markets, financial codes and standards, independent central banks, elimination of capital controls, good corporate governance practices, and targeted social policies (Williamson 2004; Rodrik 2006). Eventually, after a failed "decade of reform" (the 1990s), a reassessment by the World Bank in the 2005 Development Report recognized that advice should definitely turn away from the "one size fits all" rule, focusing less on efficiency and more on the dynamics of growth.[1]

As it turns out, the "new structural" perspective of the World Bank (Lin 2011) briefly referred to in the preceding section is an indication of the search for new orientations; a twist of ideas from within the institutionalist field, suggesting a "contextual" alternative to "universal" institutionalism, is yet another one. While accepting that something went wrong with state intervention in the failed development cases, the new perspective claims that countries should be permitted to build their own institutional solutions to self-perceived development problems, drawing on their own experiences and circumstances. It is, in one version, a matter of emphasizing "small scale," community, or group level development projects, to the detriment of state-led "big development" (Pritchett, Woolcock, and Andrews 2010). In another version, it is a matter of deepening democracies. Even though a major impact of small development initiatives is yet to be reported, the political strand managed statistically to identify in a large sample of cases that "participatory" democracy has fared better than alternative regimes in promoting growth, especially "high quality growth," that is, stable, predictable, resistant, and more equal economic growth (Rodrik 2000). Seemingly, democratic regimes that give voice to non-elites are more effective mechanisms than alternative arrangements for the aggregation of preferences, pooling of knowledge, and free experimentation with institutional solutions.

The "deepening democracies" perspective contributed an "effectiveness" argument to rehabilitate the political dimension of the state to development thinking: it established participatory democracy as a more appropriate framework to settle notions of public interest and developmental priorities than both "elite connections" and "state capture." The analysis of the success stories of developed countries, where the alignment of capital accumulation, sustained growth, and well-being roughly occurred, adds a "legitimacy" argument. There, on prominent accounts, economic transformation was assisted by broad negotiation on the distribution of its bonuses: co-evolving with democracy, a politically negotiated welfare state helped spread well-being through income redistribution and public goods provision while the economy was booming (Kuznets 1955). As many have noted, in continental Europe the new state form was as much a set of social policies of risk-sharing and servicing as an extra-parliamentary mechanism of expression of organized demands of elites and non-elites alike evolving in tandem with the political system. The cases of

Germany, a risk-sharing welfare state pioneer, and Korea, an emerging welfare state, illustrate the point.

Bismarck's Germany featured fast industrialization, urbanization, demographic change, and increasing mass political participation. Social security was introduced as a top-down initiative by a conservative central government aiming at social control and taming socialist penetration. But the welfare system evolved as the resulting vector of class negotiation and parliamentary representation, with contributory social policies extending beyond industrial workers to other occupations, taking on new forms, and increasing benefits, so that it was erected as part and parcel of the development process—even as the complex political environment in Germany, and broadly in Europe, could not at the time fully reconcile emerging capitalism with civil societies, giving rise to decades of turmoil (Berman 2006).

Post-war Germany's "social market" reconstruction economy, in contrast, embodied a successful conciliation of market forces and democracy, with roots in the now longstanding corporatist tradition, producing booming growth at least up to the 1980s. A high degree of coordination between social and economic issues secured risk protection for banks, industry, and labor, including a welfare state based on employment contributions that guaranteed workers' income replacement in the risky circumstances of a capitalist market society. Under the German-style "social partnership" arrangement, unions and employers bargained autonomously over wages and employment, with spillovers in terms of growth, inflation, and unemployment, while unions had a voice in the management of individual firms and in the administration of the social security system (Streeck and Hassel 2004).

The relation between development and democracy also sheds light on the trajectories of emerging countries, such as Korea and Brazil (Kerstenetzky 2012; Kerstenetzky 2014), that have transitioned from authoritarian to democratic regimes. The Korean story began with fast capital accumulation from the 1960s to the 1980s, led by a nationalist and authoritarian government (Woo-Cumings 1999). Devising rapid industrial growth, the "midwife" state nurtured industrial groups and formed a close relationship with them, where scarce resources were channeled in exchange for a commitment to economic performance and technology absorption (Amsden 1989). The fast economic growth that increased incomes (also aided by previous investments in education and an early land reform) came at the price of authoritarian government in the form of political repression, weak union activity, and lack of social welfare. True, the military government directed public social policies at selected segments of the population (teachers, soldiers, and civil servants), but it was up to employers to provide mandatory welfare benefits to employees (Sook 2004), and families (especially women within families) to take care of the inactive and unemployed (Gough et al. 2004).

Eventually, the model of pressure-containment broke up in the 1980s. Mounting dissatisfaction with the government brought political mobilization and democratization and opened the path for social welfare (Sook 2004; Evans and Heller 2012), which increased especially after the Asian crisis in the late 1990s. In spite of capital accumulation and growth in the catch-up period, it was with democracy and a new orientation toward a universal welfare state that social protection and well-being spread even as the economy was able to keep growing (Evans and Heller 2012).

Now, leading accounts established that if the welfare state was a critical factor in securing well-being in the industrial era, and thus in legitimizing economic change, this remains true of the contemporary knowledge economy. In this new setting, economic processes in combination with demographic and social changes have superimposed new social risks over the uncertainties of life and economic cycles: precarious labor market connections, heterogeneous family compositions, an aging population (Esping-Andersen 1999, 2009). Heightened levels of social risks were a likely thrust for welfare state expansion in the central economies in the 1980s and 1990s, and for its diffusion to regions such as East Asia and Latin America in the 2000s, where it combined with democratization (Haggard and Kaufman 2008; Castles et al. 2010). It has also been noted that the welfare state is directly consequential for wealth production, a critical function in the face of increasing demands and requirements of the knowledge economy. In fact, accounts of economic development indicate more directly productivist functions such as exchanging productivity efforts for social entitlements (Chang and Kozul-Wright 1994; Kaspersen and Schmidt-Hansen 2006), promoting productivity through investment in human capital (Esping-Andersen 2009), and stimulating innovation by guaranteeing economic security and lifelong learning (Kangas and Palme 2005). These actions, which are a hallmark of the Scandinavian social-economic model, are examined below in a case study of Denmark, after we review an additional and fundamental perspective in the next section.

Re-conceptualizing Development

Failed and successful development experiences alike elicited a normative reflection on what development should be about. For one, when observing what on economic grounds are generally considered successful experiences, such as the Asian Tigers' catch-up, one might argue that these countries could have done much better had democracy, not only elite connections, been in place. For another, when considering cases of economic growth with poor well-being achievements, of "unaimed opulence" (Drèze and Sen 2002), such as Brazil's in the 1970s, one might feel reluctant to consider them cases of "development." Also, when assessing the trajectories and achievements of different developed countries, one might want to make statements regarding their relative success vis-à-vis one another, in matters beyond per capita GDP, a metric on which they tend to differ little. These include different degrees of social inequality due in part to different welfare state configurations, in the comparison, for instance, of Germany with Denmark, or the USA with continental European countries. Generally speaking, the normative reflection catered to an increasing dissatisfaction with the conflation of development with capital accumulation and per capita GDP growth, and a somewhat intuitive emphasis on "people." The so-called Capability Approach (CA) stands out for providing one such benchmark (Sen 1983).

The CA reclaims the original idea that development is about promoting well-being, and formalizes this notion as expansion of the real freedoms or "capabilities" people have to lead meaningful lives. These, it claims, are not reducible to per capita GDP growth. Real freedoms have opportunities and agency aspects: they need social conditions that allow people to make autonomous decisions on life plans, including taking part in collective decisions that

affect their planning, and to follow the plans. In the end, if, as suggested, development boils down to freedom (Sen 1999), development policies should be about creating the enabling conditions, and per capita GDP is not the only important factor.

Actually, from the CA perspective, the displacement of the real objectives of development for something that should remain as a means to it, and sometimes a poor means at that, is consequential. Real freedoms seem not to be purchasable and may be lacking while GDP is growing and policies are fixated on it. The health status of a population is best served by taking care of the population's health rather than pursuing growth policies (Sen 1989; Drèze and Sen 2002). Freedom from hunger has more to do with the presence of entitlements—ownership and exchange ones, and social and political provisions such as social protection, rights, and democracy—than with people's purchasing power (Sen 1983, 1999). More generally, social protection, rights, and democracy are central to promote capabilities that are poorly related to income, such as "health, education, social equality, self-respect or freedom from social harassment" (Sen 1983). Hence, development seems more aptly described as social change, where "the domination of circumstances and chance over the individuals" is replaced by "the domination of individuals over circumstances and chance" (Marx, in Sen 1983). A shift of attention from markets to politics then follows, as social change seems to depend more on collective decisions than on markets (Sen 1983; Rodrik 2000). And also by recognizing the multidimensionality of capability, the CA, while offering a general orientation in lieu of a complete list and an exact metric, raises democratic choices on items and priorities in the capability set to the highest rank.

But does GDP help?

Some studies have analyzed the relation between economic growth and well-being (Drèze and Sen 2002) and concluded that growth without a previous level of capability promotion (basically, health and education) seems not to be sustained or to have led to capability expansion; and that policies that attempt to boost growth are unlikely to lead to sustained growth unless capability improvements are also undertaken (Stewart, Boozer, and Ranis 2011). These results are consistent with new growth theories inferences, which emphasize education and research and development (R&D) investments as reproducible factors through which current growth can be converted into future growth. Other supportive studies note that some level of education must be attained before an economy escapes from a low level income trap, after which economic growth will enhance capabilities (Stewart, Boozer, and Ranis 2011). Among the measured impacts of capabilities on growth are the productivity-increasing effects of health and education, and education and health spending on private investments. An illustration is provided by Korea's early investments in education (Evans and Heller 2012; Chang and Kozul-Wright 1994), but references are also made to education investments of other piecemeal planners, such as Germany and the Scandinavian countries (Chang 2002). But, as a more general approach, the CA builds a framework where instrumental purposes do not exhaust the value of education. The same goes for democracy, which is viewed as a development objective in itself, beyond its utility for other valued purposes (e.g. high-quality growth). That this should be so can be seen from the many aspects of real freedom whose greatest value the CA presupposes.

When it comes to the influence of income on capabilities, the record is mixed. There is empirical support for the notion that, for example, reductions in mortality and increases in life expectancy have been induced by technology improvements and, indirectly, by improved incomes (and thus by previous investments in education and health) (Stewart, Boozer, and

Ranis 2011), but the historical record also lends support to the view that capability improvements are consistent with a direct, non-income-mediated approach. It has been shown that even though interactions between both of them are strong, basic health and education achievements are poorly related to income (Drèze and Sen 2002).

Known cases of non-growth-mediated development counted on state action. To the extent that it helps elicit social mobilization to promote basic capabilities, state action may start a virtuous cycle of achievements in which other freedoms are also enhanced, including the freedom to participate in social change. This is suggested by the much-cited development case of the densely populated (32 million people) Indian state of Kerala. In the 1950s, public action (Drèze and Sen 2002) undertaken by state actors in conjunction with political and social organizations launched a process of redistribution of entitlements and reallocation of priorities that involved, in the following decades of mostly left-wing governments, land reforms, mass literacy, and school enrollment, and generated an educated and politically active citizenry that demanded social opportunities and empowerment. The viability of this non-growth-mediated progress, it is claimed, has been helped by the inexpensive nature of the labor-intensive public provision of primary education and basic health care in a low wage economy and by complementarities between educational attainment and health status (Drèze and Sen 2002)—but arguably also by sheer mobilization, as the cases of the mass literacy campaign of 1991 and local level participatory planning started in the 1996 demonstrate (Isaac and Franke 2002).

Outperforming India on many social counts and displaying accomplishments comparable to Korea's in life expectancy, child mortality, and literacy, Kerala achieved social development in spite of low per capita GDP. This illustrates the strength and efficacy of political factors—a well-functioning democracy, a committed and accountable ruling party, and an intense political and social mobilization of non-elite organizations—in the redirection of development priorities. In most interpretations of the Keralan experience, participation and outright empowerment of the underprivileged are considered developmental objectives in themselves (Véron 2001; Isaac and Franke 2002; Isaac and Heller 2003).

Now when we turn to growth-mediated cases, again, it is public provision of opportunities to capabilities, not growth per se, that is considered to make the difference. As it redistributes income to fund the provision of opportunities that affect people's well-being and life chances, the welfare state is the state form that suits the cases. And insofar as it assists economic progress, the welfare state also helps to increase the resources the state needs to finance an enlarged public provision. In a democratic ambiance, with civil and political rights in place, welfare states may deepen democracy by institutionalizing mechanisms of negotiation, coordination, and deliberation among societal groups, as noted in the case of Germany. Moreover, to the extent that they help minimize social imbalances, welfare states also contribute to increasing the value of the rights for the citizens. In this regard, it has been reported that while welfare states reduce inequalities of market income everywhere, especially the robust European ones (OECD 2008), the universalistic North European countries deliver the lowest level of both inequalities of post-fisc distribution of income and of social opportunities among twenty-four European countries (Checchi, Peragine, and Serlenga 2009).

With the help of the CA and thus under a broader light, the welfare state now appears as a general means of delivering opportunities to multiple capabilities. In the next section,

we focus on these broad effects in the experience of Denmark, one of the most robust social states in the contemporary era, which coexists with a burgeoning market economy. There, capabilities translate into an extensive and generous cover of social risks and provision of social opportunities, and a highly decentralized and "participatory" kind of democracy.

Case Study: Denmark, a Power- and Growth-sharing Developmental State

Three features have often captured the attention of students of the Danish development model: the high standards of guaranteed well-being and democracy; the fact that well-being delivery is supported by very high rates of economic activity; and the fact that capability delivery and economic activity are embedded in an intimate network connecting the state and civil society. The evidence includes high indices of satisfaction with democracy (Demokratiudvalget 2004 in Kristensen 2011); total, female, and elderly employment (OECD 2009); social and economic equality and low post-fisc poverty (Checchi, Peragine, and Serlenga 2009; OECD 2009); work satisfaction; and conciliation of family life and work (European Commission 2004).

The story goes back to the late nineteenth century, when official support for voluntary associations and important institutional and policy innovation started. It was then that Danish-style social partnership emerged and became institutionalized. It involved increasingly dense and organized interest groups and the state in a long-standing tradition of consensual policy making (Obinger et al. 2010).[2] It was also then that the roots were laid down of the notion that economic transformation should be negotiated, including a quid pro quo between wage restraint and social entitlements.

But political mobilization and the fifty-year-long social democratic rule in the twentieth century up to the 1970s were also key ingredients. In fact, the mature contours of the Danish welfare state took shape under social-democratic leadership after the Second World War: after a short flirtation in the interwar years with German-like insurance principles, the Danish turned to universalism, combining high levels of adequacy with a comprehensive view of social protection (Esping-Andersen 1990; Obinger et al. 2010). Myriad universal benefits and quality services funded by general taxation were designed to protect the whole citizenry from life cycle, intergenerational, and economic vicissitudes.

In the "golden years" between 1945 and 1973, the welfare state was also instrumental in achieving high levels of employment and economic activity. It was an important source of jobs (about 30 percent of employment, most of it female) and it facilitated female economic participation, with the introduction of universal daycare and family policies such as paid maternity and paternity leaves and family allowances. The dual-earner family model that was then being encouraged later proved to be a potent shield against child poverty and a poor future, placing Denmark in a privileged position among its OECD peers. Investment in early childhood education also turned out to be an equalizer of life chances. Finally, the creation of a public employment system, another important innovation of the period, also turned out to be strategic in the coming decades.

When the crisis of the 1970s hit and the need for structural changes in the economy and society became clear, the Danish, while sticking to their egalitarian and consensual style of policy making, liberalized their economic policies and expanded and recalibrated their social policies—much to their advantage. In fact, Denmark, even while continuously increasing social spending up to more than half of the total public spending and a third of GDP in the 2000s, greatly benefited from the knowledge economy and globalization, achieving the highest scores in the World Economic Forum Index of Competitiveness and per capita GDP in the 2000s (Kristensen 2011) and peak levels of labor force participation and low unemployment as early as the 1990s (Kenworthy 2004).

Based on the high degree of policy autonomy of the Danish state in an era of economic liberalization and European integration, two policy innovations seem to account for the propulsion of Denmark to the avant-garde of nations with knowledge economies and prosperous societies.

The first is flexicurity: the combination of a flexible labor market and generous welfare benefits with active labor market policies. While accommodating competitive markets' yearning for flexibility with workers' yearning for economic security, these policies provide long-term training and retraining, thus adding a higher skills/better quality jobs/lifelong learning perspective to labor flexibility.

The second is public support for private investments in innovation. It combines coordination and funding with, again, welfare state spending: universal public education, training and retraining of the labor force, lifelong learning and cognitive-skills-generating early childhood education, in combination with cash benefits to help ensure the continuing activity of the population. These policies positively interacted with "discretionary learning," the uppermost degree of worker autonomy in the workplace, which has disseminated to most Danish jobs (Huo and Stephens 2012) and whose introduction was facilitated by the high union density typical of the Danish welfare state (Esser and Olsen 2012). Discretionary learning, even as greatly valued in the cutting-edge Networked Innovation Systems of cooperation among firms, employees, and locales (Kristensen 2011), brought a high level of job satisfaction (European Commission 2004).

While the state has performed new roles—actually updating risk sharing and servicing under the new circumstances—more of its inner workings have become apparent. Nordic bureaucracies are known for their quality, but an additional feature is that they have flourished within democratic traditions of negotiation and partnership with major organized interests. In the myriad commissions and committees of consultation, legislation preparation, and policy implementation, in tandem with the political system, Danish state officials practice their relative autonomy while "sharing the political space" (Crouch 1994 in Kaspersen and Schmidt-Hansen 2006) with major societal actors. These, in turn, also thrive in public deliberation on welfare, firm organization, and major social and economic issues (Boyer 2008)—a process that while not avoiding conflicts, minimizes stalemates and the need for top-down intervention. Lately, "power-sharing" has extended to a variety of citizens' associations and agendas and has become less centralized, strengthening the degree of directness of the Danish democracy (Boyer 2008; Kristensen 2011). This peculiar type of "stateness" may be one explanation for the low degree of dissatisfaction with globalization among the Danish (Kristensen 2011), by facilitating the negotiation of social entitlements for competitiveness, "growth sharing." A case in point is precisely the labor market reform of 1994 that introduced flexicurity (Kaspersen and Schmidt-Hansen 2006).

It has been noted that the life-course, human-centered investment the Danish chose means that their egalitarian orientation does not so much translate into equality here and now—as a lot of people move from employment to unemployment and back to employment or education or training—but also into equality of life chances and protection (Esping-Andersen 1999), especially as the Danish economy embarks on the innovative, "experimentalist" economies (Kristensen 2011), with all the change and uncertainty this entails. In the end, while the socio-economic model seems firmly rooted in an ethos of strong mercantile activity and mobility, it remains to be seen whether it will be able to keep resisting the increasing inequalities, and their solidarity-eroding quality, which daunt knowledge economies. Up to now the process has been mostly negotiated so that the alignment of means and ends of development, the very soul of the Danish regime, keeps warranting a supportive political economy.

What's Next?

As the idea of development travels over time, understandings of state action evolve, so that development analysis cannot help continuously re-signifying past experiences as it looks ahead to future challenges. In the face of expansive and non-convergent meanings of development, hardly any experience appears solidly established as a standard to be followed. In the light of new ideas, so-called developed countries may appear less so and less developed ones may be able to teach one or two lessons. The concept of development as capability enhancement, providing a framework for the elusive notion of well-being, tries to capture this plasticity of meanings even as it attempts to remain faithful to the notion of the ends of development. Among the many aspirations it seems able to accommodate is ecological sustainability, as the notion of real freedom reaches beyond existing generations to future ones, to whom there is no legitimate reason to deny the same possibilities. As a consequence, the new concept recalls that, as a collective endeavor, development cannot dispense with democratic procedures regarding the setting of priorities, strategies, and actions. To the extent that the category that designates this endeavor, "public interest," still makes sense, the place of the state is vindicated, for all the pitfalls and temptations that accompany its existence. And insofar as widespread political participation is accredited as a superior mechanism of decision making concerning what qualifies as the public interest, democracy attracts general attention, being charged with protecting the state against predatory raids as well as warranting open deliberation on the content and form of the development agenda even while keeping its intrinsic value.

Looking to what we already have on the shelves, the state form that in the post-war decades appears most conducive to capability delivery is the welfare state, for its ability to neutralize the grip of circumstances and chance over the real freedoms of individuals, and render economic transformation legitimate and effective as a means to social transformation. Its emphasis on people-intensive public goods may influence production and consumption patterns in an environmentally friendly direction. When coupled with democratic regimes, the welfare state has the potential to deliver what the majority in a vast constituency expresses should be the elements in the development set—and this includes productivist and non-productivist experiments alike (which we might still consider a welfare state of sorts, as

redistribution, provision of public goods, and political mobilization are all there). Reciprocally, welfare states may help deepen democracies by raising the value of political freedoms, through equalizing interventions, and by increasing the directness of democracies, through mechanisms of political negotiation, deliberation, coordination, and participation. And when this happens, as in the Danish experience, democratic welfare states display a high degree of flexibility to deal with challenging new circumstances.

But, of course, welfare states and democracy exist under many guises and with varying accomplishments. Hence, questions of interest include features of the socially chosen capability sets, comprising provision and distribution of their key elements, and tensions and complementarities between, for example, political participation and representation, participation and inequalities, market generated inequalities, and political support for redistribution.

Also, there is the question of scale involving the successful stories of Kerala and Denmark: are these accomplishments likely to occur in big countries, such as Nigeria or Brazil, where concerted social action may prove more difficult to achieve? This is an empirical question that no doubt should attract a great deal of attention. But while these cases leave open the question of whether there is a maximum scale for successful social transformation—even though Kerala stands as a success story of a big region within a huge country—they nevertheless show there seems to be no "minimum scale" for decentralization policies and participatory democracy, two strategies that were central to the positive outcomes. This suggests that a similar path should be followed in all cases. In any case, future development studies might focus on forms of democracy, decentralization, and welfare state configurations.

NOTES

1. This move famously marked a separation from the IMF's universal institutions blueprint at the time (Rodrik 2006; Singh et al. 2005).
2. To be sure, the consensual style draws on other sources besides social partnership, including a sequence of minority governments and a tradition of decentralization.

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CHAPTER 46

CIVIL SOCIETY

KUMI NAIDOO AND SYLVIA BORREN

Introduction

Much of the thinking and practice of international development emanates beyond states and markets. It comes from the vibrant work of civil society and social movements strengthening citizen action throughout the world. It is particularly prominent in areas where participatory democracy and citizens' freedom of association are challenged, both highlighting the unintended consequences of development and offering alternative perspectives on how development may be practiced. The chapter examines definitions of civil society, how it organizes for change, by challenging roles within society, and promoting transformative thinking about development.

As civil society includes a range of NGOs and social movements, it does not speak with one voice, but contains within it various ideological and power differences. History provides examples of social change as people organized movements against perceived injustice, and in favor of new ideas of development. The concept of "civic-driven change" counters an apolitical and technical understanding of development, to instead address the political barriers that perpetuate poverty and inequality. Civil society is motivated by a pluralistic "idea of justice" which challenges the assumed roles of governments, corporations, and individuals. These roles are undergoing new scrutiny in the face of rising demands for accountability, in which civil society provides part of the checks and balances on political and economic power.

Defining Civil Society

Keane (2009) notes that the term originated in Europe during the late eighteenth century, to describe the realm of social life separate from the state. This original definition included not only charitable groups, clubs, and voluntary association; but also market exchanges,

independent churches, and publishing houses. Keane further notes that the ensemble of actors that constitute civil society tend to be self-organizing, and "permanently in tension, both with each other and with the governmental institutions that frame, constrict and enable their activities." During the twentieth century, civil society came to be seen as also separate and distinct of markets, corporations, and businesses. Thus, the World Alliance for Citizens Participation defines civil society as "the arena, outside of the family, the state and the market, which is created by individual and collective actions, organizations and institutions to advance shared interests" (CIVICUS 2012: 8). Under this definition, civil society embraces formal non-government and non-profit organizations, as well as more diffuse social movements, such La Via Campesina or the Occupy Movement. Diani and Bison (2004) define civil society as the "informal interactions between a plurality of individuals, groups, or associations, engaged in a political or cultural conflict, on the basis of a shared collective identity." The causes furthered through civil society range from those promoting sport and culture, to those fostering an indigenous or religious identity, to those advocating for labor, youth, or human rights.

Glasius (2010) identifies three ways of describing civil society. First, civil society can be understood as *social capital*, drawing on insights from Alexis de Tocqueville and Robert Putnam. People meet and interact, forming networks to collectively solve problems and improve the well-being of their communities and fellow citizens. In one form or another, civil society instigated the abolition of slavery, the promulgation of human rights and women's rights, and environmental victories, such as a bans on whaling and on nuclear weapon testing. Second, civil society can be understood as *public debate*, drawing on insights from Habermas (Corchia 2010). Citizens are prepared to work for causes which increase their common good. Whether through in-person meetings, the formal media, or social media, civil society is active in building support to improve policy and inform politics. Problems such as child labor and violence against women are put on the political and public agenda by civil society actors. Third, civil society can be understood as *counter-hegemony*, drawing on insights from Antonio Gramsci. It can work to challenge the powerful and champion the marginalized through the media and movements either for (e.g. women's rights, civil rights) or against (e.g. anti-apartheid, anti-poverty) particular agendas. Civil society can prompt action by government, in its responsibility for the "rule of law," and for-profit sector, which transmits pressures down the chain of operations and into the daily lives of workers and their families.

A commonly accepted aspiration of civil society is to pursue change through non-violence, inspiring collective action to resist perceived injustice. The example of Gandhi and peace movements was adopted within a host of human rights-, feminist-, anti-poverty, anti-nuclear as well as environmental movements. It is also the start of spontaneous uprisings such as the Arab Spring, the Occupy movement, and accountability movements, such as the Global Call to Action against Poverty and the Tax Justice Network.

Civil society is commonly associated with efforts to further the "common good," yet it is also affected by efforts toward "common evil." Popular understanding tends to ignore the so-called "non-civic" part of civil society, such as the mafia and drugs cartels, terrorist organizations, and racist groups. The CIVICUS definition is neutral in that it does not carry a value judgment regarding the nature of the "shared interests" pursued. By its very nature, civil society not only works toward the common good, but often seeks "club goods" that favor a minority, or particular segment of society. Thus civil society, similar to governments and

corporations, can work for the common good or evil depending on the goals and behaviors involved. Indeed in many jurisdictions, civil society faces a growing number of rules and regulations designed by governments to disrupt terrorist networks, control dissent, and manage threats to state legitimacy (Sidel 2004; Monga 2009). Governments claim that they alone can act for the common good. Controls on civil society in some countries, from Ethiopia to Russia, seriously reduce access to information, create obstacles to funding, and limit the freedoms of speech and assembly. Measures intended to enhance public security can end up permitting the state greater control over public debate and civic space. This is a particularly dangerous in situations where human rights and citizen action are labeled as subversive to political or national interests.

Some thinkers suggest that the family also forms part of civil society. This argument is based on the connections between family and class, as well as caste in different civil society arrangements through history and in different countries (Keane 2006). Family law, tax systems, and welfare arrangements see the family as the cornerstone of society, suggesting it is conceptually useful to see "family" as part of civil society. Furthermore, feminist work on violence argues that the family is an important element in understanding power and gender relations, and the cultural practices that perpetuate inequalities (Pearce 2007). The family is the one place where human rights legislation does not apply fully. Children do not have direct access to legal redress unless their parents act on their behalf, which they are unlikely to do if they are exploiting their children. A person's sense of justice often stems from childhood situations which were perceived as unfair or unjust. Conversely, children who have suffered in their families may grow up to repeat patterns of oppression, violence, discrimination, and cruelty which they learned at home. Unsurprisingly, many development interventions target families, or "households." Yet not all families are rooted in a single place, as migration and kinship ties can create complex family networks between rural and urban areas, and across countries.

As there are many definitions of "civil society," there are many civil society actors—including churches, community associations, trade unions, and NGOs—which do not offer a single voice or position, nor always acting collectively among themselves. Instead the diverse constituents of civil society are analogous to the variety of political parties: each embody a different ideology, hold different values, and offer different visions. A better analogy is to consider the diversity of actors within the for-profit sector where most companies are in stringent competition with each other; even while business councils might further common goals and companies may cooperate on research and development (R&D) or corporate social responsibility (CSR). Arguably civil society is more diverse in practice than either the political or for-profit landscape, and this diversity is a strength that contributes to critical public debate and collective action. Civil society organizations and social movements can and do form alliances to broker change in the policies pursued by governments and corporations.

The problems of development can also be cultural, requiring civil society to face its own prejudices and injustices. The slow progress made by lesbian, gay, bisexual, and transsexual movements in the last four decades illustrates how transformation is needed within civil society to change attitudes and norms, as well as within government to change laws and jurisprudence. Patterns of power and privilege also affect civil society itself. National constitutions and international agreements embody a commitment to human rights, including

those of children, women, migrants, and minorities. Yet the combined weight of poverty and culture shape a daily reality that is far from these aspirations, one in which the majority of women still deal with oppression and violence. It is interesting to note that interaction with business can be positive, as the purchasing power of consumers can demand ecological and labor justice when such considerations became part of choosing which products to buy.

In summary, civil society can be defined as the arena, outside the state and the market, which is created by individual and collective action to advance shared interests. This definition is quite broad and is not value-driven, the concept of "shared interests" can be both for the common good of all society or the benefit of a minority group. Civil society includes social movements and faith-based, as well as cultural, sport, or recreational institutions, and as wide a range of issue-based social activity as is imaginable. Civil society actors have their own ideological and power differences, and are influenced by different historical, political, and economic realities on the ground. It is therefore hardly surprising that civil society is in constant internal debate and flux as different factions organize to affect local, national, and global forces for the greater common good, or for different forms of private goals or gain.

Organizing for Change

The history of different countries and religions are full of dramatic stories of attempts by groups of people to fight for their own freedom of culture, language, and belief, and to live free from slavery, oppression, and abject poverty. Much of civil society has been born out of emotion, concepts of justice, and the urgently felt need for change. Much of what is now accepted as the responsibility of government was brought about by the initiatives of private citizens who rallied against perceived injustice and organized with others around them "to do something" about it, whether education, health, child-care, or other causes. Numerous charitable initiatives originated with a humane impulse: soup kitchens were run by the wives of the very land- or factory owners responsible for the living and working conditions of "their subjects." These early seeds later germinated into social security arrangements. Well-to-do elites set up projects to look after orphans, organize food banks, and provide aid during natural disaster. The same motivation is seen in corporate foundations today who, having made huge profits, plough some of this wealth back into social goals of their own choosing.

From a first phase of "reacting to needs" many civil society movements and organizations began to discover the structural patterns of power which fueled such injustice. There are historic examples of social change which began as a broad fight against injustice, and ended in long, tenacious and very precise social, legal, and sometimes physical battles. In the U.S., the anti-slavery movement would centuries later inspire the civil rights movement. In South Africa, the anti-colonialist battles for national freedom were in time followed by the heroic struggle against apartheid. Trade unions, feminist, and fair trade movements have achieved enormous social improvements in the last six decades. The transition from dictatorship to democracy in Latin America in the 1980s and 1990s now inspires events in the Middle East. A partial list of contemporary causes includes human, women's, and sexual rights; environmental, indigenous, Dalit and youth movements; global networks such as *Avaaz*; and transparency initiatives in aid spending, extractive industries, and government

information (e.g. Wikileaks). These and other efforts seek to make injustice more visible, revealing who gains and who loses in the present order of power and vested interests. As such, civil society often serves to highlight those disadvantaged by development, people who are threatened with loss of their land, rights, voice, and—all too often—their lives. Civil society thus plays a key function within democracy, providing checks and balances on the exercise of power.

There are also patterns of power within civil society itself. Many times women activists hear that gender justice will be dealt with after economic or ecological justice is won, instead of seeing the intrinsic connection between these battles. Civil society is learning to manage the gap between the global north and the global south, without the former trying to manage the latter. Money, privilege, and power are carried by northern NGOs, which decide which actors in the global south receive attention, political support, and financial grants. Such divisions in power can split civil society and weaken its standing in, for instance, UN negotiations where the for-profit sector has increasing access to the corridors of decision making. The media also plays a role as it decides whose stories are told or ignored. For instance, there was hardly any global media attention in October 2009 when 173 million people from all walks of life in 130 countries joined demonstrations organized by the Stand Up and Take Action campaign. Happily there was press coverage in developing countries, where the campaign leveraged political action for improvements in child benefits, spending on health and education, and civil society consultation in national planning.

Fowler and Biekart (2008) argue that the theories and practice of international development tend to bring only incremental change, unable to upset the neo-liberal perspective on development. These authors call for *civic-driven change* to fight "for equity of political agency rather than equity of economic opportunity." "Being civic" is understood as pro-social behavior that respects differences between people and shows concern for the whole of society. This is a value-driven definition, based on Confucian teachings, in which respect for diversity and concern for the common good are two pre-conditions for achieving "social order." Such authors present a counter-dialogue that is critical of the theories and practices of development which pursue an apolitical and technical agenda. Yet such an approach to development invariably treats the symptoms rather than the cause, stopping short of challenging the political barriers that perpetuate poverty and inequality.

Edwards (2010) notes that, "any significant question in the development field takes us into disputed territory that is increasingly enveloped by the fog of ideology and interest group contestation." This means accepting that thinking about development invariably involves the politics of knowledge—how ideas are created, used, and disseminated. Edwards argues that these politics determine how thinking is translated into action of various kinds and which ideas are considered legitimate. Some NGOs and philanthropic foundations support initiatives that are critical of development, including the Global March against Child Labour, the World Social Forum, CIVICUS, and various other human rights, feminist, and indigenous initiatives. However, a scarcity of funding following the financial crisis, combined with the political backlash against NGOs in some countries, is encouraging a simple focus on direct poverty alleviation. Worryingly, there appears to less tolerance of, and support for, those voices that are critical of how development is currently understood and pursued.

The insights of Amartya Sen are particularly relevant for civil society. In *Identity and Violence*, Sen (2006) argues that all people have multiple identities which are more or less relevant in different contexts,

> Our shared humanity gets savagely challenged when the manifold divisions in the world are unified into one allegedly dominant system of classification—in terms of religion, or community, or nation, or civilization.... [We are all] diversely different... the hope of harmony in the contemporary world lies to a great extent in a clearer understanding of the pluralities of human identity, and in the appreciation that they cut across each other. (Sen 2006: xiii–xiv)

Sen's argument is helpful for understanding diversity and overcoming divides in civil society; here too a hierarchy of issues and identities can lead to conflict rather than cooperation. In *The Idea of Justice*, Sen (2009) argues that justice is not a monolithic ideal, but a pluralistic notion with many dimensions. For him what counts is real-life behavior, and the practical realization of justice for all. In his view, human rights are not merely a theory or principle, but rather the realization of rights is an empirical question. All actors, be it government, business, or civil society, each have their own responsibility to work toward the idea of justice.

Sen's insights are highly relevant for civil society and citizens today, as humanity faces a "perfect storm" of economic and ecological disaster of its own making. The growing worldwide discontent of "the people" is visible in various social uprisings around food prices, sexual violence, and equality. Global civil society is struggling to find a common voice, initiating global dialogue around, and as alternatives to, UN climate negotiations and the post-2015 development goals. There are attempts to forge broad coalitions including trade unions and faith-based organizations working toward new and renewed ideas of international development. But there is also doubt and disappointment. Processes at the UN, G20, and World Economic Forum seem to have little more than token, or symbolic, interest in civic voices, human rights experience, gender realities, and youth initiatives.

There are plenty of transformative concepts and real-life practice that offer economic, environmental, and social alternatives for "the world we want" emanating from trade unions, citizens, activists, philosophers, indigenous peoples, feminists, and ecologists, and many others. There are indeed real and practical alternatives to international development as practiced in the current economic model. The biggest problem in any process of change is not the lack of new visions or practical ways forward, but it is how to deal with the vested interests of privilege and the simple fear of change.

History provides us with many inspirational stories of social change mostly propelled by civil leaders motivated by a deep sense of outrage at the injustices they saw, which in their time were considered "normal." They organized movements *against* slavery, colonialism, apartheid, child labor, sexual violence, and human trafficking; and they organized *for* sexual- and reproductive rights, equal educational opportunities, social protection, and labor laws. Leaders and movements need to be both inspirational and practical. Civic-driven change is value-based in that their concept of "civic" is based on Confucian philosophy. Respect for difference and concern for the whole society, instead of self, is a prerequisite for social order. The question facing humanity today is whether it can muster enough civic-driven change at local, national, and global level to solve the present "perfect storm" of multiple economic and ecological crises. Can it overcome identity or issue-driven divides within civil society, and harness Sen's plural, but moral and practical, notion of justice in order to shift the powerful actors and short-term interests that block such change?

Challenging Roles within Society

It is commonly assumed that the corporate sector can only be driven by the need to make financial profit, regardless of the consequences to people or planet; that civil society is or should be intrinsically "good"; and that government has the job to balance or mediate between these different demands and interests. In this thinking, governments organize the "rule of law" and the process of compromise, thus achieving a more or less just balance. National constitutions usually define fundamental rights and responsibilities, based on the Universal Declaration of Human Rights and subsequent international laws and conventions. Yet the demands for accountability of corporations are often less stringent than those of most governments and organized civil society. Sometimes the corporate sector is talked about as though they are not (nor need to be) party to the UN Universal Declaration of Human Rights or the various conventions ratified by their countries.

These assumptions are undergoing new scrutiny. The recent global economic crisis, caused by highly irresponsible behavior on the part of certain banks and corporate leaders, raised new questions about roles and responsibilities. For example, Unilever is proud of its track record on social corporate responsibility, yet has been critiqued for its compliance with labor rights in African countries. Analysing the total financial picture, shareholders appear to gain between 5 to 10 percent in dividends per year, while production and labor costs vary between just 1 and 3 percent of the product price. This difference begs the question of what constitutes a fair division of profits, as well as new demands for public scrutiny.

Recent research from the Tax Justice Network has calculated that US$21 trillion dollars are lost annually through tax havens and tax exemptions for the most powerful corporations and individuals (Henry 2012). To cite Adam Smith (2009 [1759]), "the disposition to admire, and almost worship, the rich and the powerful and to despise, or at least to neglect persons of poor and mean condition is the great and most universal cause of corruption of our moral sentiments." Build into this equation the realities of poverty, and one gains an insight into the drivers of semi-slavery that continue to exist today: human trafficking, enforced prostitution, and child labor. But happily, time and again, history has witnessed the emerged civil, government, and corporate leaders who have pushed back discrimination and injustice. This kind of leadership is urgently needed to ensure a sustainable future of life on the planet.

Demands for accountability are on the rise. While the Arab Spring is unfolding, in India an "accountability battle" speaks to a society no longer willing to tolerate corruption or violence against women. With developed countries, civil society is suspicious of their governments' closed-door negotiations with African countries, and agreements that are not shared until they are already signed and sealed. Political campaigning is increasingly about personalities and the amount of money they can muster for their campaign. The exposure and the debating qualities of the candidates are more important than their past or future ability to govern. Election promises are made, but most of the population has come to accept that these will not be kept. The result is that voters begin to disengage from the formal political process. In the Netherlands, a number of NGOs—including Oxfam Novib, Greenpeace, and World Life Fund—have considerably more financial supporters than all the Dutch political

parties combined. Yet NGOs are often challenged about their democratic base and who they claim to represent.

The lack of accountability is worse at the global level. Diplomats and leaders attend UN, IMF, and World Bank meetings, and G8 and G20 summits without direct accountability to voters regarding the positions taken. Civil society is kept at bay from such international negotiations, resulting in little expectation of keeping to promises and commitments made, and seriously undermining the confidence of citizens. Since the Social Summit in 1995, a global civil network called Social Watch has prepared an annual report tracking the progress (or lack thereof) between the UN human rights agreements, conventions, development goals, and the reality on the ground. With 140 indicators, it provides a measurement of basic capabilities and of the gender gap in each country, including the progress and regression over time in realizing the promises made to citizens.

Pressure to be accountable and coherent has been brought to bear on civil society. Within organizations, this not only means an accounting for resources and actions, but also their relationships with others. Do NGOs respond adequately to the aspirations of civil society actors in the developing countries? For individual consumers, do they ensure that the products they buy do not involve child labor or excessive environmental costs? This is where responsibility becomes concrete and actionable, the extent to which organizations and citizens contribute to achieving Sen's "idea of justice."

Individuals do have multiple identities: as citizens, family members, as employees in government, business, or civil society. They may be activists, travellers, and religious practitioners. They are consumers, voters, and participants in local civic life. So coherence and accountability can also be asked of individuals in their own behavior within their different roles and walks of life. How is any one person affecting labor standards, the environment, and developing countries through her or his daily behavior? The sum of small decisions matters, such as whether or not to eat meat, take public transport, purchase fair trade products, advocate for CSR in the workplace, or cast an informed vote in elections. The concept of "global citizenship" can manifest itself in our daily behavior. Promoting justice is not an abstract ideal, nor can it be left only to governments, corporations, or civil society. The principle of "do no harm" is applicable in our own daily lifestyles.

Accountability for the agreed principles of human rights involves government (local, national, regional, global), corporations (from small businesses to multinationals), civil society and individual citizens. In this sense, the responsibility to respect diversity and to look out for the common good, above self-interest, can apply equally to all actors within society. Everyone has a role in causing, or solving, the problems that face humanity and the planet.

All members of society contribute to implementing international agreements and conventions, whether they are active within government, business, or civil society. Governments, corporations, and NGOs carry a large share of this responsibility; but individuals also need to work toward a just and sustainable future through their families, place of work, and as consumers and voters. The responsibility of organizing for change does not only lie only with civil society. It lies equally with governments, corporations, and individuals to work toward Sen's "idea of justice." Together there is no global problem which we cannot help to solve to create a better common future.

Transformative Thinking about Development

The concepts of democracy and civil society are interconnected; the latter contributes to the former to form a "system in which the exercise of power is subject to public monitoring, compromise and agreement" (Keane 2009). Democracy is more than political parties, elections and concepts of majority rule. It requires respect and space for the rights of minorities. It requires that people are empowered to speak, act, and control their own lives. Various institutions—including religions, trade unions, development and women's organizations—face a crisis of trust as diverse groups of citizens, including young people, do not recognize themselves in the established civil society. As new grassroots movements emerge and discontent spreads through social media, existing structures and organizations need to change and transform. NGOs make diverse contributions to civil society and democracy. Mercer (2002) argues that the role of NGOs in the politics of development is far more complex than commonly assumed, and requires a more contextualized and less value-laden understanding of these politics.

The concept of governance, instead of government, recognizes the need for an interactive and inclusive dialogue in which multiple stakeholders negotiate a common future. Democracy becomes an interactive process in which majorities and minorities with different ideologies, beliefs, and lifestyles try to find a way out of present stalemates. The environment is an area that urgently needs broader agency and new solutions, by and for all stakeholders. Renewable energy sources can replace fossil fuel and nuclear power, oceans and forests can be preserved without overfishing or overexploitation. Production methods in the clothing industry are now subject to greater scrutiny, and new standards reduce its use of toxic materials. One in seven people populating our planet today suffer from chronic hunger, mostly women and their dependents, while a similar number suffer from obesity and related health problems.

Development as pursued in recent decades has continued to encourage economic growth through overconsumption and short-term financial gain that drives overexploitation of people and the planet. New and transformational thinking and practice is urgently needed. Edwards (2008) argues that there is a need to learn rigorously from history, to lever deeper transformations that change society forever, including the economic system that has generated wealth. Imagine first the stimulation of local solutions within the frameworks of global agreements. Vibrant local communities can be strengthened through finding local renewable energy solutions and green jobs, clarifying land rights for farmers and investing in sustainable food production, organizing fair financing and favoring local trade over international trade, and accounting for the full price of products including their use of fossil fuels and environmental impact.

There are some examples of multi-stakeholder platforms that pursue new models of development: for instance on soya or palm oil production which does not destroy forests or local food production, or advances in agriculture and food security that empower women farmers and their access to land (see White et al. and Swaminathan et al., this volume). New global connections enable consumers to trace the origin and history (or chain of custody) of

products, including how far a product has traveled, and the ecological and labor conditions under which it was produced. There are instances of interaction between the governments, businesses, and indigenous communities where citizens determine their own route of development (Lâm, this volume). Some countries have made the rights of the planet a part of their constitutions. Others have established minimum levels of women candidates in elections or of women directors in a start-up company before it can become publicly traded.

The challenge to be faced here is that local interactive democracy has to be stimulated, enabling citizens to take responsibility for organizing their own future, including public services for energy, water, social security, education, health, and local economy. There are already examples of this working in communities around the world, including "human rights cities" and "child-friendly villages." Other cities foster local food production and a concept of work that balances economic enterprise, living conditions, child care, health, and education. Communities need the means to build their common future and to defend themselves against development they do *not* want: be it unsustainable fisheries, buying up land for industrialized farming, or flooding the local market with cheap plastic products.

National governments support local efforts to build vital economic and ecological communities. Interactive democracy occurs where multiple stakeholders are informed enough to engage in a debate about the choices of their own future. Development can occur through dialogue with citizens at home, and not merely as negotiations among nations at multilateral fora, ranging from world trade to climate change. If so, then business can follow, rather than determine, local and national governance. The greatest challenge for those wanting to organize civic-driven change, and realize Sen's "idea of justice," is to ask governments and corporations to broaden beyond incremental change and move into transformational practice.

The balance of power still lies with those who stand to gain from short-term economic exploitation, including common evils such as violence and environmental exploitation. This power imbalance is not coherent with the "idea of justice" and responsibility to respect, and to act for, the common good above self. The idea of justice must become part of our thinking and practice. The direction of change needed is clear: development can do much more to benefit the common good of people and the planet. Herein lies the challenge for those trying to achieve civic-driven change: to design local inclusive governance that creates checks and balances, supported by national democratic process.

The urgent need to design more inclusive, democratic, and just development is an enormous task for transformation. How to convince those that stand to gain by the status quo and those who fear change? It was once difficult to convince slave-owners and apartheid-supporters, men attached to their presumed dominance over the lives of others. In the past, such change required the passage of generations, for a slow evolution in social norms, yet development today does not allow for this privilege of time. Each individual faces a choice, to engage or not, in forming a new idea of development. Ultimately, civil society is part of the checks and balances on political and economic power.

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CHAPTER 47

FOUNDATIONS AND PRIVATE ACTORS

CAROL ADELMAN AND YULYA SPANTCHAK

Introduction

Traditionally, international development practitioners have placed value on government actors on both the donor and the receiver side. Official Development Assistance (ODA) often manifests itself in the transfer of public monies from a donor government into the hands of a recipient government. During much of the twentieth century, official flows comprised the majority of resource flows in international development. After the Second World War, the Marshall Plan was composed mainly of U.S. government grants and technical assistance to European nations. While private sector actors supplied goods, they were not the main financial source, and the majority of the resources came from official flows.

Today, ODA flows constitute only a small fraction of the total public and private flows to developing countries. This change in the public to private ratio is a recent one: only in the 1990s did private money, composed of philanthropy, remittances, and investment, begin to significantly surpass ODA (Hudson Institute 2012). This paradigm shift offers a great opportunity to reinvent official aid, allowing the aid community to better focus on results, demand-driven development, transparency, and sustainability.

During the latter part of the twentieth century, the aid community saw a rise in popularity of public–private partnerships. Increasing participation from private actors reflects changes not only in the traditional donor countries, but also in developing countries. Over the past thirty years, and particularly in the last decade, developing countries have seen an increase in open markets and open societies (Adelman and Eberstadt 2008). The rise of emerging economies is largely a result of increased economic and democratic growth and is characterized by a more skilled labor force, improved life expectancy, and increased civil freedoms and entrepreneurship. In turn, communication technologies have produced a means to access the local talent and local organizations with which private-sector entities can partner.

Furthermore, private actors in emerging economies and developing countries are themselves taking on a larger role in the assistance process. With recent economic prosperity in emerging economies, these countries are developing not only their own government aid

strategies, but also philanthropic initiatives domestically and abroad. In addition to philanthropy, remittances continue to rise and contribute to the disposable incomes of individuals in developing countries. Diaspora communities as a whole have engaged in philanthropic activities, and diaspora philanthropy has caught the attention of policy leaders in donor and developing countries alike.

Private actors have provided new and rising cash flows domestically and across borders. These private flows have fundamentally transformed the way foreign aid is delivered: the private sector, with more flexibility and higher risk tolerance, is more likely to fund programs that government aid may not.

Not only have private actors changed the architecture of aid, but new strategies are changing the way aid is being delivered. Traditional, grant-making foundations are embracing program-related investments; corporations have gone beyond traditional corporate social responsibility to promote a shared-value approach and corporate volunteerism; investment funds are taking on mission-related investing; businesses are working to reach a double bottom line; remittances are being pooled into development projects and used for securitization; and diaspora bonds are being issued to raise capital. With the large contributions from the private sector, it is critical not only to include private actors in development strategies, but to stay current on the continuing changes within the private aid delivery system and its best practices.

This chapter will cover the value of private flows, the actors involved, future developments in private sector involvement in foreign assistance, and the impact of private flows on the development landscape.

Financial Flows to the Developing World

Official development assistance currently consists of government flows from twenty-three Development Assistance Committee (DAC) members, with Korea being the newest member. According to the Organisation for Economic Co-operation and Development (OECD), total ODA flows have been steadily increasing since the 1960s. According to the OECD, in 2010 ODA was at its highest ever, exceeding $128 billion. Despite the recession, many nations continued to increase their assistance packages.

The OECD and the international aid community set targets and encouraged donor nations to increase their aid packages. In the 2002 Monterrey Consensus, developed countries were urged to increase their government assistance to 0.7 percent of their gross national product (GNP) (Clemens and Moss 2005). The call for this increase was based on the assumption that more government funding for international development would help the world reach the Millennium Development Goals. Thus far, only five of the twenty-three traditional DAC donor nations have reached the 0.7 percent target; however, ODA in absolute amounts has been increasing and has held steady at over $100 billion per year since 2005 (Hudson Institute 2012). ODA is composed of more than just cash flows. Critics of aid have noted that much of ODA is not actual cash, but rather debt forgiveness and technical assistance (Kharas 2008). In fact, analysis of the $107 billion of aid flows in 2005 determined that only $38 billion of that was composed of funds for projects on the ground in developing countries (Kharas 2008).

While DAC donors' goals continue in support of increasing ODA, non-DAC donors and private sector actors have filled many of the financing gaps in foreign assistance (Desai and Kharas 2008). Private financial flows (including philanthropy, investment, and remittances) far exceed ODA, and now dominate the development landscape (Hudson Institute 2012). This paradigm shift from government to private flows will become even more substantial in the future as private flows continue to rise. Figure 47.1 shows the steady rise of private flows from the traditional DAC donor countries over the last twenty years. As demonstrated, the private monies took off with unprecedented momentum in 1991 and will likely continue to far outpace ODA, making government flows a minority shareholder in the development landscape. Figure 47.2 shows the breakdown of the private flows into the three components: investment, remittances, and philanthropy. Of the $575 billion in 2010 private flows, private capital investment is the largest and the most volatile. However, even if this market-dependent source is excluded, remittances and philanthropy combined are nearly double government aid.

While remittances are not philanthropy, they are a substantial private flow with demonstrable effects on poverty reduction. During the recession in 2008–10, remittances held at remarkably steady levels. Moreover, on a macroeconomic scale, countries are beginning to use remittance inflows as collateral to improve nations' creditworthiness for access to capital markets (Ratha 2006). Figure 47.2 shows remittance flows from donor nations to developing countries; however, South–South remittance flows have also grown substantially in the past decade. The World Bank reports that nearly 50 percent of all migrants from the South reside in a nation which is also considered to be in the South (Ratha and Shaw 2007). While remittances from developed to developing countries in 2010 amounted to $190 billion, total remittances to developing countries are estimated at $371 billion, thus demonstrating that almost half of remittances come from South to South migration. The cost of remittance transfers has

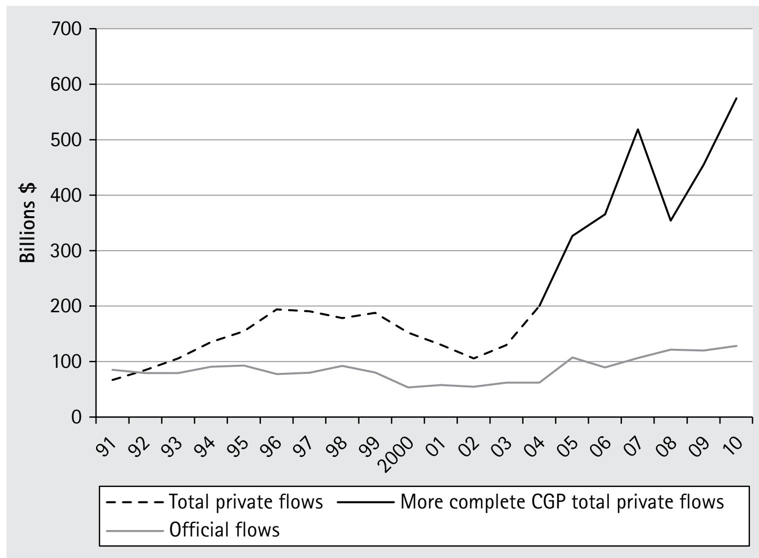

FIGURE 47.1 Total official and total private flows—philanthropy, remittances, investment—from OECD donor countries to developing countries, 1991–2010

Source: Data from Center for Global Prosperity (CGP).

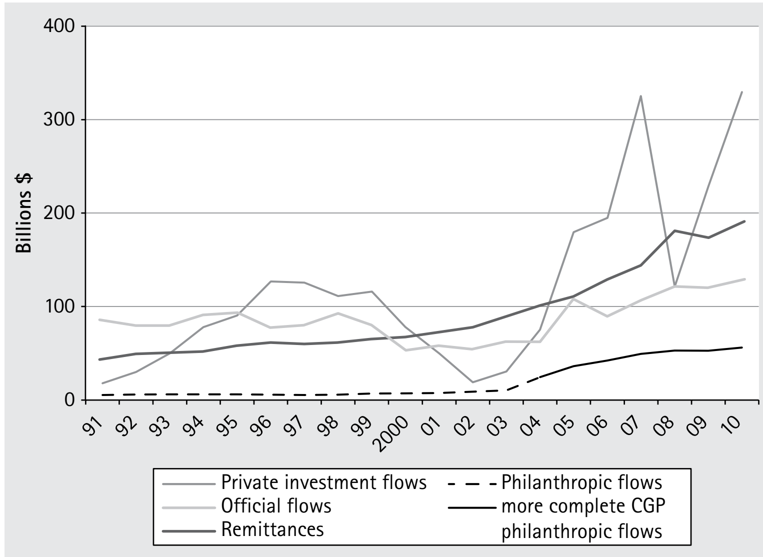

FIGURE 47.2 Official, private investment, philanthropic, and remittance flows from OECD donor countries to developing countries, 1991–2010

Source: OECD, Hudson Institute's remittance calculations from DAC donors to DAC recipients based on data from the World Bank's Migration and Remittances Team's Bilateral Remittance Matrix, 2010, Hudson Institute, 2005–12. Data from Center for Global Prosperity (CGP).

decreased substantially in the past decade, allowing for migrants to transfer money securely regardless of their base location.

Philanthropy involves numerous actors, including foundations, private and voluntary organizations, corporations, religious organizations, and volunteers. In traditional donor nations and emerging economies, private relief and development assistance travel through a variety of channels. Philanthropy data for the U.S. are more complete than for other countries. According to recent data, U.S. philanthropy going to international relief and development causes amounted to $39 billion in 2010, outpacing U.S. ODA by nearly $10 billion. This philanthropic value is composed of $7.6 billion from corporations, $4.6 billion from foundations, $14 billion from private and voluntary organizations, $7.2 billion from religious organizations, $3.7 billion in volunteer time, and $1.9 billion in private financial assistance to students. International philanthropy from the other twenty-two DAC donor nations in 2010 is estimated at $17 billion (Hudson Institute 2012), although this amount is under-reported because not all DAC donors adequately measure private giving. The total value of global philanthropy is even harder to estimate, as there are even fewer data on philanthropy from emerging economies.

As research into measuring philanthropic flows improves, other donor countries' governments may also begin to value the size and opportunities that this financial flow offers, leading to better measurement and publicity. The UK government has already appointed a Philanthropy Ambassador in an effort to engage the philanthropic community and promote philanthropic activities. The Japanese government, in collaboration with Osaka University, has also begun measuring private giving.

The rise of philanthropy goes beyond the borders of traditional donor nations. Emerging market economies such as China, Brazil, India, Russia, and South Africa, with economic growth and the emergence of high net-worth individuals, are also seeing a rise in giving. In India, individual giving increased by 50 percent from 2006 to 2011, and more high net-worth individuals are beginning to establish foundations (Sheth and Singhal 2011). Younger family members are playing an active role in the launching of these foundations and in local development. Similarly, after the 2008 earthquake in China, the Chinese upper and middle classes were encouraged to give through a remarkably well-organized Internet and mobile campaign launched by Chinese movie star Jet Li. In Brazil, corporate philanthropy has been on the rise for the past decade, and in 2012 Brazil's Institute for the Development of Social Investment formed a partnership with the Global Philanthropy Forum to further work in increasing Brazilian philanthropy. Similar trends are seen in Russia and South Africa.

Organized philanthropy, which in the past has been considered an American tradition, is now rising in various forms in both developed and developing countries, and is increasingly being channeled to international efforts. These indisputably substantial philanthropic flows are being developed by a variety of actors. Understanding the role of private actors in relief and development and the resources they bring to the table is valuable in order to develop best practices in aid projects and to reassess the changing role of government assistance in foreign financial flows.

Private Actors

Foundations

Although private aid is delivered through a number of channels, the international development community and the public often focus specifically on the role of foundations in development, particularly with the rising influence of certain large foundations. According to the Foundation Center (2011), the U.S. foundation sector has grown tremendously in the past few decades, increasing from 22,000 foundations in 1980 to 76,000 in 2008. Similar growth has also been observed in Europe and to a lesser extent globally. Nevertheless, U.S. contributions from foundations to relief and development causes are relatively small compared to contributions from corporations, religious organizations, and other private and voluntary organizations. Foundations constitute only 12 percent of U.S. global philanthropy (Hudson Institute 2012).

Traditionally, family foundations have led the way in international giving. In 1913, well before the Marshall Plan era, the Rockefeller Foundation launched research into yellow fever in Africa, leading to the development of critical vaccines used today. The foundation continued to support medical research in Africa through the 1960s and 1970s (Rockefeller Foundation 2013). Later, in the 1990s and 2000s, the Rockefeller Foundation supported Product Development Partnerships, which were first-of-their-kind initiatives aimed at controlling infectious diseases globally by partnering with organizations across sectors. Since the 1990s, the public–private partnership model has been embraced by foundations, corporations, and governments in a variety of sectors.

Foundations were pioneers in demonstrating that private actors can have a pivotal role in development, particularly because foundations tend to be more flexible than government agencies and able to take on greater risk in testing out new ideas. For example, Grameen Bank, a microfinance institution started in Bangladesh, came to fruition largely as a result of seed funding from the Ford Foundation. Similarly, the Bill & Melinda Gates Foundation has taken numerous initiatives in the field of vaccine research, contributing $10 billion over the course of ten years. Both of these initiatives carried larger risk than traditional government aid models could handle.

The dominance of Gates, as an example of the impact a single private actor can have, has been received with both applause and criticism. More than half of foundation giving in international aid comes from the Bill & Melinda Gates Foundation ($2.7 billion in 2008). While this spending surpasses the ODA contributions of nine of the twenty-three DAC donor countries, it is still small compared to U.S. total philanthropy of $37 billion. The Bill & Melinda Gates Foundation's ability to create "convergence" on its priority areas is undeniable (Tompkins-Stange 2011). Through the sheer volume of funding, the Foundation has been able to invigorate entire areas of health research. Aside from funding initiatives, the Foundation has been successful in driving policy toward its own key interest areas (Freschi and Shaikh 2011).

Because the Bill & Melinda Gates Foundation is a single donor with such a large contribution, critics have noted that the Foundation can easily create a monopoly through its ability to set the agenda, particularly in global health: of the $2.7 billion that Gates spent on international programs, 60 percent was directed at global health programs. Before this, spending on global health was largely focused on maternal child health and primary health care. After Gates, global health funding increased dramatically in HIV/AIDS, tuberculosis, malaria, and other infectious disease-based programs. Notably, President George W. Bush's significant focus on these same diseases paralleled the Gates Foundation's efforts. Some of the criticisms of the Gates Foundation started in 2008, when the head of the World Health Organization's malaria program, Donald G. McNeil Jr., noted that Gates' dominance in funding of malaria research has led scientists to depend on the success of their peers to continue receiving funding, thus compromising the peer-review process (McNeil 2008). The Foundation has helped revive research into malaria eradication and vaccine development. Before 2000, malaria spending was less than $100 million annually, yet over the following eight years the Foundation alone allotted over $1 billion to this cause.

In addition to their influence over agenda setting, foundations have been questioned about the transparency of their activities. In order to qualify for tax-exempt status, foundations in the U.S. are required to report overall disbursement figures to the Internal Revenue Service. However, they are often left to their own discretion in determining the level of reporting they want to pursue beyond the required basics. The Gates Foundation has been criticized for its lack of reporting on its decision-making process, measuring results, and reporting successes and failures (Freschi and Shaikh 2011). Despite the drawbacks, foundations working in relief and development often have more flexibility with their spending, and can devote large sums of money to causes over long periods of time. Foundations with significant assets can direct larger sums of money to single initiatives and make a significant impact in a specific area, while government aid may be distributed over a wider range of initiatives and regions. Foundations today have taken on more entrepreneurial approaches, by applying business techniques to create long-lasting solutions.

While Bill Gates has become the face of philanthropy in the U.S., in emerging economies, high net-worth individuals are also engaging in philanthropy. Perhaps the most famous in Indian philanthropy is the work done by the Tata family, which established the Tata Trusts in 1919. The Tata model of philanthropy focuses on creating long-term institutions, and these trusts have funded a number of hospitals, educational institutes in science research, and a performing arts center. In addition to the Tata family, Azim Premji, chairman of the Indian tech company Wipro, created his own foundation in 2001 in order to improve education. Much of this foundation's work in elementary school education is done in public–private partnership with the Indian government. Like the movement in the U.S. foundation sector, the Azim Premji Foundation has committed to measuring outcomes and remaining transparent. In addition, the Shiv Nadar Foundation and the Bharti Foundation, both initiated by high net-worth individuals, work on education issues.

Philanthropy in other emerging economies is also on the rise. According to the Foundation Center (2011), foundation spending in Brazil amounts to $2 billion annually. In China, economic growth has given a number of individuals a billionaire status. While Chinese philanthropy is highly regulated, the value of total giving has more than quadrupled since 2006, and high net-worth individuals are becoming increasingly active in philanthropy. For example, Yu Pengnian, a real estate developer, donated $1.2 billion through his charity, which focuses on health and education. In Russia, where philanthropy has only recently become part of mainstream society, a similar trend is seen with high net-worth individuals establishing foundations. The public's growing trust in Russian charities has enabled greater involvement by these private institutions in domestic issues such as HIV/AIDS and tuberculosis, orphan care, and education. This rise in local philanthropic activities demonstrates that solutions are beginning to grow locally from both the public and private sector in developing countries.

Philanthropy is beginning to bloom in Africa as well. However, much of Africa's giving is limited to the continent's emerging economies, such as South Africa and Nigeria. Besides local philanthropy, African diaspora members abroad are launching foundations to work in their countries of origin. Mo Ibrahim, who is Sudanese-born but now resides in the UK, launched his foundation in order to promote better governance and democracy in Africa. The Mo Ibrahim Prize is awarded annually to African leaders who demonstrate fairness and good leadership while in office. In addition to the prize, the Mo Ibrahim Foundation offers educational scholarships to young Africans.

While foundations in emerging economies vary in size and activities, they do share some similarities. For example, there is a large focus on institution building, particularly in education and health, both areas in need of improvement in developing nations. This focus is intuitive, and demonstrates that philanthropists abroad are in tune with the needs of the population, especially in areas where the public sector may fall short.

Private and Voluntary Organizations

The non-profit sector in donor countries and recipient countries has increased tremendously. From the late 1990s, the number of non-profits in the U.S. has grown by 60 percent in a span of a decade. In 2004–5 the U.S. non-profit sector brought in $1.6 trillion in revenue; $300 billion per year is estimated to come from private donors, the majority of them

individuals (Kapur and Whittle 2010). Individual giving to organizations comprises a large portion of the $14 billion in private spending on international development causes. This figure excludes donations from foundations and corporations, which are attributed directly to those sources. Members of InterAction, a coalition of U.S.-based international relief and development non-governmental organizations (NGOs), report increasing activities with the private sector in partnerships that exclude the government (InterAction 2011). In addition to short-term humanitarian work, the majority of InterAction members are focusing on long-term solutions in their programming. Furthermore, NGOs are working across sectors and are partnering with local institutions (Kharas, Makino, and Jung 2011). Civil society is growing internationally as well, providing opportunities for a local voice in international development projects. During the 2008 High Level Forum on Aid Effectiveness (held in Accra, Ghana), 360 civil society organizations from eighty countries were recognized as independent "development actors in their own right." Civil society groups were also represented at the 2011 High Level Forum on Aid Effectiveness (held in Busan, South Korea). The declaration from this meeting states that civil society is vital in implementing development policies.

The rise of numerous private actors in development and the resulting possibility of fragmentation have caused concern among some policy-makers. Although there are significantly more private actors than governments, the NGO sphere, like the foundation sector, is dominated by a few large institutions. The largest NGOs have annual budgets surpassing $100 million, and some, like World Vision, have budgets in the billions. These organizations have thousands of employees worldwide, a history of working with local governments, and the capacity to perform extensive monitoring and evaluation of their projects. Furthermore, NGOs, working through civil society networks, prefer to implement initiatives by using local groups.

The rise of technology and other convenient methods to promote individual giving have helped civil society continue to grow, particularly in relief and development. The 2010 Haiti earthquake brought increasing attention to individual givers equipped with mobile technology: it is estimated that individuals gave $43 million to Haiti relief efforts using text messaging, with the majority of individuals donating for the first time (Smith 2012). However, once they had experienced the ease of mobile giving, more than half of the donors made contributions to other disaster relief efforts post-Haiti via mobile phones. Technology and its ease of giving have increased "impulse giving," or making a small contribution on the spur of the moment without doing significant research. While individual contributions are small, the sheer number of people with a cell phone can result in contributions totaling millions of dollars. The "Text for Haiti" campaign is an example of a fundraising strategy used by NGOs and aimed at individual donors in response to an event. Besides specific campaigns, numerous online platforms have been developed to make it easier to reach local non-profits. For example, GlobalGiving.com vets organizations to ensure that small NGOs abroad are using the funds appropriately. Similarly, Kiva.org works through an online platform to provide microloans to individuals.

Improved technology has eased financial transactions, increased the speed of giving, and improved communications, allowing non-profits to target donors on an individual level—a vast difference from the traditional grant-seeking model in which NGOs sought out funds from government agencies or large foundations. Platforms such as give2asia.org have begun targeting individual and corporate philanthropy to specific geographic regions. These same technologies that are creating new fundraising mechanisms for NGOs may also be used to

advance accountability (Kapur and Whittle 2010). While GlobalGiving.com allows an NGO to tap into a new source of revenue, it also creates external pressure on the organization to maintain a public track record in order to be eligible to continue raising funds through its site.

Sharing best practices among the vast number of civil society groups needs to be encouraged. In addition to creating networks, NGOs have begun to share information and implement geographic information systems (GIS) technology to map their activities. During the aftermath of the Haiti earthquake, organizations working in the area provided detailed activities of their projects and locations. This information was then fed into a publicly accessible online Haiti Aid Map. Such information sharing not only provides a way to coordinate efforts, but helps hold organizations accountable to their donors. The increase in private funding to relief and development has enabled non-profit organizations working in this sector to employ innovative techniques in fundraising, reporting, and project implementation.

Corporations

While foundations and other civil society organizations are often considered the more typical non-governmental actors in relief and development, corporations have also worked in this space for decades. This involvement has been through a variety of methods, including direct cash contributions, in-kind donations, corporate foundations, employee volunteerism, and employee matching programs. Corporate interest in international philanthropy continues to grow. According to the Committee Encouraging Corporate Philanthropy (CECP), as companies expand their business operations abroad, their international philanthropic activities also expand (CECP 2012).

The highest dollar value of corporate involvement in relief and development is given through in-kind donations within the health sector. Such giving has a long history, especially among U.S. pharmaceutical companies. One of the first successful public–private partnerships was in combating river blindness, a neglected tropical disease prevalent in some of the poorest regions of the world. The partnership between Merck, a variety of multilateral organizations including the World Health Organization (WHO) and the World Bank, and international and local communities was launched in 1987. Today, it is one of the largest medical donation programs. The partnership has provided over 500 million treatments to individuals living in the most remote areas of the world. Traditional medical donation programs for neglected tropical diseases, tuberculosis, malaria, and HIV/AIDS remain popular, and over 90 percent of the $7.6 billion in U.S. corporate giving is attributed to in-kind pharmaceutical donations of drugs for these and many other diseases. While other industries also engage in significant philanthropy, drug donations are higher in value and easier to measure and report than other forms of corporate contributions.

Outside of the U.S., corporate social responsibility (CSR) has gained significant traction. For example, in China, while 20 percent of philanthropic contributions come from individuals, the majority of the balance comes from corporations. Chinese firms engage in corporate social responsibility both in China and abroad, particularly in Africa, where CSR initiatives improve the public perception of Chinese firms. Indian companies are also active in CSR and are estimated to have spent $7.5 billion dollars in initiatives in 2006. In India there is great overlap between corporate foundations and family foundations.

Social responsibility in Brazil has also become popular over the last decade. In 2010 alone, top Brazilian companies gave over $1 billion to causes such as education and community development. Arguably, CSR in Brazil has outstripped traditional philanthropy, to a point where it is now expected of companies. The majority of Brazilian grant-makers were formed by corporations. In contrast to the U.S., corporate foundations in Brazil channel a greater portion of their grants to managing programs directly, as opposed to giving grants to NGOs. In Russia, corporate philanthropy is also relatively high and is estimated to constitute 70 percent of the value of all charitable donations in the country. As in Brazil, companies in Russia are open to corporate giving, with many setting up social funds for charitable purposes.

Today's corporate involvement is moving beyond traditional philanthropy toward more inclusive business models and a shared value approach where companies create good in a society while building shareholder value. Through a shared value approach, businesses redefine their products in order to benefit the community at large, reconsider energy and resource use in value chain production, and contribute to developing local businesses. For example, Nestlé, which has coffee growing production in Latin America, built up local businesses that produce agricultural inputs such as fertilizer in the regions the company operates. Building up local business operations has both created more jobs in the community and helped Nestlé with its coffee growing operations. The involvement of corporations in development has come a long way from the precedent set by Western pharmaceutical companies. Corporate philanthropy and social responsibility have now permeated globally, and are viewed as beneficial not only by the recipients of corporate initiatives but by the corporations themselves.

Religious Organizations

Globally, religious organizations have long played a dominant role in poverty relief efforts. Measuring religious contributions can be a challenge, as in many countries religious organizations, unlike foundations and non-profits, are not required to report donations or tax data to the authorities. U.S. religious organizations are estimated to contribute nearly $8 billion annually in cash donations and volunteer time through mission trips. In addition to cash donations, members travel to developing countries on short-term and long-term service trips. Since the First World War, U.S.-based faith-based organizations (FBOs), such as Catholic Relief Services and Lutheran World Relief, have been active in community development both domestically and abroad. Today, FBOs continue to play a large role in relief and development, and their number has increased in the past decade, in both developed and developing countries. Some estimates show that as much as half of the education and health provision in Africa is done by religious organizations and churches (Marlink and Teitelman 2009).

While FBOs by definition have a religious affiliation, their activities are not always geared toward the promotion of religion. A study of FBOs that work with the UN Economic and Social Council found that almost 50 percent of these organizations have a dominant field of work that excludes religious promotion, such as a focus on education, health, environment, and other services (Petersen 2010). Besides FBOs, religious giving also encompasses relief and development activities taken on by U.S.-based churches, some of which have networks that span countries and continents. For example, Saddleback Church has over 400,000 churches in its worldwide network. Through its members, the church has been addressing health issues such as tuberculosis and HIV/AIDS. While FBOs receive some government

funding, studies show that the greater portion of FBO revenue comes from individual giving. Churches, more than FBOs, rely on individual contributions. Thus, religious giving remains a top channel for individuals, whether based in developed or developing countries, to contribute to improving lives at home or abroad.

Volunteerism

While volunteerism is not reflected in traditional cash donations, individuals contribute significant amounts of time to relief and development. In the U.S. this value amounts to nearly $4 billion annually (Hudson Institute 2012). Researchers in other countries have also found significant contributions in volunteer time from their citizens. In Japan, the annual value of volunteer time donated to international activities is estimated to be over $2 billion. In addition to short-term volunteering activities, many NGOs and faith-based organizations rely on skilled volunteers for long-term work. For example, Mercy Ships depends heavily on highly skilled volunteers for many of its health care operations. Doctors Without Borders, Engineers Without Borders, and even Clowns Without Borders all rely on volunteers who donate their time to relief and development abroad.

With increased globalization of multinational corporations, cross-border corporate volunteerism has also been on the rise. Companies are beginning to offer fellowship programs in which the company covers expenses and provides paid time off for the volunteering employee. Such programs run on an ongoing basis or respond to an unexpected disaster. IBM, through its corporate volunteerism program, has deployed volunteers during numerous disasters in the past decade. Other companies, such as GE, have provided volunteers within their sector for help in electrical maintenance and water purification activities. Whether short-term or long-term, NGO-affiliated or corporate, volunteerism continues to be a substantial resource to international relief and development causes.

Evolution of Private Aid Delivery

With technology and increased emphasis on social entrepreneurship, private aid delivery methods are themselves transforming (Bishop and Green 2008). In addition to e-philanthropy, cause-related marketing, remittances, public–private partnerships, and new financial vehicles are blurring the lines between typical investment and traditional philanthropy. These new means for private actor involvement include socially responsible investing (SRI), program-related investing (PRI), mission-related investing (MRI), and social enterprises.

Socially responsible investing (SRI) is a form of investment that avoids companies that may negatively impact the environment or society as whole. While SRIs are traditional investments with a return, the screening component provides an incentive for companies to incorporate social benefit into their bottom line. SRIs are not limited to developed countries: according to the Emerging Market Disclosure Project (SIF 2012), socially responsible investing is rising in emerging markets as well, especially in Brazil and South Africa.

Program-related investments (PRIs), unlike SRIs, are closely linked to charitable activities of an organization and are strictly defined in the U.S. by the Internal Revenue Service. These

capital investments are made by foundations to support philanthropic activities that have the potential to return the capital within a certain timeframe. Unlike grants, PRIs have a return on investment through repaying loans or returns on equity. The main purpose of PRIs must be consistent with the purposes of the foundation, and the main purpose of the investment cannot be to produce a profit. Thus, many PRIs have below market returns.

Impact investing or mission-related investing (MRI) occurs when capital is invested in projects that seek to generate societal change and financial returns with the ultimate goal of creating a larger impact than can be achieved by philanthropy alone. Impact investing and MRIs do not screen companies based on negative impacts; rather, they focus on finding a positive societal benefit in addition to the profit.

Social enterprises refer to non-profit or for-profit organizations that operate using business strategies to advance the organizations' social goals. Unlike corporate social responsibility programs, social enterprises create products that aim to directly impact disadvantaged populations in accordance with the enterprise's mission.

Impact of Private Actors

Private flows and the increased involvement of private actors in development have helped rectify some of the critiques of bilateral and multilateral government aid. Private aid has brought to light the value of creating partnerships across sectors and with local institutions, where numerous groups have a stake in an initiative. Increasingly, private and government aid donors and analysts are documenting the progress of private aid programs, including the Center for Effective Philanthropy and the International Finance Corporation. The Hudson Institute (2012) has published an annual *Index of Global Philanthropy and Remittances* which documents successful private aid programs and public–private partnerships.

Private aid, however, is not without its detractors. While there is reason to believe that private aid may be more cost effective than government aid, through the use of volunteers and lower overheads, evaluations to measure this claim are largely lacking (Desai and Kharas 2008). For example, evaluations of NGOs are often self-performed and tend to highlight the positives, not failures. One website, <www.admittingfailure.com> shares personal accounts of failed or problem projects. While this is not a comprehensive, systematic look at failures, it is a step in the right direction.

Private aid has been critiqued for its lack of evaluation. Michael Edwards notes (Edwards 2011) that foundations lack transparency and are insulated from public criticism. Tending to set and follow their own specific priorities can limit their flexibility in responding to new problems and creative approaches. The Millennium Villages Project, a massive public–private partnership funded by foundations, national and local governments, corporations, and partner organizations, was critiqued for overstating results that could have occurred from overall economic growth, independent of project interventions. The drop in child mortality in the pilot villages was slightly less than the drop in the region as a whole (*The Economist* 2011). In the early phases, the project was criticized for failing to include control villages for comparison. Thus, when positive results were proclaimed, they were attributed to the project, not controlling for an overall improvement in the region.

In addition to measuring effectiveness, the multitude of players within a single partnership program can create its own problems. For example, a case study of the decade-long Partnership for Higher Education in Africa (2010) funded by a number of leading U.S. foundations found that participants lacked clarity and understanding of overall goals of the partnership, which very broadly aimed to improve higher education on the continent. Furthermore, lack of coordination among a large number of participating organizations hindered decision making and lengthened program implementation. Large partnerships often face different standards and cultures among organizations, which can create communication barriers and slow the progress of programs.

When numerous actors are engaged in private aid, they can add to an already fragmented foreign aid system. As scholars at the Brookings Institution point out: "Multiple donors will make requests for studies and for individual meetings with country officials; these donors will establish separate project-management units and multiple procurement practices for the same products; and they will be unable to coordinate to identify and propagate best practices" (Desai and Kharas 2008). Fragmentation of private aid among different groups can also lead to volatility in the disbursements of funds to recipients, impeding long-term institutional improvements.

Both public and private actors are facing pressure to be more flexible, demand-driven, and accountable. The role of flexibility is particularly pertinent as changing demographics and economies mean countries are faced with new and more complex development challenges. For example, today's developing world is suffering not only from infectious diseases, but from chronic diseases such as cancer and diabetes, and donor organizations need to adapt to this change. Programs that are demand driven, as opposed to only donor or government initiated, have proven to be more successful and sustainable. Private aid has shown that one way of tapping into such demand is using improved communication technologies; local individuals and NGOs are closer to the needs of their communities. As seen with organizations such as GlobalGiving.com and Kiva.org, individuals and NGOs that are based in-country can now raise funds abroad via individual-to-individual channels, bypassing traditional intermediaries in the aid architecture. Communication technology has lowered the cost of creating feedback loops by collecting information directly from beneficiaries. Moving forward, competition among non-profit organizations may increase as each tries to produce better results in rating agency rankings, knowing that a higher ranking may encourage donors to provide more funding.

Conclusion

The changing economic and demographic landscape of the developing world, the increase in the skilled labor force, the emergence of new private players and approaches to delivering foreign aid, and limited evidence of official aid impact on economic growth suggest that ODA requires a new business model to reflect a new developing world and new expectations of aid (Adelman and Eberstadt 2008). Government aid can be leveraged with organizations that put in their own resource contributions from private sources. Competing organizations can be assessed by governments based on their proposed

projects' economic and social impact, local ownership, partnership with local institutions, and achievement of community self-reliance. Too often, the focus on "fixing" official aid is dominated by discussions of the volume of resource commitments, organizational structure, and the coordination of objectives and players among various donor countries. Such thinking is conceptually trapped within a world that existed fifty years ago, when the public sector was the leading player in financial flows to developing countries. Today among DAC members, this is no longer the case: private flows in the form of philanthropy, remittances, and investment have made government flows a minority shareholder.

While the resource shift does not make government aid irrelevant, it does call for a change in the ways it is delivered. One solution may be to have governments acting more as conveners of resources, where they can help leverage successful private endeavors and facilitate introductions and regular substantive consultations among private-sector actors in global development.

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CHAPTER 48

THE WORLD TRADE ORGANIZATION AND DEVELOPMENT

DIANA TUSSIE AND CINTIA QUILICONI

Introduction

The development literature has placed a strong focus on the role of the trade policy regime in growth, and more broadly on the link between liberalization and growth. Country performance in relation to these issues has been the subject of controversy for well over a century. The debate on whether trade was a handmaiden or an engine of growth was an analytical one before it became increasingly fact-based from the late 1960s onwards, when developing countries were first subjected to intensive scrutiny in the heat of the center–periphery debates. This chapter will not touch on the debate but review the road taken in a stylized fashion. The aim here is not to elaborate on any of these vast and complex topics, but rather to show interconnectedness as well as the most significant ways in which the trade regime has acted and reacted to the evolution of ideas on development.

Global trade was worth almost US$15 trillion in 2011. This figure represented almost a third of global production, a comparison that is meant to show the relevance of trade for development. Thus, traditionally, developing countries have sought differential and more favorable treatment in the General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO) with a view to increasing the development relevance of the trading system (Hudec 1987; Finger 1991). But the multilateral trade regime did not incorporate development concerns until the Doha Development round, which paradoxically has, since its launch in 2001, contained the seed of its own failure, given the focus on development it was supposed to embrace.

A country's trade chances depend on a mix of conditions and circumstances based on endowments, internal structures, and the world market context. Policies and internal dynamics matter but they are formulated and implemented within the context of a facilitating or

inhibiting global regime. This context was first marked by the GATT and then by its successor, the WTO, which sets limits and crystallizes trends. As such, what is possible for national policy is set by the trade regime, itself continuously redefined by the negotiating process and the right to litigate. The rules established by the WTO and its predecessor, the GATT, have contributed to the global trade system through the provision of a regulatory framework within which member countries conduct trade and other commercial relations among themselves. This has contributed to a measure of stability and predictability as contrasted to an alternative scenario in which arrangements are dominated by unilateral policies and bilateral arrangements.

If global collective action is to be acceptable, it must result from a bargaining process based on the full and equal participation of parties. However, power differentials result in rules that sanction an unequal distribution of benefits and conflicting interests. For that reason the trade regime retains heavy overtones of a North–South struggle.

Based on liberal economic theories that assert a connection between open trade and growth, the regime has sought to promote the liberalization of trade, enforced a set of rules and regulations, and served as a forum to settle disputes. The system was originally conceived at the end of the Second World War. Its first expression was the GATT, adopted in 1947 by twenty-three founding members. Between 1947 and 1994, the GATT held a total of eight rounds of tariff reductions, leading to the substantial liberalization of trade in the manufactures of developed countries. The premises underlying import-substitution policies were so widely accepted in the post-war period that they were incorporated into the charter of the GATT. Article XVIII explicitly excluded developing countries from the "full obligations" of industrialized countries and permitted them to adopt tariff and quantitative restrictions. Although the GATT covered a wide array of trade issues, it omitted some crucial trade areas for development, such as commodities.

For most developing economies, the GATT was a "rich men's club" where they did not belong. Round after round of negotiations delivered meager benefits for developing countries. Liberalization remained largely restricted to the large scale operations of industrial countries (Tussie 1988). In 1955 the trade in manufactured products among developed countries had accounted for a third of world trade; by the end of the 1960s this had risen to nearly half. No efforts were made to tackle the issues of trade in primary products. The panoply of tariffs and nontariff barriers on primary products posed severe obstacles for other countries to develop downstream processing. Subsidies ballooned after the Common Agricultural Policy (CAP) of the European Economic Community (EEC) came into being in the 1960s.[1] As subsidies grew unabated, prices were pushed downwards and the developed countries were able to surpass the developing countries in the value of primary product exports. By 1969, developed countries' share of world trade had reached over 80 percent.

This chapter looks at the major aspects of the trading system and its relations to development. The first section addresses how the GATT evolved in its treatment of developing countries. The second section analyzes how the use of special and differential treatment (S&D) has changed over the years. The third section addresses how the imbalance in rule-making became evident with the results of the Uruguay Round agreements and its implementation costs. The fourth section addresses how the debate has moved from the concept of S&D to the discussion of policy space. Finally, we conclude with some reflections about the current governance challenges the WTO faces today.

The Early Years

From the day the GATT was established, developing countries emphasized the uniqueness of their development problems and challenges and their need to be treated differently. However, the system did not take into account their development needs except for granting them a list of exceptions that was systematized under the S&D treatment until the late 1970s.

The GATT revision of 1954–5 marked the first time provisions were adopted to address the needs of developing countries as a group. Three main provisions were adopted, two of them related to Article XVIII reflecting the argument that developing countries would be more prone to face balance of payment instability over an extended period of time; Article XVIII B was revised to include a specific provision to allow countries at "an early stage of their development" to adopt quantitative restrictions on imports whenever monetary reserves were deemed to be inadequate in terms of the country's long-term development strategy. At the same time, Article XVIII C was revised to allow impositions of trade restrictions (tariffs and quantitative restrictions) to support infant industries. In 1961, the GATT adopted the *Declaration on the Promotion of Trade of Less Developed Countries*, which called for preferences in market access for developing countries not covered by preferential tariff systems such as Commonwealth.

In 1964, Part IV of the GATT—entitled "Trade and Development" was adopted—providing a specific legal framework for developing countries. This Part IV includes three new articles. Article XXXVI established that parties should provide "in the largest possible measure more favorable and acceptable market access conditions for products of export interest to developing countries" (particularly primary products and processed goods), while stipulating at the same time that developing countries should not be expected to make contributions inconsistent with their level of development. In addition, Articles XXXVII and XXXVIII called for improved market access for products of export interest to developing countries.

In sum, a pattern evolved in these early years in which on the one hand the GATT accommodated developing countries' desires not to liberalize their import regimes based on infant industry grounds and balance of payments reasons, but on the other hand failed to take action on questions of market access to developed countries as well as commodity price stabilization. The GATT Committee on Trade and Development was a forum to discuss developing country issues but not to negotiate legal commitments in their favor, as many developing countries were not part of the GATT or participated only minimally in its deliberations. Developing countries did not see the GATT as a primary forum to debate their trade concerns; during those years they lobbied instead at the United Nations Conference for Trade and Development (UNCTAD).

With UNCTAD's support, developing countries succeeded in establishing the Generalized System of Preferences (GSP), which essentially provides an exemption from the most favored nation principle (MFN), with the purpose of lowering tariffs for developing countries on a basis of voluntary preferences granted by developed countries. Among other concerns, developing countries claimed that MFN was creating a disincentive for richer countries to reduce and eliminate tariffs and other trade restrictions that could benefit developing countries. In 1971, the GATT issued an official waiver that permitted developed countries to grant tariff preferences to developing countries for an initial ten-year period, and

another waiver allowing developing countries to grant preferences among themselves. The main argument for this system was that reductions in industrial tariffs in previous rounds of negotiations were not particularly beneficial for developing countries, as most of the products of export interest to them were not covered by the negotiations. This exemption later evolved into the concept of special and differential treatment (S&D) analyzed in the following section.

Rise and Fall of Special and Differential Treatment

By the late 1970s, import substitution provided declining returns in terms of growth and many of its premises came under siege in development circles. The marginalization of developing countries from international trade had concurrently given rise to an active campaign to reform the structure of the international trading system under the leadership of Raúl Prebisch (Dosman 2008). From the UNCTAD which he created, he had advocated the principle of S&D for developing countries.

The first steps towards S&D—that is, asymmetrical treatment or non-reciprocity in international trading rules when they involved transactions between developed and developing countries—were gradually inscribed toward the end of the 1960s to underscore the trade–development link. It allowed positive discrimination for developing countries. S&D had first led to the drafting of Part IV of the GATT on trade and development, and subsequently to the more comprehensive "Enabling Clause" approved in 1979 during the Tokyo Round (Tussie 1988).

The understanding of the meaning of S&D was clarified and written into the fifth provision of the Enabling Clause: "Developed contracting parties shall therefore not seek, neither shall less-developed contracting parties be required to make, concessions that are inconsistent with the latter's development, financial and trade needs."[2] The main development of this principle was the creation in 1968 of the Generalized System of Preferences (GSP) and its implementation in the early 1970s by major industrial countries, based on the waiver to the MFN principle for the GSP approved in 1971. However, the GSP did not turn out as planned: a *generalized* (as its name indicates) system of preferences subject to multilateral supervision. As far as market access was concerned, studies soon indicated that its effects were rather frustrating. Thus, for example, Karsenty and Laird (1987) showed that in 1983 the GSP had increased developing country exports by only 2 percent, with half of those benefits going to the Asian Tigers and Brazil (Whalley 1990).

As for what leeway was allowed to protect their own markets, S&D manifested as benign neglect in terms of ensuring that developing countries' domestic policies conformed to tight regulations. Until the Uruguay Round (1986–94), developing countries were able to keep most of the tariffs unbound at high levels, to use quantitative import restrictions and other mechanisms of trade intervention. Developing countries were also left out of the loop of the codes of conduct on export subsidies, import licenses, and other issues. Drache correctly concludes that asymmetry in the acceptance of rules paradoxically became the institutions'

default option (Drache 2011). In practice, the "development dimensions" of the global trading system continued to be a bone of contention.

A key factor in the global environment all through the 1980s was, of course, the change of perception in the development debates about the virtues of import substitution versus export-led growth. In the orthodox interpretation that gradually gained ground, protection was increasingly viewed not only as leading to inefficient allocation of resources but also as a source of the "anti-export biases" that blocked growth. The interpretation of trade as adjustment to market forces turned the tables from a development approach to trade policy to one in which trade liberalization became the path to development. It was most compellingly articulated by Anne Krueger (1974), and when she became Chief Economist at the World Bank it became the official World Bank doctrine in the 1980s. This implied a view of protection and export promotion as stark alternatives rather than complementary strategies, and was based on a particular interpretation of East Asian success with export-led growth, which emphasized "neutral incentives" rather than state intervention, in sharp contrast to the interpretations by Amsden (2001), Chang (2003), and Wade (2003), among others.

Mexico's accession to the GATT in 1986 was the turning point. The country agreed to bind all of its tariff schedule and sign four of the six codes of conduct of the Tokyo Round, a significant departure from the typical pattern in the late 1970s and early 1980s, when countries that joined the GATT were only required to bind a next to negligible proportion of their tariff schedule and did not have to abide by any of the codes. As the tide turned, a host of countries, particularly in Latin America, turned to outward oriented growth in an effort to emulate the success of Southeast Asia. By the time the Uruguay Round of the GATT closed in 1994, countries were snatching the multilateral agenda as a means to lock in freshly acquired taste in trade policies or as an element to throw into their "package of concessions" as a lever they could use to prise open closed markets. With this new thrust came an acceptance both of rules and of tariff reductions for the first time. Certainly, in previous rounds, countries that had already joined the GATT had either stood on the sidelines or had pressed to be released from rules. But when the Uruguay Round closed in 1994, all countries extended their "bindings" to almost all tariff items. The Uruguay Round also gave birth to the successor of the GATT, the World Trade Organization (WTO), which was established through the Marrakesh Agreement in April 1994. It incorporated the GATT's principles and added a strong enforcement mechanism through its dispute settlement system.

The preamble to the 1994 Marrakesh Agreement establishing the WTO states that "trade and economic endeavor should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand . . . in accordance with the objective of sustainable development." It further recognizes the need to "ensure that developing countries, and especially the least developed among them, secure a share in the growth of international trade commensurate with the needs of their economic development."

In any case, and leaving aside the conceptual debate on development policies, it was increasingly clear that those developing countries that relied on export-led growth now had a growing interest in a better multilateral trading order per se. It also meant that industrial countries increasingly saw them as competitors, and were thus reluctant to grant them S&D. Turning the tables, developed countries now called for a "level playing field" (Bhagwati 1995).

New Rules, Novel Concerns, Fresh Approaches

Imbalanced Rules

Despite the cumulative efforts countries made to play by the rules and accept blanket obligations, they came out sorely disappointed. Countries soon learned that acceptance of the rules of the game (including their own liberalization) did not translate automatically into leverage, as they found it difficult to decisively influence the process of agenda setting and to shape the final outcome of negotiations. Over the first decade and a half of the WTO, while the call for a level playing field gained ground, developing countries made efforts to put forward technically substantive negotiating positions, no longer accepting the WTO principles, rules, and processes uncritically.

First, they showed how the rules and outcomes of negotiations were imbalanced against their interests. The expansion of the agenda under the Uruguay Round, through the introduction of the then new issues, made the system even more imbalanced, as well as constraining of the domestic policy space as the system moved from its traditional concern with trade barriers at the border to issues involving domestic economic and development strategies and policies. Many developing countries have complained that the benefits they anticipated have not materialized, particularly in the area of agriculture. While developing countries reduced tariffs, increased bindings, and agreed to tighten rules on intellectual property and get rid of export subsidies, they did not gain much in terms of improved market access.

In agriculture, even after a reduction by 36 percent, which was the set obligation, in order to retain room to maneuver, many products ended up with higher levels of protection than applied prior to the Uruguay Round. For example, the following *ad valorem* tariffs were identified by the European Union (EU) as base rates: rice 361 percent, wheat 156 percent, sugar 297 percent, meat 125 percent, and dairy products 288 percent (Hathaway and Ingco 1995). Subsidies on agricultural products were "bound," that is, could not be increased beyond the specified level, but binding levels were strikingly generous in the amount of water included over and above the leeway to change from restricted to unrestricted categories (the notorious "blue box")[3] and other such loopholes. The following are estimated figures of public support to farmers: in Japan, US$23,000 per farmer; in the EU, US$20,000 per farmer; and in the USA, US$16,000 per farmer.

Before the commodity bonanza that started in 2003, in Japan agricultural subsidies represented 58 percent of the total value of production, and in the European Union and the United States 35 percent and 21 percent respectively. In short, there was meager agricultural liberalization and in many cases there was room for retrogression (Meller 2003). Japan, Iceland, Norway, the Republic of Korea, and Switzerland are among the countries with the highest level of subsidies, and the EU also exceeds the average of the OECD. In some cases, as subsidies shifted from one crop to another the redistribution has actually broken the rules. Thus, in a dispute settlement case involving cotton, the U.S. was found to have wrongly shielded some trade-distorting subsidies within the category of non-trade-distorting,[4] hence permitting subsidies (the so-called Green Box); it was asked to change its policies accordingly.

The developing countries had expected to benefit significantly from the Uruguay Round through increased access to the markets of developed countries for products. This was especially true in agriculture and textiles, sectors in which developing countries have a comparative advantage. These two sectors remained those subject to the highest levels of protection in industrial countries. Tariff peaks continued to be an embedded feature of the system, particularly in these two sectors, and continued to affect in particular developing country exports. About three-fifths of total imports into industrial economies of tariffs that exceed 15 percent (which represent slightly less than 8 percent of these countries' tariff schedules) came from developing countries (Hoekman, Ng, and Olarreaga 2002).

Developed countries' subsidies are partly redundant from the point of view of their domestic markets, to the extent that tariff and nontariff protection make domestic consumers pay higher prices. This is why the computable general equilibrium simulations mentioned above indicate that the relevant issue from the point of view of liberalizing agriculture is actually market access, particularly tariff rates applied beyond the minimum quota of market access. However, developing countries are affected by subsidies in two ways. First, they have to compete with subsidized agricultural goods in their own markets. In this regard, even the full elimination of export subsidies, as proposed during the Doha Round of negotiations, may hardly solve the problem, so long as production subsidies equally allow producers to sell below production costs. Second, developing countries lose export opportunities in third markets. This is particularly true of cotton, where world market distortions are essentially generated by production subsidies in the U.S. (Khor and Ocampo 2011).

Tariff escalation by industrial countries retained substantial loading against imports from developing countries. Much more important for development strategy were the provisions on trade-related aspects of intellectual property rights (TRIPs). All members had to recognize minimum rights for owners of intellectual property, and to establish national enforcement mechanisms. Under these provisions the pharmaceutical industry was able to hold back on making valuable drugs available to developing countries. In the case of Argentina it has been estimated that rents of $425 million per year may have been transferred from domestic to international pharmaceutical industries (Nogués 2005). The right to other policy instruments was also narrowed down and challenged in WTO committees and the dispute settlement mechanism: price bands[5] and simplified drawback schemes (in Chile), price reference system for imports (in Uruguay), export credits (in Brazil), and regional subsidies for tobacco and port development (in Argentina), among others. An underlying reason for the imbalanced outcome was that negotiations were not used to open foreign markets, but as a means of locking in reforms. In this context of enfeebled bargaining power, the world of ever growing continuous negotiations strengthened essential asymmetries, subjecting developing countries to disciplines from which they had previously been exempt. Negotiations often turned out to be opportunities for a combination of structural adjustment packages along a comparative advantage pattern.

Implementation Costs

The implementation problems were the second thrust of the link between trade and development. When the costs of new obligations hit the raw nerve of policy, developing countries identified the multiple problems they faced when implementing their own obligations.

In the run-up to the Seattle Ministerial Conference at the end of 1999, developing countries spoke up at the WTO and tabled papers on the implementation problems, and a group of them prepared a list of implementation issues that they wanted resolved.

This list was included in the draft Ministerial Declaration prepared by the Chair of the General Council. With the failure of the Seattle Ministerial Conference in 1999, nothing was agreed. The developing countries then actively pursued the issue in the process of preparing for the next Ministerial Conference in Doha in 2001: a draft decision on implementation-related issues was prepared, and a compilation of over a hundred outstanding implementation issues and proposals for their consideration was issued.[6]

After the Seattle fiasco, the developing countries made the negotiations on resolving implementation issues their top priority. They asked for priority solutions to these concerns, and wanted to defer proposals of the developed countries for introducing yet more new areas (the Singapore issues) into the WTO mandate. However, the developed countries made it clear they were not interested in discussing the implementation issues, which to them were the result of previous negotiations (the Uruguay Round) whose outcome had already been agreed on. They wanted to push ahead instead with injecting new issues into the WTO.

In the aftermath of 9/11, when the Doha Ministerial Conference was convened, the developing countries held a strong bargaining position and so succeeded in placing implementation-related concerns in four areas of the Ministerial Declaration that launched the Doha Work Programme: First, a separate Doha Ministerial decision on implementation-related issues and concerns was adopted,[7] which addressed several of the problems faced by members. However, the more important and difficult issues remained unresolved, and although this document is supposed to contain decisions to resolve problems, in fact many of them merely refer the particular matter to some WTO body or other for further discussion.

Second, a full section of the Doha Declaration (Paragraph 12) dealt with implementation issues. It mentioned that negotiations on outstanding implementation issues should be part of the Work Program. The outstanding implementation issues and their negotiations are part of the single undertaking, which means that an outcome on these issues is to be an integral part of the whole set of agreements on the various issues of the Doha Work Program. There was also a deadline set for reporting back on the progress of the implementation negotiations by the end of 2002. The position of Paragraph 12 (as the first item of the work program) and the early deadline (before the conclusion of the negotiations on other issues such as agriculture or the Singapore issues) showed that there was an intention to give priority treatment to the implementation issues in the Doha Work Program.

Despite the prominence given to implementation at Doha, however, those issues were subsequently pushed out of sight. As awareness on implementation costs grew, countries resisted all proposals from developed countries to negotiate the introduction of still newer agreements or rules in the WTO, first on labor standards and second on the "Singapore issues." The latter is a set of issues (investment, competition policy, transparency in government procurement, and trade facilitation) that the developed countries introduced at the WTO's first ministerial meeting held in Singapore in 1996. If accepted as the subject of new rules, these issues would have greatly expanded the mandate of the WTO. Since 1996, these issues have bounced back and forth in the WTO's negotiating process.

The stalemate between the two camps reached a record high at the Ministerial Conference in Cancun in October 2003. The meeting collapsed, and the list of proposals compiled and

submitted by developing countries also went down the drain. The trade and development issues then took a new turn in terms of substance and process, as we shall now review.

Space for Development Policy

Of equal or greater relevance to implementation are the constraints imposed on their policy space to implement development-oriented measures such as promotion of local industries or adoption of new technologies. The changeover from the GATT to the WTO substantially altered the range of available development policies (DiCaprio and Gallagher 2006). In addition to imposing disciplines on a wider range of activities, the WTO was also better equipped than the GATT to enforce compliance given the change in the Dispute Settlement agreement.

The agreement on subsidies allowed developed countries a free hand with their own subsidies (e.g. for research and development, regional development, and environmental protection) but outlawed subsidies normally used by developing countries (for export diversification). In turn, the Agreement on Trade-Related Investment Measures (TRIMs) prohibits developing countries from making use of local-content policy (which developing countries had used to increase the use of local materials and improve linkages to the local economy) and some aspects of foreign exchange balancing (export targets aimed at correcting balance-of-payments problems). This prevents developing countries from taking policy measures that promote domestic industrial development, and that had previously been used by the present industrial countries and several developing countries.

The Agreement on Intellectual Property Rights (IPR) for the first time set minimal standards for the whole range of intellectual property. Developing countries, which previously had enjoyed the ability to set their own IPR policies, are now constrained by having to adhere to IPR standards that are not only high but also sanction monopoly rights to firms in developed countries. Prior to the WTO agreement, several developing countries had exempted pharmaceutical drugs and food from patentability, and had an active policy of promoting generic medicines. However, this policy of exemption can no longer be maintained, as the agreement prohibits exemptions on the basis of sectors. The agreement has therefore increased the costs for local firms in developing countries to access technology. Furthermore, in contrast to the strict protection of the rights of the innovator, there is no comparable protection of the rights of countries over their natural resources, nor of the rights of traditional communities over their ancestral knowledge. In this sense, there is an incentive for "biopiracy" (Khor and Ocampo 2011) or the misappropriation of biological resources and traditional knowledge over the use of natural resources that mainly originate from developing countries.

The services agreement has also increased pressure to open up service sectors—such as finance, utilities, business services, and telecommunications—to foreign participation, which could put local service providers at a disadvantage. In the traditional area of goods, several developing countries have also faced problems from rapid tariff decreases, sometimes as the result of national decisions to bring tariffs below WTO bound levels, commitments made in free trade agreements with industrial countries, and, in many low-income counties,

conditions placed on financial support from international financial institutions. In the industrial sector, many African and Latin American countries have suffered "de-industrialization." Similarly, as pointed out, in agriculture, liberalization has reduced the capacity of developing countries to compete against subsidized goods from industrial countries.

The results of the Uruguay Round are a fundamental paradigm shift in terms of the conception of development at the WTO. Since then the basic objective of trade disciplines became to oblige all WTO members to abide by the same rules. As Abugattas and Paus (2008) state, this meant a paradigm shift from a *development-oriented* S&D to an *adjustment-oriented* and vanishing S&D. Under the WTO, S&D was limited basically to longer transition periods and the provision of technical assistance in order to allow developing countries to implement those multilateral commitments. It is widely acknowledged that those multilateral commitments limited space for industrial policies through the agreements on subsidies and countervailing measures, the agreement on agriculture, TRIMs, TRIPs, and the General Agreement on Trade in Services (GATS) (see, for example, World Bank 1993; Gallagher 2005). However, they also agree that certain policy space is still available for active public development policies.

As S&D was seen to be a losing battle while at the same time a new balance of global economic power began to emerge, the focus of the debate shifted to policy space for development policies. Some economists, including Rodrik and Stiglitz, have proposed a much more proactive role for economic policies. This may be interpreted as suggesting that developing countries could increase their current policy space only by opting out of at least some of their international commitments. Moreover, Rodrik (2007) argues that developing countries should embrace an alternative view of the world trade system in which the centrality of trade has to be questioned, particularly because a development-friendly international trade regime cannot exclusively focus on improving poor countries' access to developed countries' markets. Instead, the focus should be on experimenting with institutional arrangements and leaving room for them to devise their own solutions to the problems or poverty traps they face.

While a reclaiming of policy space gained ground in the WTO after the Doha Round, North–South economic integration agreements resulted in further constraints on policy space. The web of bilateral asymmetric trade agreements between developed and developing countries reproduce the patterns that have characterized developing countries when they focus their expectations and complaints on asymmetries in market access (Quiliconi and Wise 2009).

Governance

Finally, although WTO governance brought improvements in relation to the GATT, its decision-making process also came under fire for not allowing meaningful participation of developing countries. This was especially so in the earlier years of the WTO, during which the major developed countries were able to leave out the developing countries that complained about the decision-making process, especially during Ministerial Conferences where the most important resolutions are adopted.

After the 1999 Ministerial Conference (the so-called "Battle of Seattle"), asymmetries in the WTO became a matter of concern for business and civil society alike. A new awareness and the power of numbers (i.e. the jump in WTO membership) gradually gave way to a new negotiating dynamic based on the formation of multiple negotiating coalitions. Pent-up dissatisfaction reemerged at the subsequent Ministerial Conference in Cancun in 2003. This time governments prepared beforehand, showing their ability to act in pursuit of collective interests and in favor of leveling the playing field. Brazil, the third largest exporter of foodstuffs, took the lead and joined forces with other emerging powers—China, India, and South Africa—as well as with leading agricultural exporters in Latin America.

Particularly remarkable was the rise within the WTO of a "G20 developing countries" centered on Brazil and India.[8] Following in the footsteps of the Cairns Group, the G20 was set up just before the Cancun Ministerial Conference in order to coordinate pressure on the EU and the U.S. to reduce their import tariffs, export subsidies, and domestic support in agriculture. By then China was "dictating global prices for nearly everything from copper to microchips," since its share of world trade had jumped from 1 percent to more than 6 percent in the last twenty years (Blázquez-Lidoy, Rodríguez, and Santiso 2006: 32). Leaning on commodity power as the new engine of growth, countries flexed their muscles against the historical rigidities in the trade regime, and especially against the subsidies of developed countries which, if not brought under control, could now win the race for access to the prized Chinese markets. After Cancun, Brazil in conjunction with India began to play an innovative role, showing a greater interest and capacity to coordinate and lead positions.[9]

Learning from the experience of the G20, tropical exporters in the Andean and Central American countries have followed suit and come together as the G11, upholding the liberalization of tropical products. Interestingly, this coalition so far comprises solely Latin American members of the Andean Community and the Central American Common Market (Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Panama, Peru, Nicaragua, and Venezuela). The G33 is another bargaining coalition of developing countries that emerged, this one aiming to restrict access to domestic agricultural markets in net food-importing countries concerned about the prospects of premature liberalization at home.[10]

These new coalitions have a proactive agenda characterized by technically substantive proposals at each stage of the negotiations, and which is increasingly covering issues other than agriculture, particularly the so-called non-agricultural market access chapters. Each one relies on considerable research to support its agenda and looks for windows of opportunity to move. This strategy is in sharp contrast to the ideological battles that countries had waged in their call for the new international economic order of the 1970s.

Even more interesting is the permanent interaction between the coalitions. Because of the differing priorities (and sometimes directly conflicting interests) of some of these coalitions, rifts are bound to appear from time to time. "Alliances of Sympathy" between coalitions build bridges and demonstrate efforts to coordinate positions and share information with other developing countries, and at the very least minimize overt contradictions when fuller coordination is not possible. Facilitated by overlapping membership, the bridges between the G20 and the G33—the first representing aggressive agricultural interests and the latter arguing for the respect of food security—serve as a case in point.

Coalitions frequently come to operate across issues, and are bound by a collective idea that the developing world shares several problems and needs to address them collectively. But unlike the confrontation of the 1960s–70s for a new international economic order, the

challenge mounted by these coalitions has not been accompanied by a call to replace the WTO with an alternative organization. Their mission is to inject momentum when it is lacking and to advance proposals for negotiations (in contradistinction to the attempt in the 1960s to establish the UNCTAD as a counter-alternative to the GATT). They have not fully advanced a vision of development alternative to the neo-liberal one, and the change that they have demanded is change within the WTO regime rather than radical restructuring. Members emphasize the importance of interests and the production of knowledge to press for these (Tussie 2009). Nonetheless, their tactics still show a strong policy commitment to distilling the issues of development and economic justice along North–South lines. There is actually no strong reason to dismiss these softer forms of associations as fickle because they allow members freedom of action and multiple allegiances from the onset.

To press the point just a bit further, in the world of negotiations coalitions continue their tasks. But coalitions are not a matter of principle: they are formed for specific contextual reasons, in this case the need to open up and to an extent democratize the WTO decision-making process. In such settings, coalitions play a major regulating role as much through movement as through existence. But framing and defining problems, questions, and issues does not translate neatly into a full development strategy. Such issue-specific trade alliances are restricted to the liberalization of certain products or, alternatively, to the concern not to give away policy space in exchange for market access, a necessary but insufficient condition for development, as witnessed by the 2001 Doha Declaration on Public Health. In view of the massive transfer of rents from developing countries to multinational drug companies, awareness that patent protection may now be too strong has increased. At the same time as countries accept intrusive disciplines over an ever-widening range of development policy areas by virtue of the North–South free trade agreements, they use the WTO to resist the continuous un-leveling of the playing field, and are bent on obtaining a more balanced treatment of domestic needs. And it is here that much of the remaining value of the WTO may remain, regardless of the outcome of negotiations.

This proactive posture has been present in a number of areas. Paraguay and Bolivia have been active in raising the special needs of landlocked countries. Chile, Colombia, Mexico, Argentina, and Brazil form part of the group to promote tighter practices on the use of anti-dumping, either of a free trade or defensive variety. Whatever the eventual outcomes of the Doha Round, coalitions have introduced a semblance of limited pluralism in the WTO and have led to the limbo in which the Round now exists.

Certainly, the entry of China into the WTO has shaken policies as well as beliefs. While China's low labor costs and strong competitiveness pose risks to manufactured exports, China's appetite for raw materials and foodstuffs has favored commodity producers. China is the major exporter of textiles and now concentrates almost 40 percent of world trade in clothing. At the same time, by 2003 China had become the world's largest importer of cotton, copper, and soybeans, and the fourth largest importer of oil. China has become the fastest-growing export market for a number of countries across the globe. Trade with China is, however, concentrated on a very small basket of commodities: copper, oil, iron ore, soybeans, and wood. The new engine of growth may deepen the historical trade specialization toward commodities—goods usually characterized by strong price volatility. Unless an effort to deepen specializations is mustered, and over-reliance on a single engine of growth is tempered, dependence on a few commodities will intensify; countries will remain overexposed to trade shocks, and the inequality-generating forces of international asymmetries will

hardly be tamed. This scenario poses even more questions on the current stalemate than the Doha development round currently faces, and tears apart old North–South dichotomies, opening a space for a wider debate about what role development should play in the multilateral sphere.

Conclusion

All told, the important point in the new scenario is that for the most part it has been the technical specialists who have held center stage, either hired experts and consultants or professional policy-makers working for national governments. By definition, these specialists work within the established political parameters of an era. They strive for a compromise between the concerns of policy space and the technical power of institutionalized ideas; without the aspiration of delivering a new paradigm, they are smart, alert, and industrious. In the real world of negotiations this was a door that needed opening; it was not a leap across boundaries to a new development paradigm, but it has made inroads into the processes of global governance.

If we are to take up the development approach to trade we need to look at the complexities of international economic institutions and the negotiations that ensue from them. At the core of these negotiations lies the question of whether the current trade regime enables developing countries to design policies that promote development. This is not an easy subject. Many studies have shown that appropriately designed trade reforms have the potential to make a significant contribution to development, and, with appropriate parallel measures, to do so in a socially sensitive or sustainable manner. It has, however, proved extremely difficult to achieve these goals through the existing trade negotiating process.

For one, the Doha agenda did not change the multilateral process, only its stated goals. Multilateral trade negotiations are not designed to deliver development. Their purpose has always been to maximize gains, and through a process of give and take, to move toward freer trade. To give real life to the development component, it may be necessary to reform the foundations of the negotiating process itself and to accept that "one size fits all" recipes have not produced a positive outcome in all developing countries. Most trade agreements have adopted development as a goal, but the bodies that negotiate them are not responsible for development, do not have the competence to define what sustainable development means, and are not subject to the requirements of any other authority except as provided through international law and other mechanisms of regional and global governance.

Moreover, while most of the literature addresses the correct sequence of policies and the timing for liberalizing trade, it does not address local conditions in depth. Negotiations are not paced or shaped in such a way as to allow timing and sequencing, nor do they take account of the concentration of economic power within countries. As well, academic knowledge is systematically disregarded by the realpolitik of world trade negotiations. Trade policy choices are path-dependent, and that is why a long-term and tailor-made approach to development that allows policy experimentation is so important. The implications for domestic bureaucracies are paramount, since development should be an integral long-term part of all phases of the decision-making process, not an isolated goal stuck into an agreement. There is

a disconnection between those in government who deal with the adjustment process and those in charge of the trade decision-making process. Attention needs to be paid to the decision-making process itself in order to better address the most significant regional and global issues that have been identified within trade and development linkages.

Notes

1. The CAP was established by the 1957 Treaty of Rome. At the time, the EEC was a net importer of foodstuffs, so the first impact of the CAP's high support prices for domestic farmers was exclusion of imports. The CAP was so effective, however, that the EEC rapidly became a net food exporter, with major repercussions in the markets of many commodities of relevance to developing countries, particularly sugar.
2. Paragraph 5 of GATT Document L/4903 (November 28, 1979).
3. The "blue box" refers to government support payments that limit production by imposing production quotas or requiring farmers to set aside part of their land. Blue box measures were excepted from the general rule that all subsidies linked to production must be reduced or kept within defined minimal (*de minimis*) levels.
4. The debate since has indicated that the division between trade-distorting and non-trade-distorting subsidies is artificial.
5. The use of price bands provides a buffer that prevents world prices from falling below domestic prices. It consists of setting a band of upper and lower prices for imports so as to trigger the application of an offsetting tariff when the international price of a product falls below the lower band level.
6. Document JOB (01)/152/Rev.1, available online at (<http://www.wto.org/english/tratop_e/trips_e/ta_docs_e/2_job01152rev1_e.pdf>, accessed February 26, 2013).
7. Document WT/MIN (01)/17. See WTO (2009).
8. Not to be confused with the G20 Leader summits or meetings of Finance Ministers, this "Group of 20" within the WTO subsequently expanded to twenty-three members, including: Argentina, Bolivia, Brazil, Chile, China, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Tanzania, Thailan, Uruguay, Venezuela, and Zimbabwe.
9. The newfound commodity power was also a factor that enabled countries to hedge their bets and decide whether or not to plunge into the Free Trade Area of the Americas (FTAA).
10. The G33 comprises the following countries: Antigua and Barbuda, Barbados, Belize, Benin, Bolivia, Botswana, China, Congo, Côte d'Ivoire, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Korea, Madagascar, Mauritius, Mongolia, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, Peru, Philippines, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and Grenadines, Senegal, Sri Lanka, Surinam, Suriname, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia, and Zimbabwe.

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CHAPTER 49

THE ROLE AND INFLUENCE OF INTERNATIONAL FINANCIAL INSTITUTIONS

DANNY LEIPZIGER

Introduction

International financial institutions (IFIs) have strongly influenced development thinking and practice in recent decades. IFIs have exerted direct influence thorough the volume of their financial transfers, and indirectly, for example, through their impact on the resource transfers of others, including donors and the private sector. Even more important, IFI analysis and ideas have dominated aspects of development strategy and ideology. This chapter discusses the Bretton Woods institutions—the International Monetary Fund (IMF) and the World Bank. Arguably, no development debate can take place without talk of the Washington Consensus and IMF conditionality, without reference to the number of people living below the poverty line according to World Bank data, or, more recently, without discussion of how IFI leaders are selected. The intellectual contributions of both major Bretton Woods institutions have declined in recent years, but for many decades, it has been difficult to separate national development plans from the views, funds, and influence of the IFIs.

This chapter explores how the IMF and World Bank have influenced thinking on global development by governments, donors, and the international community. The first section focuses on the period 1970–2000, when IFI resource transfers were large, and these institutions had a major influence on paradigm shifts in development thinking. When governments were debating economic strategies, when aid programs were being designed or trade agreements were being negotiated, or when central bank agreements were being signed, the positions of the Bretton Woods institutions were seriously considered. The intellectual contributions of both institutions were unparalleled in their early decades; they included the Fleming–Mundell model (Boughton 2003) that underpinned international macroeconomic thinking, and the Chenery and Syrquin (1975) evidence that growth and distribution need not be at odds in development.

Next, we examine how the IMF and World Bank have fared in the past decade, and especially since the recent global financial crisis. We focus in particular on how global developments have affected IMF and Bank influence on thinking and practice, which we will argue has materially declined. We conclude with a few thoughts on whether the declining influence of the IMF and World Bank may be reversed.

The Role of the IMF

Developing economies (DEs) have had unequal relations with the IMF. Unlike developed countries in crisis, DEs have been short of foreign exchange, exposed to commodity price fluctuations, and prone to balance-of-payments crises—and thus have been compelled to take advice without argument. The core IMF admonition has always been to keep the balance of payments (BOP) in line, inflation low, and fiscal accounts balanced—in order words, to pursue prudent macroeconomic policies. Although the tone of this advice was never pleasant (until very recently), it was not inherently harmful to development objectives. Indeed macroeconomic stability has long been identified as a necessary but not sufficient condition for economic progress. For example, the Spence Commission's *Growth Report* identifies strong macroeconomic management as one of the five essential ingredients to high and sustained growth rates (Commission on Growth and Development 2008).

Much has been written about the role of the IMF during economic crises (Zagha and Nankani 2005; Woods 2008). But Fund influence has been stronger in non-crisis times, as the voice of both macroeconomic prudence and economic conservatism (Bretton Woods Committee 2009). As the voice of prudence, often articulated through "Article IV" consultations with governments, the IMF frequently had allies in central banks or ministries of finance. They were happy to let the Fund take responsibility for fiscal and monetary rigidity that was deemed necessary but difficult to enact, given a recalcitrant government or hostile domestic political environment. Hence, even proud and talented bureaucracies (as in India) valued harsh IMF prescriptions that helped contain spending pressures. Even nonmembers have benefited from Fund advice. For example, the anti-inflationary program of the Government of Vietnam in 1989–90 was designed with Fund advice but not a single penny of IMF or Bank resources, since Vietnam was blocked from Bretton Woods membership until 1993. The admonition to follow prudent macroeconomic policies has been largely accepted in most developing and emerging-market economies, and the positive role of the Fund in this trend is hard to ignore.

Certainly, the IMF's advice has not always been right, and nor has it always found the optimal balance between macroeconomic stability and economic development. IMF remedies may have slowed development in some countries, especially those too small or strategically unimportant to have representation at the IMF Board of Governors or the help of the U.S. Treasury. Sometimes the counterbalancing argument for development objectives came from "the other side of 19th Street," namely, the World Bank. The IMF's mis-steps in the name of macroeconomic stability were driven by poor management during crises and by ideology during non-crisis times.

Beginning with crisis management, the IMF's uniform model of adjustment—often backed by much-need financing—has in retrospect drawn criticism from many, including the IMF's own Independent Evaluation Office. Management of the banking crisis in Indonesia and the subsequent measures imposed has sidelined the Fund from any meaningful role in East Asia since the financial crisis of 1997 (Sussangkarn 2010). The "IMF approach" to liquidity crises, applied in the Republic of Korea in late 1997, was correctly disparaged by Stiglitz (2002). In retrospect, the Fund clearly was thinking only of currency flows and not considering structural parameters, such as the high leverage of Korean firms (Stiglitz 2002). During the crisis, interest rates were raised to levels that bankrupted many Korean conglomerates (*chaebols*), while not halting capital flight; this was a colossal blunder by the IMF. Luckily, Korea recovered quickly and exhibited strong macro fundamentals throughout, including a fiscal surplus entering the crisis. But other countries facing BOP problems not of their own making did not fare so well.

The casualty of harshly administered austerity programs was always economic growth, often set back for many years, usually led by precipitous cuts in infrastructure spending. As shown by Calderon and Serven (2004), Latin America's growth rates suffered particularly due to fiscal contractions that hit infrastructure hardest. Economic growth rates were invariably taken as exogenous variables when their endogeneity was obvious; the reason was that although Fund programs are of short duration, their impact can be long lasting. Similarly, in today's crisis in Greece, an economy with neither monetary nor exchange rate levers, the fiscal contraction being advocated is incompatible with the resurgence of growth necessary to halt the decline.

Past IMF financial models were impervious to growth concerns, and often to social issues as well. This led many DEs to follow rigid and slow growth paths. Others ignored the Fund and followed heterodox, rebellious paths that often led to worse economic outcomes, including high inflation, inflated currencies, and poor economic management; examples include periods of hyperinflation in Latin America and poor adjustment policies in the Philippines and elsewhere. Other programs failed because IMF adjustment financing lasted two to three years, whereas structural adjustments often took at least twice as long. The Fund's one-size-fits-all approach of the 1970s and 1980s has been roundly criticized, because it led in many cases to a low-level equilibrium associated with low growth and economic underperformance.

The Fund's interventions did lead to some favorable economic outcomes. In crisis management, for example, the Uruguay bailout of 1995 pooled enough resources to effectively cover a broad definition of M1, which saved the banks. (Ironically, the banks were hit again when the convertibility plan collapsed in Argentina six years later.) In 1994, effective credit lines helped Brazil avoid serious damage after the "Tequila Crisis," and bailouts of serious banking failures in Thailand were also well managed. Of course, strong fundamentals lessened the pain of IMF interventions: large countries with sound underlying institutions and strong international political backing got more generously constructed bailout programs and better trade-offs between short-term adjustment and long-term development.

Banking crises are among the most damaging to economic growth and development prospects (Caprio and Klingebiel 1996; Perry and Leipziger 1999). One way that IFIs have helped countries avoid banking crises is through the Financial Sector Assessment Program (FSAP), which is jointly managed by the IMF and the World Bank. Started after the 1999 economic

crises in East Asia and the Russian Federation, the FSAP is a diagnostic exercise which looks at vulnerabilities and financial sector impediments to growth. Over 1999–2009, more than 140 FSAPs were completed. Most were done confidentially for governments, usually at the behest of central banks or ministries of finance (IMF 2012). Long before the current crisis raised concerns about the quality of banking supervision, FSAPs were helping countries to identify and deal with banking problems. Large economies like Brazil, Mexico, and Indonesia requested FSAPs in the early 2000s, and central bankers privately praised the exercise and stressed its importance.

Clearly, the IMF role in development has been complicated. It has usefully enforced better macroeconomic management and destructively perpetrated flawed or draconian adjustment policies. But hanging over the IMF's operations for several decades has been a cloud of ideology. In the 1980s, one department of the Fund boasted that its leadership included the "high priest" of the Fund known for his monetary orthodoxy, while more generally implementation of the so-called Washington Consensus fell to the Fund. Nobel laureate Robert Lucas's admonition to "stabilize, liberalize, and privatize" had many adherents at the Fund. This ideology, similar to trickle-down economics, preaches that economic probity and market-based solutions will generate their own rewards. Few economies can afford to invest in this mantra, and even those with impeccable macroeconomic discipline have pursued additional nonmarket policies for growth (Amsden 1989; Kim and Leipziger 1993; Leipziger and Petri 1993). The Washington Consensus may have partly originated in the U.S. Treasury, which at the time advocated against state involvement in the economy and which took advantage of crises to promote neo-liberal reforms via Fund programs. Some countries were forced to choose between the policies advocated by the Fund and those promoted by development banks, like the World Bank. More fortunate countries played off one IFI against the other; the less fortunate were fed strong doses of draconian adjustment.

IFIs have always been governed and influenced by developed nations, and this has been somewhat controversial in terms of policy. As a developed nation, France was able to press the argument that the CFA zone (an exchange-rate regime tied to French franc) enhanced development in Francophone Africa; the U.S. government intervened with impunity on behalf of political friends. "Realpolitik" has interfered with policy decisions, and arguably still does, despite reforms. Recent developed-nation bias may be discerned in the bailouts of Greece and the Eurozone (Münchau 2012).

Nevertheless, in difficult times, the Fund has had the credibility and the clout to make workouts happen and to stop the hemorrhaging of reserves by instituting adjustment programs. Among successful interventions were programs in Thailand and Korea in the early 1980s, Uruguay in the mid 1990s, many of them in conjunction with World Bank SALs (World Bank 2001). Moreover, the Fund has helped build central banking institutions. With the World Bank, it has managed the Public Expenditure and Financial Accountability (PEFA) program since 2001 to help improve fiscal accountability. Every dollar that PEFA saves is a dollar spent on development, and we know that many dollars go missing in national treasuries (Lewis 2006). The IMF, along with the OECD Tax Center, has also been a leader in reform of tax enforcement and collection. Improved tax revenues supply domestic resources for development that far exceed donor assistance.

The IMF and the World Bank: Cooperation across 19th Street

When founded, the Bretton Woods institutions had distinct mandates. The IMF was to manage international financial matters, and the World Bank was to handle reconstruction leading for renewed growth and development. However, as the Bank began to focus more on development than reconstruction, responsibilities began to overlap with the IMF operations. After all, issues in the development sphere, like export promotion, are affected by issues in the financial sphere, like exchange rates. Similarly, poverty is affected by inflation and investment by the cost of capital. Macroeconomic conditions matter greatly for the achievement of development goals.

Nevertheless, the Fund avoided consideration of poverty and social outcomes. It preferred to mandate austerity to restore fiscal balances, and asked the Bank to advise on spending cuts. This division of labor was awkward for the IFIs and DEs alike. Governments had to host "missions" from both institutions. Often these missions were poorly integrated, both logistically and analytically, and not conducive to economic development.

This contrived dichotomy ended after the oil shocks of the 1970s, when it became clear that significant adjustments were needed to reflect quadrupling oil prices. Oil shocks affected short-term BOP problems and also longer-term development concerns. Moreover, the Bank became a major instrument in the triangulation process whereby surpluses from OPEC were in effect intermediated through private capital markets for on-lending to oil-importing countries. To make it more likely that oil-importing DEs could manage and repay debt, and to facilitate necessary structural changes in the economy, the World Bank began as of 1980 to provide Structural Adjustment Loans (SALs). SALs were cheaper, long-term transfers to facilitate macroeconomic adjustment—and as such encroached on IMF turf. At first limited to 25 percent of Bank lending, but at times climbing to a third, these large, recycled flows put the Bank in the macroeconomic game. Many DEs benefited from SALs and used them to deal with structural impediments to growth and development, including trade liberalization and industrial restructuring (World Bank 1999).

World Bank SALs had better terms than capital markets or IMF lending. Moreover, lending arrangements took note of distributional and social impacts. Trade-offs between expenditure cuts and growth objectives were discussed with a sympathetic institution. Among other aspects, SALs had a new emphasis on energy efficiency, and DEs, new to the issue, received advice and additional lending for energy conservation and alternative energy development. SALs also had many Fund-like conditions, such as cutting unnecessary expenditures, redeploying subsidies, and selling unneeded state assets to pay for oil imports. The SAL process tended to involve all stakeholders: aid recipients got coherent advice; the Bank received the Fund's "imprimatur" that its structural programs made financial sense; and the Fund's short-term BOP management was linked to medium-term adjustment. Nevertheless, DEs began to sense that the Bretton Woods institutions were "ganging up" on aid recipients.

World Bank–IMF cooperation also showed signs of stress. Efforts to align programs included Policy Framework Papers, which aimed to create inter-temporal coherence among BOP management (including cutting trade deficits and fiscal spending), long-term adjustments (such as the need to maintain imports for growth), and spending for priority social purposes. Executive Board members, led by the U.S. government and other OECD chairs, insisted that the IMF certify the macroeconomic soundness of Bank SALs. The Board also strongly advocated that the Bank should conduct Public Expenditure Reviews to prioritize cuts for restoring fiscal balances. DEs, needing the support of both institutions, often a necessary condition for capital market access, were forced to outsource many economic decisions. The term "cross-conditionality" gained prominence as issues of coherence and overlap became prevalent and charges of ideological bullying were voiced (Oxfam 2006).

More difficulties arose in 1989 when the Bank proceeded with a SAL for Argentina without the blessing of the Fund. The resulting brouhaha led to a formal understanding between the World Bank and the IMF, the so-called Concordat, which lasted for almost twenty years. The Concordat indicated that the Fund had primacy on matters of macroeconomics and that the Bank had responsibility for development. These matters were discussed by the respective Boards, but borrowing countries lacked the power to have their voices effectively heard. Eventually the Concordat was reviewed by a joint Committee led by Pedro Malan, former Minister of Finance of Brazil. The Committee advised that Bank–IMF cooperation should be more fluid and organic than prescribed in the Concordat (Malan et al. 2007). A major change was that three of the six members of the Committee represented DEs (Brazil, Indonesia, and Nigeria). Governance was beginning to change.[1]

The World Bank and its Influence

From 1970 to 2000, the World Bank was the global institution most influential in setting the development agenda through its lending, its co-financing, and its analytic work. During this period, Bank lending came to account for a large part of concessional financing available to DEs. Lending by multilateral development banks has rarely been the primary investment driver for developing countries. However, MDBs have had a major influence on development priorities for national governments and other donors, as well as providing cover for the lending of the private sector. The type and role of financing has varied: the poorest countries were eligible for International Development Association (IDA) credits, which are highly concessional, grant-like funding (Leipziger 1983); wealthier countries qualified for the World Bank's longer-term, subsidized loans.[2] Prior to the advent of adjustment lending (that is, programmatic lending), lending was for projects, often large or strategically important infrastructure works that laid the basis for economic growth and development.

Major dams, roads, energy projects, and irrigation systems requiring both financing and technical expertise were usually Bank financed. Often, having a Bank project enabled countries to seek funding from other sources, such as the U.S. Agency for International Development (USAID), other bilateral donors, or the private sector. Projects so financed required international competitive bidding, which ensured greater transparency and laid the basis for national procurement regulations, project analysis, and domestic institutions that liaised

with the multilateral project teams. These institutions later became the core of national planning and implementation functions in DEs. If one asks the Korean bureaucracy what they valued most from the World Bank, the answer is usually the training of a cadre of experts, the creation of administrative apparatus for development, or the formation of a regulatory agency or local development bank. Funds were important, but institution-building efforts left a longer legacy.

Having a partner in development is important. Planning ministries worked intensively with the MDBs in setting priorities and the latter provided a sounding board or validation. Korea's Economic Planning Board, Thailand's National Economic and Social Development Board, and Malaysia's Economic Planning Unit all benefited from interaction with MDBs. This included Bank economic advisory work (so-called Economic and Sector Work), which provided early support when DE staffing was thin and access to best practice was limited. These services were particularly valuable for fast-growing economies (as in East Asia) where structural transformation was extremely rapid, transition economies (as in Eastern Europe, China, or Vietnam) where paradigm shifts were undertaken, and very poor countries where expertise was especially scarce.

The role of coordinating flows via consultative groups, formal or informal, was valuable and well recognized in Indonesia, for example. Exposure to practical policy experience was also highly valued, and so Vietnamese policy-makers meeting with counterparts from Korea, Indonesia, and Malaysia under Bank auspices in the early 1980s helped shape policy toward Russian debt, toward five-year economic development plans, and toward FDI. The Bank also played a coordinating role for many poorer DEs in need of foreign capital. For example, in the Lao Peoples Democratic Republic, the Nam Thun II Hydro-electric Project used the World Bank as late at 2002 to vouch for environment, social, and expenditure management to private sector financiers (World Bank 2009). In these cases, the Bank and other MDBs crowded in private investment flows and integrated sound development objectives for the inflows.

Developing countries, large and small, have also benefited from the embedded advice and know-how in World Bank lending. This is true even when the resource transfers themselves were small, and in some cases, beside the point. Bank designed projects can be replicated, and ultimately Bank efforts redirected into fee-for-service contracts and reimbursable technical assistance programs. Examples where external advice and experience helped even Middle Income Countries are many, particularly in the areas of environmental management, private provision of infrastructure services, building of sophisticated transport systems and inter-modal connectivity, or the design of social assistance programs, to note a few (World Bank 2003, 2010, 2013; Brushett 2000).

It would be wrong to suggest that hardware, expertise, or institutions were more important to development thinking and strategy than intellectual contributions to the development debate. There were efforts by non-governmental organizations (NGOs) and others in the 1990s to disparage the Bank for its alleged ideological bias (Danaher 1994), but no other entity in the 1970s and 1980s wielded as much intellectual clout. Beginning with the presidency of Robert McNamara, the Bank's pronouncements, whether on agricultural productivity, family planning, or income distribution, fashioned the development debate. Influential academics also played a large role, but putting theories to the test required laboratories and financing, which the MDBs could provide.

The Bank also began to collect systematic data to track progress and to bolster its arguments. Calculation of poverty numbers began in earnest in 1990 and to this day, the Bank is

seen as the most legitimate source of many development statistics.[3] Governments have used poverty and income distribution data originating from the Bank to bolster applications for assistance, to help shape domestic policies, and to frame the dialogue around strategy. Data collection begun under multilateral programs made possible the "Progresa" conditional cash transfer program in Mexico, the similar "Bolsa Familiar" program in Brazil, and other social assistance policies. Governments would not complain to the World Bank about its reported income distribution statistics if they did not have domestic and international significance.

No development strategy during this period could avoid the intellectual work of Syrquin and Chenery (1989) on growth with distribution. No economic planning model could be designed without looking at the work of Dervis, de Melo, and Robinson (1982). No project would be assessed without the benefit of Price Gittinger's Guide to Project Analysis (Gittinger 1972). Major intellectual contributions abounded in the analysis of returns to education, optimal subsidy pricing, and the elements of cost–benefit analysis. These analytical tools had in common the measurement of who benefited from expenditures and how pricing could effectively be used to improve development outcomes. Practical manuals and models on road maintenance, electricity grid management, traffic safety, and many other infrastructure aspects were imported by DEs as best practices. Many governments sent officials to be trained or to be seconded to the World Bank. Many Bank officials returned to their home countries in high-level posts with experience drawn from actual country cases.

Critics complained that IFIs had an ideological bias that favored market solutions over government intervention, but this is not supported by the facts in many instances. Cross subsidies favoring the poor were a basic tool of analysis. Expenditure incidence analysis was commonplace to target service delivery. There were ideologies that favored getting the public sector out of non-essential economic arenas. But even in some critical areas such as the provision of credit, fashions change in IFIs and in governments. National development banks are one such example. Most successful DEs have used national development banks to promote small and medium-sized enterprises, agricultural development, or national champions. Efforts by IFIs to privatize national development have failed to alter the prominence of Banco de la Nacion in Argentina, BNDES in Brazil, or a host of similar institutions in East and South Asia. Governments usually reject advice that they abhor.

Major new strands of development thinking, such as the importance of institutions as explicated by North (1991), were used by IFIs to promote practical development activity. Outside ideas also found acceptance at the Bank, and were supported by a vibrant research department. Major publications such as the annual *World Development Report* carried tremendous import, particularly in the first ten to fifteen years of its publication (Yusuf and Deaton 2009). The *World Development Report* embraced ideas about key constraints to development (whether in infrastructure or the social sectors) and at times took on controversial topics (such as successful versus failed interventionist government policies). It distilled development knowledge and provided policy-makers with guidance on what was known and what tended to work in practice (World Bank 1991). The Bank's special reports had similar importance. They included the *East Asia Miracle* (World Bank 1995b), which was ahead of its time in assessing the role of industrial policies in promoting development in East Asia (see also Leipziger and Thomas 1993). Another important branch of Bank research in the 1990s was on privatization, led by the *Bureaucrats in Business* publication (World Bank 1995a).[4]

Under the presidency of James Wolfensohn, a number of important bridges were crossed that had strong impacts on development thinking and practice, none more important that his decision to acknowledge the corrosiveness, wastefulness, and immorality of corruption (Wolfensohn 1996; Wolfensohn and Kircher 2005). Examples of the new focus in practice included work by Kaufmann, Kraay, and Mastruzzi (2007) to systematically construct measures of corruption; the willingness of donors to include corruption measures in making assistance decisions; and new programs such as the Extractive Industries Transparency Initiative (EITI), the 2006 Stolen Asset Recovery initiative (StAR), and Bank-wide anti-corruption programs.

Similar to the work on income distribution and poverty in the 1970s and 1980s, the period from 1995 onward has been marked by the Bank's leadership in the area of governance. This leadership is evident in countries where anti-corruption surveys were conducted, public service scorecards were kept, and anti-corruption commissions or teams were formed. Success has been limited, but the global acceptance of transparency and anti-corruption efforts (aided also by the Anti-Bribery Convention of the OECD in the mid-1990s) as an element of development programs is now unquestioned.

Many ideas that lead development efforts originated with the International Finance Corporation (IFC), the World Bank's private sector arm that has successfully mobilized and leveraged funds for private enterprise investment. The IFC has succeeded by providing demonstration effects, including catastrophe bonds, local bond market development, and venture capital funds. Even more important has been the Bank/IFC product Doing Business, which ranks countries by ease of conducting business. Along with the Global Forum's World Competitiveness Survey, it is a standard reference, and governments are keen to show improvement in their rankings (Schwab 2012).

IFI leadership in other areas continues, but its prominence in development has been surpassed by the emergence of stronger think tanks in DEs, broader efforts by NGOs, and a myriad of global initiatives. Notable contributions to the development debate, where IFI leadership has perhaps helped to mobilize greater support, include the Bank's Gender Action Plan (2005–10), the work of the Commission on Growth and Development (2005–9) (Commission on Growth and Development 2008), and the Sustainable Development Network. But the rise of Brazil, the Russian Federation, India, and China (the BRICs) has led to greater diversity of ideas on the right mix of market- and state-friendly policies. With the large resource-transfer role of China, development thinking and practice is no longer the hegemony of Washington DC or even of the MDBs. Their voice has diminished as the voices of the G20 (and within it the G5) have begun to grow. The prominent question now is where do DEs look for their role models?

The Current State of Development Thinking and Practice

Since the onset of the financial and then global economic crisis in 2008, IFIs have struggled to stay relevant. Global economic trends in the twenty-first century do not favor MDBs. The continued rise of China is foremost among these trends. The country's

astounding growth rate is driven by a favorable wage-productivity calculus, ambitious government-led export policies, prodigious savings, and the sheer size of the economy. This eastward shift has meant that South–South trade has become less a catchphrase and much more a market reality. At the same time, flush liquidity in global financial markets in the early 2000s made access to capital easier than ever for DEs. Even previously capital-starved regions like Africa began to attract foreign investment, and it looked like IFIs were losing their clients.[5,6] Massive precautionary lending in 2009–10 reversed this course temporarily, but the trend remains.

The IMF's situation worsened after its failed management of the East Asia crises. Those countries and others with access to external capital began accumulating reserves in rainy day funds and the IMF lost much of its business. Countries began to feel that they no longer needed Fund advice or insurance. Prudent macroeconomics was a well-accepted principle; however, more heterodox policies also began to emerge. They appeared not only in anti-capitalist governments in Venezuela and Bolivia, but also in the state policies of Brazil, India, and others seeking to follow the high-growth path of China and finding much to emulate in the Asian model (Mahbubani 2008). The more stolid position of the World Bank and its preoccupations with social policies and anti-corruption efforts at the expense of growth made it less relevant to many DEs.[7] Bank and IMF policies, which hadn't changed much in the past decade, seemed more concerned with social policies and anti-corruption efforts than growth. The World Bank's business model seemed to be about maximizing the transfer of IDA resources to the poorest countries, lending to middle-income countries in carefully circumscribed conditions and sectors, and decentralizing in an ambitious attempt to get closer to the client.[8] The fact that James Wolfensohn was followed by a two-year president (Paul Wolfowitz) and a one-term president (Robert Zoellick) didn't help the Bank maintain its strategic edge or develop a strong global vision that would appeal to its clients.

At the global level, economic discourse had moved to the environment, risk management strategies, and activist industrial policies, and much of the thinking behind these notions did not emanate from IFIs. An exception was the voice of Justin Lin, the World Bank's first Chinese Chief Economist, who advocated strongly for activist government policies in China (Lin 2012). There were international commissions on African Infrastructure (Commission for Africa 2005); global actions such as the Multilateral Debt Relief Initiative (IMF 2005), which the G8 produced and the Bank and Fund were told to implement; and the Stern Report on Climate Change (Stern 2007). Neither the Fund nor the Bank was leading this new global dialogue on development. Indeed, following a downsizing and internal reexamination, the Fund languished until the 2008–10 crisis gave it renewed relevance, an influx of resources, and a voice in the newly reinvigorated G20.[9]

Emerging-market economies were no longer waiting for new ideas to emerge from the IFIs, but rather they were doing their own homework and designing home-grown development interventions.[10] The African Development Bank (AfDB) had gained in expertise and was now a larger player on the continent, and the Inter-American Development Bank (IADB) had similarly gained stature to be a more credible partner in Latin America. The Asian Development Bank (ADB) gained resources and influence, especially in infrastructure, that the World Bank had begun to neglect in the late 1990s and never regained. Indeed, DEs had become less interested in multilateral financing. Some had experienced the Bank's occasionally strident ideology concerning privatization; often, governments

pushed back when privatizations failed or were rejected by the citizenry, largely because of poor regulatory frameworks or poor Bank advice or poor media campaigns or all of the above (Foster and Leipziger 2002; Guasch 2004; Di Tella, Galiani, and Schardgrodsky 2011). At other times, stakeholders in DEs were of the view that IFI boards had become advocates for welfare programs and mistrusting of investments leading to growth. Governments were now in a position to self-finance more and to attract foreign funding without the IFI umbrella. And inside the halls of the G20, the new global forum of consequence, the World Bank was not seen as the main advocate for development, since there were numerous emerging-market economies inside the G20 itself.[11]

What happened to the Bank and Fund to make them suddenly so inconsequential for development efforts? DEs now possessed the skills necessary to both design and implement development policies and a much stronger ability to learn from one another as well as from the OECD. Thus, the IFIs needed to lift their game, but in many respects they did the opposite (Strauss-Kahn 2010; Leipziger et al. 2012). The skills available at the IMF no longer outclass those available in the private sector or in central banks and universities. As the supervisory and regulatory challenges of vastly integrated financial markets have grown, the IMF's basic advisory services are no longer leading edge for many clients. And the World Bank, in its fervor to be close to the client by decentralizing to the maximum, lost the competitive edge that its highly technical staff once provided. It is now a minor leaguer in a major league game.

Furthermore, the development paradigm offered by both IFIs has lost its glamour. The Fund has not been able to show that it could design adjustment programs that were pro-growth. Indeed, even its commitment to precautionary lending services has gone largely unused because countries fear the stigma of a "Fund program" of any kind. Indeed, in the 2008–10 crisis, it was the Bank that provided "precautionary" lending to its preferred clients like Mexico, India, Brazil, and Indonesia in the form of quick loans for budget support (World Bank 2008).[12] The advent of more statist policies by many BRICs, and the success of some of these policies, has also left DEs with the sense that they have learned all they can from IFIs. Yet, there are major challenges in health care financing, environmental management, urbanization, and risk mitigation. However, unlike in past decades, the IFIs no longer seem to hold the answers, either intellectually or financially. The development agenda seems to have passed them by.

Who is Leading in Development Thinking?

A seismic shift has occurred. The IMF has struggled for relevance and has changed its advisory tune to accommodate capital controls (such as Brazilian capital import taxes). The Fund has also acquiesced to join flawed adjustment programs within the Eurozone membership. It has been lax on banking supervision issues, weak on imbalances, and inconsistent on exchange rate management. Despite its precautionary lending windows, the Fund has not helped countries deal with global uncertainty or capital flows. Therefore, it may well be true that a developing country finance minister can learn very little from the IMF these days.

The World Bank, a previous leader in many areas of development strategy, has been turned into a bystander in middle-income countries, a cheerleader in emerging economies, and reluctant crisis manager in post-conflict countries. Countries are more on their own than ever. This is in part because of paradigm shifts (see, for example, the notion of a new normal as espoused by El-Erian 2008) and activist state policies (as espoused by Rodrik 2011 and Aghion 2012). Countries are also taking new development paths because of new players (including flows from BRICs) as well as OECD's preoccupation with its homegrown problems. Many new development approaches, such as the randomized trial approaches of the MIT Poverty Lab or the Multidimensional Measures of Poverty, have been developed in academia and have gained considerable traction. Globally, the UN inspired Millennium Development Goals (MDG), a concretization of the basic human needs approach of the 1980s, is still a rallying cry for sustained social efforts. Clearly, intellectual leadership has migrated away from the IFIs.

The fact that the leadership of both institutions has remained unchanged—a European heading the Fund and an American heading the Bank—also has not improved the image of the Bretton Woods Institutions (BWIs). IMF members have witnessed its powerlessness to force China and the United States to deal with their imbalances; they have seen financing without a growth strategy for Greece; and they have seen the unmet gaps in international banking supervision. Bank borrowers sense the lack of vision at the helm of the institution and see the pursuit of bilateral development fetishes funded by trust funds. Moreover, DEs are searching for the right forum to discuss crucial issues, since the G8 has lost its power and the G20 some of its luster, the UN has limited implementation capacity, and the MDBs seem pre-occupied with internal reforms. This is the unfortunate state of affairs at a time of global stress.

Note that neither BWI has been persuasive in providing advice on job creation or containment of health care costs. Neither institution has been quick to redesign new financial instruments to reduce risk. While both are still sources data and projections, neither is any longer a major voice in the world of policy. And the fact that jobless growth and worsening distribution coexist with supposed recoveries, the fact that regulation on the advanced economies could be so poor, and the fact that many now advocate a more activist role for government in promoting growth has also taught DEs that some major paradigms may have flaws. If so, which other prescriptions might be faulty?

This cynicism about prevailing paradigms can lead to worse outcomes. Faced with difficult challenges, countries may decide to experiment with policies that are unlikely to yield better outcomes, and many mistakes can be made (Commission on Growth and Development 2008: 68–9 on Bad Ideas). Moreover, issues of jobless growth and distribution are creating discontent with globalization in rich countries. More active roles for the state are being contemplated, but are state institutions up to these new challenges?

The next decade may well be one dominated by risk management, new roles for the state, and greater expectations that distributional equity be addressed. How to square these concerns with market efficiency, proper regulation, and global economic management is where development thinking is headed today. Except for the very poorest countries, the challenges facing the developed and developing worlds are more similar than ever before. This is partly due to convergence, partly to mismanagement in the rich countries, and partly to greater agreement on many aspects of development thinking. IFIs played a major role in the evolution of development thinking, but what role remains for them is now an open question.

Notes

1. Committee Members included: Pedro Malan, Michael Callaghan, Caio Koch-Weser, William McDonough, Sri Mulyani Indrawati, and Ngozi Okonjo-Iweala.
2. The subsidy element arises from the lower borrowing costs of the World Bank. With the backing of its shareholders, the Bank can issue debt at rates roughly comparable to those of the U.S. Treasury, and then pass on these low costs (with a small markup for administrative fees) to its borrowers.
3. See <http://data.worldbank.org/topic/poverty>.
4. The World Bank's report on Korea (World Bank 1987) can be seen as an early example of a contrarian ideology later developed in the *East Asian Miracle* (World Bank 1995a) and resurrected in the *Growth Report* of 2008 (Commission on Growth and Development 2008) that looks more favorably on the role of the state in leading an active development strategy. This more balanced view of the state was opposed by some governments. For example, the U.S. Treasury opposed some aspects of the *East Asia Miracle* report on ideological grounds. This pitted the U.S. government against Japan inside the Executive Board of the World Bank, but also influenced the policy advice provided to DEs.
5. This trend reinforces the view that attempts to make Bank lending more programmatic, more country driven, less cumbersome, and quicker have been insufficient.
6. MDBs have always had their critics. See, for example, Mikesell (2001).
7. The Growth Commission, while useful in attempting to reset priorities, may have appeared too late on the scene. Moreover, the *Growth Report* (Commission on Growth and Development 2008) was released just as the crisis hit the global economy.
8. Aggressive decentralization may have put World Bank staff closer to the client; however, the strategy proved costly, both in terms of budgets and in terms of maintaining core expertise at headquarters. Some have argued that this led to a decline in expertise that damaged the ability of the Bank to help its middle-income clients, who valued technical advice over either resource flows or implementation help (see Leipziger et al. 2012).
9. This reform was led by Dominique Strauss-Kahn, Managing Director during this period, who also positioned the Fund to be the primary source of global economic information.
10. Brazil executed Luz na Campo and Bolsa Familiar, China the Three Gorges Project, and India started ambitious infrastructure investment programs, all without major assistance.
11. The Bank's claim to be the voice of the poorer and unrepresented countries seemed unheeded. Indeed, the G5 countries began talking about creating their own BRICS development bank.
12. Ironically, because the Bank's president declined to seek a major capital increase, this lending burst has left the institution vulnerable to a low level, steady-state of future lending in a world of bigger flows and larger demand for capital.

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CHAPTER 50

DEVELOPMENT ASSISTANCE

HOMI KHARAS[1]

Introduction

The concept of charitable assistance is as old as human civilization but has traditionally been undertaken by individuals giving to the less fortunate. By contrast, the concept of official development assistance (ODA) is almost entirely a creation of the modern era. Nations have always engaged in economic transfer for trade, military, and political purposes, but ODA, formally defined as flows of official concessional financing with the aim of promoting the economic development and welfare of poor countries, is a more recent phenomenon. Even the terminology was only introduced and used for the first time in 1969, although in reality ODA had already been flowing for some years. Historically, official development assistance has addressed a broad range of purposes, including providing humanitarian aid, promoting basic needs, fostering economic growth, and supporting the provision of effective, democratic institutions. ODA thus represents something new from the post-Second World War period, a type of international solidarity unique in human history.

Systematized ODA traces its beginnings to the Bretton Woods institutions (BWI), created in 1944 as the world began to envision its recovery from the devastation of the Second World War. While these organizations had antecedents in the Red Cross (1863) and the government-funded Committee for Relief in Belgium (1917) (Reinisch 2008), the BWI represented something different. Instead of simply treating wounded soldiers and feeding refugees, the BWI had ambitious and long-term goals: rebuild a war-torn continent, restore its former prosperity, and promote international economic cooperation. The International Bank for Reconstruction and Development (IBRD), the first of the organizations today collectively known as the World Bank Group, set out its purposes as: (1) facilitate the investment of capital for productive purposes; (2) promote private foreign investment; (3) promote the long-range balanced growth of international trade; (4) focus on the "more useful and urgent" projects; and (5) assist in a transition from a wartime to a peacetime economy.[2] Thus, the origins of ODA were firmly rooted in the notion that international cooperation was required to create the conditions for all countries to prosper and trade in a peaceful fashion.

This chapter explores the changes in the nature and organization of development assistance since the Second World War. It first describes the context of development in the "Third World," where the geopolitics of post-colonialism, globalization, and the role of the state have been playing out for seventy years. It then examines the organization of international development cooperation as it adapts from a loose grouping of rich countries to an international consensus rooted in the processes of the United Nations and the Millennium Development Goals. In parallel, ODA has evolved from donor dominance and its corresponding aid dependency to mutual accountability and, most recently, to a new Global Partnership for Effective Development Cooperation. Along with these institutional shifts, the strategic priorities in aid management have evolved: where assistance should be allocated across countries to ensure the best value-for-money in terms of poverty reduction; how assistance should be provided; and what areas should be prioritized. The paper concludes with some observations about the future of a new aid ecosystem, with multiple actors and interlocking partnerships creating an open-source development model.

The "Third World" and its Challenges

Initially, the division of the globe into the "First, Second, and Third World" arose as a Cold War convention to describe the demarcation of capitalist, communist, and non-aligned camps. However, as the Third World was mostly composed of poor nations, it quickly became synonymous with economic underdevelopment. Throughout the Cold War, ODA from the West was colored by efforts to ensure that Third World countries did not align themselves with communism, but instead embraced the concepts of private capital, investment, and free trade as the foundation for development. Given this context, it is not surprising that ODA has always been intertwined with politics, a feature that continues to play out in the UN (where developing countries have organized themselves into a monolithic G-77 bloc), in governance of international development institutions, and in negotiations over aid conditionality.

The politics of development assistance to the Third World are deeply rooted in the history of colonialism. Almost every country in the Third World, with a few exceptions like Thailand, was at one point a colony of a Western nation. Colonial institutions in the form of legal codes, education systems, civil services, and language have persisted into the present day, as has the debate into colonialism's complex legacies (Easterly 2012). For good or ill, and most probably some of both, colonial ties are one of the strongest determinants of ODA flows, with a number of Western European nations giving a majority of their aid to former colonies (Alesina and Dollar 2000).

Many Third World countries achieved their independence through nationalist movements that viewed colonial rule with suspicion. As colonies, developing countries had seen their share of global output collapse, most famously in India, where share of global output fell from 24 percent around 1700 to 4.2 percent just after independence in 1950 (Maddison 2010). Similar figures of relative decline were recorded all across the Third World and spawned a branch of development thinking that linked relative decline to "unequal exchange" (Emmanuel 1972), a structural reliance on raw materials (Prebisch 1950), and

other "dependency" theories (Singer 1950; Cardoso 1969). This perspective led some leaders to question the value of receiving ODA, especially when aid was tied or conditional on policy change. For instance, in the 1970s Jamaican Prime Minister Michael Manley campaigned on an anti-IMF platform, saying "we are not for sale" (Black 2001). Accordingly, there has been a persistent tension between the post-colonial desire for independence and sovereignty versus rich countries' desire to bring developing countries into a neo-liberal world order based on private capital and market forces. That tension is now subsiding as the benefits from a globalized, market-oriented system have become recognized in most countries, and the alternative model of Soviet-style planning has been largely discredited.

The first flows of aid were premised on theories exemplified by the Harrod–Domar model, in which economic growth is driven by the level of capital investment. In this set-up, developing countries were considered to be poor and slow-growing because they could not obtain sufficient capital. The role of assistance from rich countries, then, was to correct this deficiency. As capital was unlikely to come in large enough quantities from the private sector, the public sector was required to step in.

The idea that economic growth was the key to alleviating poverty stood in contrast to the communist focus on equality and redistribution to increase welfare. With the passage of time, however, Western views on the primacy of growth became more nuanced. The watershed event in this transformation was World Bank President Robert McNamara's 1973 Nairobi speech, in which he included numerous statistics starkly depicting the reality of poverty and called for a "reorientation of development strategy" (McNamara 1973). Measuring development by GNP growth, he said, ignored the fact that GNP calculations weight individuals by their economic worth; the poor thus barely factor into the number. If growth was not delivering poverty reduction, it could not achieve its objective of promoting a peaceful, stable, global economy. In this, McNamara implicitly recalled President Truman's Point Four Program statement: "Communist propaganda holds that the free nations are incapable of providing a decent standard of living for the millions of people in under-developed areas of the earth. The Point Four program will be one of our principal ways of demonstrating the complete falsity of that charge" (Truman 1949). If ODA did not touch the lives of the poor, it would not be effective in achieving its political objectives. Since then, despite the disappearance of the communist threat, the concept of basic welfare as the ultimate end of development has endured as a lasting legacy of the McNamara Bank (see Figure 50.1).

The political negotiations at Bretton Woods proved enduring, establishing the basic contours of multilateral development assistance for decades to come. Motivated by the sovereign defaults of the 1930s, the economic consequences of the Versailles peace agreement, and the crippled state of European infrastructure, the delegates established the groundwork for the World Bank.

The IBRD gave its first loans to reconstructing France and other European countries, but re-oriented its focus toward economic development due to the sheer size of the newly enacted Marshall Plan. President Truman had approved a program of $17 billion (or about $160 billion in 2008 dollars) over three to four years, an annual expenditure of almost 2 percent of the U.S. GDP ($245 billion in 1947). Given the injunction in its articles of agreement to pursue "the more useful and urgent" projects, the IBRD started to shift toward richer developing countries, such as Chile, when the most obvious large reconstruction projects in Europe came to an end or were financed through the Marshall Plan.

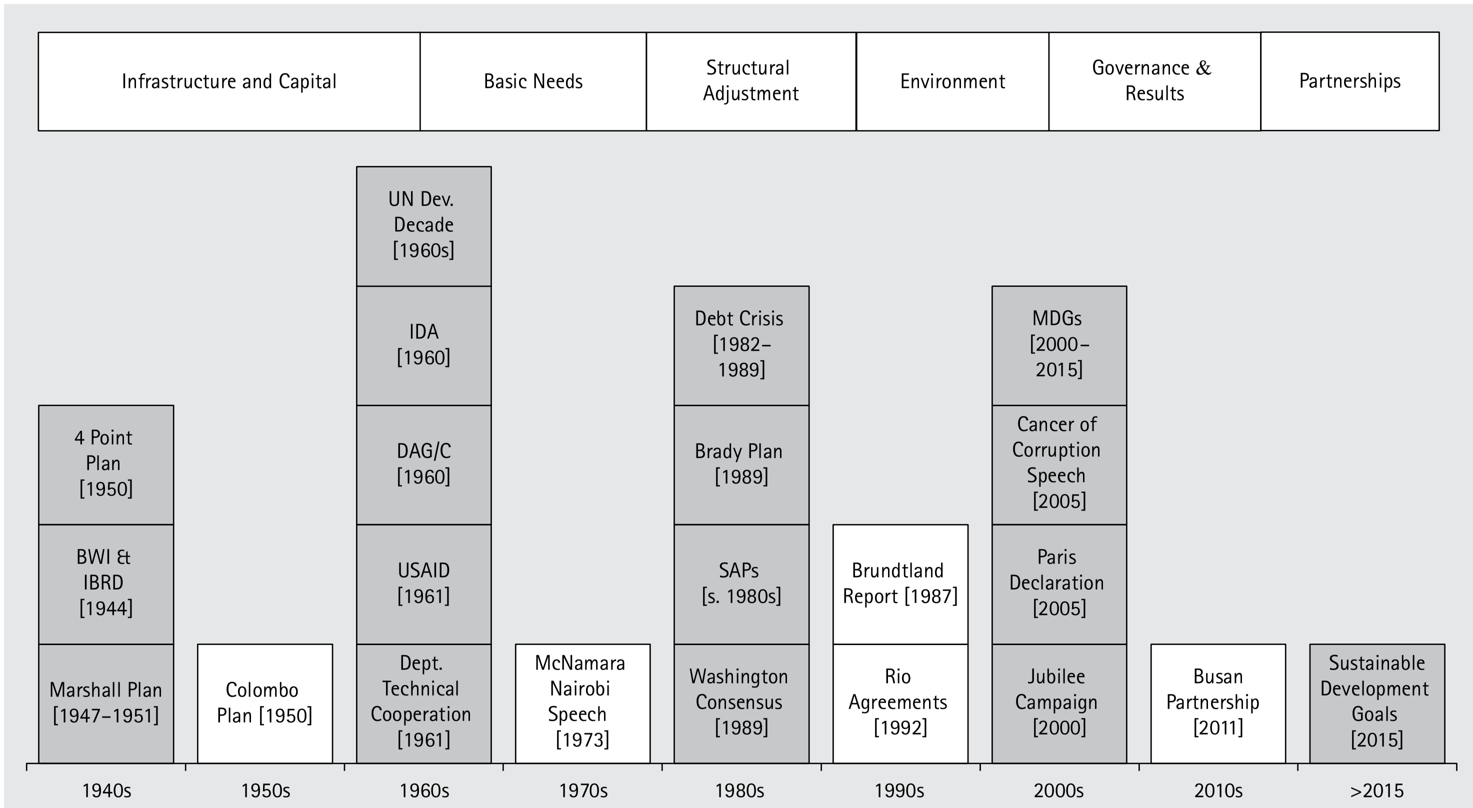

FIGURE 50.1 The evolution of development assistance: key events

The IBRD was not designed to provide humanitarian assistance. Its lending model reflected a view that countries' capital requirements would evolve in a linear manner with their incomes. The poorest countries would need grants and concessional loans, but the richer ones could expand infrastructure and other public investments through non-concessional capital, first from the public sector with relatively long-term maturities, and then from the private sector in the form of foreign direct investment (FDI), bank loans, and ultimately bonds. Other forms of assistance were left to individual rich country governments and philanthropic organizations like the Red Cross and various religious groups. In the United States, President Truman attempted to expand and systemize American development assistance through his Point Four Program. In his inaugural address, Truman championed the notion that the scientific knowledge of advanced nations, if properly shared, could eliminate poverty: "More than half the people of the world are living in conditions approaching misery. . . . For the first time in history, humanity possesses the knowledge and the skill to relieve the suffering of these people" (Truman 1949). However, empathy was not the only motive at play. As Truman later remarked, the hungry are apt to "turn to false doctrines," namely that of communism. Despite its intention to address such towering concerns, the Point Four Program was modestly funded, with the Foreign Assistance Act of 1950 allocating $35 million ($340 million in 2008 dollars) for technical assistance (Paterson 1992), a small fraction of the amount devoted to the Marshall Plan. Nonetheless, Truman's Program marked an important change in U.S. foreign assistance, ultimately setting the stage for its modern form in the United States Agency for International Development (USAID).

Decolonization, poverty, and the fall of Chiang Kai-shek's regime in China similarly combined to motivate the creation of the Colombo Plan. Australia, through the prominent urging of its Minister for External Affairs, Percy Spender, began to realize the need for an outward-looking foreign policy. It organized a meeting among Commonwealth countries in Colombo, Ceylon (Sri Lanka) in 1950 to outline an aid and technical assistance program for South Asia, agreeing both on communism's threat to the region and the global benefits of Asian growth. Although the program was no Asian Marshall Plan (or "Spender Plan"), its legacy has proved to be an enduring anchor of Western nations in South Asia to the present day (see Oakman 2010), with many highly placed individuals in member developing countries benefiting from scholarships and other training programs.

By 1960, donor aid flows had become large and broad enough to warrant professionalization and multilateralization. In the United Kingdom, a 1960 White Paper identified economic development as the best way of lifting poor nations out of poverty, and a Department of Technical Cooperation was created in 1961. In the same year, the United States Congress passed the Foreign Assistance Act, creating USAID. The World Bank's International Development Association (IDA) was formed in 1960 to provide concessional credits to poor countries that were deemed not creditworthy for IBRD loans. In 1960, rich countries also established a committee called the Development Assistance Group (later renamed the Development Assistance Committee, or DAC) to "consult on the methods for making national resources available for assisting countries and areas in the process of economic development."

The 1960s also marked the beginning of the first "UN Development Decade," launched by the General Assembly in December 1961. The concept was for a "growth plus change" agenda, to be implemented through a process that laid out specific goals for each country. Some of these goals, like a 5 percent minimum national income growth rate, were not generally

achieved. Others, like smallpox eradication, succeeded beyond expectation. From this beginning, the UN has over time set out around fifty quantified, time-bound economic and social goals, culminating most recently in the Millennium Development Goals (MDGs), most of which have been largely achieved (Jolly et al. 2005). A few, however, including the famous pledge of advanced countries to provide 0.7 percent of GNP in the form of aid to developing countries, have been largely ignored.

The 0.7 percent aid target has had a mixed record. It was never accepted by the United States, but has provided a convenient rallying point for European and other aid donors. Its problems partly stem from the weak analytical underpinnings and justification for the figure. There is a suggestion that the starting point was the 1958 call by the World Council of Churches for countries to contribute 1 percent of their national income to support development. That figure dovetailed with academic calculations of the money needed to fill the savings and investment gap for developing countries to raise their growth rate to meet the UN targets. In 1968, UNCTAD noted that public flows represented two-thirds to three-fourths of total flows to developing countries; as such, they computed that official aid flow should be 0.75 percent of GNP. The more modest figure of 0.7 percent was a political compromise recommended by the Pearson Commission in 1969 but has no formal standing (see Clemens and Moss 2005).

The institutionalization of the aid architecture during the 1960s and 1970s revealed serious cleavages in the development agenda, with the UN and other multilateral agencies struggling for leadership. Developing countries had a greater voice in UN discussions, where the focus was kept on aid, basic needs, and human development. The UN agenda reflected a "rights-based," individual-centered approach to economic development, as laid out in the Universal Declaration of Human Rights (adopted by the General Assembly in 1948), coupled with a focus on post-independence state-building. Advanced countries, on the other hand, dominated the agenda of the World Bank and the DAC and maintained a focus on economic growth, debt, free trade, and private investment. The gap between these two agendas would grow so large that in 1977 the Brandt Commission on international development issues was formed to chart a new path forward.

For a brief period, there was a convergence of views between developing and rich countries. Robert McNamara was appointed President of the World Bank in 1968 and brought with him a bold vision. He set out to double the Bank's overall lending volume in five years, with a focus on reducing absolute poverty, shifting resources toward Africa, and strengthening assistance for education, agriculture, and population growth. In 1974 his Chief Economist, Hollis Chenery, published an authoritative volume, *Redistribution with Growth*, to balance the macroeconomic and poverty-reduction issues. But this rapprochement was short-lived. The food and energy price hikes of the early 1970s caused serious macroeconomic disruptions in developing countries, with bouts of high inflation and excessive deficits, funded temporarily through borrowing from commercial banks. That borrowing became unaffordable when the United States ratcheted up interest rates in a determined effort to bring down the double-digit inflation rates created by supply shocks and accommodative monetary policy.

In August 1982, Mexico became the first of many countries to announce that it could not repay its loans (FDIC 1997), ushering in a "lost decade" for development and forcing a prolonged period of fiscal austerity upon many countries. The Baker Plan bought some time for countries to avoid default by encouraging a rescheduling of bank debts, but it was not until the Brady Plan of 1989 that a long-term solution to the debt crisis was found.

The Structural Adjustment Programs (SAPs) introduced in the 1980s by the IMF and the World Bank widened the gap between those arguing for higher public investments in human capital and poverty reduction and those focused on macroeconomic and fiscal rectitude. To the former camp, it seemed unfair that servicing the debt should come at the expense of cutting services designed to help the poor, when the benefits of borrowing were often captured by elites in developing countries. There was clear evidence to show that corruption and capital flight were important drivers of debt difficulties, but these had deep institutional causes and could not be easily remedied. Hence the options were cast in terms of stark choices: default or cut spending. Default, by and large, was considered unacceptable as it could undermine the basic objective of bringing countries into the global economy. When Brazil announced a moratorium on its debt payments in early 1987, the response from banks was chilling: they froze trade credit lines and other working capital, imposing huge costs on the Brazilian economy. Official organizations that could have provided Brazil with much-needed liquidity declined to do so.

Support for the Brady Plan, with its perceived tilt towards commercial banks over poor people, fueled criticism of the IMF and World Bank as neocolonialist institutions with inadequate concern for poverty reduction, a perception both tried hard to counter. Formulating a new approach based on "country ownership," the two moved away from the staff-prepared Policy Framework Papers and encouraged countries to produce Poverty Reduction Strategy Papers (PRSPs, see IMF 2012), designed to foster local participation and to define more explicit partnership agreements. Similarly, the DAC formally endorsed country ownership as one of five core principles of the 2005 Paris Declaration on Aid Effectiveness. Although it has taken time for some countries to build up their capacity to produce and implement such strategies, there is now broad consensus that the leadership and responsibility for this process rests with developing countries themselves. Handily, developing countries themselves recognized the costs of macroeconomic profligacy and have become more financially prudent.

Throughout this period, we have seen that development practitioners' focus has swung back and forth between macroeconomic considerations, such as capital and infrastructure, and individualistic ones like basic needs and poverty. In some sense, the MDGs, with their focus on subjects such as child health and hunger, marked another shift in the latter direction. However, the new emphasis on country-ownership has generated pushback toward growth. Both Ghana and Vietnam added "growth" to "poverty reduction" in the titles of their national development strategies. Indeed, growth is perhaps the only way to ensure independence from donors and the strictures of aid conditionality.

The country-ownership focus requires a new architecture of development cooperation that has yet to be fully put in place. The prevailing architecture was organized around donor meetings, whether in Paris, at the DAC, or Washington, at the World Bank. Developing countries had muted voices at these gatherings, despite some efforts to increase their participation. However, it has not been easy to replace these with country-based meetings. In some cases, developing countries do not have the capacity to host effective meetings (nor the willingness to disagree publicly with key donors). In other cases, donors have not delegated sufficient authority to their in-country representatives to permit them to make decisions on new partnerships.

Part of the difficulty with any form of meeting as the centerpiece of the development architecture is the sheer number of stakeholders—a problem that has become known as donor

proliferation. In 1960, there were on average only two donors active in each developing country. By 2006, that number had grown to more than twenty-eight (Frot and Santiso 2009). Simultaneously, a growing number of international and local civil society organizations have become prominent donors, with some international non-governmental organizations (INGOs) now larger than many official aid agencies. Collectively, private philanthropy accounts for $50 to $75 billion in grants each year, and these organizations have a large on-the-ground staff presence and accumulated experience (Kharas, Makino, and Jung 2011). While most INGO programs involve a large number of small programs, the private business sector, and some foundations, are attempting to develop scalable development solutions through new business models aimed at the "base of the pyramid" and institutional investments, like agricultural research. In each case, such efforts usually involve some form of public–private partnerships.

An additional complication has been the intersection of the development and environmental agendas. The artificial separation between these was recognized as early as the Brundtland Report of 1987, which introduced a "sustainable development framework." Real change started in 1992, at the Rio de Janeiro summit, out of which came the goals of promoting conservation, growth, and equality. Twenty years later, the Rio + 20 conference again proposed a formal linkage between environment and economic and social development, paralleling UN Secretary General Ban Ki-Moon's calls for a set of "Sustainable Development Goals" (SDGs) to replace the MDGs after 2015. The bold ambition of the SDGs has been made possible by the perceived success their predecessors. Agreed to in 2000 as part of the Millennium Declaration, the MDGs have framed the global debate on development for over a decade. Although some of the goals will not be met in the aggregate, and many more will not be met at the level of individual countries, the MDGs have firmly established the value of goal setting at the international level.

Thanks to the MDGs aligning the priorities of many development actors, the notion of an ecosystem rather than an architecture governing development cooperation relationships is taking hold. In an ecosystem, there are complex interactions among stakeholders. Unlike an architecture, where there are strict relations between the components (and an acknowledged architect that designs the structure), an ecosystem may have no formal rules, but rather evolves in a way that serves the purposes of each actor. Although the actions of each actor have an impact on others, there is no need for formal rules to ensure compliance; self-interest does the job.

The tension between the architecture and the ecosystem is most strongly observed in the activities of advanced country donors and some emerging economies, particularly China. The advanced countries are eager for China to play by the same set of rules that they have established for themselves, including adoption of international social and environmental standards and promotion of good governance. The Chinese are reluctant to be bound by rules that they did not develop and that they feel have not resulted in effective project implementation. Developing countries prefer to use competition between Chinese and other donors to spur better performance from each, rather than organizing cooperation and harmonization. Similar issues apply to NGOs, many of which prefer to work outside of government systems and not involve themselves in formal coordination efforts.

The latest attempt to shape development cooperation is through the Global Partnership for Effective Development Cooperation, an outcome of the Busan Forum. It formalizes the acknowledgment that a variety of stakeholders should be integrated into development

discussions. Its steering committee, which will effectively set its agenda, has three co-chairs, one each from advanced countries, emerging economies, and poor countries. The remaining membership of the steering committee includes non-state actors from business, civil society, and Parliamentarians. In opting for a governing structure that better reflects today's major players, the Global Partnership thus provides a new model for modern international development. But as many of its members cannot make commitments on behalf of their full constituency, the steering committee is likely to be more effective in framing soft norms and a new narrative for the development ecosystem than in constructing a new architecture for true development cooperation.

Three Strategic Questions

The fundamental problems for development cooperation are the modalities of assistance. In particular: Who should get assistance? How should assistance be provided? In what areas should assistance be given? Many different approaches have been tried over the years. Aid has been targeted at countries with strong democracies, those with strong economic policies, or sometimes simply those that donors hope to court politically. It has been provided through a mixture of money, technical assistance, and knowledge sharing. It has focused on agriculture, heavy industry, infrastructure, human capital, women's empowerment, and the removal of trade barriers. Such divergent strategies highlight the extent to which development policy is still very much a work in progress.

Targeting Aid: Who Should Get Assistance?

Who should be targeted by development assistance so as to achieve the greatest impact? This seemingly simple question has understandably generated extensive debate. In the mathematical models of economic growth that informed the earliest efforts, solutions lay in the functional form assumptions of the relationship between output and capital. In the Cobb–Douglas formulation of the Solow growth model, for instance, capital exhibits diminishing returns, so capital-poor countries can obtain a higher output benefit from aid. These models suggest targeting the poorest countries, much as the IDA attempted to do at its inception.

Poverty targeting continues to be a major practice among development agencies. Gross national income per capita remains a strong predictor of aid (Alesina and Dollar 2000) and the concept is enshrined in much of the rhetoric used by aid agencies to justify their mission. The World Bank, for example, has coined the motto "Our dream is a world free of poverty" and includes per capita income as an explicit criterion in its aid allocation formula. Particularly for organizations in the public eye, poverty targeting has also come to mean targeting poor people rather than poor countries. British Prime Minister David Cameron, in defending Britain's aid budget, implored Britons to consider the "millions of children around the world who are thinking: 'Am I going to get the next meal?' " (Mulholland and Wintour 2012) Many NGOs advertise with a similar focus, asking donors to "sponsor a child" rather than to support the organization as a whole.

The focus on individualized cases of poverty has become so intense that it has drawn complaints for misdirecting the debate, skewing the focus, for example, disproportionately toward food issues (see, for example, Collier 2007; Banerjee and Duflo 2011). More generally, aid is wasted, or at best a minor palliative, when it is recipient country policies that form the primary barriers to development. Aid critics in this camp argue that poverty is the result of government mismanagement rather than a lack of resources, and hence support for mismanaged countries only prolongs the pain of underdevelopment. Indeed, aid is often kept flowing despite anecdotes of waste and flagrant theft by developing-country politicians. Corruption was a taboo subject among development practitioners, acknowledged but not discussed in public, until World Bank President James Wolfensohn's 1996 speech in which he stressed the "need to deal with the cancer of corruption" (Wolfensohn 1996).

These critiques point to the fundamental problem of "aid fungibility." Aid to poor countries does not necessarily go to poor people—it can be diverted to rich people in poor countries. Even directly providing resources for educating poor children does not mean more resources for education; politicians may feel a lesser need to allocate domestic resources when donors fund education. In fact, most studies suggest that aid is highly fungible and so cannot be effectively targeted (Devarajan and Swaroop 2000).

One way of addressing these pitfalls is by aligning the vision and goals of the aid recipient and the donor. When that occurs, there is little incentive for countries to shift their own resources to another area when a donor steps in. Partly for that reason, the targeting focus has shifted toward rewarding countries with good governance and good policy environments. Academic studies (most notably Burnside and Dollar 2000) found that aid was only effective in countries with "good policy." Although their empirical results have not been found to be robust (Easterly 2003), the intuitive appeal and implicit acceptance of the Burnside–Dollar results remains high among aid agency officials.

From a practical point of view, the "good policy" concept can only be operationalized if there is agreement on what constitutes good development policy. The economist John Williamson unwittingly provided this missing piece by outlining a set of propositions on which there appeared to be a consensus within the development community. The Washington Consensus (Williamson 1990) argued for fiscal discipline, pro-poor public spending, trade and foreign investment liberalization, deregulation, and other market-friendly measures. While it quickly became contentious (no mention of institutions or rule of law) and sometimes abused (removal of capital controls is often erroneously cited as one of Williamson's recommendations), the Washington Consensus provided the basis for aid agencies to develop performance-based allocation systems—essentially targeting models. The most explicit of these was the foundation (by President George W. Bush) of a new style of aid agency, the U.S. Millennium Challenge Corporation (MCC), that competitively assigns grants to developing countries meeting good governance and policy criteria.

The biggest problem for targeting has been the micro–macro paradox articulated by Paul Mosley (1987): that aid might be effective at the project level but not at the macroeconomic level. This proposition implies that country-based targeting of aid to achieve better aggregate developmental impact is futile, and that aid should instead be provided wherever projects can be successfully implemented. Several empirical studies of aid effectiveness supported this conclusion by failing to find a systematic relationship between aid and growth (Easterly 2003; Rajan and Subramanian 2008). Others went further and argued that aid was often harmful (Moyo 2009). But more recently, a detailed review of the evidence by Arndt, Jones,

and Tarp (2009) concluded that there does exist significant evidence for a positive association between aid and growth, reviving the case for targeting.

Despite the intense discussion of aid's efficacy, the targeting of development assistance is often shaped by politics rather than impact. During the Cold War, this motivation was explicitly acknowledged. Truman and Spencer's efforts at international engagement were spurred by a fear of "the communist threat." Today, the rhetoric is more high-minded, but the desire to win friends remains the same. During her trip to Africa in August, 2012, U.S. Secretary of State Hillary Clinton promoted "a model of sustainable partnership that adds value, rather than extracts it" and made clear her strong support for democracy and human rights on the continent. Her comments, however, were also intended as a salvo in a new U.S. "aid war" with China, implicitly linking the latter's aid with a self-interested natural resource extraction unconcerned with human rights. More explicit discussions of the political benefits of foreign aid have also noted the links with the "war on terror" (see, for instance, Patrick 2006).

A number of academic studies also point to the political nature of foreign assistance. Alesina and Dollar (2000), for instance, find stronger correlations between aid and "political-strategic" variables than between aid and indicators measuring poverty or policy; for instance, years as a colony and UN votes have more explanatory power than income or democracy. Kuziemko and Werker (2006) also document that U.S. aid to developing countries on the UN Security Council spikes during those countries' two-year term, strongly suggesting that the U.S. responds to their voting power in global forums rather than solely to their developmental needs.

The newest focus of a combined political-economic approach to targeting is on "fragile states," nations whose governments fail to provide basic services to poor people because they are unwilling or unable to do so. A classic example of a fragile state would be Somalia, but there are many others; approximately 1.5 billion people live in fragile states today. Such countries have been targeted because poverty reduction there has been minimal over the last twenty years (Kharas and Rogerson 2012) and because fragile states have become a potential breeding ground for terrorists. The recent efforts in Afghanistan and Iraq provide telling examples: these two countries alone accounted for one-eighth of global net aid disbursements between 2004 and 2008. The impact, however, has been disappointing. After billions of dollars spent, violence and graft have stalled even the most necessary of projects (Rosenberg 2012). The classic "need versus impact" trade-off that has long governed aid allocation discussions is perhaps most extreme in fragile state situations.

Busan has provided political support for a "New Deal" framework for improving development assistance to fragile states. Building on a dialogue among these countries, the "New Deal" sets out five goals for development cooperation to support: legitimate politics, security, justice, economic foundations, and revenues and services for the poor. What is noteworthy is the balance between narrowly economic and broader socio-political goals establishing the fundamental workings of a state. If these objectives are to be achieved, many donors will have to alter the way aid is targeted and disbursed. Success is far from guaranteed, necessitating a greater risk tolerance and long-term commitment. It remains to be seen whether development cooperation in these countries can avoid the destructive volatility that has characterized many aid programs (Kharas 2008). Fragile states are sure to be subject to cycles of advancement and mistakes. But that short-term volatility should not be amplified by volatility in development cooperation driven by targeting formulas focused on annual performance metrics.

Money, Institutions, and Knowledge: How Should Aid be Delivered?

Aid is often thought of primarily in terms of the delivery of money and commodities, but technical assistance, capacity building, debt relief, and other instruments have also been used over the years. Financial transfers were the main tools of the Marshall Plan and the World Bank credits and loans, and have been the principal focus of advocacy efforts to raise development cooperation. Although institutions and knowledge sharing are becoming more prevalent in growth theory (Acemoglu and Robinson 2012; Romer n.d.), net financial transfers still form the core of aid and thus prompt the most contentious discussions. For example, at Busan, developing countries argued forcefully to increase the share of aid provided as budget support, and have repeatedly criticized technical assistance as inadequately tailored to their own problems.

Analytical support for increasing financial transfers has come most prominently from Jeffrey Sachs's reincarnation of the "Big Push" theory. Sachs describes poor countries as stuck in a "poverty trap," returns to investment in any one area lowered by the absence of investment in another. As an example, building a school in a rural area may not achieve the desired increase in enrollment if roads to the school are not also built. In this view, poverty begets poverty. To be effective, then, development assistance needs to be given in large amounts to "push" communities out of the poverty equilibrium. In keeping with this theory, Sachs has piloted large investments in the Millennium Development Villages project to demonstrate the need for simultaneous, complementary investments. Early evaluations of the Millennium Villages have been controversial, with Sachs' evidence of their impact hotly disputed by other academics.

After the 1980s debt crisis, the focus swung to supporting policy and institutional reform, exemplified by the World Bank and IMF structural adjustment programs. Some critics felt these programs went too far and questioned the connection between the reform programs and the loan's objectives. For example, the IMF's programs in East Asia to alleviate the regional banking and currency crises in 1997 and 1998 included many issues seemingly unrelated to the restoration of macroeconomic balance that is the IMF's remit (Feldstein 1998). But despite such criticisms, most developing countries have successfully adopted structural reforms, either with international support or unilaterally, and have improved their macroeconomic stability, reduced debt levels, and brought down inflation (with notable exceptions like pre-dollarization Zimbabwe). Many of these reforms are credited with helping developing countries avoid the worst effects of the Great Recession.

Development through institutional change is the core argument of Acemoglu and Robinson's *Why Nations Fail* (2012). They argue that nations that develop "inclusive" institutions have much greater potential for growth compared to nations in which local elites support exploitative or "extractive" institutions that transfer rather than create wealth. Acemoglu and Robinson do not propose specific mechanisms for encouraging better institutions, but others do. Paul Romer (n.d.) has advanced the idea of "charter cities" in developing countries that would adopt institutional structures from an advanced country in special reform zones. The idea is that the success of these zones would then spread throughout the economy. Romer's view that institutional change can be addressed by building and then expanding "islands of excellence" has been forcefully challenged by others, but it remains implicit in many development activities. While cities may be a big reach, it is practically a requirement for any

major development project today to account for how it will improve local institutions, or at least circumvent their shortcomings.

Increasingly, developing countries are interested in questions of how to implement policy, rather than which policies to implement. There is a growing sense that the business maxim that success depends 20 percent on strategy and 80 percent on implementation holds for development as well; many countries feel their greatest need is for advice on implementation, particularly in weak institutional contexts. This form of knowledge transfer has increasingly been provided by South–South cooperation, developing countries transferring their practical know-how based on their own experiences. It is far harder for advanced countries, or even multilateral institutions, to transfer this kind of knowledge.

A different knowledge trend in development assistance has been to identify better microeconomic interventions, such as optimal pricing for mosquito nets or policies to prevent absenteeism among government workers. The movement has been galvanized by the use of Randomized Control Trials (RCTs) that offer statistical reliability in the interpretation of causality. Heavily promoted by groups such as the MIT-headquartered Jameel Poverty Action Lab (J-PAL), RCTs have proliferated. However, they are not a panacea; an RCT can show whether a particular project worked in a particular context, but any extrapolation to projects in different contexts (external validity) is necessarily tenuous. In some sectors, meta-studies of RCTs and other evaluations find that results are not robust (Glewwe et al. 2011), reducing faith that these studies radically expand knowledge of effective development interventions.

The Search for the "Silver Bullet:" In What Areas Should Aid be Given?

Early aid interventions through the 1960s saw a heavy emphasis on funding for infrastructure. These projects left a long-standing legacy; for example, the Tarbela Dam in Pakistan was started in 1968 and still today provides around 20 percent of Pakistan's electricity.[3] The basic thesis was that infrastructure was not only a key missing factor in development, but also a key area of comparative advantage for advanced countries, as it required a mix of finance and advanced engineering knowledge for design and implementation.

But infrastructure projects brought with them a range of social and environmental problems (in particular with regard to resettlement), while their benefits were widely dispersed and often oriented toward the rich and middle classes who could afford the services. After the success of the Green Revolution, such considerations prompted the McNamara World Bank to reorient its focus toward the basic needs of the poor: agriculture, health, and education became the new focus areas for development. Partly as a result, the 1970s saw developing countries sharply expanding their borrowing to finance physical and human capital accumulation, ultimately leading to the 1980s debt crisis. While structural adjustment was effective in restoring macroeconomic balances, in many places it was also seen as responsible for austerity programs that slashed investments in development. One particular concern was that developing countries began to over-exploit their natural resources. By the early 1990s, an influential environmental movement was calling for the integration of environment and development, resulting in the Rio agreements, including the Agenda 21, Forest Principles, the Biodiversity Convention, and the Framework Convention on Climate Change (including

the Kyoto Protocol). These and other practices would collectively be termed "sustainable development." The major development agencies enhanced their environmental activities, but not sufficiently to address the large and complex issues raised in Rio.

The year 2000 saw the Jubilee campaign—a massive coalition of youth groups, celebrities, churches and other civil society organizations—successfully pressure rich countries to absolve the debts of poor countries. While conditions were attached to these debt cancellations, restoring some of the attention on structural adjustment, the campaign's visibility and the enormous sums of money involved made this issue the centerpiece of development debates for several years. In theory, the money saved from debt relief was supposed to be redirected toward poverty reduction programs. In practice, many of the savings were artificial. Countries simply did not have the money to service their debts, and the debt relief simply recognized this reality. Ex post assessments have not found that debt relief materially and significantly had impacted development (Dömeland and Kharas 2009).

The large writeoffs associated with debt relief reopened questions of what had become of all the aid money. One obvious answer was that much of it had been stolen or wasted. The anti-corruption agenda begun by Wolfensohn was pursued even more vigorously by his successors, culminating in 2006 with a hotly debated report on strengthening World Bank Group engagement with governance and anti-corruption. The most contentious issue was the extent to which the World Bank should enter into the domestic political affairs of its borrowing country clients. The governance agenda also reversed the trend toward country ownership of development interventions, proposing that the World Bank should take up governance issues even when uninvited by the concerned country.

The changing fashions of development assistance suggest some hard truths. Development requires making progress on a range of complex, intertwined issues. Yet these cannot be tackled simultaneously, necessitating a difficult allocation of scarce resources among worthy goals. As yet, the "silver bullet" that identifies a primary missing ingredient to catalyze development remains elusive. No single idea among these successive priorities has been able to turn a struggling economy into a prosperous one. Indeed, after over a half-century of effort, there are discomfortingly few solid conclusions about how to achieve development. The consensus of today is that each country must chart its own way forward. The ingredients of success may be common, but the recipes—the implementation, sequencing, and phasing of the needed investments, institutions, and incentive frameworks—differ from country to country (Commission on Growth and Development 2008).

Conclusion

A major paradox of the twenty-first century is that, despite the failure to formulate a grand theory of development, we nonetheless live in a Golden Age of growth. The past decade has seen the fastest increases of per capita income and the most rapid reduction of poverty in history. As more development success stories arise outside of Asia, these trends appear to be truly global. While credit for this performance cannot be attributed directly to development assistance, there is a growing body of evidence that such assistance has been valuable. Certainly development assistance continues to enjoy enormous popular support in rich countries, and it has engaged the energies of millions of professionals in official aid agencies, civil

society organizations, academics and, increasingly, businesses. Nobel laureate Robert Lucas' comment that "once one starts to think about [development issues], it is hard to think about anything else" (Lucas 1988) seems to apply far beyond the narrow world of academic economists.

Development assistance has a checkered history of constant adaptation. Caught at the intersection of politics, security, and economics, it has had to manage the tensions associated with post-colonial relationships, the Cold War, globalization, sovereignty, and human rights. Coordinating development assistance was once a simple matter of a few, mostly like-minded, countries sitting around a table to talk strategy and goals. It has morphed into an enormous undertaking involving all member states of the United Nations, hundreds of international agencies, thousands of international NGOs, and hundreds of thousands of community development organizations.

Development assistance is being transformed at a remarkable pace. A landscape once dominated by official aid agencies and government-to-government bilateral relationships is now being altered by important NGOs and hybrid "impact investment" private-sector companies. Technology is opening up new avenues for development cooperation among individuals. For example, the micro-credit site <Kiva.org> intermediates about $3 million a week, an amount approximately the same as USAID. Technology is also transforming the transparency of aid, and increasingly of budgets, helping to shift accountability to citizens and Parliamentarians in developing countries themselves.

There is no single aid architecture (or architect) that can fashion rules governing the myriad activities undertaken in the name of development assistance. The system has become too complex. But that need not be a disadvantage if there is agreement on an overarching set of principles and a focused set of broadly shared goals. These principles ensure that even if development assistance is not a cooperative endeavor, it should at least be coordinated (Woods 2011). The distinction here is important. Few expect that China and the U.S. will cooperate extensively in their development assistance; in fact, many aid recipients hope they will compete with each other. But rather than poaching the best civil servants to work on one's own projects or undermining country systems of accountability, the two can use formal agreements or implicit norms to coordinate and avoid waste and duplication. Examples of such behavior are increasingly common: the Istanbul principles of civil society, the Equator principles governing private business, and certification standards for sustainable production in specific sectors are all part of the growing web of norms that can lead to better coordination.

Perhaps the most important thread in this narrative will be the formulation of a set of sustainable development goals (SDGs), now being pursued by the United Nations. These goals will try to identify a few priorities for global action, while leaving flexibility for countries to pursue their own development paths. They will try to fuse the social, economic, and environmental aspects of development. If successful, the SDGs can mobilize resources and innovative ideas from millions of people and organizations, helping to align efforts of a large number of actors without having to agree on formal partnerships. But the complexity of the politics and the interconnectedness of these issues mean that success is by no means guaranteed. Failure to generate broad consensus on the goals could thrust development assistance into a chaotic state of competing interests and priorities. That would be particularly unfortunate for the world's poor, who will increasingly be living in fragile states where domestic governments are unable to coordinate development assistance.

The rapid changes occurring in the world of development assistance have led to some calls for "the end of ODA." Indeed, the proliferation of non-DAC donors and new modalities of assistance are rendering the old model of financial support for economically viable projects obsolete (Severino and Ray 2009). Thankfully, the innovations of the Digital Revolution offer an alternative to the increasingly fragmented system of today in the form of a new model for "open source development." The transaction costs of transferring resources, experiences, and knowledge are falling dramatically. Over two billion poor people today have no access to financial services. Thanks to the spread of cell phones and the development of mobile money, that figure is set to halve over the next decade, opening up opportunities for a range of new development services and approaches. Base-of-the-pyramid business models are viewing millions of poor people as customers or suppliers. In short, development assistance is rapidly becoming decentralized and competitive. To be sure, such a decentralized system will require new levels of information and transparency but it offers the promise of a fundamental break from the current *modus operandi*. Successful development assistance in the future will be characterized by partnerships that catalyze change and transform markets and institutions, creating the space for additional innovations and products aimed at improving the welfare of the poor.

NOTES

1. I am indebted to Cory Smith for his excellent research assistance on this chapter.
2. IBRD (1989) Articles of Agreement (<http://siteresources.worldbank.org/EXTABOUTUS/Resources/ibrd-articlesofagreement.pdf>).
3. Calculations from World Bank (n.d.) and Pakistan (n.d.) data.

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CHAPTER 51

CONSULTATIVE FORUMS: STATE POWER AND MULTILATERAL INSTITUTIONS

GREGORY CHIN AND JORGE HEINE

Introduction

The global aid architecture is undergoing significant changes. Broader shifts in the world economy are giving rise to contestation over ideas, norms, rules, best practices, and lessons learned about development cooperation between the traditional donors and the BRICS rising states, as well as changes in the institutional structures of the aid system. To date, there is still no consensus on the extent to which the traditional donors are actually declining, or whether their relative economic decline and the simultaneous ascent of the rising states signifies either a fundamental change in the norms and goals of international development or a fundamental evolution in international relations.

Nonetheless, it is tenable to suggest that other states have started to look beyond the traditional Northern industrialized countries to a group of mid-level countries (South Korea, Turkey, Malaysia, Mexico, Indonesia, and Chile) for models of development, and are turning increasingly to the so-called "emerging economies" of Brazil, China, India, and South Africa for lessons learned and policy experiences. The influence of these rising economies is rooted in their demonstration effect, as well as the impact of the financial crisis on Anglo-American economies and the ensuing global economic downturn, which have catalyzed rethinking about preferred models.

The exact lessons to be drawn from the phenomenon of the rising states remain controversial, and the scholarly debate is still in the formative stage (for examples of recently published studies, see Chaturvedi, Fues, and Sidiropolous 2012; Chin and Quadir 2012). Representatives of the (re)emerging aid senders suggest that their national experiences offer alternatives to the predominant models offered by the International Monetary Fund (IMF)

and the World Bank, that is, the so-called "Washington Consensus" or "neo-liberal" models. The skeptics argue instead that the origins of the dynamism of the emerging economies include heavy doses of economic liberalization and integration into the world economy, and that the models offered by the rising donors are actually a story of convergence with the dominant models. Whereas the proponents of emerging economies as alternatives see the end of universal models, that is, the end of a "one size fits all" approach, the skeptics emphasize the limits of and constraints on utilizing the rising states as models.

This chapter does not focus on the internal dynamics of the individual BRICS countries (for such analysis, see the chapters on Brazil, China, South Africa, and India in this volume). Rather, we explain how the rise of the BRICS countries as aid givers and their contestation with traditional donors is generating realignments in the structure of inter-state relations, the multilateral arrangements of the global aid system, and the main consultative forums for development cooperation.

Scholars of international organization have long explained that the multilateral order cannot hold when the arrangement of power and influence in international institutions is significantly misaligned with the real distribution of world power (Cox 1992; Newman, Thakur, and Thirman 1996). We analyze how shifts in the balance of world economic power have resulted in misalignments in representational arrangements inside the established multilateral consultative forums for development cooperation. Our main argument is that the representational misalignments and the tension between the BRICS rising states and the traditional donors have resulted in three differing institutional outcomes: first, the *modification* of existing informal platforms at the apex of the existing system of global governance to try to incorporate the concerns and experiences of the rising states, as seen in the modification of "Gs" leaders' summits from the old club of the Group of 7/8 to a Group of 20 Leaders process; second, the *creation* of new consultative forums, especially the BRICS leaders' summitry and the IBSA Dialogue Forum (India, Brazil, South Africa); and third, the *paralysis* and *decay* of the established multilateral consultative forum for international coordination on development cooperation, the OECD-DAC regime (Organisation for Economic Cooperation and Development–Development Assistance Committee).

Rising States, Rising Donors

The world economy is in transition. The shift is reflected in the rise of new centers of growth, production, consumption, trade, and finance—and thus new centers of global influence as well. The emerging economies are realigning the world economy by the force of their economic weight, both as individual countries and through their collective structural impact.

The five BRICS countries together account for nearly 30 percent of the world's land area, 42 percent of the global population, about 18 percent of the world gross domestic product (GDP), and 15 percent of world trade. In purchasing power parity (PPP) terms, the GDP of the BRICS countries increased from 16 percent in 2000 to nearly 25 percent in 2010, and is projected to reach 47 percent in 2050. Trade between these five countries experienced rapid growth of about 28 percent per annum from 2001–10, and is projected to reach $500 billion in 2015. BRICS representatives suggest that they have a lot in common: sharing a similar

stage of development, facing a similar historical task of developing their economies, improving the well-being of their people, and restructuring their economies to adjust to changes in the world economy.

Within this structural realignment, we see the rise of large "emerging economies" as aid providers. The dramatic rise of China as a creditor and net donor, as well as Brazil and South Africa, and potentially India, underpins the new influence in global development (Manning 2006).

During his eight years in office, Brazilian president Luiz Inacio Lula da Silva and senior Brazilian officials intervened directly to convert Brazil's growing economic weight into diplomatic influence. Lula da Silva made 12 visits to Africa (21 countries); foreign minister Celso Amorim made 67 such visits to 34 countries. More than half of the embassies that Brazil opened in these years were in Africa, for a total of 37—more than traditional donor countries such as the UK (for these figures, and part of the argument below, see World Bank 2012). During Lula's visits to Africa, Brazil dispensed large amounts of technical assistance, and focused on enhancing capacity in areas such as agriculture, health, and education. For 2011, Brazil's total aid contributions were estimated at just under $1 billion. Chinese leaders matched the Brazilian enthusiasm for official state visits to Africa, and added massive infrastructure investment in road and rail construction, energy projects, public buildings, schools, and hospitals.

Brazil, China, and India have insisted that they do not impose the sort of conditionality favored by Western donors and often resented by African governments. Brazil, China, India, and South Africa all claim to build on "commonalities" they share with African countries, ranging from soil type to technology to public health needs. By training African workers and technicians and drawing on their own public policy experience, these nations position themselves not as the "traditional powers" trying to extract wealth from the Continent, but as Southern development "partners."

One estimate (Kharas 2010) puts the aid of the "non-DAC donors" around $17 billion for 2009, while another recent survey (Walz and Ramachandran 2011) estimates the aid of the BRICS at about 10 percent of total global aid flows. Both are likely underestimations, given that China alone arguably provided approximately $20 billion in aid that year, if we use a broader definition of development finance that includes "economic cooperation"-related concessional loans from its two state policy banks, China Eximbank and China Development Bank. At the same time, we also see the emergence of a "next tier" of mid-level states as aid providers: South Korea, Turkey, and Mexico. The overall outcome is a more complex and negotiated order for international development cooperation.

The growing influence of the BRICS countries as donors should not only be measured with quantitative indicators. As Richard Manning has shown, analyses based on changes in aid contributions do not allow us to see shifts in amorphous qualities of international *influence* (Manning 2006). This is not to downplay the quantitative indicators, especially given that the external capital contributions of the rising states have increased dramatically of late, but rather to suggest that it is useful to map the more amorphous trends of intra- and inter-institutional contestation in order to grasp the evolving structure of power and hierarchy in multilateral consultative forums.

The representatives of the BRICS states suggest that their cooperation is different from many other international and regional mechanisms, such as the G8. It is neither another new grouping of big powers nor a political alliance; rather, it focuses mainly on economic,

financial, and development issues. The Chinese Ambassador to India has stated to the Indian press that "in a sense, BRICS countries act as advocates and practitioners in forging a global partnership for development" (Zhang 2011). The key word is "partnership." They approach the international consultative forums as self-identifying members of "the South" and draw conscious distinctions between the traditional donors and their own approaches to development.

The rising states have taken it upon themselves to question the legitimacy of the established consultative forums for global policy dialogue and the dominance of the traditional powers in decision making for global development, and have pushed for reforms in some of the existing global consultative mechanisms for global development. On the other hand, they have also dedicated official energy and resources to creating alternative consultative forums for policy dialogue on global development and new development assistance arrangements. Whereas one academic observer has likened the scenario to a "silent revolution" in global development (Woods 2008), other scholars have highlighted that the BRICS countries often play the "developing country card" when it suits them (e.g. at the World Trade Organization) while actually demanding a greater voice in other forums, which if achieved would move them into Great Power status.[1]

Institutional Patterns

In the sections below, we detail the three main institutional effects or patterns of multilateral change that we see in the consultative forums for development cooperation, resulting from the rise of the BRICS countries and their collective engagement and institutional contestation with the traditional donors: institutional modification, the creation of alternative consultation mechanisms, and institutional paralysis in the traditional donor regime.

Institutional Modification: the G20 Development Agenda

In the multilateral consultative mechanisms for development cooperation, one institutional response to the growing contestation between the BRICS countries and the traditional donors has been the creation of the Development Agenda of the G20 Leaders process. The initiation of the G20 leaders' summitry process is one example of how the existing global architecture has been modified to try to accommodate the rise of the emerging economies (see Heine 2010). We are referring to the modification of "Gs" leaders' summitry, the realignment of the *informal* consultative platform at the apex of the global economic governance system that was created by elevating the G20 finance ministers and central bank governors meetings to the Leaders level, and the G20 replacing the G7/8 as the key forum for managing the world economy, including providing guidance to the *formal* global multilateral institutions. In theory, one of the aims behind the shift away from the G7/8 and toward the G20 Leaders process was to give greater voice and representation to major emerging and developing countries within global economic governance.

Whereas the BRICS countries have actually experienced significant reluctance from the traditional powers to share power, the G20 Leaders process has given rise to a Working

Group on Development where one can see the influence of the BRICS countries in promoting a paradigm shift in global development. In the consultations around G20 agenda-setting, the representatives of the BRICS have been frustrated by the Working Group on Development (G20 WGD) discussion's being treated separately from the core agenda on "strong, sustainable and balanced growth," and sidelined in terms of priority for the G20 leaders' summits, and in the preparatory meetings of G20 finance ministers and central bank officials that pave the way for the gathering of Leaders. The practice of stove-piping the various Working Group discussions as distinct items on the agenda for the "Gs" leaders' summit was reinforced as a control device for the Toronto G20 Summit. For the G20 process, it has been hard to recover from the segmenting of what in reality are interconnected policy challenges to manage the world economy and promote global development.

However, within the G20 WGD, it has been difficult to ignore the concerns and priorities of the BRICS and the other emerging economies, given that the BRICS countries went into the 2007–9 global financial crisis in stronger shape than the advanced economies—the traditional powers—and emerged from the crisis earlier and stronger; while the crisis has also shaken belief in the preferred models of the developed economies (Chin 2011; Chin and Thakur 2010; BRICS 2012a: 79–102). Within the consultative processes of the G20 WGD, the BRICS countries and the mid-level emerging economies placed a premium on securing growth combined with an emphasis on "sustainability" and equity.

In the consultations for the G20 WGD that were organized by the South Koreans as G20 hosts in November 2010, the major and mid-level emerging economies championed a "return to basics," where the emphasis would be shifted back to promoting economic growth and ensuring national manufacturing capacity, employment creation, and infrastructure investment. Such a return to industrial developmental basics was seen as necessary for providing the bases for sustained national development over time. At the same time, the emerging economies also emphasized addressing the distributional question of "who gets what, and under what conditions" as needed to secure poverty reduction. In the consultations around the G20 WGD, the differences in the approach of the Asian and BRICS countries to the "pro-poor growth" strategies promoted by the OECD-DAC regime and the World Bank since the late 1990s became readily apparent.

The Korean and U.S.-based proponents who saw the G20 Leaders process as offering a venue to promote a paradigm shift in global development policy attempted to initiate the shift via the "Seoul consensus on development" issued at the close of the Seoul G20 Summit in November 2010. The "Seoul Consensus" consists of eight pillars: infrastructure, private investment and job creation, human resources development, trade, financial services, G20 platform for knowledge sharing, resilience and food security, and governance. The South Korean hosts of the Seoul G20 dedicated significant effort to shaping the global development agenda for the summit, especially the break from a "one size fits all" model, and to reestablish the principle that different models and experiences of development should be considered. To broker what many saw as a new ideational and normative consensus on global development, South Korean development strategists and diplomats conducted extensive year-long negotiations with leading countries in the G20, the IMF, and the World Bank on the major agenda items for the WGD. They also expanded the consultation process at the regional level, by carrying out discussions not only with regional development banks but with other major regional institutions, such as the Association of Southeast Asian Nations (ASEAN), the African Union, Mercosur, and Caricom.

The most telling indication of the influence of the BRICS and Asian countries in the G20 WGD was the listing of infrastructure development as the first pillar in the proposed work plan for the G20 WGD for the Seoul Summit. In the final communiqué of the Seoul Summit, the details were laid out for the "Seoul Consensus" on development, which gave priority to infrastructure, private investment and job creation, and financial services—including a role for state development banks. In the follow-up to the decision of the G20 Leaders in Seoul in November 2010, and in preparation for the Cannes G20 Summit (November 2011), the French hosts announced in February 2011 that a "High Level Panel for Infrastructure Investment" had been created to "mobilize support for scaling up infrastructure financing."

Although the French G20 presidency gave strong rhetorical support to the development concerns of the major emerging economies within the G20 WGD, in the end the results of the Cannes Summit were quite disappointing for the BRICS and the other developing country members of the G20. The rhetoric of the French G20 Summit in Cannes, under president Nicolas Sarkozy strongly emphasized the significance of the BRICS and developing countries within the G20 process. For example, the background document to the G20 Finance Ministers and Central Bank Governors' meeting argued:

> Although global poverty levels have fallen considerably over the past two decades, developing countries still have enormous needs that are not being met.... Emerging countries have become key players in global economic governance and development. It is up to the G20 to improve global economic governance and help those institutions in charge of it to evolve. Thus, China, the world's second largest economy, is set to become the World Bank's third-largest shareholder and one of the major multilateral donors for development. More generally, greater South–South cooperation means that development assistance is no longer the exclusive domain of advanced countries. (Lagarde and Noyer 2011: 35)

The French G20 presidency went beyond the preferences of many G20 members and expanded the development agenda for the Cannes Summit to the following four priorities: (1) strengthen infrastructures in developing countries; (2) ensure food security in the most vulnerable countries; (3) extend social protection; and (4) mobilize innovative sources of development financing. During the preparatory meetings of the WGD at Cannes, a number of BRICS and other developing country members of the G20 noted that they believed that the French presidency was going too far in expanding the development agenda, and that it would only dilute the commitments from the Summit, thus negating any real chance to deliver on the commitments.

The lack of consensus from the G20 summit process on measures to ensure food security for the developing world and the limited follow through on the commitments made by G20 Leaders on financing for infrastructure investment were disappointing for the emerging economies. But in the end the Panel identified only a modest list of concrete regional initiatives that the multilateral development banks (MDBs) were willing to support—and that the G20 Leaders were willing to endorse. Progress has stalled on scaling-up of financing for infrastructure development for developing countries—a duty that was ultimately delegated by the G20 Leaders to the MDBs. This outcome has been due either to reluctance on the part of the World Bank to undertake the assignment, or its inability so far to deliver on such a policy breakthrough, as requested by G20 Leaders. Chinese officials have noted that the World Bank has not gone beyond instructing African countries, for example, to rely heavily on global capital markets for infrastructure financing, or demanding that they make major

institutional liberalization reforms as a precondition for the country to receive a loan from the Bank to finance infrastructure investment.[2]

The G20 Development agenda has also seen limited progress in securing policy breakthroughs on food security (Clapp 2012), on extending social protection, and on innovative financing of development, despite the efforts at the Cannes G20 to include input from the Gates Foundation on the role of private-sector involvement in global development. It is reported that the Gates Report was dismissed by powerful BRICS countries, which are not as supportive of relying more heavily on private sources of development financing. Officials in Beijing caution that the move toward privatization of development assistance could be the first step on a steady slope where G7 donors try to shed their (public-sector) responsibilities for meeting their international commitments on development assistance.[3]

Creating Alternatives: BRICS Summitry

The contestation between the rising states and the traditional donors over development cooperation has also played out institutionally in a second outcome: the BRICS states, as a group of nations that have chosen to go "outside" the existing aid architecture to create their own multilateral consultative platform for dialogue, consensus building, and decision making on development cooperation.

The BRICS countries, as a cooperative grouping, are beginning to receive more scholarly attention, although skepticism continues to be the conventional wisdom. Even though the academic world has been slower to adapt, the BRICS have caught the attention of the global media (Heine 2012). The BRICS have evolved into a multi-level cooperative framework, with a leaders' summit as its highest form, and supplemented by meetings of senior security representatives, foreign ministers, finance ministers, governors of central banks, and members of think tanks, business circles, and financial institutions. The accession of South Africa to the grouping in April 2011 and its participation at the Leaders' Meeting in Sanya (China) signified an important development for the grouping, expanding the reach of the BRICS mechanism to cover the areas of Asia, Africa, Europe, and the Americas, and thus broadening its purported representativeness, not to mention its influence (Kornegay 2011).

The BRICS governments suggest that their cooperation provides a "valuable platform for the five countries to share development experiences and work together on development problems . . . to promote common development based on equality and mutual benefit" (Kornegay 2011). BRICS officials also suggest that their countries also share similar concerns and views regarding the reform and improvement of global economic governance and relevant institutions. They claim that their intention is to make "joint efforts in meeting the global challenges" and "together to serve the common interest of their own as well as the international community at large." They make explicit mention of "working closely" within the respective consultative forums in the global development system, namely the "United Nations and G20," and note that their primary development concerns are issues such as "food and energy security, the Doha Round of trade talks, climate change, Millennium Development Goals and the reform of international financial institutions." They also state that they are "striving to increase the voice and representation of emerging economies and developing countries" within the global consultation mechanisms. We will return to the BRICS later in this chapter.

An important antecedent of sorts to BRICS is, however, the IBSA Dialogue Forum—the India–Brazil–South Africa consultative initiative which in many ways is turning out to be a "trial run" for BRICS. Through the IBSA process, Brazil and India have learned what they can (and cannot) accomplish with South Africa through diplomatically leveraging their soft power status as liberal democracies. At the same time, each of the three has also gained a clearer sense of the limits of their trilateral partnership, minus the structural heft of China and Russia—especially if the ambition of the grouping is to exert influence in great power politics, or even more modestly, to influence the global development agenda.

IBSA, with Brazil as the main initiator, held its first meeting in Brasilia in June 2003. IBSA thus started at about the same time as the Russia–China–India trilateral foreign ministers' dialogue, the precursor to the first BRIC summit, when Brazil joined the pan-Asian grouping at its summit in Yekaterinburg, Russia in June 2009. The IBSA nations had to overcome considerable bureaucratic and political obstacles in order for the forum to be officially launched. It was reported that the Indian bureaucracy was wary of entering into a grouping with countries it considered smaller and less significant than "Mother India." The approach of close and formalized economic cooperation among countries in the South through the creation of a customs union or common market, although initially considered by the IBSA members, proved to be a non-starter. The grouping initially experienced difficulties in finding "program material," agenda items for the scheduled meetings, and projects to sustain the grouping's momentum. These challenges were overcome through diplomatic negotiation, and a regularized calendar of annual summit meetings was established.

IBSA has since formed sixteen Working Groups, one of which is on "social development," and the group has signed more than a dozen sector-based Memoranda of Understanding. The IBSA countries also created an IBSA Trust Fund in 2004, which became operational in 2006, where each country agreed to contribute US$1 million per year so that the IBSA grouping can provide project-level development assistance grants to countries of the South (IBSA Trust Fund 2010). The Fund has dispensed aid for small-scale projects to various countries of the South, including Haiti, Guinea-Bissau, Cambodia, Brunei, Burundi, and Cape Verde.

Though IBSA is a newly created dialogue platform, the IBSA Trust Fund is embedded in UN structures. The United Nations Development Programme (UNDP)'s Special Unit for South–South Cooperation acts as the fund manager for the IBSA Fund; ambassadors, permanent representatives, and deputy permanent representatives of India, Brazil, and South Africa to the United Nations comprise the Board of Directors for the fund; and IBSA projects are executed through partnerships with UNDP, national institutions, or local governments (IBSA Trust Fund 2012). The IBSA Fund received the UN South–South Partnership Award in 2006.

IBSA has gained significance as a diplomatic reference group for its member countries, and has served as a useful consultative platform for forging some initial common ground on global public policy issues. At the IBSA summit hosted by South Africa in Pretoria in October 2011, the three nations issued a 100-plus paragraph statement (the "Tshwane Declaration") to pledge their common position on a range of key issues on the international agenda, including support for the following that relate to global development: the G20 development agenda, the MDGs development remaining central to the Doha Round, sustainable development, and global food security. Eleven of the sixty points in the Tshwane Declaration directly concern development (IBSA-Trilateral.org 2011).

Along with Brazil's role in creating the G20 Trade for the Doha Round of global trade negotiations, IBSA is another example of the coalition building capacity of Brazilian diplomacy and its ability to harness the interests, resources, and support of others toward its own national objectives. In theory, IBSA could provide a platform for Brazil, India, and South Africa where they can deploy development assistance on the institutional bases of their democratic credentials while not being overshadowed by the enormity of Chinese resources (as could happen under the BRICS framework). As Indian Prime Minister Manmohan Singh has said, the "IBSA framework is unique because the interaction under IBSA transcends the realm of government-to-government activity to encompass dialogue among civil society and people-to-people exchanges" (*Times of India* 2011).

The strategic question for the respective IBSA governments is whether, under some variable geometry formula, there is utility for the BRICS and IBSA to co-exist as consultative forums. Some influential officials in the leading IBSA countries have begun to question the relevancy of this grouping after South Africa joined the BRIC(S) in 2010, at the BRICS Summit in Sanya (Hainan Island), China—particularly as the BRICS grouping has proven to be an effective platform for encouraging a "comfortable but meaningful degree" of international coordination between the rising states and for gaining leverage vis-à-vis the traditional powers.

Returning to the BRICS, the rising states have used their own summitry as a consultative forum for development cooperation on two fronts: first, reinforcing their shared global public policy messaging *within* the structures of the G20 process and within the existing global institutions; and second, and perhaps most important, the BRICS countries are using their own forum to work on shared development policy interventions, as well as to create alternative institutional arrangements of their own making (such as intra-BRICS trade financing and currency agreements) and pursuing the idea of a BRICS Development Bank.

On the first dimension, the BRICS countries are using their own summit to register coordinated messaging on the content and structure of global development. A review of the points of agreement in the Fourth BRICS Summit Delhi Declaration (March 29, 2012) that relate to global development shows the nascent collective voice of the BRICS. Whereas highly coordinated collective action on a wide-ranging and diverse development agenda would be a tall order for the BRICS countries, the fact that they have outlined these items as shared intentions is indication of a significant amount of intra-BRICS diplomatic consultation, and most important, a certain degree of collective political will that is shared between the BRICS countries. Moreover, the fact that the individual BRICS countries have already dedicated resources to host major international summits to back diplomatic commitments, and have committed to do more, adds further institutional reinforcement to the rhetoric of joint declarations.

However, in addition to working to champion their various BRICS causes within the existing consultative forums for global development, the contestation between the BRICS and the traditional donors, and the limited progress which has actually been achieved through the G20 process, has also led the BRICS to seek to create alternative institutional options that reside outside of the main existing global multilateral consultation mechanisms. The most significant case is the current effort of the BRICS countries to form a BRICS Development Bank. The most high-profile agenda item on the BRICS Summit in Delhi in March 2012 was the intra-BRICS consultations focused on turning this idea into an institutional reality. In the joint declaration from the BRICS Summit in Delhi, the Leaders pledged to "consider the

possibility of setting up a new Development Bank for mobilizing resources for infrastructure and sustainable development projects in BRICS and in other emerging economies and developing countries, to supplement the existing efforts of multilateral and regional financial institutions for global growth and development" (BRICS 2012b).

In April 2012, the month following the Delhi BRICS Summit, the South African minister of international relations and cooperation, Maite Nkoana-Mashabane, offered a more affirmative statement, saying that the BRICS countries' proposed development bank would be officially launched in South Africa in early 2013 (Roelf 2012). African National Congress (ANC) treasurer general Mathews Phosa stated that the joint bank is an important initiative given that the group of emerging countries are expected to play a significant role as growth drivers in the global economy (Odendaal 2012). In July 2012, Phosa said that in addition to funding development and infrastructure as an alternative to the World Bank, the BRICS development bank could also act as a platform to improve trade opportunities between the member countries.

While financial industry analysts note that the idea of a BRICS development bank is long overdue, they warn that the bank still has a long way to go. They highlight differing state interests, and the need for some of the BRICS countries to avoid the domination of the bank by one member. Alexandra Arkhangelskaya, head of the Center of Information and International Relations at the Institute for African Studies of the Russian Academy of Sciences, believes the bank would be good as a framework for multilateral cooperation between the BRICS nations, but warns of the marginalization of other members by China in particular (Klomegah 2012). In addition to bank governance issues, other unresolved issues include the capital structure of the bank, including the relative size of the contributions of each BRICS country in terms of the budget for the bank, as well as measures for ensuring that the multilateral bank is given the independence in project financing decisions, or at least the necessary room to operate effectively.

However, others—such as Alexander Appokin, a senior fellow at the Moscow-based Center for Macroeconomic Analysis and Forecasting—point out that the bank does not need a lot of start-up capital (Klomegah 2012). The main ingredients are shared political will and a sufficient degree of collective action to enact the action plan that will be presented by BRICS finance ministers at the next Summit. More clarity on the establishment of the BRICS bank is expected to emerge from recent expert discussions in South Africa. The South African ambassador to BRICS, Anil Sooklal, has commented that experts from the five countries were expected to meet in Rio de Janeiro, Brazil, to outline the requirements of a bank and develop a possible roadmap to its establishment (Odendaal 2012). Again, we see Brazilian diplomatic leadership as a bridge builder and initiator between the BRICS.

Fortunately for the BRICS nations, the effort to create a joint BRICS bank builds on the momentum and synergies of other economic cooperation agreements that the BRICS countries have already established and agreed to work on together in order to intensify trade and investment flows among their economies, advance their respective industrial development, and reach employment objectives. In this regard, in Delhi, the BRICS concluded their "Master Agreement on Extending Credit Facility in Local Currency under the BRICS Interbank Cooperation Mechanism" and the "Multilateral Letter of Credit Confirmation Facility Agreement between our Exim/Development Banks."

The cooperation of the national development banks and export–import banks of the BRICS countries builds on the pledge for their national development banks to meet to

discuss cooperation at the second BRICS Summit in Brasilia, at the behest of Brazilian president Lula da Silva. At the Summit, the Brazilian president, together with Russian president Dmitry Medvedev, Indian prime minister Manmohan Singh, and Chinese president Hu Jintao, witnessed the signing of a pact to facilitate cooperation between the national development banks of their four countries. Brazilian National Development Bank (BNDES) president Luciano Coutinho signed a Memorandum of Cooperation (MOC) with his three counterparts from Russia, India, and China. In the MOC, the four development banks committed to seek together to establish mechanisms to enhance trade and economic relations between BRIC countries, and included the possibility of co-financing projects of common interest in areas such as infrastructure, energy, industry, high technology, and exports. In the joint communiqué from the Brasilia Summit, the leaders also pledged to look into regional monetary arrangements, monetary cooperation, and local currency trade settlement arrangements (BRIC 2010).

Although to financial industry strategists the BRICS' alternative institutional arrangements may appear long overdue, the reality is that it takes significant political will, diplomatic effort, and resource commitments to create new institutions such as a BRICS Development Bank, and that this has not been a step that has been taken lightly by the BRICS states. In many respects, what the preceding discussion and the following analysis suggest is that the BRICS might never have advanced to an institution-building agenda if it were not for the obstinate response of the traditional powers and the traditional donors, and their failure to evolve toward the necessary degree of power-sharing in the key institutions of global economic governance and global development.

Institutional Paralysis

In the traditional scenario, the OECD-DAC membership ruled. The regime of the traditional powers and the established donors has exerted strong influence over the entire global aid architecture. As the foundational scholarship on international organizations (of the late 1960s) would predict, changes in such patterns of behavior have not come easily or swiftly. It has often been the case that international organizations, created under a specific set of historical circumstances, have continued to reinforce the structures of international power that were present at the time of their genesis; and that an international organization will often continue to try to perpetuate the original power arrangements even after the balance of power in the broader global environment has evolved significantly. These institutional tendencies account for organizational decay in the context of shifts in the world order.

Since the early 1990s, G7 governments and Northern donors had grown accustomed to setting the global development agenda. Together with the World Bank and the IMF, and as part of the DAC, G7 foreign aid agencies emphasized that developing countries should undertake economic liberalization reforms; this was also followed by promotion of a "pro-poor" model of development. The rising donors have instead emphasized that the focus should be on state-guided economic growth, industrial modernization, and infrastructure investment as necessary conditions for sustained national development, with a secondary focus on the redistribution of wealth.

In the past decade, the OECD has tracked the rise of the emerging economies, and the DAC has kept watch on the rise of the BRICS as donors since the mid-2000s. Based on

their desire to remain the key grouping for the world's main donors—to define and monitor global standards in the main areas of development, and for forging international development commitments—the DAC initiated an engagement process with the rising aid-providers. However, the DAC took a geo-strategically flawed approach to engaging the BRICS as aid providers.

The DAC has essentially looked to contain the rising influence of the BRICS as aid providers. The main source of this flawed approach resides in the anxiety of OECD-DAC's member states, especially the Nordic countries and the small European member states. These states are concerned about their waning international influence,[4] given the rise of China and India as global powers; and their response within the DAC has been to cling to the status quo and to try to emphasize their soft power norms. This strategy fundamentally underestimates the relative decline in the actual weight, power, and influence of the OECD members. Mindful of this waning influence but aware of the limits imposed on them by the member states, DAC officials have tried to move their membership to engage the rising states, despite the hesitancy of the Northern European members. From 2005 to 2007, and with the backing of the OECD Secretary General, DAC officials initiated outreach to the BRICS. They focused initially on trying to establish what could be termed a "structured dialogue" with the BRICS, with the DAC in the lead of the process. When this outreach failed to materialize because of lack of receptivity on the part of the BRICS states, DAC officials settled on trying to incorporate the BRICS into the DAC's existing structured dialogue process with non-DAC donors.

Since 2008, Brazil, China, and South Africa have sent representatives to attend the DAC's "dialogue with non-DAC donors;" however, they did not send senior government representatives. Each year the Chinese have sent a desk officer rather than an official with policy influence. In brief, OECD-DAC member states, and DAC officials, have willfully ignored the shifts in the balance of geopolitical power that have taken place over the past decade. They have tried to sidestep the reality that the BRICS rising powers see little if any benefit in associating more closely with the traditional Northern donors, and in fact see significant negative implications in terms of reputational costs. Research supported by IDRC (2008) on the B(R)ICS countries as aid providers found that the governments of these rising states do not support joining the OECD-DAC; instead, they give their rhetorical support to the UN system, as well as human resource and material contributions. The research further indicated that the rising states wanted to bear witness to and were actively working toward a reordering of the global aid system, particularly moving beyond G7- or OECD-DAC-centered development cooperation.

The research further showed that there was variation between the BRICS countries in the degree of support for engaging the DAC. Brazil and South Africa appear somewhat more receptive to exploring opportunities for cooperation with the traditional Northern donors, but mainly at the bilateral level through triangular cooperation anchored in the UN rather than through the DAC. The Chinese government is in the middle range of "politeness" in responding to the DAC's outreach, and India appears least receptive to engaging the DAC. The BRICS see little benefit in signing up for the OECD's membership obligations—they do not see the need for the OECD's stamp of approval to attract foreign direct investment. The BRICS want to avoid being entangled by the DAC's donor norms and the donor coordination rules among the DAC members. The BRICS, as rising donors (Russia being the exception), prefer to self-identify with the South, and depict their assistance as distinct from that of the traditional Northern donors. Unlike Mexico or South Korea, the BRICS rising states do not harbor a desire to join either the OECD or the DAC.

Conclusion

The above analysis highlights three main points. First, that shifts in the balance of world economic power, involving the rise of the BRICS countries as aid givers and their contestation with the traditional donors, have not only generated inter-state tension but have had important implications for multilateral consultative forums. In particular, there have been misalignments in representational arrangements: under-representation of the rising states and over-representation of the traditional donors in the processes of agenda-setting and decision making on development cooperation.

Second, these representational misalignments, and the ongoing contestation between the BRICS rising states and the traditional donors, have resulted in three differing institutional outcomes: first, the *modification* of existing informal platforms at the apex of the existing system of global governance, as seen in the shift to a G20 leaders' process and the outgrowth of a G20 Development Agenda with its own Working Group on Development; second, the *creation* of new alternative consultative forums, especially the BRICS leaders' summitry, as well as the IBSA Dialogue Forum; and third, the *paralysis* of the OECD-DAC regime, the established multilateral consultative forum for international coordination on development cooperation.

Third, no single multilateral consultative forum has yet emerged where the global community can effectively and efficiently make collective decisions on global development cooperation and where the delivery of those global public goods can be seen through to fruition. The differences between the multilateral forums in which the influence of the traditional donors continues to prevail, such the OECD-DAC, and the newly emerging consultative forums, such as the BRICS leaders' process, are more than simply about who controls the development agenda. These differences reflect deeper-seated divergences about the specifics of how to foster national development. Spurred by their own accelerated growth and having withstood the 2007–9 Anglo-American financial crisis better than many expected, the rising states see a larger role for the state and the public sector, prefer a less intrusive approach to policy influence (than the "conditionality" of the traditional donors), and place emphasis on sharing public policy experiences between the countries of the South (rather than the "one size fits all" approach preferred by the international financial institutions (IFIs) and the DAC).

It remains to be seen whether the current efforts to bridge these differences via the G20, as a consultative platform, will bring the results desired by its proponents. What can be said for now is that the debate between those favoring the various consultative forums for development cooperation—old, new, or modified—remains vigorous. The international community is facing a scenario of "messy multilateralism" and a "negotiated order," where respective consultative forums, each with its own strengths and weaknesses, will continue to contend for influence, and where mission creep, overlapping mandates, and systemic gaps will remain as lingering problems in the system. At the same time, we believe that the continuing though gradual rise of the BRICS, as a cooperative grouping, is a *driver of systemic change*. The ascent of the BRICS will continue to be a "game changer" in development cooperation for the foreseeable future, and a catalyst for change in the international hierarchy of the multilateral consultative forums for development cooperation.

Notes

1. This observation was highlighted by one participant at the Ottawa workshop: IDRC, October 16–18, 2011.
2. Notes from Gregory Chin's discussion with officials of China's Ministry of Foreign Affairs: Beijing, October 2011.
3. Notes from Gregory Chin's discussion with officials of China's Ministry of Foreign Affairs: Beijing, October 2011.
4. Notes from Gregory Chin's interviews of former and then current DAC officials: Beijing, October 2006; Paris, March 2007.

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CHAPTER 52

UNDERESTIMATED INFLUENCE: UN CONTRIBUTIONS TO DEVELOPMENT IDEAS, LEADERSHIP, INFLUENCE, AND IMPACT

RICHARD JOLLY

Introduction

To many people, the UN is little more than a talk shop, a building of scurrying diplomats and overpaid functionaries, who after endless and tortuous politicized debates produce a few tiny mice in the form of banal resolutions and turgid prose. If and when the UN is faced with real problems of conflict, emergency, and human suffering, its actions seem almost always to be delayed, inadequate, or blocked by a veto.

Needless to say, this is a considerable oversimplification. In terms of staffing and budgets, the whole of the UN employs about the same numbers as the fire and police forces of New York City. And opinion surveys in the United States, one of the most skeptical of all countries toward the UN, consistently show that the majority of Americans hold a more favorable view of the UN than they do of the U.S. government and rate the UN's effectiveness significantly higher than that of Congress.

But probably the biggest public misunderstanding of the UN is the belief that most of its work is political, highly controversial, and focused on international disputes. In fact, four-fifths of the UN's work relates to development and international support in such vital areas as health, agriculture, employment, population, and statistics. Coordination of international systems for reporting on weather, air traffic control, patents, disease, and crop production—an ever more important part of a globalized world—are under the UN but hardly ever result in public disputes. Promotion of human rights often hits the headlines but less noticed are the

vast numbers of country-by-country human development activities in support of children, women, victims of HIV/AIDS, and marginalized peoples and groups, such as those with disabilities. At this level, the UN is only one actor among many—but because of its legitimacy, role and global outreach, the UN has often been a pioneer and leading influence on thinking and ideas about economic and social development.

The UN's Founding Principles

It was initially envisaged that the International Monetary Fund (IMF) and the World Bank would be an integral part of the UN system. But they began operations in Washington with little more than nominal relationships to the rest of the UN—and working independently of the UN Secretary General and the main UN structures. Much of the early work of the Bretton Woods Institutions focused on reconstruction in post-war Europe. In contrast, economists at the UN mostly worked on problems and policies in developing countries. To date, nine economists who have worked in or closely with the UN have received Nobel prizes for economics, a record far in advance of the Bretton Woods Institutions.

UN Pioneering Leadership in Development

In its early years, the UN secretariat was "a hothouse for ideas" (Emmerij, Jolly, and Weiss 2001: 26–42) and early development thinking, well ahead of most other groups including universities. Some of the brightest economic lights of the day were brought into the UN (Toye and Toye 2004: 54), including: Michel Kalecki, Nicholas Kaldor, Sidney Dell, Arthur Lewis, Hans Singer, Gunnar Myrdal, and Raùl Prebisch. The UN during 1949–51 issued three major and pioneering reports: *National and International Measures for Full Employment* (1949), *Measures for International Economic Stability* (1951), and *Measures for the Economic Development of Under-developed countries* (1951). The first two reports were important for international economic policy but the latter was the most directly related to development in its current sense.

The latter report focused on economic development, covering a wide field of issues: measures to raise agricultural and industrial production, the need for balanced rural and urban development, mass education, and the need for support from taxation. The report boldly elaborated national and international recommendations for accelerating development in developing countries, emphasizing the critical need for increases in investment beyond what could be raised from domestic savings. A large inflow of capital into the under-developed countries would therefore be required—and the report recommended that the World Bank should set itself the objective of lending $1 billion each year, to be reached within five years. Even more boldly for the time, the report recommended that "some mechanism be created for transferring from the developed to the underdeveloped countries by way of grants-in-aid

a sum of money increasing rapidly, reaching eventually a level of $3 billion a year" (UN 2004a: 61, 84).

The recommendation for providing development assistance on concessional terms became a major and controversial issue which was debated within the UN over almost the whole of the 1950s. The very idea of concessional loans was strongly opposed by most developed countries—and by Eugene Black, President of the World Bank, who argued that the provision of resources at below market rates would lead to a misallocation of resources. On the other side, the need for substantial flows of concessional finance had the backing of several UN reports as well as by many developing countries (Bhouraskar 2007). In 1957 a compromise proposal was agreed. This was for a very much smaller fund with purposes limited to providing resources for intensive surveys of resources, establishing training institutes in public administration, statistics, and technology; and establishing agricultural and industrial and productivity centers.

Ironically—and barely two years later—the U.S. proposed the creation of IDA, the International Development Association, within the World Bank Group. This would provide—and has now provided for more than fifty years—concessional loans to developing countries of exactly the sort proposed within the UN and so strongly opposed by the President of the World Bank. But this time the IDA would be administered by the Bank and the main donors would fund it. This became the first of many occasions when the Bretton Woods Institutions took over ideas from the UN which initially they had strongly opposed.

The Prebisch–Singer Thesis

The UN, from its first decade, has emphasized problems arising from the unequal economic relationships between poorer and richer countries and called for global and national action to offset the imbalances and inequalities which these create. Ideologically and theoretically taking account of this asymmetry has marked an almost continuous difference underlying the economic work and policies proposed by the UN and by the Bretton Woods Institutions.

The Prebisch–Singer thesis—that the terms of trade between primary products and manufactures have been subject to a long-term downward trend—was one of the first theoretical arguments to explain these asymmetries. Hans W. Singer, one of the early economists of the UN and Raùl Prebisch, a senior and well-established Argentinean economist, working independently, formulated the thesis almost simultaneously, both drawing on empirical material. Singer in New York had been studying the long-term terms of trade between primary products and manufactures, presenting his results in an internal UN document, together with a submission to the *American Economic Review* entitled "The Distribution of Gains between Investing and Borrowing Countries," published in 1950. Prebisch, employed as a consultant to the UN Commission of Latin America—before becoming Executive Director—in 1950 published *The Economic Development of Latin America and its Principal Problems* (Toye and Toye 2004).

The Prebisch–Singer thesis has been controversial from the beginning. Initially, the thesis tended to be rejected, especially because primary product prices rose sharply shortly after publication as a result of the 1950–3 Korean War. These reversals in the long-run trend cast

doubt upon whether there was any trend at all. But by the end of the twentieth century, after fifty years of ever more sophisticated research, the professional consensus was to confirm the thesis (Sapsford and Chen 1998).

Unequal relations between richer and poorer countries—and between stronger and weaker countries—have retained a strong influence over thinking in the UN since 1945. Such asymmetries are found not only in trade, but in flows of capital, investment, technology, information, aid relationships, and in the operations of transnational corporations. The asymmetries are especially emphasized by poorer countries—just as they are still often dismissed or under-emphasized by richer countries. The differences in view have influenced the ideologies and professional work of the UN and the Bretton Woods Institutions, especially because of the clear differences in representation and voting arrangements between them. Moreover, because of the broader mandates and non-economic concerns of many UN institutions, extending far beyond the economic focus of the Bretton Woods institutions, the UN has always been more open to multi-disciplinary analyses of development issues, setting itself apart from neo-liberal economic analyses which have dominated the International Financial Institutions. This is an important part of the explanation as to why the UN and the Bretton Woods institutions have often differed on the key elements of development and the priorities and strategies to which they frequently lead.

The 1960s and the Development Decade

In 1961, President Kennedy proposed in the UN General Assembly (GA) that the 1960s become a Development Decade. The GA soon passed a resolution calling for action to lessen the gap between developed and underdeveloped countries, to speed up the process of modernization, and to release the majority of mankind from poverty.

The resolution called for a wide range of development actions: industrialization; agricultural development; the elimination of illiteracy, hunger, and disease; the promotion of education and national planning to bring all of this together. Internationally, there would need to be an increase in the flow of public and private capital to developing countries as well as of their exports. Interestingly, the resolution also added that resources released from disarmament should be used for the purpose of economic and social development.

The GA targeted GNP growth at a rate of 5 percent per annum, an estimate emerging from the UN secretariat. There was caution, however. Fearing that this rate was too ambitious, the resolution simply called for a rate of 5 percent *to be attained by 1970*, the last year of the development decade. Contrary to expectations, however, this UN goal was considerably exceeded. Developing countries achieved an average of 5.5 percent growth *over the decade from 1961–70* and fifty individual countries, accounting for about half the population of developing countries at the time, reached or exceeded the 5 percent target.

The Development Decade served as a coordinating mechanism within the UN, at least to some extent. Each of the UN specialized agencies and funds contributed their own plans and programs toward the decade which were brought together in what became known as the blue book, *The Development Decade: Proposals for Action* (UN 1962).

Excluding the MDGs (Millennium Development Goals), some fifty quantitative development goals with time-bound targets have been adopted by the UN since the 1960s. The goals have covered rates of economic growth, changes in the structure of developing country economies, amounts of development aid, and in the 1970s a goal for financial transfers from developed to developing countries. A number of basic human goals have also been adopted—from the expansion of primary, secondary, and tertiary level education (which were the first UN goals adopted in 1960 at three regional conferences organized by UNESCO), to a range of other key goals for the reduction of infant and child mortality and under-nutrition of children, the expansion of primary health care, access to safe drinking water and sanitation, and the elimination or reduction of key diseases (Jolly et al. 2004: 259–67). The most dramatic of all the goals was the one set in 1966 for the eradication of smallpox. Its achievement eleven years later has saved millions of lives and billions of dollars, which would otherwise have had to be spent each year on control and treatment. None of the other goals have been fully achieved—though impressive achievements have been recorded in the 99 percent reduction of polio cases, the 74 percent reduction of deaths from measles, and the substantial falls in mortality and morbidity from other communicable diseases. Only with a few goals has performance fallen consistently and a long way behind the targets: accelerated reduction of literacy, the reduction of maternal mortality, and the 0.7 percent goal for the transfer of developed country GNP as aid to developing countries (which has only been met by five developed countries).

This assessment is not to suggest that there has always been a close and direct link between the UN goals and country performance. Many factors have been at work and usually the influence of the goals set by the UN was only one. Nonetheless, this UN record deserves underlining, all the more so when set alongside two related considerations. First, the achievement of UN goals is arguably much better than the record of achievement of the almost 500 structural adjustment programs formulated by the Bretton Woods institutions over the 1980s and 1990s (Vreeland 2007: 73–111). Although structural adjustment was politically and economically more challenging to governments than pursuit of the UN goals, adjustment policies received many more billions of dollars of direct support from the IMF and the World Bank than was even given in support to the UN goals. Second, until the MDGs, the Bretton Woods institutions never formally accepted any of the UN goals. International support for the MDGs today is all the more impressive for this reason.

The 1970s and After

Over much of the 1970s, there was some important refocusing of international development priorities. The International Labour Organisation (ILO) mounted a highly influential set of in-depth country employment missions assessing the situation in specific countries—Colombia, Sri Lanka, Kenya, Sudan, Ethiopia, and others. The Kenya report proved to be the most influential, recognizing for the first time in an international document the positive role of the informal sector. The report also proposed "Redistribution from Growth" as a strategy which over time could accelerate poverty reduction by channeling increments from growth into additional investments for the poorest in the form of education, health, and

productivity-raising investments for the rural and peri-urban populations (ILO 1972). These ideas began to permeate the UN system, focused in 1976 in the ILO's strategy of Basic Needs (ILO 1976). Basic Needs also received support from most of the donors and was formally endorsed by DAC, the Development Assistance Committee of the OECD.

Meanwhile, the World Bank in 1968 had appointed a new President, Robert McNamara, the former US Secretary of Defense, and was developing a new dynamism. McNamara soon became a powerful advocate for poverty reduction within the Bank and this lasted until 1981, when his term came to an end. In spite of McNamara's early reputation for being the paragon of modern management, the Bank's poverty focus died almost as soon as McNamara left. According to the World Bank's own history, many Bank staff members referred to poverty reduction as the "favorite toy" of McNamara and Mahbub ul Haq, his close advisor. Even Hollis Chenery, the World Bank's distinguished Chief economist, initially resisted "the swing toward poverty lending seeing the notion of target groups as 'a boy scouts approach.' " Ernie Stern, the main power behind the throne of the Bank from the 1960s to 1990s, is quoted in his farewell speech as saying that he never really believed in poverty reduction as a goal. His view, he said was "that growth is the only solution to the reduction of poverty and inequalities" (Kapur, Lewis, and Webb 1997: 240, 372).

Over the 1970s, the UN made two major contributions to enlarging the world's development agenda. The first was through a series of high-level global conferences which the UN organized: in 1972 on the environment in Stockholm; in 1974 on world food problems in Rome and on population in Bucharest; in 1975 on women in Mexico City; in 1976 on urban problems and human settlements at the Habitat conference in Vancouver, and on employment in Geneva; and in 1979 on science and technology in Vienna (Emmerij, Jolly, and Weiss 2001: 82–7). Each of these conferences added ideas, analyses, and a plethora of policy recommendations for both national and international action. The impact of such conferences is always difficult to assess—but there is little doubt that most of them expanded horizons and led to substantive changes of policy and actions over the long term.

The second initiative to expand the development agenda was without doubt less successful. Over the 1970s, the world economic situation experienced major disruptions. In 1971, the US abandoned the Bretton Woods agreement, suspending the fixed rate exchange of the dollar for gold. Two years later, oil prices soared—by three and a half times over 1973/4—in part, but only in part, the result of oil producing countries forming OPEC, the Organization of Petroleum Exporting Countries. Soaring oil prices transferred a bonanza of oil revenues to OPEC countries—some 2 percent of world GNP, three-quarters of which came from developed countries, and a quarter from developing countries without oil. For a short while, many developing countries and their supporters thought this might open the way to a New International Economic Order (NIEO). A Special Session of the General Assembly was held on this theme in the UN in New York in 1974, followed by at least a year of negotiations on the establishment of NIEO and a Programme of Action for the Reform of International Economic Relations. Initially there were hopes of movement and concessions—especially because the economies of developed countries had been thrown on the back foot by the size and impact of the oil price increases (GNP of the developed countries fell in 1974, after almost three decades of steady increases). But gradually it became clear that the OPEC countries were being persuaded to invest their bounty in developed country banks, in a process known as recycling the petro-dollars. The developed countries then indicated that there was little point in continuing even to talk and negotiations collapsed.

The long-run consequences for developing countries were serious—and perhaps also for developed countries. The vision of moving some way toward new measures of global economic management was lost—and with it went opportunities for ensuring global stability, steadier economic growth, more support for poorer developing countries, and moves toward environmental protection. Instead, the OPEC countries became locked into financial and economic relationships with the industrial countries, which has limited their subsequent development, increased global inequalities and added to militarization in the Middle East. Many of the largest OPEC economies are little richer if at all compared to what they were some 30 years ago, while their human development indices also collectively lag the most behind per capita incomes. And developed countries, faced in the twenty-first century with the need to adjust and rebalance their economies in relation to the growing strength of China, India, Brazil, and other emerging economies, are having to rely upon global institutions which are still weak in the context of the new challenges of globalization. Global problems require global solutions[1]—yet the chance of reform to strengthen global institutions and make them up to this task was missed in the 1970s, and several times since.

The 1980s and 1990s

The next two decades marked the apogee of neo-liberalism inaugurated by the election of Ronald Reagan as President of the United States and Margaret Thatcher as Prime Minister of the UK. The U.S. and the UK led the way with national policies which inevitably were less pure than their ideologies proclaimed. But internationally there was a distinct sharpening in the application of neo-liberal ideology in the operations of the World Bank and the IMF. This spread to most countries of Latin America and the Caribbean and sub-Saharan Africa, usually as part of conditions for obtaining structural adjustment loans from these institutions. The loans were needed to help pay interest on the high debts which had accumulated by the early 1980s. The loans had been built up in large part as a consequence of the soaring oil prices of 1973/4 and further increases in 1979 which had caused "the NOPECs"—the developing countries without oil—to pay much higher prices for their oil imports.

Combined with other factors, structural adjustment policies led to the 1980s becoming a lost decade for development in much of Latin America and most of sub-Saharan Africa—and in many countries this continued into the 1990s. Per capita income in Latin America, which had grown from 1960 to 1980 by 80 percent, then grew by only a miserable 9 percent over the twenty years to 2000. In sub-Saharan Africa, the results were even worse: over 1960–1980, per capita income increased by 36 percent; from 1980 to 2000, per capita income actually fell by 15 percent (Weisbrot, Naiman, and Kim 2001). The result was that by 1996, no less than fifty-seven developing countries in Latin America and sub-Saharan Africa had lower per capita incomes than they had had two or three decades earlier (UNDP 1996: 3).

This was not the case for most of Asia, which was developing in dramatic contrast. In 1978, Deng Xiao Peng introduced reforms into China, which step-by-step launched this vast country on an accelerated route of economic growth. China's per-capita income more than doubled over the 1980s—doubled again by 2000 and yet again by 2011. Less spectacularly and beginning a decade later (in 1991), India adopted reforms which also increased substantially its economic

growth rates—not quite to the same high rate as China but to rates significantly faster than India had achieved since independence. Smaller Asian countries also did well. Korea and Taiwan had already pioneered a fast growth development strategy in the 1950s and 1960s which continued. Gradually in the late 1980s and 1990s, many other countries of Asia followed suit, combining strong government economic leadership with selective market reforms.

In the UN, international debate over structural adjustment began in the early years of the decade—with the Economic Commission for Africa (ECA), UNICEF, and the ILO being increasingly outspoken. However, the ILO was soon threatened by U.S. and other developed country opposition, which muted its more public opposition. But the ECA and UNICEF continued, criticizing the narrowness of adjustment policies, the negative impact on growth and the growing evidence of the human costs of cuts and setbacks. Both organizations presented alternatives. ECA put forward AAF-SAP, the *African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation*, endorsed by African Ministers of Planning and Finance (Adedeji 2004: 233–306). UNICEF in 1985 presented *Adjustment with a Human Face*, first as a lecture to the Society for International Development (SID) and later in a well-documented study (Cornia, Jolly, and Stewart 1987), arguing strongly for incorporating support for the essential needs of children and other vulnerable groups in the making of adjustment policies. UNICEF presented the case based on human need but it also argued that if the purpose of adjustment was to rebuild an economy, it was illogical to cut back on health, education, nutrition, and the other needs of children which were among the most important forms of human investment required for sustained development.

In the 1990s, more general changes began which broadened and altered the development agenda, often again with the UN in the lead. First, were a series of summits, a revisiting of the themes of the high level global meetings of the 1970s, but this time raising the ante by holding the event at head of state level. The first of these was the World Summit for Children. Perhaps surprisingly, this was not a UN meeting as such, though held in the General Assembly and in the ECOSOC chamber in New York. At the time, UN Protocol had ruled that UN meetings had to be open to representatives at whatever level the government chose to send, and thus could not be specified as a Summit meeting. However, once seventy-one heads of state had attended the World Summit for Children, the protocol was revised and the gates of UN competition were opened. Thus 108 heads of state came to the Earth Summit in Rio in 1992, 117 for the World Summit for Social Development in Copenhagen in 1994. By the time of the Millennium Summit in New York in 2000, 147 heads of state attended.

Second, the development agenda achieved more worldwide public attention. Summit attendance by heads of state guaranteed high profile notice in the media. Equally important, the summits and global conferences of the 1990s attracted participation from a growing number of non-government groups which further increased international awareness and influence. By 1992, at the Earth Summit in Rio 2,400 representatives of NGOs took part, along with 17,000 others who joined in special activities organized by the NGOs. By the Fourth World Conference on Women in Beijing, there were 5,100 representatives of 2,100 NGOs and 30,000 other individuals. Such large-scale participation of NGOs ensured follow-up, both by the direct involvement of so many individuals and by creating lobby groups and alliances for maintaining pressure on governments to implement the agreements to which they had signed.

Third, these summits and global conferences broadened the development agenda, updating the objectives and enlarging and deepening the issues formulated in the global

conferences of the 1970s. There was usually also some sharpening of the commitments and goals agreed. These commitments covered the needs of children (New York, 1990), the environment—climate change, biodiversity, desertification and deforestation (Rio, 1992), population and development (Cairo, 1994), social development (Copenhagen, 1994), women and gender (Beijing, 1995), human settlements (Istanbul, 1996), and food security (Rome, 1996).

Fourth, OECD, the Organization for Economic Cooperation and Development, became seriously engaged. Initially encouraged by Japan, OECD pressed for the formulation of goals for the twenty-first century. This led to the preparation and then the adoption of a key document: *Shaping the 21st Century: the Contribution of Development Cooperation* (OECD 1996). This document assessed progress in a number of key areas over the 1980s and 1990s, as well as improving the contribution and focus of development assistance. The document then specified key goals to be achieved by 2015—in reducing poverty and making progress in primary education, gender equality, basic health care and family planning, and in empowering women. Their significance is not that they were a forerunner of the MDGs—which in many cases had grown out of earlier UN conferences—but that by being put forward by OECD they were then taken seriously by the World Bank and the IMF and most donors. Indeed, the OECD document led to a new level of specific collaboration between the World Bank and the UN in the pursuit of goals, an unprecedented step which had eluded efforts of UN–Bretton Woods collaboration for more than four decades.

Fifth, and perhaps most important of all, the World Conference on Human Rights in Vienna in 1993 opened the way for incorporating human rights into development. The Vienna Conference agreed long-awaited institutional changes for UN leadership and follow-up in support of the UN's many declarations and conventions of human rights. The post of UN High Commissioner for Human Rights was agreed and an office established—some forty-seven years after the need for such a position had been identified by Rene Cassin, a French intellectual with long experience within the League of Nations (Jolly, Emmerij, and Weiss 2009: 53). Partly because of this but also because women and gender, children, and other rights issues had become a growing focus for mobilization and action over the previous two decades, human rights entered the development agenda clearly and strongly over the 1990s. A "rights based approach to development" was adopted by many UN agencies and by a number of governments.

Human Development

Outside the conferences, the 1990s became a creative period for various parts of the UN. The UNDP launched the Human Development Report which put forth an alternative paradigm on the development agenda. Human Development was the joint creation of a distinguished economist, Mahbub ul Haq, and a Nobel Prize winning economist-philosopher, Amartya Sen. The human development paradigm put people as the central focus of development, supporting this approach with a robust methodology and a sophisticated underlying philosophy. Human development was defined as an enlargement of human choices and a strengthening of human capabilities. This definition built on the basic needs approach of the

1970s but was less directive in defining the specifics of capabilities which needed to be strengthened and even less directive in defining human choices which should be broadened. These advantages stimulated human development as a field for active engagement and research. Some 750 National Human Development Reports have been produced in states, countries, or regions, often focusing on particular themes such as rural development, women, democracy, or human security.

Equally important, the Human Development Report (HDR) has continued as an annual publication with worldwide outreach, and with roughly a hundred thousand copies published each year in several languages. The second decade of the HDR produced what has been called the second generation of human development thinking, focused on the new technologies, deepening democracy, cultural liberty (Fukuda Parr 2008: 223–54).

The paradigm of human development has been of fundamental significance for the UN itself, though its potential has yet to be fully realized. Human development represents a comprehensive, philosophically robust paradigm for development, a positive alternative to the neo-liberal paradigm which has ruled over the mainstream for most of the post-war world, with increasing dominance since the 1980s. Although the UN has provided fairly continuous criticism of neo-liberal policies in action, and often some critique of the neo-liberal paradigm itself, it was only with human development that the UN has been able to offer a serious, positive, comprehensive, and credible alternative.

Second, the human development alternative is multi-disciplinary, thus matching the professional multi-disciplinarity of the UN itself. Unlike the Bretton Woods Institutions, the UN engages with many dimensions of development through the diversity of institutions—its specialized agencies like WHO, FAO, UNESCO, and ILO as well as its funds like UNDP, UNICED, UNFPA, WFP, IFAD, and most recently UN Women. Most of these bodies employ a few economists but many more professionals from other disciplines such as public health and epidemiology, agriculture, sociology, and anthropology. Simply to list this range of professionals indicates why so many of the UN agencies have often found the neo-liberal policies and orthodox economic development approaches of the World Bank and the IMF narrow and misguided. Yet until the Human Development Report, there was no paradigm with sufficient generality and flexibility to provide an all-embracing frame within which these other professions and UN agencies could find a place.

Third, the human development paradigm embraces all the core values of the UN itself: human rights, gender equality, and non-discrimination in all areas, sustainability and equity between generations, multi-cultural sensitivity, and human security. Although each of these was recognized in the first few years and has been the topic of more detailed analysis in subsequent Human Development Reports, the full use of the paradigm in policy making has been overwhelmingly the exception rather than the rule.

Women and the Girl Child

Human Development of course, links closely with advances for women, gender equality, and the efforts to end gender discrimination. Following the First World Conference on Women in 1975 and the adoption a year later of the Convention for the Elimination of all forms of Discrimination Against Women (CEDAW), women mobilized worldwide for their rights.

The Conference itself had greatly stimulated this process when participants from many countries realized they were not alone but part of a global movement with friends and colleagues, activists and allies around the world. The later UN World Conferences in Copenhagen, Nairobi, and Beijing increased the momentum, as did the national, regional, and international focus on CEDAW. Notwithstanding opposition, open and behind the scenes, remarkable progress has been made.

Within the UN, however, progress toward gender equality was mixed and slow. UNIFEM supported activities and programs at country level—and organized support for activist groups often when others were reluctant. UNDP's HDR focused its 1995 report on women and gender, with the slogan that "unless development was engendered it was endangered" (UNDP 1995). In a heroically brave calculation, a figure was put together for the dollar value of all women's work, inside and outside the formal labor force, probably the first time such a guesstimate was ever made at global level. The report calculated that if all contributions from labor in the world were included, from work outside the labor force as well as within, unremunerated and remunerated, from women and from men, the total would be approximately 70 percent higher than existing estimates of global economic output. The estimate was inevitably something of a back-of-the-envelope guesstimate although with some empirical input from time-use studies in fourteen industrial, nine developing, and eight countries of the Commonwealth of Independent States. These studies showed that women worked longer hours in total than men—and carried 53 percent of the total burden of work in developing countries and 51 percent in developed countries.

An earlier conceptual advance was the focus on "the girl child" by UNICEF. This concept had first been developed by asking what should be the proper role of UNICEF, a child focused agency, in working for gender equality. The answer was to focus on the "girl child" and the ending of discrimination against children and women over the whole of the life cycle (Black 1996: 183–214). This approach recognized that ending the results of discrimination could only be achieved over several generations, by gradually eliminating discrimination at every stage of a female life. A non-discriminatory approach would need to be maintained through childhood and education, puberty and adolescence through to young womanhood, choosing a partner, marriage, having children, and pregnancy and giving birth. In virtually every country at present, girls and women are set back by various forms of discrimination at one or other of these stages of life. Because the results of this became embedded in women physically, psychologically, and socially, it may take up to three generations before the results of discrimination are fully "washed out." Only then can a society look forward to all girls having equal opportunities to grow up and be nurtured without systemic discrimination. The development and application of this concept was a major step forward intellectually and operationally in constructing a non-discriminatory agenda for development.

The 2000s

The Millennium Summit, like the entry into the millennium itself, was a brief moment of hope and expectation. More than 150 heads of state or government assembled at the UN in New York, the largest number ever assembled in one place before. In total, 189 countries participated, every UN member state. They endorsed the Secretary-General's bold and broad

ranging document, which began with echoes of the Charter—"We the Peoples ..."—and proceeded to set out the challenges likely to face the United Nations in the twenty-first century (Annan 2000). The Summit ended by endorsing the Millennium Declaration (United Nations 2000), with eight chapters of commitments to future UN action: Values and principles; Peace, security, and disarmament; Development and poverty eradication; Protecting our common environment; Human Rights, Democracy, and Good Government; Protecting the vulnerable; Meeting the special needs of Africa; and Strengthening the UN.

In each of these areas, various initiatives were subsequently taken, usually with more promise than fulfillment, though not without some impact. In relation to development, the Millennium Development Goals (MDGs), have been the most visible, kept on the global agenda by aid donors and other governments, backed up by sustained pressure from many international NGOs. Often less visible in the media, the UN remains at or near the center in the other areas of follow up, especially with respect to international negotiation, agenda setting, monitoring, and periodic reporting. The typical and too frequent weaknesses in this process are usually the result of governments clinging to national sovereignty as the over-ride to their commitments to stronger global governance (Weiss 2009).

Human Security

In terms of new thinking for development, human security has been an area of important advance, after the Millennium Declaration. Much of this grew out of the paradigm for human development. It was the 1994 HDR which first set out the concept of human security as follows:

> For too long, the concept of security has been shaped by the potential for conflict between states. For too long, security has equated with threats to a country's borders. For too long, nations have sought arms to protect their security.... For most people today, a feeling of insecurity rises more from worries about daily life than from the dread of a cataclysmic world event. Job security, income security, health security, environmental security, security from crime—these are the emerging concerns of human security all over the world. (UNDP 1994: 22)

The 1999 Human Development Report on Globalization added financial security and food security. It argued that stronger regional and global governance is needed, if the insecurities in any of these areas are not to spread and multiply from country to country. Diseases do not need passports to travel—as seen with HIV/AIDS and with Avian bird flu—as well as with financial panics, financial instabilities, and flows of money at the touch of a computer button or with rumors of a downgrade in a country's rating.

Once the concept of human security was launched in 1994, the idea proved powerful, encouraged perhaps by the initial euphoria of the post-Cold War era. In 2003, a Commission was created headed by Amartya Sen and Sadako Ogata, the former head of the UNHCR. Their report, *Human Security Now* (UN 2003), elaborated the concept and analyzed how it could be applied, nationally and internationally.

In 2004, the UN Secretary General, Kofi Annan, established a high level panel on *Threats, Challenges and Change* (UN 2004b). The panel identified clusters of major threats: economic and social threats, including poverty, infectious disease, and environmental degradation; inter-state conflict; internal conflict, including civil war and genocide; weapons of mass destruction; terrorism; and finally transnational organized crime. The panel made three important points about confronting these threats: prevention is always better and cheaper than cure, all the threats need collective not unilateral action, and the United Nations has a key role in supporting all of these actions but to do so effectively the UN also needs strengthening.

A year later, Kofi Annan himself issued his own proposals for taking these ideas forward. He called his document, *In Larger Freedom—towards development, security and human rights for all.* This provided important guidelines for action (Annan 2005). Following these international initiatives were a number of country level actions. Almost twenty National Human Security Reports have been prepared, investigating what a human security approach might involve in such diverse situations as Kenya and Mozambique, East Timor and the Solomon Islands, Palestine and the Arab Region, Thailand, and Afghanistan. Of these, the most innovative was the report on Latvia, which showed how human security could be made operational at country level. It did this by mounting a sample survey of how individuals experienced a diversity of some thirty types of insecurities in their lives and how they ranked them in terms of seriousness. The second step was to explore the actions required to diminish these insecurities, both the objective risks and the influences on subjective feelings of risk. Together these identified actions for government, communities and non-government groups.

A related but separate development within the UN was the formulation of the doctrine of R2P—the Responsibility to Protect and the Right to Intervene. Albeit with intense controversy along the way, the General Assembly adopted a resolution in 2005 which marked a major step forward in defining state obligations and, when these fail, recognizing the need for international action. This doctrine, for the first time in the UN, sets limits on national sovereignty. These limits are defined by obligations of the state and its rulers to protect the peoples over which they rule. In the case of egregious failures of these obligations—for instance, genocide or inadequate reactions to the consequences of natural disasters affecting the mass of the population—the international community has a recognized right to intervene with Security Council approval.

UN Ideas that Changed the World—an Overview

The above account highlights how the UN has been a pioneer in the area of economic and social development over the years since its founding. Much of UN's leadership has been in the creation, promotion and application of ideas. Indeed, the UN Intellectual History Project (UNIHP), a recently completed ten-year venture, concluded that ideas were among the UN's most important contributions.

The summary volume of the UNIHP identified nine UN ideas whose impact had "changed the world." None of the ideas was an abstract conception, let alone a static notion. Each idea

related to action and evolved over time, being elaborated and applied in different ways and in different contexts and, in the process, usually gained focus in relation to implementation. The nine ideas are as follows (Jolly, Emmerij, and Weiss 2009):

Human Rights and Norms

1. Human Rights for All
2. Gender Equality

Economic and Social Strategies and Approaches

3. Development Goals
4. Fairer International Economic Relations
5. Development Strategies
6. Social Development

Integrated and Sustainable Perspectives

7. Environmental Sustainability
8. Peace and Human Security
9. Human Development

It was not suggested that the UN had originated all or any of these ideas. Indeed, few big ideas of economic and social consequence arise as some independently-inspired, "light-bulb moment" and the same has been true of the UN's major contributions. Ideas such as human rights, preventive diplomacy, or environmental sustainability have multiple sources of creation and inspiration stretching back years or centuries. This long process of adaptation and change is helped on—and sometimes obstructed—by social forces, groups and occasionally by individuals.

The UNIHP identified four main ways in which UN ideas had gained traction and impact (Jolly, Emmerij, and Weiss 2009: 41–7):

- by changing the ways issues were perceived and the language used to describe them;
- by framing agendas for action;
- by changing the ways that key groups perceived their interests, thus altering the balance of forces pressing for support and adoption of an idea (or resisting it);
- by becoming embedded in an institution or institutions which were then given responsibility for carrying the idea forward and becoming a focus for monitoring and accountability.

The UNIHP argued that explaining the process of developing, promoting, or applying UN ideas in economic and social development involved recognition that there were three UNs

at work rather than one. The first is the formal UN of government representatives; the second is the UN of staff members, often in positions of leadership and initiative, more than often the case of civil servants in national governments; and there is a third UN of experts, advisers, commission members, and NGOs, not formally part of the organization but in fact closely involved and influential. In the creation and promotion of ideas, the UNIHP argued that usually the second and third played the crucial role.

Although the UN system has played a particular and unique role for each of the ideas, there have been common elements—giving them focus and legitimacy, showing their relevance to the contemporary world, shaping their international dimensions, promoting them widely, and often applying them in the UN's own programs. In fulfilling these unique and diverse roles, the UN's support for these ideas has "changed the world," as the UN Intellectual History argued.

This claim can be illustrated clearly in relation to the first of the ideas—Human Rights, a norm and vision with a long history. Yet in its Charter and by the Universal Declaration of 1948, the United Nations established the bold notion that human rights were universal and applied to everyone in the contemporary world, thereby bringing a new and, for the time, extraordinary and immediate global legitimacy to these long-standing values. To fully appreciate this, one must recall the timing: the Charter and the Universal Declaration were each produced when imperial rule was still widespread, many countries were still colonies far from independence, and even in the United States many blacks did not have the vote. The contrast between these realities and the universality of the Declaration show how far ahead of the curve of history was the UN at the time (Normand and Zaidi 2008). And in the years following, UN pioneering in the area of human rights was reinforced by literally hundreds of more specific human rights treaties, creating a universal human rights legal system which embraces every child, woman, or man in the world.[2] These rights have gained more operational influence and traction over the years, perhaps especially since the creation in 1993 of the post and office of the UN High Commissioner.

The UN's activities and international leadership relating to women, gender, and CEDAW have been different—but equally far reaching, notwithstanding the mixed record of performance within the UN itself. As elaborated earlier in this chapter, the World Conferences on Women served as catalysts for worldwide mobilization of women and others around the newly agreed agendas. None of these would have achieved the same impact without the legitimacy and capacity of the UN to organize on a global scale.

The next four ideas relate more directly to what is generally considered to be part of "the development agenda" goals: fairer economic relations, development strategy, and social priorities. Here, the UN's contribution has been both as an international pioneer of thinking or practice and as a critic of mainstream development thinking, especially Bretton Woods and donor-driven orthodoxy. UN development ideas have often been at variance with and opposed by neo-liberal, free-trade, or free-market economists, and by the World Bank and IMF. The UN's fifty goals for development, for example, were often criticized for being top-down and dirigiste, for displacing market forces or for being little more than blue sky dreams. Similarly, the UN's analysis of unequal trade and other international economic relationships as set out in numerous reports of ECLAC, ECA, and UNCTAD have frequently been criticized by academic economists, donors, and by the Bretton Woods Institutions. And if not criticized, they were—and often still are—dismissed as "predictable in their conclusions" or simply ignored.

This is not the place for a detailed weighing of the various merits of these many arguments, which reflect economic and political ideology as well as the differences in the underlying voting structure and government influences between the UN and the Bretton Woods Institutions. Here we make only one point—which is that over the years both sets of institutions have moved somewhat closer together, though more often with the World Bank (and to a lesser extent the IMF) moving more toward the UN on economic matters than vice versa. For instance, the UN took the lead in criticizing the narrow orthodoxy of adjustment policies in the 1980s. Later and gradually the Bretton Woods Institutions often moved to accept the criticisms and adapt to the UN's views, just as it had the proposals for concessional loans in the 1950s and did in the 1990s in accepting what broadly became the MDGs. Nonetheless, fairer trade and unequal economic relations (as opposed to free trade and free markets) remain a defining point of difference between the UN and the Bretton Woods institutions.

The final three ideas all show the UN's role and leadership in broadening development perspectives: environment and sustainability; peace, conflict prevention, and preventive diplomacy; and on an integrated view of human development. In all these areas, the development agenda has been enormously broadened. In the case of environment and sustainability, the UN's first initiatives were in the 1970s—organizing with strong Swedish support the Stockholm conference. This launched a series of international activities and initiatives, creating the United Nations Environment Programme (UNEP), setting up the Brundtland Commission in the 1980s, holding the Earth Summit in the 1992—and supporting all these with more detailed activities like creating the International Panel on Climate Change (IPCC). Peace, Preventive Diplomacy, and Human Security illustrate how increasingly these issues have entered the development agenda, with the UN elaborating ideas and mechanisms. The importance of the Human Development paradigm as an integrating framework for the whole of development has already been dealt with earlier in the chapter.

Conclusions

Over its life, the UN has made many contributions to ideas and thinking about development. Indeed, ideas may have been the most important contribution of the UN to development.

In pioneering and promoting new ideas in development, the UN has often been ahead of the curve and ahead of the Bretton Woods institutions, even though the latter have received most financial support and attention from donor governments. The historical record shows that the UN has frequently led the way in formulating ideas and approaches for development which later—and often much later—the Bretton Woods institutions have adopted.

Since the 1990s, there have been some actions to close the gaps between the UN and the Bretton Woods institutions, much relating to shared efforts in pursuit of the MDGs. Nonetheless, the relationships between these institutions, originally envisaged to be unified parts of international economic management, remains too far apart for efficiency and effectiveness. Stronger relationships should recognize the past contributions from both sides, but in particular recognizing the many ways the UN has contributed positively to development understanding and expertise.

The increasing economic power and political importance of China, India, and other fast growing, emerging countries present new opportunities as well as new challenges for improving global economic governance. The UN's ideas on development, its record in elaborating these ideas with legitimacy and support underlines the need for ensuring that the UN has a stronger and more integral part in global governance for the future.

Notes

1. From the Stiglitz Commission, set up by the President of the General Assembly and which issued in 2009 its *Report of the Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System*. This is only the latest of numerous reports from outside the UN and within which have set forth proposals for more effective management of the world economic system. Two of the most noteworthy in the years following the collapse of the NIEO negotiations include: *North–South: a Programme of Survival*, the report of the Brandt Commission in 1980 and *Our Global Neighbourhood*, the Report of the Commission on Global Governance in 1995, both of which set out recommendations for strengthening global economic management.
2. For an overview, see <www.bayefsky.com>, The United Nations Human Rights Treaties.

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EPILOGUE

BRUCE CURRIE-ALDER, RAVI KANBUR, DAVID M. MALONE, AND ROHINTON MEDHORA

Where We Are

The chapters in this volume have addressed the evolution of development thought and its interactions with development practice over the past seven decades since the Second World War. Will the trends identified in the volume endure? How will development thought and practice evolve over the next fifty to seventy years? We speculate on the answers to these questions in these brief concluding lines to the volume. In doing so we draw on the chapters in the volume but also on the proceedings of a very special meeting of development thinkers and practitioners held outside New York City in September 2012. The two days of discussions compared development thought today to fifty years ago, how development thought and practice have influenced each other, how economics has interacted with the broader social sciences in the development discourse, and what influence the natural sciences have had for their part. Most importantly, however, the group looked to the future to identify key features of the development terrain that are already visible as we look ahead, and features and contingencies we are very likely to encounter in the next half century.

The background to the forward-looking exercise is the charting of where we are today, particularly in comparison to fifty years ago. This backdrop can be summarized in terms of five propositions:

- There has been tremendous progress on virtually all dimensions of well-being among nations that were regarded as "developing" fifty years ago. On average, incomes have risen, poverty has fallen, health and education have improved for men and women, and democracy has spread.
- However, this progress has been uneven over time, across nations and within nations. Economic growth has started and then faltered. In Africa, only the last ten years have brought a period of sustained economic growth. Latin America, Africa, and Eastern Europe all had their "lost decades." East and Southeast Asia, and after them China and then India, have seen spectacular advances. But even in India and China regional inequalities have grown, gender inequalities persist notably in sex-selective abortion,

and (in the case of India especially) malnutrition is higher than would be expected given income growth.

- In development thinking, the objectives of development have broadened, from a narrow focus on per capita income growth to its distribution, to education and health, to political empowerment, to capabilities in the broadest sense, and now perhaps even to include "happiness." However all-encompassing or seemingly infinite, ideology and the nexus of interests and ideas are critical for understanding development policy making. The opportunities for any nation are constrained not only by the availability of resources and access to international finance, trade, and technology, but by established interests at home, including the desires and patience of citizens.
- The actors in the development discourse have changed, too. There has been a broadening from the initial focus on individuals toward groups as the distinctive role of women as economic actors in development has been addressed, and as ethnic and other group-based identities have been recognized as important. Further, civil society has been inserted into conventional debates on the balance between the roles of market and state in development strategy.
- Political economy frameworks for analyzing development have become more prominent as discussion of the role of groups has become important, and as the gap between technocratic proposals for development intervention and their actual implementation has come into focus. As part of this movement, economics, though still dominant in the development discourse, has increasingly been challenged, complemented, and supplemented by other disciplines such as sociology, political science, philosophy, history, and the natural sciences.

The Next Fifty Years

The changes identified in the lines above are big changes. How will they play out? What will the development terrain, in thought and practice, look like fifty years from now? Some thoughts in the form of interconnected propositions for debate and discussion:

- In some dimensions, the development agenda will become hugely diversified. Managing middle class vulnerability in Brazil and managing conflict in Burundi cannot easily be brought into the same framework. But on other dimensions, the development agenda will become more unified, as the globalized integration of production and finance can be expected to continue, unless this is disrupted by catastrophic events or untoward political developments. The middle classes of all countries will face similar pressures. How the interests and actions of the middle class conflict—or cooperate—with those of the disadvantaged and the elites in each country will play a critical role in shaping domestic politics and opportunities for development.
- Ongoing trends in international migration, financial flows, and climate change will ensure that cross-border, regional, and global spillovers and interactions will come to be as important in the development discourse as national development policy.

- Within countries, the policy importance of addressing inequality will increase even as average incomes grow and human development indicators improve overall. And horizontal inequality across socio-politically salient groupings, including by gender, ethnicity, religion, and region, will be central, not least to political stability and national cohesion.
- The appropriate balance between state and market will still be a central focus of development debates. However, the nature of the state itself will come under pressure in the next fifty years, first from global forces requiring the pooling of sovereignty, and second from demands for the democratic devolution of power. As incomes grow, and even if they do not, demand for participation in decision making in general, and in development policy making in particular, will grow. Social technology will aid this process, including new forms of communication, which enable people with shared interests to connect, organize, and form new collective identities and generate action. Autocratic approaches will not be the wave of the future, and purely technocratic approaches will invariably fail to satisfy the aspirations of all citizens.
- Global issues and national development will jointly frame the global compact, which will not be limited just to development discussions. The current international architecture of cooperation will undergo change in a number of fundamental ways. Aid from rich countries will not play as salient a role as it has done over the last fifty years. Hitherto developing countries will have more voice in organizations dominated by currently industrialized countries. Some institutions created to address immediate post-war problems will become increasingly irrelevant while new ones emerge to deal with problems like climate change. Development organizations per se will give way to other mechanisms to address poverty and inequality, not just in poor countries—indeed, these issues may be mediated in a decentralized manner through social technology, without the need for a formal official organization at the center.
- Development thinking as we have known it for the past five decades, as a North–South or poor country–rich country dialogue, will give way to a more porous ecology. Insights on development come from a wide array of actors, across the natural and social sciences, and not just those self-identified with the narrow disciplines of international relations, development studies, or development economics. More importantly, development thinking will come from developing countries themselves, and ideas and approaches will be seen to have relevance to poverty and distribution challenges in both richer and poorer countries in an interconnected world.

What Role for Thinkers?

Fifty years ago much thinking about development was "overarching" in nature. The Big Push, Marxian interpretations, Dependencia theory, Basic Needs, the Washington Consensus, these labels provide a signpost to the evolution of development thinking. Will development thinking be similarly "overarching" in the coming fifty years? Certainly the issues are no less important—climate change, ethnic conflict, rising inequality, global financial coordination,

etc. And yet it seems to us that the future of the development discourse will have to address a diverse reality (Brazil versus Burundi) and multiple objectives of development (per capita income, sustainability, human development, empowerment, happiness), with the result that no single discipline and certainly not economics will be able to span the discourse by itself.

There will continue to be a debate between "big ideas" in development versus development seen as "one experiment at a time." But the greater diversity of country and region specific development circumstances does seem to suggest that the era of overarching frameworks or nostrums is over, because the development discourse itself has become wide and ambitious, with multiple locations.

This does not of course mean the end of development thought. It will be needed for careful and rigorous building of arguments and analysis of evidence along the many dimensions and the many locations of development. And it will increasingly come from developing countries themselves. While inter-linkages between different aspects of development will still need to be explored, grand overarching theses that encompass the whole of the development paradigm are unlikely to thrive, and development thinkers of tomorrow will need a new humility when faced with the growing complexity of the development terrain.

This does not make development thought and practice any less exciting than the last fifty years. Just different. And perhaps more so.

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