

The Role of Politics in Development

A presentation by Professor Francis Fukuyama



Professor Francis Fukuyama is Olivier Nomellini Senior Fellow at the Freeman Spogli Institute for International Studies, at Stanford University. Prior to this, he was the Bernard L. Schwartz Professor of International Political Economy at the Paul H. Nitze School of Advanced International Studies of Johns Hopkins University. He has written widely on issues relating to democratisation and international political economy. The End of History and the Last Man was published by Free Press in 1992 and has appeared in over twenty foreign editions. His most recent book, The Origins of Political Order, was published in April 2011. Other books include America at the Crossroads: Democracy, Power, and the Neoconservative Legacy, and Falling Behind: Explaining the Development Gap between Latin America and the United States. He serves as chairman of the editorial board of The American Interest, which he helped to found in 2005, and is a member of the Board of Trustees of the Rand Corporation, the Board of Directors of the National Endowment for Democracy, and member of the advisory boards for the Journal of Democracy, Inter-American Dialogue, and The New America Foundation.

Taking the state for granted.

My current interests have to do with the role of politics in development. There is now a general recognition that if you don't get the politics part of the development process right, none of its other parts, including economic policies, are going to work either. In this regard, the thinking of economists has shifted over the last 30 years. If you go back to the heyday of the Washington consensus in the 1970s and 1980s, there was a kind of orthodoxy about certain kinds of liberalising policies (structural adjustment, trade reform, etc.). But proponents of these policies were just focused on the policies themselves; they took institutions and politics for granted. In a sense, they took the state for granted. And, as a result, a lot of policy mistakes were made.

Part of this may be an aspect of one of the legacies of Margret Thatcher and Ronald Regan. This was the idea that the state was too big and that it interfered with business too much. There is much to this idea in many contexts, but some who embraced it didn't think carefully enough about the kinds of public institutions that are needed for a capitalist economy. This has all changed, however, in recent years as a result of these policies' confronting reality. The former Soviet Union is a great case study: in Russia, we learnt that if your state collapses, even doing something like privatisation is not possible. It turns out that it takes a fair amount of state capacity to take a state asset, value it fairly, and run a clean auction. None of that happened in Russia as it made its transition. So, even though it was following the economic policies that were thought necessary, the results were poor.

It's now commonly understood that the core of sub-Saharan Africa's development problem is a phenomenon that political scientists label "neopatrimonialism". In a sense, this is a throwback to the default option of elites throughout history, many of which have treated the state as an extension of the ruler and his household, kin or constituency. In recent times in Africa, neopatrimonialism has arisen because a powerful private sector is absent. In those circumstances, the way you make money is by acquiring political power, then distributing the rents that you can access as a result. Obviously, this leads to bad policy, the ultimate expression of which can be found in contemporary Nigeria. This is a country that has taken about \$400 to \$500 billion in oil revenues over the last 30 years, but its poverty rate has remained stuck at about 70 per cent throughout that time. In fact, until the past decade, its per capita income was declining even as all of this money was coming in. The answer to why this happened is clear: poor governance.

For contrast, you can look at successful countries in East Asia which have coherent and effective state bureaucracies which have been the key to their success. In my last book, *The Origins of Political Order*, I argued that the Chinese invented a modern civil service about 2 000 years ago. They were way ahead of the Europeans in getting to the point where you recruit bureaucrats on the basis of their merit and qualifications rather than on the basis of their political connections. That is a tradition that the modern communist party has built upon, but it has its roots in Confucian doctrines. So, before they encountered the West, before colonialism, the Chinese had coherent, well-organised state institutions. This went through a lot of disruption in the nineteenth and twentieth centuries, but the governments that emerged could make policy, enforce laws and provide basic stability. Critically, there was also a strong sense of national identity, something that is not true of countries like Kenya, where ethnic ties play an important role in any explanation of corruption.

Of course, we all know China is hugely corrupt. But the way I would think about it is this: in certain countries you pay, say 50 to 60 per cent tax in the form of bribes and you still get very low quality services; in China, there is maybe a 10 or 15 per cent "tax", which is pretty consistent, and, you also get really good service. The government actually does something for you and, on top of that, drives strong economic growth.

Another example relates to industrial policy, the central lesson of which is that if you do not have a highly qualified, technocratic, well-insulated state bureaucracy to oversee this policy, implementation

is just going to be a disaster. This is because everybody is going to want to get in on the political perks, the distribution of benefits.

Thus, the state is really critical. One of the landmarks of this was the 1997 World Development Report called *The State of the Changing World*, which recognised that the objective should not be to get rid of the state. It said that the state should be made smaller and less meddlesome, but it had to function properly. It also said that if you didn't focus on the core functioning of state, you really were going to have a lot of trouble.

Getting to Denmark

Over the past 15 years, there has been a huge focus on the part of economists, development institutions and the development community in general, to strengthen governance in poorly-governed countries. The United States met this problem head on in Afghanistan and Iraq, where basically they were overseeing the occupation of countries in which the state had collapsed, and all of a sudden they were desperately trying to figure out how to create a state where the state doesn't actually exist. It proved to be quite a challenge.

In general, in contrast to an area like public health, where a kind of technical, focused, well-resourced intervention from the outside can produce really strong, measurable results (e.g. HIV/AIDS or the containment of various tropical diseases), the results of efforts by the international community to help strengthen the core functions of states have been marginal. Despite the rhetorical focus on transparency, accountability, improving citizen participation, etc., the overall level of governance in many countries really has not improved.

An important question is: why is it so hard to work effectively in this area? There are several reasons. One has to do with the centrality of politics to solving these problems.

The truth is that if you have a dysfunctional government—one that is subject to clientelism, high levels of corruption, poor decision making, etc.—it is almost never because the people running the government don't know what a well-functioning government would look like. They have plenty of models of that around. The problem is that their self-interest does not lie in instituting the necessary reforms because they benefit from the existing dysfunctions. For example, there is the on-going case of Haiti, where absolutely everyone who does any work on the country recommends privatising the port. The port doesn't run well; it is a big bottleneck to any kind of development. You even have a president saying, "We want you to privatise the port." But no-one who makes these recommendations seems to understand that they are just not going to get anywhere because the port is run by a politically well-connected family.

The fact is that the international community seldom has enough leverage to actually create political incentives for internal actors to do the right thing. There may be potential coalitions of internal actors who want to do the right thing, but simply don't have the ability to overcome the resistance.

I used to think that the European Union accession process in Eastern Europe was one of the few cases where you had such a big plum that you could give out at the end of the reform process that it would spur appropriate institutional reforms in countries that wanted to join. What has happened, though, is that once they get into the club, countries like Greece, Romania, Bulgaria, etc. immediately started sliding backwards and their reforms didn't hold.

A different challenge is what I call the "getting to Denmark" problem.

Obviously, it can't be true that you have to have modern, incorrupt institutions in place before you develop. If having a Denmark-like government was a precondition for development, nobody would ever have developed, including the Danes. We think the Scandinavians always had these modern states, but as late as the 1950s, a lot of those countries were primarily agrarian, not terribly well managed countries. So it must be possible to develop even when institutions aren't ideal. And, in relation to this, we need to also recognise that institutions can look quite different from each other and yet be appropriate in their respective contexts.

People in the developed world often have too narrow a view of what constitutes a good institution. There is a long list of things that we want our government to do: it has to be stable, clean, democratic, inclusive, tolerant of minorities, inclusive of women, etc. But the fact of the matter is that this is just not a realistic objective for very many developing countries. If you look at the way successful countries that have led their own development processes have acted, they copy certain things, but actually they do it in their own way.

For example, the Chinese: the first 15 years of their transition after the Mao period (under Deng Xiaoping) was powered by so-called township and village enterprises in which the communist party actually turned local governments into profit-making businesses. No economists in Washington would ever have approved this. They would have said it is a horrible idea that would lead to big-time corruption and rent-seeking. But the Chinese made it work. I think the Chinese model doesn't work anywhere else; you can't export this to Africa or Latin America or other parts of the world because it presumes having very specific Chinese traditions around bureaucracy, government, meritocracy, education, etc. But it can and did work in China.

The question of democracy

A critical question in all of this is how democracy relates to effective government. China suggests that the two are not invariably tied, but I think the story is a very complicated one.

In many cases, more democracy helps to improve governance. That is the orthodoxy, and it's usually right: if you have a corrupt government, what you need is more transparency, meaning better media, more open publication of budgets and spending data, and so forth. Also, we stress the importance of accountability, meaning political procedures by which you can actually punish the corrupt and incompetent. The theory behind this is impeccable, and, in general, more democracy helps.

However, democracy does not inevitably improve governance. A lot of the time, especially in a poor country, when you open up politics to democratic contestation it leads to clientelism, which is not exactly the same as 'pure' corruption where the politician benefits directly. In a clientelistic system, a politician distributes goodies—jobs, money, contracts—to his political support base to secure their continued support. And all systems have some element of this, of course.

For the latest volume in the book I have been writing, I did a lot of work on the nineteenth century United States. The American government—from top to bottom—was clientelistic in this period. Every postmaster, customs official, etc. was appointed by a politician as a political payoff. It was only in the 1880s that a civil service reform movement emerged and tried to create a system of merit and qualification for federal employees. Putting that in place took 40 years in the United States. There is a natural tendency to reward friends and family on the basis of the reciprocal exchange of favours. Clientelism is also the easiest way for politicians to mobilise voters—offering them individual benefits, such as a job in government. Fighting against those forces is extremely difficult and the challenges never really go away. In the United States, for example, we got rid of one kind of clientelism, but we now have a more insidious kind—interest group politics. So it has come back in that form. This is why you can never guarantee good, clean, modern government. If the thief can't get in the front door, he's going to go around the side and try all the windows or go in through the basement.

Having said that, big changes in the quality of governance are possible. One possibility is the threat of foreign invasion, which really concentrates the minds of leaders in government. The other way is political: the process of modernisation and economic change creates new social groups who are more educated and who want to see change. If they're well led and effective, they can change the state and the nature of politics.

Inequality and populism

The final point, which I think is important in the context of a country like South Africa, has to do with inequality and populism. The pressures for clientelistic distribution are the strongest in countries with very sharp class stratification, and where a large number of very poor people are left out of economic growth.

I spend a lot of time in Latin America, the most unequal region of the world, and populism has been a perpetual problem. Take, for example, the late Hugo Chávez in Venezuela. He is actually not the source of the problem in that country—the source of the problem is this massively skewed income distribution and the country's failure to provide opportunities for the poor. The result is you get a leader like Chávez who has very high popularity ratings despite the complete destruction of the Venezuelan state that occurred under his watch. Why is he popular? Because he opened clinics and handed out jobs and got food to people. Before him, governments, even democratic ones, did almost nothing for the poor.

The Role of Politics in Development

The problem with populism is not that it fails to take care of poor people, but that it does so in a clientelistic and unsustainable way.

Now, it's a brute fact that every politician has to pay off their supporters. There is no political system in the world where this isn't an imperative. But the way in which you pay people off matters a lot for economic growth. If you say that having an effective, merit-based, competent state is critical for economic development, one of the biggest threats to that is political pressure for clientelism, based on a legitimate desire to deal with certain existing social inequalities. The only solution is actually to implement more sensible kinds of distributive policies. For example, Brazil and Mexico have conditional cash transfer programmes. The key to running these programmes is that the mechanism for the redistribution is impersonal. This means that a politician can't grab hold of this programme and provide benefits only to people who vote for him. Both Brazil and Mexico have a fair amount of state capacity, so they've been able to run these programmes. However, in places like Guatemala or Nicaragua, which are smaller and poorer, this type of programme has been captured by various kinds of political populists, and so it hasn't led to very good outcomes.

Overall these are the big political challenges right now. It is recognising that effective government is key to economic growth and then navigating the politics of how you get there in the first place and how you keep it there once you've gotten there.

Published in August 2013 by The Centre for Development and Enterprise
5 Eton Road, Parktown, Johannesburg 2193, South Africa
P O Box 1936, Johannesburg 2000, South Africa
Tel +27 11 482 5140 • Fax +27 11 482 5089 • info@cde.org.za • www.cde.org.za

BOARD

L Dippenaar (chairman), A Bernstein (executive director), A Ball, N Behrens, E Bradley, C Coovadia, B Figaji,
M le Roux, S Maseko, I Mkhabela, M Msimang, W Nkuhlu, S Pityana, S Ridley, A Sangqu, E van As

INTERNATIONAL ASSOCIATE

Professor Peter L Berger

© The Centre for Development and Enterprise

All rights reserved. This publication may not be reproduced, stored, or transmitted without the express permission of the publisher. It may be quoted, and short extracts used, provided the source is fully acknowledged.