

Civil society coalitions in policy reform: An economist's outlook

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How to advance economic development and growth?

Easterly, 2002: “The Elusive Quest for Growth”

Rodrik, 2003: In Search of Prosperity”

Development paradigms

Traditional view:

Poor countries lack physical and human capital

Institutional view:

Poor countries lack good institutions

Data support institutional view

Barro, 1997: growth rates are nearly flat but fluctuate significantly among the developing countries in response to the quality of institutions

Keefer, Knack; Kaufman, Kraay, Mastruzzi, 2005: Good institutions are essential for growth and prosperity There is a strong correlation between the quality of institutions and economic development

Measures of institutional quality

- **Voice and accountability (choosing government, political rights, civil liberties, independent press)**
- **Political stability and absence of violence (likelihood of regime change by extralegal means),**
- **Government effectiveness (quality of public service, competence and politicization of civil service)**
- **Light regulatory burden**
- **Rule of law (protection of person and property against violence and theft, independence and effectiveness of judiciary, contract enforcement)**
- **Freedom from graft**

Causality problem: do institutions cause growth?

Acemoglu, Robinson, Johnson (2002):
“reversal of fortune”

Institutions are shown to explain variations in economic performance among the countries of the world, and in particular the reversal of distribution of wealth between centuries in the course of modernization

A contrarian view – geography hypothesis

Sachs (2001): endowments matter

Income gap is due to climate and geography; rather than putting all the energy into market reform it will be necessary to meet the challenges of tropical health, agriculture and environmental management

Supremacy of institutions over endowments

Easterly, Levine (2003):

*Endowments and geography (“tropics, germs and crops”) work **through** institutions.*

Rodrik, Subramanian, Trebbi (2004):

Institutions rule, they trump all other factors.

An increase in institutional quality by one standard deviation (Bolivia and South Korea) leads to 6.4-fold difference in incomes per capita.

Another contrarian view: development hypothesis

Glaeser, La Porta, Lopez-de-Silanes, Shleifer (2004):

- Good political institutions are endogenous to growth and accumulation of human capital
- Poor countries broke through due to good choices made by dictators, rather than by constraints imposed on rulers.
- Focus on democracy and constraints on government as a means to get out of poverty might be misplaced. The focus on factor accumulation, including accumulation of human capital, is more productive.

Two good development scenarios:

- *Democracy-driven prosperity*
- *Autocracy-driven prosperity*

Many transition and developing countries
belong to neither of these categories

Institutional watershed between prosperity and poverty

*Acemoglu, Robinson, Johnson (2002):
Market institutions vs. extracting institutions*

- Market institutions secure property and contracts, maintain level playfield and competitive private enterprise.
- Extracting institutions enable extraction and capture of economic rent

Concentration of wealth and emergence of extracting institutions

- Mining
- Large plantations
- Landed aristocracy

Perpetuation of inefficient institutions

Sokoloff, Engerman (2000):

Inequality creates privileged elites that establish and maintain institutions supporting such privileges, and this perpetuates inequality.

North (1990):

Institutions are shaped, at least in part, by politically powerful groups that may obtain fewer rents with institution of private property

Narrow interests and state capture

Olson (1966, 1982, 2003):

Narrow interests are better able to resolve the collective action problem. Such interests are not encompassing and thus could be opposed to progressive changes

Acemoglu, Robinson (2001), (2006):

Privileged elites do not benefit from progressive institutions or are concerned that such reforms would cause political instability threatening the power of elites (“economic backwardness in political perspective”). Institutional differences matter when progress requires technologies with broad participation.

Easterly (2002):

Elites discount aggregate efficiency gains out of distributional concerns, and such discounting grows with economic inequality. Polarization of wealth increases the threat of redistribution (Venezuelan scenario)

Two dimensions of “resource curse”

Economic dimension: “Dutch disease”

Political dimension: Extracting institutions

Karl (1997): “Rentier state”

Rulers of oil-exporting countries have no incentive to be efficient ... Revenues pouring into a highly concentrated structure of power lead to further concentration and encourage further inefficient and unproductive spending to establish and maintain rentier networks between politicians and capitalists

Policy capture: Case I

DeSoto (2000): "The Mystery of Capital"

Vast informal economies in developing countries are due to high costs of official registration of property rights, excessive red tape and bureaucratic predation. This leads to poverty and underdevelopment that would have been greatly diminished, were the assets in the informal economy contributed to an efficiently run formal sector. Wealthy elites oppose such reform that would have diminished returns to assets that the elites hold.

Policy capture: Case II

Polishchuk/Savvateev (2004): Oligarchs are opposed to secure property rights

Skewed distribution of property rights creates an adverse attitude to secure property rights among the wealthy elites who can privately protect their own assets value the opportunity to prey on the rest of the economy. As a result, the scenario of spontaneous emergence of secure property rights in Russia has failed to materialize

Recapitulation

Rajan, Zingales (2003): Saving capitalism from capitalists

Those who occupy controlling positions in the market economy have the incentive to suppress competitive market to preserve wealth. Economic and political oligarchy protects its sources of rent that an efficient market economy would erode.

In search for remedies

Curse of bad institutions is not eternal;
path dependencies and spells of “original
sins” can be broken

Calculus of bad institutions

Coase (1960): bargains in society lead to efficient outcomes

Inefficiency is possible when victims of bad institutions who bear their costs are excluded from the policy process

Example: corruption is a negative sum game from the societal viewpoint, it destroys wealth, and yet it requires consent of the involved parties that view it as a mutually beneficial deal. Losers aren't parties to this bargain (or are unaware of its true costs), which make corruption possible. Broad participation and inclusive politics are means to block corruption and prevent other inefficient institutions from taking hold.

Obstacles to broad consolidation

Olson (1982): collective action problem

Numerous and encompassing groups find it hard to organize themselves

Rajan, Zingales (2003): narrow interests' advantages

The very same difficulties of organizing collective action that necessitates the intervention of the government also make it hard for the public to ensure that the government acts in public interest

Obstacles to broad consolidation (cont.)

Easterly (2003): Polarization of society and sectarian interests

Class, ethnic, religious and other differences deeply divide the society

Weingast (1997): a lack of civic culture allows “divide and rule” approach where the ruling regime expropriates wealth from one group and redistributes part of the spoils to the other to secure necessary support

Alesina, Drazen (1991): “War of attrition” and distributional conflict of reform

Factions in the society avoid endorsing policy reform on the hope its burden will be borne by another faction

Entry point in policy process: making democracy work

Barro (1997); Glaeser, La Porta, Lopez-de-Silanes, Shleifer (2004): democracy and formal checks on government have no systematic impact on economic growth

Acemoglu, Robinson (2006): “Institutional invariance”

Elites are able to manipulate and circumvent democratic institutions

Changes de jure of allocation of political power are offset by intensified lobbying, manipulation and other efforts of incumbent elites so that allocation of political power de facto remains intact. De facto power is power that is not allocated by institutions (such as elections), but rather is possessed by groups as a result of their wealth, weapons or ability to solve the collective action problem.

Can broad coalitions succeed?

Acemoglu (2003): Why not a political Coase theorem?

Elites are concerned that bargains struck with the society wouldn't be enforceable

Lizzeri, Perisco (2004): far-sighted elites can share political power and economic benefits

This can be done through extension of franchise as a means to minimize political risks

Success stories: England's Magna Carta, US Constitution, Spain's Moncloa Pact

The importance of being informed

Political market failure: a lack of broadly communicated professional information on public policy matters is a yet another source of political disadvantage of the general public which is unaware of its true interests and cannot on its own properly articulate them. This makes the society passive and vulnerable to manipulation by the ruling elites.

Evolving views on the role of public support in policy reform

Williamson (1994): according to “Washington consensus”, society can be a hindrance

Technocratic recipes for successful reform:

- Authoritarian regimes are best at carrying out reform
- Strong base of support could be absent, but opposition ought to be weak and fragmented
- Reformers should mask their intentions to the general public
- Reformers should make good use of the media

Rodrik, Fernandez (1991): Status quo bias as an obstacle to reform

Sachs (1994): act quickly and resolutely

If there is a crisis, there is no time to build a consensus, only confusion, anxiety, and cacophony of conflicting opinions ... Reform needs a strong and autonomous executive, unhindered by search for consensus and compromise

society can be a resource for reform

Rajan, Zingales (2003): let the wider public see pros and cons and serve as a champion and guardian of efficient institutions

One reason politicians ignore the public interest with impunity is that they believe the public is often not aware of what that interest is and cannot be bothered to find out. ... If the wider public sees the benefits of free market and understands their political fragility, it will be harder for narrow interest groups to push their own agenda

False sense of complacency

Karl (1997): a “rentier” state can use resource revenue spoils to buy public consent

De Soto (2000): an informal economy provides with a decent livelihood

Public’s misguided tolerance to corruption

Polishchuk (2006): coerced “corporate philanthropy” as a poor substitute for efficient revenue collection and public expenditures

The role for policy NGOs

Think tanks are a means to overcome the political market failure that leaves the society uninformed.

OSI's "Follow the Money":

Participation of independent think tanks in civil society coalitions allows "marrying analysis to advocacy (J. St. George)

It is critical to translate that analytic work into an understandable form for the public, the media, and policymakers – and to disseminate it widely.

The role of international coalitions of NGOs and think tanks:

- Setting up performance standards, disseminating and highlighting successes and failures thus creating an international marketplace for participatory reform approaches

Stiglitz (2000): “scan globally, reinvent locally”

- Benchmark competition of policy reform
- Enhanced credibility of policy studies that have withstand the scrutiny of international expert community
- Consolidation of global civil society networks for good institutions and governance as vehicle for development and prosperity
- Dissemination of analytical tools, setting up professional enforcement standards for policy institutions