Governance and Economy

A Review

Deborah Brautigam

An exploration of the links between development and governance — that is, between development and accountability (including institutional pluralism and participation); openness (including problems such as corruption that result at least partly from lack of openness); and predictability, or the rule of law.
Brautigam reviewed the literature on political science, development management, and institutional economics to give Bank staff a clearer understanding of the links between development and governance—specifically accountability (including institutional pluralism and participation); openness (including problems such as corruption that result at least partly from lack of openness); and predictability, or the rule of law.

She found some support for a positive link between economic performance and these variables of governance (although some correlations appear stronger than others). Among her findings and conclusions:

- Arbitrary law enforcement and failure to uphold the constitution—the law—lead to unpredictability, instability, and a poor climate for growth. Well-specified property rights and enforceable contracts are clearly economic development issues and should be recognized as such. The content and distribution of property rights critically affect how broad-based development will be.

- Lack of accountability—combined with opaque and highly discretionary regulatory procedures—can provide great opportunities for economic corruption and waste. The suppression of political openings may ultimately affect stability, disrupting production and commerce. The failure to encourage grassroots participation reveals itself in comparatively unsustainable projects.

- Research trying to correlate economic performance with governance variables inevitably involves a short time frame. The recent economic performance of Chile, Taiwan, and South Korea occurred with little political openness, and their market systems seemed to work without pluralistic political systems.

But in the past few years all three have made significant transitions toward more open, competitive, participatory political systems, which suggests that sustaining (as opposed to establishing) market-based growth may require the development of political representation. With renewed interest in open political systems, we can expect a new generation of research on these variables.

- Donors who wish to make “governance” the temporary trend of the 1990s must understand that, as Zafar Ahmed put it, “One cannot make a tree grow faster by pulling it from outside; it has to grow from its roots.” It takes generations, perhaps centuries, to build effective bureaucracies. It takes not only skills but volition, which comes from effective social pressure on the state. Donors must ask how best to nurture a social desire for accountability and the rule of law.

- Effective property rights and accountability result from a long-term dialogue between governments and their private sector, not between governments and donors. In Europe, public accountability developed through a state-society struggle about the collection and use of tax revenues. In many of the world’s developing countries, tax revenues are disproportionately low as a proportion of GNP, even with low levels of per capita GNP. Thus, much of the dialogue about accountability shifts to one between states and donors. This process of assistance could inadvertently undercut the historical process of rulers first becoming accountable to elites for the use of their tax revenues.

- Donors must become aware of the possible effects of large sums of external assistance. They must push the new concern for “local ownership” toward a deep commitment to develop economic policies together, even if the process is slow and frustrating. This should encourage the development of accountability as a matter primarily between governments and citizens. Only over time can societies push their governments to deliver the accountability, openness, and predictability that sustainable development requires.
# GOVERNANCE AND ECONOMY: A REVIEW

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This paper was commissioned by the Policy and Review Department of the World Bank to familiarize Bank staff with concepts underlying discussion of “governance” as a development issue. The terms of reference requested a review of the political science, development management, and institutional economics literature which bears directly upon the issues of governance -- specifically accountability (including institutional pluralism and participation); openness (including problems resulting in part from lack of openness, e.g. corruption); and predictability or the rule of law.

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I. INTRODUCTION

A. Governance and Economy

Governments determine how well, or how poorly, markets function. This simple truth explains the current concern with "governance" as the world shifts toward an overwhelming endorsement of markets as the base of economic activity. If governments are assumed to be neutral, and committed to serving the public good, then deviations from optimum economic performance can generally be corrected simply through policy reform, or through improving information systems. And yet, as Douglass North argues, economic performance is not easily explained by the logic of economic theory alone. Governments are not neutral. Their rationality is more frequently political than economic. "The contrast," North says, "between the logical implications of neoclassical theory and the performance of economies (however defined and measured) is startling." (1990:11).

To understand economic performance, it is important to factor in the political role of governments. As Susan Strange notes, "Markets cannot play a dominant role in the way in which a political economy functions unless allowed to do so by whoever wields power and possesses authority." (1988:23). The exercise of power and authority lies at the heart of governance. Governments use their power and authority to establish and maintain the formal and informal framework of institutions that regulate social and economic interaction. Governments create the rule of law necessary to underpin accountability, transparency, and predictability in interactions. Governments -- in interaction with their citizens -- determine many of the preconditions for a thriving, or a declining, domestic economy.

This paper attempts to give the current concern with governance a historical dimension, and to locate governance as a technical and intellectual issue within a body of literature that has long addressed these concerns. It examines a limited number of governance dimensions -- accountability (including legitimacy, institutional pluralism and participation), openness and transparency, and predictability (or the rule of law) -- in a selective review of recent social science literature. The paper makes no claim to be exhaustive, but rather to offer an introduction to recent work which is built in part upon the
analysis of how politics and economics interact in shaping economic development. It explores why and how accountability, openness and predictability matter, and how the different ways in which governments use their power and authority create enabling or disabling economic environments.

The issue of governance rose to the forefront of development agendas at the close of the 1980s, following nearly a decade of concern with macroeconomic policy reform. In Africa, calls by citizens and leaders for greater openness and accountability were joined by international donors. The World Bank's 1989 Long-Term Perspective Study (LTPS) -- Sub-Saharan Africa: From Crisis to Sustainable Growth--highlighted a deep concern with governance as a development issue: "Underlying the litany of Africa's development problems is a crisis of governance" (p. 60). Addressing political issues as openly as it did, the LTPS created a stir in the development community. The LTPS linked governance to issues of leadership authority and legitimacy. It addressed the absence of balance of power, the lack of official accountability, the control of information, and a failure to respect the rule of law. The LTPS spoke in favor of "independence for the judiciary, scrupulous respect for the law and human rights at every level of government, transparent accountability of public monies, and independent public auditors responsible to a representative legislature, not to an executive" (p. 192).

Although the calls for change have been loudest in Africa, other regions have undergone dramatic shifts in governance. In Latin America, the rapid transitions from authoritarian to democratic regimes over the past decade offered a different reason for attention to governance. Newly elected legislatures moved to transform old legal regimes, to reinforce new structures making government accountable to citizens, and to strengthen their own capacity to analyze, evaluate, and initiate policies.

Governance issues surfaced in Asia over the past decade as well, most prominently in China, where a decade that opened with a dramatic transition to economic liberalization closed with the forceful suppression of calls for political change -- in Tiananmen Square. In the Soviet Union, glasnost (openness) in the Soviet Union focused new attention on openness as a critical element in governance. In both the Soviet Union and Eastern Europe, political openness encouraged citizen's demands for accountability, and the move toward a market economy underscored the need to establish legal guidelines
and well-defined property rights in order to secure private investment. These events combined to prompt related changes in the assistance offered by many bilateral and multilateral donors -- most noticeably, the establishment of the European Bank for Reconstruction and Development (EBRD), mandated to reinforce changes in Eastern Europe through support for multi-party governments and for other political dimensions of development.

Although governments exercise their power and authority in different ways, they all affect economic activity. Many donors have tried to draw a distinction between what Carol Lancaster (1990) has termed social or economic governance, and political governance, although the line is difficult to position with any assurance. This paper focuses on those aspects of governance (in addition to skill and capacity) that appear to affect economic performance: accountability, openness or transparency, and the rule of law. These variables affect economic performance through their impact on fiscal integrity, on predictability, and on the creation of an environment conducive to productive investment.

In keeping with the limited focus on these three aspects of governance, this review does not directly address the relationship between development performance and the form of government. Although empirical research exists on hypothesized relationships between regime type (democracy, dictatorship, etc.) and growth and development, the evidence to date is mixed. Indeed, one of the puzzles that guides much of the inquiry of political scientists, in particular, continues to be "how it is that many nondemocratic governments seem to be as strongly motivated to guard the welfare of citizens as democratic governments" (Lindblom 1977:x).

B. Background of the Concept of Governance

Governance itself is a neutral concept, meaning the "exercise of authority; control," or, more broadly, "government." As a synonym for government, governance can be further defined as "the political direction and control exercised over the actions of the members, citizens, or inhabitants of communities,
Recent empirical studies of governance range from analyses of Norway's wage policy and Britain's management of its health service (Rose 1980), to East Africa's rural development programs (Hyden 1983).

Work in the area of governance is often interdisciplinary, cutting across the boundaries of economics, political science, philosophy, sociology, and management. Governance has been analyzed both normatively (how should governments behave?) and positively (how do governments behave?). This distinction has ancient roots, as philosophers have long debated the moral versus the utilitarian foundations of the nation-state and its system of governance. As long ago as 495 B.C., Confucius, an experienced bureaucrat forced into exile by Chinese political intrigue, argued that a well-ordered society required government based on superior morality rather than on superior power. Later Chinese philosophers countered that "good" governance above all required centralized, absolute authority. Plato (advisor to the ruler Dionysius II of Syracuse) and his pupil Aristotle grappled with questions of political reform, the rule of law, the nature of authority, and the principles which ought to determine the shape of the ideal state, and its relation to production and other economic questions.

Modern analyses of governance date from the 17th century Germanic tradition of politikwissenschaft (political science) and the 18th century innovations of the European Age of


2 In Asia, theories of governance can be traced to Confucius' philosophy of the moral institutions underlying social order, in particular, the "rectification of names". A well-ordered society, he argued, depended on the fulfillment of duties and responsibilities inherent in social roles: ruler, minister, father, and son, for example. If the ruler fulfilled the "way of the ruler," he would have legitimacy; for society to prosper, all must fulfill their roles. Thus a son must be filial, a father paternal, and a ruler must offer moral leadership to the nation. Social order depended on everyone fulfilling his or her social role, on the "rectification of names." The heaviest responsibility fell on the leader: if he fulfilled his duty, then the chain of rectification and social order would be in place; if not, social chaos would result.

3 Mo Tzu's (c. 470-c.381 B.C.) influential critique of Confucius used a utilitarian argument: states are established to end disorder, and thus the centralized authority of the ruler must be absolute. "According to the Mohists, the state exists because it is useful. But according to the Confucianists, it exists because it ought to exist." Mencius later elaborated the idea of two kinds of governmental authority: wang, or the sage-king, and pa, or the warrior-king. One bases its power in morality, the other in force. Contemporary Chinese thought continues this distinction: "a democratic government is a wang government, because it represents a free association of people, while a Fascist government is that of a pa, because it reigns through terror and physical force. (Fung 1948: 73-75).
Enlightenment. Shifts from religious to secular issues, transitions from feudalism, a rising concern for individual rights, and the expansion of the self-regulating market as an increasingly important medium of exchange raised questions about the relationship of political authority to individual and group welfare. The foundation for many who grapple today with questions of the evolution of governance and of society's relationship with political authority was laid by writers such as John Locke, in his concern with structures to prevent the abuse of authority; Jean-Jacques Rousseau, and his idea of a social contract between rulers and citizens; and Thomas Hobbes, who wrote about the propensity of people to engage in conflict and to seek power, and ultimately, to submit themselves to the coercive rule of the absolutist state, the Leviathan.

Max Weber's analysis of modern, rational-legal states, published in the 19th century, still underlies many Western ideas of governance. Weber pointed to the "process of rationalization", arguing that modern states differ from primitive states in their reliance on hierarchy, in the base of the leadership's legitimacy, and in their monopoly of the use of legitimate force. Modern states, he argued, are based on norms of universalism rather than particularism. They rely on detached and routine decision-making rather than on ad hoc procedures. Modern bureaucracies are, in principle, structured with management hierarchies, have clear rules for advancement, and maintain information systems that assure continuity and predictability, although as Anthony Downs (1967) pointed out, many fail to live up to this ideal.

Weber addressed the development of governance in modern states from his perspective on Western Europe. Nearly a century later, Gunnar Myrdal in his Asian Drama: An Inquiry into the Poverty of Nations (1968) introduced the idea of "soft states" versus "hard states" in an influential addition to the increasing body of "modernization" literature, which focused on the problems of state-building in developing countries. The hard state sets priorities and carries them out. Norms and practices keep bureaucrats and politicians separate. The soft state finds officials regularly circumventing laws and regulations. Civil servants and politicians secretly collude to thwart policy implementation,

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and corruption riddles the system. The hard state is a state in control of its regulations and policies. Its civil service operates by Weberian rational bureaucratic principles. Control, capability, and volition separate soft states from hard states.¹

How does "good governance" develop? Relations between rulers and ruled differ in every country. History, custom, law, society, and political economy affect the way in which the ruled in a country hold rulers to account for their performance, the relative openness of a socio-political system or an economy, and the degree of predictability in government decision-making and interaction with the public. The development of accountability, openness, and the rule of law in Western Europe offers a useful perspective on the evolution of governance.

C. Historical Perspectives: Evolution of Governance in Western Europe

The concept of governmental accountability in much of Western Europe and the establishment of transparency and an impersonal rule of law developed slowly -- as a result of evolving relations between rulers and elites. Although these relations were stimulated by ideas of personal freedom and government responsibility rooted in the 18th century Enlightenment, they had much earlier roots. In Britain, for example, the Magna Carta, sealed in 1215, signaled the first formal attempt by social elites to elicit accountability from their monarch.

Early European states resembled many of today's developing countries. Caught between cumbersome taxation systems and their need for revenues, monarchs borrowed heavily and operated under chronic deficits: financial crises brought Spain to bankruptcy five times between 1575 and 1647 (Eggertsson 1990: 342). The need to raise revenues to pursue state activities (wars, in particular)

¹Later writers amended Myrdal's work by adding analyses of the history of governance under colonial rule and of the influence of colonial institutions on the development of accountability in post-colonial states. Amartya Sen (1991) suggests that a "soft" state is in fact a state that responds to public demands: "That need be no bad thing" (p. 425).
brought monarchs into repeated struggles with the barons and dukes on whom they relied to extract surpluses from the peasantry.

Historically, accountability in Europe was wrested from personal rule of royalty by the pressure of domestic elites: "The admission of the right of parliament to legislate, to enquire into abuses, and to share in the guidance of national policy was practically purchased by the money granted to Edward I and Edward II." Taxation evolved from a unilateral act by the crown to a right that involved reciprocity. The evolution was slow. Only in 1782 was it possible in Britain for Parliament to clearly separate the crown's personal account from general government accounts (Theobald 1990).

Concerned about their lack of control over revenues, other European elites demanded institutions like Britain's Parliament which would eventually bring the monarch's budget out of the household and into national accounts. In France, this led to the establishment of the Estates General; in Spain, the Cortes. French elites based their support for the Revolution of 1789 on the argument that royal financial discretion must be limited, that the public should be able to debate and influence economic policy, and that public institutions are needed to carry out these objectives. The evolution of legal systems and institutions necessary for market economies -- protecting private property rights against the law of the commons, and enforcing impersonal, contract-based transactions -- paralleled these developments.

Only later did the establishment of popular organizations -- trade unions and other independent associations -- lead to pressure for more complete representation and political participation, extending accountability from elites to the people at large. This evolution toward greater openness was not rapid. European institutions based on the principle that the bureaucracy should serve the public rather than a narrow group of elites only emerged in the 19th century. British public servants only began to receive salaries in 1816 (Theobald 1990: 27), and the principle of merit rather than "spoils" as the primary

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vehicle for recruitment and promotion in the European public services evolved only in the past hundred years (Hyden 1983: 58). Both movements enhanced predictability and accountability in European governments.

The brief sketch above illustrates broadly how institutions supporting predictability, openness, and accountability developed in Western Europe. In other parts of the world, these institutions are likely to have developed in alternative ways. The colonial period, for example, affected institutional development in a number of countries. In many cases, Western European institutional forms were transferred directly to developing areas during periods of colonial rule. Brought in as part of a system based on rule by powerful external actors, the colonial civil service was never directly accountable to those whom they ruled. Even when legislative assemblies were introduced as part of the "tutelage in parliamentary democracy," they were filled in the first instance with colonial civil servants. In the post-colonial period, these public institutions, superimposed on political and economic systems in which they had no roots, continued to lack accountability. In many cases, government bureaucracies failed to continue as impartial, autonomous institutions, but were captured by "clan pressures," politicized as "booty," (Hyden 1983: 60) -- and, in short, reverted to the kinds of patrimonial states common in early Europe. "L'état c'est moi" rings all too true in many post-colonial nations today.

Furthermore, the European colonial practices and experiences were very different if one compares, for example, the Spanish conquest of South America with British rule in India, or with French rule in Africa. The Spanish colonial period took place much earlier, penetrated society more deeply, and resulted in different institutional patterns. The British in India imposed an additional layer on a civilization with a preexisting system of national institutions and a centralized bureaucracy. The French, along with other colonialists, created a complex overlay of government bureaucracies and a centralized state apparatus in Africa, imposing central leadership over many groups that had developed institutions for communal governance, or even imperial governance, but not governance at the national level of a modern state.
The tragedy of mismanagement and corruption in many modern nations can often be related to this colonial imposition of states and bureaucratic institutions, rather than their natural evolution through a process of citizen demands for accountability and ruler adjustments. Peter Ekeh (1975) points to the reputation for honesty among local ethnic associations in Africa and contrasts this with corruption in local governments. Associations based on a moral economy of reciprocity, responsibility and duty contrast sharply with imposed government structures, a "profane amoral world based on instrumental relationships premised on the accumulation of rights rather than duties" (Theobald 1990: 9).

Developing accountability in state-society interactions thus involves more than simply adopting standard operating procedures and other tools of rational-legal bureaucracies. In the first place, many of these institutions are difficult to transfer. Bureaucracies, courts, the military, etc., must be rooted in a local culture before they can reach a level of complexity and efficiency which enables them to support effective state action (Badie and Birnbaum 1983: 35). But even more fundamentally, this institutional evolution takes time. As Douglass North (1990) points out: "The single most important point about institutional change, which must be grasped if we are to begin to get a handle on the subject, is that institutional change is overwhelmingly incremental" (p. 89).

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*Lonsdale 1986, Hyden 1983. With this in mind, donors should think twice about the implicit hope that externally imposed reform and reorganization of bureaucracies will somehow lead to their rationalization.*
II. GOVERNANCE IN THE LITERATURE: ACCOUNTABILITY, OPENNESS, AND THE RULE OF LAW

A. Three Approaches: Political Science, Institutional Economics, and Development Management

A common theme linking these three bodies of literature is their concern about the framework for decision-making in the allocation of scarce resources. Political scientists study the processes, principles, and structure of governance and of political institutions: bureaucracies, political parties, popular participation, economic regulations, procedures for controlling conflict and for regulating succession (Huntington 1968:1). They analyze both concrete and theoretical issues of power, authority, and legitimacy in the context of the struggles to resolve conflicts over issues of values, the distribution of scarce resources and assets, and the allocation of production surpluses that often shape the interaction of rulers and ruled. As Laswell put it in 1936, political scientists study "who gets what, when, how?"

Institutional economics commands a broad scope of inquiry, nothing less than "the nature of political and economic institutions and how they change" (North 1989: vii). An interdisciplinary marriage of economics with other social sciences and history, institutional economics attempts to extend neoclassical price theory by tracing the evolution of the institutions -- norms, rules, values, and patterns of behavior -- that affect the performance of economic and political systems.

Often historical in approach, an important branch of institutional economics addresses contemporary "principal-agent" problems: the dilemmas faced by the state in its reliance on agents to carry out revenue collection and service delivery. Neoclassical economics assumes full information and

*The "agency problem" results "(w)hen the information set available to one party to a contract involving two parties is not identical to that available to the other party, (and) one of the parties may be able to engage in opportunistic behavior so as to increase that party's benefits at the expense of the other's" (Nubli and Nugent 1989: 1337). Agency theory is useful in explaining outcomes involving contract negotiation and monitoring under conditions of imperfect information where the principal is unable to control the behavior of the agent. For more on agency theory, see M. K. Nabli and J. B. Nugent, "NIE and Development", World Development vol. 17, no. 9, September 1989; Pranab Bardhan,
neglects the costs of market transactions, including contract enforcement. It ignores property rights, or assumes that they are fully defined. By contrast, institutional economics emphasizes that "when transaction costs are positive, the distribution of political power within a country and the institutional structure of its rule-making institutions are critical factors in economic development" (Eggertsson 1990: 248).

Development management explores the operational side of governance: improving efficiency in the allocation of resources and expanding participation in allocation decisions. Development management writing generally emphasizes the empirical, focusing on projects, programs, and policies within the context of public and private sector decision making and resource allocation. As a multidisciplinary field, development management draws on economics, management, and organization theory, as well as on sociology and political science. Development management writers frequently interpret more theoretical work in the social sciences to offer guidance to practitioners. For example, a reading of Weber’s ideas on the norms of professionalism that underlie predictability in the "rational-legal state" might enrich a discussion of public management training. In addition, development management highlights the practical input of practitioners, and it has been influenced by networks of management institutions in the developing world, e.g., the Central American Management Institute (INCAE), IIMA (Indian Institute of Management, Ahmedabad), and NIMD (Egyptian National Institute for Management Development).

In general, analysts from all three schools argue that contemporary governance problems cannot be understood outside of their political and historical context -- the context that gives political


Much of this field has gained its strongest intellectual development through leading institutions and writers in India, notably the Indian Institute of Management in Ahmedabad. See, in particular, Sharma 1978; Bhaduri and Rahman 1982; Chatterjee and Gokhale 1974.
"mismanagement" its underlying logic and that creates the environment in which economic activity operates.\textsuperscript{11}

B. Accountability

Although the meanings and practices of accountability follow changes in societies, "it is found where rulers readily delegate authority, where subordinates confidently exercise their discretion, where the abuse of power is given its proper name and is properly punished under a rule of law which stands above political faction" (Lonsdale 1986: 128, 135). The literature defines accountability in several ways: political accountability, public accountability and legal accountability.\textsuperscript{12}

\textbf{Political accountability} is "the relative ability of divided peoples to organise in order to choose a ruler or government, to remind king or president of their promises, and to get rid of them if they fail or refuse to abide by their mandate" (Lonsdale 1986: 130). This involves, \textit{inter alia}, institutionalized methods by which citizens can review government activities, question government ministers, review public expenditures, and remove officials who abuse the public trust.

\textbf{Public accountability} concerns the methods and practices whereby users of government and public services, and those within government bureaucracies, ensure adequate levels of public service. Oversight problems, or "principle-agent" dilemmas, abound in the provision of public services, and governments have adopted methods ranging from ombudsmen to privatization in order to promote public accountability, the practice of which involves both answering \textit{up} the chain of command to superiors and \textit{outward} to the public.

\textsuperscript{11}Though we have here surveyed only a limited subset of available, recent writing, the lessons of this review point clearly to the need to review the roots of recent literature in the classics of social science for insights into governance in developing countries today. As Dunn notes, "There are no very explicit modern theorists of good government (as opposed to good organisation)." (Dunn 1986: 161, note 12).

\textsuperscript{12}S. Paul (1990) uses a similar framework of democratic, professional, and legal accountability.
Legal accountability means that citizens and groups can hold public agencies and civil servants legally responsible for their actions. Civil suits against the state are possible; a penal code regulates both public and private behavior; and laws are enforced through adequately funded institutions that are independent of the political system. Political corruption occasions real risks and penalties, and individuals and groups that uncover abuses or demand accountability are legally protected.

Accountability thus has several related components: (1) the existence of constitutional or legislated protection of the public interest through a code that regulates both public and private behavior; (2) the enforcement of such laws through specific institutions that receive adequate budgetary allocations and are independent of the political system; and (3) a set of social expectations shared by rulers and ruled that provides the underpinnings of enforcement and compliance.

1. Legitimacy, Leadership, and Accountability

Jean-Jacques Rousseau’s 18th century idea of a social contract between rulers and ruled described a bargain with mutual responsibilities, but it also implied -- much as the Chinese philosopher Mencius argued\(^\text{13}\) -- that failure of the ruler to live up to his side of the bargain removed his mandate. Thus the failure of accountability can lead to the loss of legitimacy. Even though legitimacy cannot be directly addressed by institutions such as the World Bank, it is fundamental to many analysts’ conception of governance and accountability, and the rule of law. To be legitimate is to be "in accordance with established rules, principles, or standards; lawful, legal."\(^\text{14}\) Seymour Martin Lipset (1960) defined legitimacy as "the capacity of the system to create and maintain the belief that existing political

\(^{13}\)Mencius (c. 371-c. 289 B.C.) elaborated the Confucian idea of governance by arguing that the people had the right to overthrow a leader who lacked the necessary moral qualities: such an act was not regicide; since the ruler did not live up to the responsibilities inherent in his title, he was not really a ruler.

institutions and procedures are the most appropriate ones for the society" (p. 77). The effectiveness of a government is based in part on its level of legitimacy; greater efficiency comes from the promotion of voluntary compliance with laws and regulations rather than from reliance on coercion, threats, fear, and personal loyalties. Citizens respect the procedures and institutions of legitimate governments even if they may not respect particular actors.

Traditional systems, according to Max Weber, base governmental legitimacy on sacred and inviolable norms, and deeply held beliefs about appropriate leadership, often with religious sanction. While constitutional legitimacy depends on formal law to support accountability, traditional legitimacy depends on social pressures as much as on codified rules. Richard Joseph (1990) suggests that "In addition to the establishment of ombudsmen, leadership codes, special tribunals and other well-tried but often unsuccessful initiatives," countries should "explore customary ways of compelling accountability that enabled chiefs, village heads and councils to govern their communities while being held accountable for their actions" (p. 203).

More modern systems base their legitimacy on either charismatic-revolutionary or constitutional grounds. Charismatic-revolutionary legitimacy relies on appeals to ideology and emotion. Constitutional legitimacy is derived from adherence to the rule of law and to valued, institutionalized procedures that are considered morally proper and that generally include orderly, predictable transfers of power. Constitutional political systems build legitimacy through institutions that allow for citizen participation in politics. "It is the parliamentary system of government that is legitimate, and government officials, elected through the institutions of this system of government, acquire their authority from the legitimacy of the system" (Dawisha 1986).

In many parts of the world, with various political cultures and traditions of governance, the legitimacy of political systems rests on the person of the ruler. Centralized authority in many areas, for example, is based on both traditions of hierarchy and strong personal leadership. Legitimacy is frequently promoted and reinforced through the use of ideology, images and cultural symbols, and ties
to historical leaders. Legitimacy acquired in this manner is easily uprooted and may ultimately rest on only lightly sheathed force. Yet many local observers argue, as does Adeed Dawisha (1986), "in the final analysis, only genuine participation in the political process can provide a government with unshakable and permanent legitimacy" (p. 527).

2. Accountability, the State, and Civil Society

The existence of constitutions and formal law alone cannot explain the presence or absence of accountability. Some political scientists argue that political accountability depends "almost entirely on the ability of civil society to curb the hegemony of the state" (Chabal 1986: 13), while others point to the East Asian experience as a demonstration that in order to be accountable to society at large for the country's economic performance, the "hard" state may insulate itself from particular interests in civil society -- for example, rent-seekers, special interest groups, even labor (Haggard 1990).15

The relationship between states, their societies, and the development of accountability is controversial. Many contend that problems of accountability are rooted in an "all powerful state" (World Bank 1989: 61). In his analysis of "strong societies and weak states" Joel Migdal (1988) argues that states with low accountability and legitimacy are engaged in a struggle for survival; they are weak states. Weak states have not effectively centralized and institutionalized their authority. The struggle to do so leads to the politicization of the bureaucracy and a lack of effectiveness, accountability, and control. When bureaucrats and leaders attempt to consolidate the rule of law, their offices are in danger of capture by particularistic interests.

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15Michael Bratton's very thoughtful article "Beyond the State: Civil Society and Associational Life in Africa," (World Politics April 1989) discusses classical conceptions of civil society from Hegel (who introduced the term), to Gramsci who saw civil society as the "ideological instruments (churches, schools, trade unions)" of the state, and de Tocqueville, who saw civil society as "the ultimate guarantee that the state will be unable to arrogate to itself any more power than an active citizenry is willing to grant" (pp. 416-418).
Migdal criticizes the tendency of academics and donors to simplify bureaucratic reform failures as a product of "slothfulness, lack of will, and absence of commitment." He points out that bureaucrats face a "calculus of pressures" that explains apparent laziness and lack of commitment. If this is the case, then "success for public policies neither waits around the corner in a 'new breed' of implementor, nor will it be found in an exclusive focus on new management techniques." Attempts to promote reform must grapple with the "politics of administration in weak states," which "lies at the heart of problems with policy implementation" (p. 242).

One result of this state-society struggle is the fear by government officials of independent economic power. When the state is the primary route to accumulation, rent-seeking becomes an important basis for wealth, keeping control of financial resources ultimately with the state, but hamstringing efficient production. As Jean-François Bayart (1986) argues: "Where there is a greater distance between accumulation and power, there develop autonomous indigenous business classes separate from the bureaucracy . . . and capable of strengthening civil society" (p. 115-116). Separating the state from private sector accumulation provides the basis for building a separate economic arena and ultimately creates the constituency that enforces government accountability. Some argue that greater participation, plus a healthy sector of independent local organizations (institutional pluralism) can also be important channels for structuring accountability.

3. Accountability, Participation, and Institutional Pluralism

Political scientists use participation as an umbrella concept embracing activities connected to the exercise of voice to affect government decisions. Participation can occur at a variety of levels -- on the national or regional level, at the local level; it can link citizens to decision making at projects and in villages,
or in parliament. The absence of participation affects legitimacy and may ultimately call stability into question.

Institutional pluralism refers to a diversity of organizations, a "market" of institutions in addition to the state: nongovernmental organizations (NGOs), business associations, unions, youth and women's groups, and other intermediate organizations. Many describe these institutions as the vital structures of a civil society composed of autonomous intermediate organizations (Bratton 1989; de Tocqueville 1966). Although these organizations may not have an explicitly political role, pluralism has long represented the idea of empowerment for groups of people vis-à-vis the government. This leads many to regard official tolerance for institutional pluralism as a vital precondition for effective power sharing and representation and for the institutionalization of accountability: "Because it raises questions about the control of power and its purposes, accountability must also be concerned with political organisation. For if power is not to some extent shared there can be no effective base from which it may be controlled, nor any protected right to discuss its purposes" (Lonsdale 1986: 128).

Whether electoral or not, participation creates channels by which people influence their leaders. Nigerian political scientist Claude Ake (1990) criticizes the "delinking of leaders from their followers, which, among other things, has led to a dissociation of public policy from social needs and a lack of accountability and self-corrective mechanisms for public policy" (p. 15). Ake argues convincingly for

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16Lindblom's (1977) hierarchy of political participation demonstrates the variety of acts included in the exercise of voice. Some are clearly electoral, but others are linked to a broader vision of participation as citizen action. In Lindblom's hierarchy, electoral participation includes regular voting in national and local elections, actively working for a party or candidates during an election, attending political meetings or rallies, giving money to a party or candidate during an election, or membership in a political club or organization. Community participation involves activity in organizations involved in community problems, working with others to try and solve some community problems, contacting a government official (state or local) about some issue or problem; and forming a group or organization to attempt to solve some community problem.

17Diamond, Linz, and Lipset (1990) argue that one cause of the simmering rebellion in Senegal's isolated southern Casamance region is local resistance to the promulgations of a highly centralized and unresponsive state that lacked effective local channels for popular influence on policy. Botswana provides a contrast; there, locally elected councils have "substantial power . . . over community development and services," and "opposition party control of some local councils has mitigated somewhat the effect of continuing one-party dominance at the center and so enhanced commitment to the system" (p. 30).
a definition of participation that involves not simply reacting to policies and programs, but of shaping them: "One is not just exercising a right of assenting or dissenting from outputs or options that are already predetermined by processes over which one has no control whatsoever" (p. 16).

A plurality of institutions outside of the government offers opportunities for informal representation, enabling people to "reach up" to governments. Yet although effective government provides opportunities for its citizens to make known their views, political scientists like Patrick Chabal (1986) argue that there exists "no causal link between the mechanisms of formal representation and the effectiveness of government" (p. 14). Can the development of community-based popular organizations reinforce accountability by constraining government agency abuses? Robin Theobald (1990) argues that basing structures of accountability in local community organizations risks their overpowerment by national needs (p. 155). However, analysis of the Asian newly industrialized countries (NICs) suggests that their authoritarian national governments were tempered by member-controlled, local organizations that channeled rural concerns to the state (Korten 1990). Development management analysts argue that effective interaction between local groups and government depends on formal instruments of power held by community groups: "to the extent that they contribute to salaries, or influence promotions, or determine work priorities, local communities or groups can compel field staffs to be more responsive to their concerns" (Uphoff and Esman 1984: 148).

The development management literature documents the important role local participation plays in increasing the effectiveness of project and program decisions, not simply through accountability, but in increasing the appropriateness of project investments. A number of evaluations and studies by the World Bank and other development agencies support the view that popular participation enhances sustainability, particularly for family planning, local irrigation, agricultural extension, urban upgrading, and community water supply (see, among others, Bryant and White 1984; World Bank 1985; Midgley et al 1986). Development management researcher Louise White (1989) has outlined steps to enhance project and program accountability that substitute for hierarchical control: "mobilizing local organizations to hold managers and staff accountable; setting up procedures so that proposals by
beneficiaries are part of the ongoing information system in the agency; meeting in work groups where staff have access to external professionals; instituting process documentation so that all can learn from the actual steps taken; and relying on pilot projects and experiments to test out new ideas" (p. 179-180).

Corporatism, a "system of interest representation" that provides for the state’s organization of "hierarchically ordered and functionally differentiated" interests, such as business, women, peasants, workers, presents an alternative method by which some governments structure, and limit, participation. Those not represented by these institutions are left outside of the structures of power. This process of incorporation often proceeds against the will of the incorporated groups, although the European experience with corporatism suggests that "peak associations with a secure place in the political process and clear access to decision making can guarantee mutual restraint and efficient decision making in a democratic setting" (Theobald 1990: 85, 263). Latin American states experimented perhaps more than others with controlled participation and limited accountability through corporatist structures that gave specific interest groups a formal role in government decision processes. Many of these states are now experimenting with decentralization, in the hope that this will enhance governmental accountability to society at large.

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4. Conclusion: Accountability and Foreign Aid

Accountability depends in part on "appropriate and effective accounting systems within or outside the government, on people who are trained and motivated to manage and operate these systems and on the availability of hardware and other ancillary systems, such as working telephone links, necessary for the collection and dissemination of data and the processing of information" (Corkery 1990: 10). Foreign aid has an important role in assisting the development of these technical supports for greater accountability. But the historical discussion of accountability developed earlier suggests that foreign aid may also have contributed indirectly to problems of accountability currently facing many nations.

First, foreign aid in many parts of the world reduced the need for national governments to raise taxes locally in order to fund their governmental programs. When aid transfers make up the bulk of government budgets, governments face less domestic pressure to be accountable, because they do not often need to negotiate with their citizens over taxation. When government revenues and spending are dependent on direct taxation of citizens, pressure builds to be accountable for the use of those revenues.

Second, in many developing areas, extensive amounts of outside aid enabled the solidification of government's position as the primary source of capital accumulation. Without international aid transfers, governments lacking extensive natural resources may have been forced to seek more revenue from other sources, thus giving them a greater interest in providing a conducive environment for productive activities. The private sector, on the other hand, responded to the natural incentive structure that resulted: they sought rents rather than engaging in risky production ventures; they exported capital rather than investing it locally.

Thus, foreign aid may hamper the state-society dialogue and may have distorted development choices in the many nations that remain heavily dependent on these outside funds. While foreign aid was originally designed to fill critical savings and skills shortages, in the process it inadvertently contributed to critical political shortages. Lack of accountability has been an inevitable and perhaps quite
natural result. This strongly suggests that those who channel funds to foreign governments must find ways in which to stimulate and support the process by which accountability becomes a matter primarily between governments and citizens, and not only one between governments and donors.

C. Openness and Transparency

The development of accountability, whether international, national, or local, requires an underpinning of information and a system that is open to the discovery and correction of abuses of power. Openness has several meanings, but they all refer to low levels of government controls on the flows of commodities, ideas, information, and participation. The Soviet struggles to institutionalize glasnost focused international attention on openness as a governance concept. While perestroika referred to economic restructuring and greater reliance on the market to allocate goods, glasnost came to mean a relaxing of controls on information flows, on expression and association, and on political participation.

Economic openness refers to competitive economies with limited restrictions, a liberal trade regime, and a variety of cross border transactions. In an open economy, goods and resources are allocated primarily by market forces. Entry into the economy is not restricted by government fiat or by other artificial barriers. Unimpeded flows of financial and economic information are fundamental to the effective working of the market, and they underpin economic openness.

Political openness refers to political competitiveness, tolerance for diversity, and policy making ultimately dependent on expressions of citizen preference, such as the vote (Dahl 1971: 3). Included in political openness are contestable leadership and institutionalized procedures for political transitions (generally through fair elections). Access to information and freedom of expression are fundamental to the responsible exercise of voice; a wide range of government information is accessible through published gazettes and other public records, and confidential classifications are strictly limited.
Political openness includes the institutionalization of channels of communication between citizens and officials, as opposed to personalized channels, which empower special interests and provide opportunities for corruption. Openness in this sense correlates with expanded options for specialized interest groups, mass media, and other non-governmental institutions that provide checks on public officials and enhance accountability. The information revolution created a new dimension to cross border information flows, expanding the options for "openness" beyond the press and the media, to personal computers, fax machines, tape recorders, and videos (Annis 1990).

Transparent decision-making processes and the availability of information constitute important dimensions of openness. Governments can promote transparency even when the system is not open in the economic or political sense, although experience suggests that the high degree of governmental discretion in command economies may impede transparency. Transparent systems have clear procedures for public decision making; they publish budget information, including military expenditures, and minimize "caisses noires" and other hidden budget categories. Subsidies are clearly stipulated; appointing, promoting, and dismissing personnel done according to stated, objective criteria. Information availability can range from requirements such as the publishing of audited accounts that add confidence to capital markets, to the disclosure of procurement procedures and the release of complete national budgets.

Distinguishing these separate aspects of openness is necessary in order to relate "openness" to economic performance, discussed below. Many aspects of openness can be traced to capacity problems, rather than to conscious decisions to restrict access. Funding for compiling economic statistics may be absent; auditors may not be available; those available may not be well trained. Mechanisms that impede information flows may not signal deliberate closure, yet these can affect performance. One kind of openness may be present and others missing: closed polities but extensive foreign investment and sophisticated market information systems characterize some of the Asian NICs. While committed to a degree of economic liberalization, some of these countries were not willing to allow wide public access to sensitive financial data. Nor were they willing to embrace greater tolerance for divergent political
perspectives. In short, economic openness does not readily translate into political openness. Yet, as touched on above, recent experience in the Asian NICs (Korea, Taiwan) provides some evidence that sustaining open economies in the long term appears to require political openness, at least guarantees of certain political freedoms such as speech, association and the media, as spelled out in the United Nations Universal Declaration of Human Rights (1983).

Albert Hirschman (1970) notes that systems that punish wavering loyalty lower the quality of information that reaches the leadership, and close themselves to important feedback that would improve accountability. Closure also multiplies opportunities for corruption. Theobald's (1990) thoughtful review of corruption in less developed countries defines corruption as "the illegal use of public office for private gain." Theobald notes a number of ways in which societies have reduced their tolerance for corruption, although scandals continue to plague rich and poor countries alike. Theobald shows how the development of civil society as a balance to the state eventually reshaped government behavior. In Europe, for example, the synergistic development of the private and non-governmental sectors, a free press, citizen groups, and the growth of social expectations that the government must be accountable to the people redefined acceptable behavior by public officials and induced pressure to increase transparency and lower corruption.

Theobald traces the gradual discontinuation in Europe of behaviors now considered corrupt but once considered quite normal. In part, this evolution came about through the development of alternative economic bases outside both the aristocracy and the government, as well as through the development of a rational-legal bureaucracy based on predictability. Such a historical view can offer some consolation to those who view endemic governmental corruption in many societies today.

\[9^\text{See, for example, Article 19, which states: "Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers;" and Article 20: "Everyone has the right to freedom of peaceful assembly and association."\]
Privatization, or the reduction of government controls and regulations and the sale of public enterprises to the private sector, has potential to increase transparency and reduce corruption abuses. White (1989) cautions that privatization may not enhance accountability or efficiency if the service is a monopoly, is not purchased, or if oversight and regulation are not in place.

Lack of transparency is clearly not the only factor involved in corruption. Weber noted that regular salaries are one distinguishing characteristic of rational bureaucracies, as they provide for more effective government control over officials. Chronic fiscal crises, and problems with regular payment of salaries, distance officials from that government control while also providing strong incentives to supplement income from corruption. Diminishing corruption is related not only to civil service reform, but very fundamentally to issues of the distribution and nature of power and to those of accountability. As Lonsdale (1986) puts it, "Effective power can scarcely avoid submitting itself to some test of accountability" (p. 128). Without accountability, corruption and power frequently coexist. As Lord Acton noted in another context: "Power tends to corrupt, and absolute power corrupts absolutely."

In a related argument, Larry Diamond (1988) contends that in some countries, bureaucratic employment became a major avenue of wealth through political corruption, distorting entrepreneurial incentives, and putting an "economic premium on political power." A vicious circle can result, based on a scarcity of productive economic options and exacerbated by a restrictive state which controlled the economy. Echoing Hyden, Diamond stresses that only with the development of market-based production opportunities would entrepreneurs have alternative bases of wealth; only then, might the emergence of an entrepreneurial class force the attachment of "real risks and penalties . . . to the pursuit of wealth through political corruption" (pp. 384, 403).
D. Predictability and the Rule of Law

"A market," comments Jeremy Paltiel (1989), "is not just an economic mechanism; it is a legal regime" (p. 266). The development of a rule of law establishes the standards of accountability against which both public and private sector actions are measured. It regulates the market system through establishing exclusive property rights, the sanctity of contract, and common standards -- all of which underpin market exchanges (Cerny 1990: 206). It provides the conditions under which openness and transparency become the norm in public-private transactions.

Discussions of the rule of law and governance are among the oldest existing philosophical debates. More than two thousand years ago, Confucian thinking stressed moral institutions as the basis of government, but the rival Legalist school argued that governments should be based on a fixed code of law. The Legalists viewed law as an impartial instrument, developed by leaders, and necessary not so much for controlling leaders as for controlling both the people and office holders. This distinction between normative and instrumentalist views of law finds reflection in Western legal theory as well.

The "rule of law" may be defined as "the subordination of the behavior of state officials to rational, predictable, and publicly recognized procedures" (Paltiel 1989: 266). It is an essential precondition for accountability, and predictability. A rule of law implies standard operating procedures, clearly promulgated and indiscriminantly applied rules, non-personalized decision making with modest levels of discretion, and regularized procedures for establishing and implementing policies. In systems with high predictability, lines of authority are clear and capriciousness at a minimum. The civil service

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20For the Chinese Legalists, even service delivery accountability rests on this instrumentalist vision of law: once an individual is given an office, "the functions pertaining to this office have already been defined by law . . . the ruler need not, and should not, bother about the methods used to carry out his work, so long as the work itself is done and well done. If it is well done, the ruler rewards him; if not, he punishes him . . . if the ruler is strict in his rewards and punishments, incompetent people will no longer dare to take office even if it is offered to them. Thus all incompetents are eliminated" (Feng 1948: 161).

is insulated from politics rather than penetrated by it; when political leadership changes, the civil service acts as a stabilizing source of continuity. But no system of law, whether constitutional in origin or not, can persist over time unless the laws themselves represent the crystalization of society's values and are seen as legitimate.

This crystalization is a topic of research for many political scientists as well, who are concerned with political stability as a function of regularized patterns of interaction, and the successful institutionalization of rules, norms, and procedures. Samuel Huntington set the terms for the modern discussion of post-Weberian rationalization in *Political Order in Changing Societies* (1968) in which he argued that social and economic change breeds instability when it destroys traditional institutions without creating "new bases of political association and new political institutions combining legitimacy and effectiveness." Huntington pointed out that:

political institutions have moral as well as structural dimensions. A society with weak political institutions lacks the ability to curb the excesses of personal and parochial desires... Morality requires trust; trust involves predictability; and predictability requires regularized and institutionalized patterns of behavior. Without strong political institutions, society lacks the means to define and to realize its common interests (pp. 12, 5, 24).

Development management and public administration theorists focus much of their field of inquiry on the practical aspect of these questions: how can institutional evolution be accelerated? They argue that while change occurs slowly, institutions are social creations, and hence can be modified by purposive action. The learning process that underlies directed institutional and organizational change occurs most efficiently when an organization can "embrace error" and promote conscious social adaptation (Korten 1980).^{22}

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^{22}For a review of the material in this field, see Coralie Bryant and Louise G. White, *Managing Development in the Third World* (Boulder, CO: Westview Press, 1982).
The work of Douglass North and other institutional economists explores the origins of the legal and political institutions that create predictability through defining clear property rights. Property rights are rarely defined by economists, yet their importance is never doubted. The definition problem is serious, however. Barzel defines property rights of individuals over assets as "the rights, or the powers, to consume, obtain income from, and alienate those assets" (p. 2). By this definition, one's "property" includes one's labor.23

The structure and enforcement of ownership rights determines economic incentives and their stability and predictability. How do these rights evolve? States interact with their societies over the definition (and redefinition) of property rights, the provision of public goods such as infrastructure, and the establishment of standard weights and measures -- all of which lower transaction costs ("the costs associated with the transfer, capture, and protection of rights" Barzel 1989: 2). As economies develop, legal institutions and property rights evolve to support transactions that increase in complexity and impersonality. Mercantilist economies, with highly liquid investments, differ from industrial and post-industrial economies, which require institutions that provide secure and impartial enforcement of property rights through contracts. Economic development depends critically on these state actions, although states will define property rights in different ways depending on the "distribution of political power within a country and the institutional structure of its rule-making institutions" (Eggertsson 1990: 247-248).

The rule of law is also essential in another respect -- to protect the rights of citizens in their efforts to force accountability from governments. In Latin America, "crucial individual and collective rights were made effective before the convocation of competitive elections, the organization of effective interest representation, and the submission of executive authority to popular accountability" (O'Donnell and Schmitter 1986). Yet the relation of political rights to governance is not necessarily direct. Historically, in the long term, political rights and personal or human rights appear to be necessary to

23Barzel, in fact, argues that "the distinction sometimes made between property rights and human rights is spurious. Human rights are simply part of people's property rights. Human rights may be difficult to protect or exchange, but so are rights to many other assets" (p. 2).
underpin market systems. Free movement of goods, freedom to establish businesses, security from arbitrary expropriations -- property rights -- are all related to the protection of personal liberties.

The establishment of appropriate legal systems takes time, particularly when they must support rapid economic transition, from command to market systems, or from a pre-capitalist to a fully capitalist economy. Governance reforms in Eastern Europe may learn from China's struggles to establish the rule of law. Before December 1978, "laws -- administrative, criminal, civil, or commercial -- were largely nonexistent" (Paltiel 1989: 260). The post-Mao introduction of new laws failed to establish predictability in enforcement, or to draw clear distinctions between ad hoc administrative decrees and formal legislation. Party control substituted for the rule of law: Chinese Premier Hua Guofeng admitted in 1980 that "there are no systematic and practicable administrative rules which define limits of power and responsibilities and lay down administrative procedure" (Paltiel 1989: 261). Legal reforms in the past decade have contributed to stronger protection of physical and intellectual property in China, and they have supported the surge of domestic investments there.

Paltiel (1989) argues that in some countries, where law and property rights are weak, entrepreneurs seek to enhance security and reduce their risks through finding governmental patrons to protect their business activities. This clientelism, he suggests, becomes "the functional substitute for property rights" (p. 257). Weak property rights exacerbate a situation of personalized bureaucratic relations, undermining "contract, law, and property, thereby reducing calculability and adding an element of political risk to every business transaction" (p. 267). Ultimately, the strengthening of clientelism "subverts the impersonal operation of predictable rational-legal norms within the state. Instead of the abstractions of hierarchy and market, human relations become the essential matrix of economic behavior" (p. 272). Entrepreneurs spend their energies seeking special exemptions and bargaining with bureaucrats, instead of upgrading productivity and efficiency.

Establishing the rule of law is a process involving effective communication of the content of the laws. It involves predictable and legally enforceable methods for changing the content of the laws, so
that ad hoc decrees do not continually change the legal and regulatory environment, rendering both people and their property insecure. It also involves the effective enforcement of law through adequate budgets, salaries, staff, and workable institutions. Governments may enact and promulgate laws, but this hardly guarantees their enforcement. Larry Diamond (1989) comments that constitutional establishment of codes of conduct and monitoring tribunals to address public corruption may be thwarted without enabling legislation and an independent budget (pp. 384-385).

Some institutional economists argue that institutionalizing the rule of law may necessitate certain kinds of government structures: "In modern nations, [credible commitments by the state to stable property rights] seem to require an effective separation of powers" (Eggertsson 1990:348). Historically, many European political scientists and jurists have argued for the central importance of an independent judiciary in ensuring the rule of law.

Finally, the rule of law is closely intertwined with legitimacy, whether based on traditional law (patrimonial legitimacy) or modern law (rational-legal legitimacy). In many post-colonial areas, European legal systems were imposed through conquest or implemented adjacent to indigenous legal systems. In Europe these systems grew out of traditional norms and experience, but they were not so rooted in the former colonies. They lacked the legitimacy of tradition. In many parts of the developing world, the legal framework acts to support the interests of elites and to suppress the economic and political participation of the poor. As Rhoda Howard (1985) points out: "The key to legitimacy will be, however, not the indigenous nature of the law, but whether it is perceived to be fair and nonarbitrary. The criteria of fairness will depend not upon the law itself, but upon public consciousness of how [ruling class elites] accrue political and economic privilege, and the public perception of whether or not such privilege is, in its turn, legitimate" (p. 347).
Empirical work on the relationship between governance and economic performance reveals a mixed record. There does, however, appear to be evidence that (1) the impact of government on economic performance is more substantial than some economic theory acknowledges, and (2) failure to meet minimal performance levels can cause both the public and investors to withdraw confidence.

The possibility that political interventions are determinant in the "black box" within which economic policies are made now enjoys a growing consensus. For example, economist L. G. Reynolds' analysis of economic growth from 1850 to 1950 in forty developing countries suggested that "political organization and the administration of government" constituted "the single most important explanatory variable" (Reynolds 1983: 976).

Governance may well be the independent variable determining "who gets what, when, and how." Yet empirical research relating specific aspects of governance to economic performance is quite scarce. Most of the political science literature reverses the dependent and independent variables, examining the impact of economic conditions on the development of democratic institutions. Those who do address the issue of government and economic performance tend to examine regime-types (authoritarian, patrimonial, democratic, etc.) rather than the narrower elements we are concerned with here (accountability, openness, predictability). Their conclusions support the practical view that in its earlier stages, economic growth is correlated with adherence to known policies: good fiscal management, skillful use of government instruments to manage the market, competitive enterprise systems that reward performance, broad-based education, and support for the rule of law. These policies show up in both authoritarian and democratic regimes.
A. Accountability and Economic Performance

The relationship of accountability to economic performance is contingent upon numerous intervening variables; there is no clear evidence that accountability "guarantees social justice and economic development" (Lonsdale 1986: 128; Dunn 1986: 173).

The Asian NICs (Korea, Taiwan, Singapore) provide a useful foil for this discussion. Although for most of their modern history these nations have been nondemocratic, their governments drew much of their legitimacy from deeply held social norms, based on their responsibility for the performance of the national economy and their position as small neighbors of larger and potentially threatening countries. The powerful capacity of these governments to select and implement their chosen policies, together with the integrity of the government bureaucracy, explains much of their economic success, which in turn enhances legitimacy. They are accountable to their people for economic performance.

The skill of the NIC governments is self-evident. Yet skill levels are also a function of political decisions. Governments decide where to allocate scarce resources: to education, or to parastatal subsidies, for example. They create the conditions under which skills can be effectively used. In addition, a number of the developing world’s most skilled public servants have left their countries, not only for financial reasons, but also to escape the frustration of corruption, rent-seeking, and patronage politics.

Although legitimacy is not spelled out as a governance variable in this review, its absence can affect economic performance. Regimes that lack legitimate authority tend to rely on military or police force and the suppression of civil liberties to retain their control. Research by Diamond, Linz, and Lipset (1989) reminds us that governments starting with low legitimacy often must allocate substantial

26The Chinese political philosopher Mencius argued more than two thousand years ago that governments based on "wang" must take the lead in building the economic base for supporting their people. The ultimate symbol of the failure of governments to protect the people came from famine—the symbolic signal of Heaven’s withdrawal of the mandate from the ruler, and the end of a dynasty.
military and police resources simply to control society and monitor social activity. In circular fashion, concentrating on coercion and control, rather than consensus, may affect development effectiveness, lowering economic performance, and making legitimacy even more difficult to establish (p. 10).

Governance based on personal loyalties, patron-client ties, appeals to particular ethnic groups, or through the "purchase" of allegiance offers only limited legitimacy. Regimes with low legitimacy are more subject to the frequent use of force, for citizens are apt to challenge the government through riots, demonstrations, and strikes (Avery 1988: 113). Their military budgets may absorb a large portion of the nation's scarce resources -- and often for use against their own people. The absence of legitimacy occasions instability and eventually may lead to violent overthrow of the government. In systems with high legitimacy, citizens may be more willing to save, to defer gratification, and to accept unpopular government decisions in the belief that the government is acting in their interests.

B. Participation, Institutional Pluralism, and Economic Performance

Are participation and institutional pluralism related to economic performance? Some evidence suggests a correlation between popular participation and broad-based growth. Morris and Adelman's (1989) extensive study of nineteenth century development examined 35 institutional and economic variables for 23 countries, comparing paths of development from 1850-1914. Empowerment and participation figured strongly in the second of their two generalizable findings: "Progressive agriculture is necessary (but not sufficient) to sustained industrialization; increased political power to nonelite groups is essential (but not sufficient) to government policies that spread growth widely" (p. 1428).

Huntington and Nelson (1976) introduced some complications into these findings in their argument that effective land reform, one of the key components to later economic equality, is best introduced under "noncompetitive and nondemocratic governments," i.e., those with low participation.
When medium-sized landowners are able to use legislative means to obstruct reforms, "land reform becomes difficult or impossible" (p. 76).  

As mentioned above, development management researchers draw a strong correlation between participation in the design and implementation of development projects and the sustainability of project benefits (Bryant and White 1984; Uphoff and Esman 1984; Cernea 1985; Salmen 1987; World Bank 1985). Economic performance on the micro-level can be strengthened by citizen participation, particularly by grassroots organizations able to influence project design decisions and affect the management of project activities. Some evidence exists as well that economic policy reforms may be more sustainable when governments consult with major societal groups during planning and implementation of adjustment (Nelson 1989, 1990; White 1989).

But interest group influence has its dangers, as well as its potential benefits. Trade associations and other lobbying groups can influence the design and enforcement of economic policy in both productive and non-productive ways. Rational choice economist Mancur Olson (1981) has argued that pressure by economic interest groups in advanced industrialized nations led to policy decisions that lowered economic performance. Olson argues that the problems of collective action -- free riders, the need for selective incentives, the near impossibility of organizing mass groups (the poor, the unemployed, consumers) to bargain for their common interests, in contrast to the relative ease with which some groups (smaller, better established, or with specific purposes) organize to push their interests -- make it unlikely that any society will achieve equity or efficiency through comprehensive group bargaining. It is more likely that small groups will exercise "lobbying and cartelistic power" for redistribution on behalf of their special interests -- to push society away from equity and efficiency; i.e., it is easier to bargain over a slice of the pie than to join forces to make the pie bigger. These distributive coalitions (labor unions, special interest lobbies, industry cartels, collusive firms, etc.) maintain barriers to entry and exit, establish monopoly rents, and create rigidities that lower the ability

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3Interestingly, for the Chinese philosopher Mencius, the economic basis of kingly (wang) government rested on equal land distribution [Fung, p. 75]. Unequal distribution led to unequal growth, which might eventually lead to peasant uprisings that could bring down a dynasty.
of the economy to "adapt to change and generation new innovations" (p. 62). As these distributive coalitions increase in number, Olson argues, regulations increase in complexity, government bureaucracies expand, and growth slows.

In this vein, many of those who study the Asian NICs argue that the autonomy of the state from social groups enabled it to conduct economic policy free from distributive pressures. As mentioned earlier, Stephan Haggard (1990) argues that low formal participation -- limits on party representation, interest group formation, and labor organization -- allowed political space for these Asian governments to move rapidly in devising, adjusting, and implementing growth-oriented policies without significant societal pressures. Each of the Asian NICs he examined was marked by "tightly controlled" channels of representation, and economic policymaking processes "relatively insulated from direct political pressures and compromises" (p. 262).

The case of the authoritarian but developmental NICs raises important questions about the fundamental nature of accountability and its relationship to pluralist systems based on representation. Most political scientists educated in the Western European tradition link accountability directly to electoral representation, even though the literature does not support clear causality. If rulers are ultimately accountable to their people for the performance of the economy, as Mencius believed, then a measure of accountability existed even in the non-pluralist authoritarian states that lacked representation, but had fairly honest rulers, low corruption, and equitable income distribution. Given the events of the past few years in Korea and Taiwan, however, acquiescence in a nonrepresentative but prosperous system may be only temporary. Sooner or later, people seem to demand the right to participate in society's major decisions.
C. Openness, Transparency, and Economic Performance

Although economic openness has been correlated with economic efficiency since the days of Adam Smith, other aspects of openness are less clearly empirically related to development. With the possible exception of Japan with its contestable political system and respect for civil liberties, the industrialized countries of Asia achieved their remarkable economic performance with carefully circumscribed *economic* openness, and very little *political* openness. These countries are distinguished by strong commitment to education, and a "rigorously educated elite" (Johnson 1987: 152). In addition, they frequently created a politically insulated bureaucratic elite, with planning concentrated in semi-autonomous institutes and councils. And in the early stages, they generally manifested neither political openness, nor conventional separation of powers.

Political openness, in the sense of democratic processes and electoral representation, has received considerable attention in the literature. However, as mentioned above, the choice of the dependent and independent variables does not always provide much evidence on the economic performance effect of open polities. Tatu Vanhanen's (1990) speculation about the relationship between representative governments and economic performance hypothesizes that market-based economies provide economic bases for the political activities of interest groups, leading to pressures for the expansion of political rights (p. 172). However, Vanhanen's empirical work suggests that in the long term, effective political participation and "popular accountability" are correlated not simply with market systems, but on an equal distribution of economic power resources (wealth and assets), and on education (pp. 191, 195).

In other senses, such as transparency, openness is often relevant to the performance of an economy, or at least its absence opens a system to abuse without counterbalancing controls. Some specific examples exist in the literature of the economic cost of a lack of transparency in the form of a highly discretionary bureaucracy. High levels of executive discretion can "weaken auditing, oversight and planning" leading to "increasing uncertainty, loss of confidence, a decline in productive investment, capital flight, and finally, open political opposition" (Haggard 1990: 128). Yet, paradoxically, high
levels of discretion are not always correlated with poor growth. Many countries with superior economic performance exercise a high degree of discretion, rewarding performance, channeling extra resources toward high efficiency activities, and even "negotiating all investments on a case-by-case basis" (Haggard and Cheng 1987: 116).

We have argued above that lack of transparency can promote corruption, with its own impact on economic performance. Some have argued that corruption provides economic benefits; in effect, in countries with uneven adherence to formal rules of law, corruption can increase predictability through lowering risks, offering a form of insurance, and softening the distortions of quotas and licenses by creating a de facto market for their allocation. Yet corruption clearly wastes national resources, undermining stability and administrative capacity, and postponing the evolution of bureaucracies based on universalistic criteria. But perhaps the most serious consequence of corruption is that it erodes the confidence of citizens in government -- it undermines legitimacy. As that happens, governments encounter even greater problems acquiring strength to enact policies and to implement them.

Corruption obviously affects the ability of the state to husband and allocate scarce resources, but there is some evidence to show that problems of corruption eventually recede as alternative avenues to wealth occupy the attention of entrepreneurs and as affective and kinship ties are replaced by more impersonal relationships.

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*Nathaniel Leff suggests that in the lengthy period before both external and internal pressures push the development of bureaucracies with Weberian, universalistic norms, corruption can "lubricate administrative rigidities," cutting through restrictive business regulations and eliminating red tape. Theobald notes this in his admission that corruption "assists capital formation; it fosters entrepreneurial abilities; allows business interests to penetrate the bureaucracy and, lastly, permits the logic of the market to insinuate itself into transactions from which public controls attempt to exclude it" (Theobald, p. 116). For one of the latest contributions to this debate, see M. S. Alam, "Some Economic Costs of Corruption in LDCs", *Journal of Development Studies*, vol. 27, October 1990, pp. 89-97.*
D. Predictability, the Rule of Law, and Economic Performance

Adam Smith commented in 1755 on the importance of the rule of law for economic prosperity: "Little else is required to carry a state to the highest degree of opulence from the lowest barbarianism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things."27

Economic policies always encounter uncertainties. These uncertainties are worsened, however, when there is great capriciousness or instability surrounding either the way policies are made or by whom they are made. Predictability is essential for long-term capital investment. Market-based economies depend on legal regimes composed of property rights and the sanctity of contracts. A legal system and government administration in harmony with the market enhance predictability, calculability, and efficiency. This relationship reduces transaction costs and makes possible the interactive economic management needed for economic performance.

A major vehicle for this predictability, as argued above, is well-defined and protected legal rights, particularly property rights. According to North and Thomas (1973): "Economic growth will occur if property rights make it worthwhile to undertake socially productive activity" (p. 8). Institutional economics theorists argue that economies need incentives to operate close to the technical production frontier; incentives depend on the structure of property rights, which is determined primarily by the state. Secure property rights enhance stability and predictability; they shape the "structural frontier" of an economy (Eggertsson 1990: 326-327). Yet again, empirical evidence is hard to come by. Even political stability is no clear predictor of growth, although Mackie (1987) argues that it may be a necessary condition (p. 263).

Nevertheless, predictability counts. When property rights are incomplete, easily abrogated, or unstable, economies suffer. Acts of the predatory state alter investment in profoundly costly ways, affecting choice of technology and inputs, production processes, and social discount rates. The nature of investment, and sometimes its very presence or absence, depend on investors' reading of the likelihood of appropriation through decree or through suddenly adjusted "taxation". Yet reforming a political system also has costs: the costs of change itself, and those of maintaining new systems.

A basis exists for including human rights and their relationship to economic performance in discussions of the rule of law and the development of stable property rights that will support long term growth with equity (Barzel 1989). For example, legal discrimination against women can lead to distorted labor markets and lower economic performance. The specification, protection, and enforcement of property rights (including property rights over one's own person) is a task for governments. And yet Dunn (1985) concludes that, "The presence or absence of effectively guaranteed civil and political liberties does not in itself ensure the prevalence of good or bad government" (p. 169).

Economic performance is a matter not simply of growth, but of growth with equity. This discussion of the development impact of predictability and the rule of law would be incomplete without a warning on the problem of unequally distributed property rights (Lindblom 1977; North 1990). Governments play a significant role in determining both the structure of laws and their enforcement. Depending on the motivation of government actors, the institutional base of property rights may be politically derived and dependent on clientelist or patrimonial ties. Thus, the rule of law may operate smoothly and still suppress broad-based growth. As Perrow (1986) warns, in a related vein, "Beware of efficiency arguments that do not ask: efficiency for whom, and at what cost to others?" (p. 278).
IV. CONCLUSION

It has been difficult in this review to draw a correlation between governance and economic performance with any degree of precision. In part, this is due to the dearth of research focused on the specific variables under discussion in this review: accountability (including participation and institutional pluralism); openness and transparency; and the rule of law. In keeping with the intellectual and professional interests of many who work and practice in this area, research tends to focus more on the relationship of regime type to growth, or stability to growth. In addition, political questions by their nature tend to promote value-based assumptions, i.e., that institutional pluralism, participation, and the rule of law are "good" in and of themselves, leaving the scope of inquiry focused on the means to these ends. Organizations such as the World Bank, mandated to promote economic development as an end, have bypassed most of these issues in sponsored research programs.

Nevertheless, this review does provide some support for a positive link between these governance variables and economic performance. Some correlations appear stronger than others. Arbitrary law enforcement and failure to uphold the constitution -- the law -- lead to unpredictability, instability, and a poor climate for growth. Thus, well-specified property rights and enforceable contracts--the rule of law -- are clearly economic development issues and should be recognized as such, with the caution that the content of property rights, and their distribution, critically affect how broad-based development will be. The failure of accountability, combined with opaque and highly discretionary regulatory procedures, can provide greater opportunities for economic corruption and waste. Suppression of political openings may ultimately affect stability, disrupting production and commerce, while the failure to encourage grassroots participation at the micro-level shows up in projects that are often comparatively less sustainable.

This review also points out that research attempting to correlate economic performance to governance variables must necessarily use a relatively short time frame. The recent economic performance of Chile, Taiwan, and South Korea took place with very low levels of political openness,
and their market economic systems seemed to work in the absence of pluralistic political systems. In the past few years, however, all three have made significant transitions toward more open, competitive, and participatory political systems, suggesting that sustaining as opposed to establishing market based growth may require the development of political representation. With the renewed interest in open political systems as a corollary to open economic systems, we can expect a new generation of research on these variables.

This review provides other important lessons for those interested in the technical aspects of better governance. Improving governance is a complex and long-term endeavor, but as Zafar Ahmed (1990) argues, "One cannot make a tree grow faster by pulling it from outside; it has to grow from its roots" (p. 1). It takes generations and perhaps centuries to build effective bureaucracies; the issue is not simply skills but volition -- and much of that volition comes from effective social pressure on the state. This needs to be understood by donors who may wish to make "governance" the temporary trend of the 1990s. As Callaghy (1989) argues, "In much of the current policy work on the development of state capacity in Third World countries . . . there is a strong voluntarist or architectonic streak that argues that state capacity can be 'built' as part of a policy imperative. The historical record belies this assumption" (p. 117). The question for donors should be: how can the process by which accountability and the rule of law become the norm in a society best be nurtured?

Institutional economists examine the very long-term conditions under which the institutions that underpin both market and state actions are formed. They also can help explain why different policies, such as those suggested in structural reform packages, lead to such different and seemingly unpredictable results: although outwardly the new rules may seem the same in two countries, the institutions that underpin economic responses -- local enforcement, behavioral norms, organizational forms and interests,

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and property rights -- all differ, and changes in institutions, particularly in informal institutions, occur very slowly.

Political scientists focus on the relationship between state and society in understanding why states act the way they do. Many conclude that strengthening the private sector, including voluntary agencies, entrepreneurs and private associations, will over time prove more effective than short-term reforms and foreign aid in forcing accountability from governments. The development management literature brings together perspectives from organizational theory, from political science and economics, and from other social sciences to offer practical assistance in building a domestic consensus for sustainable reform, for improving performance, for constructing effective vehicles for participation, and for instituting mechanisms of budgetary review, information circulation, and other practical ways to enhance accountability, openness, and predictability.

This review provides the elements of a framework for viewing relations between politics and economics over the long term. It indicates that models and plans will work differently in each country, depending on its institutional base. More research needs to be done on country-specific institutional evolution -- in particular, on the structure and pattern of enforcement of property rights -- in order to understand more precisely the likely results of policy and price changes.

This review also indicates that effective property rights and accountability will result from a long-term dialogue between governments and their private sector, rather than between governments and donors. The historical discussion in particular underlined the potential for danger in a preponderant donor role. In Europe, public accountability developed through a state-society struggle over the collection of tax revenues and their use. In many of the world's least developed countries tax revenues are disproportionately low as a percentage of GNP, even given low levels of per capita GNP. Foreign aid in many of these countries makes up a towering proportion of national revenues. This naturally tends to shift much of the dialogue over accountability to one between states and donors. In that sense,
the very process of assistance can inadvertently undercut the historical process of rulers first becoming accountable to elites for the use of their tax revenues.

Donors need to be aware of such potential effects of large sums of external assistance. They must make concerted efforts to foster internal debate, dialogue, and negotiation on decisions to allocate foreign assistance -- efforts that push the new concern for "local ownership" toward a deep commitment to work together to develop economic policies, even if such a process is slow and involves frustrations. This should encourage the development of accountability as a matter primarily between governments and citizens, and not only one between governments and donors. For in the final analysis, the quality of governance is a reflection of the quality of the relations between a state and its society, and only over time can societies push their governments to deliver the accountability, openness and predictability that sustainable development requires.
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