Sundaram, Jomo Kwame, and Anis Chowdhury. "Introduction: Governance and development." *Is Good Governance Good for Development?*. Ed. Jomo Kwame Sundaram and Anis Chowdhury. London: Bloomsbury Academic, 2012. 1–28. The United Nations Series on Development. *Bloomsbury Collections*. Web. 26 Apr. 2023. <<http://dx.doi.org/10.5040/9781780932477.ch-001>>.

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Chapter 1

Introduction: Governance and development

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The idea of governance began to influence policy debates during the period of liberalizing market reforms in the 1980s. Margaret Thatcher and Ronald Reagan, in the United Kingdom and United States, respectively, sought to reorganize society and government around the principles and values of markets and private property. It was generally presumed then that such reforms would end problems of economic inefficiency, corruption and arbitrary rule in developing countries. In this context, governance was advanced as an alternative conception of authority expressed through institutions that would insulate markets from rent-seeking 'distributional coalitions' (Olson 1982). Nobel Laureate Douglass North's (1981) discussion of the security of property rights from threats by the monarch or the state has also influenced the governance agenda.¹ This emphasizes the role of institutions in providing checks and balances on the power of various organs of the state to ensure a stable, predictable and non-arbitrary state – a fundamental condition for spurring economic growth and prosperity. Thus, governance became a major concern of the Washington Consensus on development. Good governance should address market failures and ensure institutional reforms capable of making markets work better.

The presumption of a benign, potentially developmental post-colonial state was replaced with the idea of a necessarily predatory government whose politicians and administrators pursue their self-interest, seeking rents and other privileges. In this context, the question of who would drive the reform process became a major issue, as neither the state nor the political processes could be counted upon. Thus, reform has to be led by enlightened leaders operating 'outside' politics, for example, from civil society to advance the general welfare interests of society against self-serving bureaucrats and other vested interests.

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The notion of 'good governance' met this new expectation in two ways. Conceived as authority potentially beyond politics and the traditional scope of government administration, it claims autonomy for ostensibly *technocratic* authority from Olsonian distributional coalitions. Individuals can thus be drawn directly into market processes while bypassing competitive politics presumed to be rent-seeking.

After over a decade of growing influence, more recently, however, new thinking about governance seems to have become increasingly influential in policy circles, for example, in the Department for International Development (DFID) in the United Kingdom and French Development Agency (AFD) in France (see DFID 2003; Meisel and Ould-Aoudia 2007). In the evolution of the idea of governance, the first phase emphasized a narrow view of governance – such as technocratic measures to improve government effectiveness and to develop a legal framework for market-based development – in the early World Bank reports on governance.

Hout and Robison (2009) suggest that then World Bank President James Wolfensohn's Comprehensive Development Framework (CDF), the Poverty Reduction Strategy approach and the post-Washington Consensus (Stiglitz 1998; Jomo and Fine 2005) were all part of the second phase's broader concern with political organization, emphasizing civic participation and social inclusion.

A third phase seems to be emerging, characterized by increasing sensitivity of power, politics and social conflict in shaping development outcomes; these are difficult to address with existing institutional and governance programmes. For example, as Mungiu-Pippidi (2006) pointed out, the main result of many anti-corruption policies introduced in Romania with the assistance of the international 'good governance' programmes was the establishment of many new institutions (anti-corruption ombudsmen and special prosecutors, etc.). But the problem is that these new institutions were quickly taken over by existing corrupt political networks and other interests. The same was true of the former Soviet Republics, including Russia.

More recently, there has been a growing debate and willingness to consider the political economy of governance. It is now widely acknowledged that political factors are not only more important than previously thought, but also that neither politics nor power is easily addressed with 'good governance' reforms or by engineering institutional change. Such political economy understandings of governance may well rescue the relevance of governance to development. However, efforts to depoliticize development in favour of ostensibly technocratic solutions continue. The continuing tension

between these two approaches – the political economy of governance and technocratic institutional engineering – makes easy resolution improbable.

GOVERNANCE AND GROWTH: CONCEPTUAL, METHODOLOGICAL AND MEASUREMENT ISSUES

Effective government or good governance matters, but it is not obvious or clear what that means. The World Bank's Worldwide Governance Indicators (WGIs) project has attempted to define the indicators as corresponding to what the authors consider to be 'fundamental governance concepts' (Kaufmann, Kraay and Zoido-Lobato 1999b: 1). Kaufmann *et al.* have published eight papers (Kaufmann, Kraay and Zoido-Lobato 1999a, 1999b, 2002; Kaufmann, Kraay and Mastruzzi 2004, 2005, 2006a, 2007, 2008); however, the definitions of the indicators have changed over time since the indicators were first introduced. For example, in 2006, the definition of the 'political stability and absence of violence' indicator was redefined to measure 'perceptions of the likelihood that the government will be destabilized', rather than the likelihood itself (Kaufmann *et al.* 2007), and in 2008, the remaining indicators were redefined as measures of perceptions, instead of measures of the phenomena themselves (Kaufmann *et al.* 2008). The most recent definitions of indicators are as follows (Kaufmann *et al.* 2008):

- 1 *Voice and accountability* (VA) – measuring perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association and media freedom.
- 2 *Political stability and absence of violence* (PS) – measuring perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including political violence and terrorism.
- 3 *Government effectiveness* (GE) – measuring the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
- 4 *Regulatory quality* (RQ) – measuring perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.
- 5 *Rule of law* (RL) – measuring perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular, the

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quality of contract enforcement, the police and the courts, as well as the likelihood of crime and violence.

- 6 *Control of corruption* (CC) – measuring perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as ‘capture’ of the state by elites and private interests.

The World Bank’s widely used WGIs have come under severe criticisms from researchers on methodological and conceptual grounds. For example, Thomas (2010) is highly critical of the definitional changes which have taken place. As she points out, there is a substantial difference between measuring something and measuring perceptions of it. She argues that in the context of governance, perceptions of crime risk have been shown to be quite different than actual crime levels. Likewise, perceptions of corruption differ from actual corruption levels, and trust in government does not necessarily match administrative performance. Thomas notes that changed definitions should mean discontinuation of the previous series of governance indicators, but the new indicators confusingly bear the same names, with no discussion offered to justify the changes in definitions while implying continuity. Meanwhile, the WGIs’ authors continue to interpret changes in their data as reflecting changes in governance itself, rather than as changes in perceptions of governance.

Thomas also points out that the WGIs’ methodology assumes that its variables are noisy signals of unobserved governance, and questions why variables measuring perceptions should be interpreted as noisy signals of something else if it is perceptions which are being measured. Thomas (2010: 39) elaborates,

The methodology raises several concerns. The first is that some of the constructs themselves are poorly defined and may be meaningless. The second is that the proposed measures depend on undefended and unlikely assumptions about the nature of governance. The last is that no evidence for construct validity has been presented; indeed, given the methodological choices, it is doubtful that it could be.

When direct measurement of observable variables is impractical, social scientists often use proxies instead. A proposed measure of a construct, such as an inherently abstract concept, like the ‘rule of law’, is like a proxy measure in that it is essentially a hypothesis about measurement, that is, that the proposed measure correctly measures the construct. Like proposed proxy measures, not all proposed measures of constructs are equally valid. Therefore, the hypothesis

must be tested, and evidence supplied of the validity of the measure, before the measure is used. But proposed measures of constructs cannot be validated by comparing them with observable variables, as constructs are inherently unobservable. Therefore, a measure of a construct is validated, first by showing that it correctly represents the theoretical definition of the construct ('content validity' or 'face validity'), and then by seeing whether the proposed measure has the same relationships with observable variables that the theory predicts the construct itself to have ('convergent and discriminant validity'). That is, construct validity requires content validity, convergent validity and discriminant validity. According to Thomas, the WGIs fail on all counts, and she questions whether the WGIs measure what they purport to measure.

Recent research at the World Bank has also raised similar doubts about the WGIs. Langbein and Knack (2008) have challenged the measurement validity of the WGIs. An indicator that purports to measure an abstract concept should systematically and reliably relate to that concept (and not to other, different, concepts), regardless of how convincing the measurement may appear logically or conceptually; that is, an indicator should measure the hypothesized abstract concept with minimal systematic (non-random) and random error. According to Langbein and Knack (2008: 3), 'there is little if any evidence on the concept validity of the six WGI indexes'. They tested whether the six governance indicators measure a broad underlying concept of 'effective governance' or whether they are separate, causally related concepts. Their results reveal that the indicators are consistent with both, that is, they are causally related, separate indexes, but represent a single underlying concept. That is, the six indicators seem to say the same thing, with different words, and hence, amount to tautology. Thus, Langbein and Knack (2008: 4) conclude that 'the six indexes do not discriminate usefully among different aspects of governance. Rather, each of the indexes – whatever its label – merely reflects perceptions of the quality of governance more broadly. An implication is that they may have limited use as guides for policymakers, and for academic studies of the causes and consequences of "good governance" as well'.

Andrews (2008) argues that the WGIs lack acceptable definition and are ahistorical. They are also 'context-neutral' in the sense that they do not take into account country-specific challenges and environments which could be different, not only among developing countries but also between them as a group and developed countries as a group. Essentially, the WGIs are a combination of many different measures drawn from many different underlying theories, normative perspectives and viewpoints. Thus, like Thomas (2010), he sees this mix as the result of 'personal ideas of governance' of those developing the indicators.

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Andrews also notes that the authors of the WGIs identify the foundations of their good governance work as '[t]he norms of limited government that protect private property from predation by the state' (Kaufmann *et al.* 2007: 2). They also assert that limited government should only be responsible for producing key 'inputs' to growth and development – such as education, health care and transport infrastructure. However, their arguments have changed on how such inputs should be supplied, invoking both Weberian bureaucracy and new public management (NPM) elements.

Critiques of the WGIs have raised other issues, such as the limits and biases of perceptions-based subjective measures. For example, Kurtz and Schrank (2007a, 2007b) point out that such measurements typically utilize very different survey instruments for foreign investors, domestic firms and citizens. Questions seek to glean assessments of the national legal system, the degree of 'red tape', the speed of the approval process and the extent of corruption. Reliance on these sorts of surveys requires the additional assumption that the interests of investors (both foreign and domestic) and the interests of the nation are essentially the same.

But their notion of state capacity as well as their measurement narrowly depend on surveys of business leaders. They are likely to contain substantial biases, for example, that investor-friendly liberalization, deregulation or privatization will improve governance, even though they will downsize and weaken the effectiveness of governments. Thus, even though such governance reforms may seriously undermine state capacity and capabilities, and thus weaken governance, the tautological logic leads to the conclusion affirming the starting presumption.

In sum, for Kurtz and Schrank (2007a, 2007b), the measurement of governance developed by Kaufmann, Kraay and their various collaborators at the World Bank, and subsequently, is riddled with systematic biases due to selection problems, perception biases, as well as survey design and aggregation problems. This most widely used data set, and the conclusions derived from it on government effectiveness, are, at best, partial and, at worst, misleading because they often measure initial conditions and ostensible effects of governance reforms, rather than the direct consequences of governance reform efforts on growth rates.

Rothstein and Teorell (2008) criticize the recent literature on 'good governance' and quality of government (QoG) for inadequately addressing the issue of what constitutes QoG in the first place. They identify at least three problems with existing definitions: either they are extremely broad, or suffer from a functionalist slant (such as 'good governance' is 'good for economic development'), or they only deal with corruption. The problem with such

a broad definition is that if good governance or 'QoG is everything, then maybe it is nothing' (Rothstein and Teorell 2008: 168). It fails to distinguish between issues that concern access to power and those related to the exercise of power.

It also cannot distinguish between the content of specific policy programmes, on the one hand, and governing procedures, on the other. Those who have defined 'good governance' as what can be shown to be 'good for economic development' illustrate this problem with functionalist definitions of the QoG. First, many important non-economic attributes of good governance, such as trust and subjective measures of well-being, are left out by such a definition. Second, with a functionalist definition, one cannot define a country's QoG level without first measuring its effects.

Thus, the functionalist approach borders on tautology. As *The Economist* (4 June 2005) noted, defining 'good governance' as 'good for economic development' may generate tautological explanations and meaningless policy implications: 'What is required for growth? Good governance. And what counts as good governance? Whatever promotes growth. And what is required for growth?'

Huth and Shah (2005: 40) attempt to define governance as 'a multifaceted concept encompassing all aspects of the exercise of authority through formal and informal institutions in the management of the resource endowment of a state. The quality of governance is thus determined by the impact of this exercise of power on the quality of life enjoyed by its citizens'. However, as Rothstein and Teorell note, this seemingly different definition of 'quality of governance' also suffers from tautology. To paraphrase, 'What is required for the quality of life enjoyed by citizens? Quality of governance. What is quality of governance? That which promotes the quality of life' (Rothstein and Teorell 2008: 169).

The popular definition of QoG that focuses only on corruption or its absence presumes that government policy discretion and interventions necessarily lead to corruption and abuse. However, according to Rothstein and Teorell, there is no empirical support for this presumption. Small governments are not synonymous with the absence of corruption while countries with very low levels of corruption have relatively large governments, as in Scandinavia and the Netherlands. In any case, defining good governance simply in terms of the absence of corruption is not very useful (Rothstein and Teorell 2008). While considerable corruption is clearly antithetical to good governance, good governance implies much more than merely the absence of corruption or even clientelism, nepotism, cronyism, patronage, discrimination and regulatory or policy capture. Rothstein and

Teorell reject the view that the record of government failures implies that minimalist government is best for development.

Aron (2000) did an early survey of a range of influential studies in the varied literature on growth and institutions, which critically assesses the strong claims found in the studies causally linking growth to governance. The survey notes a number of methodological and measurement flaws that can result in overestimation of the impact of governance and institutions on growth. Methodologically, most cross-country econometric studies suffer from selection bias, as African countries – where institutions are generally weak and growth performance has been poor, especially since the 1980s – are over represented. Second, most cross-country regressions use reduced-form equations where some measures of institutional or governance quality are used along with other variables, such as investment assumed to directly affect growth. Such regressions can overestimate the impact of institutions on growth, if institutional or governance quality also affects the efficiency of investment. It is difficult to disentangle the direct effects on growth of institutional quality variables and their indirect effects through their impact on investment.

Measurement problems arise from the lack of consensus in the growth literature on the definition of economic, political and social institutions, how they change, and the likely channels of their influence on economic outcomes. Thus, a wide range of indicators – including institutional quality (enforcement of property rights), political instability (riots, coups, civil wars), characteristics of political regimes (elections, constitutions, executive powers), ‘social capital’ (civic activity, organizations) and social characteristics (income differences, ethnic, religious, cultural and historical background) – are used in empirical work, although each potentially has a different channel of impact on growth.

Moreover, many of the institutional indices used in empirical work are ordinal indices which rank countries without specifying the degree of difference among countries and associate a number with a ranking. However, to be used meaningfully in a growth regression, such an index needs to be transformed into a cardinal index, where the degree of difference matters, not just the order. There is no reason to assume that the transformation from an ordinal to a cardinal index will be one-for-one (linear). For instance, the quality of the judiciary in Country A may be twice as good as that in Country B, where the judiciary is three times better than in Country C. But ordinal ranking on a scale, say from 1 to 10, of countries will not necessarily reflect the intensity of institutional quality differences among them. The often arbitrary aggregation of different components of many of the indices

is another vexing issue. Typically, these components are simply added up or averaged with the same weights.

After reviewing some key conceptual issues involved in the complex dynamic relations between institutions and economic development, Chang (2005) concludes that definitional issues, the failure to distinguish between institutional forms and functions, excessive focus on property rights and the lack of a plausible, let alone a sophisticated, theory of institutional change are some major problems of the currently influential literature. While it is unlikely that we will soon have a comprehensive theory of institutions and economic development that will adequately address such theoretical and methodological issues, recognizing and addressing these problems is imperative. More careful and non-ideological development of key concepts as well as better knowledge of historical and contemporary experience are also necessary for such progress.

IS GOOD GOVERNANCE NECESSARY FOR DEVELOPMENT?

Nevertheless, it has to be acknowledged that the good governance agenda has defined policy reform goals for developing countries that are widely supported in many developing countries and, especially, internationally. These goals include strengthening protection of property rights, rooting out corruption, achieving accountable and democratic governments, and imposing the rule of law. However, the empirical evidence conclusively shows that countries have only improved governance with development, and that good governance is not a necessary precondition for development (Khan 2009, 2010). All developing countries do poorly on good governance indicators, although some perform much better than others in terms of economic development. This implies the urgent need to identify key governance capabilities that will help developing countries accelerate economic development and thus eventually improve governance more generally on a sustainable basis.

Meisel and Ould-Aoudia (2007) argue that no theories of economic development support the claims of ‘good governance’ advocates, which many donors have instrumentalized as key criteria for disbursing development aid. Implicitly, many ‘good governance’ proponents presume a binary world in which all countries have the same set of institutional characteristics, but poor countries score badly due to pathologies, such as corruption, lack of democracy, state failures, market failures and so on, that prevent them from ‘catching up’ with the wealthy countries. Improving

governance to overcome these pathologies – presumably by improving their scores on ‘good governance’ indicators – is thus supposed to enable them to catch up. They also presume that the same incentives, especially prices, will have similar effects everywhere, regardless of the level of development, for example.

But developing countries are not simply countries that would be ‘wealthy if they were not ill’. Rather, they are structurally and systemically different in many ways, and it is therefore not analytically or practically useful to characterize development problems as ‘pathologies’. According to Meisel and Ould-Aoudia, the universal ‘good governance’ prescription has actually had modest or even no impact on growth. The imposition of formal rules from wealthy countries on low-income countries has not worked. As governance reforms may destabilize existing social and political orders, they have engendered resistance which has often become insurmountable in the short to medium term. Hence, although ‘good governance’ is unobjectionable, if not desirable, reforms inspired by this approach have not been and cannot be successful for accelerating economic growth in such circumstances. This is why the relationship between ‘good governance’ and growth is so weak, and why programmes and other efforts to promote ‘good governance’ have been so ineffective in accelerating economic development.

Kurtz and Schrank (2007a) critically assessed the much-cited work of Kaufmann, Kraay and Mastruzzi on the positive causal link between good governance and growth. Besides citing the methodological flaws, discussed earlier, they note that there is little convincing evidence that improved or good governance accelerates growth. Instead, the ostensible evidence using their problematic measures actually suggests that growth and development improve governance, rather than vice versa. Kurtz and Schrank (2007a: 552) conclude that ‘the oft-asserted connection between growth and governance lies on exceedingly shaky empirical pilings’. Like others, they note that a number of developing countries, especially in East and South-East Asia, have fallen short on the most widely used World Bank’s good governance benchmarks, but yet have performed well in terms of growth, equity and structural transformation. The qualitative literature on the development experience of these countries emphasizes state capacity and ‘market governance’ as key predictors of their unusually high growth rates and their higher levels of education, social equality and investment rates despite their modest, compromised or corrupt administrative capacity. The claims of growth-enhancing governance improvements are largely based on evidence of short-term growth performance. Although Kaufmann *et al.* (2007) initially disagreed with Kurtz and Schrank’s critique, they later

acknowledged that the empirical literature on institutions and growth is inconclusive.²

Kim and Jacho-Chávez (2009) re-examined the conventional wisdom that a positive relationship exists between governance and growth by using nonparametric methods and the World Bank's governance measures. They found that regulatory control, reduced corruption and government effectiveness were insignificant for growth, while the empirical relationship between voice, accountability as well as political stability, and growth was highly nonlinear. These effects reflecting heterogeneity across indicators, regions and time are consistent with the arguments of Khan, Rodrik and Fukuyama that specific, targeted reforms to improve governance rather than wholesale reform may be more effective in accelerating economic growth.

Reviewing the historical experiences of the United States, Republic of Korea (South Korea), Mauritius and Jamaica, Goldsmith (2005) argues that governance is not significant in the way good governance proponents claim. The extremely dire conditions typically associated with failed statehood or state failure probably preclude most economic or social progress, and can lead to declining productivity and output as well as falling living standards. However, not all good governance reforms are similarly feasible or beneficial, let alone necessary or desirable in all circumstances. The United States and the Republic of Korea did not improve governance significantly on many fronts until they had become quite affluent.

Good governance reform proposals rely on the Weberian presumption of the ostensible superiority of 'modern' governance institutions over supposedly inferior 'traditional' arrangements. In fact, institutions which do not conform to some (typically Western) view of modernity are deemed traditional atavisms when, in fact, they may well be recent in origin due to the nature and impact of colonialism, post-colonial state building, economic liberalization or even globalization, such as contemporary patron-client, patrimonial or clientelist networks invoking culture, custom or heritage (Goldsmith 2005).

Contrary to the usual exaggerated claims about how much 'institutions matter', Goldsmith's case studies imply that greater transparency, accountability and participation are often a consequence, rather than a direct cause, of faster development. They also show that 'closed institutions' may provide a satisfactory basis for rapid growth, provided such institutions change appropriately over time in response to new conditions. Policymakers need to better understand such processes before expecting governance reforms to accelerate economic development in most developing countries.

As Rodrik (2008) notes, the incontrovertible long-run association between good governance and high incomes provides very little guidance

for appropriate strategies to induce high growth. He emphasizes the absence of any strong econometric evidence that relates standard governance criteria to growth as all the ostensible evidence is actually about income levels. Rodrik cites the example of China, Vietnam and Cambodia that are all growing rapidly despite poor governance indicators. Many other cases show that large-scale institutional transformation of the type entailed by the good governance agenda is hardly ever a prerequisite for getting growth going. Rodrik notes that poor countries suffer from a multitude of constraints, and effective growth acceleration interventions are those that address the most binding among them. Poor governance in general may be the binding constraint in some countries but certainly not in countries growing rapidly despite poor governance. Thus, as a rule, broad good governance reform is neither necessary nor sufficient for growth. It is not necessary, as the examples of China, Vietnam and Ethiopia show, and also not sufficient as it is difficult to sustain governance improvements without accompanying growth.

According to Andrews (2010), countries with more effective governments grew at an average annual rate of less than 2 per cent between 2000 and 2006, whereas countries with 'ineffective' governments (scoring below zero) actually grew by an average rate of about 4 per cent annually, despite facing much more daunting challenges, such as higher population growth. More effective governments generally also have higher domestic revenue sources, are less dependent on international trade taxes and more dependent on direct domestic income taxes than less effective governments. More effective governments were also much bigger in size in terms of public expenditure/GDP ratios, which ranged from 37 to 73 per cent in the mid-1990s and stood at between 35 and 55 per cent in 2004.

Aron (2000) notes that the correlations between institutional variables and growth are not robust, and causality can run in both directions, from good institutions to growth or from growth to better institutions. She argues that a more plausible and hence credible interpretation of the effects of politics and institutions on economic growth would require a more coherent, consistent and persuasive approach.

Fukuyama (2008) acknowledges the likelihood of two-way relationships between various aspects of governance and economic development. According to him, there may be cases where economic growth not underpinned by a strong developmental state but by a state with 'just enough' development accelerating governance may become the basis for further political and social development, tantamount to governance improvements. He cites the example of Bangladesh, where although fixing the problems of corruption and lack of democratic accountability is still daunting, the

economy has been growing impressively since the early 1990s. In so far as governance can improve with growth, a country like Bangladesh may be better positioned to further improve its institutions as it continues to grow. Fukuyama thus disagrees with the good governance orthodoxy at the World Bank and other donor agencies, which hold that since good governance accelerates growth, comprehensive institutional reform is a prerequisite for development. During the period 2003–7, virtually every country and region in the world experienced higher growth, and hence, Fukuyama holds that growth accelerations can and have occurred under a wide variety of institutional and policy regimes, a view similar to Hausmann, Pritchett and Rodrik (2004).

CORRUPTION AND ECONOMIC GROWTH

If good governance indicators suffer from measurement problems, and if the causality from good governance to economic growth cannot be ascertained, then can there be any causal link between economic growth and at least one indicator, corruption? This is a relevant question, as the good governance agenda often focuses mostly on anti-corruption measures in practice.

Corruption conceivably adversely affects development in many different ways, especially if it diverts resources that would otherwise be invested productively and increases uncertainty for investors. However, the historical evidence does not show a significant role of anti-corruption measures in accelerating economic growth. Data for the 1980s or 1990s show that the large differences in growth rates between fast and slow-growing developing countries were not associated with significant differences in corruption indicators (Khan 2006). In fact, the median corruption indices for both fast- and slow-growing developing countries were similar in the 1980s and 1990s, although both groups scored significantly worse than the advanced countries.

There are many views on the causes of corruption in developing countries. First, the most common and influential view is that corruption is principally due to the greed of public officials who abuse their discretionary powers for their own self-interest, that is, self-seeking bureaucrats or politicians. From different perspectives, the strength (power) or weakness of central governments, in turn, encourage or allow predation in many developing countries. Anti-corruption strategies therefore require strengthening related government enforcement capacities, but depending on perspectives, may seek to undermine other state capacities deemed likely to enable corruption.

Second, corruption and rent-seeking associated with needed government interventions cannot be addressed simply by privatization or liberalization. The conventional criticism of rent-seeking presumes that rents created by governmental interventions will be completely dissipated by rent-seeking behaviour, causing rent-seeking to be completely wasteful. However, there is no theoretical or empirical support for this presumption, undermining this criticism of rents due to government interventions. Rents can provide important incentives for innovative behaviour, widely deemed essential for economic progress. In fact, the notion of 'profit maximization' presumes the possibility of capturing rents, often by securing 'competitive advantage'. The major policy challenge then is to limit wasteful and unnecessary rent-seeking to maximize the gains from such behaviour. State capacities can and should be strengthened to better motivate innovative and entrepreneurial behaviour, while improving regulations to reduce associated rent-seeking.

Third, weaknesses in enforcing legal rights, including property and contractual rights, result in higher costs for negotiating, enforcing and protecting contracts. Weakly protected property rights or poorly enforced contractual rights – and associated corruption – seem widespread in developing countries. However, with sustained high growth, as well as greater social and political stability, economic conditions and expectations also become more stable, helping to sustain investment and growth. In other words, corruption tends to decline with sustained economic development.

Fourth, clientelism, or patron-client relations, is often associated with 'political corruption' involving efforts by politicians or others to retain or gain power. Developing countries' governments, political parties, factions, movements, business interests and politicians may use such measures to maintain the political status quo, often because the underlying problems – factors that are conducive to or encourage clientelism – cannot be addressed by more conventional measures, for example, owing to fiscal constraints. Clientelism needs to be regulated to limit its most damaging consequences; meanwhile, the ability of governments to budget and spend according to their own priorities – rather than according to those imposed through aid or debt conditionalities – should be enhanced to achieve social and political stability through transparent fiscal transfers to the deserving.

While all corruption is damaging in some way, and is hence undesirable, some types of corruption are much more damaging than others. Claiming to fight corruption in developing countries generally (by implementing a laundry list of desired governance reforms) sounds impressive and deserving of support, but such efforts often ignore more feasible and targeted policies that can improve economic performance. As it is virtually impossible to

address all types of corruption simultaneously, good policy should focus on the types of corruption most damaging to development, such as corruption that wastes precious investment resources. Reform priorities should respond to actual challenges and circumstances. Otherwise, anti-corruption and other governance reform efforts can set unattainable targets, inadvertently causing eventual disillusionment and reform fatigue as failure becomes apparent.

REFORM IMPLICATIONS AND PRIORITIES

The preceding discussion shows that current understandings and measures of governance, especially in relation to economic development, are not only imperfect but also problematic. However, these flawed governance quality indicators and policy presumptions are being imposed by international financial institutions and donor country policymakers to reshape national institutions, policies and programmes as conditions for receiving development aid. But until more is known about improving governance and its likely impacts on economic progress, such requirements and conditionalities may do more harm than good.

Policymakers have been relying on conventional wisdom or prejudice in claiming a strong relationship between institutional reforms and development outcomes as there is no robust empirical support for this view. Furthermore, no strong evidence exists for guiding and determining how to prioritize and sequence governance reforms.

The World Bank's World Development Report 1997 advised developing countries to pay attention to 45 aspects of good governance; by 2002, barely five years later, the list had grown to 116 items. Even allowing for considerable overlap among these items, it seems that countries needing to improve their governance must undertake a great deal more to do so, and the longer they wait, the more they will need to do.

Unfortunately, the long and lengthening agenda often means that a multitude of governance reforms need to be undertaken urgently, often with little thought to their sequencing, interdependence or relative contributions to the overall goal of reforming governments to be more efficient, effective and responsive, let alone more able and likely to alleviate poverty. Among the multitude of governance reforms deemed necessary for economic growth, development or poverty reduction, there is typically little guidance about what is considered essential and what is not, what should come first and what should follow, what can be achieved in the short term and what can only be achieved over the longer term, what is feasible and what is not (Grindle 2004).

The good governance agenda is particularly demanding on states that are poor, badly organized, politically unstable or lacking in legitimacy. But reluctance to pursue any particular prescribed reforms could result in poor scores on performance indicators for effort, which is likely to adversely affect financial and other support by donors (Grindle 2004).

In some cases, it may not be possible to make much progress in one dimension without prior or simultaneous progress in others. And if certain institutional and policy reforms matter more for development, these should probably receive the most support. Selectively concentrating resources would be better than spreading limited resources thinly across a whole range of ostensible good governance reforms, as foreign development agencies tend to do (Grindle 2004).

Developing country policymakers receive confusing signals as donor government policymakers condition aid allocations on such performance standards. Compliant governments of least developed countries are rewarded for good behaviour (efforts, if not outcomes) with more generous aid, while non-compliant governments are punished. But what constitutes good behaviour for donor governments, and if inappropriate, what should it be? What policies will improve governance effectiveness scores? And will such policies foster growth and development as well?

However, the answers are unclear, as are aid recipients rewarded for policies that are not coherent, if not potentially contradictory, including stabilizing their polities, deregulating their markets, lowering their tax rates, ensuring their citizens' health and well-being, maintaining macroeconomic stability, providing reliable infrastructure and guaranteeing their civil servants' capabilities and integrity. What, then, should aid recipient governments do? Raise taxes to enhance fiscal space and provide better health care and education? Risk social and political stability by cutting spending? Raise living costs by liberalizing prices and eliminating subsidies?

Almost every seeming solution aggravates another problem, just as many supposed good governance measures may also adversely affect economic development. Donor use of benchmarks often punishes poor countries for the governance consequences of their own poverty. After all, if they had achieved economic development and consequently improved their governance, they would not need foreign aid in the first place.

Instead, 'good enough governance' implies a more realistic, pragmatic, nuanced, better prioritized and sequenced understanding of the evolution of institutions and governance capabilities. Hence, 'good enough governance' may be more realistic for countries seeking to accelerate growth, development or poverty reduction. Such an approach necessarily recognizes priorities,

preconditions and trade-offs in a context in which all desirable things cannot be pursued simultaneously. This implies acting on knowledge of what is most important and achievable, rather than trying to fill all supposed governance shortfalls or gaps at the same time, and designing and implementing public policy reforms mindful of conditions and context (Grindle 2004). Similarly, Meisel and Ould-Aoudia recommend ‘governance for development’, a new, broader concept of governance including various institutional arrangements that inspire confidence and which, they suggest, vary with the country’s income level and other factors.

After reviewing much of the relevant literature, Kim (2009) questions the wisdom of donor pressure on developing countries to adopt ostensible ‘global (or international) standard’ policies and institutions since there are no ‘best practice’ policies and institutions that everyone should adopt. Instead, for him, improvements in institutions should be encouraged, but this should not be understood as imposing a fixed set of ostensibly superior (typically Western) norms and institutions on all countries. He also suggests that reform priorities should be determined by the recipient countries, in place of the current, mainly donor-driven, supply-side initiatives, and insists that ‘good governance’ reform efforts need to take account of the local context and realities.

Current understanding of institutions and governance, including the costs and benefits of reforms, only provides vague guidance. For example, there is no consensus on norms, standards or yardsticks for identifying a ‘governance break-even point’, when the gains from ostensibly improved governance exceed the costs of overcoming waste associated with supposedly poor governance practices. Thus, imposing unrealistically high standards of governance and corresponding requirements for governance reform on low-income countries may have adverse consequences. Development gains may not be as significant and as rapid as expected (Goldsmith 2005).

Andrews (2010) argues that the good governance agenda inadvertently imposes an inappropriate model of government that effective governments today ostensibly emulated in order to develop; this misleading agenda effectively ‘kicks away the ladder’ for other governments aspiring to accelerate development. According to Andrews, the model’s major problem is the lack of a convincing theoretical framework to better understand government roles and structures in development; such a framework is needed before one can measure government effectiveness or propose specific models of what government should look like. Given the evidence of multiple pathways to development, the idea of a one-best-way model is very problematic indeed.

Interestingly, the United Kingdom's Department for International Development (DFID 2003: 12) seems to have realized that 'if getting good government is a long-term endeavour predicated on economic and social development, a more useful question may be how to achieve economic growth and development in spite of weak governance'. Instead of pursuing comprehensive systemic reform in support of an ambitious comprehensive policy agenda, a more modest incremental approach involving a few important but feasible reforms – targeting several key constraints or bottlenecks – may be more pragmatic and likely to succeed (DFID 2003).

The DFID suggests that better understanding of context could help policymakers avoid making superficial judgements about development performance and its determinants which aid donors tend to make in allocating concessional finance. Donors need to avoid the tendency to become overly influenced by short-term trends or to equate 'good' performance with implementation of a specific policy priority favoured by international development agencies or 'poor' performance with the failure to do so.

As Khan (2010) notes, history provides a useful longer term perspective on good or poor government, and on ways to improve it. It also provides useful insights into processes of change, including the interconnections among the economic, social, political and institutional dimensions of development, as well as the bases for improving government. However, such insights do not lead to easy solutions or simple formulas for better government or economic development. But they nevertheless suggest small but important ways for enhancing the cumulative development effects of policy reform efforts.

Besides improving understanding of country context or the political economy of development, this implies a significant shift away from telling developing countries what they should do to eliminate poverty, to better supporting the change required for accelerating development. This would imply being less preoccupied with implementing a specific policy or institutional reform agenda while improving understanding of what seems to work in particular circumstances and why.

Pragmatism does not mean merely looking at mundane problems and their immediate causes. Deeper analysis requires taking greater account of the state–society relations underlying key institutions which shape the capacity, capabilities and incentives for accelerating economic development. This implies having a long-term vision of change which would transform the poor from clients dependent on patronage to citizens with rights, entitlements and responsibilities, as well as identifying measures to

support that process. Foreign development agencies should therefore try to strengthen the bases for improved government, especially for an effectively developmental role for the state.

BOOK ORGANIZATION

Based on key World Bank documents and African experiences, Rita Abrahamsen analyses the good governance discourse to expose its inconsistencies, evasions and silences in Chapter 2. She argues that the discourse narrates governance in a manner that blurs the distinction between democratization and the retreat of the state from the social and economic field. The main effect of the discourse is to portray structural adjustment as a force for democracy. Analysis of the good governance agenda goes around in circles, always leading back to one factor: economic liberalization. Governance is conceptually linked to economic liberalization, and civil society is regarded as emerging from the liberalization of the economy and reduction of the state. Thus, it constructs a new legitimacy for economic liberalism in the form of structural adjustment programmes.

‘Empowerment of the people’ is reduced to cost-sharing and becomes a tool in the hands of liberal economists. The bourgeoisie is regarded as both the source of economic growth and democracy, and cultural sensitivity only entails a commitment to build on traditions compatible with capitalism and modern state structures. In the African context, the good governance discourse has been portrayed as a force for democracy: the liberators of civil society from an oppressive state. The term ‘empowerment’ in this discourse is devoid of any radical connotations and merely signals that people should ‘pull their weight’ and make development projects more cost-efficient.

But it completely ignores the fact that the good governance agenda also caused the state to retreat, making it harder for the state to meet demand for more and better services; there is a limit to cost-efficiency. The reduction of state capacity and capabilities and the simultaneous rise in expectations through civil society empowerment are a sure recipe for state failure. This then legitimizes the presence of ‘international’ in domestic politics and economic policymaking. This is how many international interventions are sanctioned by the development discourse’s representation of the Third World. Abrahamsen challenges the good governance discourse’s claim to cultural sensitivity and argues instead that it is not significantly different from the modernization theories of the past in that it embodies an image of the good society largely constructed from Western values and experiences.

In Chapter 3, Brian van Arkadie argues that it is a tautology to identify good governance as a contributor to growth and poverty alleviation, insofar as 'good' is defined in terms of the effectiveness of governance in promoting those objectives. For him, the efficacy of governance practice in promoting growth and poverty alleviation cannot be adopted as axiomatic; it has to be established by analysis. Van Arkadie provides a brief historical account of the rise of the good governance paradigm in development discourse and discusses some concerns regarding the current widespread use by donors of good governance in their approaches to reform-mongering and to aid conditionality.

Good governance has become a trendy 'buzzword', often used with little discrimination to mean many different things, so that arguably, it has been leached of meaning. It is overused, sometimes in a rather imprecise and confusing fashion. In the development literature, it has even had a euphemistic function, providing an umbrella for discussion of delicate issues, such as corruption or the promotion of exotic models of democratic practice. While the model of the good society informing the good governance discourse is typically left implicit, it seems to involve a vision of a pluralistic society, with formal political processes that are democratic.

However, comparative study suggests that even if a democratic, pluralistic society is an attractive goal, it may not be very compatible with the requirements for fast growth. In other words, there is no necessary consistency between good political governance as a goal and good economic governance as a means of enhancing growth. The potential conflict becomes clear when, having encouraged the election of representative government bodies, donors – and particularly the Bretton Woods institutions – find the resulting decisions are not very consistent with 'good' economic policy, so that donors quickly find themselves trying to constrain and even bypass electoral institutions through mechanisms of donor conditionality. In the development discourse, governance has been heavily promoted by donors, not only as a response to perceived limitations in traditional approaches to economic policy but also as a vehicle for promoting a donor political agenda.

The donor community has become increasingly assertive in promoting their own social and political ideals as cross-cutting issues motivating their approaches to external assistance. They sometimes generate tasks which are, in practice, difficult to implement. The changing donor agenda places strong pressures on fragile political institutions. As countries struggle to make the institutions of multiparty electoral democracy work, a new donor rhetoric gains currency, advocating decentralization, local empowerment and the

engagement of ‘civil society’. The proponents of the extended governance agenda do not justify their intervention on strategic or self-interest grounds, but as the assertion of values claimed to be universal both in the sense that the appropriate ultimate destination of all societies is defined in terms of the ideals of Western donors, and that these ideals can be applied to the current practices of developing countries.

Nonetheless, van Arkadie believes that governance has been employed more usefully to address aspects of the political process crucial to development, neglected earlier by mainstream economists. Its widespread contemporary use reflects a heightened concern for political and administrative aspects of development and the policy process. According to him, in many respects, this concern is appropriate and useful. Another critical factor propelling the intrusion of governance issues into the pure world of the economist has been the recognition of the importance of institutions for the effective operation of markets.

After summarizing the limits of the WGIs’ perception-based measures, Marcus Kurtz and Andrew Schrank argue in Chapter 4 that the use of perceptions-based governance effectiveness indicators – by multilateral development banks, international financial institutions and individual donor governments – to condition aid allocations sends confusing signals to policymakers in developing countries. Policies such as deregulating markets, lowering tax rates, ensuring the health and well-being of citizens, maintaining macroeconomic stability, providing reliable infrastructure, guaranteeing the skill and integrity of civil servants and stabilizing polities – favoured by donors and international financial institutions – are almost certainly in tension with one another. For example, to provide health care and education and to maintain a balanced or surplus budget, taxes need to be raised. But raising taxes lowers a country’s ranking to investors. Thus, policymakers are faced with tough choices between risking social and political stability by cutting social spending and risking cuts in aid on account of ostensibly investor-hostile reforms. Almost every potential solution aggravates another problem, and the good governance benchmarks thus effectively punish poor countries for the consequences of their poverty. After all, if they could solve their social and economic problems, they would not need foreign aid in the first place.

Kurtz and Schrank point to considerable variations in the quality of governance and level of development, even within single polities. They argue that it is not clear that smaller governments are better governments, at least in terms of citizens’ well-being, as measured by the United Nations Development Programme’s (UNDP) Human Development Index (HDI).

They report a reasonably high correlation between the HDI and the size of the public sector in Latin American countries. Thus, while they concede that there could be a 'small government' path to human development, as exemplified by Chile, it is decidedly uncommon. They further argue that while a large public sector is not a necessary prerequisite for a high HDI, it can be a 'sufficient condition'. Their Latin American data also show that a number of high 'human developers' have low governance scores.

Thus, they argue that there are, clearly, two different paths to human development: the 'small government' Chilean road and the 'big government' road taken by the other regional success stories. Those who argue for smaller government also typically ignore structural constraints, determined by distinct social structures and skill sets in different types of societies. And a 'small government' road may well demand more (or different) state capacity than most developing countries are able to muster. This does not mean that they should let their people suffer in silence. Instead, their chapter suggests that big government, though less efficient, provides a more common – if by no means easily attainable – path to improved human development. This model may not only be more accessible to public officials in most developing countries but also more acceptable to their citizens.

Much work on the good governance agenda has isomorphic influences on development, where governments are influenced to adopt a one-size-fits-all approach to get things done. In Chapter 5, Matt Andrews doubts whether such an approach is at all useful, and argues that the models of good governance actually do not hold, even for supposedly effective governments. Governments look different, even if they are considered models of good government. This proposition is examined through a study of public financial management practices in a set of Organization for Economic Co-operation and Development (OECD) and non-OECD countries. It shows that effective governments are not more likely to exhibit better practice characteristics implied in one-best-way models. Good public finance management means different things in different countries. Therefore, according to Andrews, the good governance picture of effective government is not only of limited use in development policy but also threatens to promote dangerous isomorphism, institutional dualism and 'failing states'.

The chapter ends by suggesting that conceptualizing governance constructs as menu items to be chosen, rather than as essential elements of a one-best-way model, is an important step to better understand why good government looks different in different settings. The development community could start addressing such questions as why the world's more effective governments exhibit different combinations of better practices;

what current cross-country characteristics and/or historical factors led to these menu choices; what internal factors lead governments to adopt different governing solutions. Guidance on such questions will be a much more helpful step for developing country governments in choosing from a menu of institutional reforms than asking them to undertake wholesale governance reforms as stipulated by the good governance agenda.

In Chapter 6, Arthur Goldsmith challenges the view of international development agencies that developing countries can boost rates of economic growth by introducing 'good governance' measures. He critiques the good governance agenda (i.e. transparent, accountable, participatory governance) of these agencies as static and ahistorical; they ignore the political and economic cost of governance reforms. By carefully analysing the history of economic development, especially specific governance reforms and economic turning points in the United States, Argentina, Mauritius and Jamaica, he argues that these agencies underestimate the time and political effort required to change governance, and overestimate the economic impact. These careful case studies imply that greater transparency, accountability and participation are often results, rather than direct causes, of faster development, contrary to optimistic claims of donors and international financial institutions about how much institutions matter.

Furthermore, these case studies show that seemingly deficient institutions may be a satisfactory platform for rapid growth, provided key growth-inhibiting institutions are reformed pragmatically over time. For example, patronage, as a means for building loyal political support, could, at times, make governance more credible in the eyes of private investors. Likewise, clientelism and the exchange of lucrative favours could have benefits for development as they may enhance political legitimacy and stability, and, therefore, help create a conducive business climate. Similarly, 'pork-barrel' spending in remote regions can help create an integrated national economy. These show that impaired governance sometimes supports rather than undermines development, provided the tendency of patronage to encourage lax administration or excessive corruption can be balanced or minimized. Therefore, policymakers need to understand these processes better before counting on wholesale 'big bang' governance reforms for rapid growth and poverty reduction in developing countries.

Goldsmith doubts the robustness of many econometric studies, claiming to find a strong causal relationship between governance reforms and economic growth. These results are mostly spurious due to the possibility of unseen joint effects. That is, instead of better governance accelerating development, both good governance and rapid growth may be consequences

of other underlying causes. The optimistic econometric results may also be due to extreme or outlying cases, such as failed states, which preclude almost any social or commercial progress. After excluding failed states, in most cases, governance has less predictable economic outcomes.

Overestimation may also result from reverse causation or endogeneity between growth and institutions. These methodological issues add to the complications caused by measurement errors, highlighted in previous chapters. Until and unless the empirical picture is clarified, policymakers will have to rely on guesswork regarding institutions and development strategy. One may never know how to calibrate institutional quality to a country's historical circumstances. There is no scientific basis for deciding what steps towards institutional improvement should come first or receive most support. Goldsmith concludes, 'Governance reform is a dynamic and socially embedded process, which ... seems to move forward irregularly. Even after years, supposedly improved civic institutions may not produce perceptibly more efficient governance or many "development dividends".'

Rapid economic growth and transformational development in China and Vietnam pose a challenge for those who believe that 'good governance' is a prerequisite for accelerating economic growth. In Chapter 7, Martin Painter examines the cases of China and Vietnam, both of which have scored poorly on 'good governance' indices while experiencing dramatic economic growth and impressive levels of poverty reduction. He contends that the blueprint for governance reforms advocated by international donor agencies implies a dogmatic belief in an 'imagined western, liberal-democratic historical experience' which presumes a universal trajectory and common end-point for political and economic development in which acquiring the attributes of good governance is deemed essential or part of a necessary stage. Like Andrews and Goldsmith, Painter notes that this understanding of development denies the fact that such a trajectory was not universally part of the Western historical experience.

Painter describes key features of public sector reform programmes in China and Vietnam to show that good governance reform has not been, and need not be, the priority. Rather, the prevalence of 'low quality' or 'poor governance' in these countries is best understood as the consequence of pragmatic reform strategies adopted for coping with transition challenges and for achieving successful development. He identifies aggressive NPM-style commercialization of public service delivery mechanisms as one such home-grown strategy, rather than due to overzealous adoption of prescriptions ostensibly based on Western experience. Although foreign experiences with NPM, structural adjustment, privatization, public sector

and welfare reform were studied, both countries have prioritized ‘crossing the river by feeling the stones’. Not surprisingly then, proponents of the ‘good governance’ agenda consider the public sector reform programmes of China and Vietnam plagued by ‘poor sequencing’.

Painter concludes that if the development and reform experiences of China and Vietnam can be generalized, governance reforms may best be considered second-order measures to ‘mop up’ the adverse consequences of badly governed development. He suggests that governance will only improve after people appreciate, from bitter experience, the adverse consequences of badly governed markets, and then demand better quality public goods and services, as happened in the historical experience of the West. Painter sums up his conclusion by suggesting that ‘good governance can come later’.

In Chapter 8, Mushtaq Khan argues that the emphasis in policy and analysis on ‘good governance’ capabilities is symptomatic of a deeper bias in contemporary economic policy and research. Supporters of the good governance reform agenda have failed to identify convincing case studies of countries that have actually made significant economic transformations from poverty to high standards of living by following the agenda they propose. Even if improvements in governance capabilities in developing countries could improve growth, it does not follow that such improvements will be sufficient to achieve a developmental transformation.

Although case studies and statistical evidence underscore the importance of governance, they suggest that a different set of governance capabilities are required. Countries that have achieved significant developmental transitions in the past half century now have strong governance capabilities, but none of them would have scored highly in terms of ‘good governance’ measures when their take-offs began or for a considerable period thereafter. Rather, they prioritized developing governance capabilities to address specific problems, such as overcoming constraints limiting technology acquisition, solving problems in allocating valuable resources such as land, and maintaining political stability within acceptable limits. Khan describes such government capabilities as developmental or growth-enhancing governance capabilities.

For Khan, the experiences of the East Asian developmental states, with their significant developmental capabilities, no longer provide many useful lessons or much guidance for setting immediate governance reform priorities. Their post-war ‘political settlements’ were unusual, allowing them to more effectively intervene to overcome development constraints on a scale not feasible in most developing countries anymore. Most developing countries will probably not be able to make enough progress on these capabilities to have a significant impact on their development prospects.

Thus, the only feasible and desirable governance agenda may be to incrementally improve developmental governance capabilities on a smaller scale, taking account of political and institutional initial conditions in each country. According to Khan, a better starting point for countries would be to look at the sectors and firms that have actually experienced sustained spurts of growth. How did they solve or overcome the market failures and other development constraints that affect learning, technology acquisition and land purchases? What other significant market failures did they have to overcome? A closer examination of such issues is likely to reveal country and sector-specific solutions that have worked or improved understanding of why they have not; this is a better starting point for identifying strategies that may work in similar sectors. Khan argues that this incremental approach to capability development has to involve experimentation and trials, not the replication and adoption of blueprints drawn from dissimilar contexts. Historical evidence suggests that it is the incremental development of growth-enhancing governance capabilities that has been critical for triggering and sustaining development.

This volume begins by summarizing the major conceptual, methodological and policy criticisms of the ‘good governance’ advocacy discourse that has become extremely influential in the economic development literature in recent decades. It revisits the governance conditions which have been conducive to and supportive of accelerations in economic development, suggesting that what may seem like ‘poor governance’ may actually reflect prioritized, pragmatic and possibly effective efforts to overcome developmental bottlenecks. The volume ends by pointing the way to a ‘developmental governance’ reform agenda which may be much more relevant to and suitable for developing countries seeking to accelerate economic growth and structural transformation.

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