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Chapter 6

Is governance reform a catalyst for development?¹

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Governance is widely considered the lynchpin in current international development strategy. While social science has always maintained that governance (decision-making procedures and behavioural conventions in formal public organizations) has consequences for the developmental performance of nation states, the contemporary official tenet is that 'good' (i.e. transparent, accountable, participatory) governance should be established and expanded everywhere to boost the tempo of development. Open civic institutions are seen as a catalyst because they create an environment that rewards honesty, hard work and entrepreneurship. Civic institutions that lack transparency, accountability and participation generate perverse incentives that are said to hold down economic growth and perpetuate poverty.

I am hesitant to accept this doctrine in full. It seems static, ahistorical and to ignore the political and economic costs of governance reforms. Extremely adverse conditions of failed statehood probably preclude almost any social or commercial progress, but in-between cases of deficient governance have less predictable economic outcomes. My reconsideration of four such cases leads me to question empirical claims that certain upfront investments in civic institutions normally produce large 'development dividends'.

INSTITUTIONS MATTER ... BUT HOW MUCH?

The international community's stress on governance dates from the late 1980s, as development agencies tried to come to grips with the economic breakdown of the former Soviet bloc and to understand why so many

structural adjustment programmes were failing to take hold, particularly in Africa. Corruption in the public arena and lack of the rule of law were identified as central problems. Thus, the United Nations Millennium Development Goals (MDGs) feature good governance as means for bringing about development and fighting poverty.

The idea that governance and institutions make a big difference in development has a long intellectual lineage going back to Adam Smith.² The underlying reasons why a national economy is stagnant and unproductive can be diverse, and may include scarcity of capital, backward technology, unequal trading relationships, harsh climate, lack of natural resources, remote location, anti-commercial cultures, overpopulation and low education levels. Superimposed on all these factors is the quality of a country's governance, which is said to determine how efficiently resources are employed and how creatively development challenges are managed. Being landlocked or located in the tropics are givens, whereas being poorly governed is something humans can alter if they set their minds to it.

Microeconomics is the prism policymakers today are likely to use to identify desirable configurations of governance. Taking a rational choice perspective, the central issue of governance is to design institutions that discourage people from using the state to distort private exchanges for their benefit. Achieving better governance is largely a matter of setting up and sticking with procedures that reduce transaction costs and increase the gains to trade. Optimal institutional constraints are based on arm's length principles. Personal relationships should play as small a role as possible in collective decisions. Better governance should reduce the risks of trade and investment by making legislation and court rulings more predictable, and by reassuring asset holders that the state will not arbitrarily revoke their property rights (the 'commitment problem').

Three particular precepts of sound governance stand out in the microeconomic literature on this subject:

- Given that optimal behaviour for rational decisions requires complete information (the problem of 'adverse selection'), transparency is a top concern. Citizens and businesses on the outside must see how civil and political institutions work on the inside. It should be clear to everyone who is responsible for what actions. There should be no doubt about the aim and content of public policies, lest asset holders be frightened into hoarding or fleeing with their capital.
- A second principle is accountability, which allows for the replacement or disciplining of leaders who do not listen or break their promises

(the 'agency' problem). No official should be able to hide from the consequences of poor job performance.

- Participation and empowerment are deemed important because a spectrum of people and interest groups need to reveal preferences, debate options and make trade-offs based on the information they have. If too few members of society are represented in government decisions, leaders have little inducement to produce the infrastructure and government services that are the foundation for sustained economic growth and social advancement (the 'public goods' problem).

A growing body of empirical research supports the pivotal role for institutions in development (e.g. Acemoglu, Johnson and Robinson 2001; Rodrik, Subramanian and Trebbi 2004). Making statistical observations across a large number of countries, these studies usually find non-transparent, unaccountable and restricted governance is detrimental to development and welfare, while the opposite tendency is advantageous. Specific good governance factors associated with strong long-term national economic performance include rational-legal public bureaucracies (Evans and Rauch 1999), judicial independence (Feld and Voigt 2003), protection of property rights (Gradstein 2003), a tradition of common law (Mahoney 2001) and democracy (Gerring, Bond, Barndt and Moreno 2005). The implication for public policy is hopeful: realistic improvements in governance could raise per capita incomes significantly over the long run, and often have positive effects even over relatively short periods (Kaufmann, Kraay and Mastruzzi 2005).

This sounds almost too good to be true. Not only is good governance normatively gratifying, but it also stands on solid experiential ground when it comes to encouraging development. Perhaps the argument is too good to be completely true. Academic critics have suggested several reasons why econometric studies might find 'institutions matter' more than they really do. Policymakers are apt to disregard these caveats, at least in official statements, although many must know in their heart of hearts that the praises they sing about governance go beyond what scholarship can justify.³

There is the possibility of unseen joint effects: rather than better governance accelerating development, both plausibly may be the product of other underlying causes. For example, early colonizers in temperate climates brought with them European institutions that emphasized property rights and checks against government, but these settlers also brought skills acquired in the home country. Development and good governance in these European settlements could thus both be outcomes of improvements in human resources (Glaeser, La Porta, Lopez-de-Silanes and Shleifer 2004).

Another methodological problem is endogeneity or reverse causation. For instance, a meritocratic bureaucracy could be a crucially significant antecedent factor in industrialization, but politicians in industrializing countries probably also feel less pressure to support their relatives and friends by finding them bureaucratic jobs. Thus, industrialization could actually be the antecedent of meritocracy in the public sector. To control for endogeneity the more sophisticated empirical studies introduce instrumental variables, but it is hard to find indicators that correlate with institutional quality but not with economic growth (Jütting 2003). If institutions are endogenous, that also makes it very difficult to assess counterfactuals or the forecasted course of events that would have taken place in the absence of a particular institutional framework (Przeworski 2004). Adding to these methodological challenges is measurement error (Aron 2000; Andrews 2008). Many variables that try to capture aspects of governance could be inaccurate.

CASE STUDIES IN INSTITUTIONAL DEVELOPMENT

The comparative case method is a supplementary approach to large-*n* designs for illuminating the links between governance and development. Descriptive data generated from case studies are generally useful for clarification and interpretation – and for warning observers not to gloss over complexities when studying social or natural phenomena. Consider the United States, Argentina, Mauritius and Jamaica. These four cases represent two ‘most similar’ pairs of ‘most different’ cases, deliberately chosen to look for parallel processes and outcomes in diverse settings.

The United States and Argentina are examples of ‘early development’, where the state stayed more in the background. The United States is particularly important because it is the prototype for many good governance measures and characteristics. Are observers making the teleological fallacy of projecting present-day institutions onto the past, when the United States was still a developing country? Argentina bears many obvious parallels to the United States, with a rich natural resource endowment, large internal markets, temperate climate and heavy immigration among other similar traits, but with worse institutions and less successful industrialization today. Were its institutions always far below US levels?

The remaining two cases illustrate ‘late development’, where the state typically plays a more substantial role regulating business and providing social safety nets. Mauritius is considered a marquee case of development

through good governance, which is frequently cited as an object lesson for other developing countries. Perhaps its institutions have been portrayed too favourably. Jamaica is a seemingly controlled 'natural experiment' in which most civic institutions and many socio-economic factors are analogous to those in Mauritius, but where development has not gone nearly as far.

The independent variable for consideration is any of several conscious efforts to make civic institutions more transparent, accountable and participatory. Table 6.1 lists several specific problems of governance that many citizens are familiar with: patronage hiring, corrupt campaign finance and electoral malfeasance, personalized or clientelistic lawmaking and law enforcement, investor fraud. Practical alternatives exist for each bad practice. The standard answer to patronage in public services is to introduce a merit system of bureaucratic recruitment; the usual way to improve a politicized or corrupt legal framework is through judicial independence,

Table 6.1:
Some common governance failures

<i>Deficient institutional pattern</i>	<i>Typical reforms</i>
Public administration: Government workers are recruited and promoted for partisan connections (patronage)	Competitive entrance and advancement, job tenure for civil servants
Judiciary: People with close ties to government get preferential treatment in court (no rule of law)	Lifetime tenure for judges, merit plan for nomination
Issue advocacy: Established families and big businesses get special consideration in legislation (rent-seeking)	Registration of lobbyists; 'revolving door' rules for ex-officials
Campaign finance: Election campaigns are paid for by large, secret donations from wealthy interests (political capture phenomenon)	Disclosure of donors, donation caps, public funding
Elections: Voting is marked by bribery, intimidation and deception to obtain predetermined outcome (rigged balloting)	Secret ballot procedures, election commission
Legislative process: Lawmakers provide targeted individual or group favours to maintain local popularity, and they neglect production of public goods (clientelism)	Expand the franchise; emphasize non-selective government programmes that benefit broad categories of people based on objective criteria
Investor rights: Managers misappropriate corporate assets, mistreat small shareholders (inefficient capital markets)	Accounting disclosure requirements, minority shareholder rights, curbs on insider trading

the corrective for voting fraud is to establish a secret ballot and systematic voter registration system, and so on. These good governance reforms are quantifiable, though *de jure* changes are less ambiguous than are actual changes in how officials and citizens behave. We can establish when a country promulgates a new statute affecting governance and, with more difficulty, how long it takes to implement the statute.

The dependent variable is an upturn in the national rate of development marked by the onset of a period of 'growth acceleration'. These are defined as any eight years a country has annual growth of per capita gross domestic product (GDP) of 3.5 per cent or more, which is at least 2 percentage points above the previous eight-year rate and which takes the level of income higher than before the acceleration. The United States (1877), Argentina (1902) and Mauritius (1971) each experienced a growth acceleration when per capita GDP was under US\$3,000 (see Table 6.2). Jamaica did not have one, so for the sake of argument, I use 1962, the year of Jamaica's national independence, as the turning point. Per capita GDP was similar to the other countries' at the beginning of their economic speed-up periods. My research design calls for working backward from these turning points to see if particular governance reforms played an identifiable role leading up to the transition from slow to rapid growth. The case method also provides opportunities to observe how governance evolved after these decisive moments.⁴

Figure 6.1 shows each nation's respective income growth over the 30 years following the speed-up. Those trend lines go well beyond the initial eight-year episodes used to mark a growth acceleration. I present the longer time frame to cover the possibility that decades may be needed to see the link between governance and development in a nation state. The four cases represent a spectrum of long-term outcomes. Mauritius had by far the most rapid rate of growth, compounded over 30 years. The United States was next. Growth in Argentina and Jamaica, however, petered out over the course of 30 years.

Table 6.2 reports when the four countries started to acquire selected 'high-quality' institutions, such as a civil service commission to ensure a merit-based bureaucracy. The dates refer mainly to *de jure* changes, not to actual changes in behaviour. New rules that look transparent, accountable or participatory on paper may not be the dividing lines they appear to be. Still, as is immediately clear from Table 6.2, many major formal additions and improvements to governance took place well after the growth acceleration point for both the United States and Argentina. Assuming real change took additional time, the order and placement of those reforms seem inconsistent with the view that 'institutions matter' a great deal as a

Table 6.2:
Milestones of growth and good governance

Country	Growth acceleration*	Income trend†	Signs of reform
United States	1877	Initial per capita GDP: US\$2,570 8-year growth rate: 3.8% per year 30-year growth rate: 2.4% per year	Civil service commissions: 1883–1940 (federal and state) Judicial independence (state level): 1913 (first state merit plan) Campaign finance: 1890s (first state mandatory disclosure laws) Fair elections: 1888–1910 (most state secret ballot laws) Investors' rights: 1911–31 (state 'blue sky' laws)
Argentina	1902	Initial per capita GDP: US\$2,717 8-year growth rate: 3.6% per year 30-year growth rate: 1.1% per year	Civil service reforms: 1980s Judicial independence: 1853 (nominal) Campaign finance: 1990s (disclosure rules and spending caps) Fair elections: 1912 (secret ballot law) Investors' rights: 1990s
Mauritius	1971	Initial per capita GDP: US\$2,945 8-year growth rate: 7.2% per year 30-year growth rate: 4.5% per year	Public Service Commission: 1953 Judicial independence: 1800s Campaign finance: No disclosure or spending caps for parties Fair elections: 1947 (secret ballot law) Investors' rights: 2004 (Financial Reporting Council set up)
Jamaica	None (independence in 1962)	Initial per capita GDP: US\$2,702 8-year growth rate: 2.8% 30-year growth rate: 1.0%	Public Service Commission: 1951 Judicial independence: 1800s Campaign finance: No disclosure or spending caps for parties Fair elections: 1944 (secret ballot law) Investors' rights: 2001 (Financial Services Commission set up)

* A growth acceleration is an increase in per capita growth of 2 percentage points or more that is sustained for at least eight years. The post-acceleration growth rate has to be at least 3.5 per cent per year, and post-acceleration output must exceed the pre-episode peak level of income (Hausmann, Pritchett and Rodrik 2005).

† Per capita GDP is in 1990 dollars.

Source: Column 2: Mauritius and Jamaica: (Hausmann *et al.* 2005), United States and Argentina are author's estimates, based on Maddison (2003); Column 3: Author's estimates (from Maddison 2003); Column 4: See text.

Figure 6.1:
Four countries, four economic turning points

Source: Maddison (2003).

Note: See text for definition of a growth acceleration.

springboard for development (though the timing is not inconsistent with the notion that institutions need continuous improvement if development is to be sustained). By contrast, good governance institutions were more of a pre-existing condition in Mauritius and Jamaica. Of course, precedence does not make something a cause of something else. We risk making a post hoc fallacy if we fail to consider alternative causal mechanisms for the onset (or stillbirth) of rapid growth.

In the next section, I briefly explore the history of these countries to ascertain which specific institutional reforms were accelerants for development (as opposed to development being an accelerant for the reforms). I also consider whether unreformed governance was itself an accelerating factor (or at least not a decelerant that stopped faster development in its tracks).⁵ In different ways, each of the cases suggests a path of development difficult to square with the good governance perspective.

UNITED STATES

The abusive governance of America's Gilded Age (1866–1900) is half forgotten today. Public institutions from that time look secretive, personalistic and arbitrary when measured by today's standards – yet the latter part of the nineteenth century was an era of unprecedented technological improvement and industrialization for the United States. Reformers of the time were mocked as 'goo-gooers' due to their fixation on good governance as a cure for the nation's problems. They underestimated the difficulty of meaningful reform.

Start with public administration. Good governance theory rejects the spoils system of bureaucratic recruitment as an impediment to development. Patronage leads to unpredictable and inefficient delivery of critical government services, and should therefore be replaced with a modern, professional personnel process. The 1860s were the zenith of federal patronage, with nine out of ten executive branch civil service positions redistributed. Federal employees, in return, were required to kick back part of their salaries to their political parties. The federal spoils system slowly retreated over the next several decades in a process that was clearly more the outcome of economic growth than its source. To this day, patronage remains deeply embedded in many sub-national administrative and political units.

The judicial branch was also problematic in nineteenth-century America. Good governance doctrine holds that it is critical to have an independent judiciary free from direct partisan influence, which permits the courts to uphold property rights and make unpopular, but economically necessary, decisions. Conditions were quite different during the Gilded Age. Turnover among state and local judges was high and many parlayed their experience on the bench into moneymaking opportunities in the private sector. By the early twentieth century, most states used partisan judicial elections, turning jurists into office-seekers and further compromising their neutrality.

America's elected state judges were not especially consistent about protecting property rights. Acting in the name of progress, they were prone to reinterpret common law with respect to property and contracts. State appellate courts granted states widespread authority to use their power of eminent domain to expropriate assets and assist private companies. The heyday of these subsidies was from 1870 to 1910 (Nedelsky 1990: 226). Many judges were also complicit in illicitly transferring millions of acres of public land to large cattle, timber, mining and railroad companies during that period.

Unfair elections are another oft-mentioned feature of misgovernance. During the Gilded Age, political parties printed their own ballots, making it easy to monitor how people voted and intimidate those who refused to go along. District captains at the polling stations would pay voters and follow them to the ballot box to verify that they cast their votes correctly. The first state only enacted a secret ballot law in 1888, which provided for official ballots to be distributed by non-partisan election officers and made detailed arrangements for privacy in the voting booth. By 1910, all but two states had passed similar statutes. Bribery of voters became a criminal offence in all states by the 1920s. A number of states also began to require disclosure of campaign receipts and expenditures. Landmark federal legislation in 1907 barred corporations from giving money to candidates for national office. Its effect was diluted, however, because it failed to put restrictions on the individuals who owned or managed the companies. America's first lobbying disclosure law was passed in 1890. Even today, several states do not prohibit elected officials from using their position to secure contracts. Many still allow the receipt of gifts by legislators and permit legislators to represent private interests before government bodies (Hedge 1998: 119).

Business practices took a while to become more transparent. Between 1911 and 1931, all states but one adopted securities laws, setting minimum standards for corporate disclosure (Mahoney 2003). Only in 1933 did the federal government step in and require companies to present registration statements with new public offerings of stocks and bonds, and to make 'full and fair' disclosure of financial information. A year later, corporate officers and directors were forbidden to buy and sell stock based on nonpublic information. Small shareholders won other rights, such as being treated equitably in dividend policies and in access to new security issues by the firm, being able to sue directors for neglecting their fiduciary responsibilities, and being allowed to file shareholder resolutions to defend their interests.

Putting the evidence together regarding US public administration, judicial independence, voting practices, campaign finance and corporate governance, there is little to show that good governance reforms catalysed economic modernization in the late 1800s, as opposed to being auxiliary or complementary factors in the process. In some instances, the economic upturn itself may have generated additional poor governance by creating new opportunities for opportunistic, self-seeking and deceptive behaviour. Civic institutions were gradually improved over time, but those improvements came during or after the major expansion of trade and industry, not before. To this day, acute governance problems remain in the United States, as shown by ongoing campaign finance scandals and corporate accounting fraud.

ARGENTINA

In contrast to the United States, Argentina is often seen as an exemplar of substandard governance holding down development. The Latin American nation is notorious for political instability and military intervention despite attaining one of the world's highest living standards during its Golden Age (1880–1914). Common perceptions aside, it is ambiguous whether most of the applicable Argentine institutions of the time were so different from American institutions in the equivalent historical era. For example, both countries traditionally based their civil service on patronage. Like the United States, Argentina had no central personnel agency and no central control over employment, promotion, discipline or dismissal of public servants. Virtually everyone who worked in the government service was chosen for political reasons. The noticeable difference between the cases is that Argentina took even longer to carry out modernizing civil service reforms.

Concerning the rule of law, the judicial branch had *de jure* independence under the country's 1853 Constitution, which was modelled after the US Constitution. But in practice, the executive branch exerted more pressure over the judiciary than it did in the United States. The courts were initially disposed to protect the property rights of big farmers and ranchers. Later, especially during the Juan Perón era, the courts proved flexible and stood aside to allow enactment of populist policies that restricted landowners' property rights and favoured the working classes (Alston and Gallo 2010).

Argentine elections were marked by intimidation and electoral fraud in the early 1900s, which resonates with American experience at the time. The Radical party successfully pushed for a secret ballot, instituted in 1912. While aspects of the law violated voter confidentiality, elections did become much more competitive. As was true in the United States, electoral competition was associated with widespread purchase of votes, with many voters expecting small personal rewards in exchange for their support. However, the practice proved harder to suppress in the Latin American country.

Campaign finance reform has been an issue in Argentina at least since 1931, when the first decree to provide public funding was issued in an effort to level the playing field for all political organizations and to promote legislators' independence from powerful lobbies. As in the United States, efforts to regulate and illuminate private political donations were often stymied.

Argentine corporate governance has been opaque, though this did not prevent the emergence of an active local stock market in the early twentieth century. More than in the United States, Argentina's biggest domestic companies were personal or family-owned. Firms relied on bank loans, mainly through the state-owned banks or private funding through main stockholders. Investable funds were increasingly concentrated in a single institution, the Banco de la Nación Argentina, creating a lopsided financial structure vulnerable to rent-seeking (Nakamura and Zarazaga 2001). Later, the severe economic crisis of 1989–91 generated pressure to open the financial system. Wanting to attract foreign investors, the government passed a series of laws to bring its corporate governance into line with international norms (Apreda 2001).

In sum, Argentina reinforces reservations, also raised by the American case, about direct causal links between improved governance and a speed-up in development. Pervasive patronage, clientelism and pork-barrel politics in Argentina did not block rapid income growth during the Golden Age (though they may have been contributing factors in the growth reversal towards the middle of the 30-year period shown in Figure 6.1). For a time, its people were among the best-off nationalities on earth measured by average income, though they later lost that lofty status. The most striking difference between the Argentine and American cases is the fact that reform stalled and took longer to implement in Argentina, but that was after the period of growth acceleration.

MAURITIUS

Mauritius is often presented as a poster child for how high-quality institutions bolster development. At independence in 1968, it had one of the world's densest and most heterogeneous populations, with 700,000 people who hailed from three continents, spoke several languages and practised four major religions. Few observers held out much prospect for this small, isolated, resource-poor new nation.

Two surprising things happened after independence that confounded the pessimists and made Mauritius stand out among developing countries. First, was stellar economic performance (look at the growth curve in Figure 6.1). Before 1971, Mauritius was a stagnant monocrop economy, dependent on the declining world sugar market. Today, it is a thriving manufacturing exporter, financial services centre and tourist destination. It has achieved middle-income status and scores very well on most measures of human

development. The second outstanding fact about Mauritius is its democratic stability. The country adopted a Westminster-Whitehall style political and administrative structure marked by regular competitive elections, gracious losing and loyal opposition.

Most accounts of the country's political history emphasize how the system of governance evolved during a prolonged period of colonial tutelage, which allowed local people to acquire experience with self-rule incrementally. Mauritius had a large public sector, with government employees representing over 1 per cent of the colony's population in 1900 (Lange 2003: 404). Mauritians held over 90 per cent of these posts, including most high-level positions by the end of the colonial period. Recruitment was supposedly based on talent, not on connections, as enforced by the Public Service Commission (established in 1953). Legislative elections with a very limited franchise took place from 1886. As of 1947, there was near universal adult suffrage (with a few literacy restrictions) with secret ballot. Responding to rising demand for independence, Britain introduced the ministerial system to Mauritius in 1957, followed by internal self-government in 1965, and formal decolonization three years later. Because Mauritian law was an amalgam of British and French law, local magistrates always played a key role in interpreting and enforcing the law. British colonialists were not sufficiently familiar with French codes to administer the law by themselves. Judicial independence was sacrosanct and the final court of appeals is still located outside Mauritius in the Judicial Committee of the Privy Council in the United Kingdom.

We should be careful not to commit the fallacy of wishful thinking about this case, however. While governance was clearly superior to what many other ex-colonial countries had, it is easy to filter out details that do not fit the positive image. Though political parties in Mauritius were not supposed to use the civil service for patronage purposes, they did. Two critical official reports on the civil service system in the run-up to independence called attention to the problem of family, communal and ethnic favouritism among civil servants (Minogue 1976: 162–3). Even now the bureaucracy is far from a pure meritocracy. According to the government's own summing up, industrial development occurred despite, not because, of the bureaucracy (McCourt and Ramgutty-Wong 2003).

The political process was not quite as consensual or above board as in the simplified historical account, either. Accusations of corruption were common in the post-independence era, and several high-elected officials were caught red-handed smuggling drugs in 1985, under cover of diplomatic

immunity. An official investigation noted the country's economic boom had increased contact between business people and politicians, creating a climate for bribery and extortion (Bowman 1991: 89).

Corporate governance was also lacking during the 'miracle' years. A small group of family-owned holding companies control a large part of Mauritius' economy, and shareholders cannot easily unlock the value in these firms, according to the World Bank (2002). The country fails fully to meet OECD guidelines for disclosure and equitable treatment of shareholders.

Despite flaws, Mauritius' institutions were still much better than average for developing countries. While that quality differential might have produced a large 'development dividend', I am leery of causal oversimplification. Alternative explanations for Mauritius' strong performance favour additional factors. Of particular importance may be geography, which enabled the country to capitalize on ethnic organizational links to the Indian homeland. Given personal connections and Mauritius' proximity, Indian entrepreneurs found the island a convenient offshore export platform to enter the European Union and US markets, using trade preferences available to Mauritius but not to India. Indian businesses also used Mauritius as a tax haven by setting up holding companies to avoid tax liability in India. Multinational companies continue to take advantage of other special Indo-Mauritian arrangements, and up to a third of the foreign investment in India comes through Mauritius. There are similar personal and commercial ties between the less numerous Sino-Mauritian population and the diaspora Chinese business community, which have also benefited the economy.

JAMAICA

Jamaica reinforces the idea that participatory governance and accountable institutions may have been secondary conditions in Mauritius' development take-off. There are many parallels between the two cases. Jamaica is also a small island nation with a history of plantation agriculture. Jamaica also emulates Britain's Whitehall-Westminster model, with neutral, non-partisan civil servants advising elected government ministers. Decolonization was similarly gradual, culminating in full independence a few years ahead of Mauritius. The country had some material advantages over Mauritius, including the discovery of rich bauxite reserves in the 1940s. The big difference between the two cases is that economic growth stalled in Jamaica.

Because Jamaica's institutional endowment approximates that of Mauritius, it is hard to blame standard governance factors for the absence

of a growth acceleration. Britain's colonial administration began to recruit significant numbers of qualified local people for responsible positions in the 1940s. At independence, the size of Jamaica's public sector workforce was comparable to what Mauritius had. The two countries' Public Service Commissions came into being at about the same time to regularize personnel procedures and oversee training of staff. There were complaints that Jamaica's civil service was insufficiently oriented to development and incapable of hiring the most talented graduates, but few doubted its political neutrality. The tradition of non-partisanship did erode in the 1970s, with the growth of statutory bodies and public corporations outside the civil service system and the government's increasing reliance upon politically reliable special advisers to develop policy (Mills 1997: 19), although that seems more a result than a cause of poor economic performance.

The integrity and independence of the judicial branch measure up to Mauritian standards. Individuals must meet high educational and experience standards to sit on the bench. There are special constitutional provisions to protect higher court judges in Jamaica, but these have never had to be tested because no higher court judge has ever been threatened with removal from office (Munroe 2003: 24). As with Mauritius, the Privy Council in London is the final court of appeal. Citizens have the right to sue the state and frequently win judgments against government bodies.

Jamaica has a robust two-party system, with each party exchanging office roughly once a decade from the 1950s through to the 1980s. A secret ballot with universal adult suffrage dates from 1944. The Electoral Office of Jamaica was established to guarantee the integrity of the electoral process. Like Mauritius, Jamaica has no campaign finance law requiring parties to disclose income or to limit their expenditures, so that factor cannot be blamed for economic differences between the countries.

Jamaican corporate governance falls below contemporary standards for transparency and shareholder empowerment – but not noticeably below practices in Mauritius. The local corporate sector is dominated by clans with large block holdings and cross-membership on the boards of firms. There is limited disclosure of ownership or voting agreements among shareholders, and financial information is not readily available to the public. The situation is in flux. Jamaica's Financial Services Commission came into existence in 2001 to bolster compliance with international standards of financial accounting and investor protection. That was a few years ahead of when Mauritius set up comparable institutions.

Why did the economy languish in the late 1960s? Nongovernance factors were important. Jamaica did not have the global business linkages

that benefited Mauritius. Bauxite, Jamaica's principal export, fell in price after independence. Other Caribbean nations developed competing tourist facilities. Some of Jamaica's superficially good governance institutions and practices also played an unexpectedly negative part in this story. The highly regarded participatory political process did not lead to production of public goods in the way it should have in theory. Citizens, especially those in the lower classes, bound themselves to one political party or the other to obtain individual benefits, such as temporary jobs or small public works contracts (Edie 1990). Clientelism became ingrained as opportunities in the private sector failed to materialize, polarizing the electorate and fostering a zero-sum mentality that bred violence among activists. Some electoral districts have evolved into politically homogenous 'garrison communities', dominated by gangsters with partisan affiliations (Figueroa and Sives 2002). Pervasive criminality deters tourism and investment, thus closing the circle of slow growth.

CONCLUDING POINTS

Four cases can never be definitive, but they do provide anecdotal confirmation for four provocative hypotheses about governance:

- Meritocratic bureaucracies, independent judiciaries and honest elections are worthy goals in their own right, but setting them up need not give a perceptible jolt to development.
- Provided other conditions are favourable, objectionable public institutions may be adequate for an upsurge in production and income.
- Good governance reforms are more effect than cause of sped-up development, though over time they seem to become a more important factor in sustaining development.
- When the rate of development picks up, so may graft and extortion, though often any escalation in corruption prompts countervailing political demand for anti-corruption measures to be enacted.

Why would these out-of-favour propositions be true? The reason governance reform may not give a noticeable jolt to development (the first hypothesis) probably has to do with the time lags of implementation. Inefficient institutions are sticky due to resistance from select groups that gain under non-transparent or unaccountable arrangements. Elite resisters will usually have success stalling and even reversing governance reforms. Even if they see advantages in switching sides and getting behind changes

in civic institutions, that is still likely to distort the effects on a nation's total wealth and the distribution of income.

Several explanations exist for hypothesis number two (impaired governance sometimes supporting rather than smothering development). For instance, patronage is a means for building loyal political support, which could at times make governance more credible in the eyes of private investors, balancing if not completely making up for the tendency of patronage to encourage lax administration. Clientelism and the exchange of lucrative favours could also have benefits for development if they add to political legitimacy and stability and, therefore, to a positive business climate. Take pork-barrel spending, which goes to certain regional constituencies but may help integrate them into a cohesive nation, while also acting as a stimulus to domestic firms which receive the contracts (though it might also have polarizing effects if the political pork is not distributed evenhandedly among regions and firms). Governance is always a gradient from bad to good, and workable institutions vary according to national contexts and level of economic development (Brinkerhoff and Goldsmith 2005; Andrews 2010).

The idea that good governance follows growth (hypothesis number three) is partly explainable by the possibility that open and participatory institutions take more human and financial capital to run successfully. Also, political demand for clean governance is often a middle-class phenomenon, and a larger and better educated middle class is one of the likely long-run outcomes of a faster growing economy. As the economy becomes more complex, in due course, business lobbies and other economic interest groups may also agree that neutral but competent civic institutions would better serve their needs.

Hypothesis number four (rapid development may initially bring about worse governance, which, in turn, may stimulate reform) is a corollary of number three. Stronger economic growth, in the absence of legitimate limitations on the behaviour of politicians and business people, allows greed to flourish. When extensive wrongdoing becomes known, that may give civil society organizations the political momentum to create greater choice and accountability in governance. This leads to a tug of war with entrenched elites and their entourages, who push back on the new rules and look for ways around them. With luck, some institutional innovations stick, and those that come undone induce additional reformism in the future.

The cases obviously raise questions about using stock governance reforms as a general treatment for slow growth or non-development, regardless of the national setting. Institutions function like an ecosystem with a heavy

measure of interdependence. That may mean the complementarities among institutions are more important than the performance of any single institution in encouraging development. Perhaps ‘institutions matter’ most when a critical mass of open, rule-based institutions exists. Reforms themselves may have life cycles. Certain institutions may gather human and technical resources gradually before breaking through to have an impact; other institutions may have ‘shock value’ at first, but grow less effective as political actors adjust to new rules and figure ways to accomplish their previous objectives within the new institutional framework.

Until and unless the empirical picture is clarified, policymakers will have to rely on guesswork regarding institutions and development strategy. We may never know how to calibrate institutional quality to a country’s historical circumstances. No scientific basis exists for deciding what steps towards institutional improvement should come first or receive most support: is it civil service reform? Electoral reform? Corporate governance reform? If a system of open and rule-based institutions is crucial, a comprehensive approach to institution building might seem advisable. It may not be possible to make much progress on one dimension of the system without progress on the others. Then again, if certain individual institutions matter the most, focusing resources would make more sense than a scattershot of governance reforms, as the international development agencies often mandate (Grindle 2007). But if selectivity is the appropriate strategy for development assistance, what institutions are the right entry points? Should donors work opportunistically with willing partners? Or should they be less random in choosing which institutions to support? The answers to these questions probably vary among countries because attitudes and experiences are never the same.

Then there is a dilemma about how far and how fast to push Weberian institutional logic at the cost of disrupting informal clientelistic networks. No standards exist for how to identify the ‘governance break-even point’ in a country, where the cost of fighting cronyism and other unwritten practices equals the social and economic gains from open governance. Our current understanding of institutions provides only a vague outline for making this trade-off. The costs and benefits, moreover, are constantly changing. What works well enough in one period may prove maladaptive in another period, when expectations are different. In any case, getting the reforms through is not a technocratic enterprise that can take place above the turmoil of domestic politics.

Given that good governance has many dimensions that go beyond the narrowly economic, Western donors will continue to encourage aid recipients to set up transparent, accountable and participatory institutions.

They should be wary, however, of fixating on a one-dimensional view of development and holding out unrealistic expectations for institutional change, economic growth and poverty reduction. Governance reform is a dynamic and socially embedded process, which, the four cases remind us, seems to move forward irregularly. Even after years, supposedly improved civic institutions may not produce perceptibly more efficient governance or many 'development dividends'.

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