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Governance and Development Paradigms

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Abstract: This paper shows that there are some factors to lead governance paradigm became hegemonic in development theories. These factors are: failure of development policies especially Washington Consensus, growing attention to role of institutions in development process, considering to deficits in the neoclassic assumptions and democracy and historical failure of communism. But there are some problems in governance paradigm. One of the most important problems is that we don't know how we should create changes. We think noticing to interdisciplinary studies is useful for overcome these problems.

Keywords: Development, Institutional Change, Governance, Paradigms.

INTRODUCTION

The first discussion about *Development* provided by Sir William Petty in 1676(Sen, 1998, 10). But, what we know as "Development Theories" or "Development" spread after World War II.[1] At that time many of newly independent countries have begun their effort to achievement to development. Researchers and policy makers increasingly started studying the process of development and designing development strategies (Torbik, 2007, 3). New international organizations such as World Bank, UNDP and IMF were built and the development departments were established. During these years, different explanations and policies about development have been provided. Some of these theories and policies has been contradictions and while our understanding of the process of development has been improved, recent "Human Development Report" show that many problems such as income distribution and health has remained (Human Development Report, 2010, 1). Undoubtedly, development theories have been improved during last decade but there are some new challenges. Therefore, in this article these improvements and challenges will be surveyed.

In the following sections, we first survey the evolution of development theories and strategies, and then concentrate on a core question: Why governance became hegemonic paradigm in development? At last, looking at the challenges that this paradigm faces with, we would provide propositions for solving these problems. The last section is devoted to conclusions.

DEVELOPMENT PARADIGMS[2]

The first generation of development theorists and strategists began their work after World War II. They were extremely optimistic and to some extent visionary. Although they assert that developing countries are different from developed countries, they believed in universality of classic paradigm and use of economic tools to analyze problems only with few reforms in these models. The Best evidence for this issue is Lewis' article that became a basis for policy making in that era. In the beginning of this article, he writes: "This essay is written in the classical tradition, making the classical assumption, and asking the classical question"(Lewis, 1954, 140). According to classical models the most important factor for development was capital accumulation. We can see an emphasis on capital accumulation in many models that provide in that era such as Rostow's "stages of growth," Rosenstein-Rodan's external economies and "big push," as well as Lewis's unlimited supply of labor and so no (Meier, 2001, 15). Also, these strategists emphasized on planning and believed that the government should play an active role in the process of development.

But as we know, these programs were not successful. Therefore, development theorists provided new generation of theories and policies. In the 1980's the emphasis on decentralization and price system was the basis of many development programs. This generation of theorists criticizes of previous generation due to their neglecting of fundamental principle of neoclassical economics (Meier, 2005, 81). The best definition for these policies is what John Williamson named *Washington Consensus* in the conference on 1989. He believed that members of US organizations such as the economic agencies of the US government, the Federal Reserve Board as well as international financial institutions like World Bank and IMF that located in Washington have consensus on ten policy instruments (Williamson, 1990). According to these policies " *Stabilize, privatize, and liberalize* became the mantra of a generation of technocrats who cut their teeth in the developing world and of the political leaders they counseled"(Rodrik, 2006, 973). But the results were different from what the policy makers and supporters of Washington Consensus intended. In fact, the rate of economic growth in Latin America and Sub-Saharan Africa where these policies had been enforced, were lower than the amount that they expected (Ibid, 974). Also, in the East Asia some countries pursue contradictory strategies with Washington Consensus. According to these policies, the governments play active role in the process of development. Survey showed that these policies were successful and those countries achieved to higher economics growth (Stiglitz, 2008, 41-42).

Why had been these strategies failed? Some scholars refer to investment in human capital. By the end of 1980's, Roemer (1986) and **Lucas** (1988**)** showed that human capital has significant impact on economic growth (Adelman, 2001, 115). In the earlier years of 1990's Putnam used the term Social Capital for explanation some difference between societies. After that, some scholars such as Knack and Keefer showed that social capital has significant positive impact on economic growth (Knack and Keefer, 1997). But what became more popular among scholars was governance that we survey it in next section.

GOVERNANCE

Although, by the end of the 19th century, a reformist movement in the United States used term of "good government"(Grindle, 2010, 16), this term became gradually more common after it had been used in a report that were published by World Bank in 1989. In this report, the role of governance in process of development was point out (Leftwich, 2006, 169). In the foreword of this report that is about the "problems of development and sustainable growth in Sub-Saharan Africa" the authors wrote:

A root cause of weak economic performance in the past has been the failure of public institutions Private sector initiative and market mechanisms are important, but they must go hand-in-hand with good governance-a public service that is efficient, a judicial system that is reliable, and an administration that is accountable to its public. And a better balance is needed between the government and the governed (world Bank, 1989, xii).

Gradually after this report published, many scholars and policy makers as well as many members of international organizations such as World Bank, UNDP and IMF have used the term "governance" and "good governance" for an explanation of new process of development. Finally, the turning point in policy making occurred in second half of 1990 decade. In 1996, at the Annual meeting of the World Bank and the international monetary Fund (IMF), these institutions emphasized on good governance and tackling corruption as priority issues and in 2000 UN emphasized on good governance as an important aspect of The Millennium Development Goals (Chibba, 2009, 83). Dixit assert that while in the 1970s EconLit had showed five citation to term governance it was increased to 33,172 in the end of 2008(Dixit, 2009, 5). But why governance becomes so popular? Before we survey this issue in the next chapter, it is necessary to define the *governance* concept.

Undoubtedly, there is not any consensus on a definition of governance that all scholars and scientists have accepted it. Therefore, choosing one definition is very hard. For conquering this problem, Dixit propose his definition of governance based on his goals of his article (Diixit, 2009, 5) and it is seems a reasonable way. Therefore, because goal of this article is the relationship between development and governance, we mention some definitions that related to this issue.

Streeten(1996) points out many different definitions of governance: For example, its definition in Oxford English Dictionary is: “the act or manner of governing, of exercising control or authority over the actions of subjects; a system of regulations”. He believes that the widest definition of governance has been provided by Commission on Global Governance that is: “Governance is the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated and co-operative action may be taken. It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interest”(Streeten, 1996, 27). One of the most important definitions is proposed by Kaufman & et al that used for preparing of good governance indicator of World Bank. They define it as “the traditions and institutions by which authority in a country is exercised.

This definition includes (a) the process by which governments are selected, monitored and replaced; b) the capacity of the government to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for the institutions that govern economic and social interactions among them”.(Kaufmann and et al, 1999, 3).[3]

Chibba views governance as encompassing two key but overlapping dimensions. The firstdimension refers to all aspects of the way a nation is governed, including its institutions, policies, laws, regulations, processes and oversight mechanisms. The second dimension is its cultural and ideological setting, for governance is perceived and shaped by values, culture, traditions and ideology(Chibba, 2009,79). At last, Acemoglu believes that in researches about development and growth the term of governance refers to essential parts of the broad cluster of institutions (Acemoglu, 2008, 1). Considering all definitions, it is obvious that in all of them, institutions are at the center of definition. Therefore, we should reply to this question why governance, and in fact institutions, gets attention in development paradigms?

WHY GOVERNANCE?

In the following, we point out some important factors which have critical impact on becoming governance as a hegemonic paradigm:

Failure in development policy

Many scholars believe that failure in past development policy especially “Washington Consensus” is one of the most important reasons of noticing Governance (Stiglitz, 2008, 50, Craig and Porter, 2006, 64). Stiglitz points out” When all of these versions of the Washington Consensus Plus also failed to do the trick, a new layer of reforms was added: one had to go beyond projects and policies to the reform of institutions, including public institutions, and their governance”(Stiglitz, 2008, 50). Thorbecke confirm this view point but he adds another issue. he points out to financial crisis in East and Southeast Asia in the second half on 1990 decades and claims that another consequence of the financial crisis was to bring into question the Washington and IMF consensus of unbridled capital and trade liberalization and complete deregulation of the financial system(Thorbecke, 2007, 19).He points out this crisis get attention to *rule of law* in monetary and financial system and writes:” Prior to the onset of the Asian financial crisis it was felt that the mix of institutions and policies adopted by the East Asian countries that gave rise to the East Asian miracle (World Bank 1993) provided a broad model, with parts of it potentially transferable to other developing countries”(Thorbecke, 2007, 20).

As mentioned above, the term of Governance had been used first time by experts of World Bank in a report that was about development in Africa. In this report 11 times term of *Governance* were used and a central theme of the report is that although sound macroeconomic policies and an efficient infrastructure are essential to provide an enabling environment for the productive use of resources, they alone are not sufficient to transform the structure of African economies. At the same time major efforts are needed to build African capacities-to produce a better trained, more healthy population and to greatly strengthen the institutional framework within which development can take place… A root cause of weak economic performance in the past has been the failure of public institutions. Private sector initiative and market mechanisms are important, but they must go hand-in-hand with good governance-a public service that is efficient, a judicial system that is reliable, and an administration that is accountable to its public"(World Bank, 1989,xii) . These sentences show that experts of World Bank who were one of the designers of "Washington Consensus" appreciated that their policies was wrong and should pay attention to the public institutions and governance.

INSTITUTIONS

As mentioned, the key issue in debate of governance is institution. But noticing institutions has long history. Adam smith sued over 80 times of the term of institution in his well-known books "Wealth of Nations". for example he writes: "China has been long one of the richest, that is, one of the most fertile, best cultivated, most industrious, and most populous countries in world. It seems, however, to have been long stationary. Marco Polo, who visited it more than five hundred years ago, describes its cultivation, industry, and populousness, almost in the same terms in which they are described by travellers in the present times. It had perhaps, even long before his time, acquired that full complement of riches which the nature of its laws and institutions permits it to acquire"(Smith, 1776, 105).Although attention to institutions has been decreased gradually after Adam smith and his contemporaries, in the 20th century economists noticed to institutions again.

In 1919, Hamilton coined term of *Institutional Economics* in the lecture on Annual Meeting of the American Economic Association (Hodgson, 2000, 317). According to his terms, Old Institutionalists have some share ideas despite some different. Kelien points out to that they criticize of classic economics and there common ideas were " 1) focus on collective rather than individual action; 2) a preference for an "evolutionary" rather than mechanistic approach to the economy; and 3) an emphasis on empirical observation over deduction reasoning"(Klein, 1999, 456). This branch of institutionalism has spread between two world wars But the position of this branch of institutionalism had been declined after world war II (Rutherford, 2001, 182). But another branch of institutionalism gradually has spread that was named New Institutional Economics by Oliver Williamson. In contrast to old institutionalism, the theorists of new institutional economics don't try to reject neoclassic economics and assert that they try to correct it. For example Douglass North one of the famous new institutionalist- winner of Nobel Prize in 1993- assert that the new institutional economics is an attempt to incorporate a theory of institutions into economics. "However in contrast to the many earlier attempts to overturn or replace neo-classical theory, the new institutional economics builds on, modifies, and extends neoclassical theory to permit it to come to grips and deal with an entire range of issues heretofore beyond its ken. What it retains and builds on is the fundamental assumption of scarcity and hence competition-the basis of the choice theoretic approach that underlies micro-economics. What it abandons is instrumental rationality--the assumption of neoclassical economics that has made it an institution-free theory"(North, 1995, 17). These economists show that institutions play critical role in economic performance. But the turning point was Nobel Prize that is given to two institutionalist in 1992 and 1993. During 1990 decade many researchers such as Keefer & Knack (1995) show that institutions have significant impact on economic growth. As Acemoglu asserts, scholars in the academic sphere has notice to institutions and consequently governance due to theoretical and empirical research but policy making when find the importance of this issue that their proposed policy has been failed. (Acemoglu, 2008, 1).

Understanding difference between developed and developing countries

In the Neoclassic paradigm, there is an emphasis on market and importance of property rights and enforcement of contract is neglected usually. In fact there is an assumption that market exists in all countries and we can delegate its development. But in recent years we found that it is not true. Dixit points out: "In most modern economies, governments provide these services more or less efficiently, and modern economics used to take them for granted. But the difficulties encountered by market-oriented reforms in less-developed countries and former socialist countries have led economists to take a fresh look at the problems and institutions of governance."(Dixit, 2007, 2). According to Dixit, economic governance comprises many organizations and actions essential for good functioning of markets, most notably protection of property rights, enforcement of contracts, and provision of physical and informational infrastructure(Dixit, 2007, 2).

Another assumption that is not related directly to the neoclassic paradigm but is take for granted indirectly is that rulers are willing to provide facilities for citizens. Robinson points out the remarks of President Mobuto Sese Seko to President Juvenal Habyarimana of Rwanda when later request for armed support to conquer rebels. Sese Seko said: “I told you not to build any roads…building roads never did any good..I’ve been in power in Zaire for thirty years and I never built one road. Now, they are driving down them to get you” (Robinson, 1999, 2). Robinson points out that in some non-preventative regimes or regimes that usually is called dictatorship regimes, there is few incentive for promoting public good if costs of these projects be more that benefits of them for rulers(Robinson, 1997, 2005).

Democracy and fall of communism

In the governance paradigm, especially such as World Bank define it, is an emphasis on accountability and democracy. Lefwitch(1993,2006) believes that two phenomena that occurred in the 1990 decade have significant impact on this issue. first of all, the collapse of communism was seen as victory of democracy and liberty and it spreads this idea that political liberation is a necessary condition for economic growth (Leftwich, 1993, 609). secondly the prodemocracy movement in many countries around the world bolster legitimacy of pro-democracy policies (Leftwich, 1993, 610). “In summary, these new and related concerns for good governance and democracy may be traced theoretically to these overlapping preoccupations with economic and, then, political liberalism as conditions for development” (Leftwich, 1993, 610).

NEXT CHALLENGE

During recent years, many researches show that good governance has a positive impact on the economic growth and development. But today many countries suffer from low rate of economic growth, poor health and insufficient transport system and so on. Why can not we conquer these problems while we know good governance is the key to solve many of these problems?

We know that good governance is necessary to achieve the goals of development. But there still exists a great problem, how can we get it? Such as Rodrik cites from Adam Smith we know that characteristics of good governance such as transparency, effectiveness, rule of law, lack of corruption, voice and participation are important for achievement to development but economists say few things about this issue that how to achieve them? (Rodrik, 2008, 18) Other theorists repeat this question. For example, Douglas North writes:

“The problem is straightforward. We know both the economic conditions and the institutional conditions that make for good economic performance. What we do not know is how to get them”(North, 2001, 491).

Meier assert that while development economists in the 1970s could advise developing countries to “get prices right” and then in the 1980s and 1990s could say “get macro policies right,” it is now much more difficult to establish a normative approach to “getting institutions right” and establishing right incentives(Meier, 2005, 143).

In fact, we need a theory about change, especially institutional change, but we don’t have it. There is a huge difference of opinion between theorists about these issues that why, who, by who or whom institutional changes occurred? Only a glance to some articles that were about institutions and institutional change such as North (1990, 2005), Acemoglu, Johnson and Robinson (2001), Aoki (2007) show that not only there is not an agreement between them about institutional change, but also don’t exist consensus of opinion about definition of institutions and impact of them on economic performance and process of development.

CONCLUSION

Development theories and strategies have been evolved during the last sixty years. Today we know good governance is very important for achievement to development goals. But what we don’t know is that how get it. We think that focus on interdisciplinary researches is the best way to conquer on these problems.

It is obvious that we know more things about society changes in compared to the last decades. What have been increased our hopes for conquer on these problems is that interdisciplinary researches have been spread out in recent years. Today some scholars use the findings other disciplines for explanation of social and institutional change. For example, North used from cognitive science to explain institutional change (North, 2005). In recent years, neuroscience, cognitive science, behavioral studies, and, experimental studies have increased our understandings of nature of human actions. We think the emphasis on these studies is the best way to make a comprehensive theory about institutional change to explain development.

Note

1. Meier points out that teaching development begun in some university such as Oxford and Manchester in 1950 and in Yale and Harvard in 1952-53
2. In this section we only point out to more common theories and strategies. Therefore, we don't refer to some theories such as theories of dependency or Marxism.
3. This definition has been used in "The Worldwide Governance Indicators" since 1999 until now.

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