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Deepening Democracy and Good Governance

In asking for recommendations on how democracies might best be supported in combating poverty, Commonwealth Heads of Government have expressed their belief in the positive links between democracy and good governance. What are these links? And what evidence do we have that democracy leads to poverty reduction?

In what follows, we examine the arguments and evidence for the view that democracy leads to good governance and poverty reduction; argue for the primacy of democratic freedoms; discuss how democracy and good governance can be deepened, including through the adoption of appropriate economic policies; and examine whether peer pressure has a role to play in promoting democracy and good governance.

5.1 The Links between Democracy, Good Governance and Poverty Reduction: The Argument

Amartya Sen[25] has argued that democracy has an intrinsic, instrumental and constructive value. The intrinsic value lies in the citizens' ability to exercise choice and the expansion of individual freedoms that it represents. The instrumental value lies in the fact that in democracy the rulers have the incentive to listen to what people want if they have to face their criticism and seek their support in elections: for example no substantial famine has ever occurred in any independent country with a democratic form of government and a relatively free press. Beyond this instrumental role of promoting policy response to economic needs, democracy can also be constructive – in that it facilitates a proper conceptualisation and comprehension of needs through the participatory processes of discussion and exchange characteristic of democratic functioning.

One could go further and argue that democracies, by providing space for peaceful mediation among competing interests and parties in conflict, promotes peace and political stability – and thus development. Many observers have also noted that democracies rarely go to war against each other: absence of war, clearly, is important for development and poverty reduction.

Lack of good governance, it is widely agreed, hurts the poor. And it is further contended that democracy is inherently linked to good governance: they reinforce each other.

What do we mean by good governance? While it is a concept that defies close definition, its main contours are easy enough to delineate: security from violence, the rule of law, transparency, absence of corruption, non-discrimination on grounds of race, gender, religion or language, inclusive decision-making processes, and responsive, efficient and

effective institutions. An effective judicial system that protects basic human rights, dispenses justice quickly and effectively and is accessible to rich and poor alike, for example, is an essential element of good governance. Lack of arbitrary behaviour in the way rules are interpreted in the administration of government is another essential ingredient of good governance. Many also consider macroeconomic stability, sound money, a strong role for private sector, small government and low taxes, protection of property from expropriation and the ability to trade freely as features of good governance.

Lack of good governance hurts the poor for at least three reasons: first, by reducing the overall growth of an economy, it reduces the capacity of a country to lift the poor out of poverty; second, by directly discriminating against the poor, it perpetuates their poverty; and third, by nurturing inequality and a sense of injustice, it can breed conflict, political instability and a loss of security. In all these ways, lack of good governance can perpetuate and deepen poverty.

5.2 Empirical Evidence

While the above suggests that there is much ground linking democracy, good governance and poverty reduction, as the recent *Human Development Report 2002* notes: 'in many countries questions linger about compatibilities and trade-offs between democracy and development'. The argument is that while growth is essential for poverty reduction, there is no necessary relationship between democracy and good governance, and therefore growth. Deepak Lal, for example, argues:

> While democracy promotes liberty, it may not promote opulence, which depends upon an efficient market economy, and which in turn does not require a democratic form of government for its maintenance. ...
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> ... In the post-war period one only has to consider the far Eastern 'Gang of Four', or the more successful economies in Latin America like Chile, and until the 1980s, Mexico and Brazil, to realize ... that there is no causal relationship between democracy and development.
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> Lal (1999), pp. 101 and 106

The fact that some of the high achievers of growth – and poverty reduction – were China and other countries in East Asia has led many people to doubt whether democracy, economic growth and poverty reduction are necessarily interconnected. The *Human Development Report 2002* observes:

> ... while the economic performance of dictatorships varies from terrible to excellent, democracies tend to cluster in the middle. The fastest-growing countries have typically been dictatorships, but no democracy has ever performed as badly as the worst dictatorships ... The same is true for poverty reduction.
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> *Human Development Report 2002*, p. 56

... In many Latin American countries disparities in income and education rose in the 1990s after democratic rule was restored in the 1990s. Income inequalities also jumped in the former Soviet Union, Central and Eastern Europe and the Baltics. By contrast, [countries such as] Indonesia and the Republic of Korea ... achieved solid economic growth and reduced income inequalities under non-democratic rule in the 1970s.

So, while democracy can promote equitable development, the goals of democracy and equity should be considered largely independent – with both requiring dedicated effort and political will. Ibid., p. 60

It is argued, then, that while more and more countries embraced democracy in the last two decades of the twentieth-century – with some 81 countries taking steps towards democratisation – democracy has not produced the dividends that the ordinary people hoped for. As the *Human Development Report 2002* notes:

Perhaps most serious, people around the world seem to have lost confidence in the effectiveness of their governments – and often seem to be losing faith in democracy. Ibid., p. 63

The despair that ordinary citizens seem to feel in many democracies seems to indicate a lapse in the workings of democracy. As Richard Stanbrook, in a paper presented to the International IDEA Democracy Forum 2000, noted:

... in practice, these expectations [of the newly enfranchised citizens in the third wave of democratisation of freedom and prosperity] have rarely been fulfilled. Rather, disillusionment and even cynicism have replaced citizens' enthusiasm in most democratic experiments. As IDEA's South Asia workshop observed: 'The trappings of democracy have allowed unrepresentative elites to hijack power, promote their own interests, and bypass the poor ... For most people elections have become irrelevant. ...

... Democracy, which should have empowered the people to demand their rights, has usually failed to do so ...

Why? Richard Stanbrook believes that the undermining of political institutions by the elites, divide-and-rule tactics that rely on fanning ethnic, regional, caste or religious identities, and the entrenching of class privilege through constitutional amendments are some of the reasons for this disillusionment.

Is democracy, then, irrelevant? Why is there such a failure of good governance in many democracies, contrary to what we expect? Is the link between democracy and good governance, which the Commonwealth Heads of Government have emphasised, misplaced?

5.3 The Primacy of Democracy

The evidence that there is no necessary correlation between democracy, on the one hand, and growth and reduction of poverty on the other may tempt one to conclude that democracy does not matter. However, it can be argued, as Amartya Sen maintains, that political freedoms are valuable in their own right; they should not be valued only for their instrumental role. Furthermore, if poverty reduction is understood as an expansion of the freedom of the individual to exercise choices in the way he or she wants to live, then clearly democracy is also a necessary constituent of poverty reduction, whether or not it contributes to increasing income or relieving other aspects of poverty.

Many countries, including member countries of the Commonwealth, driven by the widespread demand for political freedoms, have committed themselves to democracy. We should, therefore, simply accept it as an independent objective. If democracy is not working well, then it is for humanity as a whole to consider in what way it can help to deepen democratic freedoms in different parts of the world, rather than be agnostic about it.

Having said that, one may question the basis of the empirical finding that there is no statistical correlation between democracy and poverty reduction on several grounds. Firstly, it is not clear that a country can be classified either as a democracy or not a democracy: while many countries may have democratic institutions, the practice of democracy may vary depending upon how well its parliamentary, judicial, media and other institutions function, which may in turn be limited by such factors as inequity, illiteracy and poverty.[26] Many countries may thus be in a category which is neither fully democratic nor fully undemocratic. Secondly, it is also not clear which measure of poverty is used in these correlation exercises: if it is income poverty, then these correlations do not test the propositions we wish to test. Thirdly, cross-section comparisons fail to capture the time-trend relationships; nor do they allow for non-linear relationships between democracy and poverty reduction – that is, that there might be dynamic effects in place which might show that poverty reduces to a lesser or greater extent as the democratic process takes root.

Clearly, democracy is a journey – with different countries at different mileposts. And the road is not a straight one: there are byways and alleys, with some running into sand, some going back where they started and others linking up further along the road nearer the goal of democracy. In such a situation, it is not surprising that there are such poor statistical correlations.

In attributing success to some authoritarian regimes in reducing poverty, one also is confronted with the following question: what is its operational value? And who are we addressing in this context? Are we suggesting that people should set about choosing an authoritarian regime, because some authoritarian regimes have been successful in reducing poverty? Is that not a contradiction in terms? And how do we know that an authoritarian regime, once allowed to take reins, will work for poverty reduction? Should we

not reckon with the fact that some of the greatest humanitarian tragedies (for example famines and genocides) have rarely occurred under democracies?

In this context, it is worth noting the *Human Development Report 2002*'s finding that democracies – imperfect as they are – do not produce as much variation in growth as dictatorships do. There is safety in democracy.

If, therefore, we are convinced that on *a priori* grounds democracy should help with poverty reduction, we should look for ways of improving the democratic practice rather than reject the well-argued causal links between democracy and poverty reduction on the basis of cross-sectional correlations.

5.4 Deepening Democracy

If we accept, then, that democracy is important in its own right, and improving democracy can help poverty reduction, what support can be provided to help deepen democracy? One may argue that it is important to look not only at the design of democratic institutions, as laid down in a country's constitution, but also at the democratic practice. The latter is often as crucial as the former. Democratic institutions, even if they are well designed, may become dysfunctional because of corruption, lack of competent or well-motivated personnel to run them (for example lack of well-trained judges or parliamentary secretariats) and antecedent social inequalities that disempower the poor from having adequate reach in the exercise of their rights (for example the position of African-Americans in the US before the the mid-1960s).[27] In strengthening the link between democracy and poverty reduction, one needs to search for ways of deepening democracy in countries already committed to the democratic ideal, rather than question the value of democracy for poverty reduction.

In looking for ways of deepening democracy, six areas of critical importance may be mentioned:

- Developing stronger vehicles for formal political participation and representation through political parties and systems;
- Promotion of democratic politics and deepening democratic practice, such as participatory, accountable and gender-responsive budgeting;
- Strengthening checks on arbitrary power by separating powers among the executive, judiciary and legislature, and by creating effective independent entities such as Ombudsmen, independent electoral commissions, Auditors General and public accounts committees;
- Decentralisation – devolving power from the central government to provinces and villages, underpinned by stronger local democratic institutions and practices;
- Developing free and independent media;

- Entrenching the right to information, e-governance and expansion of space for civil society organisations.

Each of these areas of action requires deeper discussion;[28] and their application should take into account the particular historical conditions in the country concerned. There are, however, two threads that merit special emphasis: one is that the enlargement of civil society – and the associated development of institutions that exercise *countervailing power* – is critical for strengthening democratic practice; the other is that democratic practice can be significantly influenced by the quality of economic policy itself. We turn to this latter theme below.

5.5 The Quality of Economic Growth and Democracy

As is widely agreed, economic growth transforms society, shifts balance of power and new political alliances are forged as different social groups vie for authority. Some types of change are good for democracy, and others harmful.

- It can be argued that growth based on open and transparent economic regimes is good for democracy. As well as making people richer, economic freedoms also make them politically freer.
- Policies that rely on the state playing a lead role through licensing, control and excessive protection from external competition have in fact created vested interests that work against good governance and genuine democracy, with the result that these regimes have become anti- rather than pro-poor in their overall policy stances. It is widely noted that countries with more open trade regimes tend to be less corrupt.
- Economic policies that create opportunities for rent-seeking not only result in corruption and inefficiency; they spawn criminal gangs, for example smugglers and bootleggers, who in turn become part of the political landscape, criminalising politics. Once such criminal gangs get established, they work against change. Even if the original policies that spawned them disappear, it becomes difficult to uproot these criminal elements, as they metamorphose into business enterprises with an ingrained criminal propensity.
- It is suggested that knowledge-based growth is good for democracy as it empowers human beings.
- Pro-poor growth empowers the poor, and the empowered poor are a force for democracy.
- Concentration of wealth and monopolies in markets threatens political liberties and undermines democracy. Policies that oppose the concentration of economic power – be it in the hands of the state or in the private sector – are therefore supportive of democracy.

5.6 Corruption and Failure of Good Governance

If the links between democratic frameworks and poverty reduction are flawed, perhaps the strongest reason for this is the widespread corruption and failure of good governance in many parts of the world. What are the roots of this?

- **Money in politics:** it is contended that in many countries, huge election expenditure by political parties and individual candidates create strong incentives for the parties in power – and those in opposition – to seek bribes through the creation and maintenance of 'rent-seeking' opportunities. Corruption linked to party funding is not confined to poor countries, as some recent instances show; however, it is more widespread in poor countries, and the public censure is less.
- **Opportunities for bribe taking and rent seeking** through direct state monopoly ownership and management of economic activities, creation of artificial gaps between supply and demand, and the vesting of large discretionary powers in the hands of administrators.
- **High rates of tax, and onerous regulations and rules** that encourage evasion.
- **Weak judicial systems** and protracted judicial processes, weak enforcement mechanisms and low penalties compared to gains from breaking rules and regulations.
- **Complex rules and legislation** designed to meet the worst possible scenario, but which in fact make government complex and open up opportunities for bribery and nepotism.
- **Secrecy and lack of transparency** in public procurement, including arms purchases.

These processes are in turn reinforced by the insecurity of the poor, low literacy, lack of information, restrictions on the media and the unscrupulous business practices by both national and international business groups. Absence or violation of merit based selection of public servants, ill-defined administrative law, the steady erosion of public institutions, poor pay coupled with the rising ambitions of the middle class to enjoy a higher level of living and declining citizenship values as money becomes the main driving force have undermined clean administration. Where conflict is rife, the criminalisation of politics is also a factor in the decline of good governance.

Why do voters not punish corrupt governments? There are instances enough to show that in many developing countries, governments have been voted out of power because of one scandal or the other. There is indeed an anti-incumbency factor at work in voting patterns in many democracies, reflecting the dissatisfaction of ordinary citizens at the quality of government. However, when corruption becomes widespread and touches the lives of many people – both as takers and givers of bribes – tolerance of corruption appears to take over, as people become convinced that the elimination of corruption is

too gigantic a task. The World Bank, for example, notes that:

> Many parts of the developing world retain a certain ambivalence towards corruption ... A common view is that corruption merely greases the wheels of commerce, and without it there would be no transactions and no growth. Apparent support for this comes from the fact that some countries that rank high in surveys of the level of corruption have also excelled in economic growth [for example China in the last two decades, India in the 1990s, and Indonesia prior to the 1997 crisis]. The predictability of corruption provides some insights into this apparent paradox.
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> World Bank (1997)

Be that as it may be, it is clear that corruption imposes many costs on society, and detracts from economic performance and poverty reduction:

- Corruption increases the transaction and financial costs of business, acts as a barrier to entry and reduces the competitiveness of the economy at home and abroad. It inhibits foreign investment (even though foreign investors, particularly those investing in natural resources, are major sources of corruption themselves).
- Corruption works against equity, works against the poor and the under-privileged and reduces efficiency.
- By undermining the legitimacy of the state, corruption reduces the effectiveness of government.
- By nurturing a sense of injustice, corruption breeds conflict – and conflict, as we know, deepens poverty.

How, then, can one combat corruption?

Clearly, strengthening accountability and transparency, simplifying government, reducing rent-seeking opportunities, strengthening judicial processes and contract-enforcing mechanisms, public service reforms, institution of public oversight mechanisms such as an Ombudsman, decentralisation of government and protection of the independence of the media will all help.

The role of international actors must not be ignored either. It is a widely held perception that in the search for licences to exploit natural resources or sell arms, international businesses indulge in much bribery. The general presumption that without bribery, nothing much moves also makes many businesses accept the need to bribe.

Are there any particular measures that the global community can take in combating corruption? Possible areas for action include:

- Strengthening of procurement guidelines by the international financial institutions (IFIs) and bilateral donors to prevent fraud and corruption;
- The amendment of tax laws with a view to deny tax deductibility of bribes to foreign

public officials, as provided for by the OECD's Anti-Bribery Convention (now signed by some 35 countries);

- Better monitoring of corruption, through improved methodology and intelligence;
- Transparency in the arms trade;
- Strengthening anti-money laundering measures;
- Provision of technical assistance for capacity building to combat corruption and promote good governance;
- Adoption of codes of conduct by international business associations, and support for such voluntary steps as the Wolfsberg Principles, an initiative of 11 leading international banks.

As Mark Pieth, Chairman of the of the OECD Working Group on Bribery, has observed, elimination of corporate bribery will require prosecutors to take a fresh look at the behaviour of their highly respected local companies when operating outside their national markets.[29]

There is thus much that the international community could do to curb corruption. It is important, however, that in developing international conventions and codes of conduct, the global community should adopt an inclusive process in which rich and poor countries alike can participate. The Commonwealth Expert Group on Good Governance and the Elimination of Corruption in Economic Management (initially chaired by Mahabub ul Haq of Pakistan and, following his untimely death, by Kwesi Botchway of Ghana)[30] has called for a global compact against corruption, negotiated under the auspices of the UN with universal participation. A UN convention that is comprehensive, covering areas currently not adequately addressed – such as the repatriation of stolen funds and mutual assistance – would indeed be a positive step.

5.7 Co-opting the Elites for Change

If the above is accepted, what stands in the way of countries formally committed to democracy and poverty reduction adopting measures that can help deepen democracy and promote good governance?

As noted above, democratic deficiencies arise partly from the problems of transition from authoritarian rule to a democratic order, and partly because of the capture of power by elites who resist genuine democratisation. When such elite-based political leaders may gain more from extensive unproductive profit-seeking activities in a political system they control than from long-term gains from pro-poor growth, they frustrate the evolution of a well-functioning state in which economic progress and democratic institutions flourish.[31] The question then is: what can be done to change the perceptions of such elites in favour of a well-functioning democratic order?

While domestic events may take a course that might change the perceptions of the elites in time – for example the education of the poor or the opening up of markets might set in train a dynamic process of change for the better – clearly, external pressures and incentives could also influence events. Such external pressures and incentives could take the following forms:

- Global support for pro-poor growth and the empowerment of the poor that could in turn strengthen democratic forces. (How the global community might support pro-poor growth and the empowerment of the poor is discussed in Sections 7 to 15 below.) This approach essentially relies on creating win–win situations for the elites vis-a-vis the poor, so that the elites become open to change;
- Peer pressure through the international system.

The potential for peer pressure is illustrated in the work of the Commonwealth Ministerial Action Group's, which acts as a guardian of the Commonwealth's political values of democracy, the rule of law and human rights. This is unique in that it enforces the values that member countries have collectively committed themselves to, rather than values imposed from outside. The UN, in which most of the nations of the world are represented, has no such commitment: it cannot impose sanctions, nor does it exercise peer pressure on the grounds of lack of democracy. The Organisation of African Union (OAU) – now the African Union (AU) – has declared its commitment to democracy, but has not developed any mechanisms to carry that commitment forward. A significant development is the recent proposal by African Leaders for a New Partnership for Africa's Development (NEPAD), welcomed by G8 leaders at their Kananaskis Summit in June 2002, and later adopted by the AU. NEPAD, it will be recalled, commits itself to long-term political change that will entrench the rule of law and good government; it proposes to carry this forward through a peer review, whereby governments will voluntarily submit to criticism by fellow Africans according to commonly agreed standards. While the details of the peer review mechanism need to be developed and clarified, it is clear that there is a huge political will developing in favour of such continental mechanisms.

In recommending peer pressure as a force for democracy and good governance, it is important that it is applied equally to all countries coming within its purview. If the perception develops that peer pressure is used selectively in the interests of the larger powers, it loses its moral value. It is also necessary that peer pressure should be combined with a programme of positive help – carrots should be dangled along with the stick.