

Chapter 3

Changes in National Systems

3.1 The nature and structure of national systems of government and economic organisation in most developing countries changed considerably during the course of the 1980s when two themes of debate tended to converge. One concerned the spreading recognition of the importance of good governance. The other concerned the circumstances conducive to effective development. By the end of the decade it was widely recognised that the qualities collectively known as 'good governance' were both desirable in themselves and usually crucial for effective development. In this chapter we review some of the changes which occurred, put them into historical context, and try to assess their impact on development.

Historical Context

3.2 During the immediate post-independence period and frequently well into the 1970s many developing countries shaped their political and economic structures so as to have a large degree of direction and control. Authoritarian, one-party states, often of a military composition, became commonplace in much of Latin America and Africa, and in large parts of Asia too. Many governments were inclined towards interventionist economic policies, with a large element of central planning, a prominent role for the public sector, and a development bias towards capital-intensive production, import-substitution and urban populations. Their use of market disciplines was correspondingly sparing.

3.3 However well-intentioned these policies may have been, it is a matter of record that for a variety of reasons, the political and economic systems they spawned often did not work well. Politically,

the hopes to which they gave rise were frequently disappointed, leading to disillusionment and a failure of governments to get popular backing for many of their measures. On the economic side the policies and structures which arose were in varying but often large measure the cause of slow growth and lack of balanced development in the countries concerned. They also proved unable to cope effectively with the deterioration in the external environment which accompanied the slower growth in the global economy, and the higher inflation that had already become apparent by the early 1970s and was to be exacerbated by the oil crises of 1973-74 and 1979-80. Their failure led not only to slower economic growth in the countries concerned but also to unsustainable deficits, both internally on the budgetary account and externally in the balance of payments position. The latter were exacerbated by large-scale capital flight and in many countries by widespread currency substitution, overvalued exchange rates and large underground economies in foreign exchange.

3.4 The official external assistance needed to accommodate these deficits was only forthcoming when accompanied by a commitment by the governments concerned to undertake structural adjustment policies and programmes. In line with the fundamental reappraisal of economic regimes in much of the developed world, where changes of governments in the United States, the United Kingdom and elsewhere led to greater use of market-oriented mechanisms and supply-side policies, the international financial institutions increasingly encouraged governments in the developing world to reorient their own economic policies and their countries' economic structures. The debt crisis of the early 1980s provided the catalyst for a basic reassessment of the kinds of economic philosophy developing country governments should follow.

3.5 Reform policies have been widely adopted and are being refined in the light of continuing assessment and historical and comparative experience. Market mechanisms have been given freer rein—not only for products (raising the relative prices of foodstuffs, for example) but for production factors as well (raising interest rates and reducing real wages in the public sector, for instance). Trade policy is becoming more outward looking and overvalued exchange rates have been realigned. Parastatals are being dismantled and other elements of the public sector have shrunk with the drive towards privatisation. Decentralisation has got underway and deregulation begun. Resources have been reallocated to secure a better balance between the public and the private sectors, between industry and agriculture, and between import-substituting activities and export-oriented ones.

3.6 In parallel with these changes in economic policies and structures, and inextricably linked to them, in terms both of cause and effect,

have been changes in political perceptions and forms of governance. There have been, in particular, lively debates on what constitutes good governance and the role of democracy as a necessary prerequisite for its implementation.

Governance, Pluralism and Democracy

3.7 The concept of good governance may be difficult to define but the experience of an increasing number of countries indicates that several related elements have been fundamental. They include a system of government able to give expression to democracy and pluralism; a public administration which is efficient, predictable, transparent and accountable; sanctity of the rule of law and security for individual citizens; and protection of human rights, civil and political, economic and social. A further element in the eyes of many is a certain degree of devolution or decentralisation, in recognition of the experience that the nearer to the grass roots it is possible to take certain kinds of political decision, the more likely they are to be conducive to the public good. The countries concerned have brought together these elements and others in an effective legal, political and economic framework within which political, social and economic activity have flourished. At the same time they have recognised the need to strengthen public institutions against excessive demands by particular or vested interests in society, and some of them have set up arrangements to safeguard the interests of the most vulnerable members of society.

3.8 Democracy is fundamental to pluralism. Its origins are too diverse to draw definitive conclusions on the preconditions needed to establish it, but we can suggest a number of conceptional elements necessary for its survival. One is obviously a respect for human rights of all kinds. Another is the development of political parties. A third is the guarantee of freedom of information. And a fourth is a policy to share available resources more equitably, with a view to eliminating poverty and deprivation. Such concepts are not peculiar to Western developed countries, societies and cultures. Most developing countries have had their own democratic traditions, values and norms at one level or another; and many of them returned to or were moving towards democracy before the more widely publicised change in political systems within Eastern Europe in recent years.

3.9 Throughout the world, democracy, like good government, has been brought into sharper focus in recent years. Besides renewed recognition of the importance of open systems of governance in the Third World, two developments have been particularly important. One is the largely peaceful revolution which has taken place in much of Eastern Europe, with representative government replacing single party,

communist governments. As we write, it remains possible that the Soviet Union may follow the same route. These events, linked with the collapse of the command economy model in the formerly communist countries and elsewhere, have aroused widespread interest. The other development, which surfaced around the same time and has become a centre of debate, is the belief of many donors that development assistance has a greater impact in countries where good government is respected. On the one hand, it has aroused fears of political conditionality; on the other, the force of the argument has been increasingly recognised.

3.10 But even in the absence of such external influences, the 1980s saw increasing recognition in developing countries that pluralism has a universal value and that civil and political liberties, freedom of expression, tolerance and respect for minorities, and the ultimate subordination of policy to the will of the people at large are good in themselves, independent of other objectives.

Governance and Development

3.11 The concept of development is an imprecise one. To some people it is almost synonymous with the diversification and growth of an economy. But here we mean something much wider, a concept which embraces political, social and human as well as economic development. We have in mind development of political pluralism, cultural values, and education and training, for example, as well as the ability to generate increased savings and investment needed to provide for higher material standards of living. And also within the economic sphere, the development of economic security through sustained development and the creation of safety net arrangements for the most poor and vulnerable.

3.12 The relationship between governance and development is complex and difficult to assess. The world's economies and societies have grown from very different historical and cultural roots. And they are at very different stages of development.

3.13 In the past, it appeared that authoritarian governments, without an active opposition, could perhaps promote development faster than more democratic systems. In a few countries this view remains valid, but in most it has proved illusory and the development it brought became unsustainable, largely because the governments concerned almost always became increasingly restrictive of the free flow of information and of human aspirations and initiatives.

3.14 At the same time, it has been increasingly obvious that excessive centralisation of decision-making inhibits the assumption of responsibility by individuals, the full reflection of their interests and the full use of local

knowledge and experience. Excessive regulation from the centre also stifles productive energies. There is a need to delegate economic decision-making as far as possible. Such themes parallel many of those developed in the good governance debate. These arguments find empirical support in the fact that countries in which governments have divested most of their production activities, have allowed market mechanisms to reign, and have developed dynamic private sectors, have fared better than those which have not.

3.15 Having said that, and while recognising that the current contraction of the public sector is appropriate for many developing countries, it is clear that governments and public sector enterprises continue to have an important economic and social role in all societies. Only governments can determine the broad policy framework in which an economy will operate; and they usually provide most of the basic infrastructure. Directly or indirectly, governments must provide at least the basic education, training and health services which are prerequisites in mobilising for development the energies of society at large, and thus making possible a broader based participation in economic activities and decision making. In addition governments generally have to play a substantial role in integrating economic and environmental decision making to bring the environmental impacts of any decision or action within a market framework. Only governments can set and maintain the characteristics of a stable policy environment which attracts private investment. And only governments can ensure that a truly competitive and ethical environment sets free the energies of individual entrepreneurs and workers. Finally, despite the increasing strength of the private sector in many developing countries, many projects and activities are still beyond its capacity. Help may be needed, for example, in securing investment or in developing export markets. In all such circumstances there will be a continuing role for governmental or parastatal initiative: public sector expenditure can stimulate growth and is complementary rather than competitive with private sector investment.

3.16 We conclude that in the present world environment, a diversity of inputs are needed for development to proceed and be sustained. This diversity can only occur in an environment committed to good governance and pluralism. It usually also requires an effective multiparty democracy. We believe all three are good for development, in so far as they help build the consensus needed to preserve political stability and encourage governments to formulate policies which reflect more closely the interests and needs of the people. There is, however, in our judgment, no single, universally valid prescriptive model. Rather, each society will need to evolve its own, dependent on its stage of development and values. In some countries this may require restructuring the form of government, from a unitary model to a federal or even a confederal one.

3.17 During the 1980s many developing country governments adopted political and economic policies which were much more conducive to good governance, pluralism and development than those of the 1970s. But as we have noted, the external environment in which they were trying to implement these policies was often more hostile than it had been in earlier decades. This adverse external situation had an immediate impact on the internal resource position as well.

3.18 Developing countries trying to instil good governance and pluralism into their societies in order to promote development therefore faced many problems. These are still continuing. Inadequate human resource development is one obvious example. Good governance demands efficient mechanisms to formulate socially equitable policies, to translate them into economic programmes and measures, and to carry them out effectively. All this requires educated and trained personnel. Small states and least developed countries face special human resource difficulties, but in most developing countries the sheer poverty of many of the people makes good governance difficult. In some of them the highly unequal distribution of income and wealth results in social imbalances and tensions which militate against democracy and development. Equally fundamental problems are faced in implementing political pluralism in societies whose cohesion is threatened by social, cultural or religious divisions, or by the scourge of drug trafficking (see Annex 3 on pp. 157-160).

3.19 Like development, the practice of good governance and pluralism therefore requires encouragement and support. National efforts and sound domestic policies are essential; but by themselves they are not sufficient. Without adequate external assistance these efforts will not succeed over any reasonable timescale, and disillusionment and reaction will follow.

3.20 In Eastern Europe, a good deal of assistance has already been given, mainly by the European Community but also by the international financial institutions, and the European Bank for Reconstruction and Development has been established to further the process. But there is equal need for all developed countries and for the international institutions, especially the United Nations, to show their concern for good governance and pluralism in developing countries by giving much greater assistance to them as well. This is all the more necessary in view of the setbacks to human resource development and institution building which many of these countries suffered in the 1980s.

3.21 The need is for greater technical cooperation (especially in human resource development), more financial cooperation (increased resource flows, debt relief etc.) and for a reformed global economic and political system. We consider issues related to the international system in the next

chapter. Here we merely note that while a broadly symbiotic relationship between good governance and development is apparent on prima facie grounds and cannot be overlooked, its precise nature in terms of cause and effect has yet to be established and there are examples where rapid development has occurred under fairly authoritarian regimes. Restraint is therefore called for in any further attempts to introduce political conditionality into aid distribution which is already highly politicised in some donor countries.

3.22 Finally, we note that while in this chapter we have said much about the need for good governance and greater democracy within countries, we must not let the opportunity pass of emphasising the need for movement towards a more democratic international system which would be more reflective of the interests and concerns of developing countries. In the next chapter we elaborate on the systemic issues involved in this, of the need for multilateralism and greater acknowledgement of the necessary dilution of sovereignty in an interdependent world.