Comment on “Evaluating Recipes for Development Success”: The Policy Usefulness of Institutional and Political Analyses of Development

Philip Keefer

In “Evaluating Recipes for Development Success” Avinash Dixit criticizes recent efforts to identify the “fundamental” causes of development and to distill policy recommendations from these efforts. This comment focuses on the strand of that literature related to institutions and development. Two arguments are important: that the rule of law and the security of property rights are important for growth and that they are the product of political institutions. Professor Dixit argues that identification and other concerns undermine the second argument and inhibit the formulation of policy recommendations. While these concerns are valid, research has begun to disaggregate broad political institutions (democracy and autocracy) and to look at the details of political competition, such as voter information and politician credibility, which are both more robust determinants of political decision-making and more susceptible to policy interventions. JEL codes: O43, O17, O20, P30, P48.

Avinash Dixit reviews many of the recent contributions to the literature that examine the “big” questions in economic development, particularly those concerning the fundamental differences between countries that manage to sustain rapid economic growth and those that do not. In this compact and concise review Professor Dixit offers a critical assessment of this literature. He concludes by suggesting that academic development economists should refrain from offering country-specific policy prescriptions. Practitioners can nevertheless learn from the generalizations that academic research yields, but they should examine the plausibility of those generalizations, taking into account the many idiosyncrasies...
of the countries in which they work and the robustness of the evidence that supports the generalizations.

This comment focuses on those aspects of Professor Dixit’s arguments that relate to the role of institutions in development. In this debate two questions are key. First, does the security of property rights (sometimes operationalized as the risk of expropriation, the enforceability of contracts with the government, or the extent of law and order) matter for growth? Second, what kinds of societies, institutions, or polities offer secure property rights? There is substantial uncertainty about answers to the second question. However, it is important to emphasize that there is substantially less uncertainty about the first. Moreover, answers to the second question currently emerging from the literature offer far more hope for policy relevance than is generally perceived.

Does the Security of Property Rights Matter for Growth?

The key difficulty in testing theories linking the security of property rights (or anything else) to economic growth is the possibility that unobserved influences exist that simultaneously secure property rights and accelerate growth. Professor Dixit questions the validity of several efforts to solve this problem. These are based on particular historical and geographic features of countries that researchers theorize should determine the security of property rights but that should not directly affect growth. Professor Dixit argues that there are no robust econometric tests to validate these theoretical arguments. To the extent that each feature (settler mortality or European colonial heritage, for example) is used to test a corresponding theory linking historical factors to growth, this criticism is well-taken: the strength of the econometric validation of the particular theory depends on the power of the tests with which one judges whether the particular feature affects property rights but has no other effect on growth.

However, the strength of the empirical conclusion that the security of property rights is itself an important determinant of growth rests on a vast array of tests. It does not depend on the validity of particular theories on the genesis of secure property rights. The argument that the security of property rights determines growth has been tested with many instrumental variable strategies, with several different variables for measuring the security of property rights, over many different time periods, and with a huge array of control variables. Scholars have tested and rejected the possibility of reverse causality from growth to property rights. Micro evidence is also persuasive (for example, with respect to housing and agricultural investment). The relationship between property rights and
growth is, in other words, one of the most examined in the cross-country empirical development literature.

None of this means that the case for the security of property rights is iron-clad. It does mean that, by the standards of the Bayesian updating that Professor Dixit recommends that practitioners apply in evaluating conclusions from the academic literature, our priors are reasonably strong that the property rights–growth relationship is significant.

**What Kinds of Institutions and Polities Offer Secure Property Rights?**

What, though, are the practical implications of this relationship? What can policymakers do if their country exhibits insecure property rights—and what should donors do? Here, Professor Dixit identifies a widely shared frustration: even if he suspends his doubts about the econometrics, the academic literature offers no consensus on solutions, nor are many solutions susceptible to policy intervention. Countries cannot change their location or their history. Nevertheless, there is much greater consensus in the literature on one key point, either implicitly or explicitly: the security of property rights is a product of a country’s political environment. Which particular aspect of the political environment is a question at the forefront of current research. It is therefore not surprising that policy-relevant answers have been sparse.

Professor Dixit focuses on one aspect of the political foundation of secure property rights: the existence of competitive elections. Arguments in the literature that historical or geographic endowments influence property rights, to the extent that they are explicit about causal mechanisms, almost uniformly point to the influence of these endowments on the decisions of elites to allow competitive elections that empower nonelites (and thereby allow nonelites to protect their property from confiscation by elites). The democracy versus autocracy literature that Professor Dixit reviews is based on similar claims.

The argument linking democracy to property rights is straightforward. Elections, perhaps supplemented by political checks and balances, change the incentives of leaders by requiring them to seek the support of a majority of voters. Thus, leaders should be more inclined to provide higher quality public goods—not only secure property rights, but also better access to education and more efficient regulation. Moreover, elected leaders are more likely to be punished for expropriation, which slows growth and reduces the incomes of the majority. Unelected leaders, relying on a narrower support base to stay in power, have fewer incentives to provide public goods and are less likely to be punished for the slow growth engendered by expropriation.
Despite the clarity of the theory, the evidence linking democracy to the security of property rights (controlling for income per capita), or to growth more generally, is in fact quite mixed, as Professor Dixit points out. This reflects large variation in democratic performance. For example, secondary school enrollment was lower in more than 30 percent of democracies than in the median nondemocracy. More than 40 percent of democracies exhibit worse corruption than the median nondemocracy. And mean rule of law (through the 1990s) was almost the same in autocracies as in democracies.

The literature is fairly clear that competitive elections are an insufficient explanation for secure property rights. This is where Professor Dixit’s argument stops. However, political factors that might affect the security of property rights go far beyond competitive elections. The ways leaders attain and remain in office vary widely among both democracies and nondemocracies, and these variations have a significant effect on leaders’ incentives regarding public policy generally and the security of property rights specifically. For example, in some democracies leaders can make credible policy promises to a large fraction of the electorate; in others, to only a tiny fraction. In some democracies citizens are well-informed about what governments are doing; in others they are poorly informed. These political market imperfections disrupt mechanisms of electoral accountability. However, responding to the other important criticism that Professor Dixit raises, these other political factors are more amenable to change than, for example, history and regime type.

The variation in political incentives is easy to observe, even among democracies. In many democracies, members of the elected legislature spend all of their time on the private needs of constituents (placing them in government jobs, intervening on behalf of their children with educational authorities, and providing very local public goods). This job description is quite distant from that of a typical member of the German Bundestag, British Parliament, or U.S. Congress and reflects much greater pressure to provide narrowly targeted, private goods to key constituents and weaker pressure to provide high quality public goods benefiting all citizens. Analogous variation exists across autocracies. A cutting-edge area of research in the political economy of development—and in research on the determinants of secure property rights—is therefore precisely focused on why political incentives differ within regime type.

Recent work on democracies has examined four sources of variation: citizen information about government performance; the credibility of political competitors (the fact that the political party labels of candidates in Bangladesh, Ecuador, and Indonesia, for example, do not convey a credible reputation for broad policy preferences in the same way that political party identity does in mature democracies); social polarization, whether rooted in ethnic, income, or other differences; and variations in specific political and electoral institutions (first-past-the-post electoral rules provide different incentives to politicians than
proportional representation). Evidence links all of these to government incentives to provide public goods, including secure property rights (see Keefer 2004 and Keefer and Khemani 2005 for reviews). Just as important, compared with such determinants of political behavior as history and regime type, these sources of variation in political incentives have at least somewhat more tractable policy implications for what donors and governments should and should not do.

In this sense they have a direct bearing on Professor Dixit’s recommendation that policy measures should be incremental and sensitive to country characteristics. This recommendation is laudable. The question is, which characteristics? One inclination is to focus on the policy bottlenecks to development. However, reform almost always runs through government. Its approval and implementation therefore depend on political decision-making. Incremental approaches that fail to take the conditions of political decision-making into account in a systematic way are no more likely to succeed than “maximalist” approaches. The design and advocacy of practical and incremental reforms should therefore be informed by the political constraints on reform. Fortunately, the developing literature on political market imperfections, by moving beyond highly aggregated characteristics of countries, such as regime type, offers ways to think more precisely about political constraints in the context of reform strategy in specific country cases.

For example, in countries with significant credibility and information problems, reforms for which government officials can transparently take credit and that are easy for recipients to monitor are more likely to succeed. This situation favors efforts to improve the quantity of social services and may argue against large investments in quality, even where quality shortcomings are severe. On the other hand, in heavily polarized environments, where the precise distribution of benefits across groups is highly contentious, efforts to improve quality may be preferable. Thus, it may be preferable to pursue reforms for which the precise distribution of benefits is more ambiguous and potentially more even.

The analysis of political market imperfections also reveals where governments are so noncredible as to call into question their staying power and ability to resist overthrow, as in the case of fragile states. With fragile states there may be less incentive to launch elaborate programs of targeted assistance to the poorest members of the community. Elaborate programs do little for political credibility, when they obscure beneficiary perceptions of who is responsible for the benefits they receive—the political leadership of the country or lower level administrative agents. Less targeted programs, in which targeting is crude but easy to communicate and simple to implement, may offer a greater contribution to development by building political credibility, even at the cost of economic inefficiency.

Finally, this line of literature suggests political obstacles to reform that are more directly susceptible to reform than is regime type or history. The information contribution is particularly worthwhile. From the first Public Expenditure Tracking
Survey in Uganda, which led to a 90 percent reduction in the diversion of capitation grants to schools, to report cards on public services, pioneered in Bangalore, India, but expanding to China and elsewhere, a variety of tactics are emerging to close the information gap between citizens and politicians. Other strategies, such as the removal of restrictions on the media and increased transparency of government information, are also a direct response to information imperfections in political markets.

Professor Dixit’s skepticism about the immediate policy usefulness of many of the “big ideas” in development is warranted, although incrementalism itself constitutes a big idea of sorts, one whose ultimate contribution to development remains unproven. Similarly, his insistence on country-based, analytically sound approaches to evaluating reform priorities is an essential lesson. But we should not lose sight of the “recipes” or big ideas. The analysis of political distortions in development decision-making emerges exactly from a concern for the fundamental drivers of development. Despite this—despite the fact that such analyses are concerned with big ideas—this line of research shows considerable promise in informing both the content and the design of the reform agenda in country-specific contexts.

Note

Philip Keefer is lead research economist in the Development Research Group at the World Bank; his email address is pkeefer@worldbank.org.

References
