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The Conceptual Flaws of the New EU Development Agenda from a Political Economy Perspective, or Why Change is Problematic for a Donor-Driven Development Policy

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Contents

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Abbreviations

AFD	French Development Agency
EU	European Union
GSI	Global Standard in Institutions
IFI	International Financial Institutions
LAO	The Limited Access Order
MDGs	Millennium Development Goals
OAO	Open Access Order
PR	Public Relations
WTO	World Trade Organization

Abstract

The European Union (EU) recently presented a new development policy agenda that centers on the subject of "change." We first assess the approach of the EU policy by discussing change in the sense of how it is used within the EU agenda. Second, we relate it to two recently published political economy frameworks (North et al. 2009, and Acemoglu/Robinson 2012), which discuss the mechanisms of political and economic changes within societies, as well as their subsequent problems. Consideration of critiques of their works and alternative approaches (for example, Reinert 2007, Rodrik 2011a, Chang 2011a) provides deeper insights into the mechanisms of change and answers some open questions. From there, we discuss their implications for foreign aid approaches, then use the findings to uncover some conceptual flaws in the EU Agenda for Change. Finally, we extract five guiding recommendations for development policy makers in the EU.

"I think we can't separate economic and political factors …
The … struggle was over wages, but in struggling for wages,
the working class won a political victory,"

(Luiz Inácio Lula da Silva "Lula" quoted in: Acemoglu/Robinson 2012: 455)

1. What Does Change Mean by EU Standards?

In the year 2010, the EU Commission began a consultation process to discuss a new EU development policy approach ("Green Paper," EU 2010). It focused on political and economic inclusiveness. The outcome of this process was the "Agenda for Change," which was presented to the public in October of 2011, and approved by the Council in mid-May of 2012. It addresses two sections; on the one hand, it focuses on human rights, democracy and the elements of good governance, and on the other hand, it addresses the concept of differentiated development partnerships. Moreover, there is a chapter that looks to align economic growth with improvements in human development. The main objectives of the agenda are boosting economic growth and achieving improvements in human rights, democracy, rule of law and good governance. Therefore, it is principally concerned with political and economic change. The EU Commission claims that the new agenda "equips the EU with high-impact development policy and practice, that – among other things – "supports the change needed in partner countries" in order to accelerate the reduction of poverty and achieve the Millennium Development Goals (MDGs).

Apart from the agenda's obvious inconsistencies (for example, the principles of good governance and ownership, see Hartmann 2012), there are conceptual flaws that are not easily detectable at first glance. The new EU development policy aims to align political and economic change to poverty reduction goals and the rest of the MDGs. As such, the concept implicitly assumes that increased inclusiveness will bring improvements to the lives of the poorest people. On the political level, their strategy is "policy dialogue with all stakeholders," (EU 2011: 5) and on the economic level they focus on "people's ability to participate in, and benefit from, wealth and job creation" (EU 2011: 7). Public-private partnerships and corporate social responsibility are believed to deliver "human rights, international, social and environmental standards, and promote responsible business" (EU 2011: 7). The agenda is concerned with dialogue on topics like governance and human rights, which are important to address by fostering public-private partnerships and demanding decent behavior from international companies. As only 11 of the 240 responses to the consultation process on the EU Green Paper came from recipient countries (local and regional governments included EU o.J.: Executive Summary), we consider the agenda a donor-driven development strategy. Moreover, when looking at the incentives of the political and economic structures imposed on the actors involved in the development process we address some flaws in the EU development agenda. Particularly we concentrate on assumptions about the process of political and economic change which are problematic when applying them to recent discussions in political economy.

Therefore in the next section, we discuss how political and economic change is addressed by two recent works on the political economy of development: *"Violence and Social Orders. A Conceptual Framework for Interpreting Recorded Human History," by* Douglass North, John Wallis and Barry Weingast, published in 2009 by Cambridge University Press, and Daron Acemoglu and James Robinson's *"Why Nations Fail. The Origins of Power, Prosperity, and Poverty,"* published in 2012 by Crown Publishers. They are remarkable because they were developed by teams of well-distinguished scholars from both political science and economics.

Although they are subject to some critiques, we consider them to be two examples of (relatively) successful interdisciplinary work. They look at divergences of political and economic outputs across nations. In section three, we add a critique on these two frameworks, and in section four we discuss their implications for foreign aid and outline problems of implementation. Finally, we discuss problems in view of foreign aid challenges before finally providing five guiding recommendations for a more viable and less problematic EU development policy. We argue that the idea of change in the EU agenda conflicts substantially with the understanding of change outlined in the two frameworks. Therefore, we conclude that the EU approach is not likely viable for practical application and as such, unlikely to achieve its objectives. In fact, it contains dangers of destabilizing developing countries, which we consider problematic for a donor-driven development agenda. The article does not tackle the changes in aid organization within the EU (coordination of actions or coherence among EU policies …), but concentrates on the opportunities and dangers of donors supporting change in developing countries.

2. The Opportunities and Dangers of Political and Economic Change

North et al. (2009) focus on violence and the potential for violence, access to organization, rent seeking and the logic that connect these things. They discuss institutional environments and relate them to economic performance. The authors consider the outcomes of these relationships to be equilibria, which they named "social orders." The social orders are important determinants for the distribution of wealth and power, and are relevant for the constitution of social hierarchies. The Limited Access Order (LAO) exists in various forms, from fragile to mature. It works essentially through personal relationships (patron-client relationship). Political survival depends foremost on rent seeking and the reallocation of rents to a relatively small group of elites. The Open Access Order (OAO) supports a variety of impersonal relations and therefore, political survival depends much more on the provision of public goods. As they require managing capacity for the provision of public goods, larger government is "an integral feature" of OAOs, as policies towards "equality" and "sharing" (for example, social insurance programs) are indispensable for their perpetuation (North et al. 2009: 122).

Another major difference between OAOs and LAOs is that the first tend to compete on the margins of prices, while the latter are often more concerned with competition, which involves the use of violence (North et al. 2009: 194-202). A transformation to increased inclusiveness induced by the non-elite is very difficult in LAOs, as access to organization is strongly limited. In OAOs, access to organization is more open and their power more sustainable because they are "perpetually lived" (organizations survive their members). As a whole, the OAO attributes promote more stability because the rules and their enforcement do not rely entirely on the personal relations of individuals. Both LAOs and OAOs are relatively successful in limiting violence when they are in equilibrium. But the underlying mechanisms work with a very different kind of logic. In their model, changes in social orders move by escaping the equilibrium of fragile and basic LAOs by gradual improvements and proceed towards more open forms of LAOs, finally reaching the OAO. This process of development implies upside opportunities, but also downside risks because changing LAOs may have destabilizing effects and promote violence. They suggest a gradual transition of formal and informal political and economic institutions.[1] This means improving within the logic of LAOs (fragile to mature), and ultimately via three doorstep conditions – rule of law for the elite, perpetually lived organizations in public and private spheres, and consolidated control of the military – to

[1] We use institutions in the terminology of North (1990: 3-4), meaning as rules that structure human interaction within societies, or in short, "the rules of the game." Beside the structures, there are also actors that, again following North, are called "organizations" or "the players of the game." These are groups that negotiate goals by competing and coordinating their actions and thereby create something more than "the sum of the actions of its members" (North et al. 2009: 58).

reach an OAO equilibrium (North et al. 2009: 148-89). Directly transitioning from LAO to OAO and transplantation of an OAO institution to LAO is not feasible because it has been proven that OAO institutions operate with a different logic (North et al. 2011). The authors comprehensively suggest integrating incentive structures for the elite in development policy approaches because this is where violence most likely arises and it is likely to endanger the non-elite rather than create opportunities (for example, by enhancing capabilities) for them. They admit that approaches to development need better insight on how institutions evolve in different kinds of social orders, or put another way: why some countries ended up with a more viable institutional environment than others. Acemoglu/Robinson (2012) are ambitious in addressing precisely this gap.

They argue that it is neither geography nor culture, nor is it the ignorance of the rulers, but rather the incentives provided by various institutional environments that create a difference in economic performance across countries. Acemoglu/Robinson (ibid: 108-9) specify that institutions are endogenous outcomes of societies' "economic and political conflicts" and the ways in they were resolved. The conflicts themselves were driven by historical differences (where external influence like colonialization, etc. play a large part), the roles of individuals, and/or random factors. Like North et al. (2009), they insist on the importance of addressing both political and economic institutions. They even present a set of desirable outcomes like political centralization and plurality as inclusive political institutions (Acemoglu/Robinson 2012: 74-5), and suggest secure property rights, rule of law and markets with state regulation as inclusive economic institutions (ibid: 80-1).

Their framework is based on a theory of "institutional drift," which starts with small institutional divergences across countries:

"These differences are often small to start with, but they cumulate, creating a process of institutional drift. Just as two isolated populations of organisms will drift apart slowly in a process of genetic drift, because random genetic mutations cumulate, two otherwise similar societies will also slowly drift apart institutionally. Though, just like genetic drift, institutional drift has no predetermined path and does not even need to be cumulative, over centuries it can lead to perceptible, sometimes important differences. The differences created by institutional drift become especially consequential, because they influence how society reacts to changes in economic or political circumstances during critical junctures" (Acemoglu/Robinson 2012: 108-9).

They conclude that the way in which institutions evolve is neither historical determinism nor pure luck, but rather a combination of smaller or larger institutional differences (as outcomes of perpetual social conflict) together with remarkable historical periods – called "critical junctures." Over time, this combination has led to divergent institutional and economic developments of countries. The work fortifies their theory by discussing a large amount of historical material. In many developing countries in Africa, Asia and Latin America, this was man-made factors, such as integration in the Atlantic Trade System, colonialization, the struggle for independence and post-colonial economic and violent crises. They were all influential and therefore count as critical junctures. They made for a difference between developing and developed countries, and also the divergent developmental paths among developing countries. The manner of dealing with the contingency problem and critical junctures is very important for the explanatory power of the North et al. (2009) framework as well.

North (2005) discusses the challenge societies face in adapting to a constantly changing world and (external) shocks.[2] With the concept of "adaptive efficiency," he presents a basic

[2] This is to some degree consistent with Taleb (2007), who addresses the challenge of dealing with unexpected exogenous shocks (positive and negative "black swans") by protecting the population from too many negative consequences (Taleb 2007: 110-12).

guideline for better dealing with both kinds of challenges. By that, he means "… a set of institutions that readily adapt to the shocks, disturbances, and ubiquitous uncertainty that characterize every society over time. The foundation of these flexible institutions resides in widely held beliefs embodied in the informal constraints of the society" (North 2005: 78). He argues that adaptive efficiency, much more so than allocative efficiency, is critical to coping with novel challenges and therefore achieving more sustainable development. This, for example, helps explain the higher level of economic wealth in OAOs. Adaptive efficiency makes them less prone to growth variations, while LAOs "are poor because they experience more frequent episodes of shrinking income and more negative growth during the episodes," and "when incomes are falling, they fall much faster in poorer countries" (North et al. 2009: 6). North previously argued that economic performance depends on the size of the market, which is limited by "the degree of specialization and division of labor that human organizations can support and sustain" (Wallis 2010: 29). This is also consistent with the violence and social order framework because LAOs face greater constraints when trying to support complex forms of organization. Nevertheless, both frameworks admit that there is not necessarily a causal relationship between democracy and a good economic performance. Acemoglu et al. (2007) say that it is related more to an "omitted factor" aspect of democracy, which North et al. (2009: 13) conjecture is "the pattern of social relationships in the open access order."

In sum, both approaches assume that institutions are endogenous, but do not neglect the existence of exogenous factors. While North et al. (2009) discuss the challenges in terms of equilibrium outcomes, Acemoglu/Robinson (2012) ask why some countries end up with political and economic institutions that are inferior to others. We analyze some controversial arguments before we relate them to the challenges of foreign aid and the new EU development policy agenda. Moreover, we present a selection of critiques from other researchers, as well as self-critical insights in the debate of their works. There is definitely still a lot of work ahead in order to progress to answering the more fundamental questions. In the upcoming sections, we look at what North et al. 2009 and Acemoglu/Robinson (2012) contribute to the debate over political and economic change.

3. Review of North et al. (2009), Acemoglu/Robinson (2012) and their Implications for Foreign Aid

Both frameworks are subject to critique. Acemoglu/Robinson (2012) were blamed for a selective use of historical examples. Easterly (2012) points out that "ex-post rationalization" and "vagueness" of "the terms 'inclusive' and 'extractive'" are problematic. It makes it "…easy to convince yourself that all successes were inclusive, all failures extractive." Bates (2010a) criticizes the violence and social orders framework for being apolitical and neglecting agency because it does not discuss the incentives of concrete actors, for example, the president, bureaucrats, the opposition leader, parties, farmers, merchants or kinsmen in contexts such as the market place, an assembly or a battlefield. He adds that they idealized the OAO by overseeing the "political capture" literature (for example, the influence of business on political decisions; for more on the concept, see Stigler 1971, or for more on the role of special interest groups in politics, see Grossman/Helpman 2001). Moreover, they only address "access" within social orders and not the strategic choice of "exit." It would be important to consider both because, for example, those "who are mobile are better positioned to negotiate than are those who are not." They fail to recognize that "[i]n a world in which markets have become increasingly global, openness assumes a greater role in shaping patterns of domestic political advantage." The authors self-critically admit that there may be greater diversity among the various kinds of social orders, even within the three different categories of LAOs (North et al. 2011). Although both studies found correlations of influential factors for cross-country divergence in economic performance, the influence and the various causalities between economic development, history and critical junctures are not understood sufficiently. They are still part of an ongoing debate.

The two frameworks are even met with claims from heterodox economists, such as Ha-Joon Chang, who is critical of the work from orthodox institutionalists. Historical evidence convinces Chang (2011b: 17) to challenge the the work of members of the International School for New Institutional Economics:

“Unless orthodox institutional economists provide credible theories that are able to explain institutional changes on the basis of sophisticated understandings of the complex interactions between material conditions, institutions and individuals (both as the carriers of “cultural memes” embodied in institutions and as active agents with “free will”), the assertion that they know that “history or geography are not destiny” fundamentally remains no more than a lip service.”

Chang (2011b: 2-3) does not neglect the influence of institutions on economic development, but he argues that the influence of economic development on the quality of institutions is probably much more important than the influence of the quality of the institutions on economic development (Chang 2011a, 2011b). He supports his claim with several channels through which economic development influences institutions. First, increased wealth creates greater demand for higher-quality institutions. Second, increased wealth makes better institutions more affordable (as the development of institutions is costly). Third, economic development creates new agents of change who get involved in the demand for better institutions. Fourth, most of today’s rich countries did not get the quality of institutions that International Financial Institutions (IFIs) claim for today’s developing countries (for example, the global standard in institutions, GSIs), before they became rich. Finally, he admits that some developing countries nowadays have superior institutions as compared to their material standard. This is called the “late-comer”-effect, which causes developing countries to adapt institutions without paying for their development. This wide range of ongoing processes makes it even more difficult to disentangle the causal relationship between economic development and institutions. The two frameworks do not resolve this debate, but they also do not explicitly refute the arguments of Chang.

Wallis (2010) criticizes a bias resulting from most researchers focusing on investigating institutional persistence by looking at outcomes rather than institutions. He claims that while institutions change frequently, it is the political and economic outcomes that are persistent and that institutional change often has made not much difference at all. Acemoglu/Robinson (2012) and North et al. (2009) admit that both directions of causality (political and economic institutions acting on development, and vice versa) are important for economic development. North et al. (2009) leave out an explanation of how institutions evolved (which will be more the focus of their forthcoming book “In the Shadow of Violence,” North et al. 2012). In his work, Douglass North repeatedly emphasized that understanding how beliefs translate into preferences (preferences as endogenous outcomes) across different societies is the key to understanding how institutions have evolved. Both frameworks are eager to contribute by filling the research gaps in the institutions and development debate. In their works, they transcend conventional debates about causality with more complex explanations of how institutions evolved and how they shaped the behavior of individuals and groups. Acemoglu/Robinson (2012) and North et al. (2009) contribute to a better understanding by “… mov[ing] beyond the neoclassical theories of institutions,” (Wallis 2011: 592) and contribute to a better understanding of institutional outcomes, how institutions evolve and why institutions persist or change. In order to better comprehend the development of institutions and institutional change, North suggests integrating cognitive science (North 2005) and violence (North et al. 2009) into the debate. Finally, they are not alone in their arguments. For example, Acemoglu/Robinson (2012) see social conflict at the beginning of diverging developmental trajectories where small differences in institutional outcomes, in combination with critical junctures, make a difference. This is in line with evidence provided by Austin (2010b: 58). He claims that the policy of import-substitution industrialization in South Korea and Taiwan initially brought only unimpressive growth performance, but later became incredibly important to the "industrial take-off," for example during "the more export oriented phases of South Korean and Taiwanese policies," and later in India (Austin 2010b: 58).

The application of the framework is still in an early phase of development. There is a serious lack of data on organization and access to organization (even for OAOs like the US, North et al. 2009: 7-9). But this does not mean to say that the frameworks are not interesting for development practitioners and policy makers. The World Bank recently issued 50 political economy assessments and "[t]he French Development Agency (AFD) has already initiated studies on China, Vietnam, Burkina Faso, Cote d'Ivoire, Ghana, Kenya, Turkey, Pakistan, Tamil Nadu and Gujarat (states in India)" (North et al. 2011). This will uncover whether or not the framework is viable and brings new insight when applied in case studies. The practicability of the Acemoglu/Robinson (2012) approach has to be explored but it seems likely that they contribute to a better understanding of the underlying problems that development practitioners look to overcome.

4. What Do the Two Approaches Say about Foreign Aid? Which Policies Are Adequate and Who Is Going to Pick Them?

North (1990) stated that organizations could either devote their resources to maximizing their benefits under the existing rules, concentrate on changing the rules, or choose to cheat. These are three fundamentally different strategies and none of them is neat, unproblematic or a guarantee for success. They could all create capabilities as upside opportunities, but may also imply potential problems in the form of downside risks. There is a relatively large consensus among scholars that a marginal approach to development is more useful than transformational approaches (Easterly 2009). North et al. (2009), Acemoglu (2012) and Chang (2011a) all basically agree, but differ in their views on how to best foster gradual political and economic changes towards a more favorable development path. More precisely, they diverge on how to weight the importance of either developing institutions or supporting economic development.

4.1. Support Institutional Change or Economic Development?

North et al. (2009) perceive development to be a process of "thousands of incremental changes" (North et al. 2009: 167).[3] A fundamental development question for them is how to change rents "without increasing the risk of violence" (North et al. 2011). In the transition from LAO to OAO, they consider bringing the military under consolidated civil control to be the most difficult doorstep condition (North et al. 2009: 148-89). Acemoglu/Robinson (2012: 455-7) advocate an aid approach that focuses on the effective empowerment of social groups. They suggest enabling the groups to take part in the political process. An underlying gradual shift is needed in order to establish plurality within a "fairly broad cross-section of society" (Acemoglu/Robinson 2012: 458). Additionally, they point out that this process must be accompanied by the institutionalization of "some degree of centralization." It is meant to ensure that "challenging existing regimes" by social movements "do[es] not descend into lawlessness" (Acemoglu/Robinson 2012: 458-62). Moreover, it is important for institutions to be compatible with domestic traditions. They previously confessed that for developing countries, which are distant from the global technology frontier, the stimulation of investment is more urgent and feasible than focusing on attaining innovation (Acemoglu et al. 2006).

[3] This is, to some degree, consistent with the work of Easterly (2009), who considers the marginal approach to be the most promising strategy for development and the best way for the international community to work with the developing world.

This argument is in line with that of scholars who recommend supporting economic development as a more effective route.

Chang (2011a: 5) suggests “stimulat[ing] economic development” with policies, and therefore recommends spending money on education, infrastructure and industrial subsidies. Others go in a similar direction with their arguments. For example, Reinert (2006: 64) asserts that getting ‘the right kind of economic activities’ is a key challenge for development. Rodrik (2011a: 39) addresses this in a more fundamental sense. He suggests that governments intervene in market failures as a temporary strategy in order to raise economic performance. More concretely, he recommends addressing learning and coordinating externalities (reduced returns on initial investments by competitors entering the market, or a lack of investments needed to attract new industries), credit imperfections (lack of or limited access to finance), and wage premia (wage costs above market clearing levels). Interventions must aim at “structural reallocation from non-convergence to convergence activities” which could put very low income developing countries on an “automatic escalator” (Rodrik 2011a: 4) towards increasing economic growth. In the case of African and Latin American countries, this means a reversal of the “productivity-reducing structural change” that many of them experienced between 1990 and 2005. During this period, labor was crowded out of higher productivity sectors (for example, due to rationalization in high productivity industrial sectors) and moved to subsistence agriculture, services or even the informal sector (McMillan/Rodrik 2011a: 12). But there is still a lot of potential for developing African and Latin American countries because the convergence gap to industrial countries is still almost as wide as it was in 1950 (although it has slowly closed to some degree during the previous decade, Rodrik 2011a: 3).[4]

Ultimately, the approaches do not fundamentally differ from one another, as social empowerment (as, for example, claimed by Acemoglu/Robinson 2012) could be achieved by fostering economic development (Reinert 2006, Rodrik 2011a, Chang 2011a). History taught us that this may not be easy to implement because there were only a few countries that obviously adapted these strategies.[5] Therefore, Rodrik (2011b: 19) reminds us that both government and market failures exist and that both are “endemic to underdevelopment.” The convergence effect (“automatic escalator”) harnesses economic development only when there are governments who agree on selecting and implementing the right policies. This is very much a political process. In many African countries for example, the state is traditionally a very important economic actor (for example, see Bayart 1986, 1993, Chabal 1993: 158, Hibou 1999: 93), while the entrepreneurial class is small or almost non-existent (for example, see Mkandawire 2001: 302-3, Bayly 2008). Hence, it must be clear to donors that if they concentrate on stimulating economic growth in recipient countries, in effect they will have to deal with the institutional environment of the state. In his work on the role of the state in African countries, Mkandawire (2001: 294) agrees: “[T]he most important case against developmental states in Africa is not faith in flawless markets, but rather that whatever the degree and extent of ‘market failure’ African states cannot correct them in ways that do not make things worse.” Although this quote does not answer whether they follow a different strategy because of their institutional constraints (they have other priorities, such as political survival) or they lack the capability to correct them. Therefore, in the next section we discuss

4 Rodrik (2011a: 3-4) detects differences in productivity levels between developing countries and industrial countries as a major source of growth in the developing world. The main challenge is entering convergence sectors that increase labor productivity (electric generators, motor vehicles …) and enhance domestic employment. The lower the initial level of productivity, the steeper the upward trajectory of growth.

5 Rodrik (2011: 13, table 1) shows that sustainable high rates of growth (4.5 percent or higher GDP/capita with growth for 30 years or more) have been very rare throughout history. He provides a table showing 27 countries. In the post-WWII section, countries like Iraq, North Korea and Burma, are listed among them. Of the countries with very high standards of living today, only Japan, the group of Portugal, Italy, Greece and Spain (PIGS), and the Asian Tiger economies like South Korea, Taiwan and Malaysia are mentioned. Germany, France and the US are not on the list at all. Sharma (2012) states that there are only six countries, namely Malaysia, Singapore, South Korea, Taiwan, Thailand and Hong Kong, that managed to grow their GDP at a rate of 5 percent or higher for four consecutive decades.

domestic and international factors that we consider to be influential in the decision making of the political elite. We ask – Why don't all developing country leaders follow the developmental path of South Korea or Taiwan? This appears not as a question of right or wrong, but rather one of viability and implementation.

4.2. The Problem of Implementation

The problem of policy implementation is basically twofold and a matter of policy space. It is limited by the international environment and domestic constraints. We acknowledge that each of them separately is not a sufficient condition for generalizing the challenges of all developing countries.

On the one hand, there are international organizations like the WTO, the IFIs or powerful donors such as the US, Japan, Britain and many more that shape the policy space of developing countries by imposing conditionalities (for example, structural adjustment), enforcing agreements or their internal policies (such as the common agriculture and fishery policy of the EU) or implementing their externally-oriented policy strategies (for example, the African Growth and Opportunity Act by the US). Putting this debate into a historical perspective, Chang (2005, 2008) claims that the policy space of developing countries was considerably larger between WWII and the second oil price shock. On the international level, "flexibility under trade rules" has turned out to be influential to the policy space for the development strategies of developing countries (Gallagher 2008: 63). Others, such as Weiss (2003), disagree, saying that there is a surprisingly broad area left for countries for wealth creation and for establishing welfare policies. Beyond that, policy space is also influenced by donor incentives. They do not like the marginal approach to development because they are faced with incentives from their constituencies and as such, their own interests necessarily come first. These range from "buying" policy concessions (for example, see Bueno de Mesquita/Smith 2007) to carrying out public relations (PR) for their own country with claims of supporting the "fight against poverty" or even to "eradicate poverty" within a relatively short amount of time (as, for example, the MDGs suggested). Ensuring that their activities are highly visible to their constituencies, although not officially mentioned in most donor strategies, is a major concern. These programs have never lived up to their expectations. Easterly (2009: 377) mentions this incentive problem by referring to the World Bank: "The World Bank's motto is 'Our dream is a world free of poverty.' This motto is probably much more likely to attract political support and funding than a slogan like 'our dream is a world full of rigorous evaluations of small development interventions.' But as the two frameworks introduced above have pointed out and as history has taught us, the marginal institutional differences could already make for a crucial variation in political and economic outcomes during "critical junctures." Austin (2010a: 5-6) discusses the variations of policy space and economic performance in Sub-Saharan African countries since independence, and paints a different picture. Following the adoption of structural adjustment, the economic performances of most countries were "stagnant or negative" (the trend was less dramatic in former French colonies, except in Guinea), though there were exceptions like Ghana or Uganda which were among "the two most successful cases of structural adjustment in Africa."

On the other hand, there are domestic negotiation processes where changes in policies threaten the existing rents of the elite. This has often been overlooked by Western policy makers. There is a major flaw in their thinking because they assume that it is a lack of knowledge or ignorance that make the governments of developing countries fail to implement reforms. But this Western thinking turned out to be a fallacy that can be proven with many examples from the past. There is a long record of ruling coalitions who captured the process of change and blocked innovation because they feared that these could favor their opponents while decreasing their own power. [6] This increases the likelihood of ending up "political losers" and political actors therefore use their capacities to block them. Acemoglu/Robinson (2012: 446-50) explain the mechanisms behind this:

"… the main obstacle to the adoption of policies that would reduce market failures and encourage economic growth is not the ignorance of politicians, but the incentives and constraints (the constraints of political institutions and the constraints they place on policymaking) they face from the political and economic institutions in their societies."

According to them, poverty evolves not by mistake or ignorance, but deliberately. Those with political power make their choices in order to maintain their own positions. So they are unlikely to fight "micro-market failures" with good advice and to suggest adapting some economically favorable policies. This is a case of fighting symptoms rather than solving much deeper rooted problems, such as the "the institutional causes of poverty" : "the institutional structure that creates market failures will also prevent implementation of interventions to improve incentives at the micro level [and hence] … success of this approach is unlikely" (Acemoglu/Robinson 2012: 446-50). Acemoglu/Robinson (2012: 452-53) point out the dangers of current aid approaches:

"The idea that rich Western countries should provide large amounts of "developmental aid" in order to solve the problem of poverty in sub-Saharan Africa, the Caribbean, Central America, and South Asia is based on an incorrect understanding of what causes poverty. Countries such as Afghanistan are poor because of their extractive institutions … The same institutional problems mean that foreign aid will be ineffective, as it will be plundered and is unlikely to be delivered where it is supposed to go. In the worst-case scenario, it will prop up the regimes that are at the very root of the problems of these societies."

This is the basis of the ineffectiveness of aid approaches. The past has shown that various attempts to impose conditionality on developing countries did not work towards sustainable development because it "… is not an effective means of dealing with the failure of nations around the world today" (Acemoglu/Robinson 2012: 454). Many policy makers do not admit that aid may have purposes for a developing country's political elite outside of the goal of reducing poverty. Edward Walker, the former US ambassador to Egypt (1994 to 1998), admitted: "Aid offers an easy way out for Egypt to avoid reform" (Bueno de Mesquita/Smith 2011: 324). Countries that receive a high share of their annual budget from donors face incentives where they are more accountable to donors rather than to their citizens (Moss et al. 2008). In their relations with donors, African elites are very successful in extracting resources. Herbst (2011) makes this point:

"One effect of globalization is that those in the developing world often know the West much better than the other way around. They understand what pushes Western buttons, which makes it easier for those involved in conflicts to adroitly play Western audiences. Autocrats are quick to embrace elections and other symbols familiar to Washington, Paris, and Berlin because they know that such contests give them a certain amount of legitimacy, even if the actual execution of the political contests leaves much to be desired."

In sum, first the international influence on domestic politics and economics is very important to the debate on development and change. Evidence from researchers warns of the constraints, but also points out opportunities that result from interfering with international

[6] In Acemoglu/Robinson (2000: 126-7), the authors give several examples of this kind of behavior. Unlike Britain and Germany, Russia and Austria-Hungary both first blocked industrialization because they feared that it fostered social and political change. The authors give reasons for this: First, the Russian and Austria-Hungarian land elite had more to lose (there were not significant reforms of the feudal system in the 19th century). Unlike the Germans and British, which both had "absolutist monarchies with a narrow base of social support," their political institutions had more problems adapting to "the social forces unleashed by industrialization" and the "landed aristocracy" feared losing political power. One example they give is the very low dispersion of railways in these countries (as compared to Britain or Germany).

actors and factors. Second, aid creates policy space for governments that is sometimes used for developmental activity, but also for predation and private interests. The causation goes not from “free resources” (like foreign aid, natural resource wealth …) to bad institutions and policies, but from extractive political institutions and the availability of free resources to unfavorable conditions for reform. Incentives for donors and the political elite in recipient countries, not to mention their actions, suggest that aid has plenty of other purposes (for example, political survival or policy concessions), which are probably seen as more important than the poverty reduction objective. The boundaries between predatory states and weak governments fluctuate. The outcomes depend largely on the context of existing economic and political equilibria and the difficulty establishing a balance between state and non-state sectors and the elite and non-elite parts of societies. In short, government intervention and the support of governments helped solve some problems, but also ignored others, while even producing new ones. Donor intervention could be dangerous because supporting predatory states could easily increase the suppressive powers of governments and ultimately make things worse for citizens in developing countries. This dilemma is described well by Weingast (1995: 24):

“[A] government strong enough to protect property rights and enforce contracts is also strong enough to confiscate the wealth of its citizens. Thriving markets require not only the appropriate system of property rights and a law of contracts, but a secure political foundation that limits the ability of the state to confiscate wealth. Far from obvious, however, are the circumstances that produce a political system that plays one role instead of the other.”

A strategy of approaching marginal change by correcting market failures does have some appeal, but we need to understand under which circumstances governments adopt policies appropriate to reaching this goal. Bates (2010b: 85) raises the most fundamental question when asking under which conditions the political roots of development productively join the economic sphere. His answer is “… when their ability to survive, politically, depends upon the capacity of others to produce, economically, then specialists in violence will invest their power in those who will invest their capital.” This means that violence needs to be tamed and authorities must delegate power to those who use it productively. But it is very difficult to figure out who will do that. In analyzing this, the domestic and international actors and factors must be put into perspective and weighted carefully.

In the final chapter, we conclude with the implications of the frameworks that we introduced in this paper on EU development policy. Therein, we provide two general and three specific recommendations for EU donors.

5 Concluding Remarks and Recommendations: What Is Important for a Future EU Development Agenda

In May of 2012, the Council concluded on the future EU development agenda:

“The Arab Spring is a case in point. At the same time, European citizens must be shown, now more than ever, that EU development cooperation delivers clear results and impact on the ground and achieves greater effectiveness and better accountability for public spending; it also helps advance human rights, democracy, the rule of law and good governance” (EU 2012: 1).

When applying what we learned from the literature we discussed herein to the EU Agenda for Change, we conclude that it is not likely to support “the change needed in partner countries.” The EU approach ignores the broad variety of incentives to multiple actors involved in the development process. It overlooks the entanglement of politics and business in developing countries, a factor that shapes both the allocation of wealth and power, and the specific challenges developing countries face in terms of political and economic change. It neglects (as do many previous development agendas) the fact that actors in the development process face massive constraints from various, often fundamentally different, institutional environments and that it is normal to deal with very precarious situations or even dilemmas in a process of political and economic change. Therefore, our overarching conclusion from reviewing the literature is to suggest that change is inappropriate as a major reference point for a donor-driven development agenda.

In their World Bank Policy Research Working Paper, North et al. (2007: 2) outline the problems of past and current development policy approaches and explain the implications for development practitioners:

"Most development policy today is based on models of the developed world and attempts to make developing countries look more like developed ones. However, the social dynamics of developed countries fundamentally differ from those of developing countries. Development practitioners therefore face a mismatch between the development problems they seek to address and the available tools. They aim to implement social, economic, and political institutions characteristic of the developed West in societies that often cannot even secure basic physical order. To improve state capacity they might, for example, administer donor funds conditional on improving government transparency through better financial auditing of public funds. But they do so in countries where potential leadership groups compete for control through violence, intimidation, and occasionally the ballot box, and where new groups replace old groups at regular intervals. Development practitioners face the futility of trying to solve a problem without knowing its cause and to build state capacity in societies that regularly dismember their governments. Development tools based on industrial country experiences are ill-suited to the development goals in developing countries."

The good governance component of the agenda for change is problematic because its very conceptualization is flawed. It assumes that donors would simply be able to request that recipient governments behave according to what they perceive as good, or simply behave how they want them to behave. In doing so, they suggest that governments in developing countries are free to act as governments in developed countries. But developing countries often work within a fundamentally different logic of the mechanisms of accountability and responsiveness. In short, policy makers face a different social order than most industrial countries. In contrast, the EU development agenda suggests that rulers in developing countries need only choose to behave better and that the political and economic situation will improve. This is a very superficial view and a major flaw in their understanding of how political and economic change works. It is at the very least questionable whether or not donors should have a role in processes such as, for example, democratization. When considering the constraints, which we presented in the context of two recently published frameworks in political economy, the situation is much more difficult. Besides the potential to reduce poverty, change also has serious downside risks of violence and destabilization. Based on these findings, we begin with two general recommendations for remodeling the EU agenda before providing some more specific suggestions for donor activities.

5.1. General Recommendations

First, we recommend removing good governance and conditionalities from the agenda. Instead, policy makers should design policies that take into account the constraints of political actors in developing countries. The Western notion of how development works is inadequate, particularly when the policies make the political elite in developing countries suspect they will end up as political losers (or worse). It is better to concentrate on marginal improvements than going for the "big push" and being left with disappointment, finger pointing and mutual accusations, as has often been the case over the last 50 years of development policy. It is not advisable to put aid money in development programs that focus on capacity-building for governments because they are likely to fortify or even aggravate an already very uneven distribution of power between the government (the political and economic elite are often one and the same) and the rest of the population (grassroots and disenfranchised). Donors must deal with the question of whether they have the legitimacy to intervene in situations in which they must expect dangerous consequences for the citizens of developing countries. Therefore, second, we propose taking into account the implications of destabilization and violence as a possible outcome. It is well known that marginal approaches to development are more likely to be controllable and effective for bringing about change in the form of greater political and economic inclusiveness in societies. Moreover, they are less prone to destabilization and violence. Hence North et al. (2011: 4) emphasize that "…the appropriate counterfactual about eliminating rents is not always a competitive market economy," but – they add with concern – "…is often a society in disorder and violence."

The main conclusions drawn from the two frameworks are gradually buying out the elite and supporting the empowerment of a relatively broad share of the population. Besides that, we argue that donors should also explore the possibilities of fostering economic development in recipient countries. Addressing all three approaches in the sense of "trial-and-error" is obviously the most promising approach because it makes them more likely to succeed on one front, while at the same time establishing a better foundation for economic and human development. We concretize these approaches in the following section.

5.2. Specific Recommendations

North et al. (2011: 4-5) suggest a detailed strategy in which satisfying an "organization with violence potential" to a sufficient degree can lead to creating spaces for "dynamic parts of the economy to open up." This is in fact an approach of gradually buying out the existing elite. The most difficult problem here is keeping the army out of politics and business, but at the same time providing it with enough capacity to protect the country from external enemies. North et al. (2011) refer to Chile as an example, where the army retained about 10 percent of the state-owned copper mine profits while private firms were allowed to enter the sector, and today provide the overwhelming share of its output. In China, reforms to a fiscal contracting system augmented the share of revenues the provinces could keep for themselves and lowered extraction by the central government from almost 80 percent in the 1970s to an average of 25 percent during the reform years between 1982 and 1991 (Jin et al. 2005). This worked because the activities took incentives into account. It was not likely that local government would have supported local business when they could not have expected to keep some of the locally generated revenues. Confrontations in the pursuit of assets by private business and central government were resolved, on the one hand by the introduction of anonymous business transactions (cash payments) and anonymous financial assets (anonymous bank deposits) , and on the other hand, by the taxation of bank deposits. It worked for both sides because the government lacked the information about the deposits and was not able to tax private businesses at 100 percent. But it also kept the central government from losing a considerable share of the absolute amount of its revenues. Hence, it served the interests of the government in terms of revenues, but at the same time, these policies limited the predation of private business by the government. Overall, it reduced the average tax burden, and private business and the economy expanded as a whole (Qian 2003: 31-6). Third, we recommend policy interventions that do not immediately threaten the elite, but gradually decrease their power in order to reach a more even balance of power between the elite and non-elite.

In the process of empowerment, Acemoglu/Robinson (2012) admit that the media holds a key role. It is often – much more than the control of politicians or judges – a very important factor in controlling a country. This claim is consistent with the views of Bueno de Mesquita et al. (2003) and Bueno de Mesquita/Smith (2010, 2011), who argue that freedom of assembly and a relatively free press make it very difficult to sustain suppressive autocratic regimes. The use of the media to reduce corruption, for example, was successfully implemented in Uganda. The government published the intended cash transfers to schools in local newspapers. This rapidly improved the amount of money that actually reached the schools from 13 to 80 percent. It is a successful case where aid effectiveness was improved by a relatively simple and cheap measure of decentralized monitoring (Reinikka/Svensson 2005). The media is an important element in establishing the room necessary to maneuver within societies in order to provide them with the capacity to make a difference during critical junctures. As such, fourth, we propose putting greater emphasis on gradually empowering the local media to increase the accountability of the elite and – in the longer term – to create more “autonomous spaces of mass expression” (as claimed by Bayart 1986). Gradual improvements towards a more independent and free press are very likely to threaten political monopolies, or at least to strengthen mechanisms for domestic accountability.

Finally, we claim that improvements to institutions through the fostering of economic development with an appropriate set of policies could also be a promising approach to change. Rodrik (2011a), Reinert (2007) and Chang (2011a) all recommend concentrating on attaining the proper policies for promoting economic development. All agree that industrial policy is an obviously important factor. It played out well for the development path of several Eastern Asian countries. To prevent unfavorable development trajectories, Rodrik/McMillan (2011: 23) recommend choosing a two-track strategy. This is particularly important for countries in Latin America and Africa that – as already mentioned – have a large convergence gap. McMillan/Rodrik (2011: 23) argue that the governments in these countries should also support less productive industries (state enterprises, for example) through trade barriers and subsidies in order to prevent workers from changing to even less productive sectors, such as the informal sector or subsistence. In special economic zones, trade could be liberalized. Gradual liberalization of markets (Rodrik 2011a: 33-45) has proven to be rather successful for countries like South Korea, Malaysia, China and others.[7] But unfortunately, not many countries took the path of these success stories. Cases of positive sustainable transitions are still the exception rather than the rule. The set of policies adapted by these countries is widely known and the governments of developing countries are certainly aware of them. The big problem lies in the monopolistic tendencies that emerge from a tight symbiosis of government and business. Hence, we ask why only a relatively small number of countries adopted the “best practices” policies of the successful countries, while most others did not. To answer these questions, it is important to close a major research gap that is very relevant to policy makers. Therefore, it is important to understand the political stakes of economic development. This means what has been driving change in those countries and under what circumstances the political roots of development productively joined the economic sphere (Bates 2010b: 85). Therefore fifth, we recommend supporting in-depth studies of comparative development (comparing country cases) in political economy in order to improve our understanding of the decision-making and implementation processes of governments in developing countries. A deeper investigation into what drives inequality and how powerful actors like governments and businesses relate to one another are key questions.

In addition, we need a deeper understanding of outliers and – besides the global flow of goods – other international factors, such as the flow of capital, labor, technology, services, institutions, knowledge, crises, crime, and disease (Ferguson 1999). The major objective is figuring out under what conditions are developmental policies more likely to be adopted by decision makers. Kohli (1994) points out the role of Japanese colonization in the emergence of the post-colonial South Korean developmental state. Austin (2010b: 56) adds other perspectives by looking at South Korea and Taiwan. He refers to the works of Rodrik (1995)

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7 This is consistent with Austin (2010a: 57) in that both the “second industrial revolution” in Germany and the US and the “twentieth-century industrializers,” “infant-industry protection” played an important role.

and Amsden (1992) and argues that both countries initially had a relatively “equal distribution of income and wealth.” They facilitated the limitation of economic weight and therefore political influence of the wealthy elite which put these governments in a position to resist “capture by large landowning or business interests,” and enabled them “… to impose performance standards on industry” without creating too much pressure “to undertake further redistribution in favor of the poor, at the expense of industrial investment.” This is at least worth considering for African and Latin American countries. However, Austin (2010b: 58) adds a critical juncture to the cases of South Korea and Taiwan: “[T]he concessions that created the relative equality were made by the ruling classes to a greater extend under intensive pressure of the struggle for their political, economic and even personal survival against the communist forces to the north and on the mainland respectively.” Taken together, they are convincing factors and conditions that probably made a difference in these relatively successful transitions.

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