

FOREWORD

BY FRANCES CAIRNCROSS

As Chair of the Advisory Board of the Centre for Competitive Advantage in the Global Economy at the University of Warwick, it gives me great pleasure to introduce the 2014 CAGE Policy report. It has been produced in partnership with the Social Market Foundation. The report reflects the remarkable way in which CAGE knits together a broad range of perspectives to throw light on some of the most important economic issues of our age.

Thus it looks at what light can be shed on Sub-Saharan development by the experience of thirteenth century Europe. It emphasises the importance of the rule of law, of clear property rights and of a state that aspires to treat citizens equally before the law. 'The rule of law is ... infrastructure,' it explains. 'Arguably it is more important than any power cable or drainage system.'

In a chapter on private enterprise, the report draws attention to the fact that in the poorest countries, half of the labour force is typically self-employed or employed in firms with a handful of employees. To grow, developing countries need larger firms. 'For the mass of people in low-income self-employment....' it argues, 'hope for the future lies in becoming wage workers in larger organizations that someone else has created.' The chapter explores the reasons why so few small firms grow larger, and the ways that policy makers should tackle the issue.

The final chapter explores the connected issues of gender violence, discrimination against women and the impact that women politicians can have on public perceptions. To span such a broad canvas in such a readable and thoughtful way is a tremendous achievement. The report is soundly researched, readable, provocative and essential reading for anyone involved in the development of the world's poorest nations.

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INTRODUCTION: UNLOCKING DEVELOPMENT

BY NICHOLAS CRAFTS

There are two fundamental aspects of CAGE research. One is rigorous attention to evidence and context: what is it that can be shown to have worked in its particular place and time? In our view, the key that unlocks development has a different shape in every context. That is, poverty and lack of development are global problems, but the details of the solution are always local. The other is a consistent vision of economic development as a process that expands the control ordinary people can exercise over their own lives.¹ This means that economic development is about much more than just economic growth; it is about a wider concept of living standards which includes escaping from poverty but also entails various other aspects of life such as the ability to participate fully in society. Growth is necessary but not sufficient for development in this broader sense and different growth trajectories vary in the degree to which they are 'pro-poor'. Measures of 'human development' show that income levels do not necessarily predict well other aspects such as life expectancy or educational attainment.²

The design of policies to promote economic development needs to pay attention to the specifics of local conditions. Countries vary greatly in terms of their comparative advantages in international trade, institutions, political structures, and geography. The binding constraints on achieving faster growth which need to be addressed are not necessarily the same. Nevertheless, certain basic requirements for growth do have to be put in place one way or another. Credible incentive structures (which may take a diverse shape – the Chinese economy is clearly 'unorthodox' compared with traditional western designs) that make it worthwhile to undertake productive investment and innovation are a fundamental building block. It is also essential to have a framework for the design and implementation of economic policy which allows market failures to be addressed while at the same time containing the risks of government failure. Sadly, in many poor countries, the first purpose of politics has been to loot the state while you have the power to do so.

All this implies that governance really does matter for success in achieving sustained economic growth. But governance structures also have profound

implications for economic development and well-being. This is quite well-known and has been well documented by World Bank research which found that a range of governance attributes including voice and accountability, governmental effectiveness, political instability and violence and quality of the legal system have powerful impacts on such development outcomes as literacy rates and infant mortality.³ Governance also matters for gender equality, which affects both growth and development outcomes. For example, the extent to which women are educated differs widely across the developing world.⁴

Many people in poor countries – and some people in rich ones – are kept in poverty by multiple shackles and restraints, each of which must be unlocked for them to escape. They are trapped by lack of resources, by lack of education, by discrimination, and by hopelessness and fear, all at the same time. Foreign development assistance alone will not help them escape. In many cases the key can be fashioned out of quite general materials such as ‘market access’, ‘education’, and ‘equal rights’ – and, of course, ‘aid’. But the key must also be fitted to the lock. Unless the key fits the lock, just to allocate more money to schools, or to legislate for equal rights, may have little or no effect on the situation. Foreign aid can facilitate local solutions but our analysis does suggest that development will not generally be promoted by unthinkingly giving large amounts of money to poor countries. Nearly \$5 trillion of development assistance have flowed from richer countries to poorer ones since 1945 but there is little evidence that our world has been transformed as a result.⁵

Why has large-scale foreign aid not produced more clear-cut effects? Several factors appear to be at work. One problem is that an average dollar of productive resources, when transported from a wealthy country to a much poorer one, becomes worth only a few cents in its new setting. Poor countries are poor not so much because they lack capital as because many things do not work well, and much value is dissipated by inactivity, theft, and corruption. Another reason why the average aid dollar does not do a dollar’s worth of good is that average effects do not mean much. Some aid dollars help a lot, and at the same time many others are completely wasted. It is then difficult to disentangle the good uses from the bad ones.

A final reason is that economic growth and development are hard to explain anyway, and in that context it is harder still to identify the marginal effect of an external intervention.

Thus more money for schools will be wasted if the children do not attend because they must work, or if the teachers take higher salaries without improving their delivery of lessons. Laws that prohibit discrimination will have no effect if victims lack confidence in the police or fear further victimisation at the hands of the violators. Exactly what will free the natural energy and enterprise of ordinary people and empower them to participate in development must be understood in its context in every region, country, and village.

Unlocking Development, therefore, does not advocate detailed reforms to which every country must conform. Its approach, rather, is to look at what measures have been shown to work in particular contexts and periods. It draws primarily on experience and history, considering many different countries and many different periods.

REFERENCES

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Tierney, M.J., D.L. Nielson, D.G. Hawkins, J.T. Roberts, M.J. Findley (2011), 'More dollars than sense: refining our knowledge of development finance using AidData', World Development 39(11), pp. 1891-1906.

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ENDNOTES

1. Development as 'a process of expanding freedom' is a central theme of research on human development by CAGE associate Leandro Prados de la Escosura, summarised in Prados de la Escosura (2014).
2. See the data in UNDP (2014). For example, South Africa and Sri Lanka have per capita income levels of \$11,788 and \$9,250 respectively, but in the former life expectancy is 56.9 years and in the latter 74.3 years.
3. World Bank research on governance: a rich literature has grown from Kaufmann et al. (1999).
4. UNDP (2014) reports indices of gender equality which show big variations. For example, India has far greater gender inequality than China and this is reflected in much lower female educational attainment and labour force participation.
5. Nearly \$5 trillion of development assistance: Tierney et al. (2011), who also provide a detailed survey of applied research on the effectiveness of foreign aid of all kinds.