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22 January 2003

RETHINKING DEVELOPMENT ASSISTANCE
DRAFT

I. The Problem

- A. Too few development experts, either in academia or policy circles, have expertise in U.S., European, or Japanese development histories.
- B. Policy makers and practitioners alike adopt the full panoply of actors and elements identifiable in mature market democracies as the point of departure for development assistance.
- C. The approach is ahistorical. As such it is unable to separate the foundational elements of market democracy from the accoutrements of market democracy. Moreover, it is unable to identify a building block process that occurred in every mature market democracy today. FANI and RDA (as I currently understand it) break no new ground in this respect.
- D. The absence of a coherent strategy, while diffusing risk, perpetuates the ineffectiveness of development assistance and the appearance of failure, except at the margins.

II. The Challenge

If the FAA is to be rewritten to allow USAID greater discretion in designing and channeling foreign assistance, USAID has to offer a compelling vision that crisply lays out a focus on the cornerstones of successful development. A dozen strategic objectives, with multiple sub-objectives in the four pillars around which USAID is currently organized will not convert Congress or the American public.

III. Discussion

Academic disciplines as well as policy makers and development practitioners typically treat consolidated market democracies and developing/transitional countries as discrete entities. The paucity of intellectual cross-fertilization and the attendant comparative analysis across regions and across time contributes to the absence of a compelling development strategy.

We have much to learn from the development of mature market democracies. To be sure there was and is no unilinear path to development; the United States, Canada, Europe and Japan followed different trajectories in the 20th century. Contemporary market democracies include:

- highly centralized as well as federated political systems (Switzerland as a confederation is the most decentralized);
- economies with a broad range of state involvement in regulation, ownership of enterprises (Italy had the highest percentage at 35%), and redistribution of wealth;
- significant disparities in social welfare systems.

This suggests that even our picture of the component parts of a market democracy are skewed by the U.S. model—which is the outlier in its historical development, institutional arrangements and even core values among the mature market democracies.

But this does not get to the heart of the problem, which is identifying the building blocks that eventually led to the elaboration of these variants of market democracy. It appears that two foundational elements—basic security and rule based predictability—were necessary for the development of the market democracies. In most cases the state played a critical role in providing both. The United States is the exception.

Successful development takes the form of an inverted pyramid. Essential but insufficient factors at the bottom, gradually expanding to a broad top that allows the elaboration of modern variants of market democracy.

In the development of some consolidated market democracies, the state took the lead in economic development—accumulating capital and channeling investments; in others, the state's role was more circumscribed but, nonetheless critical. It provided the legal framework for a market to function. In no case did a democracy lead development.

In more recent examples of development success/ progress, Spain, Portugal, the Asian Tigers, PRC, an authoritarian government was/is the catalyst for economic development.

Economic development does not necessarily lead to democracy (Singapore is a case in point) but I know of no historical cases where democracy has led economic development. The United States had a liberal state, not a democracy, for almost two centuries after its founding.

To be sure, contemporary expectations and demands as well as standards of social justice will not tolerate such a lengthy process. Nonetheless, successful development still requires same cornerstones.

USAID currently pursues a smorgasbord of programs intended to simultaneously introduce or strengthen everything from a stock market, private enterprise, banking laws and institutions, child and maternal health, treatment of HIV/AIDS and other infectious diseases, primary and secondary education, political parties, civil society, rule of law—all the while promoting privatization of the economy and decentralization of political and fiscal authority. This approach focuses on the top of the inverted pyramid without ensuring that a solid base is in place.

The danger of USAID's current approach is not that it is ineffective, but that it will ultimately discredit precisely the institutions and ideas that we want to support. History shows that institutions gain legitimacy through performance. We should not promote institutional arrangements and actors that have no possibility to perform well because the foundational elements are not in place.

The decline in support for the idea of democracy in many Third Wave countries is a serious warning that democratic institutions, absent an acceptable level of performance, enjoy no immunity from public wrath. The Weimar Republic is a classic example. The UNDP report captures the current dynamic. The apparent absence of an attractive alternative to market democracy at the moment provides no room for solace. (The appeal of an Islamic order should be analyzed.)

We need also be cognizant of the fact that democracy means different things to different people. Survey data show that in most parts of the world, economic prosperity is regarded as an essential element of democracy. Typically it is ascribed greater importance than political and/civil liberties. The deterioration in living standards and the end of economic security in all post-communist countries has circumscribed the appeal of democracy. The failure of living standards to improve in many other parts of the world that have political systems that call themselves democratic magnifies the problem.

IV. Proposal

To hold three symposia on distinct but related topics indispensable to the design of a development strategy that is spare, compelling and offers the best change of significant progress. The first two focus on domestic factors; the third on the international environment.

A fourth session would be the inter-agency one currently planned to follow the first session on influences from FANI, NSS, RDA, etc. on USAID strategic thinking.

1. History lessons: Distill the building blocks of successful development from the historical experiences of the (United States,) Europe, Japan, Canada, South Korea, Taiwan, Chile.

Experts:

Sandra Halperin, *In the Mirror of the Third World: Capitalist Development in Modern Europe*, Cornell University Press, 1997

Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, Anthem Press 2002; "Institutional Development in Developing Countries in a Historical Perspective: Lessons from Developed Countries in Earlier Times," Chu, *Kicking Away the Ladder*
others

2. Social Capital—present in every society, albeit in different degrees and in different structures. Social capital structures underpin virtually every aspect of

social interaction: laws, institutional arrangements, and organizations—both formal and informal. The sharpest delineation is made between vertical and horizontal social capital structures. In reality, most are a mix with a dominant tendency toward one type or the other.

The relevance for the development strategy is that once the building blocks of development have been identified, effective assistance must be tailored to the dominant social capital structures. Empirical research suggests that social capital structures are enduring but not immutable. Therefore, it makes little sense to launch programs designed to create horizontal social capital structures in a society dominated by vertical social capital. Vertical social capital structures do not doom a society to underdevelopment—either politically or economically. France, Spain, southern Italy are characterized by predominantly vertical social capital structures.

Experts:

Robert Putnam, Making Democracy Work. Civic Traditions in Modern Italy, Princeton University Press, 1993; ed., Democracies in Flux. The Evolution of Social Capital in Contemporary Society, Oxford University Press, 2002.

Francis Fukuyama, Trust

Examines social capital structures in the generation of different economic models.
Lant Pritchett? others

3. Globalization—the influence of the international environment on domestic opportunities and policy options. This session recognizes that developing and transitional countries today face a much more intrusive international environment than did the Europeans, Americans or Canadians. Hence, a compelling development strategy must attend not only to domestic requirements but also the role of external actors and factors in supporting or distorting the process. (Regionalism may or may not be included as a separate influence.)

Experts:

Robert Bates, Prosperity and Violence

Any Chua, World on Fire: How Exporting Free Market Democracy Breeds Ethnic Hatred and Global Instability

This might be a good place to hear from Carol Graham about Brookings' work on poverty, inequality, globalization and grievance

The sessions would be held at one week intervals to allow participants to digest the ideas presented by not lose the threads from previous sessions. Such a schedule will also allow us to do our own analysis of the links and possible conflicts between concepts presented by the speakers. The first two would be half-day sessions; the third session would have the presentation and discussion of globalization in the morning but would be followed by

an afternoon session to distill the concepts from all three and discuss the impact on development assistance strategy.

Participants.

Question: Should the three sessions outlined above be for an internal audience?

Do we want to bring in select thinkers from the outside in order to profile the intellectual heft of this endeavor?

4. Inter-agency session currently planned to follow the scheduled session on FANI, NSS, RDA, etc.

V. Deliverables:

Three background papers would be produced by each of the seminars. These will be circulated to outside peer groups for comment.

In combination with our first session on FANI, etc, the findings will provide the substance for a **core policy paper on development assistance**.

The core policy paper will set forth an approach that is spare and clear; one that can influence national security policy and revision of the FAA.