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SOCIO-POLITICAL GOVERNANCE, INSTITUTIONAL FUNCTIONING AND ECONOMIC DEVELOPMENT

Abstract

As macroeconomic stabilisation and structural adjustment policies have not been particularly successful, it becomes increasingly necessary to consider the role of additional economic parameters in the growth process. In this context, governance (the balance of powers, rational resource management, transparency of rules, involvement of civil society, etc.) has become inextricably linked to the analysis of the development of the countries of the South. Closely related to that of institutions, this notion of governance is a polysemous one. In spite of that, the concept of governance is currently the core question in debates about how international financial organisations use the idea of "good governance". This paper examines the need for "good governance" as a prerequisite for growth and development for developing countries and studies the possibilities of economic convergence at the international level (i.e. developing countries catching up with industrialised ones) based on the influence of socio-political variables on local governance.

Keywords: growth, development, governance, institutions, conditional convergence, developing countries.
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1. Introduction

For thirty years, following a rather pronounced weakness in economic activity in the developed world (Europe and Japan especially) and faced with difficulties in creating a sustainable economic recovery, economists have revived the important role of institutions in economic dynamics. Whereas mainstream models of the past (those of R. Harrod/E. Domar and R. Solow) left no room for the concept of institutions, this concept has during recent decades become a focus in many analyses and reflections.

At another level, significantly different results of the development policies in developing countries have prompted many economists to ask the question of why some countries (albeit a minority) become NICs (newly industrialized countries), while far more numerous others stagnate, their development deadlocked and malfunctioning. In trying to answer this question, economists have turned to more closely studying the interactions between political structures and economic performance. In other words, they address the issue from the perspective of governance.

To scrutinize the role of institutions and governance in growth and development, we adopt a three-part plan. The first part will define the main concepts. The definitions will be fairly comprehensive with respect to the concepts of "institutions" and "governance", both of which are central to the paper, while the concepts of "partnership", "regulation & co-regulation", and "participatory democracy" will be more succinct. In the second part, we will look at how the relationship between institutions and growth in general (developed countries, countries in transition and developing countries) are apprehended in economic theory. The third part focuses on developing countries, and expounds the broad lines of the development approach in terms of "governance", a much elaborated approach not only in the programmes of international organisations but also in the analysis of many independent theorists (i.e. who have no professional relation with these organisations).

2. Institutions, Governance and Related Notions: Definitions

2.1. Institutions

In the ordinary meaning, "institutions" are organisations that establish the rules of behaviour in different fields of social life, and ensure they are effectively implemented. The ARCEP (Electronic and Postal Communications Regulatory Authority) and the CSA (Superior Audiovisual

Council) are two examples in France; the WTO (World Trade Organization) is another type of institution functioning on the international level. This ordinary meaning of insitution, however, is not the only one, nor is it favoured by institutionalist theory.

In the institutionalists' meaning, and particularly in the meaning of T. Veblen (1970, p. 125), institutions are "prevailing habits of thought, common approaches to the particular relations and particular functions of the individual and the society". In other words, they define the customs, practices, rules of behaviour, and legal principles on which social life is based.

This approach encompasses several movements of economic analysis beyond the new institutionalism, including the school of regulation and the school of conventions, among others. For the adherents of these movements, institutions cover the standards, procedures and conventions, be they official or non-official, explicit or implicit, codified or tacit, which underline the behavior of all economic players. As apprehended, the role of institutions is particularly important if we are to understand how markets (commodity, capital and labour markets) actually function. On the other hand, these same institutions allow us to understand the persistence, in this era of globalisation, of the huge socio-economic differences between nations, to the extent that they significantly influence the public policies of different States. The influence of institutions on economic growth and development have given them great importance for several governments and international organizations, including the World Bank and the International Monetary Fund, which popularized the notion (Stein 2008).

The revitalization of institutionalism in social sciences has for three decades been accompanied by a proliferation of research analysing contemporary economic dynamics based on the role of institutions. Among these, two are of particular note:

– *Institutions, Institutional Change and Economic Performance* of D. North (Nobel Prize in economics in 1993), published in 1990 by Cambridge University Press. This book clearly shows how the performance of economic organisations is heavily dependent on the development of institutions;

– *Varieties of Capitalism: the Institutional Foundations of Comparative Advantage*, by P. Hall and D. Soskice, published in 2001 by Oxford University Press. This book shows how the various relationships between enterprises and their environment (administration, educational and scientific institutions, social partners, to name a few) configure the capitalism of each country.

Recently, the influence of institutions on economic development has been the subject of numerous debates, especially when it concerns institutions that maximise market freedom and protect private property rights (Ostrom 2007), also known as "better" institutions or Global Standard Institutions (GSIs), found in Anglo-American countries. According to H.-J.Chang (2011), GSIs are institutions that inherently favor the rich over the poor, capital over labour, and finance capital over industrial capital. This drives us to wonder about the real role of these institutions in the development of poor countries, especially when international organisations such as the World Bank, the IMF, the WTO, the OECD (Organization for Economic Cooperation and Development), the World Economic Forum and other influential financial and economic organisations, which are dominated by developed countries, ultimately oblige developing countries to improve governance by adopting GSIs in order to obtain aids and loans (Kapur & Webber 2000).

2.2. Governance

The notion of governance appeared, for the first time, in the early 1980s in the speeches of American specialists in business management. Through this notion, they intended to reflect the shift, in industrialised societies, to a new phase of capitalism: the passage from a managerial to a patrimonial model. "Corporate governance" is the term used to define an emerging trend within large firms represented by a new balance of power, in the direction of empowering shareholders to intervene in the decision-making, at the expense of the managers. Over the years, and especially since the end of the 1980s, with the rise of New Institutional Economics, the scope of the concept of governance has been gradually extended. However, from the late 1990s institutions have become the focus in the debate on economic development, with the rise of the idea that poor-quality institutions are behind the economic problems in developing countries. Nonetheless, there remains no consensus on a single definition of governance or institutional quality.

On the one hand, governance has been applied to organizations other than companies, including universities, hospitals, social services, and public authorities. For all these organisations, the aim is to implement what is called "good governance", which is a mode of rational resource management, based on the control of the decision-making process and a thorough understanding of the motivations of the different players who have, to varying degrees, small amounts of power. In sum, the question for any organisation, be it private or public, is how to manage, regulate and, when necessary, reform complex systems and procedures. In the specific case of the public sector, the problem introduced by the concept of governance, and which is widely debated today, is whether one must – or must not – generalise the norms of the New Public Management. This means applying to public administrations a management mode modelled after management of private enterprises.

On the other hand, the scope of the notion of governance has gone beyond the industrialised economies to reach developing countries. In developing countries, the need for "good governance" has been introduced – or otherwise imposed – by international financial institutions, in particular the World Bank (*Governance and Development…* 1992, *Entering the 21st Century…* 1999). Starting from the basic consideration that the projects of development that they finance fail, in many cases, under the weight of bureaucratic obstacles and clientelism, and also due to the frequent diversions of external aid, the World Bank, the IMF and other international financial organisations have conditioned, since the early 1990s, their new aid packages to the implementation of the rules of "good governance". In practical terms, the "good governance" such as the World Bank and the IMF call for in developing countries covers six dimensions for managing development projects in transparency, both in the conception of these projects and their evaluation at different stages of their implementation (see Kaufmann, Kraay & Mastruzzi 2010). The six dimensions include voice and accountability, political stability and the absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption.

Departing from the World Bank and the IMF's definition of "good governance" as a liberally-minded orientation (the disengagement of the State for the benefit of the private sector, restrictions on public spending, strong international economic openness) that is far from achieving unanimous support among theoreticians and practitioners of development, and which has often been identified as an excuse for adopting liberal policies promoted by the "Washington Consensus". The question is then whether "good governance" is a precondition for growth and development and whether this applies for poor countries the same as for rich countries.

In this context, the positive causal relationship between, on one hand, "good governance" and, on the other, growth or development has been studied by several researchers: D. Kaufmann, A. Kraay and M. Mastruzzi (2008), K. P. Huynh and D. T. Jacho-Chavéz (2009), J. K. Sundaram and A. Chowdhury (*Is Good Governance…* 2012). Particularly, using nonparametric methods and the World Bank's governance measures,

K. P. Huynh re-examined the conventional insight that a positive relationship exists between governance and growth. M. Kurtz and A. Schrank (2007) critically assessed the work of D. Kaufmann, A. Kraay and M. Mastruzzi on the positive causal relationship between "good governance" and growth. For these authors, growth and development improve governance, rather than vice versa. Furthermore, J. K. Sundaram and A. Chowdhury have concluded in their research, published by the United Nations (*Is Good Governance…* 2012, p. 24) that "rapid economic growth and transformational development in China and Vietnam pose a challenge for those who believe that 'good governance' is a prerequisite for accelerating economic growth". This fact was previously elaborated by M. H. Khan (2010), who asserts that good governance is not a necessary precondition for development.

In the same vein, the empirical evidence shows that governance has improved in countries only with development, which again opens the debate over the need for the World Bank's six standards, GSIs, IPRs (intellectual property rights), etc., and whether these rights and standards should still be considered indicators of "good governance", especially when no theories of economic development support the claims of the good governance promoters. On the other hand, as international donors base the financial aid they grant to poor countries on the right implementation of "good governance", how would it be possible for these countries to converge economically and catch up with the rich countries? To answer this question, we refer to N. Meisel and J. Ould Aoudia (2007) who argue that the root of the problem resides in "good governance" proponents who presume a binary world in which all countries have the same set of institutional characteristics. At the same time, according to these authors, poor countries score badly due to corruption, lack of democracy, state failure, market failure, etc., which prevent them from catching up with the wealthy countries.

In short, if "good governance" is a prerequisite to growth and development, improving scores on governance indicators should enable poor countries to catch up.

2.3. Partnership

Since the late 1980s, the concept of partnership has been applied in France to describe the new contractual relations that, through decentralisation, are being put in place between the State, local authorities and public enterprises (e.g. state/region, state/enterprise contracts). It is also used to explain the new relationships being established between the companies themselves: in the context of intensified competition due to globalisation, companies are invited to develop joint cooperation programmes, particularly R&D (research and development) ones. It is relevant to note that inter-enterprise collaboration does not replace the existing relations of competition, but is simply added to them; this is why these new partnerships are sometimes dubbed "coopetition" (a neologism combining the words cooperation and competition).

Furthermore, and perhaps more significantly, the concept of partnership refers to the increasingly established collaborations between the public and private sectors, known as Private Public Partnership (PPP). PPP has driven economic growth and development for several developing countries. The best example is the steady growth the Indian economy has exhibited thanks to collaboration between the corporate world and the public sector in several domains including new technologies and software and the Mumbai airport It is worth noting that this partnership succeeded thanks to the country's democratic government.

From this perspective, partnership and governance have to be interpreted in close conjunction with one another. Unlike the classical concept of government, governance entails the abolition or, at least, the gradual weakening of the border between the public and private spheres. Moreover, good governance requires "building effective partnerships of institutions and networks to tackle emerging global, national and local issues" (*Building Partnerships*… 2000, p. 3). This partnership, based on interaction between public and private spheres, civil society organisations and stakeholders, is an essential ingredient for "good governance". In the same context, seven guidelines for building a successful partnership for good governance were provided by the UN (*Building Partnerships*… 2000):

– widening the scope of participation to include all relevant stakeholders,

– finding commonalities and comparing perspectives,

– linking stakeholders proactively to maximize outcomes and economies of scale,

– building capacity of all stakeholders in their inter-relationships,

– developing mutually supportive policies, processes and operations,

– establishing moving targets of success and measures of approaching success and building on successes.

To sum up, the concept of "good governance", being based on the participation of all members of the society in decision making, fosters effective relationships and partnership of institutions and networks independently from their nature, whether they are private or public. The implications of PPPs on the economy have been translated into economic growth and development, especially in the presence of democratic governance promoting society's participation in decision-making.

2.4. Regulation and Co-regulation

Due to technological and institutional changes, the world economy is becoming increasingly complex. Each player in the economy – businesses, financial institutions, educational institutions, research centers, trade unions, public administrations, NGOs and associations – thus finds itself tied inextricably with other actors. These links can exert a tremendous influence on their dynamism and even survival. How are these links organised, and how the partnerships and the necessary compromises between the stakeholders of a project negotiated? For an answer, we must examine the issue of regulation. At the sectorial level, various regulatory bodies have been established. Two examples from France are the AMF (Financial Markets Authority) and the ARCEP (Electronic and Post Communications Regulatory Authority). Analysis of how these institutions function shows that the enforcement of a regulation is easier when different stakeholders of a given sector or entity (companies, public authorities, associations, etc.) are engaged in its elaboration. That is why the concept of co-regulation recently emerged in the economics literature, and tends increasingly to prevail over the more conventional concept of regulation.

2.5. Participatory Democracy

Participatory democracy reflects an increasingly strong aspiration among citizens and civil society players to be directly involved in developing and implementing public policies at all levels of social life (on the local, national and international levels with, for example, the so-called "alter-globalization movement"). Often associated with the idea of grass-roots' governance, this concept is, from a theoretical perspective, often opposite to that of representative democracy, which excludes direct citizen participation for the benefit of elected delegates who have democratic legitimacy to represent the people (see Baogang 2012). However, it is clear that, at the local level, participatory and representative democracies are not necessarily incompatible. This is evidenced by numerous examples of neighbourhood boards and other local civic initiatives in Europe. Elsewhere, for example in Porto Alegre (Brazil), the actors of civil society intervene actively in municipal management, at least according to the information issued from the different World Social Forum meetings that took place there.

2.6. Authority

If present trends favour good governance, partnership, co-regulation and participatory democracy, what is the meaning of authority? In modern, democratic societies, authority is embodied by institutions led by officials or representatives whose power is undisputed, being legitimized by the procedures by which it has been granted: either election or appointment by the majority according to clear rules and criteria. However, this pattern is today undergoing disruption. Due to the effects of the political and social transformations of the last fifty years (universal schooling, skilling of the workforce, the growing complexity and sophistication of employment, empowerment of women, etc.), subordinates less and less accept the role of simple executors of leaders' decisions, in which they do not participate. Therefore, the notion of authority is evolving to become less hierarchical and is relying more on consultation and involvement of all concerned stakeholders in the process of decision-making and the implementation of what has been decided.

3. The Role of Institutions in Economic Growth

3.1. General Remarks

To frame these reflections more generally and cut a long story short, the two main approaches of economic growth are: the "naturalistic" approach and the "institutionalist" approach. Supporters of the first approach maintain that geographical conditions are determinants in economic growth (in its weakness as well as in its strength). Adherents of the second approach believe institutional factors play the central role.

Empirical studies on extensive period of history appear to favour the institutionalist approach, but our ambition is not to close definitely this debate. Rather, the most important thing here is to establish two matters. First, there are "good" and "bad" institutions, and second, only effective institutions foster socio-economic progress, while ineffective ones restrict or even prevent it. How do different economic theories cast the role of institutions in the dynamics of growth? To answer this question, we next review institutionalist theory itself, endogenous growth theories, regulation theory and public choice theory.

3.2. The Role of Institutions according to Institutionalist Economists

Aside from D. North (1990), P. Hall and D. Soskice (2001), who have already been cited, R. Coase (1998), B. J. Loasby (1999), M. Rutherford (1996), W. J. Samuels (*Institutional Economics*… 1988) and O. E. Williamson (2005, 2010, 2014, 2015) are prominent institutional economists. For them, it is not the accumulation of capital (human and/or technological) that determines long-term economic growth, but rather the social institutions (conventions, standards and procedures) which govern the relationships between stakeholders. This is so because these conventions, standards and procedures – the result of social evolution – play a crucial role in the level of production and transaction costs (i.e. the costs associated with negotiating contracts and the search for relevant prices, to name two) and, consequently, in the profitability of the economic activities and the motivations of various stakeholders to achieve it.

In other words, by laying down the ground rules of economic life, institutions have a significant impact in creating incentives for economic players (individual, SMEs, large firms, etc.) to engage fully in activities at the core of economic growth: production, investment, training, research, innovation. For example, depending on whether the social promotion in a particular country is on the basis of competence and merit or, in contrast, on the basis of birth and/or clan affiliation (i.e. nepotism or favouritism), individuals will not be motivated, to the same extent, to invest in their education, nor to perform innovate and take risks. As explained by D. North (1990), if the institutions of a country are such that the enrichment comes mainly through piracy, pirates associations would multiply there.

In the light of the institutionalist perspective, legislative and judicial dimension in economic dynamics cannot be underestimated. Indeed, due to resource scarcity, conflicts of interest frequently arise between individuals and groups of individuals, not to mention conflicts between wider and more or less structured human communities (e.g. classes, nations). In the absence of commonly accepted rules of law, these conflicts are settled by pure physical violence, the destructiveness of which (material and human), together with the climate of uncertainty that it establishes, harms economic growth. Hence, it is essential that an institutionalised system of laws and legal rules be created to restore a minimum level of order and certainty, without which it is impossible to have a sustainable process of production and wealth creation.

Finally, to further highlight the role of institutions in understanding the processes of growth, it is important to clarify that the institutional evolution is a relatively slow process. Ineffective institutions, or even ones that are harmful from an economic point of view, could be resistant to reform and change. Indeed, once embedded in practice, conventions, norms and standards can be difficult to convert, not only due to the psycho-social pressures that impede any social change, but because it is in the interests of some to maintain the institutional status quo. The corollary is obviously growth that is slow-paced and never reaches its full potential, with the economy growing at sub-optimum levels. In order to find the optimal growth path, institutional reform, conceived as the construction of new rules to promote greater transparency, stability and trust, becomes essential. The study of the main determinants of growth, development and economic convergence of poor countries lead us to conclude that differences in prosperity across countries are due to differences in economic institutions. In the same vein, D. Acemoglu and J. Robinson (2010) believe that the main determinants of per capita income gaps are differences in the countries' economic institutions. They wrote, "understanding underdevelopment implies understanding why different countries get stuck in political equilibria that result in bad economic institutions. Solving the problem of development requires a radical reform of these institutions" (Acemoglu & Robinson 2010, p. 28). As a final point, since economic convergence of poor countries occurs through its institutions, these countries would be well advised to undertake a deep revision of their sociopolitical structure in order to craft the suitable reform that empowers institutions and facilitates their functioning. This would help them catch up with their wealthier counterparts.

3.3. The Role of the Institutions according to the Theories of Endogenous Growth

For theorists of endogenous growth (Aghion & Howitt 1998, 2009, Lucas 1988, Romer 1986), the main sources of growth are: accumulation of knowledge and human capital, learning by doing (i.e. learning through experience), technological innovations, have a training infrastructure in place, research and development, communication. All these elements play a key role in economic growth, because they generate "positive externalities", or beneficial effects for many economic entities, if not for society as a whole.

However, it is not in the logic of the market to pay the producers of these positive externalities, particularly knowledge externalities. In fact, innovators get nothing as a market return, for their discoveries. To copyright, they must protect their inventions with patents, which requires an institutional logic of property protection, instead of that of the market (commonly called "Laisser--Faire" logic). Furthermore, to encourage innovation, the State may adopt any of the following incentives: tax mechanisms in favour of innovators, help build infrastructure and the establishment of legal instruments which support research & development within businesses both private and public.

At the same time, penalise the producers of negative externalities such as pollution runs counter to market logic. Polluters pay nothing to compensate for the environmental harm they cause. This makes it necessary for public authorities to intervene: the State in developed countries, on behalf of the long-term collective interest and the preservation of ecology, implements anti-pollution standards (subsidies, pollution permits, regulations, etc.), emission performance standards (congestion charge, vehicle excise duty, etc.) and tax offending companies (Landfill tax, environmental tax, etc.). These taxes on pollution, which environmental protection champions seek to extend to all countries, are not an effect of the free-play of market laws but of the intervention of the State, which is a matter of institutional regulation. However, while all OCDE countries have adopted the polluter pays principle, there has been no widespread public action to shape the distribution of property rights for scarce environmental resources.

All in all, for the theorists of the endogenous growth (at least for some of them), public intervention is needed to reduce negative externalities while stimulating positive ones. Due to the inefficiency of the market in providing the social optimum, public intervention is justified and has become necessary to change the institutional environment in favour of economic growth and social welfare. In a certain way, this analysis confirms the core thesis of the institutionalist theorists who support the idea that institutions, by influencing the main factors of growth and the behaviours of economic players, play a central role in the dynamics of economic growth.

3.4. The Role of Institutions according to Regulation Theorists

The school of regulation – M. Aglietta and L. Berrebi (2007), R. Boyer (2004) – has been developing in France since the end of the 1970s. It encompasses an original analysis of the dynamics of the modern economy, structured around three central concepts: "regime of accumulation", "mode of regulation" and "institutional forms". Institutional forms are of great interest to us because they highlight the importance of the relationship between institutions and economic growth. Through their analyses, the regulation theorists have identified five basic institutional forms:

– the monetary regime (or monetary constraint regime): currency is considered a fundamental form of social relations,

– the wage relation (or the configuration of the relation between capital and labour): envisaged as the ways in which firms attract and retain workers,

– the form of competition, which shows how "the relations between a set of fractioned centers of capital accumulation are organised" (Boyer 2003, p. 82),

– the form of the State: the form state intervention takes in the economy,

– the form of international integration: the mode of relationships between the nation-state and the rest of the world.

Applying this analytical framework to the period of exceptional prosperity that the Western world has known since World War II, regulation theorists have developed the notion of a Fordism mode of growth, in which institutions play an important role. So important has it been, in fact, that the regulation approach is often described, quite rightly, as the "historical and institutional approach".

This Fordism mode of growth is characterised by a set of virtuous patterns achieved through the action of specific institutions. For example, at the level of worker remuneration, the indexation of wages on labour productivity, ensured through the institutional framework of what is called officially "collective agreements", allows a fair distribution of the productivity improvements between capital and labour. This fair distribution, by promoting a regular increase of the purchasing power of the lower and middle classes, induces steady growth in consumer demand and investment (including by households), with the positive effects it has in terms of further expansion of production.

3.5. The Role of Institutions according to the Theory of Public Choice

The theory of public choice was mainly developed in the United States in the 1960s and 70s, particularly with the works of A. Downs (1957), J. M. Buchanan and G. Tullock (1962), M. Olson (1971), J. M. Buchanan (1984a, 1984b), etc. It can be defined as the economic analysis of the failures of the State based on the gap between "what governments can do and what governments are doing" (Buchanan 1984a). In other words, it highlights the failures of governments and public institutions in certain aspects, when they are subject to assessment according to an ideal standard of efficiency and fairness. The same criticism can be levelled at "homo-politicus", i.e. anyone with a role in decision-making who seeks to maximise his (or her) own interest, which may differ sharply from that of the collectivity.

Given these characteristics, the theory of public choice uses the tools and models of economics that it applies to politics, public economy and decision--making authorities (governments, public institutions, etc.), with the aim of providing an explanation or an understanding of the complex institutional interactions within the decision-making system. Of course, the underlying question concerns the effects of institutional action on economic growth. If the key decision-makers act solely in own their specific interests, economic growth will be very uneven.

Methodological individualism, or taking into account the behaviour of players, their motivations, is a position of significant privilege. Each individual is determined by his utility as expressed by a set of preferences. The matter is then to put together the individuals who have different preferences. At the economic level, this problem can be addressed easily: an individual who prefers bananas to apples will be able to exchange his apples for bananas. At the political level, the exchange is much more complex and has been the subject of extensive and varied research: the economic theory of democracy (Downs 1957), the theory of bureaucracy (Tullock 1965), the theory of clubs (Buchanan 1965), the theory of justice (Rawls 1971). The theory of public choice can consequently be addressed from multiple angles, including the electoral system, the role of pressure groups and public finance (Buchanan & Musgrave 2000).

The first theme refers to the questions of the legitimacy of the government and elected representatives: why do some individuals have authority over some others? The analyses in terms of bureaucracy and pressure groups highlight the interactions between public interests and private interests: is there a common public interest for all. Or can one accept the (liberal) proposal according to which the public interest is simply the sum of private interests? This issue is essential to determine the growth strategy that institutions should favour. The problem is then to define the actions that can improve or, contrary, worsen society's overall situation. Public choice theory proves the impossibility of applying Pareto optimality, and emphasizes the role of pressure groups, whose actions are particularly visible in tax policy, trade policy, the financing of development projects, and generally hamper society's growth and well-being.

G. Stigler (1971) exposes the problem by analysing regulation as a traded service between (on one hand) policy makers and public sector employees (providers) and (on the other hand) industry executives (requesters). For Stigler (1971, p. 11), "If the representative denies ten large industries their special subsidies of money or governmental power, they will dedicate themselves to the election of a more complaisant successor: the stakes are that important". On the other hand, the requesters wish on their side to protect themselves from competition, particularly the foreign. In this context, Stigler (1971, p. 5) considers that "the second major public resource commonly sought by an industry is control over entry by new rivals". This approach is known as the theory of the capture of the regulation, because "the regulator" becomes an agent entirely at the service of the interests of the requesters.

In *The Calculus of Consent*, J. M. Buchanan and G. Tulloch (1962) discuss what could be called "good society policy", or the foundation on which good governance should be based. First of all, "It is essential that it be understood that those characteristics which are «desirable» in the behavior of a person or persons are wholly independent of those characteristics that are «desirable» in an institutional structure" (Buchanan & Tulloch 1962, p. 216). The approach in terms of public choice is oriented towards the institutional organisation of social activity, and has a clear relationship with what Enlightenment-era philosophers called for. According to a widely accepted principle, one considers it crucial to take into account a set of ethical and moral criteria in public choices. On the other hand, institutions must stand above the single-market reality of self-interest. In other words, they must avoid conflicts of interest by placing the collective interest at the center of their actions and by eliminating the possibility for individuals or specific groups to impose external costs on all members of society. Human nature being what it is, Buchanan (1984b) proposes to constitutionally restrict the power of the rulers in order to avoid the short-term vision of policy makers (the main objective of an elected official is to ensure his own re-election). It would look at establishing limits within which the political authorities and rulers could act, and regulations which would prevent elected officials from allowing their own personal interests to prevail. This issue is particularly important in monetary and fiscal policies. Therefore, Buchanan (1984b) proposes a constitutional limit on tax rate increases, public expenditure and the size of government. Moreover, he insists, the need for a balanced budget must never be forgotten.

This is how the institutionalist theories and those of endogenous growth, regulation and public choice analyse the relationship between institutions and growth. Nevertheless, from the economic standpoint, the experience shows that only certain kinds of institutions play a positive role. The questions are then: what are good and bad institutions? And how can one distinguish between the two categories?

To briefly answer these questions, one can say that, from an economic standpoint, good institutions are those which fulfil the following functions or criteria:

1. On the legal level, they ensure the respect of the property rights of each individual, regardless of his social class, which has theoretically the effect of stimulating the spirit of entrepreneurship and, therefore, the participation of the individual or groups of individuals in economic life.

2. On the political level, they frame the exercise of power by the elites and persons in authority, with the aim of preventing them from abusing their prerogatives in order to distort the rules of the game and, thus, unduly appropriating the fruits of the efforts of others (by corruption, embezzlement, nepotism).

3. On the social level, they promote a fair and rational income distribution, with the goal of avoiding the double pitfall of a high concentration of wealth in the hands of a minority and excessive assistance for the disenfranchised. The result is generally better mobilisation of resources and a greater participation of everyone in the collective effort.

4. On the cultural and human level, they promote equal opportunity for different members of the community, regardless of their family or social background. This encourages individuals to actively engage in their training (intellectual and professional) and in that of their children.

Ultimately, are poor-countries poor because of their bad institutions? Experience and observations demonstrate that broad institutional differences between countries have influenced their growth and development. Hence, to understand why poor countries are poor, one should study the functioning of their institutions, the political structure of these countries and the mode of governance (democratic, participatory, or autocratic) that shape the work of institutions. There is no evidence that democracy leads to growth and development (like in Spain after 1980, Botswana in the 1960s, Mauritius in the 1970s) as growth in China has occurred under dictatorship. However, nor is there evidence that autocratic regimes are associated with growth, though several sub-Saharan African and Latin American countries have experienced growth under an autocracy.

Eventually, if dysfunctional institutions are associated with a lack of growth and development, would institutional reforms help to solve such a problem? According to D. Acemoglu and J. Robinson (2010, p. 15), “making or imposing specific institutional reforms may have little impact on the general structure of economic institutions or performance if they leave untouched the underlying political equilibrium”. Acemoglu and Robinson illustrated their point of view with three examples: 1) the rapid growth of dictatorial China since 1978, 2) the democratic growth in Great Britain in the 19th century, and 3) the example of Botswana in the 1960s. For these authors, growth in China occurred because the political equilibrium changed towards providing more power to reforming institutions. On the other hand, growth in Britain in the 19th century came thanks to the empowerment of institutional change through the expansion of democratic rights and growing investment in education. Finally, Botswana it witnessed the fastest rate of economic growth in the world for more than three decades due to its economic and political institutions (Robinson & Parsons 2006).

In sum, institutional reform in poor and rich countries alike requires political dynamics that empower institutional change. This empowerment may take different forms (more liberty and independence, expansion of democratic rights, investment in education, etc.) based on the political equilibrium that prevails in these countries, and is likely to contribute strongly to the successful convergence of poor countries if accompanied with "good governance". This issue arises with particular acuity in a large number of developing countries, due to the behaviour of a large number of the ruling elite.

4. Good Governance and Development in Developing Countries

4.1. General Remarks

In comparison with the traditional neoclassical approaches, endogenous growth theories, in rehabilitating the economic role of the State, undoubtedly represent important progress. However, these theories present some limitations, the most important of which is the exclusion of extra-economic parameters of growth, particularly political parameters. In other words, the glaring weakness in these new growth theories (and in all of the neoclassical-inspired theories) is the failure to consider the socio-political environment in which economic players operate including the exercise of power, management of social conflict and political balance of power, to name three.

Nevertheless, awareness of this limitation, though it occurred late, is now real. Indeed, for approximately three decades we have been witnessing a genuine rediscovery of socio-political phenomena by economists, especially the neoclassicists (Marxists and, to a lesser extent, Keynesians have always integrated power relations and social contradictions in their analyses of the economic dynamics in capitalism). The increase since the early 1990s of works on growth incorporating the impact of political and social variables (Przeworski & Limongi 1993, Alesina & Perroti 1994, Barro 1996, Varoudakis 1996) confirms a return to political economy as defined by the founders of the classical school. However, this rediscovery of the political and social dimensions of the growth process is not limited to academic and theoretical analyses. The international financial institutions, for their own reasons, have greatly contributed to the inclusion of the political and social aspects in the analysis of economic growth. Because of the failures that have often sanctioned their structural adjustment programmes in developing countries, the World Bank and the IMF would be well advised to review their approach and pay greater attention to the terms under which their stabilisation plans are implemented and, above all, to the social and political consequences of these plans.

It is in this context (theoretical and practical at the same time) that these two institutions have developed, for the sake of developing countries, a new "Political Economy of Reform". This economy has "good governance" as its central axis, which is defined simply as a set of effective principles of government, as well as "the manner in which power is exercised in the management of a country's economic and social resources for development" (*Governance and Development*… 1992, p. 1).

Although the liberal orientation of the policies advocated by the World Bank and the IMF is questionable, the notion of good governance is very relevant and useful in terms of a renewed approach to the economic development of developing countries. We will expound this notion, but first clarify the idea of the rediscovery of the political and social dimensions in recent analyses of growth and development.

4.2. The Importance of the Socio-political Dimension in Recent Research and the Hypothesis of "Conditional Convergence"

One of the central issues discussed by R. Solow (and widely debated by economists) is the industrialised countries of the North being caught up by the developing countries of the South. Among the supporters of the Solow model, some have argued the assumption of a "conditional convergence", which means the gap between poor and rich countries does not close automatically, but is subject to social and political conditions for its effective realization.

From this standpoint, an important question emerges: would the catch-up of rich countries by poor ones be thwarted in presence of, not only, internal obstacles that hinder growth, but also, a bad governance that dominates poor countries? Bad governance must be understood to mean:

– corrupt practices, predation and favouritism,
– the lack of appropriate regulation of social, ethnic and religious rivalries,
– the abuse of human rights (including the right to property),
– the shortcomings in the fight against poverty and inequality.

If obstacles lie primarily at the socio-political level, the process of convergence becomes possible, if not probable, through the establishment of a better-quality governance model in the poor or developing countries, a model that provides appropriate answers to the above four issues. In any case, this is the perspective outlined by the proponents of the Solow model.

This assumption of "a catch-up" conditioned by the implementation of good governance in developing countries has been explored more deeply in various economists' works. These authors seek to identify closely the weight and impact of socio-political variables in the dynamics of growth and development. Among these works, the following deserve special attention:

– A. Alesina and R. Perroti (1994), who do not confirm the popular belief that political democracy has a positive influence on economic development. In other words, an authoritarian regime can do worse or better than a democratic one. However, political instability has a negative effect on the process of economic growth;

– on the basis of a fine empirical study of the relations between democracy and development, R. J. Barro (1996) establishes a non-linear relationship between the two. This relationship can be summarised by a simple proposal: if little or no democracy is harmful to the economic development in the countries of the South as elsewhere, too much democracy seems to be also, due to the disorders that often occur during the period in which democracy is learned, which may take a shorter or longer period of time;

– C. Clague, P. Keefer, S. Knack and M. Olson (1996), who emphasise the positive role respect for property rights plays in economic development, be the political system democratic, authoritarian or even dictatorial;

– finally, A. Varoudakis (1996), who through a close study of the relationship between the practices of government and economic development, clearly shows how the practices of predation at the top of the State (theft or looting of public property) thwart or even completely block economic growth.

Ultimately, through these different works, the central proposal that emerges, explicitly or implicitly, is as follows: if developing countries adopt good-quality systems of governance of their public affairs (i.e. based on transparency, the respect for civil liberties and property rights); and those systems are accompanied by socio-political reforms and institutional empowerment, there is no doubt that their pace of development will accelerate to the point that the convergence hypothesis and, therefore, the process of catching up the economically developed countries becomes not only possible, but probable in the long run.

4.3. Calling into Question the International Economic Organizations

As a result of the difficulties encountered during the implementation of The IMF's stabilisation plans and of the World Bank's structural adjustment plans, critics of the two institutions have been numerous and very stern during in recent decades. These critics issued both from outside and inside of these institutions, as evidenced by the work of J. Stiglitz (2002) and, though less known, that of W. Easterly (2001), two economists who have worked for a long time at the World Bank.

The Critique of the Washington Consensus

As an academic intervening from the outside, P. Krugman has denounced the Washington Consensus, an ideological corpus developed in the early 1990s by the economist J. Williamson. The Consensus gathers, around the IMF and the World Bank, most of the finance ministers of the industrialised countries, main investment funds, large banks and various think-tanks. Stated as absolute truth, the central argument of this corpus is that developing countries cannot prosper economically without fulfilling two conditions: to integrate into the world economy by liberalising their international exchanges; and to implement sound monetary and fiscal policy, meaning avoiding any expansionary economic policy, which would be equivalent to a monetary expansion and/or to worsening of the public finance deficit.

Although free-trade advocate P. Krugman (Nobel Prize in 2008 and initiator of the new theory of international trade) clearly does not consider full integration into the world economy as a *sine qua non* condition for economic takeoff. Regarding economic policy, he is inspired by Keynesian analysis and precludes the reasoning according to which monetary and financial stability would be the source of prosperity (Krugman 1999). From his point of view, this is evidenced by the experience of Argentina which, having respected scrupulously during the 1990s the recommendations of the IMF (up to pegging its currency to the U.S. dollar), did not escape a major crisis in the early 2000s which very nearly destroyed it economically.

Krugman is joined in criticising the measures recommended in mainstream economic thought by D. Rodrik (2012), who also highlighted their limits. According to his analysis, the G7 (group of seven most industrialized countries) ended up imposing its own development standards, which have been adopted by major international economic organisations. However, these standards do not always fit the conditions of developing countries. For example, compliance with the standards set by the WTO for integration within it requires greater financial means than the annual budgets of many poor countries of the South. On this basis, Rodrik calls into question the positive effects of international free trade on the growth and development in these countries. Therefore, although they do not share the same analysis on free trade (unlike Rodrik, Krugman believes in the virtues of free trade), they share a critical position on what the "unique thought" summarised in the Washington Consensus means.

WTO, an Inadequate Vision of Free Trade

"I understand the Principle of Comparative Advantages" and "I advocate Free Trade", P. Krugman wrote in "Is Free Trade Passé?" (1987, p. 131). Krugman believes that if only one doctrine were accepted by all economists, it would be free trade. Thus, it is not wrong to say that, in general, participation in international trade is beneficial to different countries. However, the problem lies in how free trade is apprehended. J. M. Siroën (2000), in "Existe-t-il une théorie hétérodoxe du libre échange?" (Is there a heterodox theory of free trade?) exposes the differences between the vision of academic economists and that of international institutions such as the WTO and the IMF. If both visions share a belief in the superiority of free trade, they diverge in their analysis of the accurate source of the gains obtained, thanks to international exchange.

International organisations (WTO, IMF, etc.) maintain that the gains from free trade come thanks to exports. This stand in contrast to academic theory (or at least the strain initiated in the 19th century by D. Ricardo and continued today by neo-Keynesians like P. Krugman and J. Stiglitz), which holds that the advantages of international trade for partners are attributable to imports. In an attempt to summarize the approach of academic economists of international trade, J. M. Siroën (2000) considers that in a territory where the factors of production are given in quantity and quality, regardless of their price (hypothesis of elasticity of supply factors), openness to international trade improves the income if it results in an increase in imports. This approach is in line with the classical Ricardian analysis whereby each country must specialise in the production of goods for which it has a comparative advantage. In this framework, the country can benefit from its significant productivity in the production of the good for which its comparative advantage is indisputable in order to buy more of other goods it does not produce.

On the other hand, the dominant approach today (that of the WTO and IMF) can then be formulated in such terms. "In a territory where the supply of production factors is elastic with respect to their demand, the opening to international exchange improves the economic situation if it results in an increase in exports" (Siroën 2000, p. 36). Obviously with such a formulation, it is easier to "promote" free trade between nations. This difference may, *a priori*, seem thin, if the analysis remains at the theoretical level. But the problem appears when one considers the economic policy recommendations inspired by these two visions. Indeed, when the matter concerns economic policy recommendations, a big gap exists between the two approaches: whereas the second approach advocates reciprocity of trade opening, in the first approach (the Ricardian vision), reciprocity is not a prerequisite, for it is always in the interest of a country to open, regardless of what the other countries can do.

Moreover, during debates on strategic trade policy in the United States in which he took part in the 1990s, P. Krugman defended the point of view that even if free trade has lost its aura (notably in favour of industrial policy in Europe and protectionism in Southeast Asia), it remains the best of applicable policies. On this basis, he has reservations on the multilateral trade agreements which, because of their protection clauses (subsidies, safeguard clauses, "anti-dumping measures", etc.), cannot lead to anything other than a short-term reduction of the overall well-being of the countries involved.

We could continue the presentation of analysis criticizing international organisations, but the above two arguments seem sufficient to recognise the limitations of their approach to economic development, based mainly on the integration in international trade. Certainly, one can recognise for such an approach a number advantages in terms of extending markets, decreasing costs of production thanks to the rise in the scale of production and productivity gains. However, these benefits do not occur for only marginally competitive developing countries, and, in all cases, not under the conditions established by the WTO, nor on the basis of the policies it advocates.

Finally, for poor countries, good governance is not necessarily the one advocated in the framework of the "single thought" of major international institutions. As a matter of fact, the World Bank determined a positive correlation between the composite index of "good governance" and economic growth using general indicators that, regrettably, do not consider the particularities and challenges of different countries. This worsened the divergence between the expectations from "good governance" and its real impact on economic performance. For proof, we need look no further than the difficulties encountered by most countries of the South that applied IMF or the World Bank recommendations.

It may therefore be assumed that the vision of the development reduced to its economic dimension promoted by the international organizations is not sustainable in the long run as it focuses on governance reforms that are difficult for developing countries to implement, rather than focusing on economic policy reforms that would facilitate the work of institutions, meet the expectations of donors and, at the same time, ensure a minimum level of satisfaction for local populations. Based on what proceeded, it became urgent to determine whether "good governance" should still be considered a criterion of good institutional performance and a condition for international aid. If so, what guidelines of "good governance" and what reforms should be adopted by developing countries?

Departing from the fact that international donors care for the economic prosperity and development of poor countries, they should not impose governance reforms that overwhelm these countries or hinder their development plans. Going back to the question of the new definition of "good governance", we suggest that poor countries should select, from the list of reforms imposed by donors, those that directly advance their development, bearing in mind that development will subsequently enhance governance, instead of wasting their resources, time and efforts on applying potentially inadequate, ineffective and sometimes unnecessary reforms that may delay the development process and consequently obstruct local governance.

4.4. Good Governance, a Means to Renewing the Approaches and Practices of Development in the South

The criticisms of the traditional development conceptions have undeniably produced change. The purely economic approach has been abandoned by the World Bank and IMF in favour of greater attention to the social and political effects of their macroeconomic stabilisation programnes and structural adjustment plans, as well as to the institutional contexts of their implementation. In short, for the IMF as well as for the World Bank, "good governance" is now the watchword for combating poverty, as it is, more broadly, the key response to the challenge of development in the context of globalisation.

What does this evolution mean? As seen above, at the basic level "good governance" is associated with a set of management principles of public affairs. First and foremost among them is respect for human rights, the fight against corruption, and a total transparency in project realisation and assessment. Likewise, the implementation of these principles has become one of the major conditions for gaining access to international financial aid.

However, this first aspect is not the only one. Following the authors who have deepened the analysis of this concept – and whose works have in large measure inspired the World Bank and the IMF – we can say that "good governance" comes consequently through three central issues that focus on how development policies are designed and carried out and on how the affairs of the State are handled at the various levels of administrative organisation (Isham, Kaufmann & Pritchett 1997):

– the first question concerns the nature of public policy: Which public policies should be given priority, in order to foster and accelerate the mechanisms of economic growth?

– the second deals with the modes of decision-making and of the implementation of the measures once the decisions are taken: how should decisions concerning economic policy and structural reforms be made and applied at each level of implementation?

– the third issue concerns the assessment of the effectiveness of public policy choices: to what extent do the decisions taken and effectively implemented enable the specific objectives targeted to be achieved? To what extent are they efficient in boosting the development of the country being assisted?

It is in the light of the responses to these three questions that the World Bank, the IMF and other international and regional financial institutions appreciate the quality of governance that characterises a country. Depending whether this quality is considered good or bad, new loans are granted or not to the applicant countries.

What about this new approach of development that is based on governance and real attention accorded to the role of the socio-political dimension in economic processes? It is clear that the problematics of governance – be it institutional, cultural or socio-political – is moving towards better coverage of the specificities of different countries. From this point of view, it is undeniably a step forward in the understanding of development processes (even if, some theoreticians and experts in development do not share the liberal credo of the international financial institutions). That being clear, we may raise two reservations against this approach: the first at the methodological level, the second at the practical level, and concerning the legitimacy of the international organisations' power.

At the methodological level, the criticism focuses on the process of integrating into economic reasoning (and, even, in econometric models) parameters which cannot be easily measured or quantified. Indeed, statistically evaluating the impact on the economic growth of various socio-political variables is a very complicated, and potentially problematic task, it requires the integration of socio-political exogenous factors in the analysis of economic growth. Nevertheless, the limit of such a way of operating is that the economist (and with him the boss of the IMF or the World Bank he advises) is unable to genuinely deal with socio-political, cultural and institutional data as variables that are separate from economic ones (both in their nature and in their action). Because of that, this approach is often challenged by specialists of other social disciplines, who criticize it as being too faithful to the economic logic which, by focusing on quantity at the expense of quality, often misses the essential point in the understanding of social and societal developments.

From this point of view, the great challenge today facing the economists' community of growth and development is this: how to integrate, in the theories and models of growth and development, the specific role of variables as diverse as political institutions, cultural and symbolic traditions, and social and ethnic antagonisms? And, how to clearly distinguish between the variables which contribute positively to growth and development and those which hinder or even block them?

Concerning the practical level, the debate deals with the legitimacy of the new prerogatives vested in the international financial institutions in matters of assessment of the quality of governance in different countries. As has been said, with the new conditionality, loans are granted or not granted to a country depending on how the World Bank and the IMF assess its governance-related efforts (i.e. public expenditures, respect for democratic freedoms, political stability, transparency, fighting corruption). However, what is the legitimacy of extending to the political field the prerogatives of the Bretton Woods institutions?

Without doubt, the governance-based approach in loan granting has the advantage of adapting the financial assistance programmes to the economic and socio-political contexts of the country receiving assistance. Thus, for countries in Africa, the World Bank has for about twenty years made commendable efforts to better coordinate development projects with the institutional, political and socio-cultural specificities (mobilisation of ethnic and religious solidarity, valorisation of cultural heritage, rehabilitation of traditional skills).

However, the limit of this approach is that it grants the international financial organisations excessive interventionary power. These organisations no longer withhold judgements on sensitive points of public affairs management in many developing nations: the system of government, constitutional texts, the importance of the public sector, prudential rules in bank funding. However, assuming that these international organisations have the necessary technical skills to make authorised assessments on various economic issues (which remains to be determined), they certainly lack the political legitimacy to interfere intimately in the nations' internal political functioning.

5. Conclusion

Eighty-one years after the publication of *The General Theory of Employment, Interest and Money* (Keynes 1936), and despite recent developments in the world economy, the State is again playing a central role in the issues of growth and development. Nevertheless, some safeguards that have been highlighted, particularly by the theory of public choice, are essential to the implementation of "good governance" and consequently to the developing countries of the south catching up with the industrialised countries of the north. Institutional issues are all as important as economic ones. Experience demonstrates that the main institutional characteristics of countries influence their growth and development, while the dysfunction of these institutions is often associated with economic stagnation. Therefore, to understand the successful convergence of some poor countries and the failure of others to catch up, one should study the institutional functioning of these countries, and more specifically their political structures and modes of governance.

Although there is no evidence that democracy is associated with growth and development, the convergence of poor countries is quite possible if they demonstrate an ability to overcome their socio-political problems and implement "good governance". The examples that demonstrate this fact are less and less exceptional. Aside from the fact that institutional reform requires a political transformation to empower institutional change, two questions remain. First, whether the ruling classes of the developing countries which remain poorly governed will accept the need to implement these essential changes or if they will instead continue to focus on private interests over the larger good. Second, whether international institutions will accept partial implementation of reforms that could better help the advancement of development of poor countries based on their own priorities, not the priorities imposed on them. Only time will provide an answer to these crucial questions.

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Abstract

Zarządzanie społeczno-polityczne, funkcjonowanie instytucjonalne i rozwój ekonomiczny

Polityka stabilizacji makroekonomicznej i dostosowania strukturalnego nie odniosła szczególnych sukcesów, dlatego coraz większego znaczenia nabierają rozważania na temat roli dodatkowych parametrów ekonomicznych w procesie wzrostu. W tym kontekście zarządzanie (równowaga sił, racjonalne gospodarowanie zasobami, przejrzystość zasad, zaangażowanie społeczeństwa obywatelskiego itp.) stało się nierozerwalnie związane z analizą rozwoju krajów rozwijających się. Mimo wieloznaczności terminu „zarządzanie", skądinąd ściśle związanego z pojęciem instytucji, koncepcja zarządzania jest obecnie zasadniczą kwestią w debatach na temat sposobu, w jaki międzynarodowe organizacje finansowe wykorzystują ideę „dobrego zarządzania". Autorzy analizują potrzebę „dobrego zarządzania" jako wstępnego warunku wzrostu i rozwoju krajów rozwijających się oraz możliwości konwergencji gospodarczej (tj. dogonienia państw uprzemysłowionych przez kraje rozwijające się) na poziomie międzynarodowym, opierając się na wpływie zmiennych społeczno-politycznych na zarządzanie lokalne.

Słowa kluczowe: wzrost, rozwój, zarządzanie, instytucje, warunki konwergencji, kraje rozwijające się.