

Governance and Inclusion

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Outline of the presentation: Three elements

- Moving beyond constructive ambiguity: Different concepts of inclusion, leading to a controversial claim
- Moving beyond constructive ambiguity: Governance
- A novel argument about “pathways” to governance (state capability) and inclusion (into productivity) and why “beautiful laws” can be an obstacle to both

(at least) Four meanings of “inclusion”:

Two, quite different, economic meanings of “inclusion”

- “Inclusion” as low(er) post tax and transfer incomes/consumption (e.g. let the market (as structured) with the existing distribution of assets work, and when this generates high level of inequality use taxes and transfers to achieve low(er) levels of inequality (and “poverty”)—so “inclusion as *re*-distribution”
- “Inclusion” as arranging the working of the economic system so as to maximally *include* the broadest possible swath of the population into opportunities for high productivity so that the *pre*-tax and transfer distribution of **incomes** is (a) rising with growth (economic growth is broad-based) and (b) inequality is low(er).

Two other common meanings of “inclusion”

- Equal treatment under the law (and social norms) so that individuals are not actively *excluded* from opportunity due to their characteristics (e.g. race, ethnicity, religion, sex, etc.) (where *marginalization* via socially enforced norms or prejudices is a form of exclusion). So “inclusion” as “lack of discrimination”
- “Inclusion” implying a set of “positive rights” or “entitlements” to certain goods or opportunities (over and above general consumption levels) so if every child is entitled to education then lack of enrollment in basic schooling is definitionally “exclusion”

Controversial claim: Development economics from the North or West (particularly perhaps the Northeast of the USA) has been putting radically too much attention to “inclusion as redistribution” and, conversely, too little attention to “inclusion into productivity” through broad based growth

Development economics got fundamentally confused about the difference between a “poverty” agenda and a “development” agenda

The (low bar) poverty and inequality in consumption development agenda

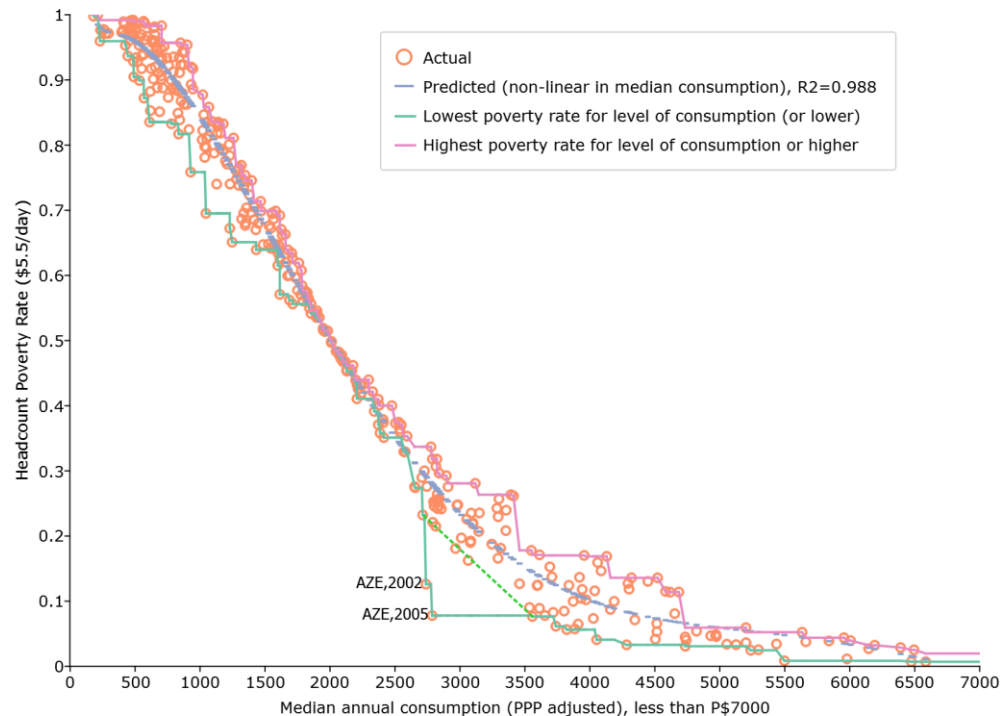
- The “dollar a day” (and other low-bar poverty lines) led to an agenda of addressing poverty via programmatic interventions (either income raising or transfers) that were (sharply) targeted and a search for “evidence” of “effective” actions against “(low bar) poverty”

Broad based growth agenda

- Focused on sustained rapid growth in the overall economy (e.g. GDP per capita) with a preference for “inclusive” growth (e.g. reasonable growth incidence)
- A “good jobs” agenda wanted to expand *inclusion* of workers into *employment* in productive enterprises

The “inclusion as redistribution” agenda, particularly the “poverty defined by low poverty lines” strand of that was fundamentally wrong: empirically, economically, politically, and morally

Empirically, poverty (at reasonable poverty lines) is broad based growth (median consumption), full stop



Source: [Pritchett 2024](#)

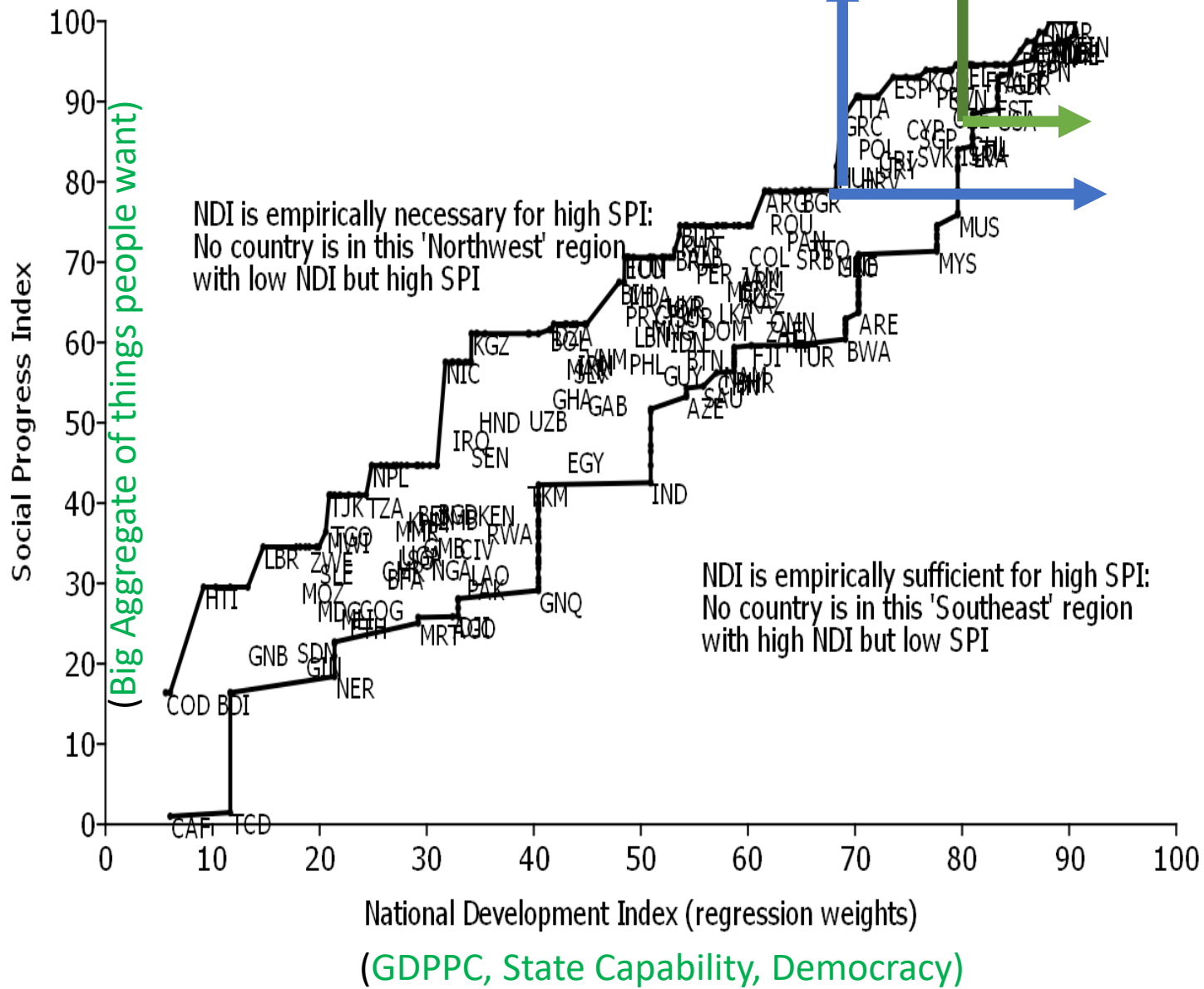
The idea the goal of “development” is the elimination of “low bar” poverty is wrong: as economics, as morals, as politically

- Elimination of “dollar a day” poverty was a mileage marker that would be passed on the road to development, never the destination ([Pritchett 2024](#))
- If “poverty” was the focus, this should be assessed at both a “low” and “high” global lines, where above a high poverty line implies “prosperity” (not just leaving ‘destitution’)
- Politically governments need to facilitate the achievement of the aspirations of all their citizens, not just “the poor”

“Governance” similarly is a rhetorical term full of constructive ambiguity, and often conflates functional objectives with particular institutional instantiations of those objectives

- “Responsive polity”: those who exercise the executive authority over the power of the state are responsive to the needs, wishes, desires, of the citizens—broadly, including their desire for autonomy, liberty and dignity.
- “State capability”: the organizations of the state are able to carry out their functions (both “imposition of obligations” and “service delivery”) by (i) implementing with reasonable fidelity the laws, regulations, and policies, while (ii) doing so in a way that protects citizens from predation and abuse by the state.

Panel B: National Development empirically necessary and sufficient for SPI



Achieving high levels of “national development” (GDPPC, State Capability, and Responsive Polity) really does instrumentally deliver on high levels of human wellbeing.

Think of both the allocation of private incomes and public authority and resources as ways of nominating and achieving objectives so that these are a machinery that endogenously produces good outcomes.

Social Progress Index

Basic Human Needs

Nutrition and Basic Medical Care

- Undernourishment
- Depth of food deficit
- Maternal mortality rate
- Child mortality rate
- Deaths from Infectious diseases

Water and Sanitation

- Access to piped water
- Rural access to improved water source
- Access to improved sanitation facilities

Shelter

- Availability of affordable housing
- Access to electricity
- Quality of electricity supply
- Household air pollution attributable deaths

Personal Safety

- Homicide rate
- Level of violent crime
- Perceived criminality
- Political terror
- Traffic deaths

Foundations of Wellbeing

Access to Basic Knowledge

- Adult literacy rate
- Primary school enrollment
- Lower secondary school enrollment
- Upper secondary school enrollment
- Gender parity in secondary enrollment

Access to Information and Communications

- Mobile telephone subscriptions
- Internet users
- Press Freedom Index

Health and Wellness

- Life expectancy at 60
- Premature deaths from non-communicable diseases
- Obesity rate
- Suicide rate

Environmental Quality

- Outdoor air pollution attributable deaths
- Wastewater treatment
- Greenhouse gas emissions
- Biodiversity and habitat

Opportunity

Personal Rights

- Political rights
- Freedom of speech
- Freedom of assembly /association
- Freedom of movement
- Private property rights

Personal Freedom and Choice

- Freedom over life choices
- Freedom of religion
- Early marriage
- Satisfied demand for contraception
- Corruption

Tolerance and Inclusion

- Tolerance for immigrants
- Tolerance for homosexuals
- Discrimination and violence against minorities
- Religious tolerance
- Community safety net

Access to Advanced Education

- Years of tertiary schooling
- Women's average years in school
- Inequality in the attainment of education
- Globally ranked universities
- Percentage of tertiary students enrolled in globally ranked universities

Figure 7a: SPI

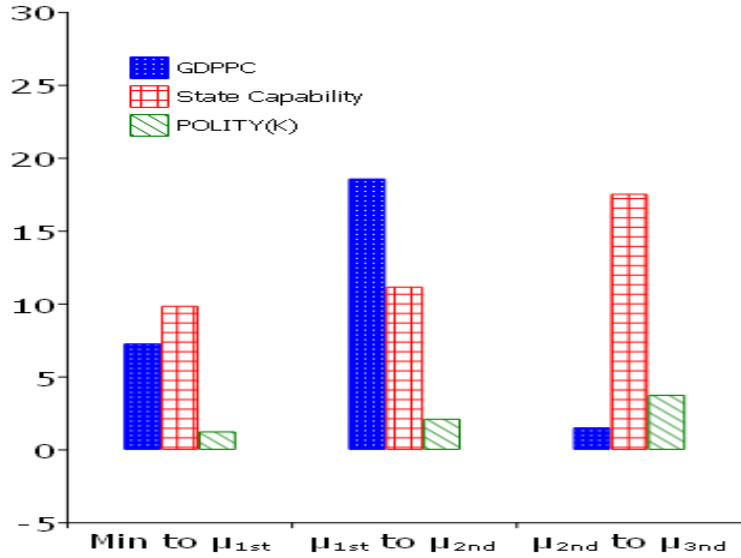


Figure 7b: Basic Human Needs

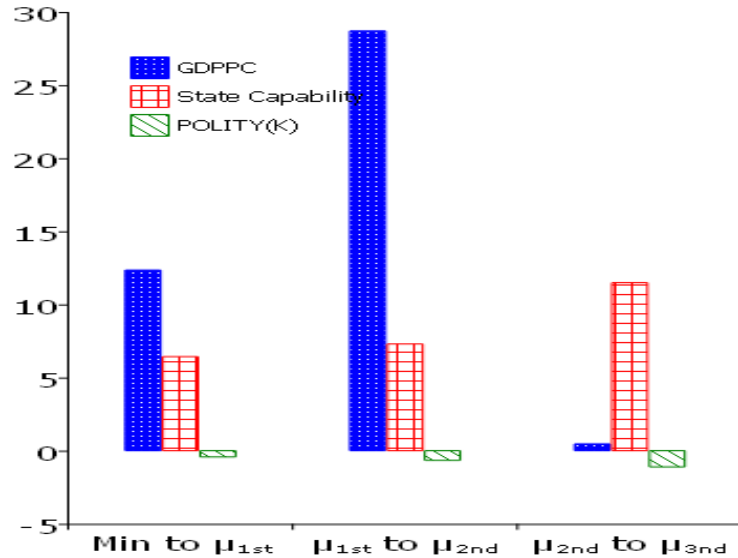


Figure 7c: Foundations of Wellbeing

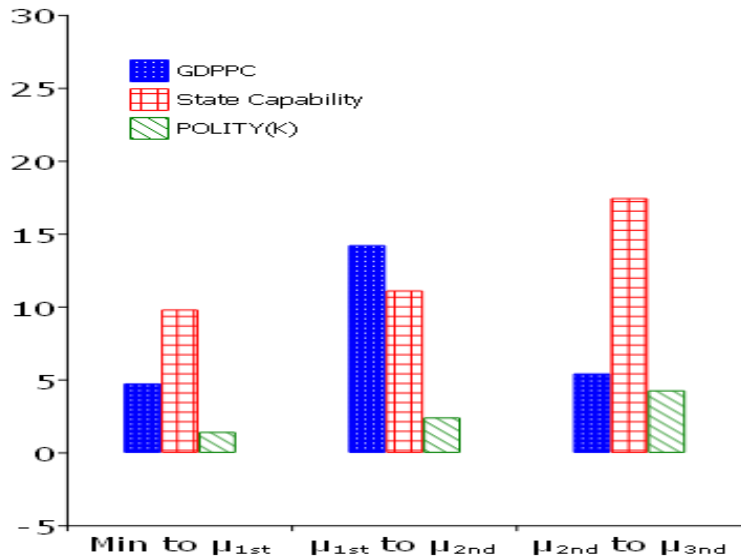
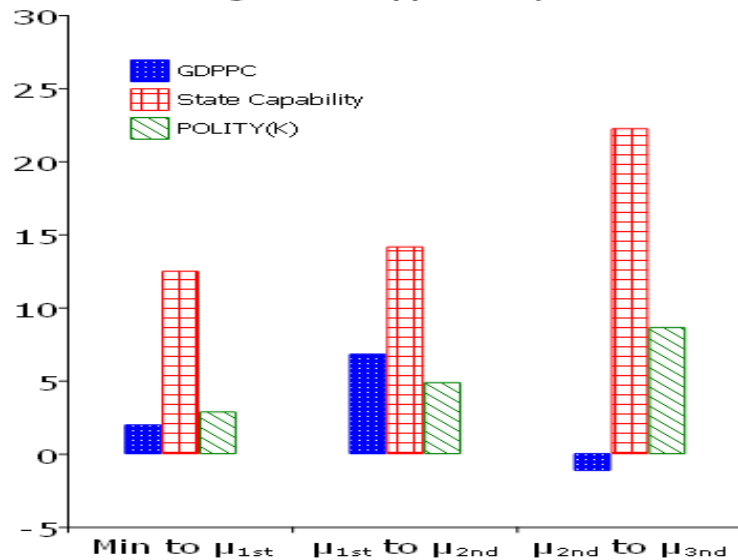


Figure 7d: Opportunity



First empirical finding: both GDPPC and State Capability contribute to progress importantly at during the “development” process (e.g. the first two sets of bars)— whereas empirically the standard Polity measure of “democracy” not so much

Figure 7a: SPI

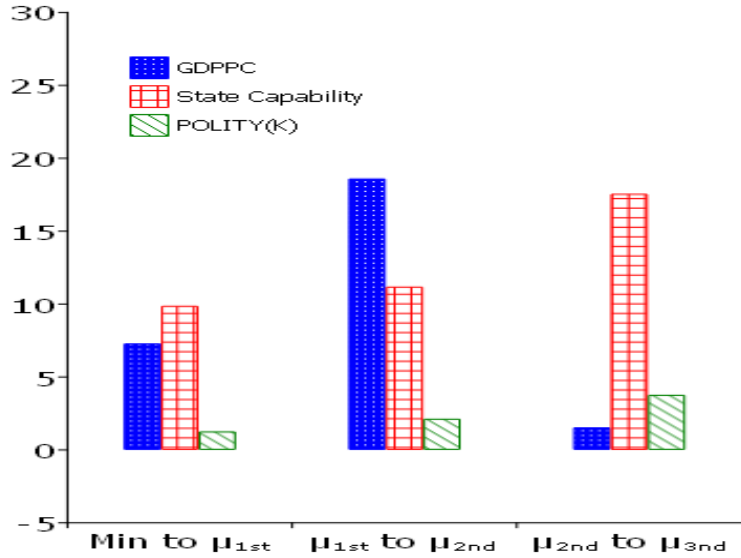


Figure 7b: Basic Human Needs

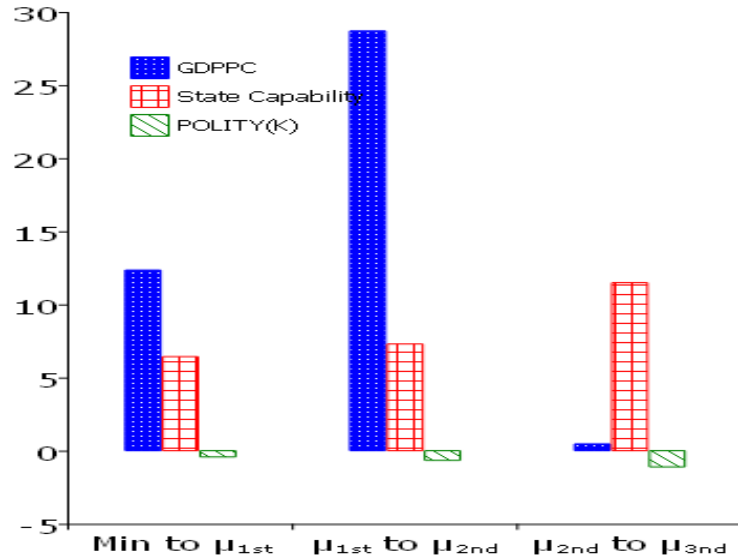


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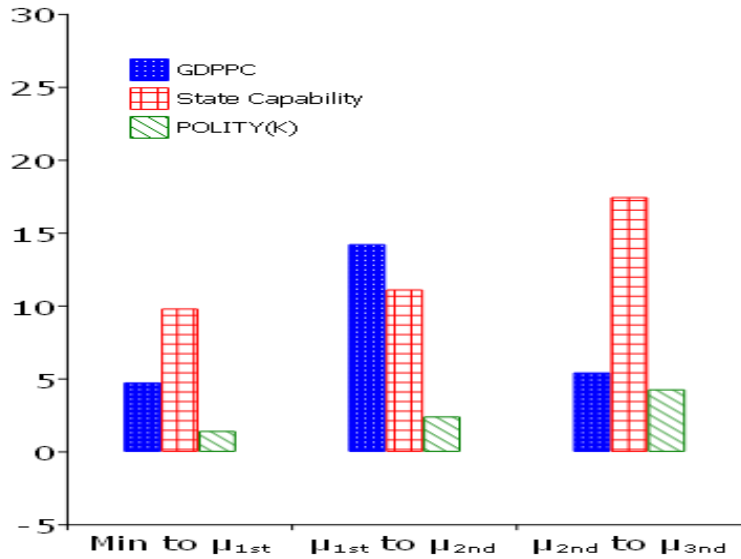
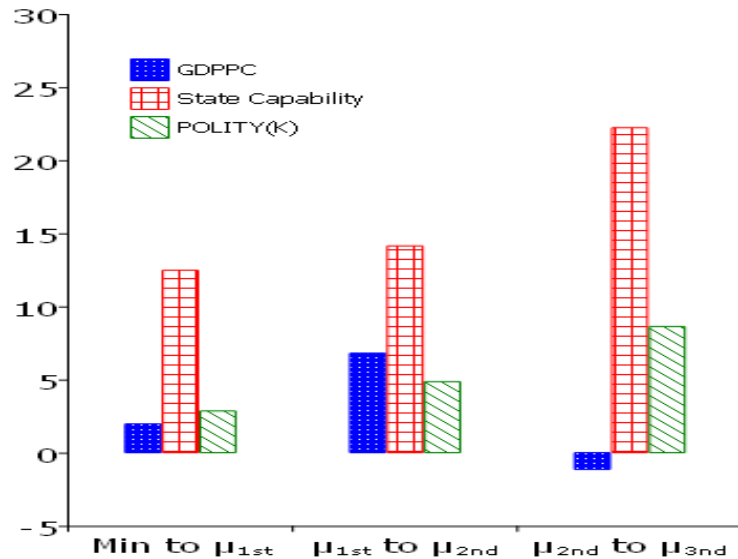
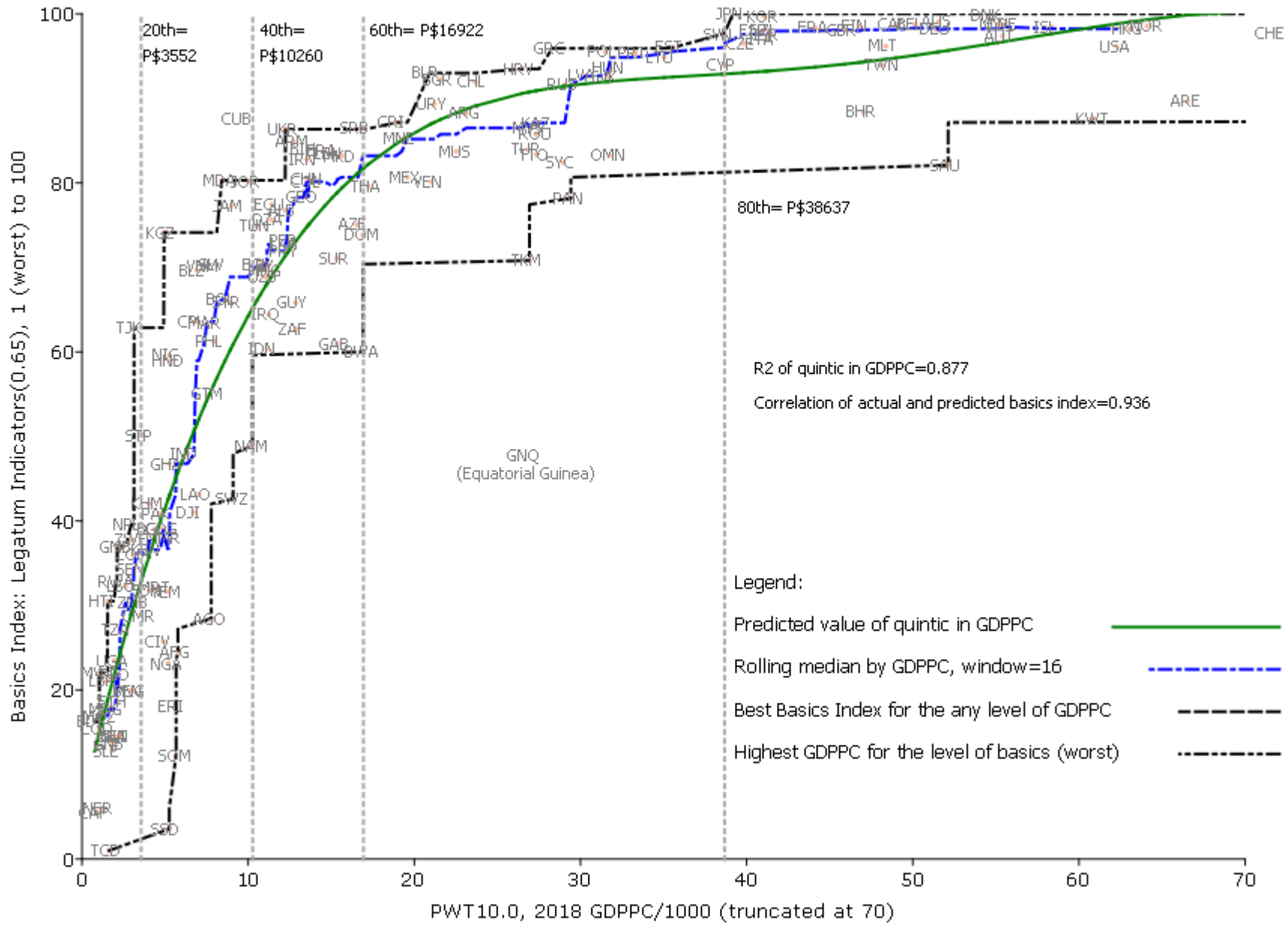


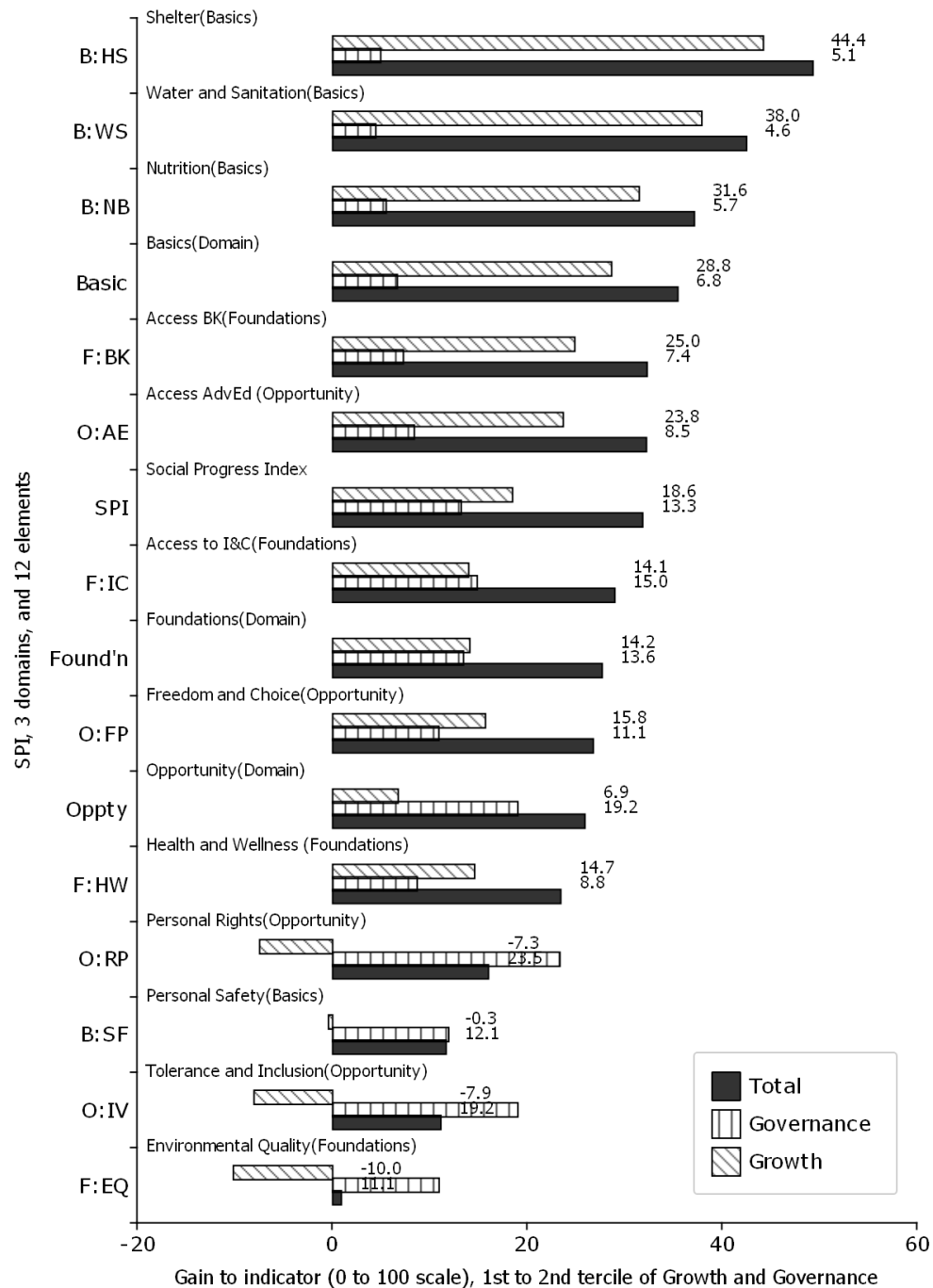
Figure 7d: Opportunity



Second empirical finding, for more 'basic' indicators of wellbeing increasing GDPPC matters most, whereas State Capability matters for the achievement of all indicators at all levels



The empirical association of (any) measure of the fulfillment of 'Basics' and GDPPC (PPP) is strong and non-linear



Components of national development matter in the way you should expect across indicators— growth(higher GDPPC) matters for basics that are private goods (shelter, nutrition) and less for goods that are less basic and more public goods (safety, environment, tolerance and inclusion)

“Governance and Inclusion”: What are the pathways?

- Yes, “getting to Denmark” (productive economy, high state capability, responsive polity) is a desirable objective as an instrument to insuring “inclusion” (in all four senses above) and high levels of human wellbeing, but “pathways” are the dynamic from where a country actually is to where one wants to be which involves...
 - Sequencing, what needs to come first
 - Prioritization, within each field/domain of action what is going to be most important
 - Interactions and feedback loops, do some ways of producing one objective (economic growth) have negative effects on other objectives (state capability)

Countries have had widely different *joint* dynamics of economic growth, state capability, and state legitimacy

- GDP per capita in PPP (comparable purchasing power) units.
- State Capability is the World Governance Indicator average of the four indicators: Rule of Law, Government Effectiveness, Control of Corruption, and Regulatory Quality
- State Legitimacy is a measure from the Fund for Peace Fragile States Index, described as: *The **State Legitimacy** Indicator considers the representativeness and openness of government and its relationship with its citizenry. The Indicator looks at the population's level of confidence in state institutions and processes, and assesses the effects where that confidence is absent, manifested through mass public demonstrations, sustained civil disobedience, or the rise of armed insurgencies. Though the State Legitimacy indicator does not necessarily make a judgment on democratic governance, it does consider the integrity of elections where they take place (such as flawed or boycotted elections), the nature of political transitions, and where there is an absence of democratic elections, the degree to which the government is representative of the population of which it governs. The Indicator takes into account openness of government, specifically the openness of ruling elites to transparency, accountability and political representation, or conversely the levels of corruption, profiteering, and marginalizing, persecuting, or otherwise excluding opposition groups. The Indicator also considers the ability of a state to exercise basic functions that infer a population's confidence in its government and institutions, such as through the ability to collect taxes.*

Governance and GDPPC for: IDN

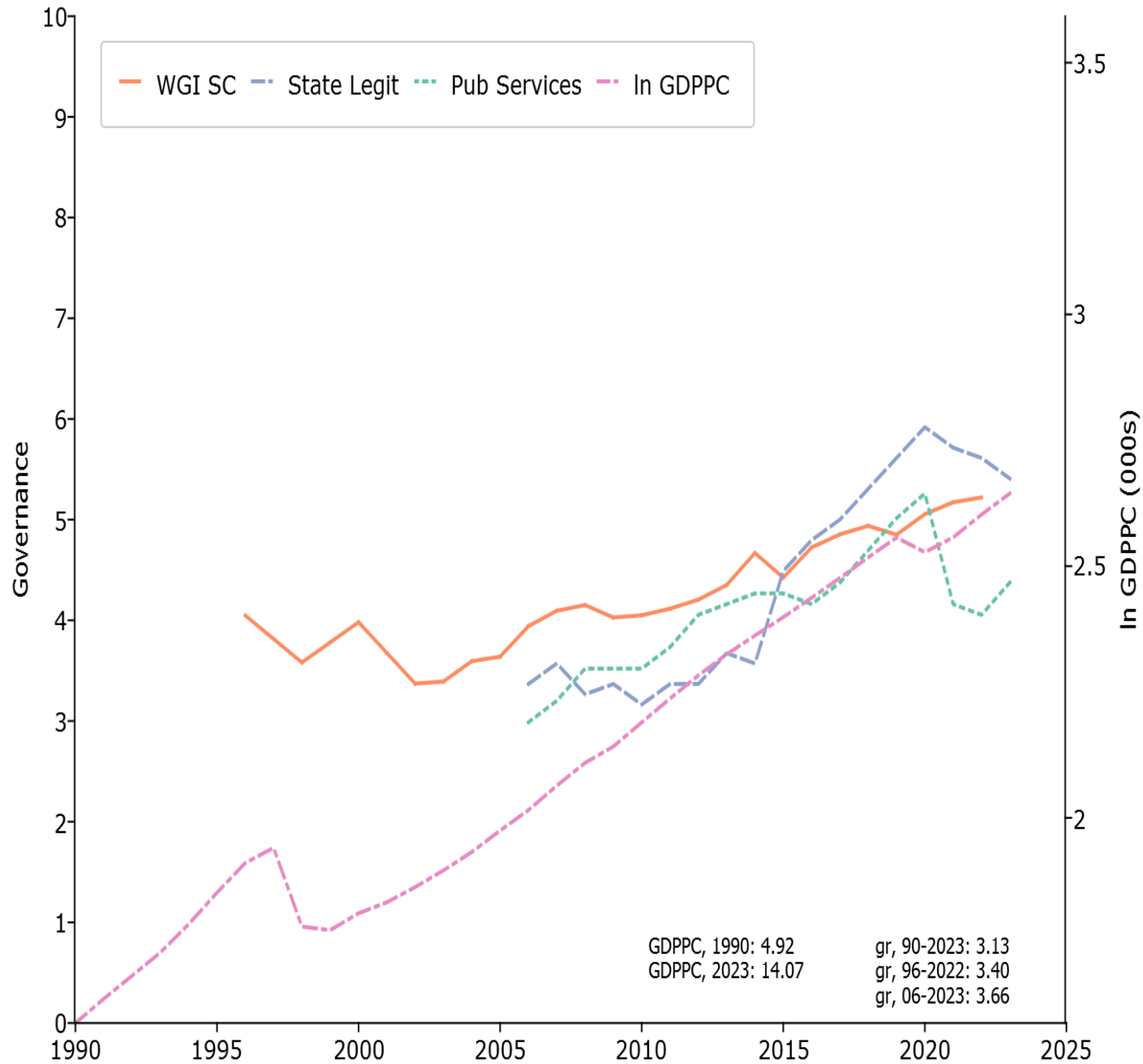


Illustration of the joint dynamics from 1990 to 2023, Indonesia

Moderately rapid growth (3.1 ppa)

Moderate and (since 2002) increasing state capability

Since 2015 strongly increasing state legitimacy

Governance and GDPPC for: VNM

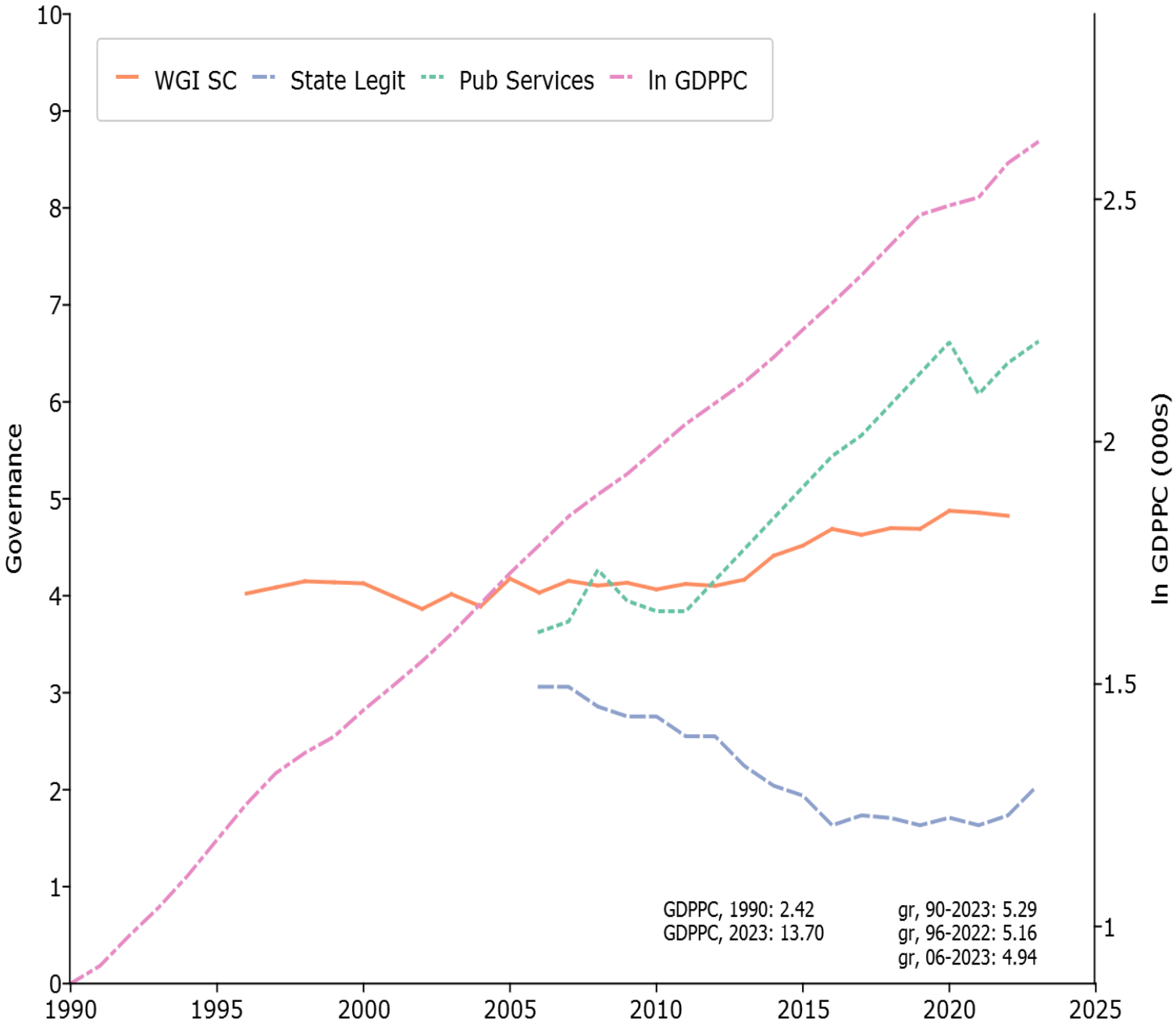


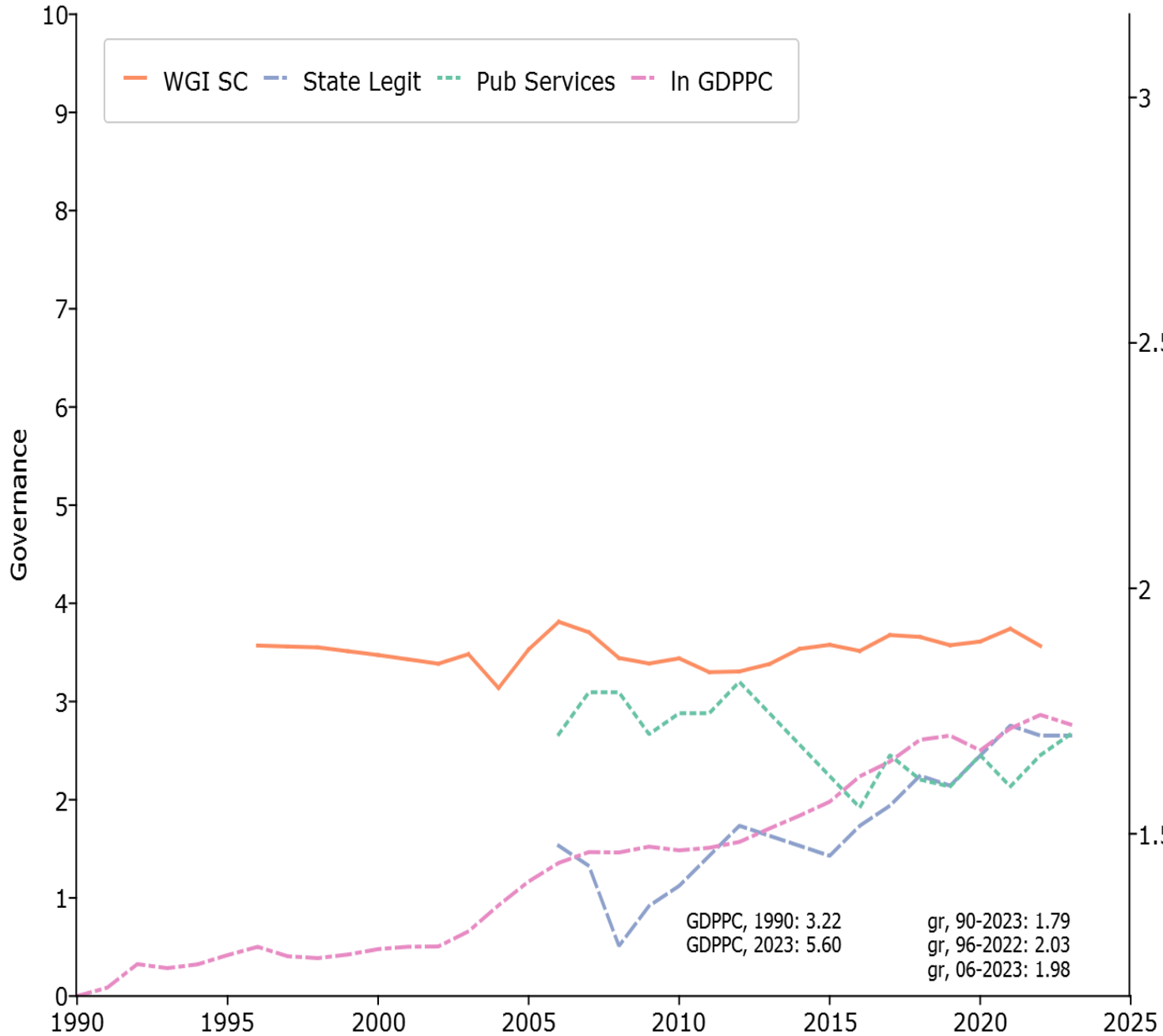
Illustration of the joint dynamics from 1990 to 2023 with Vietnam

Very rapid growth (5.3 percent)

Moderate and moderately increasing state capability

Low and declining state legitimacy

Governance and GDPPC for: PAK



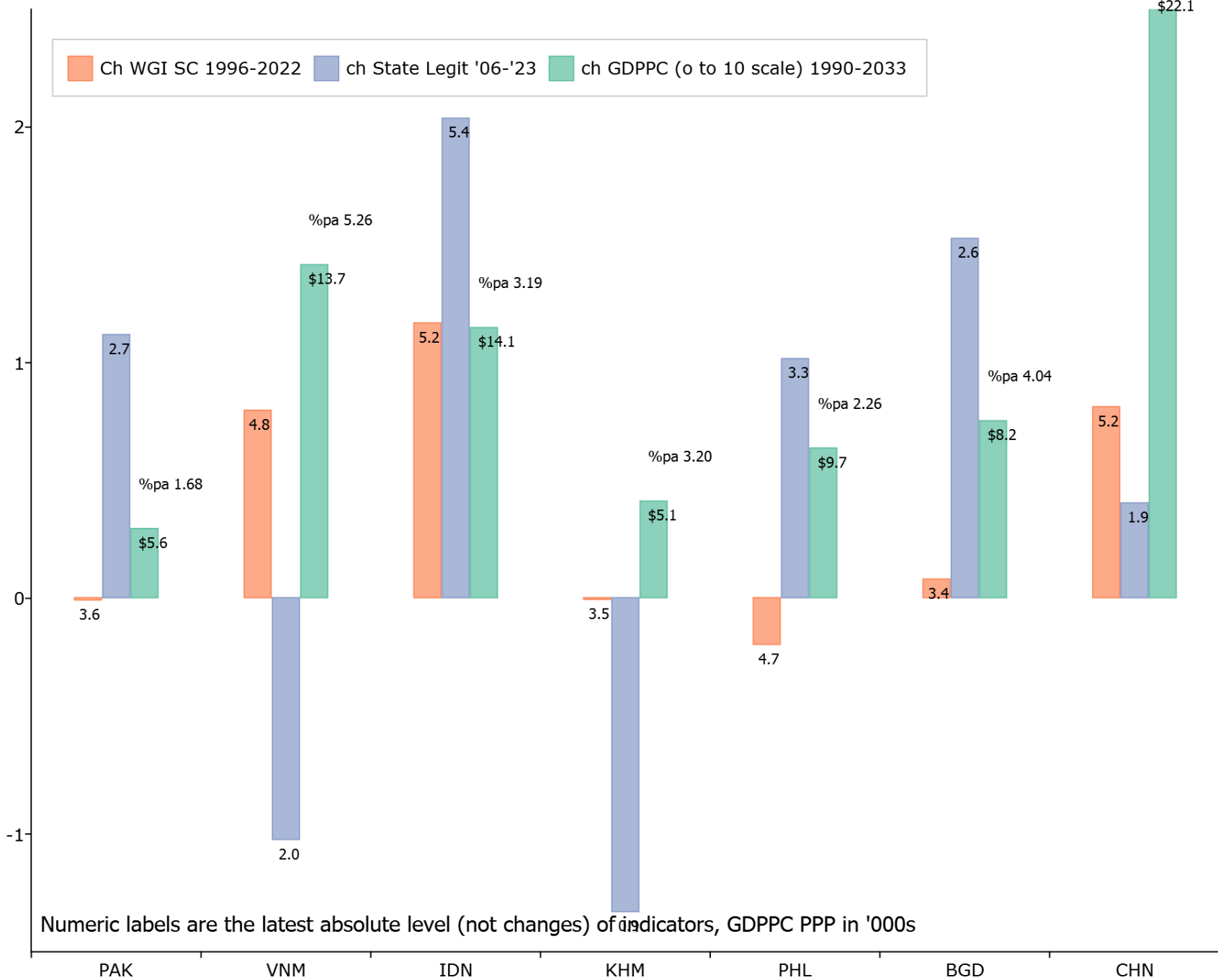
Same graph for Pakistan

About globally average growth (1.98 ppa)

Moderate and stagnating State Capability

Rising (since 2015) State Legitimacy

Falling (since 2012) ratings of “public services”



Illustrates the array of recent outcomes on three elements of the 'pathway to development'

Numeric labels are the latest absolute level (not changes) of indicators, GDPPC PPP in '000s

Here is a basic (though complex-ish) narrative, part I

- Clearly while “good institutions” may be necessary for attaining very high levels of GDP/capita, initiating a growth episode is not caused by getting to “good institutions” (or even by ‘improvements’) in the short run
- While changes in the formal laws, rules, regulations, policies can be a dynamic “jump” variable—these can be “reformed” quickly—the state capability for policy implementation (and the credibility in such for economic actors) is a “stock” and changes very slowly
- Most countries have a wide array of complex and stringent policies (e.g. tax, labor, environment, land use, finance) that far exceed the state capability to enforce and hence economic actors operate in a “deals” environment, not relying on “rule of law” to anchor expectations

Part II Growth Episodes

- Episodes of rapid economic growth are often initiated by (a) (if necessary) macro policy changes to create stable and workable macro expectations and (b) a move to an attractive environment for investment and innovation.
- The shift to higher investor expectations is not typically created by “better rules” but by a move to “closed, ordered, deals” — “ordered” in the sense expectations are anchored in the belief the political regime can and will deliver over a sufficient horizon on the “deal” and “closed” in the sense that the “deal” is available to favored investors (by sector, by region (e.g. SEZ), by political connection (e.g. to investors from certain countries)).

Part III: Feedback loops (negative)

If the existing formal, de jure, laws/rules/regulations are not changed then the “closed, ordered, deal” approach to initiating growth can create the following four feedback loops:

- Powerful political and economic actors have no interest in better “rules” as their comparative advantage is giving (political) and getting (economic) good deals that deviate from rules
- The need for credible deals undermines state capability as strong, autonomous, rules-compliant organizations are neither needed nor wanted by powerful political and economic interests.
- This creates a “dual” economy of those “inside” the closed ordered deal economy and those “outside” where the available “deals” are chaotic and hence keep actors in an “informal” sector and prevents the creation of high productivity
- This tends to undermine the legitimacy of the state either
 - (i) if formally democratic the state gets less and less “liberal” as, with low state capability and a “deals” economy politics is ordered around maintaining rents for a defined group
 - (ii) If not democratic, the regime trades off sustaining rapid growth versus deals that deliver on rising material wellbeing but at the expense of a sense of the legitimacy of the order other than instrumentally.

Governance and Inclusion

- The goal of “economic inclusion” should be that there are rising opportunities for individuals to participate in highly productive value creation through both (i) good jobs in large productive firms and (ii) opportunities for real entrepreneurship (e.g. the creation of firms that can grow if successful)
- This requires a governance of “rule of law” where people have (a la McCloskey) “equal permission” to “give it a go” and this requires laws that can be rules and an ever expanding space of ‘good deals’