Stefan Dercon on development bargains

By Stephen Howes
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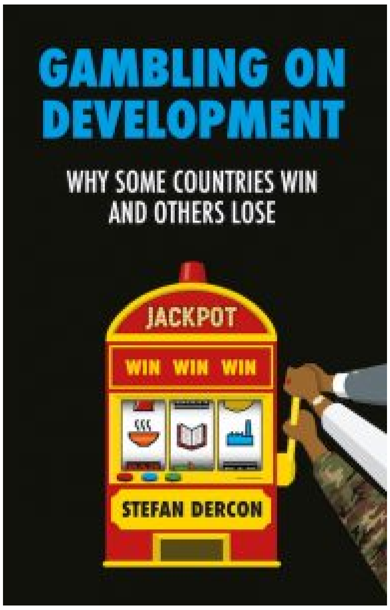

Gambling on development: why some countries win and some countries lose by prominent development economist Stefan Dercon is an insightful book and a great read. It eloquently combines the author’s reading of the literature, his own research, and his many field experiences and policy encounters.

Its overarching question is one economists have been grappling with since Adam Smith: why do some countries grow rich (escape poverty) and others not? Dercon looks to politics for an answer, and finds it in the language of elite bargains. Countries succeed if their elites agree to “a development bargain” – that is, “an agreement among those with power that growth and development should be pursued”.

There is a lot to like about this answer, and I try to teach my students the importance of political bargains for development, but I want to draw attention to three limitations of Dercon’s approach.

First, is what matters an agreement among the elite that growth should be pursued, or that rules should be followed? The World Bank’s *2017 World Development Report*, which popularised the elite bargain approach, distinguished between rules-based and deals-based bargains. Only if a bargain is rules-based, the report argued, is it likely to be durable and adaptable and provide a basis for development. Dercon stresses the importance of bargains for development, rather than bargains based on rules.

Dercon's book is mainly about Africa, his particular area of expertise, and that makes it all the more interesting for readers like me more familiar with Asia and the Pacific. He gives a lot of emphasis to Ethiopia and Rwanda. He puts them forward as examples of countries with development bargains, but their bargains are also deals-based bargains. That is, they are countries where one elite grouping has been able to dominate simply on the basis of their control of the state apparatus, and where there are no clear rules about how power should change hands.

Yes, the dominant elite in these two countries has been pro-development, but the problem with such bargains is that they may not be sustainable once the authoritarian leader at the centre of them dies. Ethiopia's bargain fell apart not long after the death of Prime Minister Meles Zenawi, and Rwanda's may well not survive the death of President Paul Kagame.

For bargains to be sustainable, power has to be institutionalised. Dercon himself recognises the importance of this when he writes that the "bargain's continuation, even when power changes hands, is a critical element". There is a lot more to a bargain being rules-based than having agreed succession rules, but I feel that if Dercon gave more attention to this requirement, he would focus more on the need for a bargain to be (or become) rules-based if it is to promote development over the longer term.

Second, when I teach my students, I talk about political rather than elite bargains. Of course elites matter, but what about the masses? Both Ethiopia and Rwanda are riven by ethnic divides; these are mass rather than elite phenomena. Focusing on social rather than only elite forces also helps us understand how society can undermine the state, and prevent it from taking on a developmental role, as argued by Joel Migdal in *Strong societies and weak states*. For example, in clientelist countries, electors (the masses) want local returns, thereby preventing their politicians (the elite) from committing themselves credibly to a national compact.

Third, talking about bargains, whether developmental or rules-based, is very dichotomous. The implicit sense is that either a country has one or it doesn't. But the reality is much better thought of as a spectrum. Dercon contrasts Africa's developmental failure with Asia's success. But the Asian success stories he highlights such as Bangladesh, Indonesia, India and even China all face significant challenges. Korea and Taiwan marched straight from low-, through middle- to high-income status, but in hindsight they seem the exception rather than the rule. Nearly all Asian countries have escaped low-income status, but whether they will make it out of the middle-income trap and ever become as rich as Korea and Taiwan are today is another question. Again, Dercon acknowledges the uncertainty, especially when discussing Bangladesh, but it does not feed through into his basic theory.

In summary, it is good to emphasise the importance of national bargains for development, but we should think about whether bargains are rules-based and in terms of political rather than elite bargains, and we should assess the suitability of bargains for development along a spectrum rather than in binary terms.

The second part of this blog reviews Dercon on foreign aid.

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