# Governance and Development:

## *Lessons from political economy research in the past 20 years*

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# What did we know 25 years ago?

# Governance matters

1. The process by which governments are selected, monitored and replaced (representation and accountability)

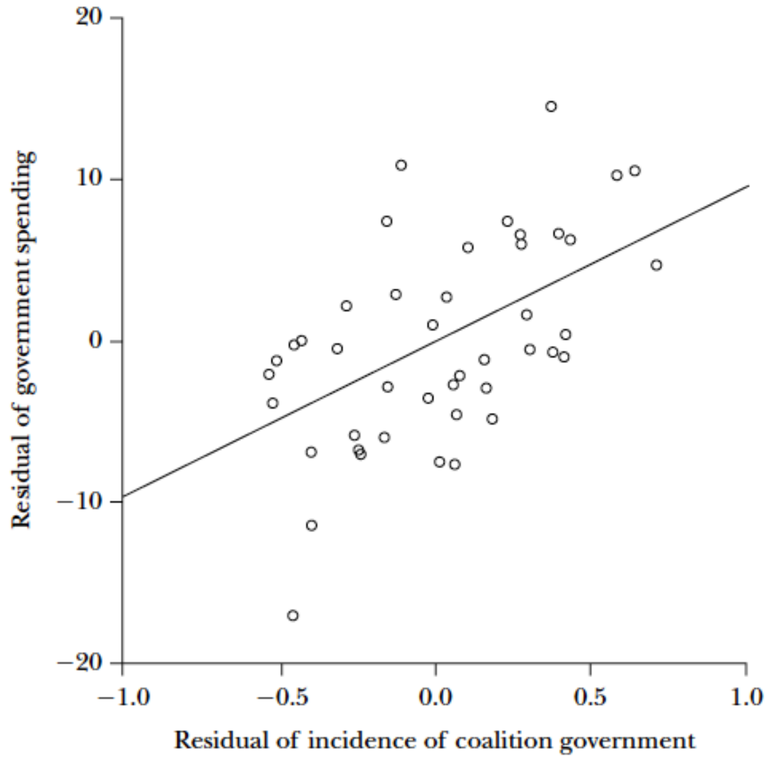
2. The capacity of the government to effectively formulate and implement sound policies (state capacity)

3. The respect of citizens and the state for the institutions that govern economic and social interactions amongst them (norms, trust, rule of law)

Kaufman, Kraay, and Zoido-Lobatón (1999)

*Figure 1*

**Total Government Spending and Incidence of Coalition Governments**




Persson and Tabellini (2004)

Baland, Moene, Robinson (2010)

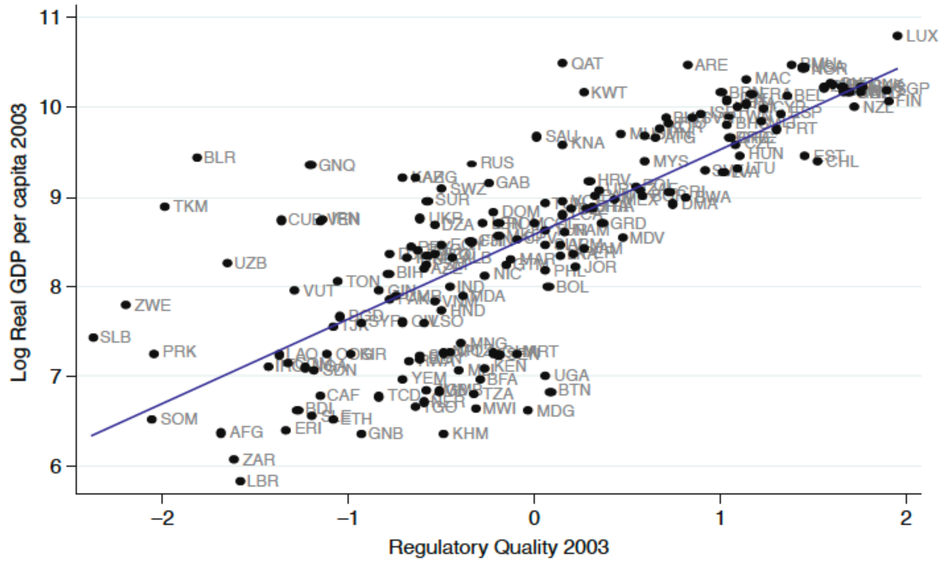



**Figure 2** Income and government effectiveness.

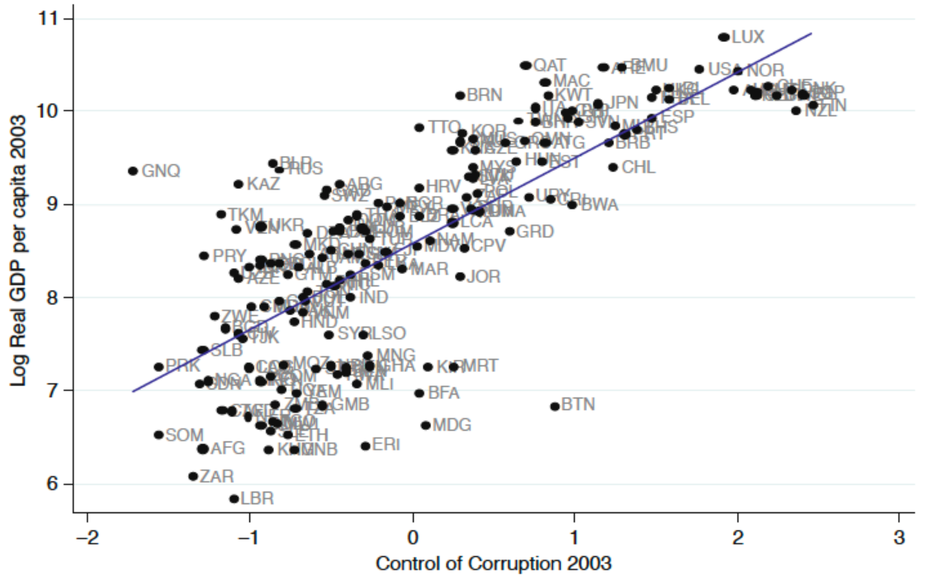



**Figure 5** Income and control of corruption.

# What institutions? What mechanisms?

- Natural experiments and within country variation
- New ways to measure governance with microdata
- Field experiments that change institutions and mechanisms of governance

CHAPTER 14

**Institutions and Development: A View from Below**

**Rohini Pande and Christopher Udry***

LOCAL CAPTURE: EVIDENCE FROM A CENTRAL GOVERNMENT TRANSFER PROGRAM IN UGANDA*

RITVA REINIKKA AND JAKOB SVENSSON

**Monitoring Corruption: Evidence from a Field Experiment in Indonesia**

Benjamin A. Olken

*Harvard University and National Bureau of Economic Research*

# What have we learned?

# Three different areas

1. Representation and political inclusiveness
2. Accountability and responsiveness
3. State effectiveness and state capacity

# Representation and political inclusiveness

# Including voters and politicians

- Inclusiveness of marginalized voters
  - Giving voice through voting change policies (Fujiwara 2015)
  - Politicians might adapt with clientelism and vote-trading (Finan and Schechter 2012, Anderson, Francois and Kotwal 2015)
- Inclusiveness of politicians from marginalized groups
  - Electoral quotas change policies (Pande 2003, Chattopadhyay and Duflo 2004, Beath, Christia and Enikolopov 2013, Gulzar et al 2020)
  - But not if elites and political parties undermine reforms (Bagues and Esteves-Volar 2012; Bagues and Campa 2021)

# Direct participation and communication

- Citizen participation in the decision-making process
    - Community Driven Development and participatory budgets. Effects on infrastructure but no effects on participation or social cohesion (Casey, Glennerster and Miguel 2012; Humphreys, de la Sierra and Van der Windt, 2013). Agency and legitimacy matter for satisfaction (Olken 2010)
- Communication between citizens, bureaucrats and politicians
    - Complaint channels, text messages, social media. Not great results up to now (Grossman, Humphreys, Sacramone-Lutz 2020)

# Accountability and responsiveness

# Information and political response

- Voters use information to enforce accountability (Ferraz and Finan 2008, Bobonis et al 2016 et al, Arias et al 2022) and politicians respond (Casey 2015, Bidwell, Casey, and Glennerster 2020, Banerjee et al 2021, Cruz et al 2021)
    - But negative information can disengage voters, reduce trust, and decrease support for democracy (Chong et al 2015)
    - And positive information (education) does not always generate rewards (Bursztyn 2016, Cox et al 2020, Dias and Ferraz 2020, Sandholtz 2023)
- Information can also affect pressure through citizens (Bjorkman and Svensson 2009)

# Rules and institutions

- Elected politicians (*vis-à-vis* appointed politicians) affect governance and public good provision (Martinez-Bravo 2014, Burgess et al 2015, Martinez-Bravo et al 2017)

- Electoral rules that affect reelection, political competition, term-length, design of districts affect governance, policies and outcomes (Ferraz and Final 2008, Dal Bó and Rossi 2011, De Janvry et al 2012, Nah 2014, Beath et al. 2016)

- Political selection driven by wages of politicians, size of legislature, resources (Ferraz and Final 2011, Brollo et al 2013, Dal Bó and Finan 2018)

# Political parties and clientelism

- Political parties and the interest of voters
  - Information to parties about what voters want and preferences of candidates (Casey et al 2021)
- Clientelism and vote-buying
  - Policies that increase income (e.g. CCT) and reduce vulnerability free voters to vote from non-clientelistic politicians (Bobonis et al 2022, Frey 2019)
  - Experiments to reduce vote-selling or reduce electoral violence (Collier and Vicente 2014, Aker, Collier, Vicente 2017)

# State effectiveness and capacity

# Bureaucracies

- Higher salaries and social contracts might help attract better bureaucrats (Dal Bó, Finan, and Rossi 2013; Ashraf et al 2020; Zeitlin et al 2021)
    - But the Mexican government got rid of the temporary program in Dal Bó et al (2013)
- Incentives through bonuses and regional allocation improve performance (Khan, Khwaja, Olken 2016, 2019; Deserranno et al 2023, 2024)
    - But they can also backfire creating perverse incentives (Acemoglu et al 2020)

# Other issues with bureaucracies

- Other ways to improve bureaucratic capacity
  - Delegation (Bandiera et al 2021)
  - Improvement in management (Best at al 2023, Muñoz and Prem 2023, Muñoz and Otero 2024)
  - Reduce turnover (Akhtari et al 2022)
  - Reduce nepotism (Riaño 2023)

# What have we not learned?

- Why voters, in many instances, do not reward improvements in infrastructure and public service delivery?
- What are the barriers to the improvement in the quality of politicians? How do we fix those?
- How to increase the trust of voters in democracy?
- How to incorporate system wide and unintended effects into our analysis? E.g. anti-corruption crackdown in Brazil and China (Hsieh, Chong-en and Song 2019)

# Political economy of adoption

- Many of successful interventions are discontinued despite effectiveness or are not adopted
  - Anti-corruption audits evaluated by Ferraz and Finan (2008) and Avis, Ferraz and Finan (2018) discontinued in 2016
  - Del Bó et al (2011) México intervention on salaries was shut down
  - The poster-child of government RCTs Progresa/Oportunidades was finished
- Why?

# Political mismatch

- Effective public policies might not be visible to voters
- Some policies only generate returns in the long-run, but elections occur every 4 or 5 years
- Inefficient ways to redistribute might be more effective from an electoral perspective (clientelism, patronage, misallocation infrastructure)
- Incumbents get votes when they create new programs/projects, not when they continue existing policies implemented by others
- Political sunk-cost. Once polices are implemented it is difficult to get rid of them (e.g. subsidies in industrial policy)

# What is next?

- Political economy of policy adoption and implementation
  - Policy experimentation in China (Wang and Yang 2023)
  - Bottlenecks of adoption (DellaVigna, Kim and Linos 2023)
  - Use of research by policymakers (Hjort et al 2021)
- Experiment with program design that is politically feasible (e.g. how to minimize unions reaction to educational reform?), think about winners and losers, vested interests

# What is next?

- Democratic backsliding and mistrust in democracy
- Social media, fake-news, polarization (ethnicity, religion)
- Political economy of climate change