

Because I don't trust him, we are friends.
—Baron Brock, Mother Courage



THE TIMES OF INDIA

New Delhi, Saturday, December 28, 1996 • Capital Edition

Bennett, Coleman & Co. Ltd.

The East Asian mirror: Good governance comes from accountability

By Hilton L. Root

Much can be learned from the rise of industrial Asia about the link between the polity and the economy. But that experience is usually misclassified in outdated categories that stir political passion while providing little insight.

One way to misapprehend the relationship of the political to the economic order is to think in categories that are too big. The biggest and most enticing category is the term democracy; it is usually pitted against authoritarianism, just as states are pitted against markets, and capitalism against socialism, as alternative paths of development.

These big categories—that dominate contemporary thinking about historical change—offer little insight into the forces that have transformed the global economic environment since World War II. The democracy-authoritarianism split tells us little about how democracy works or about how different institutions influence economic outcomes.

Democracy, the selection of leaders through competitive elections, is often practised at the same sites where property rights, the rule of law, free markets for goods and services, and human rights are protected. Therefore democracy is sometimes construed as a

necessary condition, a preserver or guarantor of a liberal economic order.

Asia's experience of democracy suggests the need to rethink this correlation. Effective economic outcomes and the holding of elections coincide among developed countries because institutions exist in the political system to ensure limits to governmental authority.

No matter how it is constituted, if powerful enough to create property rights, government can also confiscate those rights. Elections, therefore, must be buttressed by a panoply of countervailing institutions to prevent the abuse of power.

These countervailing institutions needed to ensure a transparent and predictable environment for economic policy-making do not exist among all countries holding multi-party elections. For example, Asia's democracies feature less effective communication between the state and the private sector than the nondemocracies, many of which designated formal mechanisms to interpret the holders of economic property rights to policy-making.

Many nondemocracies appoint technocrats to conduct macroeconomic policies and allow freedom to contract according to consistent rules that are the same for all citizens. Such rules, and the councils in which they are

deliberated, represent explicit limits on the discretion of government over economic policy.

By contrast, in many democracies a capricious and interventionist regulatory framework allows those who win elections to overturn the property rights of those who lose. Whereas the standard definition of democracy, the choice of government through multiparty elections, sometimes stands in as the definition of accountable government, many avenues exist for democratically elected officials to avoid accountability. The most obvious—very familiar to one Asian democracy, the Philippines—is the constant switching of parties, making party labels meaningless.

Accountability is enhanced when politics is dominated by a party that depends for its legitimacy on being able to produce socially desired outcomes. When politics fall in Malaysia, the Republic of Korea, Singapore, or Taipei-China, the public can identify the party responsible, but not in the Philippines where citizens bewail the general corruption of politicians but cannot identify any responsible group or party.

When parties are no more than vehicles to enable an individual or group to capture power, accountability for policy outcomes is blurred. The path to democracy of the Republic of Korea and Taipei-China was paved by state

institutions that held those who control the levers of power accountable for the results of policy. When elections were introduced, strong party identities were already established, making party leaders accountable for policy outcomes so that elections became an opportunity to throw the rascals out.

In India too, a functioning democracy has evolved that does not have to justify itself by being able to provide economic development. In fact, apologetic claim India's political maturity is one reason for economic difficulties. The two are unrelated.

Democracy in India failed to provide basic security for economic rights. Indeed, civil liberties were protected—citizens express any opinion they choose but firms needed government licences to make even routine decisions about where and how much to invest.

In Pakistan, despite constitutional legacy that provides checks and balances, in practice laws can be amended and civil servants transferred by executive action. Budgetary allocations can be modified without parliamentary consent, the census can be called off and local elections delayed largely due to political considerations.

The enactment of thousands of exemptions to the commercial code allows government to provide selective benefits to firms.

Protection, sometimes offered to one particular factory within a given sector, distorts competition. When laws change according to who is in charge, no one's property is secure and in the absence of limits in the power of elected officials, political contestation often takes a violent course.

Weak inputs into policy-making, discretionary regulations, and the capricious enforcement of property rights help explain why in social indicators Asia's oldest democracies rank lower than many nondemocratic counterparts.

The existence of institutions to make politicians responsible for outcomes cannot be assumed by the existence of procedures for popular participation in election. The existence of multi-party elections tells us little about the characteristics of the political systems that are market preserving.

Unfettered government discretion over economic decision-making fails to bring about social or economic development in democracies and dictatorships alike.

The missing link that unites democracy with economic performance is liberalism. And liberalism is the key to what distinguishes those countries that succeed economically from those that fail.

The definition of governance that is most consistent with economic development includes

measures to ensure an accountable and transparent political environment. This definite limits the arbitrary use of state power.

Perhaps the greatest surprise of Asia's political development that states with democratic procedures sometimes develop illeral institutions less quickly than their nondemocratic counterparts. If multi-party elections do not necessarily generate a liberal economic order, then East Asian leaders should not apologise for failing to develop Western political institutions during the transition to a market economy. Instead, pursuing democracy as an end itself, by campaigning for government, donors may be getting something they treasure even more, a firm foundation for democratic practice.

(Hilton L. Root is a senior research fellow with Hoon Institution, Stanford University, California and has been a consultant to the Asian Development Bank. This article is excerpted from his newly published book, Small Companies, Big Lessons: Governance and the Rise of East Asia, Oxford University Press, 1996.)



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