

Paris

May 17, 1996

France

Governance That Promotes Prosperity Is Liberal

By Hilton L. Root

This is the second of two articles.

MANILA — The path to democracy in South Korea and Taiwan was paved by state institutions that held those who controlled the levers of power responsible for policy results. When elections were introduced, strong party identities had already been established, making party leaders accountable. Elections became an opportunity to "throw the rascals out."

In India, a functioning democracy has evolved that does not have to justify itself by being able to provide economic development. Some critics claim that India's political "maturity" is the reason for many of its economic problems. However, the two are unrelated.

Democracy in India failed to provide basic security for economic rights. As in many developing countries, Indians were prohibited from expatriating their wealth. Civil liberties were protected (citizens could express any opinion they chose) but property rights were limited by rules that prohibited the conversion of wealth into foreign currencies or overseas investments. Firms needed government licenses to make even routine decisions about investing.

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

The enactment of thousands of exemptions to the commercial code allows government in Pakistan to provide selective bene-

fits to firms. Sometimes protection is offered to a particular factory within a given sector, thus distorting competition.

When laws change according to who is in charge, no one's property is secure. Without limits on the power of elected officials, political disputes often take a violent course.

Weak inputs into policy-making, discretionary regulations and the capricious enforcement of property rights help explain why Asia's oldest democracies rank lower in social development indicators. In the United Nations' rating of 173 countries, the Philippines was ranked 99, Pakistan 132, India 135 and Bangladesh 146, lower than many of their more authoritarian Asian counterparts.

Of the larger countries, only Indonesia, which started at a much lower level than the Philippines, performed worse, although better than most South Asian democracies.

The rankings of Asia's most venerable democracies alongside the world's most notorious dictatorships in providing social welfare suggest several compelling generalizations.

The existence of institutions to make politicians responsible for outcomes cannot be assumed just by having procedures for popular participation in elections. The existence of multiparty elections tells us little that is meaningful about the characteristics of the political systems that preserve free markets. Unfettered government discretion over economic de-

cision-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. "Liberalism" is not a term typically found in the language of countries or organizations that provide international aid, but it is the key to what distinguishes those nations that succeed economically from those that fail.

The notion of governance is the bridge to liberalism that will allow international organizations to alter the course of economic change of both democracies and dictatorships.

The definition of governance that has become most broadly accepted by those organizations whose business is economic development, such as the World Bank and the Asian Development Bank, includes measures to ensure an accountable, predictable and transparent policy environment. This definition, which includes procedures to guarantee that rules governing property rights are fairly and impartially enforced, limits the arbitrary use of state power, hence its essence is liberalism.

States with democratic procedures sometimes develop liberal institutions less quickly than their nondemocratic counterparts. If multiparty elections do not necessarily generate a liberal economic order, then East Asian leaders should not apologize for failing to develop Western institutions during the transition to a market-based economy.

By pressing for good governance, instead of pursuing democracy as an end in itself, countries and organizations that provide international aid may get something they value even more — a firm foundation for democratic practice.

The writer, a senior research fellow at Stanford University's Hoover Institution, is author of "Small Countries, Big Lesson Governance and the Rise of East Asia." He contributed this comment to the International Herald Tribune.