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DEVELOPMENT REDUX :
REFLECTIONS FOR A NEW PARADIGM

by

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Empowering People to Meet the Challenges of Globalisation



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RÉSUMÉ

Les pays Membres de l'OCDE, à l'instar de ceux de l'Union européenne, ont instauré une nouvelle culture de l'interdépendance politique et du respect mutuel. Cette évolution vient démentir l'idée selon laquelle les cultures seraient des facteurs déterministes et rétrogrades susceptibles de compromettre, ou de favoriser, le développement des pays. Le dialogue international sur les politiques et la coopération, modelés et renforcés par la pression des pairs, ne sont pas seulement valables pour les pays Membres de l'OCDE — ils ont une réelle utilité pour d'autres pays, surtout lorsque ceux-ci partagent, du moins entre eux, une conception raisonnablement proche de la gouvernance ou, au minimum, des objectifs de gouvernance.

SUMMARY

OECD Members, like those of the European Union, have created a new culture of policy interdependence and mutual respect. This gives the lie to the idea that cultures are deterministic, backward-looking realities that prevent some countries from developing and help others to do so. International policy dialogue and co-operation shaped and strengthened by peer pressure can be appropriate not only for the OECD's membership but for others, especially if they share, at least among themselves, reasonably similar values of governance or, at least, on governance targets.

I. INTRODUCTION¹

Globalisation and governance (G&G) interact world-wide. Globalisation is not just about trade but about the opening of capital markets, about information, migration — and security. We look at the challenge it represents and we look at the responses on the governance side. That is to say what do national, regional such as European, or even global institutions do? Globalisation has generalised knowledge about the challenges facing developing countries, and emphasised the need for good governance responses through institutional change.

This emerged after the Monterrey declaration produced at the March 2002 conference on Financing for Development held in Mexico. When G&G interact positively, reform can be sustained through the entire development path from aid-dependence to investment-grade national democracies. Initial conditions in so-called transition economies differ from aid-receiving countries yet, from a G&G perspective, development and transition problems gain in being looked at together. The positive interaction continues to guide institutional change on the path towards political and financial freedom.

Development economics, which had become a somewhat marginal field, came back in full force at the time of the transition from centrally planned to market-based societies in Eastern Europe. The 1985 Marshall lecture by Bob Lucas, who was awarded the Nobel Prize in economics ten years later, is as good a milestone as any. There he defined the problem of economic development as “the problem of accounting for the observed pattern, across countries and across time, in levels and rates of growth of per capita income” (Lucas, 1988). In other words, he was concerned about the way people and nations get richer. This is the traditional message of economics, and there is nothing special about it. We have, nonetheless, to be careful because some institutions that are taken for granted in some countries, especially in the Anglo-American tradition, are not so easy to establish, to let alone to develop, in other latitudes or other cultures. Moreover, here as in many other aspects of the history of economic thought, by building on the lessons of the past, looking back helps to move towards a new paradigm.

1 . Based on a presentation to the conference on “Development Co-operation: challenge for emerging donors” held by CzechAid in Prague on 12 September 2002. The research described in this paper was an input into Chapter 12 of *Development is Back* (2002), which the author co-edited with Colm Foy and Charles Oman, OECD, Paris. Other useful references are Kawai (2002) and, for transition, Braga de Macedo (2000) and (2001). The views and opinions expressed here are personal and do not necessarily reflect those of the OECD, its Development Centre or their member countries.

Hirschmann (1976) remarks in his celebrated attack on the Marxian and Weberian interpretations of capitalist development that similar circumstances at different points in time may give rise to “identically flawed thought-responses if the earlier intellectual episode has been forgotten”. This, together with the policy convergence club proposed by Sachs and Warner (1995, invoking Adam Smith), draws attention to “peer pressure” procedures for institutional change and to the role expectations have to play in the success of institutional reforms.

Institutional design and change are not exclusively economic problems but to the extent that they are economic, they should be addressed with the tools of economics. This is why development economics must be combined with social science, political science, and other types of analysis in order to influence the way people look at their environment and at the way in which it can be transformed. Consideration of development and transition should not use different analytical tools, while drawing on different assumptions concerning institutions, about which economists also have much to say.

The interaction between the international, the domestic and the regional environments is crucial to understanding why some policies failed and others worked. This has led the OECD to examine the problems of development on the basis of its own, unique expertise. In consequence, a development element now finds its way into most, if not all the Organisation’s work programmes. As for the OECD Development Centre, its most recent work programme includes a retrospective 40th anniversary publication entitled *Development is Back (DiB)*², on which this paper frequently relies. The theme of the work programme is precisely the G&G interaction. After the 11 September 2001 attacks on targets in the United States, awareness deepened on the far-reaching impact of negative G&G interactions and other policy failures with global implications.

The perspective of the “reformers’ club” that is the OECD on the many development challenges still facing us today is consistent with the “Monterrey Consensus”, prepared by the UN, the IMF, the World Bank and the WTO. This is visible from internationally agreed goals (OECD, 1996) to a new focus on better data, sounder analysis and finer attention to culture (called “development as hope” and “unity with diversity” in Malinvaud and Sabourin, 2001) to the recent creation of a development cluster in the OECD secretariat (*Postscriptum to DiB*).

The remainder of this paper is divided into four sections and a conclusion. Section II deals with peer pressure and Section III with expectations and institutions. Section IV ponders evidence for global policy convergence and the reform process while Section V introduces the principle of proximity as one sound indicator of good global governance. Section VI concludes.

2. The project was called *Development Redux* and included the entire Development Centre staff and sought to garner analyses and reflections on the development process, thereupon to formulate strategies for the future. It gave birth to a commemorative volume, titled *Development is Back*, at the insistence of the publisher.

II. THE MARSHALL PLAN AND PEER PRESSURE

The principles guiding the interaction among OECD countries and the modes of governance that they enjoy go a long way to explaining their adaptive capacity and resistance to shocks. The challenge consists in finding means of adapting the institutional and policy framework in which developed countries operate to each developing country's capacities and ambition.

International organisations have a role to play in setting standards, codes of best practices and international governance rules. The Marshall plan demonstrated that support for peace process must include governance conditions and co-operation among recipients of aid. Most significantly, it emphasised the peer pressure method of mutual surveillance. It is this peer pressure, including on governance issues, that has not only underscored peace, but has reinforced democracy.

The principle of peer pressure reconciles diverse development experiences and expectations as it installs informal controls on the behaviour of states and encourages a learning process between nations. The system epitomises "unity with diversity", as different aspects of mutual surveillance apply to diverse circumstances.

The Marshall Plan remains the benchmark of international assistance to reconstruction and development (having inspired similar efforts in favour of countries in Eastern Europe, Central Asia and Africa). The reason may be that Marshall aid recipients agreed on how to allocate the payments through multilateral surveillance procedures which pioneered those of the Exchange Rate Mechanism (ERM) of the European Monetary System. The OECD, created as a successor to the administration of the Marshall Plan by the Organisation for European Economic Co-operation, kept peer pressure among Member countries as its driving force.

This remained largely confined to the OECD membership until the fall of the Berlin Wall and the demise of the Soviet Union. The advent of true global economic progress seemed then to follow the triumph of the market over the state. The recommendations of the Bretton-Woods institutions combined with US preferences to form what came to be known as the "Washington Consensus" (Williamson, 1994). It was widely believed that globalisation promoted and rewarded appropriate policies at national, regional and global levels. As shocking policy failures emerged at all three levels, the role of governance at corporate, public and political levels began to be part of the new development paradigm (Chapters 7 and 8 in DiB).

The management practice of benchmarking encourages institutional change by allowing more efficient monitoring through increasing the accountability of managers or policy makers. The success of the Euro lies in the multilateral surveillance procedures

that originated in the Marshall Plan and which brought peer pressure to bear on the members of the ERM well beyond the monetary and exchange rate areas. While interdependence has been observed among major OECD members, how relevant is it outside the membership? Regional arrangements in other continents, such as MERCOSUR's Macroeconomic Monitoring Group or the Chang Mai Initiative among ASEAN members, China, Korea and Japan benefit from similar procedures (Braga de Macedo *et al.*, 2001; Chapters 9 and 10 in DiB and Kawai, 2002). A "mutual accountability" between DAC donors and least developed countries, foreseen in the millennium goals, is part of the New Partnership for African Development (NEPAD) but it must involve private initiative and civil society in addition to African governments (Chapter 11 in DiB and Braga de Macedo, 2002).

III. EXPECTATIONS AND INSTITUTIONS

The importance of network externalities in a country's institutional framework means that organisations that are well adapted to and evolve in that framework will often capture increasing returns from it. Incremental change in a country's institutional framework comes from the perceptions and expectations of political, economic and social entrepreneurs and organisations that they could do better by altering it. Those perceptions and expectations depend crucially both on the information they can acquire, on its cost, and on how they process it.

As information and transaction costs are not negligible either in economic or in political activity, the choices made and actions undertaken by entrepreneurs and organisations should do not necessarily produce a set of institutions and transactions that deliver the common good. The costs of specifying, monitoring and enforcing contracts and property rights, including the judiciary and other dimensions of the political system, may determine whether or not a particular society will find a positive G&G interaction.

The central implication of external economies (e.g. the rate of learning in a sector is larger the larger the sector) is that there will be multiple equilibria and therefore that a policy choice arises about how to reach the most desirable equilibrium. Therefore, in a world of increasing returns, the division of the world into rich and poor nations takes place endogenously. In this regard, there are those who think that the choice is essentially resolved by history (past events set the preconditions that drive the economy to one or another steady state). Indeed, there is a strong tradition arguing that history matters precisely because of increasing returns, but there is an alternative view, according to which the key determinant of choice of equilibrium is expectations.

In the stylised model of Krugman (1991), history alone determines the equilibrium if three conditions are met. First, "if the future is heavily discounted, individuals will not care much about future actions of other individuals, and this will eliminate the possibility of selffulfilling prophecies." Second, "if external economies are small there will not be enough interdependence among decisions". Third, if "the economy adjusts slowly, then history is always decisive. The logic here is that if adjustment is slow, factor rewards will be near current levels for a long time whatever the expectations, so that factor reallocation always follows current returns".

As expectations include the tendency towards convergence, they impose tighter and tighter constraints on inadequate policies. Also, even though future generations are not represented in majority voting, greater awareness of the need to implement sustainable policies brings pressure on elected governments to clarify the intergenerational effects of current policies (Chapter 5 in DiB). This applies to the physical and cultural environment, as well as to the provision of public goods and transfers through taxation.

The awareness is also rising that excessive taxation, whether overt or hidden in the form of inflation, discourages saving and stifles growth. This may appear not to be a developing country problem, but the difference arises mainly in the mix between overt and hidden taxes, as the latter dominate in developing countries.

As growth prospects fall due to the absence of incentives to save and invest, so does employment, reducing future consumption and increasing social deprivation. In due course these policies will be corrected. Yet, without adequate institutions, there may be reversions into inadequate policies. For Tavares and Wacziarg (2001), one of the paradoxes of democracy may be pressure for current consumption, even to the extent of mortgaging future savings. In that sense, economic adjustment helps prevent policy reversals for any given level of interdependence in time (low discount rate) and in space (large externalities). Conversely, high interdependence induces institutional change and adaptation.

Despite agreement that market-based economic growth is key for the prevention of poverty and hunger, discussion continues about which kind of economic growth strategy to follow in developing countries (Chapter 6 in DiB). A successful strategy for higher economic growth would be based on forging institutions appropriate both to the local culture and to global financial markets. For example, de Soto (2000) has shown the empirical importance of unclear property rights in developing countries and Besley and Pratt (2001) show that freedom of the press improves governance. Bonaglia *et al.* (2001), using corruption data covering 119 countries over the last 15 years show that more open economies, enjoying more foreign competition and investing abundantly in institution building, register lower corruption levels.

History teaches us that there has been no war between liberal democracies for over a hundred years. Also, countries with democratic political systems tend to generate higher economic growth with wealth shared by a wider population, than countries with non-democratic regimes. Tavares and Wacziarg (2001) find a positive correlation between democracy and the level of income, income growth, investment, human capital and openness. Drèze and Sen (1990) stress that democratic countries have managed to prevent famines, even if they have more trouble avoiding malnutrition.

There are many specific examples that governance and institutions matter for development, but exactly how the independence of the central bank and appropriate budgetary procedures interact with political accountability in particular institutional settings is not known. Since "change is the rule" in this environment, economists can contribute to understanding institutional change. Von Hagen and Harden (1994 and 1996) looked at the budget laws of various countries and tried to show in what way you could compare the procedures for the budget to be approved and then passed in parliament. Similar work had been done by Cukierman (1992) and others about the central bank or about monetary institutions. Branson *et al.* (2001) apply it to transition countries.

Persson, Roland and Tabellini (1997) do find a general trade-off between independence and accountability which provides support to the separation of powers argument from eighteenth century political philosophy. In particular, the separation between executive and legislative powers is applied to the budget process as an

illustration of the benefits of democratic governance. Building on their notion of complex interdependence, Keohane and Nye (2000) show that, with the spread of free information, the credibility of policy becomes essential — a direct consequence of the role of expectations. Nevertheless, there are few applications of these insights to developing countries, so that the burden of the initial conditions makes institutional change less credible.

International and inter-regional organisations have an important place in this process. They provide essential opportunities both for countries to learn from each other and to exercise oversight and peer pressure. With the right governance reforms, populist, but unworkable solutions have less likelihood of adoption. The media, for example, are now much more crossborder than they have been in the past and the access to information is much harder to control. Where international agreements contain elements of media freedom, they can contribute to open debate and transparency at all levels, freeing the citizen from ignorance and providing tools for the popular monitoring of the behaviour of state and business.

IV. GLOBAL POLICY CONVERGENCE AND REFORM

Maddison (2001) demonstrates that the development process involves an increase in productive capacity as well as rising per capita incomes. Rising incomes per capita are also reflected in progress toward the ambitious agenda for reducing poverty, its causes and manifestations agreed upon since 1996 and incorporated in the “Monterrey Consensus”: halve extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce under-five mortality and maternal mortality by two-thirds and three-quarters respectively; reverse the spread of HIV/AIDS, malaria and other diseases; halve the proportion of people without access to safe drinking water; ensure environmental sustainability; and develop a global partnership for development with targets for aid, trade and debt relief. The “Monterrey Consensus” reinforces the role of developing countries’ policies in meeting the challenge of this global partnership for development.

The emphasis on these internationally agreed goals should not obscure the essential failure of import-substituting industrialisation and the demise of central planning and their influence in income divergence. Economic growth has been predicated on the process of economic reform that has been going on in developing countries alongside the emergence of a global economy. The prerequisite of institutional change revealed by such a reform process confirms the importance of good corporate, public and political governance, along the lines of the G&G positive interaction.

One of the crucial debates in economic and social development is about how to ensure that the poorer countries grow more rapidly than the richer countries, so that there may be convergence in living standards and increasing cohesion in the world economy. If “the rich get richer and the poor get poorer”, the gap between rich and poor nations will tend to widen over time. Cohesion — be it global, regional or even national — will be threatened. Reforms will stall. In this debate, convergent countries form a club (Chapter 4 of DiB).

If the failure to grow may be rooted in policies rather than in technology or human capital, then the convergence club is better defined according to policy choices rather than by initial levels of human capital. Moreover poor policy choices are not irrevocably linked to low levels of income: countries with “appropriate policies” and initially low per capita income grow more rapidly than richer ones. Countries whose policies related to property rights and to integration of the economy into international trade do not qualify as appropriate do not converge.

The capacity to cope with a volatile international environment is the main difference between emerging markets and mature democracies, which have clustered in what is called the West in Chapter 2 of DiB (Western Europe, its offshoots and Japan).

The response to crises is often more drastic at the periphery than at the centre because policy is supposed to have higher credibility in mature democracies with a higher credit rating and more transparent public and private partnerships. Lower ratings go with less transparency, signalling a weaker financial reputation and higher perceived risk to international investors.

Table 1. The Rest relative to the West
(%)

	1950	1962	2001	2015
Rest/world population	78	79	86	88
Rest/world per capita	52	51	55	63
Rest/West per capita	19	17	15	18

Note: GDP expressed in 1990 international dollars explained in Maddison (2001).

Source: Based on data presented in DiB, Chapter 3 where the forecast is explained.

Dividing the world among the West (excluding former periphery countries which became members of the OECD) and the Rest, the latter's population share in the world total rises by 9 percentage points between 1950 and 2001, but at current trends is expected to increase by one percentage point only from 2001 until 2015. On the contrary the per capita income share of the rest in the world average rose by 4 percentage points between 1950 and 2001, and at current trends is expected to increase by 8 percentage points from 2001 until 2015. All told the ratio of rest to west per capita income fell by 5 percentage points between 1950 and 2001, and is expected to increase by 3 percentage points from 2001 until 2015 (Table 1 — some numbers do not match due to rounding).

Table 2. Development Accounting

	y (1)	H (2)	(k/h) ^a (3)	A (4)
Rest (exc. Africa)	25	58	65	65
Sub-Saharan Africa	6	38	38	41

Note: Differences expressed as percentage of West; column (1)=(2)*(3)*(4).

Source: Based on data presented in DiB, Chapter 3 and from Cohen and Soto (2002).

These figures have largely determined the productivity levels used in accounting for the sources of growth in Table 2. Using new data on human capital, Cohen and Soto (2002) show that there is no unique factor behind the poverty of nations. Poor countries are "slightly" disadvantaged in each one of the factors behind prosperity. But the combination of these slight weaknesses results in huge income gaps.

In a standard neoclassical production function, total output is given by a weighted average of the labour force (denoted by L) and physical capital (denoted by K) augmented by human capital (denoted by H, a combination of years of schooling, labour experience and health). If output per head (denoted by lower case letters the ratio to the

labour force, or $y=Y/L$) is the product of total factor productivity (denoted by A), human capital per capita (denoted by h) and the ratio of physical to human capital (K/H raised to the power of a , the capital share in the production function), income differences between rich and poor countries can be explained by differences in human capital stocks (h), differences in physical capital stocks $(k/h)^a$, and differences in productivity (A). This decomposition is presented in Table 2 relative to rich countries' average, taken to be one for each one of the variables but presented as percentage for convenience. The capital share is assumed to be constant and equal to $1/3$, a standard assumption in growth accounting.

Table 2 shows that, excluding Sub-Saharan Africa, average income per capita in poor countries is only 25 per cent that of rich countries. What is behind this difference? Columns 2 to 4 show that there is no single reason explaining this income gap. Human capital is 58 per cent that of rich countries, while the relative shortage of physical capital is 65 per cent. Finally, total factor productivity is just 65 per cent of rich countries'. Put simply, we can say that poor countries (excluding Sub-Saharan Africa) are, on average, a third poorer than rich countries in each of the three terms forming wealth. Although the gap in each one of these terms individually does not seem disproportionate, their combination results in an income gap of 75 per cent. The case of Sub-Saharan Africa is even more spectacular. This group of countries has only 40 per cent of rich countries' level of each, human capital, physical capital and productivity. This scarcity implies that average income is just 6 per cent that of the rich world.

Over the last decade, many countries have reduced state involvement in the economy through privatisation. They have opened up the economy much more to foreign trade and investment, and allowed market forces and the private sector to guide resource allocation to a much greater extent, bringing to the fore the G&G complementary.

Experience with the reform process has shown that privatisation and liberalisation are not simply complementary but are symbiotic. In practical terms, this is reflected in the basic regulatory function or abilities of the state; abilities which may be either inadequate without further investment in public administrative capacity, or threatened by liberalisation itself, especially with respect to financial markets. As a consequence, the sequencing of domestic liberalisation policies must be done carefully: the appropriate response to the competitive pressure of globalisation may be a restriction of trade in assets until banks are effectively supervised.

Creating new institutions, capable of delivering the desired role of the state in economic life, remains a matter for national choice. Preferences vary widely, and initial conditions, economic, social and political, are equally diverse. A reformist government being replaced by a nationalist or populist one will change the policy response to globalisation, for example. However, reforms are often more rhetoric than a revelation of a plan or a genuine commitment on the part of policy makers. Since the losses are clearer than the gains, even though the latter may potentially be much larger, uncertainty about the political redistribution mechanism may impart a "status quo bias", as illustrated in the context of protection by Fernandez and Rodrik (1991).

The ability to redistribute power and real resources to the population at large suggests that some social groups are able to distribute external resources among themselves in a more or less co-ordinated fashion. As each powerful group ignores the effect of the transfer it extracts on the taxes levied to balance the government budget, aggregate transfers rise more than proportionately (Tornell and Lane, 1999). In practice, groups can be identified with parts of the government, in particular spending ministries (e.g. public works, education, health), possibly in alliance with industry or union lobbies (construction, teachers, pharmaceuticals). In other cases, the groups can be identified with traditional institutions, the churches, the military, the judiciary, etc. (Tommasi, 2002).

Given the widespread awareness of reform rhetoric and of the resilience of vested interests, currents departing from mainstream development thinking have become more difficult to classify neatly in terms of method and ideology. Moreover policy reform must be accompanied by attention to its impact on poverty, inequality and social cohesion (Chapter 6 in DiB). Among international organisations, a broad reformist approach originated in the report by Pearson (1968) and became part of the “basic needs” approach of the World Bank and others, including the ILO. It was largely forgotten until the Comprehensive Development Framework (CDF) was launched in January 1999.

The CDF is seen as a response to the perception that globalisation leads to increased poverty. Successful development assistance reflects four principles: long-term, holistic strategy; country ownership; partnership (with business interests and civil society); and results orientation (as opposed to stress on inputs like the percentage of aid in GDP). None of the principles is new, and they all raise difficult choices. First, how long is the long run? Second, what if a country owns the “wrong” policies? Third, partnership often makes policy making more difficult due to various forms of transactions costs. Fourth, results orientation by itself cannot overcome voracity type effects.

Nevertheless, the joint articulation of the four CDF principles as a framework to promote coherent aid programmes has been influential in the development community. Its ongoing evaluation by a broad group including major bilateral donors, other international organisations (OECD, the African Development Bank, the UN Economic Commission for Africa), civil society and business may make the CDF more resilient than “basic needs” in the 1970s. The CDF reflects an interaction between globalisation and governance which needs to be made specific in order to be useful for policymakers. Governance, indeed, is at the heart of the CDF principles and of the “Monterrey consensus”.

V. THE PRINCIPLE OF PROXIMITY

The principle of proximity is also core to the institutional and policy framework in which developed countries operate. Enshrined in the European Union's founding articles, it recognises the efficiency and political responsiveness of citizen-based governance, even in a context of supra-national institutions. Proximity of institutions to the citizen also helps to provide an environment conducive to enterprise and the creation of wealth, sustaining "unity with diversity".

The existing global institutions cannot provide for the common good without relying on national and local entities. They have, however, co-operated in the "Monterrey Consensus" and launched a process which also involves business and civil society (an earlier example of collaboration between global institutions was the publication of *A Better World for All* by the IMF, OECD, UN and World Bank). Nevertheless, the democratic accountability of global institutions, let alone of regional ones, remains distant. National legitimacy remains the source of their democratic accountability. The appropriate level of governance response should be changed when the level of the nation-state is found to be inadequate, due to changes in technology, in preferences, or both.

Institutional changes at the global level are not prerequisites for most policy reforms. Indeed, the principle of proximity suggests the opposite: governance responses at the local level, through the combined action of elected officials and civil society. The European example makes clear that the common good can also be provided for by regional institutions. Indeed, the quality of governance can be improved by solving problems closer to the citizen than the often cumbersome national administration would allow.

For many issues, improving governance calls for international policy co-operation and there are even calls for new international institutions. The quest for appropriate regional institutions echoes both concerns, as there are sub-national and supranational regions. Among the latter, the institutional framework of the EU and of the OECD deserve attention because both are built on the belief that peer pressure among them can bring about better policies.

The achievement of solidarity within the EU and the success of the convergence towards financial stability, which led to the creation of the Euro, are recognised worldwide. These internal achievements have a bearing on development insofar as they provide lessons for policy reform in developing countries. All too often, however, the "common European good" invoked for internal purposes is not perceived as such in the global arena. In addition, there are the implementation difficulties stemming from the uneasy coexistence of sixteen systems of aid governance. None the less, the EU example merits close attention.

The ability to present the collective advantage of policy reform in each particular case is the essence of political leadership. Yet, too often policy makers do not care to explain the changes and their consequences for public administration, let alone firms, trade unions and civil society at large. As a consequence, social groups fear losses of income or entitlements, resist change on a matter of principle and become less sensitive to national interest than to their perceived group gains or losses.

Comparative development calls for a dialogue about policies, as development has become a two-way street rather than an “institutional technology transfer”. Comparative analysis and policy dialogue naturally involves mutual feedback. Globalisation has somewhat blurred the distinction between the West and the Rest but it has exacerbated the perception that the problems of income distribution and skills are global. The perception that globalisation, not poor governance, has reinforced inequality is behind much of the confrontations around the international trade and investment agenda. While confrontation came to a halt, albeit temporarily, with the September 11 attacks, and the new development paradigm is based on enduring partnerships and peer pressure, the prospects for implementation at global level are not good. Indeed, in the run-up to the Johannesburg summit, the collaboration among international organisations did not build on what had been achieved at Monterrey.

Analysis is not enough to completely prevent misunderstanding, fear and prejudice, but a communications campaign would also run out of steam, unless it were based on a credible demonstration of the benefits of tariff liberalisation in and of greater market access for developing countries. This is borne out in a report on “building an inclusive world economy” (World Bank, 2002), or in the inclusive globalisation featured in the Development Centre’s work programme on G&G. After the September 11 attacks, international organisations have recognised that the debates on globalisation can no longer neglect the security dimension of national, regional and international governance.

VI. CONCLUSION

Development implies a sustained improvement in people's welfare. As the history of mature democracies reveals, the lynchpin of progress is governance. Institutions promoting the rule of law and the role of civil society underpin the co-operation and social cohesion necessary for development.

From its creation in the wake of the Marshall Plan, the OECD has served as a yardstick for development. This is because its Members, despite their heterogeneity, constitute a group of successful reformers who share well-developed institutions of governance. Those institutions make possible and benefit from the depth and success of their international peer-pressure practices. OECD Members, like those of the European Union, have created a new culture of policy interdependence and mutual respect.

This gives the lie to the idea that cultures are deterministic, backward-looking realities that prevent some countries from developing and help others to do so. International policy dialogue and co-operation shaped and strengthened by peer pressure can be appropriate not only for the OECD's membership but for others, especially if they share, at least among themselves, reasonably similar values of governance or, at least, on governance targets.

Local, national and international organisations all have a role to play in development, good governance and the drive for democracy. They can help developing countries to leapfrog the centuries that many OECD Members took to reach developed, liberal democratic societies. More than that, they can demonstrate that governance is the cement that binds growth and democracy together.

Three difficulties must be overcome in the quest for inclusive globalisation, pertaining to data, analysis, and culture. While inadequate data is a very serious problem everywhere, the phenomenon is even more pronounced in developing countries. Even where sound data is available, reinventing past theories will not substitute for improving on analysis. Finally, the context — the culture — and attitudes towards change or transparency which are key to the credibility of free information, is decisive.

Better data, sounder analysis and finer attention to culture will help to facilitate agreement on national and regional comparative procedures capable of improving the quality of domestic institutions. While, in the short run, domestic policies may be more valuable than pursuing globalisation at all costs, the role of external pressure is appropriate to macroeconomic stabilisation whereas peer pressure might be required to embark on sustained institutional change.

Belonging to regional arrangements which combine external and peer pressure is only one example of direct ways in which national governance may be improved. Clearly, each national development strategy has its specificity and the portability of the European experience to a development context cannot be assumed as given but the NEPAD illustrates that international peer pressure can be of interest to poorer countries. Once again, new focus has been brought to bear on the role of democracy in development — based on “unity with diversity” and on “development as hope” (Preface to DiB). This development paradigm is not new, but it had been forgotten.

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