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**Developmental States, Effective States and  
Poverty Reduction**  
*The Primacy of Politics*

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## Abstract

A series of prevailing errors in much developmental theory and practice, on left and right, has characterized much of our thinking over the last 40 years, with each error somehow compounding the others. Such errors include the following: that ‘socialism’ in poor countries can be built without industrialization; that ‘capitalist’ development will reduce poverty when markets are given their freedom; that industrialization is possible without an effective and involved state; that building such a state is largely a top-down and technical process of institution-building; that developmental states and state-led development is possible in all contemporary states; and that the reduction of poverty is a matter of steering enough of the right resources to the right places and the right people.

At the root of most of these errors has been our failure to recognize the centrality, if not the primacy, of politics, of political processes – both internal and external, and their interaction – in shaping state goals, capacity and developmental outcomes. The challenge for policy-oriented research is thus not simply to explore the profoundly difficult problems of state-building or the design and funding of welfare regimes, but how to identify, support and encourage the political forces and coalitions which alone will create and sustain the institutional arrangements of effective states (at least, and preferably developmental states) dedicated to both growth and poverty reduction, whether democratic or not.

Poverty reduction and general improvement in welfare, in short, is not simply a matter of enhancing aid flows, designing appropriate policy regimes and supporting institutional development. For we have seen that very different policy regimes and institutional set-ups in diverse socio-economic contexts can promote poverty reduction, as the very different cases of Uganda, Viet Nam, Mauritius, the Republic of Korea and Cuba all illustrate (World Bank 2005; UNDP 2006). Poverty reduction is a matter of politics. But where the politics are not equal to the task it is, first and foremost, a matter for donors to identify, nurture, encourage and support those social and political forces which are necessary for forming the kinds of growth coalition which will demand, design and implement the institutional arrangements which will deliver pro-poor growth and social provision.

In this paper I elaborate, first, what is to be meant by politics here and go on to suggest that the politics of growth and development is a special and difficult kind of politics, most dramatically reflected in what have come to be called developmental states. I suggest that only effective states and preferably development ones – whether democratic or not – are capable of elaborating the institutions which will establish poverty reducing growth and associated welfare regimes. But I also argue that building such states cannot be had to order and that their evolution will depend on the political processes that have everywhere and always established them. Current anti-statist and pro-market orthodoxies, though somewhat on the decline, and pro-democratic concerns, do not make building effective development states a straightforward matter. I conclude by suggesting that the challenge for donors is a difficult one, but that it is time to start thinking how they move into new areas of assistance and aid so as to be able to invest in, and support, the *political processes* which contribute towards the negotiated construction of effective developmental states.

## 1. Introduction and argument: Bringing politics back in

Reduction of poverty in recent and contemporary history has generally been attributable to two processes: economic growth which creates opportunities and jobs, and political processes which develop and sustain institutional arrangements that provide both safety nets and redistributive provision (welfare regimes, broadly). Neither have been possible without direct intervention and action by effective states and both have only occurred quickly where such states have not only been effective but developmental. On its own, rapid market-driven (or even state-driven) transformative economic growth can leave many people or regions out of the process and generate profound inequalities. The work done by the UNDP International Poverty Centre in Brazil provides ample evidence of this, and indeed the history of the growth ‘miracle’ in Brazil itself from the 1960s or in post-war South Africa illustrates precisely how growth is not automatically or necessarily inclusive, and that it does not always contribute directly to the reduction of poverty or inequality. Moreover, narrow sectoral growth, however significant in terms of its contribution to national income, as with diamonds in Botswana (Selolwane, Siphambe, Ntseane, Maipose, Balogi and Nthomang 2007) may contribute little to poverty reduction if its contribution to job creation is limited. Moreover, the 14-country study of pro-poor growth trajectories in the 1990s under conditions of liberal reform found that despite growth, ‘In the 1990s within country inequality rose in every region except North Africa and the Middle East’ and that included some of the fastest growing economies in East Asia (World Bank 2005: 16). Equally, dedicated redistributive practices through the tax system can reduce poverty but can also suffocate growth and compromise capital accumulation – as can a redistributive system of pervasive patronage through neo-patrimonial politics (Callaghy 1988; Hyden 2006; Bratton and van de Walle 1997).

In principle, it is of course possible for either growth or redistributive politics to contribute to poverty reduction, but having both is preferable. And it is that idea which lies at the heart of social democratic politics, in which democratic political processes are used to restrain and ‘tame’ the excesses of capitalist growth and, at least, to contain inequality, if not reverse its trend (Przeworski 1985). But this chapter is not concerned with a discussion of the forms which these institutional arrangements may take, for they may vary. Rather, I am concerned with what I argue is the fundamental condition for all conceivable forms of both growth trajectories and social justice – that is, *political processes* which shape effective (or better still, developmental) states that are capable of establishing and maintaining the institutional arrangements which deliver the benefits of both. As I shall suggest later, that is in essence how the modern state arose, and why it arose, in the course of the ‘great transformation’ (Polanyi 1957) from agrarian to industrial societies (initially in Europe). For the fundamental and defining role and function of the *modern* state (as distinct from imperial, feudal, princely, absolutist or other pre-modern states) has been to promote, organize, protect and sustain this economic and social transformation. On the one hand this has meant the provision of the institutions which guarantee the necessary public goods of peace and security plus the economic institutions and incentives – whether socialist, mixed or capitalist – which enable economic activity to proceed. On the other hand, this has meant devising the institutional rules which define the welfare regime, according to level of economic development and

need, but in a manner that contributes to the first objective of growth; that is, where the welfare regime is also a constituent part of the developmental regime (Mkandawire 2001; Kwon 2005) and also contributes to popular support and legitimacy as housing policy has done in Singapore (Lee 2001).

I argue therefore that we need to bring politics back in, centrally, to the analysis and promotion of pro-poor development and welfare regimes. If we do not understand the politics which determine how these processes of growth and distribution are brought about or hindered we will continue, in vain, to look for ‘missing links’ (Grootaert 1998), such as social capital or, before it entered the intellectual firmament, ‘social development’, ‘institutional reform’, ‘policy reform’ (of any, but most recently, the liberal kind), ‘human capital and skills’ and ‘physical capital’, to name but some (Kenny and Williams 2000: 4).

The key central conceptual and advocacy task is to *redefine* as robustly as possible our understanding of what politics is. For development and poverty reduction are not technical processes, but quintessentially political ones and both require effective (or developmental) states with the legitimacy, will and capacity to bring them about. Such states can not be had to order, but are the product of the interaction between internal and external political processes in the context of their historical legacies. Developmental states, *whether democratic or not*, have the capacity to enhance, orchestrate and manage *both* processes referred to above, the promotion of job-creating economic growth and the provision of welfare nets through redistributive practices. It is my contention here that, given the dominance of economists in aid agencies and development research institutions, we have devoted far too little attention to understanding the diverse political contexts, processes and practices which frame developmental outcomes, whether positive or pathological, and hence thus determine poverty reduction outcomes. But if political processes shape these outcomes, what are we to mean by ‘politics’?

## **2. What is politics?**

It is of course the case that the forms and particulars of political processes in different societies (or parts of them) vary widely. These forms and their outcomes are both framed by, and help to shape, the structural environment (and especially the socio-economic environment), internal and external, the distributions and balances of power, ideas, ideologies, interests and, crucially, the formal and informal institutions through which they all work. Nonetheless, wherever human groups form there are necessary and universal processes which constitute what politics is everywhere.

If it is to survive and prosper, any human community – whether a family or a federation – must have a means for making binding collective decisions: that means is its politics. In most respects, such decisions are inevitably about how resources are to be used, produced or distributed. A resource is understood here to be anything which individuals or groups can use or deploy to advance their interests, material or ideal. So land and capital are resources, as are freedom and opportunity.

Politics is thus best conceptualized as consisting of *all the many activities of cooperation, conflict and negotiation involved in decisions about the use, production and distribution of resources*, whether these activities are formal or informal, public or private, or a mixture of all. Such a basic conception enables us to think of politics as a *necessary* activity which occurs wherever two or more people are engaged in making decisions about resources. It also facilitates ways of integrating both conventional ideas about *politics* (power, authority and collective decision-making) and *economics* (allocation of scarce resources) into a broader understanding of the relations between them.

In this light, politics is therefore best understood as a *process*, or sets of linked processes, which are not confined to certain sites or venues (parliaments, congresses, executives or bureaucracies) or specialists (such as princes, politicians or civil servants) or procedures (elections or the delegation of authority). Like 'economics', it is, rather, a universal and *necessary* process entailed in *all* collective human activity and it does not presuppose or require *formal* institutions of rule or governance. While formal decision-making in and around public institutions *may* (today) be the most important expression of politics (especially in established, stable and modern polities), it is nonetheless a process found in all human groups and organizations, well below the level of the state - and must be. The manner of the interaction of these more or less linked and more or less complementary processes of politics – private and public, national and local, formal and informal – is what shapes the polity and its policy outputs and effects.

It is an intrinsic feature of this view of politics as a universal and unavoidable process that it is found in families, farms, companies, churches and organizations; as well as in sectors (agriculture, health, education, irrigation) or in issue areas (gender questions, rights questions, child protection issues) and so on. Wherever collective and binding decisions are to be made about resource use and allocation, there is politics. Most obviously for our purposes here it is impossible to evacuate welfare regimes or concern with poverty from their political context and the political processes which shape and sustain them. Politics may be messy and it may be stable, it may get in the way of economic models and input-output ratios, but it is an unavoidable, necessary and pervasive process which is unique to the human species - though there are some suggestions that the chimps, too, are capable of some elementary politics as understood here (de Waal 1982).

But we have to go further than this to understand the centrality of politics for development, welfare and poverty reduction. And to understand this centrality it is important to conceptualize politics occurring at two levels.

### **3. Levels of politics**

Of fundamental importance in understanding politics and its implications for development, is the recognition that there are *two distinct but related levels* at which politics and political contestation over policy occurs (Lindner and Rittenberger 2003).

- (a) The level which concerns the *rules of the game* (institutions); and
- (b) The level at which *games within the rules* occurs.

(a) *Rules of the game*

The rules of the game, agreement about the rules and agreements about the rules for changing the rules, are fundamental for any on-going political activity. Stable polities are characterized by lasting consensus about the central rules of politics which have seldom been established without intense contestation over long periods of time (Tilly 1992; Ertman 1997; Bates 2001). As one study has pointed out, for example, a ‘consolidated democracy’ is a political regime in which a ‘complex system of institutions, rules and patterned incentives and disincentives has become, in a phrase, “the only game in town”’ (Linz and Stepan 1996: 15).<sup>1</sup>

In the modern world, these rules are normally expressed in *formal* institutional agreements, that is in constitutions, which specify formally the rules governing competition for, distribution, use and control of power and the procedures for decision-making and accountability. These may be federal or unitary, presidential or parliamentary; they may specify terms of office and timing of elections; and they may include Bills of Rights and the like.

However the rules of the game in a consolidated democracy involve much more than the formal constitutional provisions about access to power and its distribution, use and control. For all such *formal* institutions are always associated with wider *informal* institutional aspects expressed in the culture, political culture and ideology which can have a critical part to play in maintaining, preventing or undermining the consensus and adherence to the formal rules. Normally, informal conventions about commissions of enquiry, consultative procedures and selection or even succession practices, for instance, are part of the rules of the game (Helmke and Levitsky 2004, 2006; Lauth 2000), as are arrangements for discussion or cooperation between states and business associations (Maxfield and Schneider 1997), sometimes together – and sometimes not – with trades unions as in the typically corporatist processes of the Nordic countries and elsewhere after the Second World War (Cawson 1986; Lewin 1994).

Such rules and processes need not be formal or stipulated in written constitutions. Indeed, before the emergence of modern states, most human societies – from hunting and gathering bands through to complex feudal and imperial systems – had stable if often undifferentiated polities, for long periods, based on agreed and understood processes, embedded in structures of power, expressed in cultural institutions and legitimated by a variety of ideologies and beliefs – and no constitution.

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<sup>1</sup> This point can be illustrated further with reference to a very substantial research programme funded in Zurich by the Swiss National Science Foundation as one of its National Centres of Competence in Research (NCCR). This important programme has a number research projects, each of which is devoted to analyzing some aspect of the democratic process in (mainly) Switzerland. What is interesting is that all projects focus on some feature of the way the democratic game is played within the rules and not on the debates about the rules. See the website at:

[http://www.snf.ch/E/targetedresearch/centres/currentNCCR/Seiten/\\_xc\\_nfsdemokratie.aspx](http://www.snf.ch/E/targetedresearch/centres/currentNCCR/Seiten/_xc_nfsdemokratie.aspx)

Moreover, in all stable polities – whether past or present, traditional or modern – consensus about the *political* rules of the game has normally been part of a wider and more or less explicit consensus and settlement about socio-economic goals, policies and practices as are made clear in the ‘Directive Principles of State Policy’ in the Indian Constitution. Likewise, the South African Constitution of 1996 not only prescribed the distribution of power in the state but, in its Bill of Rights, made explicit the right to, and protection of, property (hence curtailing constitutionally more radical measures which any new government might have been expected to introduce, especially the ANC government given its ideological and policy history). Reaching such a settled consensus has seldom been easy or without conflict, as the many struggles in the course of state-building and industrialization in the West since the 18<sup>th</sup> century (and before) illustrate precisely (Tilly 1990; Bates 2001). And in those developing societies today where political and economic consensus has been reached, and where sustained growth has occurred (such as Malaysia after 1970, Mauritius since the 1970s or Venezuela after 1958), it has usually happened after periods of intense and threatening conflict (Bräutigam 1997; Karl 1986).

Each ‘settlement’, and its unique set of institutional arrangements, has differed interestingly between various democratic capitalist societies, as well as in the East Asian developmental states, as shown in the studies on ‘varieties of capitalism’ (Hall and Soskice 2001) and varieties of East Asian institutional arrangements in developmental states (Haggard 2004; Campos and Nugent 1999). This is not to suggest that settlements about socio-economic goals and institutions are unchanging, but that the agreement about political rules of the game enables change to occur without a fundamental challenge to the stability of politics.

One illustration of this is that, over time, the developmental shift to formally democratic capitalist politics is also a move to an increasingly consensual structure of political and economic relations in which both the *benefits of winning* and the *costs of losing* political (i.e. state) power are both steadily decreased. But early on that is not the case and hence the stakes are high and the politics can be more volatile, confrontational and, often, violent. Indeed the continuation of class struggle – expressed through and outside political parties – in Europe from the 19<sup>th</sup> century to well after the Second World War

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