



# DLP

Policy and Practice for Developmental  
Leaders, Elites and Coalitions

DEVELOPMENTAL LEADERSHIP PROGRAM

Research Paper **25**

## From Political Economy to Political Analysis

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The Developmental Leadership Program (DLP) is an international research initiative that aims to increase understanding of the political processes that drive or constrain development. DLP's work focuses on the crucial role of home-grown leaderships and coalitions in forging legitimate institutions that promote developmental outcomes. DLP's independent program of research is supported by the Australian aid program.

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## Preface

This manuscript was written over the course of 2012. It was Adrian Leftwich's last substantial piece of work before undergoing gruelling treatment for lung cancer and a short, but typically courageous, battle that ended on 2 April 2013.

The chance to work with Adrian was an utter privilege. He taught me so much about how to see the world and how to approach it; as an academic, as a father and, above all, as a person. He was a giant with an infectious appetite for life. I will always treasure the opportunity I had to work with him so intensely. Working with Adrian was not always easy; he pushed, he pulled, he unpicked, *yet always* with purpose. I never knew where he found the energy or time. But poverty, politics and power mattered to him. Deeply. Personally.

This manuscript is the culmination of our discussions, reading, thinking and, ultimately, our unease with how politics was conceived and analysed within development. We challenged ourselves to try to put down on paper what was wrong with it, how we might improve on it, and how we might persuade others to inject fresh thinking into their work in this area too. I think we succeeded in some of this, but not all. And certainly we bit off more than we could chew.

The text is not a manifesto or blueprint, the one and only way to think about politics and development. Rather, it is an invitation to think differently.

Thinking and working politically is not a framework or a toolkit. It does not fit easily into a log frame. It is a mindset and approach that requires a person to live and breathe it. Frankly, as my colleague Heather Marquette has said, the last thing we need is a load of political scientists telling donors about incentives and the 'rules of the game'. What we really need are politically savvy technical specialists who do this in their day-to-day work as a matter of course. People who truly 'think and work politically'.

This paper is a sketch, one that Adrian and I always hoped would be developed by ourselves and others; the beginning of a broader conversation. Sadly, it marked the end of a more personal conversation with Adrian. But thanks to many others who have been working along similar lines, the bigger conversation is already happening.

To sum up our contribution to the conversation, it is that to understand the inner politics of development, we need to think, analyse and work in more detailed and careful ways. Doing so means making better use of the classical foundations of politics. We need to get much better at recognising and working with the different forms of power, and at understanding how and where interests emerge – in particular the role of ideas. These are not academic niceties. They offer new ways of working and new levers for change.

This requires a collective effort. My hope is that this contribution – alongside the great work being done along similar lines – might prompt some rethinking of what political economy analysis is and what politics looks like. By improving how we 'think politically', hopefully this paper will inspire others to move us closer to being able to better 'work politically', to the benefit of us all.

David Hudson, June 2014

## Executive summary

This paper argues that existing political economy approaches lack the analytical tools needed to grasp the inner politics of development. Political economy has come to be seen narrowly as the economics of politics – the way incentives shape behaviour. Much recent political economy work therefore misses what is distinctively *political* about politics – power, interests, agency, ideas, the subtleties of building and sustaining coalitions, and the role of contingency. This paper aims to give policy makers and practitioners more precise conceptual tools to help them interpret the inner, 'micro', politics of the contexts in which they work. It argues in particular for more focus on recognising and working with the different forms of power, on understanding how and where interests develop, and on the role of ideas.

### Introduction

This paper provides a set of conceptual tools and an analytical framework that we hope will help to move the analysis of the politics of development beyond simple 'political economy' to incorporate 'political analysis'. The aim is to deepen understanding of how politics shapes and frames developmental processes.

As understood here, politics is about the structures, institutions and operation of power and how it is used in the competition, conflict and deliberation over ideas, interests, values and preferences; where different individuals, groups, organisations and coalitions contest or cooperate over resources, rights, public rules and duties, and self-interest; where deals are struck and alliances made or broken; and where establishing, maintaining or transforming political settlements, institutions and policies is an ongoing process.

This paper – on its own – will not tell policy-makers or practitioners 'what to do on Monday morning'. But it will help provide sharper concepts and deeper understanding, tools that can help them interpret more accurately the inner politics of the contexts in which they work and how to use that understanding to frame and implement aid and development policies and programs.

### Politics matters

Over the last twenty years or so, it has become widely accepted in the 'official mind' of development organisations that 'politics matters'. During that time, important efforts have been made to try to understand how political processes affect development trajectories, and to work out what policy and operational messages can be derived from that understanding.

All these attempts have come to be loosely categorised under the generic term 'political economy', although this is probably something of a misnomer. Nonetheless, in their own pioneering way, they did start to address issues closely associated with politics and development through their focus on questions of governance.

Political economy has thus now virtually become a shorthand term for the emerging consensus that it is not only technical, administrative or managerial factors that explain poor development performance. The way in which political and economic processes interact is also critical in promoting or frustrating developmental processes.

There have been three broad phases – or 'generations' – of political economy work. And each, in its own right, is a broad church using a wide range of methods and approaches for the analysis of the politics of development. Overlapping in time, and borrowing from and building on each other, these three generations together constitute what is now loosely called political economy.

## Three generations of the political economy of development

We categorise the three generations of political economy roughly as follows.

- The 'first generation', in the 1990s, mainly addressed issues of 'governance' (and especially the reasons for the absence of 'good governance'), but largely from a technical, administrative, managerial, capacity-building and, subsequently, public sector management perspective. Work in this tradition continues.
- The 'second generation' is best typified by DFID's Drivers of Change, Sida's Power Analysis, and the Dutch SGACA work (Strategic Governance and Corruption Analysis). Importantly, these approaches and the many studies they generated made a huge contribution. They 'brought politics back in', with a greater emphasis on historical, structural, institutional and political elements that shaped the context within which actors worked.
- The 'third generation', often combining elements from the previous two, has come to be strongly influenced by assumptions, concepts and methods drawn from economics. It emphasises the way in which institutional incentives shape behaviour to produce positive or dysfunctional developmental outcomes. In short, political economy has come to be the economics of politics, and less about political analysis.

## Political economy and political analysis

Political economy work has made a huge contribution to bringing politics back in, but it has a number of limitations.

The key analytical concepts are seldom well-defined, carefully differentiated or usefully disaggregated. Among these we include institutions, structure, agency, ideas, contingency and – above all – power. The way they are used tends to provide for lumpy, one-dimensional analysis. It does not allow analysts or policy makers to reach the detailed inner politics that shapes or frustrates change.

The explanatory core of third generation political economy has increasingly come to focus on how interests, incentives and institutions shape and explain both how agents behave and the political processes and practices that affect development outcomes. Yet this influential 'third generation' approach – the 'economics of politics' – is only one among many schools of political economy. Third generation political economy appears not to have drawn on any of these other schools or the rich seams of theory, concepts, findings and analysis in political science.

The net effect has been to transform the analysis of politics into the economics of politics. And, by effectively reducing politics to a form of 'market', much recent political economy misses what is distinctively political about politics – power, interests, agency, ideas, building coalitions and the impact of contingency.

Political analysis on the other hand takes politics, power and agency much more seriously. Unlike second and third generation political economy, political analysis enables one to dig down to the level of messy, everyday politics.

This is where there are competing ideas, interests, values and preferences; where specific groups and interests struggle over the control, production, use and distribution of resources; where conflict is negotiated; where bargains are struck; and where formal and informal political settlements, alliances and coalitions are made and broken. Here politics collapses and violent conflict can break out; institutions are contested, shaped, implemented, avoided, undermined or amended; contingency, critical junctures and windows of opportunity disturb old patterns or open up new possibilities and – crucially – here the different players use different sources, forms, expressions and degrees of both *de jure* and *de facto* power.

There is now a growing realisation that we need to refocus not simply on 'big structures' but also on actors – in short, agency, defined as the ability of individuals, organisations and groups of collective actors to consciously deliberate and act strategically to realise their intentions, whether developmental or not. But, whether individual or collective, agents do not work politically in a limitless, structureless and institution-free plane of open possibilities.

The structural and institutional contexts of power – formal and informal, local and external – always and everywhere constitute constraints. However, while structures and institutions are constraints, they are not destiny. People, groups, organisations and coalitions do not move in unison, like reeds in the wind, to a change of incentives.

Structures and institutions provide opportunities and resources that agents can use – and hence also provide room for manoeuvre. The point is that structures and institutions of power not only constrain political actors, but can also provide the resources which they, as agents, can find and use to initiate or bring about change.

Hence the key to understanding the contested dynamics of political and developmental change lies in understanding how political actors interact and jostle not only with each other but also against, around and with the structural and institutional context they operate in, using the resources and opportunities it provides. If politics matters, then agency – political strategising, organising, framing, choice and action – matters.

The core dynamic of political processes, and hence of developmental change, lies in the relations of structures and agents, contexts and conducts, institutions and organisations.

Political analysis does not ignore interests, incentives or institutions, but goes further and deeper: It differentiates and disaggregates interests, ideas, incentives and institutions, and also has the analysis of power (and the sources and forms of power) at its core. Quite simply, political analysis offers a much more detailed and granular way of getting to grips with the processes that drive and constrain development. It sees politics as the dynamic and contingent relationship and the seat of the action between power, structure, and agency.

Political analysis focuses on how the structures and institutions of power shape how agents behave, and how they do or can strategise, frame, generate, use, mobilise and organise power and institutions to bring about domestically owned deliberation and appropriate change in the politics of development.

Ultimately, if you wish to defeat poverty, prepare to address the power and the politics that keeps people poor. That is why political analysis matters.

## 1

## Introduction

## 1.1 Objectives

The central objective of this paper is to deepen and extend the analysis and understanding of the politics that drive developmental processes. It does so in two broad ways.

The first is by providing a **critical review and assessment of 'political economy analysis' (PEA)**. Our review covers the wide range of work ('tools', 'methods', and 'analyses') that is now loosely called 'political economy analysis'. And we have divided this work into three 'generations', or phases. We outline their core assumptions and deficiencies in getting to grips with the complex dynamics of the inner ('micro') politics of development, and hence point to their limitations in providing guidance on how to 'work politically' in the development field.

The second is by providing the **theoretical and conceptual basis for an alternative and more detailed framework for political analysis**. This will build on and extend some of the valuable work already done in the general field of 'political economy analysis'. But it will also draw on a wider and richer tradition in political science. It will introduce a more systematic way of defining, differentiating and using key concepts, frameworks and methods in analysing the political contexts that frame developmental processes and possibilities.

We stress at the outset that this paper will not tell policy-makers or practitioners 'what to do on Monday morning'. But it will help provide sharper concepts ('tools', if you wish). These will enable them to gain a much more forensic understanding of the contexts in which they work to inform how they frame and implement aid and development policies and programs.

For us, political analysis provides a supplementary level of analysis to complement the institutional and stakeholder layers of standard political economy tools: political analysis provides the necessary analytical lens to examine the dynamics of the inner politics of development.

## 1.2 Context

Over the last 20 years or so it has become clear, and widely accepted in the 'official mind'<sup>1</sup> of development and aid agencies, that 'politics matters' in shaping developmental outcomes (Wild and Foresti, 2011). The story of how this thinking has evolved is brilliantly told in a study by Carothers and de Gramont (2013).

A variety of important contributions have helped analyse and understand better how these political processes work. Together, all this work has come to be loosely labelled as 'political economy', though it is recognised as being a very broad church indeed (Booth, 2011; Leftwich, 2006; Nunberg *et al.*, 2010; Rodrik, 2008; Acemoglu and Robinson, 2012; The Policy Practice, 2012). Most major donors now advocate some form of political economy analysis (PEA) – and often more of it (Fritz, 2012; AusAID, 2011b) – for understanding context and in the preparation and design of programs and policies.

Because of this breadth, and for reasons that will become apparent later, we have divided these contributions into three broad categories, or phases – 'three generations'. They are, of course, not hermetically sealed categories or sequentially consecutive phases of work, and they all overlap and borrow from each other. Nonetheless this tripartite classification provides a useful framework for understanding.<sup>2</sup> We will elaborate on this later. The three 'generations' are as follows.

<sup>1</sup> The delightful phrase – the 'official mind' – comes from the classic study by Robinson *et al.* (1961) of official Victorian attitudes to Africa

<sup>2</sup> The way we have set up these categories differs slightly from the way in which Carothers and de Gramont (2011) have done so.



## First generation – governance studies

By this we refer to the large body of work that emerged in the 1990s under the general category of ‘governance’ studies. We do not focus much on this generation of work as it has been analysed and explored in many different ways by others (for instance see IDS, 2010; Carothers and de Gramont, 2011). But it cannot be regarded as a ‘dead’ generation, as work still continues in this tradition (AusAID, 2011a).

## Second generation – politics, history and context

This was important and groundbreaking work in the first half of the 2000s, and has made an enormous contribution to ‘bringing politics back in’ to development. It shifted attention away from the somewhat technical, administrative and managerial notions of governance that tended to be used in the first generation. Instead, it highlighted the historical legacies, structural conditions, broad power relationships, stakeholder analysis of ‘agents’ and institutional arrangements that frame the politics of development (Hodges and Tibana, 2004; Moncrieffe and Luttrell, 2005; Utomi *et al.*, 2007; Datta *et al.*, 2011; Copestake and Williams, 2012; Jones, *et al.*, 2012). This second generation of work is generally referred to as ‘political economy analysis’.<sup>3</sup> Particularly important examples of this work were ‘Drivers of Change’ by the UK Department for International Development (DFID, 2004), ‘Power Analysis’ by the Swedish International Development Cooperation Agency (Sida, 2006) and the Dutch ‘Strategic Governance and Corruption Analysis (SGACA) (Unsworth and CRU, 2007), and the many studies and consultancy reports they generated.

## Third generation – the economics of politics

Dissatisfaction with the second generation approaches as being too broad and general, and not offering enough practical guidance, gave rise to a new trend in PEA as economists began to take a greater interest in the politics of development. This third generation has applied the concepts of economics and economic analysis to the field of politics. With its focus on interests, incentives and institutions (and, generally, with only the most cursory attention to power), it has come to influence most current work in political economy.

Overlapping in time, and borrowing from and building on each other, these three generations together constitute what is now loosely called political economy. Against this background, we set out in basic terms below the arguments to be developed in the rest of this paper.

## 1.3 Argument

We argue, first, that the work produced by political economy’s three generations has contributed hugely to ‘**bringing politics back in**’ to development - or, rather, bringing it in to a technically-dominated discourse about development that had prevailed since shortly after the Second World War).

Whatever its limitations may have been with respect to operational implications, the second generation work, in particular, initiated a new way of thinking about governance and development. It hammered home the central insight that **governance is a political process**, not simply a set of technical, managerial or administrative arrangements and practices.

But neither the second nor the third generations of work were able to dig down to the level of messy, everyday politics. This is where there are competing ideas, interests, values and preferences; where specific groups and interests struggle over the control, production, use and distribution of resources. It is where conflict is negotiated; where bargains are struck; where formal and informal political settlements, alliances and coalitions are made and broken; and where politics collapses and violent conflict can break out. In everyday politics institutions are contested, shaped, implemented, avoided, undermined or amended, and contingency, critical junctures and windows of opportunity disturb old patterns or open up new possibilities. Crucially, this is where different players use different forms and degrees of both *de jure* and *de facto* power.<sup>4</sup> And there is now a growing realisation that we need ‘**to move from exploring big structures and rules of the game to focusing on individual actors and the choices they make**’ (The Policy Practice, 2012: 2) – that we need to pay more attention to ‘agency’. Other

<sup>3</sup> But even studies that do not describe themselves as exercises in political economy but which have been more directly and openly political analyses, also have recognised the need to understand who the players are – though not always how they work. See for instance the interesting study on Pakistan by Mezzera and Aftab (2009).

<sup>4</sup> We deal with this in detail in Section 6 in our discussion of power.

versions of this argument suggest that it is not only individuals but also groups, organisations and coalitions that play a critical role in the politics of development (Leftwich and Sen, 2011; DLP, 2012).

Of course, whether individual or collective, **agents do not work politically in a limitless, structure-less and institution-free plane of open possibilities.** They are always constrained by structural and institutional contexts.

But structures and institutions are not just constraints: they are not destiny. **Structures and institutions also provide opportunities and resources that agents can use – they also provide room for manoeuvre.**<sup>5</sup>

Hence understanding the contested dynamics of political and developmental change involves understanding how political actors – each bearing interests, ideas, preferences *and* different forms of power:

- a) interact with and jostle each other; *and*
- b) interact with and use the structural and institutional resources provided by the context they operate in.

In short, we argue that **the core dynamic of political processes, and hence developmental change, lies in the interaction between structures and agents,** contexts and conducts (Hay, 2002) institutions and organisations. It is there that we need to focus both analysis and practical support.

All three generations of existing **PEA tend to offer undifferentiated and un-disaggregated concepts as tools for analysis,** particularly regarding the key concepts they use – ‘structure’, ‘agents’, ‘institutions’, ‘interests’, ‘ideas’, ‘incentives’ and, especially, ‘power’.

The increasing influence of a single school of political economy, when there are many others (Staniland, 1985; Caporaso and Levine, 1992; Grindle, 2001), has **driven the politics out of our understanding of political processes. This is especially so when it treats politics as a ‘market’.**<sup>6</sup> And its reluctance to engage with the centrality of power in the way institutions and policies are devised, maintained and changed has distanced ‘political economy analysis’ from the rich insights of the wider canon of political science.

Therefore, to address these very complex issues **we need a much more forensic, explicit and systematically-applied analysis of this structure-agency interaction.** To do that we need to apply a more disaggregated set of concepts and analytical frameworks that focus on *both* structures and agents and that, together, enable judgements to be made about:

- the nature of a problem;
- the room for manoeuvre provided by structures and by the power and institutions embedded in them;
- the players, stakeholders and interested participants;
- the nature, forms and changing relations of their power;
- which problems or issues are worth addressing by donors (and which are not); and which, and how, political agents – emergent or existing groups, organisations or coalitions – can be helped to promote a progressive politics of development.

## 1.4 Who and what is this paper for?

The paper is aimed at those looking to deepen the capacity to think and work politically – that is, to understand better the dynamics of politics and the additional policy and operational levers that political analysis can provide. It is aimed at senior officials, policymakers and development practitioners in government and multilateral agencies, non-governmental organisations (NGOs), civil society organisations (CSOs), as well as interested academics and researchers. In short, the paper is intended for anyone with an interest in understanding the politics that drive (and resist) developmental change.

As we see it, the aim of political analysis is to deepen understanding so as to inform and support the sustainable and domestically-owned political processes of development. We believe that external practitioners and policymakers, and donor agencies, have a role to play in this, but that they need to tread lightly.

<sup>5</sup> Excellent empirical evidence for this proposition can be found in Merilee Grindle’s study of social sector reform in Latin America (2001: 11) where she points out that ‘the ways in which winners, losers, and reformers interact in complex institutional arenas demonstrates that spaces for strategic action exist and that such actions can alter outcomes’.

<sup>6</sup> This view of politics as a market – and the methodological consequences that flow from that view – was first stated very clearly in a classic piece by William C. Mitchell 50 years ago (1968: 77-8) where he urges that political systems need to be conceptualised and analysed as ‘economies in their own right’. Though Mitchell’s paper was published in the late 1960s, virtually the same conceptualization can be found in Mueller (2003) and is both implicit and explicit in more recent work and much other work, especially in the third generation work.

A guiding hypothesis of the Developmental Leadership Program (DLP) is that successful and sustainable institutional and policy reforms are possible, and will 'stick', only when they are domestically crafted, appropriate and legitimate, and that this is an inescapably political process. It rules out importing institutional 'solutions' from the outside.

Political analysis is needed to understand the range of interests and values that exist in a sector or country, and how these might be supported (or sidelined) by domestic or sub-national political processes involving the interaction of power, agency and ideas. We hope that this work will help policymakers and practitioners to promote a progressive politics of development that will advance poverty reduction through sustainable and transformative growth, political stability and social inclusion.

## 1.5 A word of caution

We offer three important caveats.

First, detailed political analysis is neither easy nor quick. It can seldom be achieved by a short-term commission or consultancy (though that may provide useful contextual information). Reliable political analysis is likely to require time and resources for learning as well as for carrying out the analysis itself.

Second, this paper and the set of concepts and frameworks it will explore, will not, on their own, tell policy-makers or practitioners 'what to do on Monday morning'. The concepts and frameworks need to be carefully applied to the particular country, sector, problem or issue area of interest.

Third, what policy-makers and practitioners *do* with political analysis, or any research for that matter, is shaped by many intervening (and commonly very political) factors. These include:

- the preferences of a Minister, President or Director (of a state, department or organisation);
- the support or opposition of her/his staff and colleagues;
- the ideology or broad policy framework of the government or organisation
- the interests and sensitivities of other government departments;
- and the more-or-less fearful anticipation of public or media reactions
- whether an agency's staff members have the capacity, authority or time to think and work politically.

Nonetheless, despite these qualifications, good political analysis should provide a forensic understanding of the cause and nature of a particular set of political constraints on institutional or policy change in a country, sector, or issue area, and also help to spot the room for manoeuvre.

## 1.6 Structure of the paper

Following this introduction:

- Section 2 briefly traces the 'emergence' of politics in the 'official mind', by pinpointing a series of 'turns' to politics
- Section 3 analyses the evolution of the second generation approach from the earlier concerns with 'governance' and offers a critique of this
- Section 4 unpacks what is conventionally understood as 'political economy' in the third generation of work and focuses on the influential 'economics of politics' approach
- Section 5 provides a critique of the economic assumptions behind this approach
- Section 6 outlines the key elements of an 'enhanced' and more systematic approach – political analysis – that draws on, but goes much deeper than, these various PEA tools
- Section 7 offers a theory of change and points the way towards an applied political analysis approach.

## 2

## Politics and development: from mutual neglect to the political turn

### 2.1 Introduction

In this section we trace how the idea that 'politics matters' evolved in the 'official mind' of development agencies and organisations, and how it came to be interpreted. We sketch its evolution from an initial focus on 'governance' to a more whole-hearted admission of the importance of 'politics' or 'the political context', although – even today – politics is rarely defined. We will only skim the surface of this story as there are other excellent studies that trace this evolution in fine detail, and none better than the book by Carothers and de Gramont (2013).

The story is complex, multi-dimensional and multi-. But our purpose is simply to show the trend of how, slowly, it came to be recognised – and admitted – that politics was a critical factor in shaping not only the trajectories of development but also the form and functioning of the institutions and organisations that promoted or frustrated it.

### 2.2 Politics: from governance to something more?

A few brief quotations will illustrate the trajectory of this emergence of 'politics' into the language and thinking in the 'official mind' and those that were influencing it. What is interesting about these examples is how the 'political' factor (though initially kept strictly to technical and procedural terms) slowly infuses the language and concepts.

The World Bank's (1992) paper on *Governance and Development* defines 'good' governance as 'synonymous with sound development management' (1992: 1). This was certainly the dominant approach in the 1990s, with links to the 'new public management' agenda in public administration and public sector reform (Turner and Hulme, 1997). And the countless analytical studies on various aspects of governance, or how to improve it, are what we have called the 'first generation' of political economy.

An example of this is in the excellent empirical study *Making Sense of Governance*, where the authors defined governance as '... the formation and stewardship of the formal and informal rules that regulate the public realm, the arena in which state as well as economic and societal actors interact to make decisions' (Hydén *et al.*, 2004: 16).

In its 2001 paper (*Making Government Work for the Poor*), DFID went further. It stated that:

'We use the term *governance* to mean how the institutions, rules and systems of the state – the executive, legislature, judiciary and military – operate at central and local level and how the state relates to individual citizens, civil society and the private sector. We use *government* to mean the executive function at central and local levels. The *political system* or *politics* is the way power in the state is acquired and how people and groups inside and outside government influence the use of that power' (DFID, 2001: 11).

Here one can begin to see the earliest indications of a shift from governance as management to governance as having some place within the political system, and of politics as having something to do with it. But, already by 2002, a stronger recognition of politics was emerging in the UNDP's *Human Development Report* of that year. This is not to say that 'governance' issues were abandoned or unimportant, but that the 'p' word (often associated with democracy and democratisation) was beginning to be more comfortably used – at least in some quarters.

'This Human Development Report is first and foremost about the idea that politics is as important to

successful development as economics. Sustained poverty reduction requires equitable growth – but it also requires that poor people have political power. And the best way to achieve that, in a manner consistent with human development objectives, is by building strong and deep forms of democratic governance at all levels of society' (UNDP, 2002: v).

In 2006, Hilary Benn, the UK Secretary of State for International Development, put it like this: 'Ultimately it will be politics that will help us make poverty history' (Benn, 2006).

Another example of this 'strong' version about the same time was the statement in a DFID publication on 'Making Governance Work for the Poor' that:

'[Governance] is about politics. Politics determines how resources are used and policies are made. And politics determines who benefits. In short, good governance is about good politics' (DFID, 2006: 23).

An even more recent recognition can be found in a paper from the Australian Government's aid program that 'development is an inherently political process' (AusAID, 2011b: 7).

It is important to add that this emergent recognition that 'politics matters' did not *remove or replace* concerns with governance issues. Forging the institutions and organisations of governance, ensuring that they work and are both transparent and non-corrupt is indeed of critical importance for development, in whatever form they take in any society or sector. It would be folly to deny that. But *achieving* such outcomes involves political processes and cannot be separated from them. And despite the recognition that politics matters, the apolitical view of 'governance' (and much of the associated language) is still both widespread and popular.

## 2.3 Politics and development: a case of mutual neglect – why?

First, in the period after the Second World War, and especially against the background of the Marshall Plan aid to Europe, the dominant thinking about development was essentially about economic growth and reconstruction. This thinking – much influenced by the recently established World Bank and International Monetary Fund (IMF) – was couched essentially in economic terms. The answers to overcoming 'under-development' lay in very technical 'economic' solutions, notably the transfer of capital, technology and (much later) the appropriate institutions that would help to get growth going. Though far more sophisticated in its expression today, this view is still influential in much aid thinking.

It was not until the early 1960s that bilateral aid agencies, such as the US Agency for International Development and the UK Ministry of Overseas Development, the forerunner to DFID were established, often closely associated with ministries responsible for dealing with foreign policy. As was the case in the World Bank, economists were the most influential officials and advisors, and political scientists were rather scarce.

Indeed, political science and a focused analysis of the politics of development has long been something of a weak link in development studies, policy and practice (Duncan and Williams, 2010; Haider and Rao, 2010). Some even argue that development has been characterised by the 'active side-lining of politics' (Routley and Hulme, 2012: 2).<sup>7</sup> Though there have been calls to bridge the gap between politics and development and to 'bring politics back in' (Leftwich, 1994, 1995, 2000).

Political scientists have not ignored the study of 'politics in the developing areas'; there is a huge and wonderful literature. But thinkers and theorists have tended not to make the link between, or focus specifically on, the politics of development and growth, or work through the policy and practical implications. Moreover, discussions have either been-and-gone<sup>8</sup> or remain marginalised.<sup>9</sup>

7 Political scientists have been equally as culpable; a largely Anglo-centric discipline has been much happier to study the politics of the OECD countries scholars tend to know best.

8 In the USA, the 'political development' debates, (related to modernisation theory and structural functionalism) were championed by the Committee on Comparative Politics of the Social Science Research Council, which examined the comparative development of political systems. They were largely contained by the 1950s and 1960s. Such work is best represented in the work of Almond and Coleman (1960) and Pye and Verba (1965).

9 For example the work done on theories of the 'developmental state' debates, exploring the political conditions by which governments, state elites and institutions could combine to produce development in the long-term national interest through of the embedded autonomy of special interests (Johnson, 1982; Amsden, 1989; Wade, 1990; Evans, 1995; Woo-Cummings, 1999). And, even more radically, the post-development critique, which highlights the depoliticising nature of development discourse (Ferguson, 1994; Escobar, 1995). This is far from exhaustive—see for example the debate between Scott (1976) and Popkin (1979) on rationality and peasant political movements—but they are the most well-known examples of approaches that highlight the importance of politics for development.

Nevertheless, honourable exceptions notwithstanding, there was until recently a situation of 'mutual neglect'<sup>10</sup> (Hickey, 2008). So, really until the early 2000s, there was little strong influence from political scientists focusing specifically on the politics of growth and development and, hence, little cumulative or sustained integration of politics (and political science) into development policy and practice (and development studies).<sup>11</sup> Therefore, when the centrality of politics was recognised, the 'tools' and analytical frameworks were simply not there to help policy-makers and practitioners to think and work politically and to analyse the politics of development. So the vacuum was filled by whatever happened to be at hand. The initial 'filling' (what we call the 'second generation' of work) came from a number of dedicated and committed generalists, people who drew on vast experience and first-hand knowledge accumulated from dealing with the politics of development. It was largely an exercise in organising this knowledge into a logical schema.

There was a further factor that hindered recognition of the role of political processes in development. The World Bank's mandate was specifically non-political.<sup>12</sup> Though there has been much debate about what the relevant Article meant, it has been interpreted to mean that the Bank was precluded from using 'political' criteria in its lending decisions, and that it was not permitted to base lending decisions on political issues such as the nature of a country's political regime, its human rights record or indeed corruption. The influence of this non-political or a-political position has been enormous – even to the extent of precluding use of the word 'politics' or 'political' in much of the Bank's earlier work, though that is not so much the case today. But it did mean that, until relatively recently, the Bank undertook no serious political analysis. And, when it did, it was in the form of a focus on 'governance', building the organisations and capacities of an 'effective state' (World Bank, 1997) and on 'public sector management' issues. Indeed, in some respects, politics was treated as something that got in the way of better development, and the aim was somehow to remove the 'distortionary policies introduced by politicians' (Boone, 1996: 322).

And where the World Bank later addressed unavoidably political issues more fully – as in the remarkable World Development Report on *Conflict, Security and Development* (World Bank, 2011) – the focus was on building the 'security, justice and economic' institutions and organisations that would bring peace, stability, security and jobs. What was missing was an exploration of the specific political processes and agents of change that would need to be supported to bring that about.

The net effect of this apolitical view of development (though the political realities were barely submerged in the analyses) has been profoundly influential on other aid and development organisations. Simplifying greatly, in the 1990s and early 2000s, politics (though not mentioned as such) came to be about governance, and about getting the institutions right through bureaucratic and administrative capacity building. And when, later, 'political economy' came into fashion to be used for analytical purposes, the idea of politics remained a very *technical* one – a problem of vested interests, the wrong or perverse incentives, inappropriate institutions, or pervasive corruption (all helping to protect the status quo). And as we shall discuss in later sections, the solutions were to reshape institutions and restructure incentives.

## 2.4 The political turn(s) in development

As already noted, there have always been many (in both the academic and policy communities) who have recognised the importance of politics. But what we are interested in here is what has been termed the 'official mind'; that is to say, what the chief donor development agencies have articulated and practised.

As the quotations above indicate, the study and practice of development since the 1990s has undergone what has been called a 'political turn' (Jones *et al.*, 2012). It's actually useful to think of not one political turn, but a series of connected turns all driven by slightly different factors. But, ultimately, they all pointed in the same direction: the need to understand and address political issues to improve development outcomes. And taken together, their net effect was to open up space to start to talk

10 The term mutual neglect comes from the work of Susan Strange (1970) who made the argument about International Relations and economics. Why this is the case is a bigger question. Answers that have been suggested include: the non-political commitment in the Articles of Agreement governing the World Bank's mandate (Marquette, 2003); the emphasis on technical solutions to the problems of poverty, i.e. building roads and schools (Ferguson, 1994); or the political influence of the neo-classical counter revolution, i.e. promotion of market-friendly policies meant a slim but efficient administrative ability (Leftwich, 1994). In addition, Routley and Hulme (2012) have argued that donors' need for taxpayers' support has led them to downplay the role of political factors.

11 Of course, in the 2000s, there have been recent and important examples of excellence that began to shift the balance. These are, for example, the Politics and Governance Programme at the Overseas Development Institute (ODI); at the Institute for Development Studies (IDS), especially the Centre for the Future State (IDS, 2010); the Crisis States Research Centre (now Network) based at the LSE (DFID, 2010b); the Africa Power and Politics Program (APPP) at ODI; and, most recently, the Effective States and Inclusive Development Research Centre (ESID) at Manchester University.

12 Derived from its Articles of Agreement that were explicitly designed to help protect it as a universal lending institution free from the political vagaries of the Cold War (Marquette, 2003). Article 10 Section 10 states, 'The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially' (World Bank, 1944: cited in Marquette, 2004: 415).



and to think about politics and development. However, despite the headline claims about the 'centrality of politics' in development, or that 'politics matters', even today the understanding of and approach to politics remains, for many in development agencies, technocratic, something to be fixed by institutions and incentives. We take this up in the later sections of this paper.

So what were some of the factors and steps along the road that compelled the 'official mind' to begin to take politics seriously? The story is told in detail elsewhere (Leftwich, 2000, 2005; Hickey, 2008; Carothers and de Gramont, 2013) so we sketch only a few of the main points here.

### Structural adjustment and the 'crisis of governance'

In terms of seminal official statements it is possible to trace the 'political turn' in development to the very end of the 1980s. In 1989 the World Bank published a report entitled *Sub-Saharan Africa: From Crisis to Sustainable Growth*. The report argued (and for the first time) that developmental failure was not simply a result of bad (i.e. non-liberal) economic policies, but could be attributed to 'a crisis of governance' (World Bank, 1989: 60). In part, this 'turn' to governance was a response to the very patchy results of structural adjustment programs (Mosley and Toye, 1988) in the 1980s, especially in Africa (Hickey, 2008). These programs had sought to transform economic structures and change institutional arrangements through varying prescriptions that included deregulation, reducing subsidies, privatisation and dismantling or shrinking obese bureaucracies. Given that such changes would produce winners and losers, it soon became clear that such 'technical' economic changes ran into significant political obstacles. As a World Bank report in the early 1990s put it:

'... the political environment was the primary source of obstacles for sustained economic change ... echoing the old intellectual debate on the relation of politics and economics' Source: Frischtak (1994: 6).

It was out of this core realisation that the focus on governance and, especially, 'good governance' evolved (for that is what poorly performing developing countries clearly needed, according to this view). This is what we have loosely called the 'first generation' of political economy. But there were other factors that contributed to the 'political turn' and which meant that development organisations no longer could, or needed, to avoid engagement with politics, even in its bloodless form of governance.

### The post-Cold War 'turn'

A key geo-strategic factor that helped to open up the space for politics to be addressed (though as we have seen it was addressed as matters of governance) was the collapse of communism and the end of the Cold War after 1990. This meant that issues of governance, and criticisms of the governance, human rights records and absence of democracy in many developing countries, became not only a legitimate but also a possible topic for donors to address. Moreover, as foreign aid became increasingly freed from the earlier logics of superpower and cold war rivalry, the fear that countries would go 'running to Moscow' diminished (Ivanov, 2007: 31, cited in Routley and Hulme 2012: 1).

### Democracy promotion

The post-Cold War period also brought an upsurge in attempts at democracy promotion and democratisation (Carothers, 2004, 2009, 2010; DFID, 2007; Carothers and de Gramont, 2013; Burnell, 2008), which was given much emphasis in the 1990s. It had been preceded and been given a following wind by the powerful 'third wave' (Huntington, 1991) of democratisation that had swept through Latin America and parts of Asia and that was beginning to blow through Africa. For some, democratisation was a normative goal, for others it drew on the longstanding claim that democracy and development went hand in hand (Lipset, 1960). But, more recently, some donors, seeking to engineer favourable contexts for development, have taken the view that democracy is a prerequisite for successful economic growth and improvements in welfare by institutionalising accountability, transparency and responsiveness (a function of electoral democracy). And some democracy promotion efforts were therefore based on the logic that political development precedes economic development.<sup>13</sup>

But whatever the reasons – normative or functional – the focus on democracy promotion took the development agencies right into political territory. And they were quickly to discover that 'democratic engineering' was not a technical matter: it was not a technical 'fix' for underdevelopment which could simply be rolled out (Levy, 2010) through the formal manifestations of Western-style democratic practices. So, in their encounters with manifestations of authoritarian or military rule, patronage,

<sup>13</sup> However, the evidence for the assumed link from democracy to development has been notably absent (Przeworski *et al.*, 2000; Faust, 2007).

neo-patrimonialism, clientelism and other informal institutional arrangements, development agencies had to swallow hard and think again about how to understand all these political processes and their interactions.

The point is crucial. These underlying political processes have often remained unaffected by externally generated (if not designed) good governance type reforms or the promotion of democracy. And this was also shown commonly to be the case (Szeftel, 1998) for anti-corruption initiatives that the Bank and other agencies were beginning to undertake. These initiatives included community and civil society empowerment efforts, the promotion of competitive elections, and constitutional reforms (Marquette, 2003, 2004).

### The emergence of new institutionalist thinking

'New institutionalism' (in all the social sciences) took thinking beyond traditional economic explanations for poverty – such as a lack of capital, limited technology, poor geography, poor economic policies and insufficient integration into the world economy. It demonstrated the importance of institutions (Olson, 1996; Hall and Jones, 1999; Acemoglu *et al.*, 2001, 2002; Easterly and Levine, 2003; Rodrik *et al.*, 2004; Banerjee and Iyer, 2005; Acemoglu and Robinson, 2012).<sup>14</sup> The 'primacy of institutions' in explaining cross-country variation in income has become part of conventional wisdom (World Bank, 1998, 2002).<sup>15</sup>

This, too, took the 'official mind' into political territory. But it did not yet grapple seriously with two critical institutional issues (with respect to both economic and political institutions). The first was the power and endurance of existing informal institutions. The second was the limited attention given to how domestically legitimate and appropriate institutions might be set up, transformed, undermined, avoided or maintained, as we will show in a later section when discussing the anti-corruption institutions set up in Kenya and Brazil.

### Other factors in the 'political turn'

While the above factors were among the more important elements that shaped 'the turn', there were of course others that brought donors into contact with political realities. These included:

- the negotiation of Poverty Reduction Strategy Papers (PRSPs) from 1999;
- budget support policies;
- the shift towards what was loosely called 'ownership';
- more intense 'policy dialogues';
- as the 2000s unfolded after the horror of 9/11 in New York, questions of how to 'build' effective states from 'failed' or 'fragile' states; and
- more recently, the emphasis on 'political settlements'.

## 2.5 Summary

- The 'political turn' in development came from a number of different sources that began to forge a change in the 'official mind' in development.
- But although the pressures to take politics into account – economic performance, corruption elimination, democracy promotion, security and state-building and aid effectiveness – differed significantly, they all pointed in the same direction: towards the need for a better understanding of the politics of development.
- Nonetheless, the way in which politics was conceptualised in this period (and in some respects is conceptualised now) remained largely associated with the language and concepts of the formal institutions of governance, public management and state-society relations.<sup>16</sup>

<sup>14</sup> The intellectual debt to the economic historian Douglass North is significant in all of this, his work on institutional change in particular (North, 1990). We return to the role of institutions in more detail in the sections below.

<sup>15</sup> The World Bank officially opened the door to thinking about the state as a positive force for development in its 1997 World Development Report, *The State in a Changing World*. It marked a move away from the Washington Consensus's 'stabilize, privatize, and liberalize' dictum of the Washington Consensus (Rodrik, 2006: 973).

<sup>16</sup> For example, David Cameron's (2012) view of the 'golden thread' of development, as 'No conflict, access to markets, transparency, property rights, the rule of law, the absence of corruption, a free media, free and fair elections.' Who could be against that? But the real question is how it comes about – and that's the political issue. As such, this is a very partial political turn, one hampered by the mutual neglect between politics and development.



Dissatisfaction with this in the early 2000s gave rise to new thinking and some hugely important initiatives. These are what we call the 'second generation' of work in the analysis of politics. This thinking went beyond, or beneath, issues of governance and began to treat *politics as something which needs to be understood and engaged with on its own terms*, so to speak, in order to produce effective development. As Sue Unsworth noted 'politics is not an optional extra or something that gets in the way of development. It is central to the whole endeavour' (Unsworth, 2009: 891).

In the next section we address the contribution this second generation thinking has made – and its limitations.

## 3

## Second generation approaches: from governance to politics

### 3.1 Introduction

In this section we answer two questions: Why did a more politically informed analysis emerge in development policy and practice? And what forms did it take in its early years, i.e. from the beginning of the 2000s?

The section is organised as follows.

1. We outline the initial attempts by donors to deal with the new view of politics – i.e. with the realities of competing interests and conflict over resources.
2. We review ‘second generation’ approaches and tools that embody this shift: USAID’s Democratic and Governance Assessments; DFID’s Drivers of Change; Sida’s Power Analysis; the Netherlands’s Strategic Governance and Corruption Analysis (SGACA); and the approach of the Norwegian Agency for Development Cooperation (Norad) to governance analysis.
3. Having acknowledged the huge contribution these approaches have made in opening up serious consideration of the political context in development, we note the dissatisfaction which emerged with their overly general nature, lack of operational relevance, and their analytical looseness.
4. Finally, we note that at around the same time, economists were becoming increasingly interested and influential in shaping this agenda. In our view, this led to the emergence of political economy proper, or what we call third generation political economy. As we will argue in Section 4, it has brought extra analytical rigour, but at a price: it has considerably narrowed the way in which politics is understood and analysed.

Before we proceed, there is an important issue to flag up. Political economy analysis, in the all-encompassing way in which it is used, is a misleading term for a lot of what is labelled PEA. As explained in Box 3.1, we do not consider the approaches we review in this section to be PEA. The generic use of the term hides important analytical differences and different problems, as outlined in Section 5.

### 3.2 Why the need for politically informed analysis?

Given the general acceptance that politics matters, the creation and use of new tools and approaches to facilitate politically informed understanding and development interventions was an obvious response.<sup>17</sup> But more specifically, the second generation approaches were attempting to open the black box of ‘political will’ – or, more usually, of its absence.

#### The problem of political will

Donors recognised that ignoring politics was a recipe for failure. By the late 1990s the World Bank had moved to a position of officially acknowledging that there was a gap between the technical design of public sector and governance reform, which was comparatively ‘easy’, and the *political implementation of these reforms*, which was difficult (Crosby, 1996). Attempts to introduce governance reforms, as if they were a technical matter, were running up against ‘political realities’.

<sup>17</sup> This is not to say that the process of getting donor agencies to take politics seriously was straightforward. It involved its own political entrepreneurship to win political arguments in a supportive political context. See the discussion in Warrener (2004) of Sue Unsworth’s role in framing the issue and the sympathetic political context and support of Clare Short and appetite for such work within DFID.

### Box 3.1: Not all politically informed analysis is PEA

'Political economy analysis' tends to be used in an all-encompassing way to describe any approach that seeks to address political factors. But, in our view, not all tools designed to unpack the political context, political will and political interests are examples of Political Economy Analysis.

Thomas Carothers and Diane de Gramont (2011) make a distinction between first and second generation governance approaches. First generation approaches, for them, are the response to the Berg report and the search for 'good governance'. The emphasis here is largely technocratic, on formal institutions and bureaucratic capacity and reform, with a focus on importing Western, liberal, democratic 'best practices'. Their 'second generation' is politically informed rather than technocratically driven, and emphasises the importance of best fit rather than best practice, with a focus on the role of domestic context and incorporating informal institutions. The first generation approach is certainly not an example of PEA. But neither is a lot of the second generation.

Carothers and de Gramont (2011), like many others, refer to early approaches such as DFID's Drivers of Change and Sida's Power Analysis as political economy (as does the World Bank, 2007a; DFID, 2009; and Haider and Rao, 2010). Contrary to most readings of the field, we do not subscribe to this view. We differentiate between these early approaches and more recent tools, such as the Political Economy of Policy Reform and Problem Driven Governance and Political Economy Analysis, which we consider political economy proper. We believe they have a fundamentally different DNA – early approaches are socially and historically generalist, while the later PEA approaches are grounded in mainstream economics.

Despite many shortcomings, the early (second generation) approaches pulled down the wall between development and politics and created the intellectual and policy space to enable us to take political context, interests, and history seriously. Their broad and inclusive approach to the various drivers of change in a society – political, historical, social – was very helpful. Such breadth has since been lost, and detrimentally so. But the inclusiveness of second generation 'PEA' came at the expense of analytical bite, with most studies being largely descriptive.

More recently, Acemoglu and Robinson (2012) have forcefully argued that there is an established evidence base about different interventions and policies which can effectively reduce poverty and increase incomes. Experts, governments, donors, and the poor are all aware of potentially successful options, so ignorance is not the problem. Rather, the issue is the lack of political capacity to set up inclusive and effective institutions. It was a similar sentiment that drove DFID in the UK to invest in its Drivers of Change approach (see Box 3.2).

### Box 3.2: Suma Chakrabati, DFID Permanent Secretary

Usually, we have a good idea about what needs to be done to achieve poverty reduction, but are much less clear about why it's not happening. All too often, we attribute slow or no progress to a lack of political will [...] It's this black box of lack of political will that DoC analysis unpacks.

*Source: Thornton and Cox (2005: 2).*

This problem – how to bring about collective action and developmental change – has typically been presented as a lack of political will. This is a somewhat lazy and catch-all term (Leftwich, 2006; Green, 2009). As Duncan Green (2009) has perceptively put it, the words 'political will' are 'words that fill a vacuum where political analysis should be'. The notion of 'political will' ignores the actual processes of politics, the role of power and ideas, and the interaction of political agency and political context. That is, it ignores the decisions and strategies of political actors, (including leaders, organisations and coalitions), to manoeuvre towards their political goals within a specific political context, navigating barriers and opportunities.

In Section 6 we provide, in some detail, what we see as the essential building blocks for a political analysis framework. But first, how did the second generation approaches seek to unpack political will?

### 3.3 Second generation approaches: power and drivers of change analysis<sup>18</sup>

Table 3.1 provides an overview of key second generation approaches. The first example of such a tool was USAID's Democratic and Governance Assessments (USAID, 2000; Duncan and Williams, 2010). Meanwhile, in the UK, Sue Unsworth is widely credited as being the person most responsible for introducing politics into DFID's work (Unsworth, 2001, 2002, 2003; Warrenner, 2004).<sup>19</sup> DFID's early approach came to be called 'Drivers of Change' (DoC), and the first study was carried out in 2002 in Bangladesh (Duncan *et al.*, 2003). Many more followed, with DoC studies carried out in over 25 countries (DFID, 2009). DFID is recognised as one of the pioneers in the field, and the UK's original Drivers of Change approach has influenced many others. Building on the work of the UK's DoC, other tools have been developed by the German Federal Ministry for Economic Cooperation and Development (BMZ) (Faust and Gutiérrez, 2004), the Swedish International Development Agency (Sida, 2006), the Norwegian Agency for Development Cooperation (Norad, 2010), the Netherlands' Ministry of Foreign Affairs (Unsworth and CRU, 2007), the European Commission (2008), and the World Bank (World Bank, 2008; Fritz *et al.*, 2009).<sup>20</sup>

#### Achievements of second generation approaches

We argue that these early approaches had a number of important consequences:

- **Broke down walls.** They have proved incredibly important because they opened up the political, intellectual and operational space within development agencies to take politics more seriously.
- **Encouraged holistic analysis.** They were methodologically and substantively inclusive and incorporated a wide range of societal and historical factors and allowed considerable latitude for general political analysis.
- **Set the agenda.** They have had a lasting legacy in that they identified what have become established as the key 'variables' for political economy analysis: actors, institutions and, to a slightly lesser extent, structures.

#### Limitations of second generation approaches

- **They were too general and lacked operational relevance.** The findings from the country studies were too general in terms of describing the political context. They failed to identify actual actors, political strategies, and a clear theory of change. So they did not provide sufficient practical guidance to donors on how to work politically.
- **They tended to be analytically and methodologically loose.** Related to the above point, many of the 'guidance notes' and 'how-to' notes failed to explain how to carry out the analysis. Key concepts were not linked within an analytical framework, nor were they sufficiently defined or disaggregated to allow for detailed political analysis.

We return to these issues below. But first we introduce the main tools.

#### USAID's democratic governance assessment

The creation of USAID's Democratic Governance Assessment, in 2000, marked the first official attempt to deal with the acknowledged fact that political realities cannot be simply wished away. The assessment contains four key steps, the first of which is to identify the main barriers to democratic transition or consolidation. The second and third steps are to provide an inventory of the key actors – their interests, resources, and strategies – and of the institutional context which channels the behaviour of political actors. Fourth and finally, this information is linked to the interests and resources of the donor (i.e. USAID) to provide a set of normatively desirable but politically feasible interventions.

A good example of the approach was the Indonesian study carried out for USAID (Bjornlund *et al.*, 2008; see Box 3.3). It developed a general description of the key actors and the institutional context in which politics occurs, and identified risks and windows of opportunity (such as the upcoming elections and the country's geography and diversity of population). The

18 Early attempts to unpack political will and incorporate an understanding of the political and historical context have also been collectively referred to as 'power and drivers of change analysis' by the OECD-DAC's Network on Governance (GOVNET) (Dahl-Østergaard *et al.*, 2005).

19 Though see also Mick Moore and James Putzel's (1999) 'Thinking strategically about politics and poverty' which was a background paper for the World Bank Team working on the World Development Report 2000/1.

20 Useful overviews and summaries can be found in OECD-DAC (2008), DFID (2009), Haider and Rao (2010), World Bank (2007a).

authors provided useful realism for policy-makers about priorities, about what will and will not work, and what was or was not worth pursuing. However, there is little sense of *how* the donor might work with key actors, *how* key actors might work with one another, or what the developmental goals and aims of the Indonesian actors were. The study was largely driven by USAID's rather normative goals. In sum, it is an excellent backgrounder that identifies key priorities, but is less clear on what the political dynamics of Indonesian society were, what the strategies were that various stakeholders might pursue, how power was distributed and how these might be understood.

The overall aim, then, was to link the goals of the US – specifically democratic reform – with an understanding of how best to achieve this. In many ways the DG Assessments illustrate (and straddle) the transition from first generation normative-and-best-practice governance analysis to second generation politically informed analysis.

### Box 3.3: USAID's Democracy and Governance Assessment in Indonesia

The report clearly follows USAID's DG Assessment Framework and methodology to guide the analysis, focusing on consensus, inclusion, competition, rule of law and good governance, in line with USAID's priorities. It follows the tool's steps of analysing the political actors, interests, resources, and strategies; mapping the key institutions the actors operate in as well as the opportunities and constraints to change; and recommending areas for USAID to work in.

It identifies limited priorities for USAID: (a) an integrated strategy for local governance that builds on and expands current programmatic approaches; (b) a focus on targets of opportunity within the justice sector/national rule of law institutions; and (c) consolidating the democratic peace in Aceh. So the aim is not wholesale reform (national democracy promotion, best practice, etc.), but targeted interventions which are decidedly local, not national.

It identifies the feasibility of the priorities by noting the window of opportunity for the proposed priorities, as well as potential reform partners within the executive and reform minded activists. And, even more importantly, it identifies the risks and constraints on USAID—in the case of Indonesia the team note that there are political sensitivities which need to be negotiated; a consequence of Indonesian nationalism and Islamic sensitivities to the US's 'war on terror'. Along with Indonesia's geography, diverse population, and low aid dependence, these factors all militate against seeking a national impact and instead suggest working locally in selected locations.

Source: Bjornlund *et al.* (2008).

## DFID's Drivers of Change

DFID's Drivers of Change approach has – arguably – been the most influential of all of the PEA tools. For example, Sida's Power Analysis drew strongly from DFID's DoC framework and, in turn, the Dutch Ministry of Foreign Affairs drew from DFID and Sida. Most recently, the World Bank's PGPE framework is still largely indebted to DFID's DoC approach.<sup>21</sup>

The DoC approach begins with the goal of unpacking political will. It seeks to identify the underlying drivers of change (common examples given include corruption; elite capture of power and resources; and, jointly, the role of civil society and of external actors (including the actions of donors) in a country at various levels (DFID, 2005b). DFID's approach looks beyond reform champions. It makes clear that drivers of change are to be found in the interaction between structures, formal and informal institutions, and political actors. These three key factors are defined in Box 3.4. And the conceptual 'model' – as depicted in Figure 3.1 – is now well-known and reproduced across the literature.

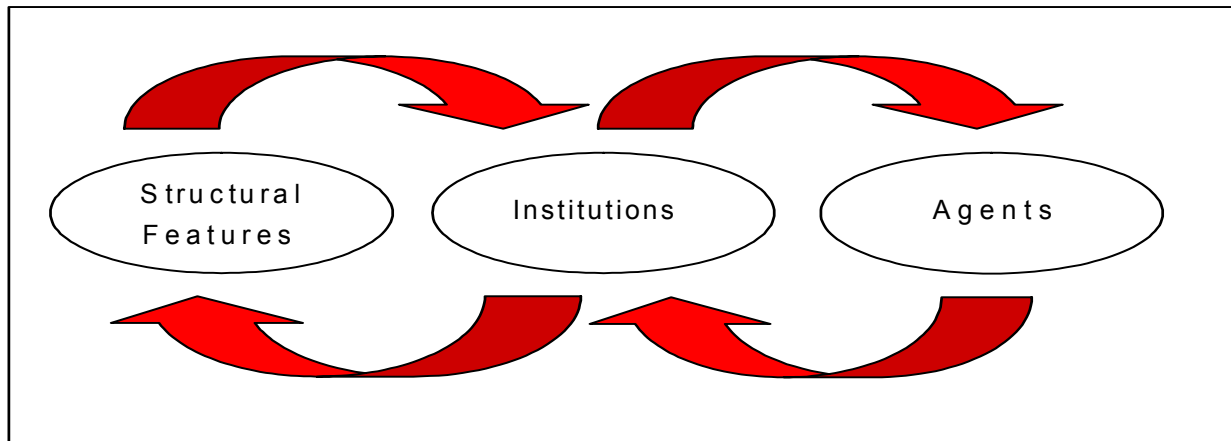
It is tempting to dismiss the model as rather simplistic, but it has been enormously influential.<sup>22</sup> Moreover, it captures an important truth about political change – that it is driven by interactions between agents and the institutional and structural environment in which they find themselves. Our critique is, first, that the definitions of each factor or variable<sup>23</sup> are descriptively inclusive (see Box 3.4), but not analytically sharp enough to help guide fine-grained political analysis. They need to be far more disaggregated and linked to methodological strategies. Second, the arrows in the figure tell us little beyond a perfectly reasonable truism that the three elements interact. We want to know *how* they interact.

21 There is a very interesting sociological story to be told about the personal and professional links through which the different tools were developed.

22 For example, compare it with the latest PEA thinking from the World Bank as epitomised by its Problem-Driven Governance and Political Economy Analysis (Fritz *et al.*, 2009). The diagram is also reproduced below, see Figure 4.1.

23 We also argue that they are not really variables. Instead they are levels of analysis. Each one requires its own separate analysis, using appropriate methodological approaches, before bringing them together to form the basis of the political analysis.

**Figure 3.1 DFID's Drivers of Change conceptual model**



Source: DFID (2004: 2)

#### Box 3.4: Agents, Structures, and Institutions

- **Agents** refers to individuals and organisations pursuing particular interests, including the political elite; civil servants; political parties; local government; the judiciary; the military; faith groups; trade unions; civil society groups; the media; the private sector; academics; and donors.
- **Structural features** include the history of state formation; natural and human resources; economic and social structures; demographic change; regional influences and integration; globalisation, trade and investment; and urbanisation. These are deeply embedded and often slow to change.
- **Institutions** include the rules governing the behaviour of agents, such as political and public administration processes. They include the informal as well as formal rules. Institutions are more susceptible to change in the medium term than structural features.(ARPB)

Source: (DFID, 2004: 1)

So the 'conceptual model' is little more than a series of descriptive ovals and empty arrows. It leaves unanswered the vital question of *how* do you study structures, institutions and agents. For example, the Angolan Drivers of Change report had two, maybe three, paragraphs on the methodology; i.e. identifying what the DoC approach was and noting that structures, institutions, and agents interact (Vines *et al.*, 2005: 3). Such brevity is not uncommon. Reviews of DoC and similar approaches all concluded that they were of variable quality – largely because of a lack of analytical guidance (Thornton and Cox, 2005; Schakel *et al.*, 2010).

Similar to studies based on the USAID tool, DoC studies were good at identifying background issues that the donor needed to take into account. But they lacked detail about specific agents and how to engage politically with them – what strategies to use or how to frame issues. Political programmes could, and did, arise from the insights of the studies, but this required further in-country knowledge and further programmes and analysis – for example, see Box 3.5 on Nigeria. The DoC tools and studies themselves were too general – and too variable in quality – to be immediately operationally useful. Our view is that this was a consequence of the analytical looseness of the approach.

### Box 3.5: Nigeria and the policy implications of political economy analysis

Drivers of Change analyses were designed to establish which policy reforms were worth working towards, where and with who. In Nigeria a series of DoC studies was carried out. The analyses suggested that the divided political system militated against individuals or organisations working successfully for reform; institutional weaknesses should be addressed, especially those relating to public revenue management and formal accountability.

One of DFID's responses was the *Coalitions for Change* programme. This identified eight specific issue-based projects where popular demands for change were identified and could work towards strengthening institutional change, such as a Constitutional Reform Dialogue Mechanism, Monitoring the Virtual Poverty Fund. Hence the DoC reports successfully identified the constraints to reform in Nigeria as institutional ones, as well as a series of issue areas where reforms enjoyed political traction with a majority of Nigerians. What the studies did not go on to do was to identify the strategic and operational implications, and ways of working politically to bring about change. This required extra work.

### Sida's Power Analysis

Sida's approach was driven by a desire 'to look for causes, not symptoms, of the democratic deficits in our partner countries' (Sida, 2005: 5). The approach asks a lot of pertinent questions, especially with its focus on informal, as well as formal, power. For example, the tool asks the analyst to consider how family inequalities affect who has power in the public sphere, the role of gender; class, race and ethnicity as well as how belief systems and social stigma (e.g. related to HIV/AIDS) reinforce the powerlessness of the poor and vulnerable.<sup>24</sup> But in terms of how to systematically answer these questions, the aspiring analyst is left nonplussed, or at least, on their own.

Sida's tool has been used to carry out studies in Ethiopia (Vaughan and Tronvoll, 2003), Tanzania (Hydén and Mmuya, 2008), Bangladesh (Lewis and Hossain, 2008), as well as Kenya and Burkina Faso (Sida, 2006). Similar to the criticisms of DFID's DoC approach, these country studies largely reflect the skill and knowledge of the analyst rather than the added value of the approach. As has been noted in reviews of Sida's power analysis, the concept of power – which is clearly central to the whole enterprise – is undefined and used differently in different studies (Sida, 2005).

### Norad's political economy analysis with a legitimacy twist

Norad's (2010) claim is that – in addition to the standard political economy focus on which actors do or do not have influence, and on opportunities for and barriers to reform – donors need to understand the relationship between the state and its population in terms of legitimacy, i.e. the trust and support the state enjoys. Norad's guidance note identifies four sources of legitimacy to be analysed:

1. *input/process legitimacy*: participation;
2. *input/performance legitimacy*: security, welfare, economic;
3. *shared beliefs legitimacy*: the nation as a perceived community;
4. *international legitimacy*: recognised by other states.

Norad has carried out political economy studies based on this framework in Kenya (Norad, 2010), Nigeria (Amundsen, 2010), Pakistan (Bauck *et al.*, 2011), and Nepal (Dix, 2011). The application of Norad's legitimacy focus in Kenya is summarised in Box 3.6.

### Box 3.6: Norad's political economy analysis of Kenya

The study, which was designed to guide Norway's strategic approach to governance in Kenya, involved desk-based research and interviews in the field. Its analytical focus was on state legitimacy and state-society relationships using three of the four sources of legitimacy identified in Norad (2010): how the state functions, what it does, and people's beliefs. Noting the low levels of state legitimacy and accountability structures in Kenya, the analysis concludes that Norway should avoid supporting entrenched elites and instead focus on citizen participation. Decentralisation reform is one of the solutions proposed, as is support to civil society organisations, trade unions, farmers' associations, and the media (Sundet and Moen, 2009).

24 See the series of questions listed from page 15 of Sida (2006).

### Table 3.1 Frameworks of key second generation approaches

#### USAID's Democracy and Governance Assessments (developed 1999). Key reference: USAID (2000)

- The framework is designed to guide political analysis of a country and to identify policy priorities to help promote the normative goals of democracy and good governance.
- It is designed to produce consistent and comparative findings and provides analysts with clear guidance, based on four steps.
  - Step 1: An analysis of the kind of political game that characterises the country (based on assessing levels of consensus, competition, inclusion, rule of law, and governance) and of the problems relating to the transition to, or consolidation of, democracy.
  - Step 2: A more specific analysis of actors, interests, resources, and strategies leading to an understanding of how the political game is actually being played in the country.
  - Step 3: An analysis of the institutional arenas (legal, competitive, governmental, and civil society) in which the game is played. Institutions' characteristics define the incentives that channel actors' behaviour. It is the character of these institutions that is to be changed by democratic reform.
  - Step 4: The interests and resources of the donors, including USAID.
- Data collection is via desk-based research, interviews and focus groups with key stakeholders.

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#### DFID's Drivers of Change approach (developed 2002). Key references: DFID (2004, 2005a, 2005b)

- The DoC approach is designed to identify key drivers of change in a country which emerge from the interaction of economic, social and political factors.
  - The framework is a set of flexible guidelines. The result is context-specific findings, rather than comparative analysis across countries.
  - The conceptual model is built around three key terms (see Box 3.4 for definitions): structural features; institutions; and agents.
  - The DoC theory of change is that structures and agents affect each other, but that both do so through institutions. Thus, analysis focuses on formal and informal rules, power structures, vested interests and incentives within institutions.
  - Analysts are given further guidance by being asked to answer questions in six areas: basic country analysis; medium-term dynamics; role of external forces; links between changes and poverty reduction; operational implications; and DFID incentives.
  - Data collection is via desk-based research, interviews and focus groups with key stakeholders.
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### Sida's Power Analysis. Key references: Sida (2005, 2006)

- Sida's Power Analysis is a very flexible approach designed to identify where real power lies in a society. Its emphasis on nuance and context-specificity means that its findings are not comparable across countries.
- The approach is designed to reveal how power is distributed, conflicts of interests, what kind of power is being exercised and how, how this is understood or perceived, by whom and for what purposes, and what consequences this has.
- The guidance for doing this is not through an analytical framework but a series of grouped questions on 10 core issues. These include:
  - How is formal and informal power distributed in society? (In relation to gender? In the private sphere?) What kind of power is exercised? What types of hidden power exist? What is the role of belief systems and cultural practices? (Stigma and discrimination?) What is the capacity of the state? What are the major conflicts of interest? Which groups are marginalised? Where does real power lie in society?
- Further direction is given with more questions along three important dimensions:
  - Articulation and Voice*: do poor groups within society have the ability to raise concerns?
  - Responsiveness*: are there mechanisms for the poor to be heard?
  - Accountability*: are there mechanisms to hold agents answerable for their failure to address the concerns of the poor and poverty?
- There is no framework or guidance on how to answer the questions.
- There is no clear definition of power – it is up to the analyst to define depending on the country, sector and issue being studied. More recent country studies have emphasised a broad understanding of power as both constraining and enabling.

Data collection is via desk-based research and secondary documents, and fieldwork using interviews.

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**Netherlands Ministry of Foreign Affairs' Framework for Strategic Governance and Corruption Analysis (SGACA), developed in 2007. Key reference: Unsworth and CRU (2007)**

- The approach is designed to get behind the façade of formal governance structures to understand current governance problems, corruption, legitimacy, and weak commitment to human rights and poverty reduction.
- It highlights the context in which domestic actors find themselves, especially the social and political processes and incentives they face.
- There are four stages to the analysis: (1) a pooling of available information into a 'track record'; (2) a power and change analysis; (3) a workshop to discuss the findings; and (4) a finalised strategy based on the previous three stages.
- The Power and Change Analysis component is organised around three dimensions:
  - Foundational Factors:* e.g. Does the government control the territory, collect taxes? What are the social and economic structures?
  - Rules of the Game:* e.g. What are the formal and informal institutions? What is the nature of political competition?
  - Here and Now:* e.g. Who are the key players, and what are their interests? What are the ongoing events and pressures to which they are responding?
- The analyst is provided with a long list of useful questions grouped into the three dimensions, but is not given an analytical framework or conceptual model, nor any methodological guidance on data collection beyond a suggestion of possible secondary sources to use.
- The data is based on existing research and documentation plus a consultation workshop with partner countries.

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**Norad's tool, Political Economy with a Legitimacy Twist. Key references: Norad (2010); Sundet and Moen (2009).**

- Norad's tool focuses on the relationship between the state and the population – i.e. the legitimacy of the state.
- The tool suggests the basics of a typical political economy analysis to provide a foundation for country, sector, or problem driven analysis, i.e. the three conceptual groupings of:
  - Interests, incentives and power of different groups in society
  - Influence of formal and informal institutions on decision-making
  - Influence of social, political and cultural norms, values and ideas on shaping society and outcomes.
- The value added of Norad's tool is in the 'legitimacy twist'. The analyst is asked to unpack the sources of state legitimacy along the following dimensions: Input/process legitimacy; Output/performance legitimacy; Shared beliefs legitimacy; International legitimacy
- The approach gives a good conceptual description of the sources of legitimacy in each dimension, but no clear questions or methods for gathering data. The 'how to' chapter is mainly restricted to issues of team management and execution.
- The data is based on desk research – of reports and surveys – and then interviews are used to test and complement this information.

### 3.4 The limits of second generation approaches

So what can we say in general about the early approaches to politically informed development policy?<sup>25</sup> On the one hand, there is some clear variation in the tools, a result of them being tweaked to meet individual agencies' agendas and goals (Routley and Hulme, 2012).<sup>26</sup> On the other hand, there is also some important convergence on key issues that we can generalise about:

- There is a common concern with the centrality of politics, understood as conflict over resources and vested interests, and with understanding this better in order to increase aid and development effectiveness.
- There is a strikingly consistent conceptual core to all these early (second generation) PEA tools, regardless of whether it is a sectoral, micro or country-level analysis. Common to all these PEA tools is a focus on identifying significant actors, their interests and resources, and on mapping the formal and, in some cases, informal institutions in which they find themselves, as well as a good deal of background on the country-level situation and history. This has been noted and argued by a range of other reviews (Nash *et al.*, 2006; Haider and Rao, 2010; Duncan and Williams, 2010; Tolentino, 2010; Routley and Hulme, 2012).

So, taken together (and we argue that these tools can be taken together) they have been enormously important in breaking down walls and opening up the intellectual and policy space to allow the political context of development interventions to be taken seriously. This is not to be overlooked.

However, there has been increasing dissatisfaction with the tools and the results of the country studies based on them. Two reasons stand out and have been repeatedly expressed (Carothers and de Gramont, 2011; Sida, 2006; DFID, 2005b; Beuran *et al.*, 2011; Tolentino, 2010; Grindle, 2011): a lack of operational relevance, and an analytical and methodological looseness.

#### A lack of operational relevance

The tools failed to deliver operationally relevant recommendations for how to bring about successful political reform. Their analysis and conclusions were too general, and did not provide practical guidance to donors for how to work politically. They tended to lack the next step: *how* to bring about their recommendations. Thinking and working politically means identifying practical strategies on how issues and rules can be reframed, coalitions built, and leaders empowered, based on countries' values and ideas. So, it is not just that civil society should be empowered, but which sections and *how*.

For example, it is claimed that political economy analysis allows donors to think about what to support, but not how to support it (Norad, 2010). Likewise, Sida (2006: 5) claims that analysis supports donors 'thinking more strategically about how change – or retardation – occurs ("how" rather than "what")'. Do they? Norad's analysis of Kenya (as in Box 3.6) suggests not. The study is extremely interesting and in many ways enlightening, but it does not really answer the question of *how*: *how* to develop leadership, *how* to support collective action, *how* actors can work politically.

Another example is Norad's analysis of Nepal and its recommendations for donor anti-corruption interventions (Dix, 2011). The report identifies three key recommendations:

- Make use of opportunities to set the norm for integrity, formally and informally.
- Develop the leadership of those who have the power to make the desired structural and system changes.
- Empower and support collective action by the losers in the current system.

It is hard to disagree with any of these: they are politically savvy and are good 'entry points' for donors to think about. However, the report does not provide recommendations on *how* to do this beyond general suggestions of identifying opportunities, working with an eye to informal as well as formal rules, and a mapping exercise to identify potential pro-reform actors.

25 In addition to USAID's, DFID's, Sida's, and Norad's approaches there is also the Netherlands' Ministry of Foreign Affairs Framework for Strategic Governance and Corruption Analysis (SGACA). See Table 3.1.

26 For one, there is obviously cross-agency variation (e.g. a focus on legitimacy (Norad, 2010) or on power (Sida, 2006) or consultation (Unsworth and CRU, 2007)). At a higher level of abstraction there is also a common distinction made between macro (country context), meso (policy implementation), and micro (policy impact) level analysis (Haider and Rao, 2010), or country, sector, problem-driven (DFID, 2009; Fritz *et al.*, 2009; Duncan and Williams, 2010).

## An analytical and methodological looseness

The reviews that were commissioned or carried out on DoC and similar approaches all concluded that they were of variable quality (Thornton and Cox, 2005; Schakel *et al.*, 2010). A tighter methodology was one solution. The 'guidance notes' and 'how to' notes published by the donors are indeed thin in terms of how analysts should go about applying the framework (e.g. structure, institutions, and agents) or key concepts (e.g. power, legitimacy). There is a default preference for desk-based research and interviews or focus groups. There is nothing wrong with desk-based research/interviews/focus groups, but these methods (a) do not exhaust the tools available for conducting good social science research; and more importantly (b) need to be embedded in a solid research design which provides clear guidance on key conceptual definitions, how to use these concepts, how to gather valid and reliable data and evidence, and how to analyse it.

For example, in Sida's (2006) approach, the closest one gets to an analytical framework is the following statement:

'...power analysis includes analysis of actors, interest groups and structures with the purpose to show which are dominant, i.e. where the real power in society lies, and their scope and incentives for pro-poor reforms. The chain of voice, representation and influence tends to be cut by either discrimination (prejudice/ lack of availability, access, acceptability or quality) or elite capture/corruption or both' (Sida, 2006: 14).

Sida (2006) goes on to advise analysts to cover the following issues:

- formal and informal power relations and structures;
- how real power is distributed;
- what kind of power;
- how exercised;
- how understood and perceived;
- by whom;
- what are the purposes and consequences.

The appendix to the Sida paper spends some time discussing power. The discussion is very good, but it is also highly theoretical and abstract. There is no guidance on how to apply the different concepts of power (e.g. controlling or constructive) when carrying out analysis. The section on methods, from a 36-page concept note, is telling:

*Methods* could include anything from state of the art reports based on previous studies/research to large number of interviews or series of focus group discussions – or all. (Sida, 2006: 22).

When and how does the analyst collect information on the different types of power – who possesses it, how it is exercised and so forth – and how is this analysed? These are serious but standard political science questions.

These problems were well summarised by Mick Moore in his sober assessment of Sida's Power Analysis. Imagining the response of a typical Sida staffer he writes: '(a) 'It was interesting, but I knew a lot of that already'; (b) 'This is not very different from what one can find in standard diplomatic country reports or in-depth journalism'; and (c) 'But it does not really help me at all in deciding what to do'. (Sida, 2005: 7-8).

## 3.5 From politically informed analysis to political economy analysis

The emergence of the third generation approaches out of these second generation approaches was driven by two processes coming together. First, a useful stocktaking exercise collated lessons learned and common themes from the early approaches. Second, economists increasingly turned their attention to the problems of political feasibility and political will in a development context. It is only at this point, as the stronger influence of economic approaches started to be felt, that it became common to speak of political economy analysis.<sup>27</sup>

So what does political economy analysis mean? Box 3.7 contains some common definitions.

<sup>27</sup> We provide an extended summary of PEA in the following section. But to anticipate the argument we note how the 'economics of politics' approach promises greater methodological rigour and provides a succinct answer to the second issue: by aligning incentives. But it also severely curtails what is considered to be politics and political analysis.

### Box 3.7: What is political economy analysis?

- 'A social science dealing with how economic incentives, political interests and concentrations and networks of power—as shaped by institutional structures and norms (both formal and informal)—influence development outcomes' (AusAID, 2011a: 92).
- 'Understanding the interests and influence of different stakeholders and how their power is exercised within a particular institutional context is central to effective policy implementation and the design of development interventions. As a result, political economy and institutional analysis is increasingly being used by donors, particularly in the design of projects and programmes to address specific sectoral problems [...] This analysis can then be used to design interventions that are both more likely to succeed and that can monitor and address more effectively potential implementation risks' (Oxford Policy Management, n.d.).
- Political economy analysis pays 'particular attention to politics, understood in terms of contestation and bargaining between interest groups with competing claims over rights and resources. However, it is equally concerned with the economic processes that generate wealth, and that influence how political choices are made. In reality these processes are closely inter-related and part of a unified set of dynamics which influence development outcomes' (DFID, 2009: 4).
- The 'aim is to analyse in greater depth how political systems function in developing countries and the implications for assistance strategies and aid delivery' (Landell-Mills *et al.*, 2007: 1).
- '...how power and resources are distributed and contested in different contexts, and provides insights into underlying interests, incentives, rules and institutions.' (Haider and Rao, 2010: 4).

What, collectively, do these definitions tell us?

**Politics, not capital or knowledge, is the binding constraint.** PEA is the attempt to take seriously the fact that financial resources and technical knowledge are not the binding constraint on development—politics is; but not politics as managing capacity building and institutional design (governance). Politics is now treated as a matter of managing the distributional consequences of institutional change (political economy).

**It is an empirical rather than a normative approach.** It pushes a bit further than the institutionalism of the governance agenda to consider how *individuals* and *organisations* make political and economic choices based on their interests. This is an important departure from the 'good governance' agenda. Good governance tended largely to be about what institutions *should* exist and which reforms *should* be carried out. PEA presents itself as an *empirical* analysis of how existing political institutions and actors *actually* work.

So far so good, but this understanding of PEA reveals **some ongoing confusion about what PEA is**. While there is a general sense of what matters – interests and institutions, power and wealth – there is still confusion about what precisely political economy analysis is or should be. It still seems little more than a general sensitivity to the interaction between politics and economics. As such, it does not take us much further than acknowledging that development outcomes are not simply the result of economic factors.

**PEA is about realism and political feasibility and is meant to be a distinctively practical exercise.** This is a different understanding of politics.<sup>28</sup> The language of 'political feasibility' and 'realism' is hugely important and recurs across all tools, applications, and reviews (Haider and Rao, 2010; Duncan and Williams, 2010; Tolentino, 2010). The bottom line is that PEA is *meant* to help donors get a handle on which types of interventions are more and less likely to be successful. It should not just provide a background to, or overview of, the political context, but operationally relevant conclusions identifying more and less successful courses of action and an assessment of political feasibility (DFID, 2009). A 'good enough governance' or 'second-best mind-set' tells us that not everything can or should be achieved at once (Rodrik, 2006; Grindle, 2004, 2007).

But as we have seen, many of the second generation approaches fell short on this key criterion. And so it is here that a distinctively political economy approach began to emerge, with a new focus on behaviour change understood from an economic perspective.

The argument that emerged was that it is **vested interests that really matter**. Out of the confusion and general concern with agents, their interests and resources, a more rigorous focus on self-interested rationality was forming – this was the provenance of what we have called 'third generation' political economy.

At its core, this third generation PEA is the analysis of who wins and who loses from existing and proposed political reforms

28 We will argue that this is *still* a limited way of thinking about politics, but nevertheless it is a great step forwards.

(Keefer, 2004). That is to say, it is all very well identifying the optimal or even just necessary reforms, but successfully bringing these about is quite another thing. The insight that reforms produce winners and losers means that it has become essential to build a thorough understanding of stakeholders' interests and incentives in order to identify which reforms can garner support and which will fail (Haggard and Webb, 1994; World Bank 1997, 2000; Nunberg and Green, 2004).

Third generation PEA emphasises that there is always conflict between competing interests. Those who have power will seek to defend their advantage, and those who are disadvantaged will be marginalised. Verena Fritz (2012) has articulated this most succinctly when noting that governance reforms are difficult because, 'Turkeys do not vote for Thanksgiving', i.e. elected politicians do not have an interest in changing the system which brings them power. This generation of PEA also focuses on how these interests protect their position through the existing institutional arrangements.

### 3.6 Section summary

- Early (second generation) tools were crucial in bringing in the role of political players, institutions and structures in order to map out the context for development interventions. This was driven by a desire to understand where political support, and political will, lies in a country or sector.
- Examples include USAID's Democratic Governance Assessments, DFID's Drivers of Change approach, Sida's Power Analysis, the Netherlands's Strategic Governance and Corruption Analysis (SGACA) and Norad's legitimacy-focused PEA tool.
- These early tools are often referred to as examples of political economy analysis, but we argue that they are too general to be considered political economy proper. They tend to be descriptive exercises that map the political and historical context. They lack analytical bite and clarity.
- Nevertheless, these early approaches were hugely important in opening up the space to think and talk about politics. But they were also too general to provide operationally relevant insights, and tended to suffer from analytical and methodological incoherence.
- The operational and methodological 'gap' led to the emergence and application of an economic approach to politics. This focused on bringing about behavioural change and on the role of interests and incentives, understood from an economic perspective. It promised much needed rigour; but it also came at a cost in terms of a narrowing of what is considered to be politics and of how to analyse it.

In the next section we outline the key elements of this new approach.

# 4

## Third generation approaches: political economy as the economics of politics

### 4.1 Introduction

Sections 2 and 3 showed how the first generation's somewhat technocratic concerns with the 'good governance agenda' in the 1990s proved to be unsatisfactory in addressing the deeper processes of history and politics that shaped development prospects and outcomes<sup>29</sup> (Whaites, 2008; Norad, 2010; DFID, 2010a, 2010b). This resulted in a series of very important second-generation politically-informed approaches – such as DFID's Drivers of Change, Sida's Power Analysis and the Dutch SGACA work. These were successful in getting donors to start taking political context seriously. However, there were concerns that they lacked methodological sophistication and consistency, and that it was difficult for donors to know what to do with them. The response to this was the emergence of a new 'political economy' approach, inspired by the assumptions and methodological tools of economics. We see this as a distinctive third generation of approaches to the politics of development.

In this section we address the emergence of what is now loosely called PEA and describe what it is about. In Section 5 we will unpack what we see as its limitations and in Section 6 we will map out an alternative 'Political Analysis Framework'.

The central argument of this section is that at the heart of PEA approaches is the theory that political outcomes are shaped by the interaction of three key variables: interests, institutions and incentives. The theory of change that emerges from this approach is: to shift behaviour (and therefore development outcomes) you shift the institutions that generate the players' incentives.

The structure of this section is as follows.

1. We set out the main argument, introduce the three key variables, and explain how PEA represents an 'economics of politics' approach.
2. We provide a series of examples and illustrations of the approach.
3. We sound a note of caution. We see serious limitations with the apparently persuasive arguments that incentives lie behind bad development outcomes (and that changing incentives offers policymakers a key way of improving these outcomes).
4. Finally, we explain why 'incentives' have been so attractive as a 'tool' for changing behaviour.

### 4.2 The emergence of third generation approaches

The overly general nature of the first politically-informed approaches, their lack of operational traction and relevance, and their conceptual and analytical looseness elicited two key responses.

1. A shift from country-level 'contextual' analysis to problem-driven analysis, with a renewed emphasis on moving from analysis to action.
2. A new focus on the language of interests and incentives, which represented the growing influence of the economic approach, with its promises of greater analytical rigour.

It is this second point that we will focus on. But it is worth first exploring what 'political economy analysis' adds up to.

<sup>29</sup> It has long been informally acknowledged that politics matters for development effectiveness, but over the last decade this steady realisation has been formally articulated (Hickey, 2008; Carothers and de Gramont, 2011, 2013 forthcoming). Prior to this, as expressed by Routley and Hulme (2012: 3) 'Political analysis was therefore not absent but it was not overt and nor was it systematic'.

While definitions of both 'political economy' and 'political economy analysis' differ widely, there are some common threads in the contemporary stable of usages.

### 4.3 What is political economy analysis?

We provide here a quick outline of the core elements of the prevailing approaches to political economy analysis. In our view, political economy analysis, in the context of development, has steadily become the application of economic assumptions and tools to the analysis of political behaviour and institutions. In doing so, it has increasingly become the economic analysis of politics rather than the political analysis of development.

### 4.4 Interests, institutions and incentives

This influential third generation of political economy has come to rest on three core principles.

**Self-interest** is the underlying driver of behaviour and outcomes. For example, politicians are focused on getting elected or staying in power; while bureaucrats are driven by expanding their power, duties, staff and budgets. This does not mean that society is populated with sociopaths; if channelled into productive activities, self-interested competition makes for a dynamic society. As Adam Smith put it in *The Wealth of Nations* (1776), 'it is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner; but from their regard to their own self-interest.'<sup>30</sup>

**Institutions** matter, as they provide the necessary social infrastructure to harness and channel self-interest: they act as the coordination mechanism for mutually productive outcomes. Institutions provide peace, justice, and stability for the economy and polity to function without disruption. They are the glue that holds society together. Without institutions providing and upholding laws, contracts, property rights, and trust, economic activity would not be able to function smoothly. But – from an economic perspective – their critical role is as incentive structures.

**Incentives** are generated within institutions: good institutions incentivise coordination and wealth-creation, whereas missing or bad institutions incentivise self-seeking and socially perverse outcomes. Incentives are the external stimuli of rewards and punishments that are related to certain types of actions (Ostrom *et al.*, 2002). For example, without the security of property rights the incentive to invest falls, or without electoral accountability the incentive for politicians to provide public goods falls. Note that, according to this approach, the agents involved always act in their self-interest. That has not changed. The variable is the institutional context which generates the incentives for agents to act in particular ways: invest or not invest, act in the public interest or engage in clientelistic behaviour. So by generating incentives, good institutions play a crucial bridging role – aligning individual self-interested behaviour with publicly beneficial outcomes. The centrality of incentives in the history of economic development is outlined in Box 4.1, below.

Given these points, most versions of contemporary PEA proceed by: (1) identifying the stakeholders, their interests and capacity; (2) mapping the formal and informal institutions which govern behaviour; and (3) analysing how individual interests and institutional incentives interact to produce pro- or anti-developmental outcomes. Over this and the following section we unpack and illustrate this view of the world, as well as suggesting what it misses.

#### Box 4.1: The centrality of incentives to economic development

'Altering the institutional framework entails changing the incentive structure and has been an essential condition for the reduction in the uncertainties of the environment over time. It has been the major tool by which humans have attempted deliberately to alter their environment. It encompasses many of the efforts in the contemporary world to improve the performance of third world economies. Historically, institutional change has altered the pay-off to cooperative activity (the legal enforcement of contracts, for example), increased the incentive to invent and innovate (patent laws), altered the pay-off to investing in human capital (the development of institutions to integrate the distributed knowledge of complex economies), and lowered transaction costs in markets (the creation of a judicial system that lowers the costs of contract enforcement).'

Source: North (2005:18).

30 However, self-interest alone is not enough, and Smith recognised this. He made much of the importance of sympathy and trust in his other great book, *The Theory of Moral Sentiments* (1759) as well as the later books of *The Wealth of Nations*. He also noted the importance of humanity, justice, generosity, and public spirit for the effective functioning of economic markets.



## 4.5 Continuity and change

We suggest that there *appears* to be much continuity between second and third generation approaches, which explains why they tend to be presented collectively as PEA. Yet, in its focus on the role of institutions in shaping incentives, PEA over the past decade has become increasingly sophisticated (but also partial) in how it approaches the analysis of politics.

### Apparent continuity in aims

The second and third generation approaches both reject the first generation's view of politics and development. They agree that it is necessary to dig down to political realities rather than approach politics from a normative perspective, which is what 'best practice' good governance approaches do. There is consensus between second and third generation approaches around the claim that political realities are the main barrier to developmental reform – it is not a lack of bureaucratic or governance capacity, human capital, financial resources, or know-how. In short, it is a problem of 'political will'. Therefore, the purpose of 'PEA' is to understand why political agents act as they do and to work out how to change behaviour.

### Real divergence in analytical approach

However, underneath this apparent continuity between the second and third generations, there has been an important methodological split. The underlying logic and *raison d'être* of 'PEA' remains the same – to help policymakers successfully bring about reforms and increase developmental effectiveness. But *how* to analyse and understand the problem of 'political will' is understood quite differently across second and third generation PEA. In earlier analysis unpacking 'political will' meant paying attention to a country's historical legacies and institutions, as well as to the winners and losers from proposed reforms. In third generation PEA, the focus has narrowed and the analytical toolkit has been streamlined. The route to understanding why political agents act as they do is now predominantly framed in the language of incentives.

## 4.6 Features of third generation PEA

1. The approach seeks to develop specific methods or tools to help users understand how political power and wealth is distributed within society and the implications of this for developmental change.
2. PEA tools have been designed to be practical and operationally relevant, and are mostly used by development agencies (or other development practitioners, such as CSOs) and applied across countries.<sup>31</sup>
3. Methodologically, and crucially, PEA tools are built on the assumptions and applications of the 'economics of politics' approach to political economy. They assume that self-interested and utility maximising actors will respond consistently and predictably to incentive structures.<sup>32</sup>

The rest of this section addresses donors' efforts to ensure the practical relevance of PEA tools (point 2). This has resulted in renewed emphasis on problem-driven analysis but also a turn to the assumptions and concepts of economics (point 3).

## 4.7 Response one: a renewed problem-driven focus

The first, perhaps most obvious, response to the dissatisfaction with the second generation work was a gradual shift away from country-level analysis to sectoral and problem-driven analysis (DFID, 2009; Fritz *et al.*, 2009; Duncan and Williams, 2010).

The result has been a more practical problem orientation with a much greater focus on a narrow range of reforms pertaining

31 This second element is important to distinguish PEA from the huge amount of contemporary and historical work done by academic political economists and political scientists that, while also focused on the interaction of power and wealth, tends to lack direct or implementable policy and operational recommendations (see Box 5.1 below). Clearly PEA is informed and influenced by some of this work, for example Douglass North's (1990) work on institutions and Merilee Grindle's (2004, 2007) work on 'good enough governance'. But PEA and academic political economy are best viewed as parallel endeavours.

32 This third element was never fully worked out in earlier approaches. Yet, it was always dormant. For instance, the consistent and approving use of Douglass North's 1990 definition of institutions meant that an economic view of institutions was always likely to emerge. North's view has actually changed somewhat, but his earlier works such as *Structure and Change in Economic History* (1981) and *Institutions, Institutional Change and Economic Performance* (1990) were firmly grounded in a rational choice view of the world (see also North and Thomas, 1973). That is to say, individuals respond to the incentive structure embodied in institutions in consistent and predictable ways. His later work emphasises the role of belief systems and draws on cognitive science. We pick up these issues in Section 6.

to a single sector, such as the roads or police, and therefore fewer relevant stakeholders. It is claimed by its proponents that PEA of this kind can provide more detail on the nature of the problem, the specific range of stakeholders and their preferences, as well as the relevant rules of the game. Moreover, it is claimed, PEA can then offer the ability to set out a sharper range of potential outcomes as well as identifying the room for manoeuvre and where donors can work.

A good and often-cited example of this is ODI's political economy analysis of Uganda's road-building and maintenance reforms (Booth and Golooba-Mutebi, 2009). The problem identified was that the Ministry of Works was effectively a vehicle for extending the system of political patronage through the provision of contracts, offering kickbacks for personal enrichment and maintaining political support. But was it possible to transform this pattern into one where roads serve the public interest and boost development? The study provides a much more detailed analysis of the problem than the typical country-level reports of second generation approaches. It concludes by identifying a window of opportunity for donors to help shape Ministry procurement and contracting processes, as well as how private actors decided to organise their bids for tender. Operational implications are provided, and involve improving communications and brokering dialogue between the Ugandan National Road Authority and private contractors to help overcome collective action problems.

This shift towards a narrower, problem-driven focus has been underway from some time – for example, in DFID's move away from Drivers of Change and the earlier development of ODI's Analytical Framework for Understanding the Political Economy of Sectors and Policy Arenas (Moncrieffe and Luttrell, 2005). But it has definitely seen a renewed push in recent years. For example, in June 2010, the World Bank convened a two-day workshop around the issue of 'The Political Economy of Reform: Moving from analysis to action'. Key PEA stakeholders were invited and the aim was to explore the roles that political economy analysis could play in informing and guiding real-world reform efforts. The discussions included considerable emphasis on producing political economy analysis and 'tools' that could be made operationally relevant (WBI and CommGap, 2010).

## 4.8 Response two: enter the economics of politics

The second major response to the 'what do we do on Monday morning?' question was to encourage greater methodological and analytical rigour by turning to the assumptions and tools of economics. The turn to the 'economics of politics' provided some clearer (if much narrower) answers to questions such as: What drives political agents' behaviour, and helps us to understand whether they seek to provide broad-based public goods or engage in narrow clientelistic actions? How can these dominant patterns be secured or changed? The short answer is incentives. As noted by Verena Fritz (2012, *emphasis ours*):

'Political economy perspectives enable us to scan country and sector environments for opportunities to leverage existing positive drivers of change – as well as to make realistic estimations of the risks and challenges involved. This implies taking the *incentives* of individuals and of groups more seriously – rather than thinking about reforms predominantly from a public welfare perspective.'

The turn to incentives indicates the important analytical shift that occurred in PEA – the turning from political science and history towards economics, as we shall discuss more fully in Section 6.

### Box 4.2: Economics as the study of incentives

'Economics is, at root, the study of incentives: how people get what they want, or need, especially when other people want or need the same thing. Economists love incentives. They love to dream them up and enact them, study them and tinker with them. The typical economist believes the world has not yet invented a problem that he cannot fix if given a free hand to design the proper incentive scheme. His solution may not always be pretty – it may involve coercion or exorbitant penalties or the violation of civil liberties – but the original problem, rest assured, will be fixed. An incentive is a bullet, a lever, a key: an often tiny object with astonishing power to change a situation.'

Source: Levitt and Dubner (2005: 20).

Incentives are central to the economic worldview (see Box 4.2). From 1778 to the present day – from Adam Smith to Acemoglu and Robinson – the study of the wealth and failure of nations is all about the operation and analysis of incentives. Most recently, as Acemoglu and Robinson (2012: 42) have argued:

The reason that Nogales, Arizona, is much richer than Nogales, Sonora, is simple: it is because of the very different institutions on the two sides of the border, which create very different incentives for the inhabitants of Nogales, Arizona, versus Nogales, Sonora.

This new prominence of incentives and the economic worldview in PEA has meant that 'political economy' has become a *very particular* combination of politics and economics, and one that is considerably different from the second generation approaches. Specifically, the bulk of political economy approaches and applications have largely become, or have been strongly influenced by, the use of economic tools and concepts to analyse the political sphere, sometimes almost unwittingly.<sup>33</sup> It is the economics of politics. And this 'economic approach to politics' has been summarised as:

[the] economic study of nonmarket decision-making, or simply the application of economics to political science. The subject matter is the same as that of political science: the theory of the state, voting rules, voter behaviour, party politics, the bureaucracy and so on... The basic postulate of public choice, as for economics, is that man is an egoistic, rational, utility maximiser

Source: Mueller (2003: 1-2).

## 4.9 From primordial soup to interests and incentives

While incentives were discussed in second generation approaches, they were not given the analytical primacy that has now emerged (see, for example, Unsworth, 2002; DFID, 2004).<sup>34</sup> In second generation approaches incentives were just one among many explanations, concepts and variables that vied for the analyst's attention. Indeed, in these early studies, a very wide range of factors were mentioned. These included:

- a country's history of state formation;
- the natural and human resources available;
- economic and social structures;
- the direction of demographic change;
- global and regional influences and integration;
- trade and investment;
- urbanisation;
- formal institutions of government and rules of the game;
- informal institutions; and
- the goals, interests, and capacity of political agents at all levels (such as national elites, bureaucrats, judges, civil servants, local government, the military, faith groups, trade unions, media, citizens, and civil society).

More conceptually, as outlined by the definitions of PEA in Box 3.7, second generation approaches highlighted the importance of attending to the issues of:

- historical legacies;
- power (networks of, its concentration, and the exercise of);
- wealth (how it is generated and its interaction with political power);
- influence;
- interests;
- norms;
- incentives;
- contestation and bargaining;
- rights;
- resources; and
- rules and institutions (informal and formal).

In short, if one looks back at some of the earlier versions and their applications, nearly everything was covered.

33 We stress briefly here that this is *not* the only way to bring politics and economics together, nor is it the only 'school' of political economy. We take up this point at greater length in the following section.

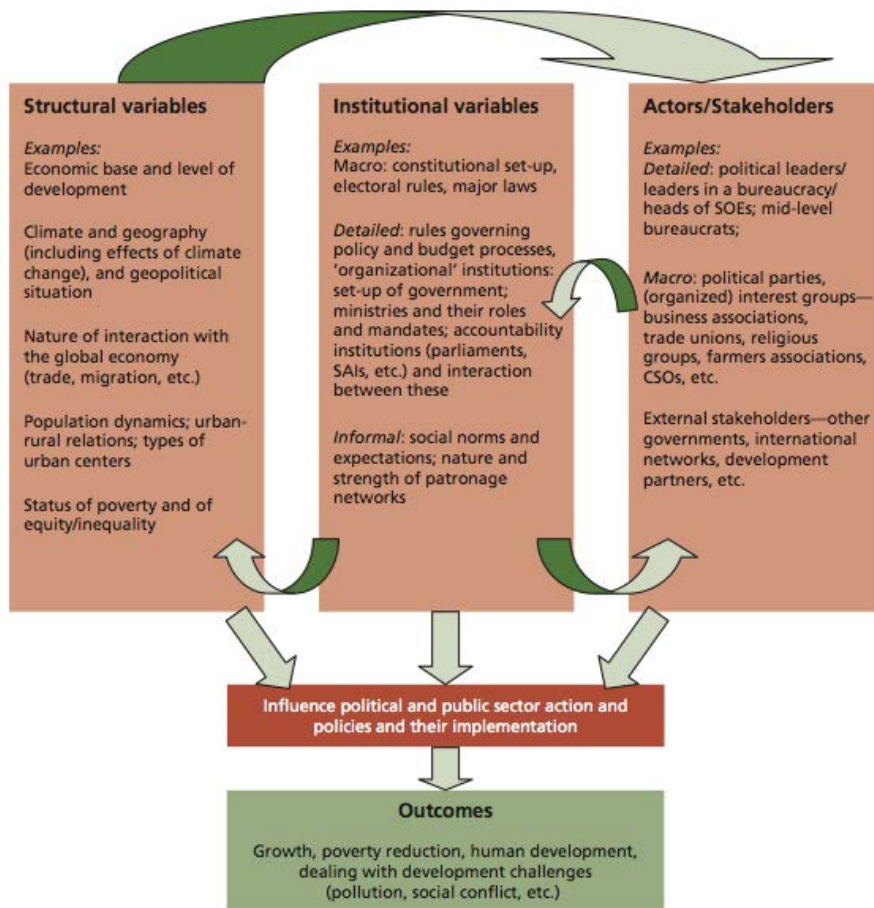
34 See also DFID (2004: 1-2). 'Agents can affect structural features and vice versa. However the impact of one on the other is mediated through institutions as illustrated below. This leads to the conclusion that institutional performance is important to understanding change processes and how they will impact upon the poor. For this reason DFID's Drivers of Change analysis focuses on formal and informal rules, power structures, vested interests and incentives within these institutions.'

Our claim here is that the increasing influence of the economic approach to politics helped sharpen the methodological and theoretical rigour of third generation tools and studies quite considerably. But it also narrowed their range of variables and explanatory reach. From the primordial soup of the many political factors and issues listed above emerged a sharper focus on: (1) analysing agents as if they were rational utility maximising individuals; and (2) institutions as the embodiment of incentives that determine the actions of political agents, and thus outcomes. In the economic approach, all of the above factors – resources, structures, institutions, power, norms – can be viewed as incentive structures that self-interested agents respond to rationally.

### Building on but departing from second generation

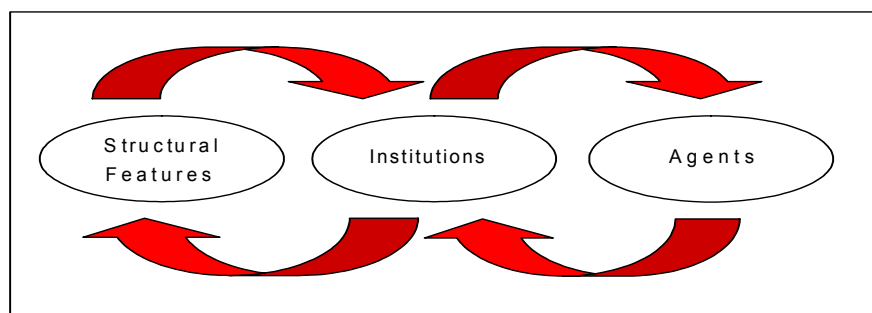
Third generation analysis, or PEA, adopts an analytical framework which looks very similar to second generation approaches, such as DFID's Drivers of Change: both focus on structures, institutions, and actors. This is clear from a comparison of the World Bank's Problem-Driven Governance and Political Economy Analysis (PGPE) approach and DFID's Drivers of Change approach (see Figures 4.1 and 4.2).

**Figure 4.1 World Bank's Problem-Driven Governance and Political Economy Analysis (PGPE) conceptual model**



Source: Fritz et al. (2009: 42)

**Figure 4.2 DFID's Drivers of Change conceptual model**



Source: DFID (2004: 2)

However, the *operationalisation* of these features or 'variables' is slightly different. First, the analytical toolkit has been streamlined: many of the other factors and issues have been stripped out. Although historical legacies and capacity, for example, are still mentioned, they are no longer central, as the World Bank's PGPE framework document makes clear:

At the heart of the analysis are institutional structures and governance arrangements, as well as stakeholders and their interests and incentives and how all of these interact  
Source: Fritz *et al.* (2009: 27).

The Bank's PGPE approach is presented as a method with three key analytical steps or, as the document suggests, three different layers.

1. **Identify the problem for analysis.** First, the problem or challenge is outlined, specifying the nature and extent of the issue. For example, in Benin, the introduction of democracy has not translated into better public policies, poverty reduction or increased growth (World Bank, 2009; Fritz *et al.*, 2009).
2. **Map the governance and institutional arrangements.** Second, the formal and informal rules of the game, as well as the institutional incentives, are mapped. For example, in Benin, citizens have limited knowledge of politicians' promises and performance and how it affects their welfare. Plus the electoral system is based on local election districts and proportional representation based on party lists – so a lot of parties compete for office (more than 100 before the 2007 legislative elections) (World Bank, 2009).
3. **Identify the key stakeholder and their interests.** Third, the analyst is encouraged to 'drill down' into the 'political economy drivers', which is primarily about identifying the main stakeholders and their interests. In the case of Benin, the key stakeholders are citizens and elected politicians – citizens want better service provision and politicians wish to stay in power.

The heart of the analysis (in our view a fourth analytical step) comes in **examining how layers two and three interact**. This means examining how stakeholder interests are channelled through the institutional incentives they face – in other words, the ways in which different institutions 'create incentives for the kinds of policies and budgetary resource allocations that politicians seek' (Fritz *et al.*, 2009: 43).

In the Benin example, citizens' lack of information about, and trust in, politicians means that they pursue their interest by supporting local politicians. Citizens can hold local politicians to account more easily, and are more likely to receive narrowly based transfers and services from them. Politicians, meanwhile, facing a fragmented political system, low levels of knowledge and accountability, understand that they are not held responsible for success or failure. They have weak incentives to provide public goods. Instead – to ensure they are (re)elected – they focus on allocating rents and mediating disputes between local interests in order to maintain political support among clients. Therefore, issue- or policy-based parties and politics are crowded out (World Bank, 2009).

In theory, the boxes and arrows of the PGPE figure (Figure 4.1) could be populated with many different methodological approaches, as indeed the authors suggest. However, PGPE shows the growing influence of the economics of politics approach. This is apparent from the discussion of electoral incentives in Benin (World Bank, 2009) and of the policy-making process in Latin America (IADB, 2006; Stein and Tommasi, 2008).<sup>35</sup>

There is evidence of an injection of clearer and more consistent substantive assumptions about the nature or content of interests and incentives. Namely, that interests can be reduced to *instrumental, rational, self-interest*, and that institutions can be reduced to their role in structuring *incentives*.

And these assumptions have increasingly permeated PEA. More and more studies have, formally or informally, adopted the language and lens of incentives to understand the risks and opportunities for reform (Strand, 1988; National Democratic Institute for International Affairs, 2004; Booth *et al.*, 2005; DFID, 2006; World Bank, 2007b, 2009; Utomi *et al.*, 2007; Wilkinson, 2012). For example:

- In Kyrgyzstan, corruption is institutionalised by self-sustaining incentives created by the electoral system. Specifically, political positions can be bought –USD 250,000-500,000 for a governorship, 300,000 for a ministerial post, and 50,000 for a mayoral job. Small-scale administrative jobs in schools and hospitals are also 'sold'. 'Because such positions do not offer much security of tenure, appointees have a strong incentive to recover their 'investment' as quickly as possible by means of graft and prepare to buy the next position.' (DFID, 2006).

35 There is some vacillation in the World Bank's PGPE framework document (Fritz *et al.* 2009) around what really matters. Time and again the authors underline the governance and institutional arrangements as being at the heart of the analysis, yet, as the conceptual model shows, it is the dynamics between institutions, stakeholders *and structures* which matter. Plus, they make the case for incorporating more analysis of historical legacies. However, it remains unclear how this should be done. So we view the PGPE in a similar light to USAID's Governance tool from 2001 – PGPE is the transitional statement in the move from second to third generation political economy, just as the USAID tool marked a transition from good governance to politically-informed analysis. It contains elements of both in an uneasy mix, but clearly indicates the direction of travel.

- In Tegucigalpa, Honduras, opposition to water reform comes from the urban middle class. This segment of the population benefits from subsidies that keep prices below the actual cost price of water. As such, despite the Economic Cabinet pushing for reform, Congress and the President have little incentive to support reform as they rely on the voters of the vocal and active middle-class (Strand, 1988; World Bank, 2008).
- In Ghana, like Benin above, despite the transition to democracy in 2000, there is enduring neo-patrimonialism and a related failure to proceed with public service reforms (Booth *et al.*, 2005). The World Bank (2007b) identifies the problem as one of poor incentives – a result of low trust in politicians,<sup>36</sup> citizens' lack of knowledge<sup>37</sup> and ethnic polarisation.<sup>38</sup> Politicians have few incentives to undertake broad-based economic reforms in the public interest.<sup>39</sup>

Finally, consider (below) the joint statement from five key research programmes (APPP *et al.*, 2012: 1 & 8).

'Development outcomes in poor countries depend on the political incentives facing political leaders ...

'We assume that, when in office, members of national political elites are motivated to an important extent (not exclusively) by the desire to stay in power. When out of office, they are concerned to regain power. To a greater or lesser extent, political decisions are framed by beliefs and ideologies, but within that context leaders select policies (formally adopted and *de facto*) that they perceive will help – directly or indirectly – to keep them and their ruling coalition in power, or to gain power.

Of course, this is generally true of politicians, even in Denmark! What differs across countries and time-periods is the way this general motivation gets translated into incentives to behave in one way rather than another as a result of the specific characteristics of the political and socio-economic system of the country. Similarly, state officials and sector actors have the same basic motivations in all societies, but the incentives they face are structured in different ways.'

The key claim here is that genuine economic transformation to increase agricultural and industrial productivity will not come from outside. Nor will it come from governance reforms and injections of capital. It will come only through changing the incentive structures faced by political elites. If the incentive structure can be shifted to align personal interest (rent-seeking) with wider public interest, then national development will follow. There is – despite the focus on politics and politicians – something deeply mechanical and technical about this approach, mainly because it is rooted in the assumptions of neo-classical economics and the 'economics of politics'.

#### 4.10 The new streamlined PEA: stakeholders and institutions

What we have seen is an evolution of terms and concepts. Certain factors or concepts have been selected as 'fit' for purpose (e.g. incentives) and retained in the third generation of political analysis. And others, such as structures and ideas and, crucially, 'power',<sup>40</sup> are facing extinction. While structural factors are still present in PEA analysis, they become a passive aspect of the analysis. For example, in Nigeria, the presence of oil creates an economy based around extraction of this point resource. This creates powerful rent-seeking activities and patrimonial political practice. The structural factors are important in explaining the context and the problem, but PEA tends to downplay the analytical importance of structures as 'These tend to change only slowly over time and are beyond the direct control of (local) stakeholders' (Fritz *et al.*, 2009: 41). By contrast, institutions and stakeholders are deemed 'active' and amenable to interventions. Thus PEA hinges on the interaction of two central factors:

1. stakeholders: their interests and power; and
2. institutions: the formal and informal rules of the game.

36 The report cites Afrobarometer data showing that the majority of citizens do not believe politicians' promises.

37 Most Ghanaians do not read a newspaper and did not know about key planks of government policy such as the Economic Recovery Programme (ERP), which had guided the government's policies since 1983.

38 This means that politicians cater to particular groups and catered-for-voters do not punish the politicians for poor performance while in office.

39 The World Bank report suggests a strategy of reform based around citizen education, transparency and ethnic-neutral constituency mobilization.

40 Stakeholder analysis *does* tend to ask analysts to collect data on the influence and resources of the key players to determine how much power they have to determine outcomes. However, this view of power – as a 'possession' of actors – is a one-dimensional view which has been largely discredited within mainstream political science, since the 1960s at least. We expand on the concept of power at greater length in Section 6.



This is where the 'action' is. And the interaction of these two factors is key—specifically, the way in which institutions shape the incentive structure to guide behaviour; and the way in which individuals and organisations can block or push for institutional reforms. We take these two variables in turn.

## 4.11 Stakeholders, their interests and resources

The first step of PEA is to map the 'stakeholders', or individuals and organisations (see Box 4.3 below on stakeholder analysis). It is essential to understand who the key players are, what their interests are, and what their capacities are for defending or challenging the status quo. Of course, vested interests have long been seen as a binding constraint on policy reform; see the discussion of financial sector development below, or the case of oil revenues in Nigeria which are at the centre of patronage systems (Utomi *et al.*, 2007).

### Box 4.3: Stakeholder analysis

PEA often uses stakeholder analysis to examine the interests and influence of key actors (see the discussion in DFID, 2009: 11-12). Stakeholder analysis originated in business and management studies. It identifies all actors (people or organisations) with a vested interest in the proposed policy reform.

The data collected on stakeholder characteristics is typically about their 'knowledge of the policy, interests related to the policy, position for or against the policy, potential alliances with other stakeholders, and ability to affect the policy process (through power and/or leadership)' (Schmeer, 2000). It can be qualitative or quantitative.

Once the data has been gathered it is possible to use it to analyse who are the supporters and opponents of reform (based on interests), which are the important or powerful stakeholders, which stakeholders are well informed or misinformed (perhaps suggesting an information campaign), and whether there are any clusters or coalitions of support or opposition.

By cross-referencing this information it is possible to identify powerful winners or losers and alliances or coalitions for and against reform. A visual representation of the data can be useful for identifying such clusters. Traditionally the aim has been to identify potential champions and veto players and work with or around them, to increase support for a policy reform, or to identify more and less feasible policy options.

But with the emergence of PEA approaches there is an important switch to taking stakeholders' interests as a given, (Mueller (2003). So, when translated into politics this means agents seeking to maximise any or all of the following: re-election and power for politicians, career advancement and budgets for bureaucrats, services and personally favourable rules for citizens. The economic assumption of rationally calculating agents makes two things feasible: (1) modelling stakeholder bargaining, as outlined below; and (2) (somewhat ironically) a switch from focusing on individual agents to the institutional rules and incentive structures that shape how they act. This is because, if it is assumed that stakeholders consistently behave in their own interests, then the means of changing behaviour is to change the rules in/of society that harness and guide these interests.

## 4.12 Modelling stakeholder bargaining

Stakeholder analysis has moved away from the largely qualitative and inductive modes of analysis used in the early approaches. It has sought increased sophistication and rigor through the incorporation of theories and methods drawn from decision-making theory, game theory, and computer modelling. For example, the World Bank is now using agent-based modelling to understand the bargaining dynamics among stakeholders in a reform process (Nunberg *et al.*, 2010). Agent-based modelling explicitly draws on microeconomic and rational choice theory (i.e. the fundamental underpinnings of the economic approach to politics) to analyse stakeholder preferences and behaviour.

#### Box 4.4: Stakeholder analysis of cereal reform in Morocco

The World Bank, prior to its Country Assistance Strategy discussions, wanted to understand better what possibilities for cereal reform policies were available in Morocco (Chaherli and Litvack, 2002). The Bank wanted to:

1. Locate potential gainers and losers of the reform and their respective positions, strengths and likelihood of compromise.
2. Identify implementation challenges of compromise options and how supportive coalitions could be structured and maintained.
3. Create optimal reform policies, in particular in relation to policies pursued in other sub sectors in agriculture and within the general macroeconomic context.

Accordingly, the World Bank carried out a stakeholder analysis to understand the interests and positions of key stakeholders with respect to different reform options. Using formal stakeholder analysis the project modelled the interests of the different actors, and their interaction between them over a series of rounds of bargaining.

The analysis considered reform across a range of issues, e.g. tariffs, subsidies, and so forth. And, for each reform initiative, a range of policy options was developed, from the status quo to moderate changes (in speed or depth of reforms). For example, options ranged from selective and region-specific income support to broad-based, from a 2 or 5 to a 15-year timeframe, or from tariff reductions of 0%-20% to 35%-50%.) Then the key stakeholders (e.g. the Palace, PM, Minister of Agriculture, Cereal producers, etc.) were positioned according to whether their views on each issue were pro, neutral or anti.

The results from the modelling suggested the potential for reform in each area and allowed the Bank to produce a strengths, weaknesses, opportunities, and threats analysis of reforms in each issue area. This analysis identified potential supporters, blockers, and allies. The results suggested reform in some issue areas as politically unfeasible. But in other areas – such as tariff reductions – a moderate outcome was thought possible if the Bank rethought its strategy, for example by identifying alternative partners and potential coalition members. The modelling results also pointed to the usefulness of pressing for high and quick tariff reductions, but allowing a domestic compromise position of moderate reductions to emerge (which would appear politically attractive and would be more likely to be implemented).<sup>41</sup>

Third generation stakeholder analysis assumes that players are rationally calculating, utility maximising individual actors who will consistently seek to maximise the benefits that accrue from the different policy or bargaining opportunities they face. These assumptions are absolutely necessary to carry out such modelling. But, in our view, they fail to capture the more fluid and contested dynamics of real political processes.

The economic approach has also encouraged a renewed focus on institutions. While institutional analysis – like stakeholder analysis – was important in early approaches, within PEA it takes on a new formalism and focus through the lens of incentives.

### 4.13 Institutions and incentives

Douglass North (1990: 3) famously defined institutions thus: 'Institutions are the rules of the game in society or, more formally, are the humanly devised constraints that shape human interactions. In consequence, they structure incentives in human exchange, whether political, social or economic.' Like many before us, we adopt this Northian definition of institutions as 'the rules of the game' (Unsworth and CRU, 2007; World Bank, 2008; Fritz *et al.*, 2009; Norad 2010; Unsworth and Williams, 2011; Poole, 2011).

Of course, as the literature has consistently emphasised, these rules can relate to *formal* institutions, (such as legal systems, property rights, tax systems, electoral rules, and their enforcement mechanisms), or to *informal* institutions, such as cultural practices and social norms (Helmke and Levitsky, 2004; OECD, 2007). Despite being informal, norms and conventions of shared expectations around accepted behaviour can be extremely powerful. Examples include reciprocity, deferring to age or experience, turn-taking in conversations, queuing or shaking hands on clinching a deal. Clientelism and patronage practices are also shaped by informal institutions, which can work alongside, within, or undercut the formal institutions of electoral or meritocratic appointment systems. See Box 4.5.

<sup>41</sup> It is not clear what happened as a result of the analysis. We have tried, without success, to follow this up.



### Box 4.5: Informal Institutions

Informal institutions – ‘how things really work’ – often trump formal institutions. This may be because informal rules and norms exist within formal institutions, or because alternative informal institutions allow people to bypass the formal institutions.

For example, many countries have formal rules for appointing civil servants or other government officials. However, informal agreements can allow an effective division of control of departmental appointees. The Drivers of Change analysis of Vanuatu (Cox *et al.*, 2007) details how, despite the formal and meritocratic appearance of departmental appointments, the actual procedure involves devolving decision-making along kinship lines. This is enabled by the selection of interview panels. (Their composition is decided by the Director General of each Department.) So the network tends to replicate itself, recruiting from a narrower pool of applicants. The authors note that, occasionally, chiefs or church elders can be appointed without appropriate qualifications.

The policy implications are that there is no real separation between the political and administrative (and, indeed, kinship) spheres. Furthermore, successful advocacy for reforms demands a careful understanding of the informal or social hierarchies within the formal hierarchy. It is no good gaining support for policy interventions from key stakeholders if they only have a *de jure* but not *de facto* position of power because the real decisions are taken elsewhere.<sup>42</sup> For example, in Pakistani Punjab local disputes are resolved by informal village-based *akhats*. They also decide who the village will vote for at the next election, and they mediate with the state over public service delivery (Mohmand, 2012). Although donor agencies find it hard to engage with such informal institutions, they acknowledge the importance of doing so: they recognise that power, decisions and development outcomes are shaped by them.

The premise behind institutional mapping in PEA is that the rules of the game fundamentally shape whether or not politicians are motivated to provide broad-based public goods or engage in clientelistic behaviour, whether citizens are politically disengaged or active and, more generally, whether agents will support or block policy initiatives. This is because the formal and the informal rules of the game provide incentives for agents to pursue their interests in particular ways.

## 4.14 From institutions to incentives

Institutions – systems of rules, procedures, and practices – are multidimensional:

- They regularise, and provide guidance on what is expected and or permitted.
- They can include enforcement procedures or sanctions.
- They can be written down (as in a constitution) or be unwritten norms of behaviour.
- They organise and facilitate the distribution of things or values, such as postal systems moving parcels, or political systems allocating authority.
- They are sites of competition and conflict as individuals and organisations contest who can access or control them and define the rules of the game.
- They are literally the manifestations of historical legacies, ‘institutionalising’ a prior practice and maintaining its reproduction (such as coronation ceremonies, polygyny, or driving on a particular side of the road).

Yet economists tend to view institutions through the single lens of incentives. The important insight of new institutionalist economics was that institutional incentives can be powerful and productive forces for good. Institutions were the missing ingredient in explaining divergent development outcomes.<sup>43</sup> But why? Because institutions are the structures which provide the *incentives for behaviour*.

The World Bank (and the development community more generally) has come to adopt this perspective, taking it straight from Douglass North. For example, the 2002 World Development Report (World Bank, 2002) cites North approvingly: ‘We must create incentives for people to invest in more efficient technology, increase their skills, and organize efficient markets. Such incentives are embodied in institutions.’

42 Formal and informal institutions often co-exist. For example, there are the formal rules of driving contained in the highway code and informal rules of behaviour such as turn-taking when filtering at a junction or cyclists ignoring red lights at junctions. Note that informal institutions can support formal institutions or diverge from and conflict with them.

43 See Box 4.1 above. See Section 2. Plus, see North (1990), Hall and Jones (1999), Acemoglu *et al.* (2001), Easterly and Levine (2003), Rodrik *et al.* (2004), and Acemoglu and Robinson (2012).

## 4.15 What are incentives?

As outlined in Ostrom *et al.*'s (2002) analysis of the political economy of development cooperation, undertaken for Sida, the traditional explanation for underdevelopment is 'missing money'. The newer, politically informed, approach is 'missing institutions'. Ostrom *et al.* continue by outlining the nature of dysfunctional politics within developing countries (characterised by patron-client relations), comparing it unfavourably to the situation in developed countries where public goods are provided and political cooperation and stability are established facts. Why is this the case and how can it be shifted? Their powerful and simple explanation is that these differences are a result of the institutional incentives facing politicians and citizens. There is nothing substantially different when comparing politicians in Cairo to politicians in Copenhagen – both are driven by an interest in winning or staying in power. As such, the solution should not be to try to change the politicians' interests (because they are the same the world over, meaning that this is not the reason why political outcomes differ across countries!). Rather, the solution should be to decrease the costs or increase the rewards of pursuing broad-based policies in the public interest, as opposed to narrowly targeted clientelistic services.

Elaborating from this, incentives are the rewards and benefits that accrue from pursuing certain courses of action, and they are generated by the institutional rules of the game. Thus, the same interests (e.g. politicians in Copenhagen and Cairo share an interest in getting re-elected) will produce different behaviours and hence outcomes when pursued in different institutional contexts. This is because of the costs and benefits from engaging in, say, clientelism (a politician building a well-funded school in their home village as opposed to providing teachers across the country) or the risks in breaking electoral rules by engaging in vote-buying, are different in Denmark and Egypt. Where broad-based policies are not rewarded or cheating is not punished, politicians will follow their interests accordingly. Hence, the trick is to change the incentives (not the interests).

To clarify further, consider the example of shipping convicts to Australia in the 18th century. By providing monetary incentives to the sea captains,<sup>44</sup> it proved possible to reduce death rates among prisoners on the long voyage (See Box 4.6).

### Box 4.6: What are incentives?

'Towards the end of the 18th century, England began sending convicts to Australia. The transportation was privately provided but publicly funded. A lot of convicts died along the way, from disease due to overcrowding, poor nutrition and little or no medical treatment. Between 1790 and 1792, 12% of the convicts died, to the dismay of many good-hearted English men and women who thought that banishment to Australia shouldn't be a death sentence. On one ship 37% perished.

How might captains be convinced to take better care of their human cargo?

You might lecture the captains on the cruelty of death, and the clergy from their pulpits did just that. You might increase the funds allotted by the state provided to the captains based on the number of passengers they carried. You might urge the captains to spend more of those funds for the care of their passengers. (Some entrepreneurial captains hoarded food and medicine meant for the convicts and sold them on arrival in Australia.) You might urge the captains to spend the money more carefully. Shame them into better behavior:

But a different approach was tried. The government decided to pay the captains a bonus for each convict that walked off the boat in Australia alive.

This simple change worked like a charm. Mortality fell to virtually zero. In 1793, on the first three boats making the trip to Australia under the new set of incentives, a single convict died out of 322 transported, an amazing improvement.

I don't think the captains got any more compassionate. They were just as greedy and mean-spirited as before. But under the new regulations, they had an incentive to act as if they were compassionate. The change in incentives aligned the self-interest of the captains with the self-interest of the convicts. Convicts were suddenly more valuable alive than dead. The captains responded to the incentives.'

Source: Roberts (2006)

<sup>44</sup> Incentives can be remunerative (i.e. material reward), coercive (i.e. enforcement of rules), or moral (i.e. social norms of behaviour, shame, ostracising). An example of remunerative incentives in development politics would be as in Brazil, where analysis has suggested that higher salaries improved politicians' performance in office, in terms of number of bills submitted, number of bills approved, and a modest improvement in the provision of public goods such as primary schools and health clinics (Ferraz and Finan, 2011). Similar work has suggested that remunerative incentives offer a way to tackle bureaucratic corruption. The Becker-Stigler hypothesis suggests that higher wages at intermediate auditing levels brings about lower levels of corruption (Becker and Stigler, 1974; Rose-Ackerman, 1978; Besley and McLean, 1993).

And more to the point, in the example of the 18th century captains (Box 4.6) the change in incentives aligned the self-interest of captains with the 'good-hearted' English population and government. Therefore, in PEA, the focus on institutions is because they generate and embody the incentive structure that actors face. Institutions, it is argued, make up a contoured political field which actors inhabit and where some courses of action are more rational in terms of helping actors achieve their desired outcomes. As Douglass North (2003) has argued, 'Institutions are incentive systems, that's all they are. It is important to understand that because being incentive systems, they provide a guide to human behavior.'<sup>45</sup> So, for example, the institutions of a country's political system – the way in which powers are shared among the executive and legislative branch, or the balance of power in a parliamentary system – will affect the incentives facing power-maximising politicians and determine whether they support or block decentralisation efforts (see Box 4.7).

#### Box 4.7: Institutions and incentives for decentralisation reform

The World Bank has carried out a series of studies into the applied political economy of decentralisation reforms (Eaton *et al.*, 2010). This is a classic political economy issue. The stated objectives of reform are normally more efficient delivery of services, promoting democratic reform, and promoting development and poverty reduction. However, the diverse and competing interests and goals of politicians, bureaucrats and donors, the relative influence of the various stakeholders and the diverse incentives faced by them, often tend to produce inconsistent decentralisation reforms and ultimately a mixed record in achieving objectives. That politics matters should not be surprising: "Understanding decentralization requires appreciating its fundamental paradox: what motivates the central government to give up powers and resources to subnational governments?" (*ibid.*: xii).

Decentralisation is a deeply political process: it shapes who gets what, when, and how in terms of public resources, authority and power. So whether a system is presidential or parliamentary matters because the institutional rules of the game create different incentives for or against decentralisation. For example, in a presidential system, where the opposition parties have control of the legislative branch, there are incentives to push for decentralisation reforms (such as revenue-sharing) as a way of limiting the power of the executive, as happened in Argentina in the late 1980s (Eaton *et al.*, 2010). Equally, individual legislators are likely to limit decentralisation because it undermines their ability to engage in pork barrel politics and claim credit for delivering benefits to their constituents. The point is that it is the rules of the game (in this case the political system) which shift the incentives for politicians to behave differently, in terms of supporting or blocking reform.

Furthermore, and this is the key claim of third generation approaches, shifts in the rules of the game which generate new incentives are the key to explaining and/or bringing about political change. For example, in the Philippines, changes in the electoral rules of the game generated different incentives for politicians (interested in maintaining political office and power) to support decentralisation rather than block it. This is because President Corazon Aquino pushed for decentralisation alongside the introduction of new term limits in Congress. The new limits meant that incumbent politicians, looking to maintain their time in office with actual political power, suddenly looked at subnational careers in a different light. Decentralisation would empower this new level of political office, and it would offer them new roles. Thus, legislators – having successfully vetoed previous decentralising measures for 26 years (1946-1972) – supported decentralisation in 1991. Importantly, their interests remained unchanged, but the incentives to support decentralisation had shifted. Politicians in Congress agreed to decentralisation in anticipation of new subnational careers, where they could take advantage of the newly devolved revenue system and take credit for delivering services (Eaton *et al.*, 2010).

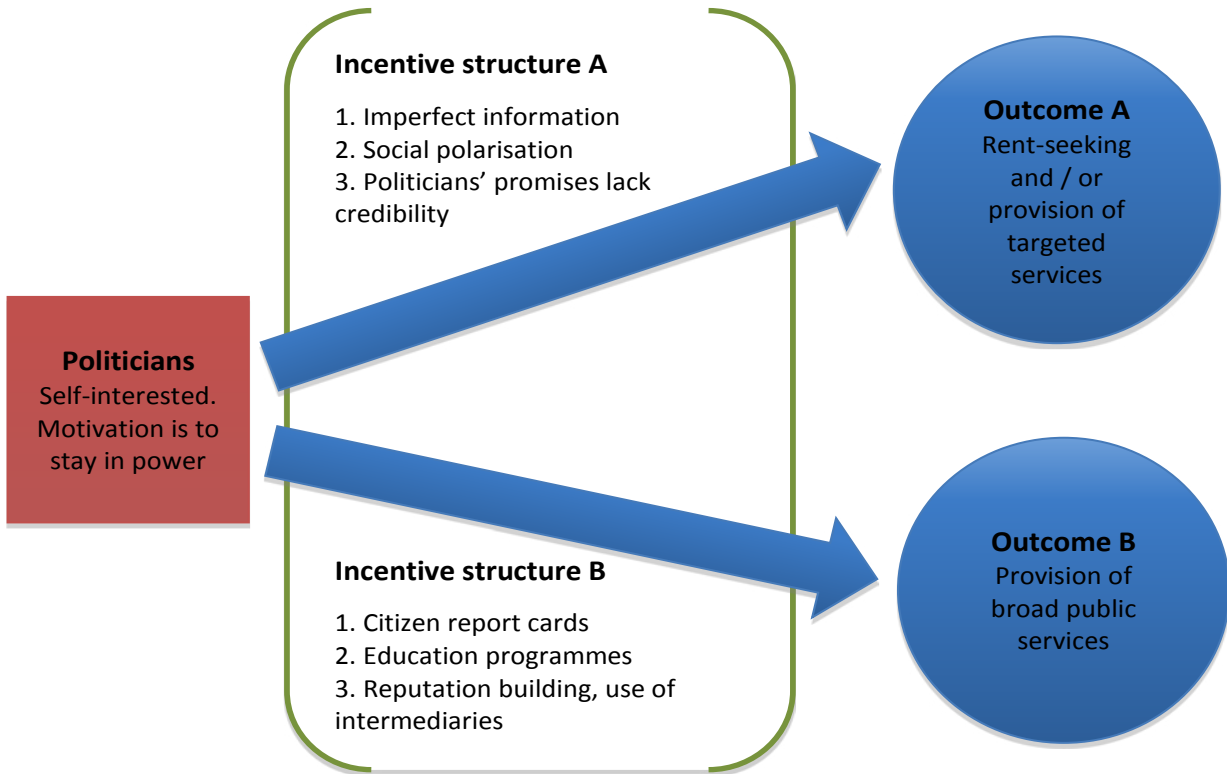
## 4.16 How incentives keep politicians honest (or not)

The relationship between (fixed) interests, (malleable) incentives, and (shiftable) political behaviour and outcomes is presented in Figure 4.3, below, which summarises Keefer and Khemani's (2005) classic discussion of why public goods are underprovided in developing countries. From an incentives-based approach to PEA the question is: what makes politicians more effective, honest, and competent? The answer is that constraints on politicians and elites – such as electoral accountability – shape the incentives for good policymaking because they discipline incumbent politicians (Besley and Case, 1995). An institutional focus advocates competitive elections. However, this assumes a functioning political marketplace where buyers can reward and punish sellers of good and bad products.

45 North, D. C. (2003) 'The Foundations of New Institutional Economics'. Presentation recorded at a conference organised by CIPE and the Ronald Coase Institute, "Promoting Institutional Reforms", in Sao Paolo, December 2003. Available at: <http://developmentinstitute.org/north/>

Keefer and Khemani (2005) argue that, even with electoral competition, but with other 'market imperfections' still in place, politicians will still engage in narrowly self-serving, rent-seeking, or corrupt behaviour and/or tend to underprovide public goods – such as broad-based improvements to the quality of education or health care. Instead, the authors argue, politicians will provide targeted services such as jobs or roads which benefit only a small proportion of citizens. This inadequate provision of social services is represented in the diagram as Outcome A.

**Figure 4.3 Political outcomes, incentives, and interests**



Outcome A is a consequence of the incentive structure that politicians face, which rewards (or at least does not punish) rent-seeking and targeted social service provision. Keefer and Khemani (2005) argue that a number of factors together explain why the 'political market' does not work to bring the supply of public goods in line with the demand for them:

- Voters tend to have poor knowledge about the provision of public goods and who is responsible for their delivery. Therefore voters do not reward or punish incumbents and politicians do not bother to provide public goods.
- Social fragmentation and polarisation means that voters tend to vote along ethnic lines regardless, plus they fail to punish 'their' politicians for poor performance. Also politicians are encouraged to provide targeted services for their clients rather than public goods.
- Politicians cannot make credible promises about provision of public goods. Because information about such provision is poor; 'citizens disregard promises to improve social services, and politicians stop making such promises' (Keefer and Khemani, 2005: 11). Hence, politicians can make credible promises only to targeted groups with whom they have developed a patron-client relationship.

Keefer and Khemani (2005) conclude that, without fixing these 'political market problems', elections are effectively useless: rent-seeking prevails, public goods are underprovided, targeted goods are emphasised, and politicians underperform because there are no incentives to reinforce accountability. They argue that the key to improving social service provision – i.e. moving from outcome A to outcome B – is understanding and changing the incentive structure facing politicians. For example they suggest the following:

- improving information available to voters, such as through the public service report cards such as the ones developed by the Public Affairs Centre in Bangalore, India ([www.pacindia.org](http://www.pacindia.org));

- decentralisation reforms that enable politicians to make credible promises on salient local public good provision;
- interventions – by donors – which are blind to social or ethnic divisions and/or educational programmes to moderate public attitudes to other classes/castes.

A further example of this type of thinking is illustrated in the case of revenue reform in Nigeria, below. The point is that the *interests* of the tax collectors remained unchanged – but their self-interest was harnessed by designing incentives which aligned their private interests with the public interest. This is how the economic approach emphasises that incentives can bring about change.<sup>46</sup>

#### Box 4.8: Aligning private and public interests through institutional incentives

A key problem in Lagos State, Nigeria was the irregular flow of revenues available to the State government (Utomi *et al.*, 2007). How to improve this? Undertake institutional reforms and build capacity? Attempt to challenge and change the vested interests in the revenue office? No. The solution was to incentivise tax collection by aligning the private interests of the revenue service (in increasing its own resources) with the public interest in maximising tax revenues. This was done by allowing the revenue board to retain a share of collected taxes for its own discretionary funding.

Between 1999 and 2005/06, revenues increased more than a staggering 100-fold. This came about because, with an irregular flow of revenues from the federal government, the State governor undertook radical reforms. Key to garnering support for the reforms and increasing the revenue collected was the State revenue board's retention of 5% of all revenues collected. The board could spend this 5% on operating costs, salaries and bonuses.

The incentives here in aligning the narrow interests of the revenue board with the national interests of tax deepening are plain. But, that's not all; the authors suggest that there is emerging evidence that as Lagos State is increasingly reliant on local revenues it is becoming increasingly sensitive to local demands for improved performance. And, ultimately, the State leadership is now vulnerable to failing to meet expectations, i.e. it is accountable to the tax-paying citizens of Lagos State.<sup>47</sup>

The above examples, from Nigeria to the Philippines, Ghana to Benin, and Honduras to Australia, appear to demonstrate that incentives work. We would agree that the examples are excellent illustrations of the logic of third generation approaches. But we also caution that there are key limitations to the incentives-based approach that we take up more fully in the following section. Briefly, they are the following.

1. **Politics is missing.** The incentives-based approach ignores necessary politics, campaigning, and mobilisation to set-up or change incentives and institutions. It misses out the politics of how institutional changes (and incentives) are brought about. The decision to introduce term limits and building support for such policies involves political lobbying, behind doors negotiations, deals, coalition building, manoeuvring, a battle of ideas and power. This is completely left out the picture. We think of this as the duck fallacy: the duck appears to move across the pond efficiently and effectively, but the feet that do all the work are barred from view. Determining, for instance, institutional change which requires governments to make information available so that voters can decide and vote better; presupposes many things, including: that the information is equally accessible in town and village; that voters are able or allowed to access it; and that they are sufficiently well organised in terms of aggregating and articulating their interests (through organisations such as parties and other political vehicles) to be able to act on it. A recent review of transparency and accountability initiatives makes exactly this point. It concluded that the evidence showed that formal institutionalising of transparency or access to information only leads to improved accountability when combined with other aspects of the political process, and especially the factors that promote or constrain collective action amongst different groups and interests (states, citizens, media and civil society) with respect to their 'differences of position, power, behaviours and incentives within them' (McGee and Gaventa, 2010: 6).
2. **The view of incentives is too mechanical.** The way in which incentives are assumed to work is incredibly mechanical. To assume that incentives produce uniform and automatic change in agents' behaviour denies any strategic reasoning and agency from the 'incentivised' agents. It assumes that they will all respond similarly, in the way in which reeds bend together with changes in the wind. In a context of confined and stable institutions, where the rules of the game are known and generally played, it is quite possible to tweak a rule and invent a new incentive (reward) or extend an old incentive to get people to follow the change. Consider, for example, a situation where, in the context of the institution of football, it was decided that a change in the rules meant that a 'goal' could be scored only if the right upright was hit first (consider the politics that would lead up to that!). Given the interest of the players in winning or scoring, they would have

<sup>46</sup> There is a larger literature on the 'fiscal social contract' which sets out this view in greater detail and sophistication (Moore, 2004).

every incentive to train so as to aim for the right upright. Their behaviour would change, while their interest remained the same (to score/win). But given a context where multiple overlapping games are being played – elections, patronage politics, meritocratic appointments – it is difficult to see (a) which institutions to change, how they would be changed and whether they would be followed; (b) what the incentives would be for players to follow the new institutions; and (c) whether all the players would follow suit.

3. **The analytical distinctions which third generation approaches rest on are not as clear as often assumed.** The alleged analytical distinctiveness between interests, incentives and institutions is not as clear as often assumed. The differences can start to dissolve on closer inspection. For example, is standing to try to win an election in a politician's *interest*, or is it more accurate to say that there is an *incentive* to stand for election because of the opportunities it affords to increase individual's wealth, reputation or power (which are their interests)? If variables become or overlap with each other, how can you even begin address causal processes?

## 4.17 Why the turn to incentives?

There are two reasons. One is analytical and one is operational. To be clear, institutions are still held to be central, but it is a focus on the incentives they generate and embody that that is the key.

**First, incentives are perceived to offer greater analytical purchase.** Incentives are thought by political economists in this tradition to provide a much better lens on why people act and think as they do. The earlier and descriptive emphasis on institutions and rules of the game was regarded as being too 'sloppy' or loose to analyse behaviour. As set out by the World Bank: 'It must also be remembered that this definition of institutions does not highlight the ways in which rules are in practice generated, followed and contested. There is no society where rules automatically obeyed, rules are always challenged, therefore it is also important to consider the incentives affecting the actions of key players in the reform arena' (World Bank, 2008: 11). Thus, incentives can be used to explain why people follow institutional rules or why they cheat. The rewards (carrots) and punishments (sticks) for following or departing from the rules of the game determine the optimal pathway for actors to pursue their underlying desires and interests.

**Second, incentives are perceived to provide operational relevance.** As Levitt and Dubner (2005: 20) put it, an incentive offers 'a bullet, a lever, a key: an often tiny object with astonishing power to change a situation'. Changing the incentive structure facing political agents offers donor agencies a positive and practical policy intervention. The policy implication is that incentives provide a way of aligning private interests with the public interest. The analysis of institutions and stakeholder interests is a necessary precursor, but understanding the incentive structures and changing them is the operational value-added from political economy analysis. As set out in the World Bank's *Political Economy of Policy Reform*:

'Understanding the relationship between policy-induced changes in incentives and sanctions on the one hand, and changes in behavior and interests on the other hand, allows development practitioners to engage more effectively in "pro poor" policy reforms and operations by considering stakeholder perspectives in operational design and implementation' (2008a: i).

Hence, the additional claim that is made is that this is a much more efficient and economical way of influencing policy outcomes. For example, in the World Bank's discussion of the political economy of decentralisation (Eaton *et al.*, 2010: 3), the authors emphasise the need to go beyond 'the overused, misunderstood, and vague indicator of "political will."'. Instead of hoping for (or imploring) politicians and bureaucrats to be 'sufficiently enlightened and committed to decentralization', change can be brought about through a careful understanding of incentives:

Rather than emphasizing the degree of political will to decentralize, we believe the analysis of political and bureaucratic incentives offers a more useful diagnostic entry point for development partners wishing to support decentralization. If politicians and bureaucrats support decentralization when they face incentives to do so, we need to assess not only the depth of their normative commitment to decentralization, but also how it is likely to affect their career paths, electoral ambitions, support coalitions, and security of tenure (Eaton *et al.*, 2010: 4).

In other words, in this view, incentives-based approaches are much more efficient and effective than a 'voluntarist' approach which aims to convince and win over individual political actors. Moreover, it might well be more effective as well as more efficient. Similarly, Duncan and Williams (2010) note how:

Institutions are seen as key to determining the incentive frameworks that induce patterns of behaviour. Strong leadership and reform champions can play important roles as change agents, but in general it is difficult for individuals to bring about lasting change to the "rules of the game".



Hence, when taken together, these two assumptions – individuals are rationally self-interested, and institutions provide the incentive structure that guides behaviour – are held to create a powerful tool to account for political life.<sup>47</sup> Specifically, this view explains why actors seek to defend existing institutional arrangements that secure their interests – and, more progressively, why changing the institutional rules of the game can change the incentive structure in which actors find themselves, and thus change behaviour.

#### 4.18 Section summary

- Third generation political economy analysis has steadily become the application of economics to politics. We do not believe that this is the only way of approaching political economy, let alone political analysis, but it is the way in which PEA has developed in the context of development.
- The prevalence of the economic approach is clearest in the assumption that political agents are individual, egoistic, rational, utility maximisers and in the focus on incentives that this assumption makes possible.
- Incentives are an attractive solution to the problem of aligning the assumed private self-interest of politicians, bureaucrats, citizens and civil society organisations to produce better public goods outcomes. The attraction of incentives is that they give policymakers an apparently more useful diagnostic or intervention entry point. They harness existing tendencies towards self-interest and they avoid engaging with the (inescapable, in our view) political processes and relations of power that shape which institutions and incentives prevail (Eaton *et al.*, 2010).
- In third generation approaches, then, it is incentives that matter. Our concern is that this is not politics at all, nor is it effective political analysis. The presentation of incentives and institutions as rather technical innovations or interventions almost entirely evades the issue of power, which is so central to how politics happens.
- Moreover, both the generalist second generation approaches and the incentives-first approach of third generation PEA fail to draw on the tradition of political analysis. This tradition can provide a framework that is both consistent and designed to analyse political processes.

To conclude, our concern is that existing PEA tools typically downplay the role of politics and political agency. This neglect means that we cannot even begin to understand how institutions and incentives are shaped and sustained, how different forms and interactions of power affect outcomes, and what room there may be for manoeuvre within particular contexts – all of which are central to the politics of development.

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<sup>47</sup> It is worth underlining, again, that the *most important assumption* for PEA is that all actors are rationally self-interested in the sense that they will try to maximise their own welfare, for example, protecting access to credit, maintaining their personal or departmental status in the bureaucracy, or ensuring their successful re-election, or maximising the benefits of voting for the candidate most likely to serve personal or group interests. The assumption that everybody is self-interested and rationally capable of maximising their own welfare is axiomatic. If people are not rational – in the sense of being consistent – then incentives are not as effective.

## 5

The limits of the  
economics of politics

## 5.1 Introduction

Sections 3 and 4 introduced Second and Third Generation approaches (sometimes referred to as 'tools') to analysing politics, and especially the politics of development. This section offers a critique of these political economy tools. We identify two problems: (1) incoherence, and (2) partiality. We build a case for a new approach to 'political economy' – a *political analysis* approach – that extends and deepens the existing PEA tools and approaches. We explain why operational relevance remains a consistent stumbling block for existing political economy analysis, and therefore why it seems to be so hard to think and work politically.

One of the more commonly identified limitations in much PEA is the problem of operational relevance (see Box 5.1, below). We suggest that this is in part a consequence of the often high-level generality and lack of operational bite or guidance in much Second Generation political economy work. Nevertheless, more recent work represents both ambitious and innovative ways of dealing with PEA and communicating its value and usability. Examples include work by the World Bank (2008; Fritz *et al.*, 2009; Poole, 2011), The Policy Practice (Williams *et al.*, 2007; Duncan and Williams, 2010), and ODI (Moncrieffe and Luttrell, 2005; Edelman, 2009).

However, the operational relevance problem does not seem to have been resolved. We suggest that the Third Generation 'solution' of stripping away the generality and breadth from early approaches created its own problems: the baby was thrown out with the bathwater. The analytical framework is now too partial, and is increasingly reliant on economic tools and concepts without sufficient attention to political issues and analysis.<sup>48</sup> It misses out or glosses over crucial work carried out by political players that underpins institutions, as well as the role of power and ideas in mediating between institutional incentives and behaviour. And it neglects questions of power and legitimacy. In sum, it is a mechanical and bloodless view of political life.

The essence of our analysis is that the real problem lies much deeper. The *source* of the operational relevance problem lies in the assumptions, methods and approach that underpin much PEA. While Second Generation approaches were plagued by problems of analytical incoherence, the weakness of Third Generation approaches is partiality. We summarise these problems in Table 5.1 below. We outlined the charges of incoherence at the end of Section 3. In this section we focus on the newer and less discussed issue of partiality.

48 Although this is much more noticeable at the 'harder' end of Third Generation work, our analysis suggests that the language and assumptions of self-interest, institutions, and incentives are being incorporated across all forms of political economy analysis without sufficient critical reflection or theoretical unpacking.



**Table 5.1: Comparing the underlying analytical problems of Second and Third Generation approaches**

Problem 1: Analytical incoherence	Problem 2: Partiality
<i>A general tendency of Second Generation approaches</i>	<i>A general tendency of Third Generation approaches</i>
<i>Existing political economy approaches tend to have weak or confused methods and conceptual frameworks.</i>	<i>Existing political economy approaches produce a partial view of the world.</i>
<ul style="list-style-type: none"> <li>We mean weak as in limited. Many Second Generation PEA studies do not define and unpack key concepts (or they use them in very restricted or simplistic ways); and they fail to set out the appropriate methods used to analyse the things to which these concepts – such as institutions, interests, and incentives – refer.<sup>50</sup></li> <li>We mean weak as in confused. There is a tendency to use a range of key concepts without a clear theory of how they interact with one another; or an underpinning theory of change. This reflects insufficient engagement with a rich social science literature – especially that of political science – on research design, key concepts, their operationalisation, and on a coherent and consistent theoretical framework.</li> </ul>	<ul style="list-style-type: none"> <li>We mean 'partial' as in limited. Third Generation PEA, especially, is largely based on one approach to 'political economy'. This is often presented as the only one, but many other PE frameworks offer important insights.</li> <li>And we mean partial as in biased. The reliance on the economics of politics approach involves many unduly narrow assumptions. These assumptions – specifically on the nature of politics, what drives political behaviour; how institutions and incentives structure actors' behaviour; and the role of power and ideas – mean that PEA is based on an unrealistic and incomplete view of political dynamics.</li> </ul>
<i>Bottom line:</i>	<i>Bottom line:</i>
No clear theory of change or analytical purchase	Third Generation approaches emerged as solutions to Problem 1, but crowd out almost all politics.

## 5.2 Where we stand: the good, the bad

### The good: the contribution of political economy so far

Donors' policy papers and 'How To Notes', as well as reports on lessons learned, seem to have helped to establish a more serious approach to politics. Furthermore, the applications of PEA produced on different countries and sectors have produced a richer understanding of the political context in which donors work.

- The PEA tools have: placed politics front and centre – at least rhetorically; opened up intellectual and operational space for taking politics seriously; helped institutionalise the mantra of taking politics seriously – of paying attention to vested interests and to the institutions and structures that shape the reform context.

The country and sector studies and reports have:

- provided a better understanding of the relevant stakeholders and their interests and resources;<sup>50</sup>
- provided a better understanding of the institutional and structural context of specific countries and / or sectors;<sup>51</sup>
- identified potential entry points and reform champions and spoilers.<sup>52</sup>

49 Many studies open with a paragraph or two noting the structure of the report in terms of, for example, identifying the agents, institutions, and structures. The subsequent analysis remains general and descriptive, making it difficult to infer any generalisable insights or concrete policy recommendations.

50 For example, the World Bank's stakeholder analysis of Moroccan cereal reform helped identify which reforms were more likely to be implemented and the position and influence of key stakeholders such as the Palace, Minister of Agriculture and cereal producers (Chaherli and Litvack, 2002).

51 For example, how the formal Westminster-style democracy of Vanuatu interacts with the informal – and highly valued – institutions of *kastom* to shape the politics of policy-making and decentralisation and rethinking how effective state-building should proceed (Cox *et al.*, 2007).

52 For example, Norad's political economy analysis of Kenya suggests the utility of working with and through the Kenyan National Union of Teachers, which enjoys good local representation and has the potential to bridge ethnic divides (Sundet and Moen, 2009).

## The bad: the problem of operational relevance

PEA tools have provided a better understanding of the political context, the risks and feasibility of different reform initiatives, and even of promising entry points for donors to work towards reform. But they have not succeeded in answering the 'what to do on Monday morning?' question. *How* can donors work politically with stakeholders given the configuration of interests, incentives, and institutions? This problem of operational relevance has been widely noted by analysts, commentators, and donor agencies (See Box 5.1). And the 'so what?' question continues to be posed, for example by the World Bank (Beuran *et al.*, 2011). They conclude:

While many PE studies do a reasonably good job of describing the operating environment and identifying winners and losers, most of them fail to meet the "so what" test by making practical recommendations on a way forward. (Beuran *et al.*, 2011: 14)

### Box 5.1: The problem of operational relevance

- 'Recognizing that governance deficiencies are usually rooted in underlying political issues is one thing. Acting on this insight—moving away from the temptation of the technical toward methods of assistance that are politically nuanced and politically engaged—is a much deeper challenge' (Carothers and de Gramont, 2011: 7).
- 'Designing diagnostic tools tends to be somewhat easier than using and acting on the information that comes out of the diagnosis. There is a tendency that studies are better at explaining why traditional donor interventions (to reform the public service, or tackle corruption) have not worked very well, than they are at offering concrete alternatives' (SIDA, 2006: 11).
- '(T)he majority of the [Drivers of Change] reports have focused on the headline issues and/or symptoms such as corruption or elite capture, and thus tend to reiterate much of what is already known. There are fewer references to the underlying causes in terms of the motivations of the individuals and groups involved. And although the reports frequently refer to "the lack of incentives" for individuals or groups to change, they contain fewer details about these. Consequently the reports offer fewer suggestions about the potential and practical 'levers of change', or the need to better understand how behavioural change could be brought about' (DFID, 2005: 2).
- 'While PE studies appear to be useful in providing insight into the country context and facilitate a better and quicker understanding of the realities on the ground, translating PE analysis into action remains a challenge' (Beuran *et al.*, 2011: 3).
- 'Alex Duncan gives a tongue-in-cheek definition of a political economist as 'someone coming to explain why your aid programme doesn't work'. There are few practical 'take aways' either for large bilateral aid agencies, or NGOs other than 'give up and become a researcher' (Green, 2012a).
- 'It seems that the principal challenge lies not in identifying what reforms are necessary, but in figuring out how the reforms are going to be implemented, achieved and sustained' (Tolentino, 2010: 7).
- 'Do new frameworks that purport to lead to better decisions about what to do and how to do it actually identify important constraints and appropriate new next steps? Do they provide effective guidance on what is likely to work and what is not likely to result in policy or institutional reform? Where they have been applied, have they led to good results?' (Grindle, 2011: 417).

## 5.3 Why does it still seem to be so hard to think and work politically?

We agree with the commentators in Box 5.1. Existing political economy approaches do not help the analyst or policymaker to know 'what to do on Monday morning'. For example, Norad's political economy analysis of the context of corruption in Nepal is excellent in terms of identifying the underlying drivers, institutions, and actors (Dix, 2011). The report concludes with the following recommendations for the donor's anti-corruption programming:

- Make use of opportunities to set the norm for integrity, formally and informally
- Develop the leadership of those who have the power to make the desired structural and system changes
- Empower and support collective action by the losers in the current system.

It is hard to disagree with any of these politically savvy suggestions, and the report provides some good 'entry points' for donors to think about. However, the report does not provide further recommendations for *strategy* and *how* to do this, beyond the general suggestions of identifying opportunities, working with an eye to informal, as well as formal, rules, and mapping potential pro-reform actors. As noted in Figure 5.1, below, the analysis, conclusions, and recommendations are too general.

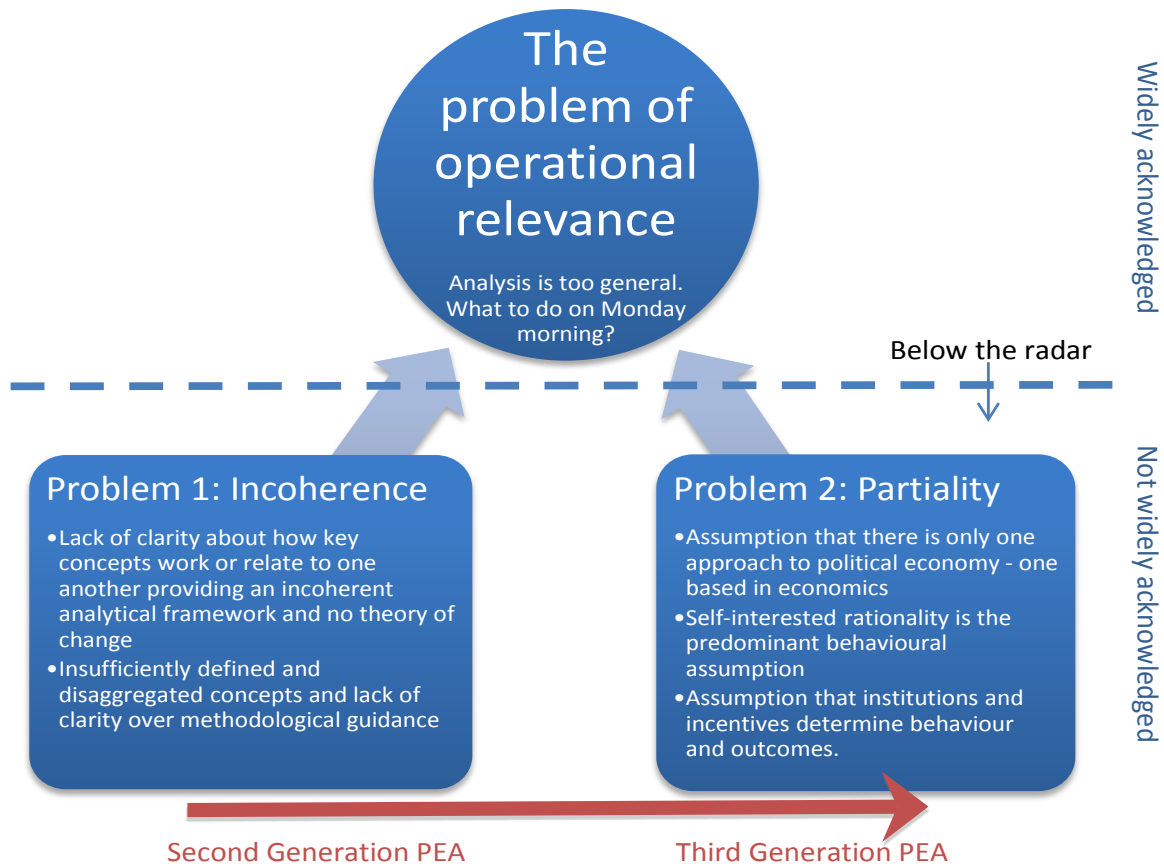
As noted in Section 4, there have been two main attempts to improve operational relevance: (1) a sectoral focus and/or problem-driven analysis; and (2) the focus of third generation political economy on incentives and behavioural change.

But our review of the Third Generation approaches suggests that the move has replaced one set of problems (generality and incoherence) with another problem (partiality). Despite seemingly trying harder and talking more about operational relevance, 'analysis to action', and focusing on behaviour change, the problem of 'what to do on Monday morning' remains. Why? Because the partial economic view which underpins the Third Generation approaches misses out significant chunks of what makes the political world go round.

### The underlying analytical causes of the operational problem

Figure 5.1 visually depicts our argument that (a) two underlying problems – of partial assumptions and unsystematic methods – feed into the more visible issue of operational relevance; and that (b) the shift from Second to Third Generation PEA has replaced one analytical problem with another.

**Figure 5.1 What's wrong with political economy analysis and why?**



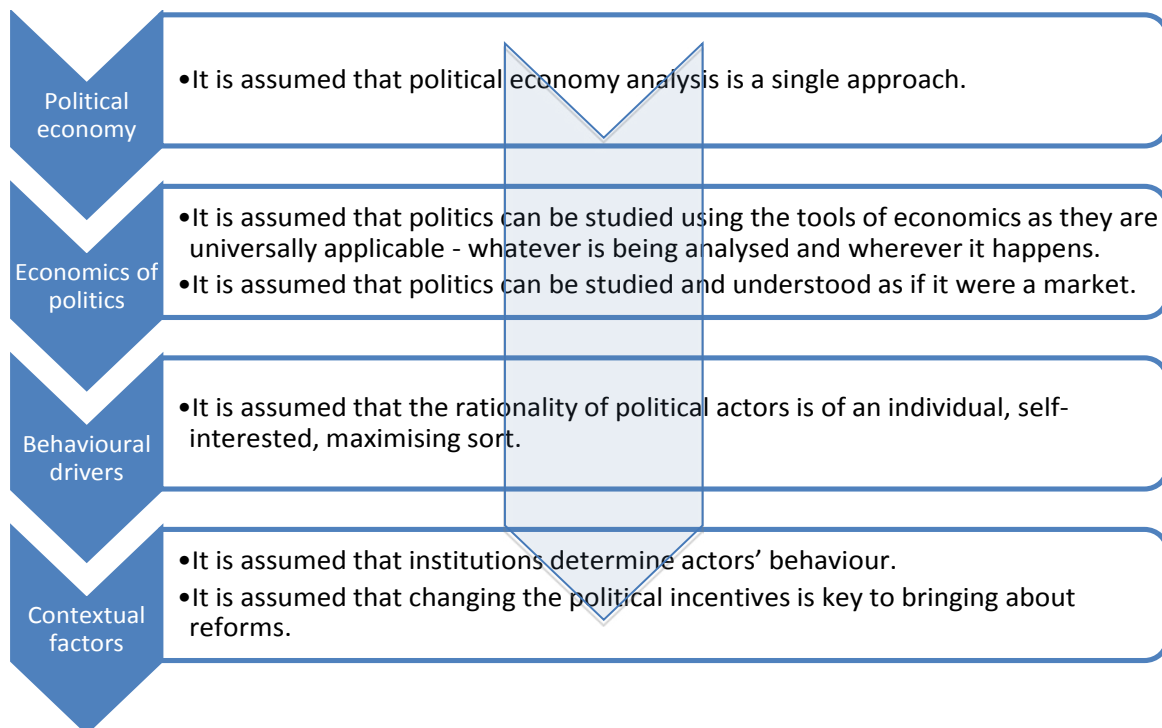
## 5.4 Problem 2: Partiality of Third Generation PEA

Although generalising about the whole field of PEA is difficult, we identify four groups of problematic assumptions which lie beneath the radar of most discussions of PEA (see Figure 5.1, above). We argue that the main limitations of existing tools and approaches come from these assumptions. Figure 5.2, below, unpacks the partiality problem into its constituent parts:

- the view that political economy analysis is *an* approach rather than a field of competing theoretical and methodological approaches;
- the view that this single approach to political economy is the application of economic methods to politics;
- the view that political behaviour is analogous to the rational, utility maximising behaviour of economic theory;
- the view that individuals pursue their interests within the structure provided by institutions and incentives.

As Figure 5.2 below suggests, the assumptions are nested within one another. This is important: the higher level assumptions (such as the economics of politics) imply and justify lower level (behavioural and contextual) assumptions. In the rest of this section we tackle each group in turn.

**Figure 5.2 The Problematic assumptions of third generation PEA**



## 5.5 Political economy: approach versus field

### Assumption 1: Political economy analysis is a single approach

There is a consistent tendency for PEA reports to open with the claim that they are following 'the' or 'a' political economy approach (without feeling the need to specify which one – see Box 5.2).<sup>53</sup> For example, 'The aim of this study is to use 'a

<sup>53</sup> It is important to note that, as detailed earlier, there is a variety of tools and frameworks out there with different emphases, e.g. Sida's focus on power and Norad's legitimacy tool. This is not the same thing as identifying different theoretical traditions of political economy, for example see Boxes 5.3 and 5.4. To draw a transport analogy, the difference between tools is like the difference between different models or makes of car, but comparing different political economy traditions is like introducing trucks, buses, motorbikes, bicycles and walking. They use different fuel and people choose between them for quite different reasons.

political economy approach ...' (Datta *et al.*, 2011: 4) or 'A political economy approach should incorporate a wide historical and geographical perspective ...' (Collinson, 2003a: 3). The notion that there is 'the' or 'a political economy' approach is a key mistake, because it ignores the wide range of different theories or schools to political economy. It is more accurate to view political economy as a field of study or as a tradition which contains *competing* perspectives.

#### Box 5.2: The 'one school' assumption of political economy analysis

- '... the Terms of Reference specify that the report should include a political economy analysis of Pakistan' (Bauck *et al.*, 2011).
- 'A political economy approach to the WATSAN sector' (Harris *et al.*, 2011).
- 'The political economy approach focuses on the problem of choice in a society with heterogeneous agents.' (Tolentino, 2010: 3).
- A political economy analysis focuses much more explicitly on asking why and how particular situations have arisen' (Collinson, 2003b: 1).
- 'This paper therefore provides a critical account of how the cereal seed system has evolved as an integral part of Malawi's twenty-first century "maize miracle" using a political economy conceptual framework' (Chinsinga, 2010).
- 'Political economy analysis focuses attention on the sector arena - the formal and informal institutional arrangements that govern relations and behaviours of stakeholders, as well as those stakeholders' interests in the choice, management, and implementation of sanitation service provision and investments' (WSP Sanitation Global Practice Team, 2011)

#### Critique of the 'one-school-of-political-economy' assumption

Consider just three well-used reference surveys of political economy.

- Caporaso and Levine's (1992) classic *Theories of Political Economy* identifies seven different approaches to political economy: classical (Smith and Ricardo), Marxist, neoclassical, Keynesian, and more recently, the economic, state-centred, and justice-approaches.
- Payne and Phillips's (2010) survey identifies 15 different political economy approaches to development – classical liberal, classical historical materialist, classical economic sociology, nationalist, communist, growth theory, modernisation theory, underdevelopment theory, neoliberal, neostatist, human development, gender, environmental, and post-development approaches.
- O'Hara's (1999) *Encyclopedia of Political Economy* identifies five different political economy approaches – institutional (new and old varieties), Marxist, Post-Keynesian, Social and Sraffian political economy. Plus, the editors highlight sub-types within each.

The point here is not just that there are different schools, but that they organise their explanations in very different ways. See, for example, Boxes 5.3 and 5.4 below on feminist and radical traditions of political economy. We can summarise these differences as follows.

- Each approach is guided by very different *fundamental assumptions* about which factors matter in explaining political outcomes.
- Each is motivated by a different *question or set of questions*.
- They all use a different set of *concepts*, a different *theory* about how key factors interact to explain outcomes, and different *methods* to gather and analyse data.

The discussion in Box 5.3 of feminist political economy and financial access suggests that neoclassical assumptions about behaviour, and the ability and desire of individuals to respond to institutional changes, is less predictable than economic approaches assume. The discussion in Box 5.4 of radical political economy underlines the significance of economic and ideological structures, and potential contradictions between the interests of the political and commercial elites as well as civil society, identifying class-based drivers of change.

### Box 5.3: Feminist political economy

- *Fundamental assumptions:* The experiences of men and women are systematically different. Gender is socially constructed. Society and politics are characterised by patriarchy. Politics and relations of power occur in the household, both reinforcing and reflecting public hierarchies.
- *Key question:* How is male privilege institutionalised in public life?
- *Example:* Why don't women have as much access to finance as men? Answer: because of the private operations of power and gender inequality within households as well as societal norms around work and caring roles. These act as barriers such as childcare, family duties, what is considered to be an appropriate job, and decision-making authority in the household. For example, even among the relatively liberal Newar communities in Nepal, most women rarely assume primary decision-making roles, control or manage earnings, or own land, buildings, or machinery (Rankin, 2001). Patrilineal inheritance, patrilocal residence, and patriarchal households provide the limits of women's economic autonomy. It cannot be assumed that women (or indeed men) respond to changed incentives as self-maximising entrepreneurs—the behavioural assumptions behind economic *man* are deeply gendered (Elson, 1991; England, 1993; Benería, 2003). Instead women (*and men*) are also motivated by other factors, including reciprocity, solidarity, caring, collective well-being, empathy, and political commitment.
- *Implication:* Thus, financial access is not a simple case of supply and demand, nor a failure of formal institutions of land rights; it cannot be assumed that women can or will respond to changed legal or commercial incentives. For example, in Nepal, unmarried women have legal rights to a share of their father's land from the age of 35, but never pursue this because it conflicts with informal institutions of male protection and female dependence (Rankin, 2001).

### Box 5.4: Radical (often Marxist-influenced) political economy

- *Fundamental assumptions:* Politics is driven by economic and technical change.<sup>54</sup> Political power is determined by economic power. The economic system is characterised by the exploitation of subordinate classes by those who own or control the means of production. The capitalist system has inherent contradictions and class conflict is the motor of history.
- *Key question:* What is the mode of production (organisation of economic activity, state form, and ideology)?
- *Example:* The World Bank has been working to reform the telecommunications sector in Zambia for many years. The successful removal of the government's monopoly was eventually achieved through a combination of identifying the interests of an increasingly vocal middle-class, widespread phone ownership, plus the interests of the commercial sector in reducing telecommunication costs and increasing national competitiveness (Beuran *et al.*, 2011). A class-based political economy analysis would have understood this immediately – showing that technological change and economic wealth and power would drive political change. More specifically, such analysis would focus on class-based interest groups, as well as the growing contradictions between economic imperatives and existing regulation and political institutions.
- *Implications:* Thus, political change is driven by underlying economic and ideological structures. Contradictions between class interests determine political change: shifts in technology and economic modernisation aggravate exploitative relations and provide space for political mobilisation. Class consciousness is an important determinant of interests. Ignoring class omits understanding of the drivers of political consciousness, mobilisation, and change.

Different political economy traditions suggest a wider range of ways to think about the politics of development. They highlight different levels of analysis and different factors or variables which matter; and they demonstrate different ways of thinking about how structures, institutions, agents (and power and ideas) interact.

54 The primary unit of analysis is 'class', such as the proletariat, bourgeoisie, peasantry, and so forth. A person's class position is a function of their relationship to the economy – more specifically, the nature of the work carried out, whether it involves the ownership or control of capital or property, or having to exploit one's own labour. Changes in technology – new manufacturing techniques, the spread of information technology – shift the way in which production occurs and has consequences for the class structure. For example, there is the way industrialisation leading to the emergence of larger working and middle classes, the decline of the peasantry and greater urban divides between the proletariat and bourgeoisie.

The questions and concepts used by alternative approaches highlight the partial nature of mainstream analysis: interests are complex, institutions are multiple and overlapping, and incentives are far from clear. For example, how does a woman deciding whether to join a microfinance solidarity group weigh the competing pressures of negotiating decision-making and financial control with her husband (sometimes with violent consequences), repaying the loan (adding to heavy burdens, but with the penalty of communal exclusion and stigma if failing to pay), and saving money for her children's welfare? (Goetz and Sen Gupta, 1996; Schuler *et al.*, 1998; Mayoux, 1998; Kabeer, 2001).

In summary:

- PEA is not – and should not be – a single approach. All approaches add something and leave out other things. Ignoring alternative questions and concepts – such as gender, class, or different concepts of power – risks creating a partial and unnecessarily narrow analysis.
- Lumping together different concepts without a sense of how they interact (i.e. just having boxes and arrows) risks creating incoherence and poor analysis. A theoretically informed and consistent theory of change and politics must underpin PEA.

## 5.6 Economics of politics

The dominant economics of politics approach<sup>55</sup> is defined as the 'application of the methodology of economics to the study of politics' (Mueller, 2003: 31).<sup>56</sup> While acknowledging the many different 'meanings' attached to 'political economy', the editors of the *Oxford Handbook of Political Economy* put it this way [*italics our emphasis*]: '... political economy is the *methodology* of economics applied to the analysis of political behaviour and institutions'. They go on: 'The unit of analysis is typically the individual. The individual is motivated to achieve goals [...] the theory is based in mathematics, and the empirics either use sophisticated statistical techniques or involve experiments where money is used as a motivating force in the experiment.' (Weingast and Wittman, 2006: 3-4).<sup>57</sup> There is a long and distinguished tradition of applying the methodology of economics to the study of politics, and the approach assumes that politics can be studied in the same way as economics (Arrow, 1951; Downs, 1957; Buchanan and Tullock, 1962; Riker, 1962; Olson, 1965; Mitchell, 1968; Becker, 1976; Frey, 1999; Persson and Tabellini, 2000).

### Assumption 2: Politics can be studied using the tools of economics because they are universally applicable

Why is it assumed that politics can be studied using the tools of economics? Put simply, the view taken is that:

- consumers and citizens are essentially the same people
- people's decision-making in the two spheres is essentially the same
- the problem – the allocation of resources and values – is essentially the same.

Therefore politics can be treated as a set of markets – with citizens casting their votes for politicians and policies they approve of in the same way that consumers spend their dollars on goods and brands they want. And so, the argument goes, the same tools and methods can be used to analyse both politics and economics.

Gary Becker has expressed it thus:

The combined assumptions of maximising behaviour, market equilibrium, and stable preferences, used relentlessly and unflinchingly, form the heart of the economic approach [...] Indeed, I have come to the position that the economic approach is a comprehensive one that is *applicable to all human behaviour*, be it behaviour involving money prices or imputed shadow prices, repeated or infrequent decision, large or minor decisions, emotional or mechanical ends, rich or poor persons, men or women, adults or children, brilliant or stupid persons, patients or therapists, businessmen or politicians, teachers or students (Becker, 1976: 5 & 8, *our emphasis*).

55 There are a variety of different schools or labels which work with the assumption that politics can be studied in the same way as economics, for example: public choice, rational choice theory, social choice theory, positive or new political economy, and game theory.

56 For the classic survey of the many different ways of theorising the nature of politics, the nature of economics, and the relationship between them, see Caporaso and Levine (1992).

57 It is hardly surprising that the bulk of this work is applied to voting and legislative behaviour. Less attention is given to the analysis of the complex and varied processes and factors, forces and contingencies that drive social, economic and political change. On the methods, see David Austen-Smith (2006).



The premise behind economics and rational choice approaches is that people are alike the world over. This is the claim that human behaviour, *irrespective of* beliefs, culture and the legacies of history in institutions and norms, can be studied using the same assumptions, methods, and tools. From the economic perspective, we can use the same tools of rational calculation under constraints to study financial traders in Wall Street (United States), peasants in Kedah (Malaysia), and the aspiring middle-class in Lagos (Nigeria).

Thus, there are two ways in which the economics of politics approach claims to be universally applicable:

1. *everywhere* – regardless of geography, culture, or indeed history; and
2. *to everything* – across all spheres of activity: from crime, racial discrimination, or marriage, to addiction.

In this view, all spheres of society can be modelled as if they are a market (Becker, 1976). See Box 5.5 for Gary Becker on an economic theory of marriage.

#### Box 5.5: Becker on the market for marriage

'According to the economic approach, a person decides to marry when the utility expected from marriage exceeds that expected from remaining single or from additional search for a more suitable mate... Similarly, a married person terminates his (or her) marriage when the utility anticipated from becoming single or marrying someone else exceeds the loss in utility from separation, including losses due to physical separation from ones' children, division of joint assets, legal fees, and so forth. Since many persons are looking for mates, a *market* in marriages can be said to exist: each person tries to do the best he can given that everyone else in the market is trying to do the best they can.' (Becker, 1976:10; see also Becker, 1974).

So, in the economic approach, all social and political dynamics can be modelled as if they were situations of choice, utility maximisation, and competition in a marketplace between buyers and sellers, *regardless* of local customs and norms. Hence a drunken shotgun wedding in Las Vegas, and the forced wedding of a 15-year-old girl taken to Pakistan during her school holidays are both explicable in the same terms as each other and in the same terms as buying a new car. This view ignores issues of power and authority, legitimacy and culture, and norms about what the institution of marriage *is* – for love, family honour, sacred and lasting forever, or possibly not even until tomorrow lunchtime. Ideas about institutions are as important as institutions themselves, and they are contextually specific.

#### Assumption 3: Politics is analogous to a market

A key consequence of the economics of politics approach is that it turns politics into a market. It assumes that people act on individual calculations of costs and benefits before 'producing' or 'consuming' a policy or campaign. This view is well-captured by Merilee Grindle when she writes:

... in seeking to explain the behaviour of politicians, rational choice theorists generally assert that politicians naturally prefer more power to less; survival in office to defeat; re-election to loss; influence to irrelevance. Voters naturally prefer politicians who provide benefits that improve their individual welfare to those who do not. Bureaucrats naturally prefer higher budgets to lower ones, more discretion to less, more opportunities to promote their own welfare to fewer, career promotion to demotion. These individuals are distinct from economic actors only in that they are conceptualized to be interacting in a political market in which competition is about power to provide or receive benefits from public policy, public investments, and resources controlled by the government.

Source: Grindle (2001: 349).<sup>58</sup>

An example of how politics-as-a-market thinking influences PEA is provided by Keefer and Khemani (2005) and is applied by the World Bank to political economy analyses of Ghana (World Bank, 2007b) and Benin (World Bank, 2009). Keefer and Khemani (2005) trace the problems of rent-seeking and the under-provision of public goods to 'imperfections in political markets'. They identify various market imperfections, but to give just one, they note that, because voters lack information about the quality of political goods (policies) then the 'political market' is not competitive – i.e. the laws of supply and demand

<sup>58</sup> See also, David Apter (2001) for a useful critique of this approach.



for politicians and policies are not working efficiently. Ultimately this means that politicians are not held to account.<sup>59</sup> This is because citizens, as political consumers, lack knowledge about elected politicians' performance while in office. Therefore consumers (citizens) do not reward and punish sellers (politicians) of good and bad products (policies). Thus, the policy implication is clear: fix the market imperfection, i.e. citizens' lack of knowledge about politicians' performance. This will result in falling 'demand' for sub-optimal politics and politicians.

This kind of thinking, and the language of self-interest, incentives, markets, and political equilibrium, has increasingly permeated political economy analysis tools and studies – though not always formally. (For a range of examples, see DFID, 2009; Fritz et al., 2009; Eaton et al., 2010; The Policy Practice and ODI, 2011; and APPP et al., 2012). A report from the Clingendael Institute summarises five country studies carried out by their Conflict Research Unit (CRU) thus:

The central argument of the paper is that political variables, and the interests and incentives of power-holders who compete and collude in a political marketplace, are crucial to determining the path that any given fragile state takes  
Source: Anten et al., (2012: 8).

## 5.7 Critique of the 'economics-of-politics' assumptions

### Politics is not economics

The problem with assuming that the tools of economics are appropriate for both political and market 'games' is that politics and economics *are* different. Politics is indeed about the distribution of resources, but it is also about values and the way power, in its various forms, influences decisions and outcomes. Politics is about contestation over the kind of society a population wants to live in, as well as the efforts of some powerful groups to impose their views and preferences on the rest of the population.

If the economic lens is chosen, it is no surprise that the world begins to look like a market. But there are a number of dynamics and processes that are the stock-in-trade of political scientists, and that economists are less well placed to analyse. Crucially, politics is characterised by the operation and interaction of different sources and forms of power; the influence of political ideas, and a fundamental concern with questions of legitimacy and authority. Economics has much less than political science to tell us about such questions. So by using economic assumptions, tools, and methods, there is a danger that the world is reduced to fit the tools of economics.

### Political processes are not markets

The assumption that political processes can be modelled, or even just thought of, as a process of coordination via a set of explicit and implicit markets is fraught with difficulties. We suggest three such difficulties below.

#### Politics is a public process

The market analogy seems most persuasive when thinking about voting, as marking a cross in a box is an individual act. But politics is not just about voting: it is a public, group and deliberative practice that cannot be reduced to individuals' calculations and isolated choices. Politics involves conflict and contestation around ideas, interests and power, with different groups wanting to get their way in shaping institutions and policies. It is about dialogue, collective decision-making, and forging coalitions. It includes influence, lobbying, compromise, campaigning, strategising, and framing. Crucially, it is about public, not private, goals and processes; markets may 'aggregate' lots of individual decisions and, while national elections may look similar, politics is not an individual activity in the same way.<sup>60</sup>

#### Politics is characterised by the interaction of different forms of power

The market view assumes consumer sovereignty. That is to say, because consumers have a choice of products and exercise their preferences, the volume of goods produced is determined by their quality and attractiveness. Supply and demand and the price system send signals to determine what is produced by whom. The classic analogy between the market and politics is Antony Downs's (1957) *An Economic Theory of Democracy*, where voting citizens are likened to consumers trying to get the best product for the best price, and politicians are reduced to businessmen trying to market the most attractive product to maximise sales (votes).

The problem with this view is that political processes and outcomes are shaped by the use of power – deployed by powerful

<sup>59</sup> Refer back to the discussion on page 42 in Section 4 for a longer discussion of the argument.

<sup>60</sup> Apter (2001: 271) points out that the assumption that people act in the same way as consumers and as citizens misses the point that citizenship is about more than personal consumption. When acting as citizens, people think of wider issues than personal choice or satisfaction, and these include issues of justice, fairness, civic consciousness and even moral responsibility.

actors, with powerful ideas and interests and with different forms of power at their disposal. This fuller understanding of power (see Section 6) *cannot* be captured by a metaphor of more-or-less competitive markets. And if relations and influences of power shape preferences, choices, and political outcomes, then we cannot assume consumer (or citizen) sovereignty. The consumer is not necessarily queen or king.

### Politics happens outside a 'market'

Politics is about much more than the 'market' for votes and the contents of manifestos. It is about all the activities of conflict, cooperation and negotiation that are involved in decisions about how resources are to be produced, used and distributed. And it is about the formal or informal institutions that govern that, at the level of the national society, or in the family or farm or factory. For better or worse, it involves lobbying (formally or below the radar) by firms and special interest groups, deals between potential coalition partners at all levels and in all sectors, negotiations, arguments, community meetings and mobilisation, values, media debates and all kinds of other public work. Decisions are also affected by the findings of (usually non-elected) commissions of enquiry, judges, external organisations and laws, private negotiations, specialist advice – and more.

### The economic approach is not universally applicable

The assumption of a universal logic (1) is not realistic, and (2) is not useful for political analysis. The assumption that behaviour anywhere, and of every kind, is understandable from a single universal perspective is just that – an assumption. Like many assumptions, it is made to simplify the world and separate out what matters from what does not. We argue that it separates out too much and sacrifices detailed in-depth understanding for general-but-partial lessons.

### Not a realistic assumption

The universality assumption rips away context and dilutes specificity. It ignores local norms, customs, habits, and roles. Consider the example below of the global, 24-hour financial system: perhaps the closest approximation to the economic textbook competitive market (see Box 5.6). It fails to see the contingency of the categories it assumes, e.g. rationality, profits; and it omits the key medium of politics – power. So *even financial markets cannot be fully understood using the economic approach*; even profit-making behaviour is not universal. How individuals understand profits and incentives is culturally specific. But regulatory responses based on changing the incentives (e.g. greater surveillance, fines, capital adequacy ratios, or restructuring performance related pay) assume that actors will respond consistently and as intended. Yet we know from empirical analyses that the actions of financial market participants are based on a locally-contingent, unpredictable process of making sense of what to do.

#### Box 5.6: Financial markets and universal rationality?

Why are financial markets efficient? Because they contain enough rational profit-maximising traders to ensure that prices reflect what assets are worth. Profitable trades are quickly identified and prices adjust accordingly. That's the universal theory, anyway. But more careful ethnographies of the financial markets in London and New York show that they do not work like that. All behaviour – even in the global financial markets – is locally-determined and culturally-specific. For example, what a profitable strategy is depends on what 'profitable' and 'profits' mean. And these definitions have been shown to be contextually specific, varying across companies and history (Ho, 2009).

In her ethnography of Wall Street, Karen Ho shows that the dominant profit making strategies which gave rise to the global financial crisis were grounded in specific understandings of how to make money: a short-termist world view, relentless deal-making, repackaging and selling debt, all fuelled by a deliberate culture of job insecurity. Yet, just forty years ago such short-termism and risk-taking would have been considered highly irrational by the majority of players inside the financial industry. The behaviour of financial market participants *was not* driven by the universal categories of utility maximisation and free competition – they had to 'make sense' of what rational behaviour was.

Other ethnographies of financial markets repeatedly show that prices are not set by universal laws of supply and demand. Rather, they are set by actors – brokers, traders, and analysts – making sense of information collectively: interacting, sharing, socialising, calculating, as well as cheating, and cutting corners (Hasselström, 2003; Hudson, 2005; Zaloom, 2006; Ho, 2009).

### Not a useful assumption for PEA

The assumption of universal logics ignores precisely what is important for PEA: an in-depth understanding of the specific political context. The reasoning behind the economic approach is to capture as much of the world as possible using the fewest assumptions (explaining more with less). As such, economic explanations tend to prefer analysis that provides breadth over depth. Morris Fiorina – an advocate of a rational choice approach to politics – has made exactly this point:

‘..breadth trumps depth; understanding 90 per cent of the variance in one case is not as significant an achievement as understanding 10 per cent of the variance in each of nine cases, especially if the cases vary across time and place’

Source: Fiorina (1995: 111).

By variance Fiorina means differences in outcomes, such as whether there is or is not a revolution, or the size of government spending on education, or women’s access to savings. A model which can explain 10% of the drivers of revolution/government spending/ financial access over several cases is preferable to explaining 90% of a revolution or spending or access in just one case. So a general but partial understanding is to be preferred over a detailed understanding of why revolution or development happened in a specific case.

However, *when it comes to PEA*, the problem is that *operationally relevant insights* are those which understand the specificity of a particular political context. And this requires the 90% per cent mind-set. Knowing that a country has a parliamentary or presidential system, or that a sector is more or less exposed to international competition, might give us a sense of how likely reform is. But effective political action requires an understanding of the actual barriers, opportunities and specific players (and potential players) in the particular case.

Explaining 10% of the reasons for, say, poor rates of female access to finance across a lot of countries provides a weak grounding for understanding (a) why women in the Solomon Islands lack access; and (b) what to do about it. Addressing gender inequality and access to finance in a given country requires a more in-depth understanding of the key actors, how they think, work, strategise, and of potentially effective framing tactics and coalition partners. Working politically requires depth.

In summary:

- The economics of politics approach provides, or strongly influences, the default understanding of the core concepts of most contemporary PEA.
- It assumes that the tools of economics are universally applicable.
- It interprets politics as an individual choice game, rather than a process of conflict, persuasion and framing.
- It ignores the operation of power, and the nature of political strategising, framing, and campaigning, as well as the central questions of politics – ideas, authority, and legitimacy.
- The economics of politics approach interprets politics as a market, or set of markets.
- But this forces us to think about politics as a private and individual activity.
- It overstates the clarity and salience of a set of rules and incentive structures.
- This – as we go on to argue – further limits analysis by providing an *economic* but not a political understanding of institutions and interests.
- In striving for universal forms of explanation (nomothetic as opposed to idiographic in the social science jargon) economics misses what is specific about *politics*.

## 5.8 The behavioural assumption of PEA

The behavioural assumption deeply embedded in PEA is that political agents are primarily driven by self-interest. But we argue that this is not always the case, and that therefore the assumption is limiting.

### Assumption 4: The rationality of political actors is exclusively self-interested

If the analogy of politics as a market is to work, it is necessary to assume that individuals seek to maximise (or at least satisfy) their net benefits (utility) in a rational way. This definition of rationality is quite specific.

- First, it is about responding to opportunities in a **consistent and predictable** way. Individuals are assumed to evaluate carefully the costs and benefits that arise from different courses of action and then choose the one that maximises their perceived net benefits (utility).<sup>61</sup>
- Second, it is also assumed that the primary form of rationality is an **egoistic, self-interested or self-seeking one**.<sup>62</sup>

See Box 5.7 for a collection of classic definitions of rationality that emerge from the economics of politics approach (Pettracca, 1991). PEA has, rather uncritically, accepted that this is the dominant behavioural logic. And so PEA has focused on how politicians' primary motivation is to get, maintain, or increase power; or to maximise financial benefits from rents and corruption. For example:

- World Bank: 'while the 'right institutions' may yield economic growth, rulers might often tend not to choose such institutions, but rather those that favor their own interests.' (World Bank, 2008: 5).
- Copenhagen Joint Statement: 'We assume that when in office members of national political elites are motivated to an important extent (not exclusively) by the desire to stay in power. When out of office, they are concerned to regain power.' (APPP *et al.*, 2012: 8).

Are these realistic or plausible assumptions? Do they help us understand the differences between a Pol Pot and Tanzania's Julius Nyerere, or between Singapore's Lee Kuan Yew and Mobuto Sese Seko in the Democratic Republic of the Congo?

## 5.9 Critique of the 'self-interested rationality' assumption

### Lack of realism

First, there are problems with the *realism* of the assumption. People are not self-interestedly rational in the sense assumed by economists. Take the example of voting.

First, the economic approach to politics faces a paradox when trying to explain behaviour at the ballot box or, rather, in trying to explain the decision to go to the ballot box in the first place. The 'rational voter paradox' highlights the fact that the probability of a single vote making a difference to the election outcome is negligible (Downs, 1957; Caplan, 2007). If true, the self-interested, rational citizen would not vote.

#### Box 5.7: Self-interested rationality in political science

- 'Politically rational man is the man who would rather win than lose, regardless of the particular stakes' (Riker, 1962: 22).
- 'The basic behavioural postulate of public choice, as for economics, is that man is an egoistic, rational, utility maximiser' (Mueller, 1984: 23).
- 'We assume that every individual, though rational, is also selfish [...]. Throughout our model, we assume that every agent acts in accordance with this view of human nature. Thus, whenever we speak of rational behaviour, we always mean rational behaviour directed primarily towards selfish ends [...]. From the self-interest axiom springs our view of what motivates the political actions of party members. We assume that they act solely in order to attain the income, prestige, and power which comes from being in office' (Downs, 1957: 27-8).
- '[The] basis for the theory of collective choice [...] assumes that the individual, as he participates in collective decisions, is guided by the desire to maximize his own utility and that different individuals have different utility functions ... We propose to analyze the results of various choice-making rules on the basis of this behavioural assumption, and we do so independently of the moral censure that might or might not be placed on such individual self-seeking action' (Buchanan and Tullock, 1962: 25 & 30).

61 The consistent ordering or ranking of preferences – 'transitivity' – is fundamentally necessary for all rationalist explanations. Transitivity is where a person prefers Apples to Beer and Beer to Carrots and therefore prefers Apples to Carrots. However, if a person prefers (and chooses) Carrots to Apples (assuming preferring A to B and B to C) this is non-transitive and not rational.

62 Note that this could mean maximizing utility in a variety of ways, including altruistic ones such as helping others. However, it is most commonly assumed that self-interest translates into self-serving behaviour – see the recent joint statement from five key research programmes (APPP *et al.*, 2012).

However, if for a moment we assume the self-interested, rational voter *does* somehow find himself or herself at the ballot box, then how will she or he vote? The economic approach to political behaviour would suggest that the voter will vote for whichever candidate or party is more likely to maximise his/her benefits. For example, the candidate may come from the same ethnic background and have a track-record of partisanship, of protecting industries, reducing taxes or increasing targeted benefits. Yet there is plenty of evidence that individuals act against their narrow self-interests at the ballot box (or not simply in terms of those interests). For example, people vote against their ethnic party (Valfort, 2006), poor people vote for tax cuts for the rich (Bartels, 2005),<sup>63</sup> and rich people vote for income redistribution (Wilson and Banfield, 1964). See Box 5.8 for a discussion of the 'altruistic voting' phenomenon in the 2005 election in Addis Ababa.

#### Box 5.8: Beyond self-interest? Altruistic voting

Since 1991 Ethiopian politics has been shaped by the system of ethnic-based federalism that was established by the ruling Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) as a way of easing ethnic demands for self-determination (Aalen, 2011). As such, ethnicity in Ethiopia has been strongly politicised and politics has operated along ethnic lines, with parties emerging to represent their local and ethnic constituency. And yet, in Addis Ababa, in the run up to the May 2005 national elections, a coalition of non-ethnic opposition parties emerged and eventually won. The economic approach to politics would predict victory for the ethnic-based parties, given that they had appealed to individuals' self-interest. But voters, it seems, were driven by different motivations; the phenomenon of so-called 'altruistic voting'.

When people vote for or against a foreign war, or for aid budgets, or for same-sex marriage can we really argue that their behaviour and choices are about maximising personal individual benefits?

So what's wrong with assuming only self-interested rationality? Is it the people – i.e. the voters – or the assumption? We argue that it is the assumption, because individuals are guided by a wider repertoire of motivations than only self-interest. In fact, the assumption that people are exclusively driven by maximising their own gain is exposed as a rather a silly one by Amartya Sen (see Box 5.9). Rather than consistently and accurately trying to maximise only the benefits from all available courses of action (a consequentialist logic), people, and the groups and organisations they represent, are equally motivated by alternative logics of behaviour. These include moral reasons of justice and fairness, altruism and empathy, and of valuing collective public goods more than individual utility maximisation.

- For example, see Wade's (1987) account of communal grazing grounds and irrigation canals in villages in Andhra Pradesh, India. He argued that morality, power, and loyalty acted as checks on free riding, as did norms of not taking advantage of others in the community.
- Or, take the consistent drive of humans to go to war to protect or glorify their nation, making the ultimate sacrifice out of loyalty to their 'imagined community' over and above rational self-interest, personal wellbeing and loyalties to family, community, and other groups (Stern, 1995).

These alternative types of behaviour follow a 'logic of appropriateness' (as opposed to the logic of consequence characterising economic approaches) (March and Olsen, 1984). Actors ask themselves what kind of situation they face, what is expected of them, and what they should do given their role in a political community. It is a more social logic of behaviour than just a utility calculation, and it is shaped by social norms, ideas, and power.

#### Box 5.9: Amartya Sen's (1977) 'Rational Fools'

The economic approach to explaining behaviour is based on the assumption that people only give a truthful answer as long as there are economic incentives for doing so. Hence 'when asked a question, the individual gives that answer which will maximize his personal gain. How good is this assumption? I doubt that in general it is very good. ("Where is the railway station?" he asks me. "There," I say, pointing at the post office, "and would you please post this letter for me on the way?" "Yes," he says, determined to open the envelope and check whether it contains something valuable.)' (Sen, 1977: 332).

<sup>63</sup> More generally, there is a large mainstream and popular literature on how and why people take irrational decisions and engage in irrational behaviour (Kahneman *et al.*, 1982; Ariely, 2008)

## Lack of usefulness

So, having discussed the first problem with the 'self-interested rationality' assumption – its *realism* – what of the second, its *usefulness*? Self-interested behaviour may appear to explain why, say, clientelism is so prevalent. But it is less good at explaining why some leaders are not self-seeking, or why they change, or why and how other actors mobilise for the greater good and succeed in undertaking collective action. A wider range of behavioural logics needs to be acknowledged and harnessed, such as identity-based politics and solidarity-based movements.

For example, in seeking to understand the 'political economy of agricultural marketing' in Senegal, and why attempts to privatise the sector repeatedly failed, the World Bank undertook a political economy analysis (World Bank, 2008). The analysis focused on key players' self-seeking behaviour. The problem identified was that the government used the marketing board to purchase extra groundnut production during election years as a way of distributing income in the rural areas to maintain political support. In addition, political and commercial actors were profiting from these arrangements. This is in line with assumptions of self-interested behaviour.

Of course this self-seeking clientelistic behaviour *is* a key issue. But it does not exhaust the behaviour of these or other actors in the sector. It is a partial view, one stronger on – as Alex Duncan puts it – 'why your aid program doesn't work' (Green, 2012a) than on solutions to 'work politically'. So, for operationally relevant analysis which will help donors to work politically it is necessary to look at how and why other agents mobilise, act collectively, and lobby to push through reforms.

Peasants' and farmers' organisations are key here. One example, from Senegal, is *Le Conseil National de Concertation et de Coopération des Ruraux* (CNCR). This emerged in 1993 as a response to the failure of state-sponsored agricultural activities and liberalisation (McKeon *et al.*, 2004). The CNCR has proved itself capable of overcoming the collective action problem assumed by self-interested accounts of political life (Olson, 1965).

The CNCR works through sustained alliance building, smart framing, a close relationship with the state, and careful and disciplined use of protest and social mobilisation. It enjoys a high level of legitimacy and capacity for social mobilisation, representing the 70% of Senegalese who are rural and engaged in agriculture. Despite the diverse nature of its membership, the CNCR has established itself as a political force with a place at the national negotiating table, mobilising national protests and putting agricultural reform at the top of the political agenda with the Farmers' Manifesto (Taylor-Meehan *et al.*, 2008).

The CNCR then shaped the *Loi d'Orientation Agro Sylvo-Pastoral* (the Agro-Sylvo-Pastoral Orientation Act) (LOASP). The LOASP represented the Senegalese government's vision for agricultural modernisation – to go alongside the structural adjustment agreements signed with the IMF and World Bank (Resnick and Berner, 2010). The CNCR effectively represented the interests of smallholders through effective consultation and representation, such as ensuring the privatisation of land rights was included. Indeed, nine out of the 10 propositions in the law came from CNCR (Resnick and Berner, 2010). This example shows how collective political action is capable of placing issues onto the political agenda, shaping their content and implementation.<sup>64</sup>

In sum, emphasising the self-interested dynamics of Senegal's agricultural sector provides only half of what political analysis needs to do. By overlooking successful collective action and political agency, analysis that focuses purely on self-interest is partial: it can explain the reasons for policy failure, but not how this can be turned around. It cannot explain how to tap into or guide the logic of appropriateness that can support collective action.

To answer such questions, we need a theory of agency and an understanding of how agents' behaviour and their context interact. We suggest that, while interests do matter and self-seeking behaviour is widespread, *assuming* self-interested rationality to be the dominant motivation ignores other behavioural logics, such as solidarity-based, moral, ideological, or public-interest logics.

In summary:

- The economic assumption of rationality implies that actors behave in a consistent and predictable way, usually self-interested, always following a logic of consequence, and calculating individually.
- But political actors – individuals and groups – are guided by a wider repertoire of motivations than just self-interest.
- A theory of agency – as opposed to interests – means asking questions about how agents conceive of their motivations and balance different interests.

<sup>64</sup> The LOASP was submitted, accepted and promulgated by the Senegalese national assembly in 2004. However, President Wade did not issue the executive order to implement the law until 2007 (just prior to legislative elections).

## 5.10 The contextual assumptions of PEA

The key claim of PEA is that institutions and the incentives they embody are the critical shapers of political behaviour. We accept that institutions provide the social context within which political action occurs, and provide important limits on such behaviour. However, the economic rendition of institutions and their incentives implies an overly structuralist take on the world, ignoring the politics and agency necessary to build and maintain (or disrupt) institutions.

### Assumptions 5 and 6: Institutions determine behaviour through the incentives they generate

The turn to 'institutions' was one way to incorporate the observation that 'context matters' (World Bank, 2000). Cross-national variation in economic development has been explained in terms of the quality of a country's institutions and the incentive structures they create (North, 1990; Rodrik *et al.*, 2004; Acemoglu and Robinson, 2012). The insight that institutions matter is now the conventional wisdom; but how do PEAs usually define institutions and incentives and why, for them, do they matter? We set out below, in summary form, the core arguments.

#### Box 5.10: Incentives are central to PEA

- 'Development outcomes in poor countries depend on the political incentives facing political leaders' (APPP *et al.*, 2012: 1).
- 'The risks and challenges [of poverty reduction] are broadly political. They are not primarily about the lack of human and financial resources or technical capacity, although these undoubtedly add to the problems. Rather they are about the incentives and political capacity within societies to address poverty reduction, which in turn depend on a complex mix of factors, some short term, others very long term – which shape the context within which political actors and policy makers operate' (Unsworth, 2002: 1).
- '[PEA] implies taking the incentives of individuals and of groups more seriously—rather than thinking about reforms predominantly from a public welfare perspective' (Fritz *et al.*, 2009).
- '[Political economy is a] social science dealing with how economic incentives, political interests and concentrations and networks of power—as shaped by institutional structures and norms (both formal and informal)—influence development outcomes' (AusAID, 2011a: 92).



Table 5.2: How PEAs understand institutions and incentives

Institutions	Incentives
<p><b>What are institutions?</b> The standard definition of an institution – and the one used almost everywhere in the PEA tools and studies – is Douglass North’s notion of the ‘rules of the game’. North (1990: 4) specifies that they can be formal or informal, but are ‘any form of constraint that human beings devise to shape human interaction’. As such, institutions determine the limits of choice and structure incentives.</p> <p><b>Why are institutions set up?</b> The answer, from the economic approach to institutions, is that they reduce the costs involved in economic activity, such as enforcing contracts. In this functionalist understanding, individuals have an incentive to trade and co-operate but, as self-interested agents in a risky environment of limited information, they face a collective action problem. Institutions emerge as the solution, helping to facilitate cooperation. As Barry Weingast (2002: 675) puts it, ‘Institutions arise, in part, to help create the conditions for self-enforcing cooperation in an environment where there are gains from cooperation but also incentive problems that hinder a community’s ability to maintain cooperation’.</p> <p><b>How do they matter?</b></p> <ul style="list-style-type: none"> <li>• Institutions provide stability: Once set up, institutions provide the context within which behaviour occurs. As actors learn the rules of the game, a political equilibrium sets in, between the demand for (and supply of) the institutional arrangement. This creates <i>stability</i> where no one wants to challenge the rules of the game<sup>65</sup> (Shepsle, 1986).</li> <li>• Institutions provide structure: The economic approach retains the rationality assumption, as above, and analyses how individuals behave subject to the constraints of the rules of the game. Because this assumes rational individuals will respond to the institutional constraints in a consistent and predictable way, it produces a very structural and deterministic account of politics (Hay and Wincott, 1998).</li> </ul>	<p><b>What are incentives?</b> Incentives are generated and embodied by institutions (North, 1990). Incentives are the means by which interests are translated into outcomes. Incentive structures act a ‘payoff matrix’ summarising the positive and negative returns from different courses of action. They provide rewards and punishments for doing certain things, for example cheating, cooperating, applying more effort.</p> <p><b>Why are incentive structures designed?</b> From the economic perspective, institutions matter because they reduce uncertainty and transaction costs. And, in doing so, institutions incentivise productive economic activity by providing property rights, third-party enforcement of contracts, and limiting corporate liability.</p> <p><b>How do they matter?</b></p> <ul style="list-style-type: none"> <li>• Incentives determine behaviour: Incentives are used to explain why people follow institutional rules or why they cheat (World Bank, 2008). The rewards (carrots) and punishments (sticks) for following or departing from the rules of the game determine the optimal pathway for an actor to pursue his or her underlying desires and interests.</li> <li>• Incentives provide a policy lever: Incentives provide donors with an operationally relevant way of understanding and working with political context. The policy implication is that incentives provide a way of aligning private interests with the public interest.</li> </ul>
<p><b>Bottom line</b></p> <p>Institutions are the rules of the game.</p>	<p><b>Bottom line</b></p> <p>Incentives determine whether or not players follow the rules of the game.</p>

65 There is no assumption that this is an optimal or exclusive equilibrium, but, if enough powerful actors benefit from it, there is insufficient pressure to move from it.



As Box 5.10 makes clear, incentives are central to the PEA world view. Yet, despite this centrality, incentives have not received the same level of attention or analysis in the PEA literature as, say, institutions or stakeholders. Nevertheless, the language of incentives is used as if it is self-evident when, in fact, the way incentives work in different contexts is remarkably complex. Here we spell out what we see as the limitations of relying on an incentives-based approach.

### Critique of the ‘institutions-and-incentives-rule’ assumption

The contextual assumptions underlying PEA that ‘institutions and incentives rule’ omit key issues about institutions and incentives. These issues include their provenance and construction, their maintenance and implementation, and the processes that lead to their change or disruption. So the ‘institutions-and-incentives-rule’ assumption presents a static and one-dimensional view.

We suggest that the assumption has four limitations, and summarise these below before unpacking them in more detail. All of them emphasise the importance of agency and draw on other (non-economic) theoretical approaches to the study of institutions.

- **Institutions and incentives do not determine behaviour:** Causal power (for good or bad) is exercised by agents as well as by institutions. Agents work both inside and outside the rules of the game: they are not simply calculating, rule-following automatons. While many aspects of stable and legitimate institutions may be commonly obeyed, people also seek ways to bend, evade and even undermine the rules of the game. For example, European institutions governing equal opportunity and pay for women are regularly demonstrated to be weakly implemented or adhered to.
- **Where do institutions and incentives come from?** The focus on institutions as stable and efficient solutions to cooperation problems ignores the difficult political process of setting them up. The economic focus on appropriate design of incentives reflects a technical approach, not a political one.
- **Institutions express a set of power relations that is seldom fixed:** Actors, within and around the domain of the particular institutional arrangements, regularly contest, challenge and seek to amend or negotiate the rules of the game. Contrary to the functionalist understanding, institutions are by-products of political conflict. They commonly remain contested and subject to review or challenge, even where there are rules for changing the rules (Knight, 1992; Thelen, 2004). They require ‘institutional work’ (political work) by agents to create, maintain and disrupt them (Lawrence and Suddaby, 2006). Moreover, for an institution to shape behaviour effectively it is likely to need other institutions to be in place as a network of compatible rules. This requires analysing political process and the exercise of agency.
- **Institutions need to be political solutions, not just technical solutions:** Institutions shape political and public spaces where agents (citizens, politicians, bureaucrats, judges) can deliberate about the right and wrongs of social life – contest and decide on rules, laws, and moral codes. This is not simply a normative point. Evidence suggests that political behaviour, such as holding politicians to account or collective action, cannot be induced through the use of incentives. Incentives and behaviour changes are not the same thing as politics.

### Institutions and incentives do not determine behaviour

The main limitation of standard political economy approaches – as is increasingly recognised – is that actors do not act in consistent and predictable ways because of the dynamism and agency of politics. So focusing on institutions and assuming that political actors act consistently with their institutional context is insufficient. We think of this as the ‘reeds in the wind’ model of change: change the incentives (direction of the wind) and all the affected people (the reeds) will all shift in the same direction too. This model relies on the previous behavioural assumption about consistently rational behaviour (see Box 5.11).<sup>66</sup>

So we need to think *inside* the red box – to unpack why and how agents really do act. We need to keep the notion that *people are creative* at the forefront of our analysis: people can and will manoeuvre, cheat, and use their inspiration and imaginations to evade, build and subvert incentives. Complexity and uncertainty can confound consistent behaviour. Plus, people and groups can be apathetic, or they can be held down by the power of a variety of social, economic or political structures – such as class or patriarchal norms. This is particularly relevant in conditions of uncertainty.

Creative behaviour becomes more prevalent, easier, and more necessary when rules and incentives are either not well established or are non-existent. And it is these circumstances that typically characterise the politics of developmental change.<sup>67</sup>

66 To be precise, it could be consistently irrational behaviour too: just as long as the behaviour is consistent. This is the insight of behavioural economics and neuro-economics which look to influence behaviour by exploiting our hardwired tendency to use cognitive shortcuts (as opposed to rational calculation) (Thaler and Sunstein, 2008).

67 As Sida (2006: 21) notes, ‘Politics and political institutions in developing countries tend to be ‘un-institutionalised’ and even more in flux than in most OECD countries.’

For instance, how does a young woman in Zimbabwe decide to vote for the first time in 2008? There is a reporting ban. Militias are travelling from home to home, forcing people to vote. She is told by the Movement for Democratic Change (MDC) both to boycott the election and to vote for change if she feels her life is in danger. There are reports that voting choices could be revealed. On the other hand, she knows that if she has not emerged from the polling booth with an electoral stain on her finger she faces potential intimidation and violence. Compare that with a young woman in Australia, also voting for the first time, where compulsory voting and security make weighing up the incentives much easier.

### Box 5.1 I: The importance of behavioural assumptions for incentives to work

Let's reconsider Figure 4.3 (page 44), which summarises Keefer and Khemani's (2005) presentation of political interests, incentives and outcomes. The incentive structure *seems* to be doing all the heavy lifting in terms of explaining how to move from outcome A to outcome B. Politicians are assumed to be self-interested with a motivation to stay in power. But, if (in the red box) we cannot assume that politicians have stable preferences or straightforward self-interest, incentives do not work. If people are not 'rational' then their response to incentives ceases to be consistent or predictable. Politicians are elected for many different reasons – some malign and some benign. And this matters as to whether the incentives to change behaviour 'bite' or not. Some politicians and political leaders are driven by ideology and will follow a programme of reforms in line with these beliefs – for example Mustafa Kemal Atatürk, Mahatma Gandhi, Nelson Mandela; some will be seeking to satisfy special interest groups (e.g. ethnic or even oppressed classes, such as women or the Dalits in India, who have traditionally been regarded as 'untouchables'); some derive personal satisfaction from being in power; some do it out of a sense of civic duty. Their precise intrinsic motivations affect whether incentives work (Besley and Ghatak, 2005).

In the case of Australia, the rules are established. But in the case of Zimbabwe the situation is more unique, hence impossible to 'calculate' rationally. The situation relies on agents interpreting their context, and that means that outcomes are much more contingent. Furthermore, political actors face competing incentives, such as acting in the interest of their family, their local community, their ethnic group or just for themselves. Again, it requires active agency to interpret and decide. In the face of the ambiguity of the real world the individually calculating rational agent disappears, replaced by an agent who draws on ideas, beliefs, values, social norms, and imagination.

As we saw earlier, the standard PEA explanation for this is that the political market in Zimbabwe is 'imperfect'. So what's the solution? Improved and better-monitored institutions, so the argument goes. But our perspective highlights the subsequent (or indeed prior) questions of how such institutions might be established, monitored and implemented. That's politics.

And what incentives might there be for an incumbent regime to establish and abide by rigorously applied institutions that could challenge their power and income? (More Aid? Re-admittance to the Commonwealth? Status? Free passage into exile? A guarantee not to prosecute at the International Criminal Court?) But what if only half of the regime wants to do that, and only half the followers? How do incentives for action get interpreted, established and implemented?

Whenever institutions and incentives are wheeled in as explanations or solutions for problems of this and many other kinds, they conceal the real and deeper problems (and solutions) – political processes. It is political processes that can shape or hinder the establishment of institutions or the appeal and acceptance of incentives. In short, to understand where and when institutions and incentives might 'work', we need to understand agency and the real politics of development and change.

As we suggested earlier, there is clear, abundant evidence that *both* institutions (structures) *and* agents have 'causal power' (Archer, 2003).

- Institutions shape (*but do not determine*) behaviour; and
- Actors, or agents, within or around institutions, also work to shape (or implement or evade) institutions.

The key explanatory focus must therefore be on how agents interact with each other in the context of existing structures and institutions. It is this interaction that can produce very different outcomes in different circumstances, and that can also change structures and institutions. So there is good reason for a focus on agency and for an analytical framework – and a theory of change – that has as its central frame of reference the relations between structures and agents (Giddens, 1984; Archer, 1995, 2003; Hay, 1995, 2002).

### Where do institutions and incentive structures come from?

The contemporary appeal of institutions as the favoured (and quite plausible) explanation for economic success, or otherwise, begs some fundamental questions. The most crucial of these is: how are institutions set up? Where do they come from? If

institutions represent a so-called 'political equilibrium', how and under what conditions do they change or decay?

The conclusions that flow from institutional and incentive-based analyses such as those reviewed in Section 4 are logically sound and difficult to argue with. They include, for example, the recommendations (Strand, 1988: 33) that donors should focus on:

- 'education, transparency and ethnic-neutrality'; or
- 'increasing transparency in recruitment, promotion, and pay'; or
- gradual increases in water-pricing, effective water- metering, and that 'the public be informed, and convinced, in a systematic and comprehensive way, about the positive relationship between increasing water prices and better service'.

But how do we achieve such recommendations?

The creation of institutions and incentives is a political act that requires agency. It involves political entrepreneurs negotiating, building coalitions, mobilising support and framing arguments. Where this is recognised it is passed over rather summarily. For example, Strand's (1988: 33) analysis (presented above) concludes with the following:

I have less to say at this point about the exact political mechanism by which a popular consensus in favour of increased water prices can be translated into political action to increase these prices. As it seems now, one necessary ingredient of such a mechanism seems to be some sort of pressure for change by the Banks. It is also clear that the task of implementing price reform will be virtually impossible without wide popular support for reform.<sup>68</sup>

Similarly, the World Bank's (2007b: 198) report on Ghana concludes by noting that the reforms they identify (in education, and the need for government transparency) 'are vulnerable to the very political market imperfections that they are intended to ameliorate'. Nevertheless, the report argues that, once reforms get going, they should be self-reinforcing because politicians' incentives will be to build a reputation for providing broad policies in an even-handed way. The trick, however, is to break reform logjams and activate or mobilise domestic constituencies around the policy areas of education, transparency and ethnic neutrality. Quite so. Yet how this might be done is far from clear. This is a classic 'step two problem' – see Figure 5.3.

So the technical design of incentives is insufficient. To refer back to the diagram of political interests, incentives, and outcomes (Figure 4.3), as well thinking inside the red box of interests, we need to think outside the green box of incentive structures. We need to learn how to help build political support for changing incentives or policies.

The design, support for, establishment, maintenance, enforcement, and indeed demand for incentive structures is all about agents working politically. In particular, such agency is about how different groups formally or informally articulate and negotiate their interests and ideas – for good or bad – in shaping or undermining institutions. And, of course, their actions may be triggered or influenced by internal or external factors in the wider 'structural' circumstances, as well as by critical junctures, contingent events and external influences. But all of these illustrate the critical importance of the relations between structure and agency as an analytical frame of reference.

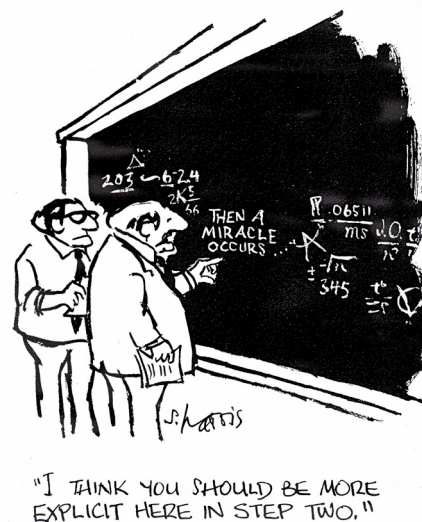
Margaret Levi made the point eloquently in her American Political Science Association Presidential Address:

'... institutions are empty boxes without leaders and staff who have the capacity to produce the public goods the public demands and the facility to evoke popular confidence even among those who disagree with particular policies'

Source: Levi (2006: 10).

Levi (2006) continues by highlighting how both Pakistan and India inherited the same formal colonial institutions. However, the variation in government effectiveness arises, in large part, from the differences between Jinnah's and Nehru's approach to post-colonial state-building. Institutions do not determine outcomes. Likewise, in their discussion of Botswana's success story,

Figure 5.3: The step two problem



Source: Sidney Harris © ScienceCartoonsPlus.com

68 We agree with Edelman (2009: 11 and 43), that Strand's analysis is 'particularly convincing' but that it 'fails to provide concrete operational implications'.

Acemoglu *et al.* (2001: 84) note that good institutions did play a significant role in Botswana's development. But, they also note how the institution building would not have happened without 'a number of important and far-sighted decisions by the post-independence political leaders, in particular Seretse Khama and Quett Masire'.<sup>69</sup>

Similarly, in their discussion of Uttar Pradesh and Kerala, Keefer and Khemani (2005) explicitly acknowledge that genuine electoral competition and political credibility in Kerala resulted from the Communist Party being able to mobilise poor voters. While political incentives may help institutionalise pro-poor policy making in future, they would not have any effect without the Communist Party first winning the battle of ideas and mobilising voters. This prior political work is crucial in explaining why and how the political incentives came to be different in Kerala and Uttar Pradesh.

But – referring back to Figure 4.3 – this political work does not fit into Keefer and Khemani's theoretical model. It is outside the green box.

### Institutions represent ongoing political agency and the contest of power

A lot of political work is needed to maintain institutions: they are *not* automatically stable. As is illustrated below, with the example of President Kibaki and John Githongo, institutional effectiveness is a function of political agents working to uphold or disrupt the rules of the game. This has been rightly called 'institutional work', and defined as 'the purposive action of individuals and organizations aimed at creating, maintaining and disrupting institutions' (Lawrence and Suddaby, 2006: 215). We think of this as *political work*.

The importance of such 'institutional work' is often overlooked. But the political effort behind the effective creation, maintenance and alteration of institutions is significant. *Without political work, institutions quickly fail or fade.* In Boxes 5.12 and 5.13 we illustrate these claims with a discussion of anti-corruption initiatives in Kenya and Brazil.

#### Box 5.12: Institutional disruption and working politically: anti-corruption in Kenya

Kenya provided a high-profile example of disruption and a failure to institutionalise anti-corruption policies. This culminated in the infamous Anglo Leasing scandal and subsequent electoral violence of 2007 (Githongo, 2010).<sup>70</sup>

President Kibaki had been elected on an anti-corruption platform in the 2002 election and, with much fanfare, appointed John Githongo as anti-corruption *czar* (Baird, 2006; Wrong 2009). Githongo, the former country head of Transparency International, was installed as the Permanent Secretary for Governance and Ethics, with an office in State House.

By 2004 his department had gathered information that pointed to a massive scam involving fictitious companies and government contracts. It became clear that the corruption involved top-ranking Kenyan ministers, and that the money was being used to finance electoral campaigning. Following his attempts to uncover the deals, it became apparent to Githongo that Kibaki was not taking anti-corruption seriously, that he (Githongo) was being sidelined, and that the government was trying to put a lid on the scandal.

In 2005, following a series of threats and warnings Githongo fled to Britain, fearing for his life. While in exile he wrote up his findings in a damning 19-page dossier that documented the extent of the corruption as well as the political complicity of members of the government. He completed and sent the dossier to President Kibaki in November 2005. The dossier was subsequently seen and publicised by the international media in February 2006 (Githongo, 2005; Keane, 2006).

Following this politicisation of the issue the Kibaki government realised that it had to do something. Eventually three of the four ministers named in Githongo's dossier were fired, and ultimately Kibaki's coalition collapsed.

The point here is that institutions are not only created, but also maintained or disrupted by the activities of political agents. In the Kenyan case, without active political leadership, support and institutional strengthening, the newly established anti-

69 Evans's (2004) argument is that 'institutional mono-cropping' does not work. It is not possible to simply to plant the same (institutional) seed in different soil (sociocultural environment) and expect the same results. Using a blueprint is an outdated view in agriculture and so it should be in development too. Evans' solution is to populate institutions with, and let them be shaped by, deliberating citizens and political actors. Precisely so.

70 Public anger at the impunity of the political elites, despite the series of corruption scandals, was not the only driver of the violence (which was also because of economic inequalities and ethnic political favouritism) but it was the key to undermining the legitimacy of and trust in the formal political system.

corruption rules quickly became moribund. When political behaviour is not aligned with rules, institutions and their perceived legitimacy fade quickly. This underlines Margaret Levi's (2006) point about institutions as 'empty boxes', above. The public anger, which boiled over into the violence of 2007 in Kenya was, in large part, because of the 'seething resentment' at the perceived impunity of the political elite, despite the architecture of formal institutions (Githongo, 2010).

### Box 5.13: Political work: anti-corruption in Brazil

Brazil has all the formal institutions of a strongly democratic country – free elections, constitution, independent judiciary and Congress. Yet, accommodating informal norms of corruption mean that maladministration and corruption, such as vote-buying, is rampant and wearily accepted by the public. *The Economist* (2010) reported that, of the 513 members of the lower house of Congress, 147 face criminal charges in the supreme court or are under investigation, and the same goes for 21 of the 81 senators.

Brazil has, in recent years, taken large strides against corruption, passing a series of transparency and freedom of information laws and an anti-bribery bill. In June 2010 the *Ficha Limpa* (Clean Record) law was passed. This prohibits politicians running for office for eight years if they have been convicted of corruption, misuse of public office and a number of other crimes such as homicide, rape and racism (Franco, 2010).

In the first instance, the law was the result of political mass mobilisation – 1.3 million citizens' signatures on a petition. The creation of novel formal institutional rules was a political act. But soon the law was challenged by incumbent politicians on the grounds of being unconstitutional: they argued that it punished individuals for acts committed before the law was passed. The Brazilian Supreme Court ruled in February 2012 that the anti-corruption law was constitutional. This stopped political manoeuvring by politicians who, originally shamed into supporting the law, were attempting to unpick it.

And, in the meantime, the new law has provided a platform for national protests, civil society activism, and investigative journalism. Citizens have been mobilised and empowered, helping to establish stronger anti-corruption norms and challenge political wrongdoing at the highest levels. There have been a number of high-profile sackings and resignations among President Dilma Rousseff's cabinet.

The flip-side to institutional disruption is institutional maintenance – which also requires political work. Consider the example of the Brazilian anti-corruption bill in Box 5.13.

The Brazilian case, and also the *highly* institutionalised and regulated Western banking system, highlights the following points.

- The institutionalisation of rules is never assured: some actors will always seek to challenge them openly or evade them covertly.
- The maintenance of institutions requires constant political effort – monitoring behaviour and enforcing and applying rules, laws, norms and codes of conduct.
- Institutions allow political agents to increase their power and agency. In the Brazilian anti-corruption case civil society actors and the media managed to act within the rules of the game, drawing on formal legal institutions to amplify their power. But their actions also helped to further institutionalise the rules of the game and the norm of anti-corruption. Institutions are both the cause and effect of political agency.

### Incentives are not politics

Behaviour change is not politics (Dobson, 2012). Incentivising and inducing behaviour may well be highly desirable – for example, incentivising politicians to listen to their constituents, or farmers to use fertilizer (Banerjee and Duflo, 2011). But this is paternalism. It may be a liberal and well-intentioned paternalism, but it's not politics. Politics requires critical thinking and value judgements, the ability to deliberate and contest, as well as *domestic ownership*. Politics is a complex set of processes, not a straightforward goal.

The example of the ships' captains travelling to Australia presented earlier in Box 4.6 is straightforward insofar as it is clear what the goal was and how to achieve it. In such situations, when the rules are well-defined and both understood and agreed, and where the goal is straightforward, incentivisation works well. Research carried out on the Mexican programme PROGRESA, which offers cash transfers as incentives to improve education, shows that they work well for relatively simple goals such as attendance and enrolment, but have decidedly mixed results when it comes to effort and achievement (Gneezy

*et al.*, 2011). This is because, regardless of incentivisation, people may just not know how to achieve complicated objectives. In such cases, incentivisation needs to be accompanied by more time-consuming interventions to empower and mobilise.

However, when the goal is to increase democratic participation, empowerment, political knowledge or civic competence then incentives become much less effective.<sup>71</sup> For example, Mansuri and Rao (2012a; 2012b) reviewed more than 500 studies of participatory projects. They found little evidence that induced participation works in building sustainable long-term group cohesion or collective action. The tendency is for groups and networks to emerge while the benefits and payoffs are available, but once the incentives are removed the groups 'melt away'.

A recent study of how to encourage civic behaviour contrasts behavioural-based approaches with 'thinking' strategies (John *et al.*, 2011). That is to say that the best way to facilitate public engagement is through public deliberation, where views are shared and challenged. The public nature of the process tends to force more civic-minded behaviour; 'socialising out' more self-interested views. This is not simply normatively more desirable; it has proved more effective too.

Solutions can be found to challenging issues, and the pathways to behaviour change can be illuminated and smoothed, because citizens have been involved in the construction of the answer. Both the legitimacy and likely effectiveness of any solution are thus increased, and its chances of being adopted are maximized.

Source: John *et al.* (2011: 3).

This fits well with one of DLP's key hypotheses: that successful institutional and policy solutions tend to be home-grown, and domestically appropriate and legitimate. For example, a well-known domestic experiment in 'thinking' and the creation of civic-minded deliberation is the case of participatory budgeting in Porto Alegre, Brazil. Whatever the normative desirability of local ownership and participatory democracy, the signs are that it is a more effective way to generate collective action and the provision of public goods. It appears that civic engagement cannot be induced.

In summary:

- It is assumed that institutional rules constrain and determine the range of choices available to rational actors.
- However, institutions rely on agents to set them up, to maintain them, or indeed to disrupt them.
- In short, political processes shape, maintain, subvert and change institutions.
- Institutional arrangements reflect a structure and balance of power; they always benefit some and disadvantage others.
- Even the most 'stable' institutions are subject to contest, challenge and change.
- Hence all aspects of 'institutional work' are political. This involves mobilisation, effective framing, coalition building, surveillance, enforcement, lobbying and, above all, the interaction of different forms and degrees of power. So institutions are not just a context for choice. They are not independent from agents. Institutions are the outcome of ongoing political contestation rather than an equilibrium outcome of supply and demand.

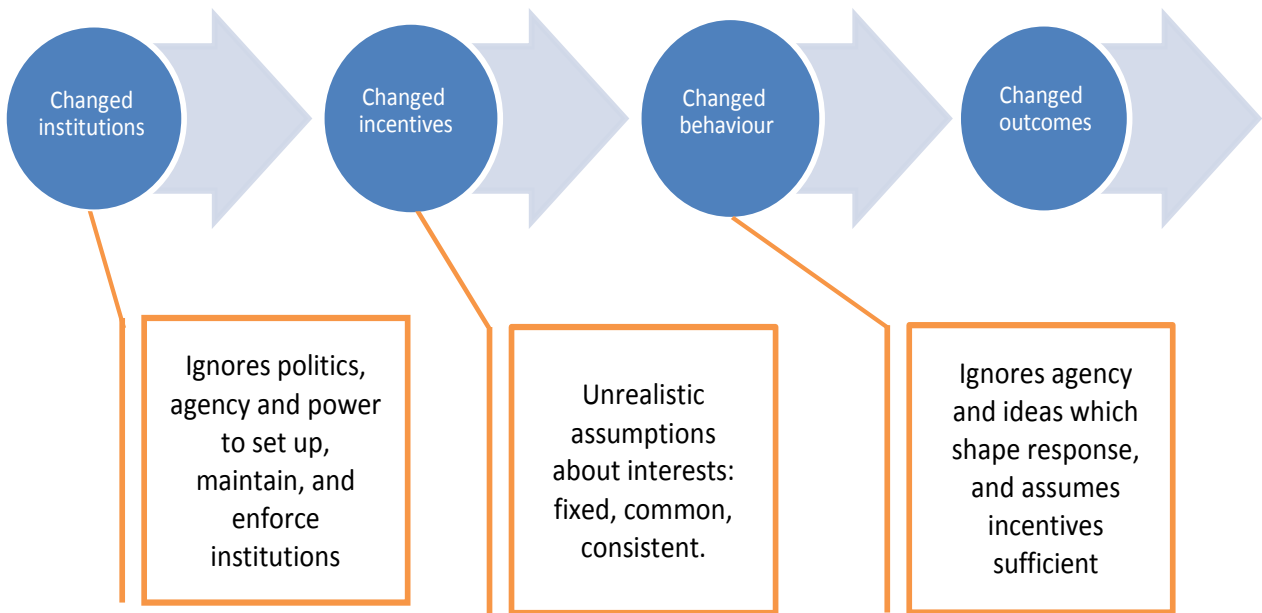
## 5.11 The third generation's theory of change

We summarise the Third Generation's theory of change in Figure 5.4, below. The orange boxes represent the limitations of the assumption that changing institutions automatically leads to changed outcomes. They highlight:

- the political realities of setting up institutions, gathering support for reform that will allow institutional changes, such as the introduction of Congressional term limits in the Philippines, and the institutional work needed to maintain them;
- the unrealistic assumption that the same interests, i.e. self-interest, motivates all political agents all of the time;
- the hugely complex and contingent response of political agents to incentives. Agents' response is complex because they are driven by competing interests and loyalties, they have to interpret the context, and because incentives are not always appropriate for addressing every kind of problem, e.g. inducing democratic participation.

<sup>71</sup> There is some evidence that incentives can actually discourage pro-social behaviour. For example, offering payment for blood donations has reduced willingness to give blood (Titmuss, 1970). This is because the logic of the incentive goes against the intrinsic motivations for completing the task in the first place; i.e. if one acts based on an incentive it signals to others that you are less altruistic, so you don't respond to the incentive. Alternatively, the presence of incentives signals the behaviour is unpleasant or hard.

Figure 5.4: The gaps in the Third Generation's theory of change





# 6

## A political approach to the politics of development

### 6.1 Introduction

In this section we outline a more explicitly political approach to the politics of development. We introduce the key elements of the approach. We hope that this will fill the gaps in the existing analytical frameworks and help policy makers to both think and work politically.

Our core critique has been that a fuller and more detailed analytical framework is needed that can be systematically applied to all aspects of the politics of development.

Our argument is straightforward:

1. The key concepts of political economy - structure, institutions, and agency - need to be disaggregated to capture the different forms and ways in which they matter.
2. New key concepts need to be added, such as power, ideas, and contingency, to analyse the interaction between agents and their structural and institutional context.
3. Politics is characterised, above all else, by the operation of power. 'Structure', 'institutions' and 'power' are treated as very closely related phenomena in all areas of the social world. In short, any given structure – whether economic, social or political – is constituted by its two core elements of institutions and power.
4. A political theory of change revolves around the interaction of agents and the institutional or structural context they act within, whether society, region, sector or issue. Institutions are shaped, maintained or undermined by human agents; agents are empowered and constrained by institutions, structures, power, and ideas. Politics occurs in the interstices of this interaction. Outcomes are uncertain.

In setting out these arguments, this section provides the conceptual bases for

- a political theory of change; and
- an analytical framework for a political approach to the politics of development.

The framework does not offer predictions. It provides a systematic and theoretically-grounded tool box for working through a political analysis of a country, sector or issue. Crucially, for policy and operational purposes, this makes it possible to identify structural constraints and possibilities, and existing and potential actors. This then makes it possible for external players who might encourage and support developmentally progressive political processes and groups to work out whether, when, where and how to do it.

### 6.2 Structure and agency

Men make their own history, but they do not make it just as they please; they do not make it in circumstances chosen by themselves, but under circumstances directly encountered, given and transmitted from the past.  
Marx (1852)



Our proposed analytical framework is actually a sequence of four related frameworks, as will become clearer below (Figure 7.2).

The 'structure-agency' question in social theory and political science is the essential element of political analysis. It places the interaction between political conduct and political context at its centre. Understanding how agents – whether political, individuals, groups, organisations, coalitions or leaders – might act given the opportunities and constraints of their structural and institutional context is at its heart.

The structure and agency question remains a classic debate across the social sciences, especially so in sociology, history, philosophy and geography, but also political science (Berger and Luckmann, 1966; Bourdieu, 1977; Giddens, 1979, 1984; Archer, 1989; Wendt, 1987, 1999; Dressler, 1989; Cerny, 1990; Hay and Wincott, 1998; Mahoney and Snyder, 1999; Hay, 1995, 2002; McAnulla, 2002; Leftwich, 2010). It is probably the most significant marker of the difference between the natural and social (or human) sciences (Bhaskar, 1978).

#### Box 6.1: Definitions of structure and agency, and their uses in accounts of development

*Structure*: 'basically means context and refers to the setting in which social, political and economic events occur and acquire meaning ... [using the notion of structure refers to the] the ordered nature of social and political relations – to the fact that political institutions, practices, routines and conventions appear to exhibit some sort of regularity or structure over time' (Hay, 2002: 94).

This provides a conceptual vehicle for the international community's recent mantra about the importance of 'political, social and contextual analysis' (AusAID, 2011b: 1). We elaborate this below where we disaggregate 'structure' into its component forms and its constituent elements of 'institutions' and 'power'.

Accounts of development that focus on structural factors are surprisingly common. Examples would include those that emphasise the importance of geographical factors such as soil and environmental endowments (Diamond, 1997) or culture (Landes, 1998). Equally, institutionalist accounts identify the necessary presence of particular institutions (Acemoglu *et al.*, 2001, 2002; Rodrik *et al.*, 2004). The better and more thoughtful accounts usually include a nod towards the importance of particular events, groups or individuals in particular cases, but the take-home message is that 'institutions rule' (Acemoglu and Robinson, 2012).

*Agency*: 'refers to action, in our case to political conduct. It can be defined, simply, as the ability or capacity of an actor to act consciously and, in doing so, to attempt to realise his or her intentions [...] the notion of agency implies more than mere political action or conduct. In particular it implies a sense of free will, choice or autonomy – that the actor could have behaved differently and that this choice between potential courses of action was, or at least could have been, subject to the actor's conscious deliberation' (Hay, 2002: 94-5).

And of course agency, as we discuss below, includes both individuals and more or less organised groups, as well as organisations and coalitions.

Accounts that focus on agency are, frankly, less common in mainstream political economy (Lyne de Ver, 2009; Leftwich, 2010), though there have been two important recent studies (Rotberg, 2012; Melo *et al.*, 2012). But they remain a perennial of popular and media accounts and are the staple of political diaries and biographies. These accounts sit within the 'great man or woman of history' tradition, emphasising the ability of leaders to reshape the world around them through their charisma, guile, power or vision (e.g. Marcano and Barrera Tyzka, 2006; Gupte, 2009).

In a sense, one might be tempted to dismiss this as a very straightforward issue. There are two types of explanations here, and there is relative merit in both. Neither is comprehensive. Thus the trick – surely – is to show how some combination of agential and structural factors offers the most comprehensive account. However, this is rarer than one might imagine. The fact that the debate continues to tax the best minds and produce debate provides a hint that it might not be so straightforward.

The structure and agency question addresses an apparently simple issue: the extent to which outcomes – behaviour, choices, ideas, reforms – are the result of structural forces on the one hand or the 'agency' of strategic actors, on the other. To give a classic example, how do we explain the rise of German fascism in the 1930s? (Hay, 2002). Was it the result of social and economic dislocation, or a culture of anti-Semitism (e.g. Goldhagen, 1996), or the historical legacy of the peace settlement following defeat in 1918 (Keynes, 1919)? These are all structural explanations. Or, given that anti-Semitism and economic depression were present elsewhere, was it more to do with actions of particular agents, such as the 'charisma' of Hitler himself, or the successful mobilisation by fascist groups and the failure of the disunited opposition to halt the rise of the

National Socialists? These are agential explanations, emphasising the role of conscious and freely acting political agents in driving political change.

Similarly, how is Botswana's success explained? Structural arguments emphasise geographic factors, such as its endowment, specifically diamonds; or historical factors which resulted in a relatively ethnically homogenous nation that meant the newly independent state emerged with (relatively) strong institutions and good governance (Acemoglu *et al.*, 2003; Robinson and Parsons, 2006). Agential arguments focus on the role of political leaders such as Seretse Khama – and a committed and entrepreneurial elite more generally – with a developmental vision and the capacity to put in place strong institutions and/or an efficient and well-trained bureaucracy (Taylor, 2005). Agential explanations could highlight, for example, the skill of the political elites in the 1970s when negotiating how profits were to be divided with the De Beers company (Robinson and Parsons, 2006). Rwanda provides a further example of the difference between structural and agential explanations.

### Box 6.2: Structure and agency and the Rwandan success story

Rwanda's economic success has been widely acknowledged and praised. Growth rates have averaged just under 8% between 2005-2011 (World Bank, 2012) alongside industrial growth and rapid expansion into the services sector; improved agricultural productivity, falling poverty, inequality and infant mortality rates.<sup>72</sup> Again, two types of explanations are evident:

- **Agential explanations:** The classic great man explanation focuses on the role of President Paul Kagame of Rwanda (Zakaria, 2009) in pushing strong institutions, attacking corruption, successfully courting donors, attracting investment, and managing ethnic divisions. Alternative agential explanations would point to the role of the dominant political party, the Rwandan Patriotic Front (RPF), or the role of international donors in making Rwanda a focus of aid. Proponents of this view underline the fact that Rwanda is a landlocked country. Given that the typical consequences of the conflict trap were seemingly avoided, structural explanations struggle to explain this success.
- **Structural explanations:** Explanations that emphasise the importance of context note that, while Rwanda's geography did not change, its institutions did. For example, the 2003 constitution outlawed tribal division, ensuring stability and unity.<sup>73</sup> *Fortune* magazine listed a range of reasons in 'Why CEOs love Rwanda' (Gunter, 2007), including institutionalised anti-corruption, a business-friendly environment, and strong investment in the IT infrastructure. Kagame might have helped set up the institutions, but it is the institutions which have been responsible for subsequent successes. Institutionalists also stress that Kagame could engage in such radical and far-reaching constitutional change only because of the post-genocide political context. This made an imposed unity of purpose agreeable and gathered support. An even more structuralist explanation would argue that the circumstances were such that any leader would have carried out the same changes.

Even though few analysts would explicitly identify themselves as presenting a purely structuralist or agential explanation, most accounts do tend to privilege or emphasise one or the other:

The two key analytical points that we develop below are that:

- it is clearly true that structure (political, social, economic and ideological) profoundly shapes behaviour – but it does not *determine* it: structure, after all, is not destiny;
- while agents make decisions and choices, strategise and work politically to pursue their interests and ideas, they cannot do so in an open space of unlimited possibilities. In short, they do not 'make history just as they please'.

<sup>72</sup> There are also continuing concerns about the authoritarian nature of the government and respect for human rights and press freedoms. But the point here is not to assess the success, but illustrate how it is explained.

<sup>73</sup> A different institutional explanation could underline the extensive use of traditional community councils (*gacaca*) to oversee public confessions, forgiveness, and community service.

## How we should think of the interplay between structures and agents?

The literature on structure and agency suggests six important ways to think about the interaction between context and conduct:

**Structure is the medium for agency. Without structures agents cannot act. Without agents structures cease to exist.** The clear analogy here is with language – language is an assembly of words structured by grammar. It is possible to say certain things within a language and not others. But language is more than a set of constraints and opportunities; it is the *very resource through which agents can express themselves*. The important implication of this is that institutions do not just constrain, nor are they merely structures that provide incentives or ‘openings’. For example, the institution of a police force (and the state authority behind it) enables and literally creates legitimate agents who have powers to stop, search, and carry weapons. Structures and agents are intertwined.

**Structure is not just a context. It is also the outcome.** Structures are also the outcome of political choices and conflicts (Thelen and Steinmo, 1992). Agents shape structures. If we Rrecalling the anti-corruption examples in Kenya and Brazil (in Section 5), we can see that. I in Kenya continuing corrupt behaviour undermined the formal institutions, whereas in Brazil institutions have been established and reinforced. Understanding how agents ‘create, maintain and disrupt’ structures is crucial (Lawrence and Suddaby, 2006: 215). This is quintessentially political *work*, and agents create or alter the structural and institutional context.

**Context is not a single or simple structure.** Context is made up of multiple overlapping structures. Multiple economic, social, and institutional structures, *in combination*, provide the context for conduct. Hence context is always a hybrid of competing or overlapping structures. A Muslim family in Canada, in Saudi Arabia, and Indonesia will act differently, in part because of the interplay between different local structures.

**Order is not the same as predictability. Agents are unpredictable and skilful.** Because agents are conscious, reflexive, strategic actors who could have behaved differently (see Box 6.1), the outcomes are not predetermined. Consider someone trying to negotiate a maze compared to someone trying to navigate between two points over a contoured topography. In the former the pathway to the centre of the maze is fixed. In the latter, agents can choose any number of different routes from A to B, but some routes are more likely to be selected, and some are likely to be neglected if they are unknown or difficult. Structural and institutional power is what warps and shapes the strategic topography facing agents.

**Structures are both material and social, constructed from shared ideas or understandings.** Rules, norms and conventions are followed not, usually, because of the threat of force or sanction but because of what is considered appropriate, habitual, or normal.

**Ideas about institutions matter.** In short, neither structures nor institutions come with an instruction sheet (Blyth, 2003). Agents *have* to interpret the opportunities and risks facing them, often in a situation of uncertainty. As such, agents’ beliefs, values, and other cognitive filters are central to understanding how they act (Hay and Wincott, 1998). For example, there is significant evidence to suggest that liberal Christianity had a profound effect on the founding fathers and subsequent elites in Botswana (Sebudubudu, 2010). We need a theory of ideas to explain how, when, and why ideas matter in explaining political conduct, and this is elaborated later in this section.

## From balance to blend, from static to dynamic analysis

Both the second and the third generation Political Economy approaches *appear* to provide a nice balance between structural and agential factors. Frameworks propose looking at structure, institutions, and stakeholders (DFID 2004, 2009; Moncrieffe and Luttrell, 2005; Sida, 2006; World Bank, 2008; Fritz *et al.*, 2009; Norad, 2010). Reports tend to follow this format, providing information on the structural context, setting out the relevant institutions and rules of the game, and finally identifying the key stakeholders, their interests and resources (e.g. Vines *et al.*, 2005; Amundsen, 2010; Dix 2011; Bauck *et al.*, 2011). Political economy thus *appears* on the one hand to have avoided the extremes of voluntarism versus intentionalism, and on the other the pitfalls of structuralism. Institutions matter; but so do vested interests. But we argue that the ingredients have no’t been

blended properly.<sup>74</sup>

Balance is not enough. Accounts that successfully weave structural and agential factors together are not about getting a 'balance' between structure and agency, but about capturing their complex *interplay*: showing how the context influenced or enabled actions and decisions, and how the context was shaped and used by agents and their actions.<sup>75</sup>

If the well-known Drivers of Change figure and other similar 'tools' already draw our attention to the interaction between agents and their institutional and structural context, what's **still** wrong with this? To return to our theme we argue that:

**First, concepts in the political economy analytical frameworks as they are currently used are too lumpy and limited, and they need to be disaggregated.** The solution – which we present immediately below – is to unpack each concept to allow more flexible and fine-grained analysis, thus offering far better prospects for policy and operational innovations.

**Second, current political economy analysis does not adequately examine how the concepts interact.** While agents, institutions, and structures are not separate in the real world, it is important to separate them analytically and treat them as different *levels of analysis*. Good political analysis focuses on how interaction between behaviour and institutions can produce policy, institutional and political change.

In the following section, we strip down first structure and then agency to their constituent parts.

## 6.2 Structure

### Disaggregating structure, locating power

What is structure? Useable both as a noun and a verb, it is typically thought of as a framework or a system of parts, the 'scaffolding' of society or a building that holds its contents in place. As a transitive verb, it *structures*, creating order and patterning behaviour and thought, providing a degree of regularity to social life.

Aspects of a political system that can be described as structural include its geography (soil, climate) and economy (sectoral composition, production and exchange systems); 'social structure' in the sense of class, caste and ethnic structures; formal institutions, such as laws and regulations, and informal institutions such as customary village mechanisms for dispute settlement, or the norms and cultural patterns that influence a wide range of matters such as dress codes, etiquette and gender relations. This list highlights how we can disaggregate structures horizontally, internally and vertically.

### Horizontal disaggregation of structure

We can disaggregate structures horizontally, analytically distinguishing between geographic, economic, political, social, and ideological structures along a continuum (Figure 6.1).

These are analytical distinctions, not real world distinctions, and in practice, these all interact with each other. The point is that social, political and economic structures can tend to coalesce and support similar groups of players with similar interests.<sup>76</sup> But equally, conflict can emerge between these structures. Indeed, how agents negotiate the contradictions is key to a political theory of change. This is therefore a useful analytical device to disaggregate the different forms and levels of structure

74 Accounts which often successfully capture this complex interplay between structure and agency, and the part played by actors such as leaders, organisations, movements and coalitions – often in the context of contingent events and critical junctures – tend to be based around detailed and empirically rich narratives. They also tend to be rare, and they tend to be historical and (often) comparative analyses. Economists have started to show an interest in this sort of analytical narrative approach, e.g. the Growth Report (Spence, 2008) and Rodrik (2002). Three excellent examples of this kind of work are *States and Economic Development* (Weiss and Hobson, 1995), *Shaping the Political Arena* (Collier and Collier, 2002) and *How Institutions Evolve* (Thelen, 2004). Combining a sound analytical framework with this sort of detailed historical work is the most effective means for identifying the key political dynamics at play and how best to understand them.

75 This is easier said (and drawn; see Figures 4.1 and 4.2) than done. As sharp as Marx's aphorism may be, it tells us nothing of how conduct and context interact and how to analyse this interaction. Nor, for that matter, does DFID's or similar diagrams.

76 Although this is not always the case. Change in one structure, either from an exogenous shock (such as global food price changes) or endogenous political agency (such as political mobilisation), can produce contradictions which are then resolved through agents reasserting the status quo (through repression), revolution, or compromise (extension of safety nets or civil rights). Our point – as ever – is that, while a prevailing context (structures, institutions, distribution of power and ideas) makes some outcomes more likely than others, the ultimate outcome is always open.

since each has different properties, causal power and potential for change.

The 'nature' of each structure is slightly different, both in description and concept, in relation to the extent to which they are 'socially constructed'. We also note they contain and exhibit different institutional arrangements and forms of power:

*More material:* To the left is the most physical, material, or 'natural' structure, the geography of a country or sector. Even here, however, structure is not wholly natural and geography can often be socially constructed by human agency.<sup>77</sup>

*More social:* As we move towards the right hand side the structures become less 'material' and more obviously socially constructed and even 'virtual', having no physical presence or manifestation. This does not make them any less powerful – or easy to change.<sup>78</sup>

### Internal disaggregation of structure

**Structure = institutions + power.** In much of the literature, such as the Drivers of Change model, the concepts of 'structure' and 'institution' are often presented separately, linked by multiple arrows, and appear to denote different things. 'Power' is also sometimes treated as a relatively free-floating factor. In the analytical approach presented below, we treat 'structure', 'institutions' and 'power' as very closely related phenomena in all areas of the social world (Figure 6.1). Each of the structural categories is constituted by its institutional arrangements (formal and informal) and by the kinds of power deployed through those institutions. In short, any given structure – whether economic, social or political – is constituted by its two core elements of institutions and power.

**Each structural category contains its own evolved institutional arrangements, formal and informal.** We share and use the original Northian understanding of 'institutions' as the 'rules of the game', with 'organisations' and individuals as the 'players' (North, 1990).<sup>79</sup> However, we are uneasy with the limited, one-dimensional and rather static manner in which the concept of 'institution' is conventionally used in much political economy. By examining and explaining institutions while removing all consideration of politics (and often power, too), the standard political economy approaches appear to ignore three fundamental aspects of 'institutions'.

First, institutions are not fixed or self-adjusting and they require constant 'institutional work' to be sustained.

Second, institutional formation, maintenance, change and disruption are political processes and so are subject to agential consent, disagreement, or evasion. They are the 'by-product of substantive conflicts over the distributions inherent in social outcomes' (Knight, 1992: 40), and they reflect the interplay and outcome of different forms and degrees of power.

Third, there is no such thing as a 'neutral' institution. Institutions always advantage some and disadvantage others: they are, in Schattschneider's terms (1960), the 'mobilisation of bias'.<sup>80</sup>

Thinking of institutions in these ways, rather than evacuating politics from our understanding of what shapes, sustains and disrupts them, provides a much richer and deeper understanding of their profoundly important role in the politics of development. It draws attention to the challenge of establishing and maintaining institutions – and their vulnerability.

**Each structure contains and exhibits different forms of power mediated through its institutional arrangements.** The crucial point is that it is *through power* that structures shape and pattern political behaviour and thought. To re-emphasise the point, power is the channel and mechanism through which structures 'do' structuring. This aspect of structures requires us not only to disaggregate the boxes of typical PEA diagrams, but the arrows too.

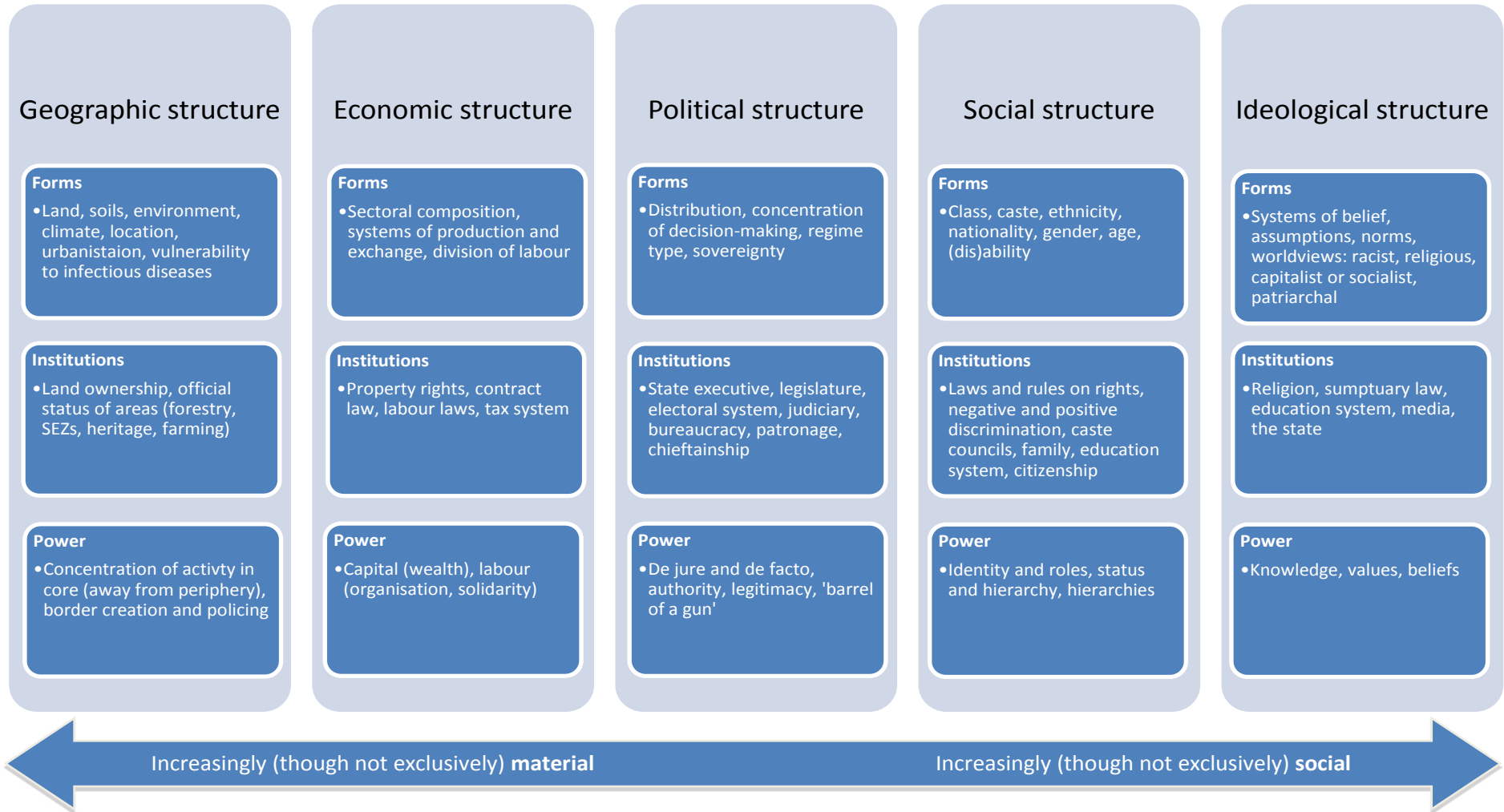
77 For example, consider the impact of irrigation systems redirecting water to (and from) communities (Espinar, Peru), over-farming and soil degradation (such as in Guinea and Angola), desertification (as in the southern Sahel), deforestation (as in Indonesia and the Amazon rain forests), and climate change (as in Bangladesh and Vanuatu). All are material facts but are the result of social, political and economic processes – that is human agency. Similarly, pipelines, highways, and regional trade agreements can help overcome land-locked status. National borders, too, are humanly constructed and contested – the 'unnatural' nature of political geography is most clear in straight lines that frame more than over 40% of African state borders (Herbst, 2000: 75), a result of the Berlin Conference (1884-1885). This is, but also highlighted by political conflict in Sudan, the Caucasus, Israel/Palestine, Kashmir, Cambodia-Thailand, and the Western Sahara.

78 The institutions of marriage or the norm of incest taboo do not exist in the same sense as mountains do, but they have huge and powerful hold over life, structuring human affairs in predictable ways. In a more directly political sense, the various forms of the institution of 'kingship' and 'nobility' (as in Thailand, Tonga, Swaziland or, historically, in Europe) have all structured behaviour and many aspects of human interactions and relations. But all are, or have been, changing as a result of human (agential) action, often over long periods of struggle. Likewise, the conventional wisdom is that institutions are a more powerful explanation than geography for cross-country variation in development outcomes, precisely because they are 'constructed' – but also can be de-constructed and re-constructed.

79 Organisations are understood here as the players – the actors or agents – who, like teams or individuals in the sporting analogy, play in, with and around the institutional arrangements (the rules of the game) in and across each of the structural categories.

80 Using the sporting analogy at the heart of the idea of the 'rules of the game', the rules of Sumo wrestling favour the large, while the rules of badminton do not.

**Figure 6.1: Disaggregating structure**



**Structures and the forms of power can complement or work against each other.** For instance, the *de facto* power of organised capital has largely been challenged by the *de jure* power and legitimate authority of national or other democratic legislatures, putting institutional arrangements on the statute book that limit some aspects of the power of capital by regulating health and safety provisions, minimum wages or product description. Indeed, the story of social democracy is essentially the story of the interaction between two 'structures' and forms of power – economic (capital) and political (legislative democracy).

So an economic structure which encourages competition or the establishment of new businesses may be in conflict with a social structure that limits market entry or access to credit for women or minority groups. In Ecuador, for example, the maximum a woman can borrow is lower than that for men (Baydas *et al.*, 1994). A political structure which formally allocates *de jure* power and decision-making authority in a representative democratic polity to electorates, political parties, legislatures and governments may be in conflict with the consolidated or near-monopoly *de facto* power of a well-organised mining sector that dominates the economy and that can bring significant influence and pressure to bear on the government.

The point is that the manner in which they interact constitutes the overarching 'structure' of institutions and power. And within each structural category – and across them all – there is always (some) room for manoeuvre.

### Vertical disaggregation of structure

**Macro structures.** Structures can extend, sometimes transnationally; for instance, capitalism or religious social and belief systems. However, it is important to add that people interpret and act on such factors differently in their locale.

**Micro structures.** Local structures such as local chieftain systems or even the particular hierarchy within a firm or a family structure within a household make it clear that politics happens not only internationally, nationally and regionally, but also in organisations, firms, and families.

**Multiple levels.** We should not think of structural analysis as being solely the mapping of country context such as the economic base, population dynamics, and the environment. Structures *can be micro as well as macro*. Whatever the 'level' of the structure, it provides a context for human thought and behaviour.

**All levels.** Structures *are usually both* macro and micro. A macro structure such as a religious system shapes, for instance, a Muslim family's identity and behaviour in Toronto, Riyadh, and Jakarta. Other local structures – cultures of consumerism, gender and public life, schooling, employment law and informal codes about dress and public etiquette, and simply the climate – all combine to produce particular interactions between the family as a whole, and on the roles of husband/wife, father/mother/children. Analysis must focus on the particular manifestations of structures and how they overlap in particular circumstances.

### Summary – disaggregating structure and locating power

The implication is clear: we must reject the notion that a structure is a structure is a structure. Structures are not all the same. They do not all work in the same way. We need different ways, different methods, and perhaps even disciplines, for analysing each type. By doing this we gain a far better understanding of the various resources, constraints, and opportunities that will help national players and the international community to decide where, when and how they can act politically to support the political processes that drive development.

## 6.3 Agency

It is difficult to imagine a world where agency – the actions of individuals and groups – makes no difference. Agency is about autonomy, although not in a voluntaristic sense of being able to do anything, and the capacity to make a difference.

The best and brightest who have devoted themselves to the question of structure and agency have argued for the importance of conceptualising agents as socially 'skillful' (Fligstein, 1997), 'knowledgeable' (Giddens, 1984), or 'strategic' (Hay, 2002), or considering that they are capable of having 'an internal conversation' or deliberating about the nature of the context and what, why and how to act (Archer, 2003). Why is this significant? We suggest three reasons.

**First, realism.** This is an empirically accurate description of real world politics. Actors do display the ability to be skilful, smart, knowledgeable, and strategic – in both pro- and anti-developmental ways.

**Second, for actors to follow the rules they need to understand the rules, not just apply them mechanistically.** Giddens's notion of 'knowledgeable' agents captures exactly this. Agents who know what they're doing, why they're doing it and how to do it are also able to ignore and subvert the rules.



**Third, it avoids determinism.** Despite the appearance of being focused on autonomous rational individuals making choices, the economic approach is *deeply structuralist*. The assumption is that changes in institutions and incentive structures produce effective and wholesale changes in individual behaviour. This is because agents are assumed to maximise their welfare given the context they find themselves in, and will consistently and predictably respond to external changes in their environment like reeds in the wind. This view strips away individuality and entrepreneurial creativity; it fails to ask what the *situated* subject would do (Hay and Wincott, 1998). The notion of agency makes it clear that an agent 'could have acted otherwise'.

Acknowledging the skilful, knowledgeable, strategic, nature of agency is more accurate, more logical, and more useful.

### The causal power of agents: making a difference

Agents – and their exercise of agency – are significant across all regions, sectors and issue areas. We need to pay attention to agency at the 'top', such as senior politicians and bureaucrats, civil society, commercial and professional leaders and their organisations; and at the 'bottom', to citizens, farmers, and peasants and their organisations or coalitions. And, of course, to every level in between.

**'At the top':** In their study of President Fernando Henrique Cardoso of Brazil, President Yoweri Museveni of Uganda, and Chief Minister Digvijay Singh in the Indian state of Madhya Pradesh, Melo *et al.* (2012) demonstrate that successful poverty reduction has as much to do with senior politicians acting with, against, and around the political context as it does with the political context itself. They demonstrate how structural forces and institutions are important. They also show that through shrewd policies, imaginative political strategies, entrepreneurship, working to generate consensus, and political accommodation, political agents were able to realise successful poverty reduction schemes against the odds, extending education and tackling health issues. Structures do not determine. Agents always have some room for manoeuvre.

**'At the bottom':** Agents do not have to be senior politicians and national or regional leaders. James C. Scott's (1985) famous study of peasants in Malaysia showed that, despite facing the apparent domination of their landowners, the peasants exercised their agency through acts of 'everyday forms of resistance'. Scott's point is that just because peasant-backed revolutions are few and far between does not mean that politics is absent and agency not being exercised. Scott shows that peasants used 'foot dragging, dissimulation, false compliance, pilfering, feigned ignorance, slander, arson, sabotage, and so forth' to undermine government policies and institutional reforms. All of these 'petty acts of resistance' undermined government policies such as the imposition of collectivist policies on populations assumed to be compliant and weak. There is no mechanistic winds-in-the-reeds response by individuals to institutional reforms.

So, agents, whether powerful or weak, have the capacity to choose how they act. But they are not free to make history just as they please. Structures *do* constrain and the precise configuration of structures provide some agents with resources and deprives others. For example, in the 1980s, popular protests in the Philippines against the Marcos dictatorship succeeded, whereas in Burma they were ruthlessly crushed. Peaceful citizen protestors had varying success in mobilising political change because of variations in a range of factors between the two states: the effectiveness of state repression; the presence of influential allies in the business, religious and international arenas; the existence of elite divisions, especially in the military; and the extent of press freedoms and information (Schock, 1999). Agency has always to be analysed *within* the contours of the structural context if the resources, constraints, and opportunities are to be understood.

### Disaggregating Agency

Agency is about both individuals – whether senior politicians or peasants – and about collectives that can act as 'corporate' units, for example political parties, firms, families, trade unions, civil society organisations (Figure 6.2). Corporate agency – in the formal sense of organisations, – or more loosely-joined but effective collective agency – such as a coalition – can massively increase the capacity of individuals. Again, this aspect of agency has a bottom-up and top-down dynamic.

**Top-down:** In their study of leadership and growth in 13 countries, Brady and Spence (2009) detail how the high and sustained growth is associated with strong and skilful political leadership. But crucially, they go on to explain how successful leadership is was not only about individual vision, decision-making, and opportunities, 'but also building coalitions and creating a stable political environment' which allow time for good choices to bear economic fruit (Brady and Spence, 2009: 13).

**Bottom-up:** For example, President Marcos could not be unseated by the aggregated-but-individual actions of citizens at the ballot box. The elections were clearly rigged. Anti-Marcos demonstrations two years earlier had undermined the regime but not toppled it. It took Corazon Aquino to build a popular but loose coalition of pro-democracy groups (united around their opposition to Marcos). She brought in the military (Defence Minister Juan Ponce Enrile led two battalions of soldiers in a mutiny) and the church (Manila Archbishop Jaime Cardinal Jaime Sin, Archbishop of Manila, declared the elections fraudulent



## 6.4 Power and Ideas

Having disaggregated structure and agency, the following two sub-sections unpack the concepts of power and ideas. These two central political concepts provide the key to analysing, with greater precision, how structures structure and how agents act.

### Power

We turn now to the question of power in political and social analysis, and its application to the politics of development. Our purpose here, as part of our political analysis framework, is to provide a more refined and differentiated way to think about power – its sources, forms, expressions, uses and effects. This will give policy-makers and practitioners a tighter analytical grip on how to understand the way in which different forms and expressions of power shape and affect the politics of developmental processes at all levels and in all sectors. They will then be better placed to take questions of power into account when devising innovative policies and practices to support the local political processes. Only these processes will shape effective social, economic and political institutions for development in often radically different situations.

There can be no concept or process more important in politics (or for political science) than that of 'power'. The concept of power is to political science what the concept of 'resources' is to economics (Hay, 2002; Leftwich, 2004), or, as the philosopher Bertrand Russell noted: 'the fundamental concept in social science is Power, in the same sense in which Energy is the fundamental concept in physics' (cited in Hearn, 2012: 3). Most people intuitively understand that some people or groups have more power than they do (Dahl, 1957: 201). But it is a tricky concept, too. This is because – unlike votes or apples or money – power is very hard to measure. This is because power is essentially a relationship between people or groups of people. It is also multidimensional, and so the 'balance' of power between agents over any number of issues can fluctuate. That's what makes power a relational and relative concept. This difficulty challenges us to be clearer; not only about the sources and forms of 'social power' (Mann, 1986), but also how it is used, how it is expressed and how different forms of power interact to produce outcomes.

In this sub-section we therefore firstly offer a brief critique of the way the concept has been used in the second and third generation approaches to politics and development. We then go on to differentiate and illustrate the different forms of power and their implications for the analysis of the politics of development. We discuss the forms and sources of power; the various expressions of power:

Finally, we underline the real significance of conflicts of power and the relationships involved for those who want to understand political outcomes. This should provide a better basis on which practitioners and policy-makers can work with, around or against agents, institutions, and structures, whether powerful or powerless.

We locate this discussion in the overarching structure-agency framework discussed at the start of this section. This is because most forms and expressions of power occur in their own particular institutional and structural contexts. For instance, the power of the US Supreme Court judges flows from its institutional authority, derived from the constitution, and of course it has no traction in the highlands of Papua New Guinea.

### Thinking about power

There are many different definitions of power. These vary from a narrow view of power as the direct ability of an agent or agents to get their way despite opposition, to a broader view which is about formally or informally institutionalised power in its various structural contexts (Figure 6.1).

#### The narrow view: resources, and getting one's way

For Max Weber (1965: 152) power was 'the probability that one actor within a social relationship will be in a position to carry out his own will despite resistance'. The distinguished American political scientist, Robert Dahl (1957: 203), argued that: 'A has power over B to the extent that he can get B to do something that B would otherwise not have done'.

These are quite similar views and represent what Steven Lukes (1974) described as the 'one-dimensional' view of power. That is where some kind of decision or action is at issue between two or more agents – that is, people, groups or organisations – and where power is some kind of property or resource that an individual or group has and can wield against others in order to win. It is a very direct and visible kind of power, and is precisely the view of power that tends to prevail in most existing political economy approaches.

## The broader view: institutions, structures, and ideology

But Lukes goes on to suggest that, in addition to this very agential and 'one dimensional' view of power, there are two further dimensions of power:

On the first, Lukes argues that institutions embody power by virtue of the fact (as has been so often repeated) that they shape how we behave, whether the institutions are formal or informal – whether they are rules of the road, the formal right to control what goes on an agenda (or is allowed) for discussion or debate, or the institutional power of African chiefs to allocate land. He refers to this form of power as being expressed through the 'sheer weight of institutions' (Lukes, 1974: 38). They are so well established and accepted that they effectively forestall being challenged. And they give those with power through the institutions the right and opportunity to exercise it in a regular way. This view has close affinities with our earlier discussion of Schattschneider's point that institutions embody the 'mobilisation of bias' (1960: 71). It is, quite simply, very hard (but never impossible) to challenge this kind of legitimised and institutionalised power.<sup>82</sup>

The second dimension, ideological power, is more subtle but no less real. And once one is attuned to looking for it, it is quite easily recognisable. What Lukes is referring to here is the power of ideas, or of a broader ideological or ideational system. This, typically, is a more or less coherent ensemble of religious beliefs, assumptions, norms, moral expectations, values and broader world-views. They shape thinking, attitudes and behaviour to the extent that they 'prevent [...] conflict from arising in the first place' (Lukes, 1974: 23). This applies particularly to those at the most powerless and excluded end of a social order who accept and internalise the ideas that explain their inferior position, to the point that they do not even think to question it. Historically, the caste system in India has offered evidence of this form of power. This kind of power can seem invisible since there may well be no obvious evidence of power being exercised, or any explicit signs of resistance to it. The analyst needs to be sensitive to the ways in which ideological beliefs are internalised and how they work to sustain a set of social, economic or political relationships.

Michael Mann, like Lukes, also takes a broader view. He describes power as 'the ability to pursue and attain goals through mastery of one's (social, AL and DH) environment' (Mann, 1986: 6). That environment may be very local (a family, a village or a parliament), or wider (a country or a region) or an issue (abortion) or policy area (education or pension policies). This idea of power expresses the wish or intent of a group to shape the institutional and policy environment in a particular way, on specific issues (taxation, access to water or fishing grounds, gender and domestic relations, or constitutional provisions). More broadly, they may wish to make it fit either a wider world view or a particular set of interests and ideas – commonly, both.

Three critical points emerge from this brief discussion of the different ways of thinking about of power:

- Power is both agential and structural:
- Power is also deeply embedded in the shape and effects of institutions:
- Institutions need agents to make them work, even where power is embedded in the institutional arrangements of a structure (the agricultural economy, for instance, or a system of patron-client relations, or freedom of information laws).

In short, in order to make a serious attempt to understand how 'power' plays out in the politics of development, it makes absolute sense to explore it in the context of the structure-agency framework.

## Political economy and power: limitations

Although political economy approaches acknowledge the relevance of power, and often mention power, the attention given to it varies across approaches. Almost nowhere are they deployed in a sophisticated and rigorous manner. We identify three problems with existing political economy approaches.

First, power is never sufficiently defined or differentiated and is treated as far too homogenous a concept. This approach is too lumpy to provide any detailed or operationally relevant insights. This is the most serious limitation.

For example, despite referring to 'power' in many places, and despite emphasising the importance of understanding 'the distribution of power and wealth in society', DFID's (2009) note on 'how to' carry out political economy analysis makes no attempt to define it or to differentiate its forms and expressions. The guidance quickly falls back on the default position of analysing and understanding (a) interests and incentives; (b) formal and informal institutions; and (c) values and ideas – with no further reference in this context to forms and expressions of power.

82 But of course institutions can and do change when opposition to them grows and gets organised, channelled and articulated, whatever the context, as occurs in relation to the power of chiefs over land-allocation in parts of Africa.

Secondly, as discussed in Section 3, Sida's (2006) Power Analysis seeks to approach the question of power with some care and thought. But, even here, power is not clearly defined and is open to different interpretations. The Sida paper spends some time in its Appendix discussing power; but it presents alternative understandings and debates and remains highly theoretical and abstract. It provides no obvious way of using the information in an analysis. The closest one gets to a methodological framework for analysing power is a long list of questions to identify evidence of power. This might, at best, allow us to describe the presence or absence of power; but not its various sources and forms, how it works, is exercised or challenged.

Even in the very important and detailed The Policy Practice/ODI (2011) Training Course manual on political economy analysis, there is little differentiation of the forms of power. Nor does it focus on how 'power', especially executive power within the state, is shared with other key players and organisations in society.

Understanding of power tends to be partial and focused on the capacity, individual power or resources of key stakeholders and players. It tends to be treated as a possession 'owned' by agents. It thus ignores the institutional or structural context of power. It misdirects those looking for the source of power and how to challenge, shape, encourage, or channel it. A World Bank study based on work conducted in India and Ecuador to analyse the political process behind health policy reforms (Schmeer, 2000) is a good example of this. It provides guidelines on how to carry out successful stakeholder analysis to unpack the drivers and barriers to what Schmeer describes as the 'deconcentration' of the Ministry of Health – the the delegation of its decision-making powers downwards. Here, power is defined as 'the ability of the stakeholder to affect the implementation of the health reform policy' (Schmeer, 2000: 2-9). A series of questions follow which tap stakeholders' resources and influence.

Norad (2010: 3) is even more explicit when discussing the value of political economy. Norad argues that political economy helps '... donors learn to understand power relations. They better understand who makes the important decisions in state and society, and who has limited or no influence in decision-making'. Norad adds that political economy can help identify 'drivers or obstructors of change', again with the focus on individual leaders (ibid, 8).

Power is seldom understood or analysed as a key element and function of the 'structures' described earlier (Figure 6.1) and the institutional arrangements embedded in them. Such structures and institutions tend to be seen as constraints (and occasionally opportunities), reducing them to an inert background rather than a 'medium' through which agents act.

The centrality of power is partially recognised in most existing political economy accounts where the role of vested interests is noted alongside the ability of stakeholders to advance or block reforms. Accounts that attempt to map the interests and influence of stakeholders in the reform process also acknowledge power. But the 'sheer weight of institutions' (as Lukes describes it) that embody structures of power is seldom explored in detail.

This view overlooks the situated nature of actors' power. It ignores the fact that the structures in which power is embedded, and their institutional expressions, also shape outcomes. The authority of a middle-ranking official in an aid bureaucracy to commission work, arrange contracts or disburse funds is a direct function of the structural and institutional context he or she works in, for instance.

To compensate for the tendency in most political economy tools to have a rather lumpy and one-dimensional approach to power, we outline below a more differentiated way of thinking about the various forms, expressions, and sources of power and how they affect the politics of development and the prospects for change.

## Disaggregating power

### Types of power: *de jure* and *de facto* power

In a number of recent papers and books, Acemoglu and Robinson (2005, 2006) distinguished between *de jure* and *de facto* power. It is a useful starting point for this discussion.

***De jure* power:** In political analysis, *de jure* power is 'authorised' power or institutionalised power or, more simply still, 'authority'. It is the authority to make decisions that flows from the (formal or informal) institutions that have been established.

Emperors, kings, governments, executive agencies of the state, police, armies, tax collectors all have this kind of power. But *de jure* power is not confined to these, and in many parts of the world informal, customary or traditional institutions enjoy this kind of power too. Analytically speaking, it is crucial to identify the way in which this power is embedded in, flows from, and is exercised by agents in relation to existing institutional rules of the game.

***De facto* power:** *De facto* power is not institutionalised, but can still be used politically to affect outcomes or decisions. The mobilisation and organisation of masses of people in strikes, food riots, protests, rebellions or even revolutions are typical examples – as with the 'people power' in the Philippines that brought the Marcos regime to an end or, more recently across the Middle East, in the so-called 'Arab Spring'. But the economic power of large corporations or 'the market' to influence

fiscal policy (and much more) is also an illustration of this form of *de facto* power, as is the power of trades unions through industrial action. These forms of *de facto* power may also be more transient.

**Hybrid forms are also possible:** Individuals or organisations may use their *de jure* power to do things that are not authorised (as in corrupt or 'bent' behaviour by officials), thereby exercising *de facto* power.

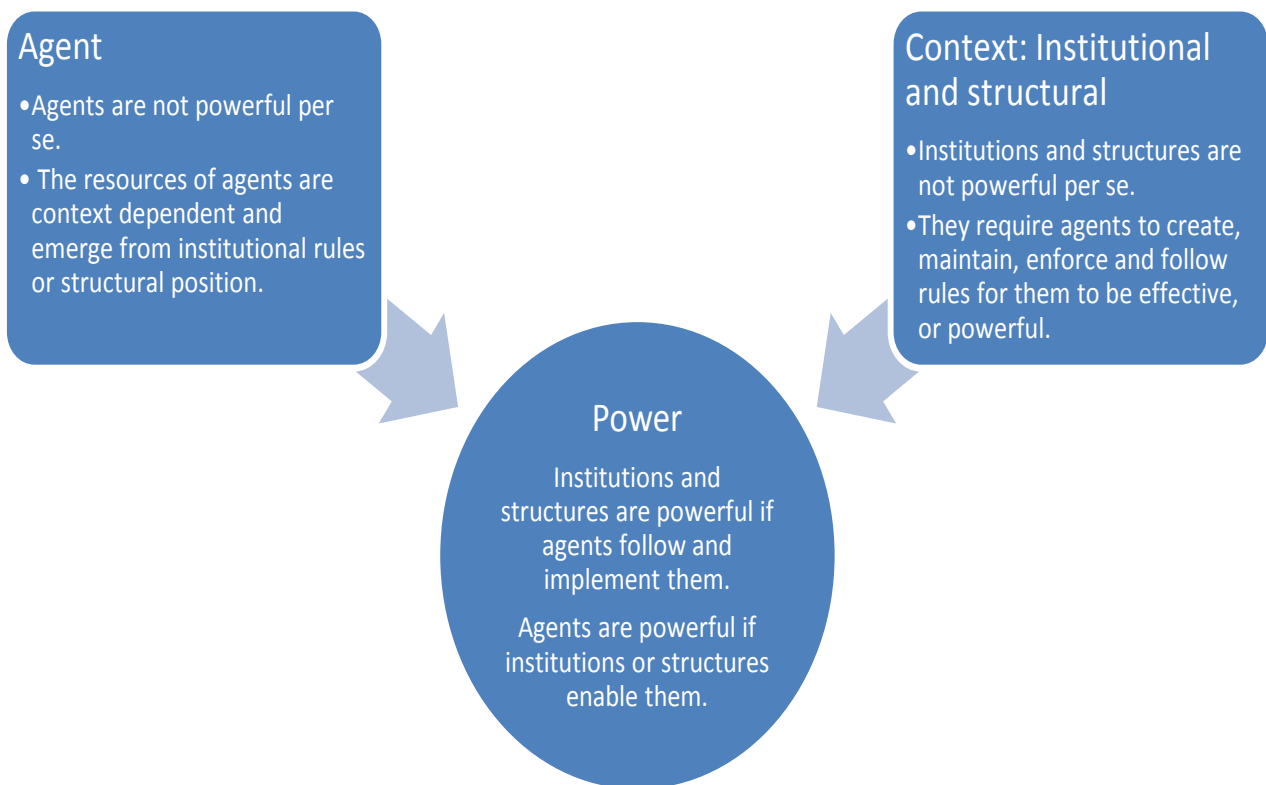
It is important for our purposes to be able to distinguish analytically between these forms of power and their potential.

### Expressions of power: agential, structural and institutional power

We have already indicated that power can be agential, structural and institutional and these distinctions refer less to the sources or forms of power than to its expression through specific channels. This covers how it 'works' and represents its 'causal power' (Archer, 2003: 2). It must again be stressed that these are analytical distinctions, not separate realms of power. When manifested, they overlap, interact and draw on each other: A policeman's (agential) power derives from his institutionalised authority; the power of a formal or informal institution (say, 'chieftainship' or the judicial system) derives from its legitimacy and acceptance; and the power of, say, 'the market', derives from its position in the economic structure.

But the key point is that agential power draws on institutional and structural power; that institutional power (*de jure* power) requires agents to implement and sustain it; and that structural power is embedded and expressed in formal or informal institutions that, likewise, require agents to implement it (Figure 6.3).

**Figure 6.3: The interaction of agential, institutional and structural power**



In outlining these expressions of power we shall try to provide examples of just why and how they need to be thought of as analytically useful distinctions. In practice, however, they draw on and involve each other:

**Agential power:** Classically, an individual agent – a president, a general, a corporation chief executive, a chief, an archbishop or vice chancellor in a university has power, in the Dahlian sense, to compel others to do something they would not otherwise do (Dahl, 1957). Examples of this are when a powerful leader (and cronies) exercise their status or authority to derail reform attempts (such as in the Kenyan anti-corruption case) or their control over the budget to buy political support, such as the Mensalão vote-buying scandal in Brazil in 2005.

But we can immediately complicate the picture. To take a contemporary policy-relevant example, non-communicable diseases (NCDs), such as those caused by tobacco use, have moved sharply up the development agenda (see Box 6.3).

Tobacco companies and industry groups as 'collective agents', have consistently used their economic power to fund think tanks, lobby politicians and regulators to minimise regulation. The agential power and interests of tobacco companies emerge from their position within the economic **structure** – which shapes their motivations but also provides them with their resources and power.

Secondly, countervailing power in the form of *de jure* institutional arrangements (of regulation) have increasingly challenged the tobacco industry in many high-income countries. However, in low and middle income countries this form of countervailing institutional power is far weaker.

Furthermore, collective agency can help in reshaping institutional rules to provide power for future agential conflicts of power. In Brazil, when faced with the knowledge that British American Tobacco (BAT)<sup>83</sup> was lobbying different governments against national, and potential global, regulation, the government decided to establish an Inter-Ministerial National Commission on the Control of Tobacco Use (Lee *et al.*, 2010). The Commission included nine ministries, so that the industry could not isolate and disempower the Ministry of Health. It was further extended into civil society and health councils from local to federal levels. Successful coalition building, starting in Brazil, was central to the successful conclusion of the Framework Convention on Tobacco Control (FCTC) negotiations in 2003, reshaping the global institutional rules of tobacco control.

### Box 6.3 Tobacco use and the politics of development

NCDs are now the leading causes of death in low- and middle-income countries and are a barrier to achieving the Millennium Development Goals (MDGs) (WHO, 2011). The NCD epidemic has a serious negative impact on human development in human, social and economic realms. Tobacco use is among the key behaviours that cause bad health and are a barrier to development. Data from Nepal indicate that the poor spent 10% of their income on cigarettes (Karki *et al.*, 2003), and a 2010 study found that NCDs cost developing countries between 0.02% and 6.77% of GDP – a burden greater than malaria in the 1960s or AIDS in the 1990s (Fuster and Kellz, 2010). Tobacco control programmes include bans on advertising, financing cessation support, increasing taxes and price controls, public information campaigns. But they face concerted opposition from the tobacco industry.

The critical point here is that context of structural and institutional power establishes the opportunities for and constraints on agential action, but that agents' actions can serve to reshape the institutional context – illustrating again the importance of the overarching 'structure-agency' framework for the analysis of the politics and potential politics of development. The next stage is to disaggregate the nature of institutional and structural power.

### Structural power

Mapping the interactions between the disaggregated aspects of structures - geographic, economic, political, social and ideological structures - even though in practice they overlap and interact in complex ways, is key.

Equally important is that all structures are:

- **constituted and expressed by different sources, forms and relations of power.** This may flow from accumulated wealth or control over economic resources; from the formal 'authority' of the state or from the 'power of the people'; from physical forms of coercion such as guns (whether the state's monopoly on violence or guerrillas and paramilitaries, as in Colombia); or from traditional authority such as chieftainship or religious belief (consider the role of the Church in Ireland, Spain, or the Philippines on family planning issues).
- **constituted by institutional arrangements, formal or informal, that give shape to how that power is distributed and used.** We elaborate this briefly below and our point is to emphasise the multi-dimensional nature of power and the importance of analysts and policy-makers understanding how power in its various dimensions and interactions operates.

The structural sources of power are several.

- The power of a **geographical structure** is obvious. Dense mountainous highlands, arid deserts or temperate plains (and what they may contain) all establish constraints and opportunities (resources) for agents to act within or upon them – and institutional arrangements will shape that usage and interaction.

83 British American Tobacco plc., is the world's second-largest tobacco company.



- Likewise with **economic structure** which consists of the systems of ownership, production, exchange and distribution; the sectoral composition, and the division(s) of labour. But, as with geographic structure, the power generated within the economy is distributed by the institutional arrangements within which agents (individual and collective) behave and interact.
- The same applies to the **political structure**, the formal and informal forms and relations of power over decision-making (whether in a family, factory or a federation). And, again, the institutional arrangements – federal, presidential, parliamentary, patrimonialism in politics; union-free or not in factories; or patriarchal or egalitarian in families – shape its distribution and operation.
- The **social structure** refers to the typical way or ways in which different groups (caste, class, gender, age, foreigners etc.) are related to each other. Those with higher status typically enjoy more 'social' power and they will usually also have greater access to both economic and political power. And, as with other forms of structural power, this is given effect by formal and informal institutions.
- Finally, the power of an **ideological (or ideational) structure** resides in the body of ideas, beliefs, norms and values – and institutions - embedded in it and that shape and constrain the relations and activities of those who are participants in it.

### Institutional power

Institutional power refers to the power to regulate or control how various forms of power are used or their place in the wider society. And it may be more or less successful, especially when there is a conflict between the *de jure* power of a government to make rules and the structural power (or *de facto* power) of a powerful interest or organisation. For example, the structural power of armies, corporations, trades unions and religious organisations are almost everywhere constrained by the institutional power of laws. But the point, again, is that it is important to recognise that institutional power and structural power can reinforce one another (for instance in a military government), or institutional power can act as a check and balance on structural power and help to 'tame' or transform it.

Once again, the role of agency in these processes of negotiating and implementing institutional power should never be forgotten. Standard institutional analysis often captures and describes the rules of the game. We argue that more attention needs to be paid to how agents create and use the rules of the game to extend their power and the effect of the rules of the game on disempowering others. Again, the lobbying of the tobacco industry is a good example of this.

Institutional power does not just constrain by defining the rules of the game. It also provides individuals with resources. For example, active political agency was crucial to the successful conclusion of the WHO FCTC (Framework Convention on Tobacco Control) negotiations in 2003. But once the institutional rules were in place, they became available as a resource for other governments and non-government agents wishing to challenge the structural power of the tobacco industry. To give another example, India's Persons with Disabilities Act in 1995 was an 'empty box' of a formal institution, and in many cases was simply ignored or unknown by most companies and individuals, but it was available for activists such as the disability campaigner Javed Abidi to promote job access for the disabled. Thus, institutions provide not only rules but also resources for agents to use.

### Summary – disaggregating power

Power can be usefully disaggregated into its formal and informal, *de jure* and *de facto* forms.

We need also to understand that power can be agential, structural and institutional. These forms all have 'causal power' but it is vital to remember that they interact and overlap in different ways with different effects in different contexts.

Structural power can be analytically disaggregated into its geographical, economic, political, social, and ideological components. Power resides within such structures, is articulated through institutions and exercised by individual and collective agents – for good or for bad.

Power is not a commodity or resource simply possessed by individual or collective agents. Agents have to draw on and use structures or institutions. Different forms of structural and institutional power require agents to implement them and make them work.

Power is a relational process. In the unpredictable and on-going relationships and interactions between different forms and expressions of power over a wider range of issues, the 'balance' of power fluctuates.

Much political economy has not developed a clear, differentiated and disaggregated understanding of these forms and networks of power.

Finally – and crucially – attempts get people to behave differently (especially from without) by creating institutions, changing them or reshaping incentives<sup>84</sup> have seldom succeeded. This is largely because of a failure to take account of the multi-dimensional nature of power and the power networks that structure any society, region, sector or issue area.

## Ideas

'[The] ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist.'

Source: Keynes (1936: 383)

Our aim here is to show that ideas not only influence and reflect politics; they are themselves critical aspects of the structure of constraints and possibilities that frame developmental prospects and actors' 'room for manoeuvre'. It is thus very important for policy-makers to appreciate the importance of ideas in politics if they are to understand and help to promote the politics of development. Interests, like institutions and the various forms of structure discussed earlier, are shaped, interpreted, sustained, legitimated, undermined and often changed by their interplay with ideas.

This sub-section develops three key points.

First, ideas are central to politics and the political context. Ideas define political identities; they frame political debates; they interpret and reflect interests; they guide behaviour. This is widely recognised by policymakers, practitioners and analysts in relation to their everyday experiences.

Second, while many current political economy tools do not entirely disregard ideas, values, and norms, they neither make them central to the analysis nor provide systematic tools for analysing ideas in practice or their implications for development. We argue that the apparent temptation to simply 'add ideas and stir' within political economy tools is fraught with difficulties.

Third, an emerging literature in political science addresses the question of how to understand the 'power of ideas'. The literature offers a disaggregated and useful way of understanding ideas and a set of conceptual tools for analysing their impact on political behaviour and outcomes, especially in a developmental context.

## Defining ideas

We define ideas – or more accurately 'the ideational'<sup>85</sup> – as all aspects of thought and thinking. What people think, and how they think, matters. Of course, there are very different types of ideas, or ideational factors. These include collectively held world views (such as religion, economic paradigms or political ideologies); individual knowledge about the world and learning (where to find market prices, how to apply for a licence, which crops to plant when); prejudices and uninformed opinion (such as racism or sexism or conspiracy theories); and the 'interpretation' of events, context, and interests.

Clearly these are different kinds of ideas and, hence, we use the notion of 'ideational' to group them, but emphasise the importance of analytically distinguishing between them. This is because different types of ideas have different methodological implications (the same tools are not appropriate for, say, gathering and analysing data on collective world views or evaluating the process and impact of learning). They have different operational implications. For example, abstract but deep-seated philosophical world views may well be difficult to shift, but they might accommodate and be compatible with quite a wide range of different policies and practices. For example, a politico-philosophical belief in the role of the state to provide social welfare has been compatible with a wide range of welfare systems in Europe (Esping-Andersen, 1990).

Drawing on recent developments in political science, we outline three different ways in which ideas matter:

- Ideas are not independent of institutions, structures, and interests. Ideas, of a variety of kinds, are embedded and implicated in the structures and institutions that constitute any political context. Ideas 'make up' or are part of the fabric of the political (and economic and social) world.

84 It is worth, again, pointing out that the formal definition of 'incentives' in a representative eEconomics text is 'The rewards or penalties designed to induce one set of people to act in such a way as to produce results that another set of people want' (Black, 2002: 221). It is clear, here, too that 'power' is at the heart of incentive strategies, though seldom stated as such.

85 Political scientists tend to speak of ideational analysis and/or ideational factors. It is an admittedly clumsy sounding word, but it is useful insofar as it captures the wide range of different synonyms, such as beliefs, perceptions, values, norms, discourse, and ideology.

- Agents have actively to actively interpret their environment and their interests: to do so they must use ideas, concepts, values, understandings and measurements.
- The strategic framing of ideas enables actors to bring political attention to an issue, to define the nature of the problem, and to present solutions, thereby actively shaping the way in which others perceive the issues in the political context.

These three points reinforce the importance of approaching political analysis through the structure-agency lens.

Ideas which are part and parcel of the political context are *structural*. But ideas (for instance, about fairness, the importance of meritocratic appointment or conflicts of interest) structure behaviour when they are enacted via human agency and are manifested in the interaction between structure and agency. The way actors use ideas is fed back into the broader ideational structure, either reinforcing and maintaining the existence of ideas or changing the original idea in some way. Active campaigning on an idea – such as corruption, slavery, gender inequality or the treatment of the disabled – can help to shift the way people think about such issues and so help to shape the politics and policies that flow from that shift.

### Ideas matter

The centrality of ideas in the political process are seen in the politics of ideas, the battle for hearts and minds, political rhetoric, ideology, evidence-based policy, public and political values, policy learning, think tanks, public attitudes, opinion and perceptions, deliberation and participatory development. The very language of politics conjures up the centrality of conflict and struggle over values and ideas. Even policy itself is all about ideas; policies are ideas which are then implemented. Policy-makers, politicians, bureaucrats, consultants, researchers and citizens alike instinctively 'get it' that ideas matter to politics. Those engaged in politics are trying to create, influence, frame and communicate ideas all the time (Schmidt, 2008).

Ideas, it is argued, are hugely important for understanding political behaviour and outcomes (Béland and Cox, 2011b). They shape how political problems are understood. They define solutions, goals and strategies and are the means by which agents communicate them. They allow agents to interpret the world and decide what is important, what is related to what, and provide motivations and ideals. They inform what agents think is right, legitimate, appropriate, or possible. For example, to understand whether and how a young man in Jakarta chooses to vote we need to understand his ideas about the efficacy of democracy (will his vote make a difference?), his views of civic responsibility (should he vote?), and his values and political ideas (a belief in freedom, or choice or accountability?).

Likewise, political leaders are often driven by their experience and their ideas. Kwame Nkrumah, who led the Gold Coast to independence as Ghana, was strongly influenced by Pan-Africanist ideas; Julius Nyerere, the first president of Tanzania, by a belief in what he called Ujamaa; Léopold Senghor, a Senegalese poet and politician, by 'African socialism'; Lee Kuan Yew, the first prime minister of Singapore, by the mix of social-democratic beliefs and what has been called 'soft authoritarianism', often summed up as 'Asian values' (Nkrumah, 1959; Nyerere, 1968; Senghor, 19648; Lee Kwan Yew, 1998). The policies of their parties, for good or for bad, were profoundly influenced by these ideas.

We can elaborate further. The examples in Boxes 6.4 and 6.5 make the point. The example in Box 6.4 of attempted public administration reforms in Afghanistan illustrates (a) how ideas inform and are part of politics, policy, and institutional reform; (b) the importance of learning (the feedback of ideas); and (c) the way in which political decisions are always based on a judgement about the political context and which strategies are more likely to succeed. Box 6.5 highlights the role of Catholicism in the politics of the Philippines and the political power of certain ideas, in this case religion. But it also illustrates the complex and unpredictable way in which ideas inform agent's identities, interests and strategies.

The point is, hopefully, clear: Ideas matter. But even scratching the surface like this suggests that we might want to be a little more detailed in our approach to ideas. There appear to be different kinds of ideas (some operational, some ideological); ideas matter in different ways (learning, persuading, anchoring belief systems, and shaping interests); and ideas exist at different levels (from broad philosophies to detailed technical solutions). As with structures, agency, and power; we need to disaggregate ideas in order to carry out better political analysis. But first, what do the existing political economy tools offer? The short answer is not enough.

#### Box 6.4: Ideas, policy, learning and judgement in Afghanistan

The administration reforms in Afghanistan were pursued as part of early attempts to state-build (Fritz *et al.*, 2009). Initially, in 2001, the UN tried to create a small meritocratic core civil service – based on established Western norms and ideas. This was rejected by the various factions in the country, as all were keen to retain discretion in appointing civil servants. Subsequently, a new approach was tried – based on different ideas and readings of what was politically feasible. For instance, in 2003, an Independent Administrative Reform and Civil Service Commission (IARCSC) was created and developed a new policy for civil service reform which involved setting up centres of excellence within ministries which would then feed the best staff into Priority Reform and Restructuring (PRR) units with better salaries and then subsequently slim down the ministries. This approach has produced some positive outcomes (and some negative). What does this tell us in relation to ideas?

First, that institutions and policies – such as reducing a bureaucracy or a merit-based appointment system – are originally ideas (about what is right, or what will work) which then become concrete institutional or policy changes through their implementation. Second, these strategies, sometimes informed by political economy work to assess political feasibility, are based on ideas and interpretations of what might work or not - interpretations of the political context. Third, the failure and then mixed success of the two strategies described above highlights the importance of learning. That is, the process of failure (or success), reflection, and redesign is all about the feedback of ideas – it might be incomplete or may even be 'wrong', but it is the ideas and learning that matters.

#### Box 6.5: The power and contingency of ideas in the Philippines

The Philippine government has struggled to pass a reproductive health bill involving mandatory sex education and the provision of contraceptives and family planning services for the poor. Although it has been backed by the current (2012) president and international agencies, the bill has been stalled for 14 years, mainly because of opposition from the Catholic Church hierarchy. The Philippine bishops – following the Vatican – argue that artificial birth control is a sin and providing contraception and family planning services will lower moral standards. These ideas have been a barrier to social reform for years. Yet the country has the second highest teenage pregnancy rate in south-east Asia. The number of women dying from complications arising from childbirth increased from 162 to 221 for every 100,000 live births between 2006 and 2010 (Lichauco de Leon, 2012). At present, the majority of Filipinos cannot afford, or do not have access to, birth control. Providing an abortion is a crime in the Philippines unless it is to save the life of the mother:

Around 81% per cent of Filipinos are Roman Catholic and the church plays a large role in getting politicians elected and has been lobbying them keenly on the bill. Priests denounce the reproductive health bill during Mass. Churches post billboards with gruesome images of aborted fetuses (Weiss, 2012). Rightly or wrongly, the power of orthodox religious ideas is clear here. The fact that the bill has stalled for so long attests to the power of the Church's authority.

Yet, despite widespread Catholicism, national polls suggest that anywhere between 65%-70% of Filipinos support the Bill (Lichauco de Leon, 2012). And backstreet abortions are available – involving an aggressive massage and Cytotec, an ulcer medication sold on the black market that brings on uterine contractions (Weiss, 2012). President Benigno Aquino has come out in support of the bill, publicly stating that he is ready to be excommunicated over it.

Hence the way in which religious ideas are interpreted in that context by agents, and balanced against other ideas, underlines the importance of interpretation: self-interest is never self-evident. Different arguments (and ideas) about progress, development, population control, slums and women's rights compete in the debates, as well as the spokespeople of different forms of authority – political, religious and scientific. The UN Population Fund released a statement on the day of the vote arguing that the Philippines would miss the MDG relating to reducing maternal deaths by three quarters and providing universal access to reproductive health by 2015. At the same time, Catholic priests and nuns led thousands in protest rallies, in Manila and further afield, urging lawmakers to scrap the bill. The bill finally passed into law on 19 December 2012.

## PEA and ideas

The range of PEA tools vary in the emphasis they give to ideational factors. Some give very high rhetorical importance to ideas, placing them at the centre of the analysis (DFID, 2009). Some privilege the role of ideational factors in the operation of political process and provide extensive narration on their importance (Norad, 2010; for ODI, Moncrieffe and Luttrell, 2005). However, others, such as the World Bank, either provide nothing at all on ideational factors, or just a cursory mention of norms in relation to informal institutions (Fritz *et al.*, 2009; Poole, 2011). Indeed, it is surely telling that the 2005 report by the OECD-DAC, 'Lessons Learned on the Use of Power and Drivers of Change Analyses', contains no references to ideas, norms, beliefs, perceptions and makes just a couple of passing references to values (see Box 6.6 for further details). What is missing from all tools and frameworks is a disaggregated understanding of ideas, a dynamic analytical framework for studying ideas, and a systematic set of methods and techniques for analysing how ideational factors can shape development processes.

## Political analysis and ideas – 'the ideational turn'

The study of ideas has emerged as one of key debates in political analysis in recent times (Hall, 1989; Goldstein and Keohane, 1993; Yee, 1996; Blyth, 1997, 2003, 2011; Hay, 2002, 2004, 2011; Schmidt, 2008; Gofas and Hay, 2010a; Béland and Cox, 2011a). Taking ideas seriously has gone way beyond showing that they matter, and is now focused on identifying when, where, how, and under what conditions they do or do not matter. The 'ideational turn' has reshaped how political scientists approach their research and their discipline.<sup>86</sup>

## Ideas are part of the fabric of political context

How Koreans should behave as nationals of their country, how a child should behave in school, how a worker should act in a factory, or why a local elder has the right to resolve a dispute about land are all behaviours and practices shaped by ideas and are reflected in informal institutions. And formal institutions are also all bound up with ideas about those matters (for instance those that determine property rights, electoral practices or the power of the presidency). To move forward we need to be clearer on the nature of ideas in these and other examples.

## Ideas are 'social facts'<sup>87</sup>

**Ideas are collective, not individual.** The first point to make is that ideas are not limited to, or even chiefly about, the ideas that individuals hold in their heads – such as the nature of and desirability of gender equality, who has authority within a society, whether hard work is the key to a happy life. These individual thoughts cannot be reduced to an individual's knowledge and beliefs that, while important, are not just an individual idiosyncrasy. Ideas are unavoidably social, collective, and shared (or 'inter-subjective' in the social science jargon).

**Ideas have structural and agential components to them.** For instance, the ideas that a young man in Lagos may hold about the appropriate role of women in society – about an equal say in the household budget or using contraception – do not exist in his head only.<sup>88</sup> He is connected to the larger web of ideas within society that he draws upon.<sup>89</sup> When drawing on these ideas about gender roles to inform his behaviour he interprets them, enacts them, and thus also perpetuates them. In short, ideas have both structural and agential components and only in their interaction do ideas matter in the sense that they are enacted, or 'actioned' (Blyth, 2011). Again, there is a fundamentally interactive structure-agency dynamic to the way that ideas function.

**Ideas can work through causal or constitutive channels.** The **causal impact** of ideas is more about traditional mechanistic notions of cause-and effect. For example, increasing sex education leads to reductions in HIV incidence, higher school attendance, and later marriage. The relationship here is between preconceived and concrete elements – the transmission of information on the behaviour of individuals.

86 It's worth noting that the ideational turn in political science emerged as a response to the failures of new institutionalism: namely institutions were too static and overly deterministic (Schmidt, 2008; Béland and Cox 2011b). The only way institutionalists could easily explain change was to appeal to exogenous shocks – such as war, harvest failure, price changes. It is this that knocks institutions away from their settled equilibrium. This rapidly became dissatisfying and attempts to develop endogenous explanations for change emerged – ideas were key to this.

87 The idea of the 'social fact' goes back to the great French sociologist, Emile Durkheim who described institutions (rules of the game as we now think of them) as 'social facts' – 'all the beliefs and all the modes of conduct instituted by the collectivity' (Durkheim, 1895: lvi).

88 And of course there will be other young men who think differently.

89 Which is why changing the formal institutions without taking account of the ideas (often expressed as informal institutions in mainstream PEA) is a doomed strategy.

### Box 6.6: The absence of ideas in political economy tools

- DFID's (2009) 'How to' note on Political Economy Analysis includes ideas as the third of three legs – alongside 'interests and incentives' and institutions – for understanding what drives political behaviour. DFID highlights the impact of values and ideas such as 'political ideologies, religion and cultural beliefs' in explaining political outcomes (DFID, 2009: 4). Notably, page 4 is the only page in the 29-page 'How to' document to feature the word idea. Despite values and ideas being one of *the three key drivers* of political behaviour we learn no more about the nature of ideas nor how to analyse them.
- The European Commission's paper, 'Political Economy Analysis to Improve EU Development Effectiveness', highlights the centrality of collective action problems for successful development, and the political nature of state-society bargaining which underpins the successful negotiation of these problems. The report notes how 'such bargaining can involve violent conflict, but it can also take more peaceful forms, including contestation and negotiation over access to power and resources, and over ideas' (Unsworth and Williams, 2011: 5). Elsewhere it states that 'for the ruling political elite, a principal consideration will be what they must do to win and retain power. However, more intangible factors such as ideas, values, ideology and reputation can also influence elite incentives' (Unsworth and Williams, 2011: 7). Again, intangible as they may be, we get no further information on how they may influence elite incentives or how to analyse them.
- Norad, like DFID, emphasises the 'influence of social, political and cultural norms, values and ideas, including political ideologies, and religious and cultural beliefs on shaping human relations and interaction, and political and economic competition and the consequent influence on development' (Norad 2010: 7). The document contains plenty of other references to the centrality of values, beliefs, trust, cultural and social norms, which should hardly be surprising given Norad's focus on 'legitimacy'. The authors appropriately define legitimacy as 'how and why people accept (or do not accept) a particular institution. The focus is here on people's' beliefs and perception' (Norad, 2010).<sup>90</sup>
- Sida (2006) contains a brief discussion of norms and values in the appendix, as well as a guide question on how belief systems and cultural practices legitimise and reinforce material power structures.
- SGACA (Unsworth and CRU, 2007) contains a single reference to norms, in relation to their definition of informal institutions. There are more references to legitimacy and perceptions of legitimacy, suggesting that the analyst should think about the history of state formation to understand the sense of political community.
- The World Bank's Problem-Driven Governance and Political Economy Analysis's 'Good Practice Framework' makes a number of references to social norms, in relation to informal institutions – and the passing comment that 'historical legacies and experience of previous reforms and, potentially, their failure can influence the perceptions and expectations of stakeholders, and are therefore potentially worth exploring' (Fritz *et al.*, 2009: 66). The World Bank's guidance for sector-and-project-based teams does not acknowledge any role for ideas, beliefs, understandings, interpretation, or values, and makes only one reference to norms as informal institutions (Poole, 2011).

In contrast to the above, and an important exception, ODI's analytical framework not only places a great deal of emphasis on the importance of ideologies, perceptions and values, but also provides some sense of how ideas fit into the overall analysis (Moncrieffe and Luttrell, 2005). Key points of relevance to the impact of ideational factors include the following:

- Ideas form part of the political context: 'Historical legacies can have a strong and lasting effect on institutions, power structures and relations, ideologies and perceptions. Therefore, staff should explore the role of historical legacies, including perceptions of their legitimacy, assessments of their durability and the likely consequences for policy' (8).
- Ideas shape political agents' behaviour: 'Social identities and allegiances - such as of ethnicity and religion - can help to shape perceptions and may influence how actors perceive and pursue objectives' (9).
- Ideas – where aligned with the values and ideology or the development agency – provide useful entry points for agencies to work (21).
- To help guide the analyst, Moncrieffe and Luttrell provide a series of questions in Annexes 1 and 3 of their paper. There is much to applaud here, the attention given to ideas is important and the questions are undoubtedly useful. But we need more if we are to understand how ideas interact with structures, agents, power and interests.

<sup>90</sup> Norad (2010: 15) identifies 'shared beliefs' as one of the four sources of state legitimacy, defined as 'including a sense of a common political community, and shared beliefs shaped by social practices and structures, political ideologies, religion and tradition that allow people to see the state or other forms of public authority as the overarching, rightful authority'. See also the discussion on pages 16-17 of Norad (2010).



However, ideas can also have a **constitutive** effect in the sense that they do not just cause outcomes, but they create (or help to constitute) categories or roles. So, for example, the very identities of individuals (male and female roles everywhere, or those of Noble and Commoner in Tonga) are themselves constructed through ideas about the roles, and those ideas will of course be bound up with interests and power of the dominant categories and often elaborated into institutional rules and relationships. In short, ideas which have a constitutive effect do not just impact on the interaction or relationship between categories, roles, or institutions, but they also create those categories and identities in the first place.

## Disaggregating ideas

### The levels at which ideas work: philosophies, programmes, and policies

Vivien Schmidt (2008) usefully suggests disaggregating ideas along the following axes: levels, content, and purpose.

- **Philosophies:** The most general ideas are philosophical or ideological stances such as free-market beliefs, or state-led development, democratic, Islamic or Christian values. They provide general and often deeply held and embedded ways of thinking about the world. They in turn may be subdivided.
- **Programmes:** Next, programmes embody the wider philosophies, but also look to adapt and apply them to create roadmaps and concrete strategies. Similar philosophies can and do result in different programmes, such as the state-led development in Brazil compared to that in Korea, or the liberalisation programme in Singapore versus that in Mauritius.
- **Policies:** Finally, policies implement programmes in different ways and can make programs more or less expansive, determining how they are funded and designed. They and contain ideas about what works best where to achieve the philosophical values driving the programme. The different forms of state-run welfare policies, mentioned above, are useful examples.

**Implication:** For example, a liberal **philosophy** guides a belief in market efficiency, fairness, freedom and innovation. This results in a **programme** of liberalisation, bureaucratic reform, and privatisation. This, in turn, translates into specific but often widely varying policies. In Brazil, for example, a liberal philosophy and programme resulted in a much more limited privatisation of water than other state-owned services, or indeed than in other Latin American countries. The point here is that within a philosophy there are a range of different programmes and then, within specific programmatic views, there are always different problem definitions and specific policy solutions. Understanding the level of ideas provides important insights into what alternatives are immediately feasible without trying to shift deeper held or more embedded views.

### The content of ideas: causal and normative

**Causal** ideas are those that describe 'what is' and 'what to do', for example an information campaign to increase tax returns, or electoral reform to increase participation and reduce corruption. They provide the recipes or guidelines for political action, offering an interpretation of affairs and problem solutions often based on comparative experience and evidence, but not always.

**Normative** ideas, on the other hand, are about values and legitimacy of a state of affairs, for example, questions of inclusion, and gender equality and homosexuality.

**Implications:** Policies, programmes, and philosophies tend to involve a mixture of causal and normative ideas. Disentangling them to discover which is which can be very important for those designing programmes and policies - especially in the social sector, broadly interpreted. For example, an information campaign (about the causes of HIV) can turn out to have little effect on deeply held normative beliefs, but an authority or charismatic appeal from a religious leader or film star might. Policy-makers and analysts need to be able to disentangle these differences when facing a policy choice.

### The purpose and context of ideas: coordinative and communicative

**Coordinative** ideas are ways of solving policy problems, such as decentralisation. They tend to circulate amongst policy makers (or broader advocacy coalitions), sometimes called policy (or even epistemic) communities, that have the role of formulating and coordinating a policy and programmatic consensus and deciding the way forward in a particular area or sector. Such ideas are commonly both causal and normative.



On the other hand, **communicative** ideas are more about public discussion and deliberation – the stuff of politics, not just policy. So, examples would include debating whether there should be private or public provision of healthcare, whether there should be quotas for women MPs, capital punishment, the role of customary courts in the justice sector and how far, if at all, customary land should be transformed into individually owned, or titled, land.

**Implications:** Again, any issue area will be characterised by both coordinative and communicative discourses and the same actors will be involved in both. Again, it is important to disentangle the two since they require different methods for analysis and different strategies for political engagement – coordinative action requiring sustained, technical engagement with elites, while communicative action can be more ‘dramaturgical’ and within public or societal spaces.

### Ideas are not just important for informal institutions

It is clear that when ideas *are* considered by the analytical approaches considered here, they tend to be almost exclusively associated with informal institutions. For example, the few references to ideational factors in the World Bank’s PEAs (Fritz *et al.*, 2009) are to social norms, as is the case in the EU PEA paper (Unsworth and Williams, 2011). Thus, the analysis of norms, values, and so forth are folded into and conflated with the analysis of informal institutions, defined as ‘socially shared rules, usually unwritten, that are created, communicated and enforced outside officially sanctioned channels’ (Helmke and Levitsky, 2004: 727). We want to counsel against this. Does this mean that (1) formal institutions are not characterised by ideas and norms? And (2) are ‘interests’ an ideas-free-zone? Our answer is no, such ghettoisation cannot be sustained. Ideas flow through and form all structures, institutions, power, and interests.

**Ideas matter in formal institutions.** Even the most formal of institutions such as the constitution, the electoral system or the division of power between legislative, executive and judicial functions are shot through with values, norms, and ideas about representation, checks and balances, rights, fairness, effectiveness and responsibilities. Their power and authority, that which makes them followed, avoided or contested, flows from their perceived legitimacy, that is their ‘rightness’.

**Ideas matter for interest formation.** The interests of formal organisations, such as businesses and corporations – often seen as the epitome of instrumental self-interest with a relentless focus on the bottom line – are rarely self-evident and display considerable variation across countries, sectors and time. They reflect different ideas that are not reducible to a cost-benefit analysis of the consequences of local institutional arrangements. Should a firm seek to maximise its profits or its market position? Should it behave with ‘corporate social responsibility’ or not? Go for cost-cutting (‘stack ‘em high’) or high-end luxury goods? Should they work with or against government and long term relationships with other firms? Should they support job-security or flexibility, or support publicly-driven training and skills, or argue for rolling back public expenditure? As discussed earlier, profitable self-interested behaviour is not easy to define even in the financial markets. Careful empirical analysis sheds light on the complex and interpretative process of interest formation (Box 6.7).<sup>91</sup>

#### Box 6.7: From ideas to interests

Even business interests are not self-evident and have to be ‘interpreted’. Companies’ interests vary across and within cultures. The critical point is that these ideas are not simply about ‘bottom line’ calculations but also define what the bottom line is. For example, detailed ethnographic analysis reveals the contingent and contextually driven nature of business interests. In South Korea, the strategies of the managers of a large conglomerate (*chaebol*) emerged from their exposure to, and interpretation of, appropriate business practices in line with traditional Korean culture, their ideas of normal government relationships, Japanese competition, and US geopolitical interests (Janelli with Yim, 1993). Meanwhile, in Europe and North America business interests and behaviour have varied over time and this is a function of the way in which business managers have tried to interpret what is in their interest. Detailed historical analysis reveals how firms have never simply been interested in undermining government regulation, but have struggled to define their collective interests, seeking to cooperate with governments and labour groups to support social investments in health spending and skills training to ensure a healthy workforce. Businesses have had to work out how best to succeed in the market place and continue to do so (Martin and Swank, 2012).

In short, instead of ideas emerging from interests to justify and legitimate them, as some would argue, agents draw on ideas and interpretations in order to construct their interests (which are thus still very ‘real’ but not given). People have to think to act, and that very fact provides an additional entry point for policy-makers in the context of policy dialogues.

<sup>91</sup> Also, see our earlier discussion of this in Box 5.6 on page 58.

## Agents have to interpret their environment and their interests

As has already been suggested, a satisfactory explanation of political outcomes is not only about institutions but about *ideas about institutions*. It is an agent's interpretation of the opportunities and barriers which face them that matters. For example, faced with an institutional wasteland, Uganda's President Yoweri Museveni decided to pursue pro-poor public policies (Melo *et al.*, 2012). Many others facing a similar institutional context – in Somalia, Chad, or Sudan – have concluded differently.<sup>92</sup>

The issue with this is that if actors now have to interpret their environment, and indeed their interests, then behaviour becomes much less certain. As the case of Museveni illustrates, he could equally have engaged in predatory rule and ignored the spread of HIV – these acts would easily have been seen as being in his interests. But he made decisions about what his interests were and he built a coalition to support the strategy. So if a strategy or policy is not determined, then it's no longer easily predictable. This poses a real problem for economic approaches to politics (Gofas and Hay, 2010b). Attempts to reshape the political or institutional context – such as the World Bank's (2007b) proposed reforms in Ghana<sup>93</sup>, based on its PEA study – are predicated on the grounds that the behavioural changes desired can be predictably and consistently produced. We are not saying that competitive elections or better information about government performance are undesirable, only that changes to institutions and incentives are, by themselves, insufficient.

To reiterate the key point: whether in Korea, Europe, Myanmar, or Manila, whether large or small, business interests or social or political interests are not self-evident or fixed. All agents have multiple and conflicting interests and therefore have to interpret and construct what their interests are (Hay, 2011). See Boxes 6.8 and 6.9 for examples from the Philippines and Myanmar (Burma). Assuming that agents are 'rational' and behave consistently and predictably in line with straightforward interests is to deny their agency and their individuality.

### Box 6.8 Interpreting doctrine in the Philippines

In the example of the Philippine reproductive health bill, presented above, what should a Catholic do? The Church hierarchy presents a united voice and clear position. Yet, ordinary Filipino Roman Catholics clearly have divergent views – as expressed in national polls. Most support the bill. What is one to make of the person who says that (s)he will provide an abortion while wearing a crucifix, yet who also says that (s)he will not provide an abortion to the same woman more than a couple of times because she is clearly not living a Christian life? Here is a clear example of how doctrine, ideas, are interpreted by individuals slightly differently. Meanwhile, 159 prominent Catholic academics working at Ateneo de Manila University have argued that a true Catholic, part of the Church of the Poor, would support any bill designed to alleviate the suffering and poverty of women and children (Ateneo Professors, 2008). Clearly ideas do not determine or structure interests in any straightforward way.

Agents' interests are not straightforward or self-evident (neither to themselves nor the analyst). Instead, they emerge from a complex and contingent assessment of how they might succeed in an uncertain political (and economic) context based on strategic reasoning and reflection. And, clearly, different people or organisations will react differently to different incentives and opportunities. Interests are no longer objective and fixed: they are subjective but still very real. Interests do not exist, but constructions of interests do (Hay, 2011). Conceptions of self-interest emerge from an internal conversation (Archer, 2003), via a mental filter through which an agent interprets the environment and weighs up plausible avenues of action, based on his imagination and judgement. This shift is much more than a semantic one (Gofas and Hay, 2010b).

The operational implications are that that this opens up a very different mode of analysis where interests are no longer regarded as self-evident or fixed but are formed through processes of interpretation and thought and the deployment of a range of ideas and arguments. This requires the analyst to evaluate the process by which agents come to identify, construct, and act on their interests (Blyth, 2011). This, in turn, requires a very specific political, sociological, and anthropological set of methodological tools and training.

92 This is not the same as claiming that an individual has imperfect information, and that if they were suitably enlightened they would modify their behaviour accordingly.

93 The assumption is that changing the incentives facing politicians (e.g. by increasing the information available to voters about incumbents' performance) will improve the provision of social services in Ghana. This is because politicians will be held to account, in increasingly competitive elections, and over time will make increasingly credible promises. This assumes that politicians interpret these incentives in the same way. But they may variously think they can continue providing narrow services to their support base, play on identity politics, undermine competitors' claims, challenge the independence of performance information, or outright cheat. It also assumes that citizens interpret the incentives in the same way too. But their opinions may also vary, for example on whether politicians will cheat, the information is trustworthy, they have time to vote, or whether voting makes any difference of politics is pointless. In short, we cannot assume that people have a single and self-evident interest.

### Box 6.9 Interpreting private sector interests in Rakhine

What are the interests of the private sector in Rakhine, a coastal state on the West of Myanmar (Burma)? There is some room for change in local governance because of national economic and political reforms. So which vested interests support or oppose changes in how economic activity is managed, for instance, such as the management of fisheries licences. In Rakhine, fishery licences allow the holders to sell the right to fish in defined areas. Licences have tended to be distributed along clientelistic lines. A development programme analysis conducted there looked at the vested interests in the government, the business sector, and the villages.

It is clear that interests are far from straightforward or self-evident. In a context of declining fish stocks, is it in fishermen's interests to maximise their catch and profits (in the short-term) or back restrictive regulations? At what point do business interests come to believe change is in their interests? Why? In a further layer of complication a new deep-water port at Kyaukphyu, just up the coast, presents significant environmental costs but also significant employment opportunities. And what about local tax reform? Do private interests have a straightforward interest in reducing taxes to reduce the drag on profits, or would higher taxes translate into much needed infrastructure improvements to get the fish to market? Finally, does individual behaviour flow from maximising a narrow, individual economic security or from individuals' bigger interpretation of themselves as Rakhine; as people with a collective stake in developing a future Rakhine state, or along sectarian lines as Muslim Rohingya and Buddhist Rakhines?

Agents have to weigh and interpret what is in their interests and what their interests are. There is a considerable amount of nuance and complexity in understanding private sector interests in change. Those interests are malleable and in a constant state of change. It's not entirely clear that maximising incomes is self-evidently in their interest. Even if this was the case, it still would not help predict how fishermen and other private interests will behave. Ultimately, the analysis shows that this is something of an open question. Private business interests are open to persuasion about what is in their interests, depending on the extent to which a collective interest in reform can be built.

## Some initial policy implications

### Preference-taking or preference-shaping?

If interests are not fixed or self-evident, then incentive-based interventions do not translate into changed behaviour in a straightforward manner. The bad news is that, to be successful, interventions will have to deal with a more fluid, messy, and less tractable set of perceived interests which respond in unpredictable ways. The good news is that there is an alternative to the 'preference-taking' (or accommodation) strategies, and that is preference-shaping strategies.

- **Preference-taking strategies.** Political economy approaches, in assuming stable and fixed self-interested preferences, work from and around this assumption. For example, as outlined in Section 5 and critiqued in Section 6, most contemporary approaches to political economy take it as given that politicians, bureaucrats, citizens and civil society organisations are all primarily driven by self-serving behaviour. They then try to devise strategies to harness these drives through manipulating the institutional rules of the game and the incentive structure.
- **Preference-shaping strategies.** Behaviour is a lot more malleable and variable than assumed by standard approaches. People are motivated by a range of *different interests* – personal, family, ethnic, economic, political, moral – and agents have to *evaluate* what these are, and *interpret* whether different strategies in the political context they face will be successful. This means there is room for *and indeed a need to engage in* what has been called 'the politics of advocacy' (Hay, 1999: 60).

This requires an in-depth understanding of the structural, institutional, and ideational context which agents draw from, whether this is historical traditions, religious beliefs, cultural norms of hierarchy (whether ethnic, regional, caste, or gender) and other political visions such as modernisation.

For example, land reform; rather than taking for granted the interest of political elites in protecting current land ownership patterns, a preference-shaping approach seeks to understand why elites hold these interests, and where their interpretation comes from. This means that there is still a central role for institutional and stakeholder analysis. Any intervention is designed

around generating and presenting alternative frames to shift these interests. In Brazil, much-needed land reform is not ostensibly in the elite's self-interest (Moore and Putzel, 1999: 21-22). However, politically savvy re-framing of the issue as one of national pride and progressive modernisation has built support for the issue. In this case, elite interest is malleable and can be reconfigured through a different interpretation of political aims and context. Such interventions can be pursued strategically or can be done collectively, e.g. through participatory politics where agents reconfigure their interests, such as budgeting in Brazil's Porto Alegre, or creating new political spaces such as the leadership forum in Tonga.

Such preference-shaping strategies can use the scientific evidence-base, or local and universal ideas about justice, or future-oriented visions of national modernisation and development. What works in one situation may not work in another; but it depends on understanding the agent's interpretation of their interests, understanding where this comes from and what room for manoeuvre there is, and the suite of societal ideas which are available to draw on. Examples of this kind of initiative are detailed below. They include examples of political framing, such as environmentalism in South Africa, illness and hospital use in Papua New Guinea, and women's organisations in Bangladesh.

### 'Strategic framing': the power of ideas to 'shape'

Frames are the mental and explanatory structures and shortcuts that we use to interpret the world around us and to influence and act within it. We identify here relevant examples of how ideas constitute the 'frames' used to interpret situations, represent them in different ways and act politically in ways that are more, rather than less, effective.

**Frames allow people to interpret realities.** Frames enable people to interpret what may appear to be neutral 'technical' interventions in their lives. Frames help structure roles and activities for agents and help them decide what is appropriate and what is not. Erving Goffman (1959) famously spoke of life being like a play – in a hospital, for example, we immediately have a sense of the roles (doctors, nurses, patient, and who is in charge), there are different scenes (the waiting room, operating room) where parts are played, and props to support the actions (scalpels, x-ray machines, magazines). Behind all this is an explanatory frame that people in Western societies use when thinking about health. But in Papua New Guinea, for instance, Andrew McNee (2012) has shown many people (especially in the rural uplands) view illness, treatment and hospital environment in an entirely different way. They have a different explanatory 'frame' of the world and of health and illness and what brings it about and what might 'cure' it. Failure to understand this has dogged many aspects of health delivery in the country since colonial times.

**Framing (and re-framing) helps focus attention and politicise an issue.** In South Durban, South African environmentalism was not a political issue despite the widespread health issues pollution was causing. Prior to 1990, environmental issues had been largely an issue of wildlife and conservation (Barnett, 2003). High levels of industrial air, ground and water pollution were severely affecting local residential areas, but they were not seen as a political issue worth caring about by the media and politicians. Poverty and pollution-related suffering went unacknowledged. But community mobilisation, and re-framing of the issue from a 'green' to a 'brown' one, linked the negative health impacts to industrial leaks and dumping, and this managed to increase media attention. It took clever, strategic action from the South Durban Community Environmental Alliance (SDCEA). They 'dramatised' the issue through a series of protests at a local oil refinery, and engaged in the 'politics of shame', all backed by a creative communications strategy. Ultimately, the actions of the SDCEA won local and regional media attention that fed into national coverage for environmental issues. This ultimately changed the behaviour and outlook of powerful actors, such as the national Department of Agriculture, Environment and Tourism, and major multi-national corporations.

**Frames have to be chosen carefully and different strategic choices can result in trade-offs.** The case of Bangladeshi women's organisations illustrates that different ways of framing a campaign – using different ideas to make the same point – can have different political impacts and careful strategic choices need to be made. A range of different women's organisations have sought to promote women's interests and empowerment in a context where the state was characterised by a hierarchical and patriarchal structure and women's issues were systematically marginalised. Nazneen and Sultan (2010) compared the strategies of three national level women's organisations.

- **Justice frame.** The first organisation used a 'justice' frame to push for the mainstreaming of women into decision-making positions, because that was the 'right' thing to do. While the frame proved successful in building solidarity between women's groups, it failed to move elected politicians.
- **Empathy frame.** Meanwhile the second organisation focused on the specific phenomenon of women who had been attacked with acid. The frame relied on triggering people's empathy and specifically avoided bigger questions of appropriate gender roles and societal norms. The organisation managed to generate significant public awareness of the crime. The success of the campaign relied on audiences recognising the appalling and grotesque nature of the crime. The limitation is that it had a more limited effect on precisely these bigger issues of gender equality.
- **Legal frame.** Finally the third organisation took a legalistic approach, focusing on women's human rights and the existence of international treaties such as the UN Convention on the Elimination of Discrimination against Women (CEDAW), and attempted to hold the government to account as a signatory. This again, had a more limited impact

on the state and failed to mobilise civil society (in the way that the acid campaign did).

Nazneen and Sultan concluded that, taken together, the strategic framing of women's issues has opened up significant political space and legitimacy to discuss women's issues where little existed before.<sup>94</sup> Plus, the framing has provided the social 'glue' for new alliances between like-minded groups.

**Agents need to frame strategically on the same issues in different structural contexts.** This point illustrates the importance of our overarching framework about the relationship between structure and agency in yet a different way, and the need for agents to 'read' and 'map' that environment so as to act strategically within it. Similar political goals or campaign objectives will be successful despite using different frames in different political contexts and/or with different audiences. The strategies and framing used by women's groups and coalitions in South Africa and Jordan on domestic abuse and sexual violence issues were all very different because the organisations knew what would and would not 'work' in the various political and institutional contexts. In South Africa (Hodes *et al.*, 2011), a large civil society coalition campaigned forcefully in public, drew on international principles of equality and human rights and also worked closely in a technical and legal manner to help shape the legislation. By contrast, in Jordan (Tadros, 2011), a coalition also successfully helped introduce new legislation protecting women from domestic violence. But with a more conservative ruling elite, a limited democracy and different cultural norms, using a 'women's rights' frame would have been disastrous. Instead, the coalition framed the issue in terms of the principles of Sharia, focusing in particular on the suffering of children and the elderly. The family frame resonated better with the Jordanian public and avoided contentious social and political issues around women's rights and gender equality that would have resulted in a political backlash against the coalition.

The above examples show how ideas can be used as 'weapons' to achieve political goals. They serve to help define agents' perceptions of the political context, they can create space and legitimacy for dialogue and, ultimately in some cases, reshape agents' interests – such as the case of Brazilian elites and land reform outlined above, or through participatory budgeting such as that found in Porto Alegre.

## Summary - Ideas

- Ideas are central to political discourse, debate and contestation and it is relatively easy to show that they matter.
- The role of ideas has been sorely neglected in political economy frameworks, despite some acknowledgement that values and norms matter in some way. But there has been little discussion of types of ideas or how to study them or how to take them into account for policy purposes.
- Ideas are bound up with structures, institutions, as well as interests. They help to shape, interpret, sustain or undermine them and are part and parcel of all agents' political weaponry. In this sense, ideas are central to explaining political behaviour.
- Ideas are important for agents as they *need* to interpret not only the political context they find themselves in, but also what their interests in it actually are. This does *not* mean that interests are not real. They are, but they are constructed and therefore are uncertain; for instance, how should Catholics behave in the Philippines?
- Finally, using ideas to 'frame' or 'shape' campaigns is a powerful weapon to help gather attention around an issue and elicit sympathy and support from different audiences and interests.

## 6.5 Contingency

### Contingency: things could have been otherwise

We have consistently emphasised the importance of contingency – the uncertain and the unpredictable – throughout this paper. This is because contingency is central to the political approach to politics and is lost in the economic approach. As Colin Hay (2007: 77) makes clear:

Politics, I suggest, is the capacity for agency and deliberation in situations of genuine collective or social choice  
 ... Politics is synonymous with contingency; its antonyms are fate and necessity.

<sup>94</sup> The cases suggest that, in addition to strategic framing, success requires constant political pressure by political agents, often using personal ties and networks.

As such, it is important to underline what is meant by contingency, illustrate it, and underline why it matters and its implications for conducting political analysis.

We define contingency as the situation where political outcomes are indeterminate. Contingent political outcomes can be the consequence of:

- (a) choice - though, as we made clear earlier, it is never 'free' choice, unhindered by context;
- (b) 'accident' ('critical junctures' or sudden opening of 'windows of opportunity').

Contingency matters because small causes have big consequences. Once they have occurred, political decisions and historical accidents often get 'locked in' to the political context and structure future political behaviour and outcomes. This is what is understood as 'path dependency'.

In order to incorporate contingency in political analysis we need to:

- Take agency seriously: understand agents' interpretations of their interests, the context, and their behaviour; and work to increase the space for policy dialogue.
- Treat 'events as causes' not just underlying structures: understand the dynamic and uncertain nature of political life and the way in which windows of opportunity open and close,
- To increase the flexibility of donors so they can use the opportunities created by both choices and contingent events.

In short, contingency means that things could have been otherwise (Shapiro and Bedi, 2007). To claim contingency means that:

'Things could be different. Things could be otherwise in the present. They could have been different in the past. They could change in the future'

Source: Schedler (2007: 72).

This is to emphasise indeterminacy, but also choice, accident, luck, chance, and uncertainty. Politics is fundamentally about contingency; it is about agency, choice, struggle, and the exercise of strategic imagination, not just economic or social laws or trends determining outcomes.<sup>95</sup> Recognising the importance of contingency in the politics of development means rejecting the view that things are determined, inevitable, and preordained, or even that things are, on the balance of probabilities, likely to occur (Box 6.10).

#### Box 6.10 Contingent and non-contingent accounts

- Political change:
  - Non-contingent view: the end of apartheid rule in South Africa was only a matter of time.
  - Contingent view: Leadership and political choices mattered as did the international context (collapse of the USSR, the sustained support of the international community).
- Work and pay conditions:
  - Non-contingent view: the globalisation of the economy leaves firms no choice but to cut wages and conditions to stay in business.
  - Contingent view: wages and working conditions are the outcome of local negotiations between workers, unions, and bosses, not just global forces.
- Economic growth:
  - Non-contingent view: economic success is correlated with, say, geography or inherited institutions.
  - Contingent view: economic success is a result of astute leadership, the organisation of coalitions to support national goals, and luck.

95 Note that not everything that is contingent is politically significant. People make millions of choices every day that, in terms of understanding actual outcomes, are insignificant (Shapiro and Bedi, 2007). For example, the decision of one extra woman to migrate from Kerala, India to one of the Gulf States will probably not have a long-term political impact. Her decision to vote will probably have even less of an impact. Hence many political outcomes do not depend on choices. However, when we focus on the role of leaders, elites, and coalitions, contingency is more important.



We identify two key sources of contingency – as a form of agency through choice and struggle, on the one hand, and historical 'accidents' on the other. We take each in turn.

### Contingency as choice and struggle

Contingency is concerned with the importance of choice and of contestation.

For example, it took the unilateral decision of De Klerk to face down the Afrikaner hard right and call a referendum on negotiating an agreement with the African National Congress. If, like Israeli Prime Minister Yitzhak Rabin three years later, De Klerk had been assassinated, history would almost certainly have been fundamentally different (Shapiro and Bedi, 2007), whether in timing or content.

Alternatively, thinking about the ILO's 'decent work' agenda of the International Labour Organization (ILO), and the implications of work and wages for reaching the MDGs, it is commonly argued that the ability of large multinationals to relocate at will in order to seek out cheaper labour costs (from, say, the US to Mexico to Indonesia, especially in industries like the clothing industry) results in a race to the bottom as labour standards are cut to boost competitiveness. But, more careful ethnographic and empirical analysis shows that, in reality, factories, workplaces, and employment contracts are all contested and therefore outcomes vary – they are contingent because they depend on choice and political struggle in particular contexts.<sup>96</sup>

Powerful as global forces and pressures may be, the precise outcomes are contingent on political agency and negotiation. But choice is not always the only hallmark of contingency.

### Contingency as historical accident

Some contingencies are not based on choices. For example, the endowments of a country – whether mineral deposits or good soils, a common language, a history of equality – are all contingent in the sense of being geographic or historical accidents (Woolcock *et al.*, 2000). Similarly, which Pacific, Atlantic and Indian Islands were colonised, and by whom, was contingent on the accidents of the islands' distance from the mainland, trade routes, and prevailing wind patterns (Feyrer and Sacerdote, 2009).<sup>97</sup> These historical accidents matter: In part, contemporary income levels are determined by the length and nationality of the colonial legacy on each island.

Similarly, can it be disputed that without the attack on the Twin Towers in New York, the invasion of Afghanistan would have taken place? Or that, at least, it would not have happened at that particular time?

Even though pressure for change had been building within Japan during the early part of the 19th century, who would doubt that Japan's development history would have been the same after an American fleet (the 'Four Black Ships') arrived in the Bay of Edo in 1853, demanding the opening of Japanese ports?

In this sense, then, politics is constantly shaped by unforeseen events, such as earthquakes, depressions, food price shocks, political assassinations or deaths in office, external threats, financial crises that occur thousands of miles away, riots and wars. Any realistic framework for political analysis needs to be able to incorporate and be sensitive to the way in which a given configuration of structures, institutions, the distribution of power and political agency interacts with the here-and-now of contingent events (Mayhew, 2007; Shapiro and Bedi, 2007). And what is really crucial is how such events and opportunities are interpreted by agents. Exogenous shocks can open up space for policy change, but they do not determine the outcomes. Careful political work is essential.

### Why does this matter? Politics is open but decisions become locked in

Contingency, as we are concerned with it, then, is thus also about small causes with big consequences. Furthermore, there is often a mixture of agency and accident. The unforeseen consequences of choices can become locked in and luck can open up opportunities for choices to be made. For example, Acemoglu and Robinson (2012) explicitly emphasise the importance

<sup>96</sup> For example, community-based unions have emerged and transnational organisations with student and advocacy groups have created site-specific struggles for recognition, rights and remuneration in the workplace (Collins, 2007). Similarly, protests at the Unilever factor in Pakistan were supported by UK trade unionists, the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF) has helped coordinate national unions' negotiations with transnational hotel chains (Wills, 2002).

<sup>97</sup> For example, the islands of Fefan and Pohnpei in the Federated States of Micronesia have calm winds and so were left to their own devices despite being known about from the late 17th Century. In contrast, Guam, despite being relatively isolated, was on the Spaniard's Manila Galleon route because of a favourable combination of wind and currents. By the end of the 16th Century, Guam was settled as a watering hole for Spanish ships on the Mexico-Philippines route.



of political and historical contingency in explaining economic success and failure in *Why Nations Fail*.

- **Luck opens space for agency.** Key critical junctures where luck and accidents determine which leaders prevail have long-term implications for a country's future through reforms followed and the types of institutions put in place. Botswana was fortunate to have Seretse Khama whereas Zimbabwe got Robert Mugabe and the Congo got Mobutu.
- **Unintentional decisions put long-term trajectories in place.** Robinson and Acemoglu go yet further back, highlighting how the traditional leaders of Botswana encouraged British colonial control in order to counter the power of Cecil Rhodes and the British South Africa Company. This resulted in far more inclusive institutions for Botswana to build on from independence in 1966. They conclude: 'while economic institutions are critical for determining whether a country is poor or prosperous, it is politics and political institutions that determine what economic institutions a country has.' (Acemoglu and Robinson, 2012: 43)

Small contingencies can become 'locked in' as political decision-making and institutional evolution tends to follow a tree-like structure. Once a country or sector starts down one path, and the practices bed in, it takes an awful lot to shift movement in another direction. This is the notion of 'path dependence' underlined by historical institutionalists such as Paul Pierson (2000). This means that historical development is shaped at certain critical junctures when significant decisions are taken and these decisions then become hard to reverse, and over time 'large' consequences emerge from these 'small' events. One of the key policy lessons for donors is not always to be grimly tied to the logframe requirements of a project or programme but to be constantly alert to the possibility of working in the interstices of contingency.

### Summary - What can and should donors do about contingency?

**Permanent engagement:** First, donors need to be flexible, alert, and fast to respond to changing circumstances. If 'events' can cause political change, then windows of opportunity will open or close suddenly and without warning. To be flexible and have a developed understanding of which agents matter, donors must see political analysis as a permanently engaged mode. So they must seek to develop ongoing relationships with key players and organisations, and with existing and potential coalition partners, and place themselves in readiness for potential game changers.

**Identify and work in spaces where there is deliberation or struggle:** It is not only a matter of seizing opportunities but also a matter of seeking them out. Thus donors need to identify in very specific ways the sites of choice and contestation in policy arenas. This may be at the national or sub-national level, in sectors or issue areas, in workplaces, parliaments, women's groups, the upper echelons of the bureaucracy, or village meetings. They then need to work with agents and understand their interpretations of their interests and their political context. Donors can help re-frame political issues to generate political attention and shape actors' interpretations of political problems and policy solutions. Donors can help create or increase the political space around sites of choice, bringing in new voices and democratising policy dialogue. Addressing sites of collective and social deliberation is crucial because it is precisely the outcomes in these spaces that are undetermined but will become locked in. The future is not yet written.

**Change the language:** Third, political analysis is about the way in which political possibilities can be identified beside and within political realities.<sup>98</sup> Emphasising the contingent nature of 'political realities' helps us to rethink the nature of political feasibility – which is of course central to political economy. As argued above, preferences and world views of agents are not as fixed or stable as is often assumed. Hence donors and their partners need to consistently adopt language and frames which emphasise the contingent and the political. They need to avoid modes of thinking, speaking and behaving that reinforce a sense of fate or necessity. Structure is not destiny. Whatever the 'level of development' or the sector or the issue, *there is always room for manoeuvre*.

## 6.6 Conclusion

In this section we have set out the ways in which it is both important and possible to go 'beyond political economy' to a deeper *political analysis* of the contexts that development agencies want to understand better. We have set out the framework for a much more refined, differentiated and disaggregated set of concepts (tools for analysis) that can be used to do that. They build on the work of the previous sections – and on the important work in the 'three generations' of political economy. These tools can be used to understand a country, a region, a sector, a problem or an issue area, though they have

98 Or as Schedler (2007: 74-5) puts it (with some flourish), 'realities always unfold within a moving horizon of possibilities, with the so-called "real world" coexisting with and competing against other "possible worlds", the study of politics too, has to come to grips with the multifaceted plurality of contingencies that inhabit the public sphere.'

to be carefully and systematically applied. There are no quick explanatory fixes, no simple formulae to be written or boxes to be ticked, and no immediate 'read-offs' about what to do on a Monday morning. But, done properly, using this framework will significantly deepen understanding.

Structure-agency is the overarching framework we have adopted for the analysis of the politics for development. As we will explain in Section 7, this is the core context for understanding how politics happens and how politics can resist or bring about developmental change. Indeed it is at the core of a *political* theory of change. While we have sought to differentiate and disaggregate structure, agency, institutions, power, ideas and contingency, we have also stressed that these are essentially analytical distinctions for they all overlap and interact with each other. The key points are as follows.

- It is important to recognise, identify and understand the different types of 'structure'.
- All structures (especially economic, political, social and ideological ones) are constituted by relations of power that are given form through both formal and informal institutional arrangement.
- Institutions are themselves shaped, maintained, undermined, avoided or changed by human agency; contestation is at the core of the process.
- Power has many sources, forms, expressions and usages.
- Agents (individual and collective) are not only constrained by the power of structure and institutions (and the structure of power and institutions), but can also draw on resources within and beyond them to find opportunities to craft room for manoeuvre and to act politically.
- Ideas at a variety of levels, and not only interests, matter.
- Contingency is always present.

To dramatise the difference between political economy analysis (especially the now influential third generation) and the political analysis approach, we outline it in this way:

- **Political economy** has increasingly come to focus on, and analyse, the centrality of interests, incentives and institutions in shaping how agents behave.
- **Political analysis** places at its core the analysis of power, and how its structures and its institutions shape agents' behaviour. This is an examination of how they can and do generate, use, mobilise and organise power and institutions to bring about locally owned deliberation and appropriate change in the politics of development.

In the final section, we outline in brief a 'theory of change' (Vogel, 2012) that is essentially a *political theory of change* that has both informed and flows from the work of this paper.

## 7

## Conclusion: towards a political theory of change and an analytical framework

### 7.1 Politics matters

Politics matters; this is now widely accepted. Governance, formal and informal institutions, vested interests and collective action problems are all examples of the centrality of politics for development. In this paper we have argued that existing political economy approaches lack the necessary analytical tools to grasp the inner politics of development.

By this we mean that the broad tools and approaches they offer do not make it possible to understand when, why and how institutional reforms are negotiated and established, side-lined, opposed, left incomplete or simply never implemented. To make this possible, it is necessary to grasp how political agents – politicians, civil servants, citizens, lobby groups, firms, trade unions, faith groups, civil society organisations or coalitions of these agents – both interpret and manoeuvre within their political context.

This paper has offered a set of conceptual tools to help donors and others understand better the politics of the contexts in which they work. We have sought to go '*beyond political economy*' to offer the basis for a political analysis of the factors that promote or restrain development. The basis of this approach lies in a structure-agency framework for understanding politics and the politics of development, combined with a particular focus on power, ideas, and the contingent nature of political behaviour and outcomes.

### 7.2 Beyond political economy

#### Structure and agency

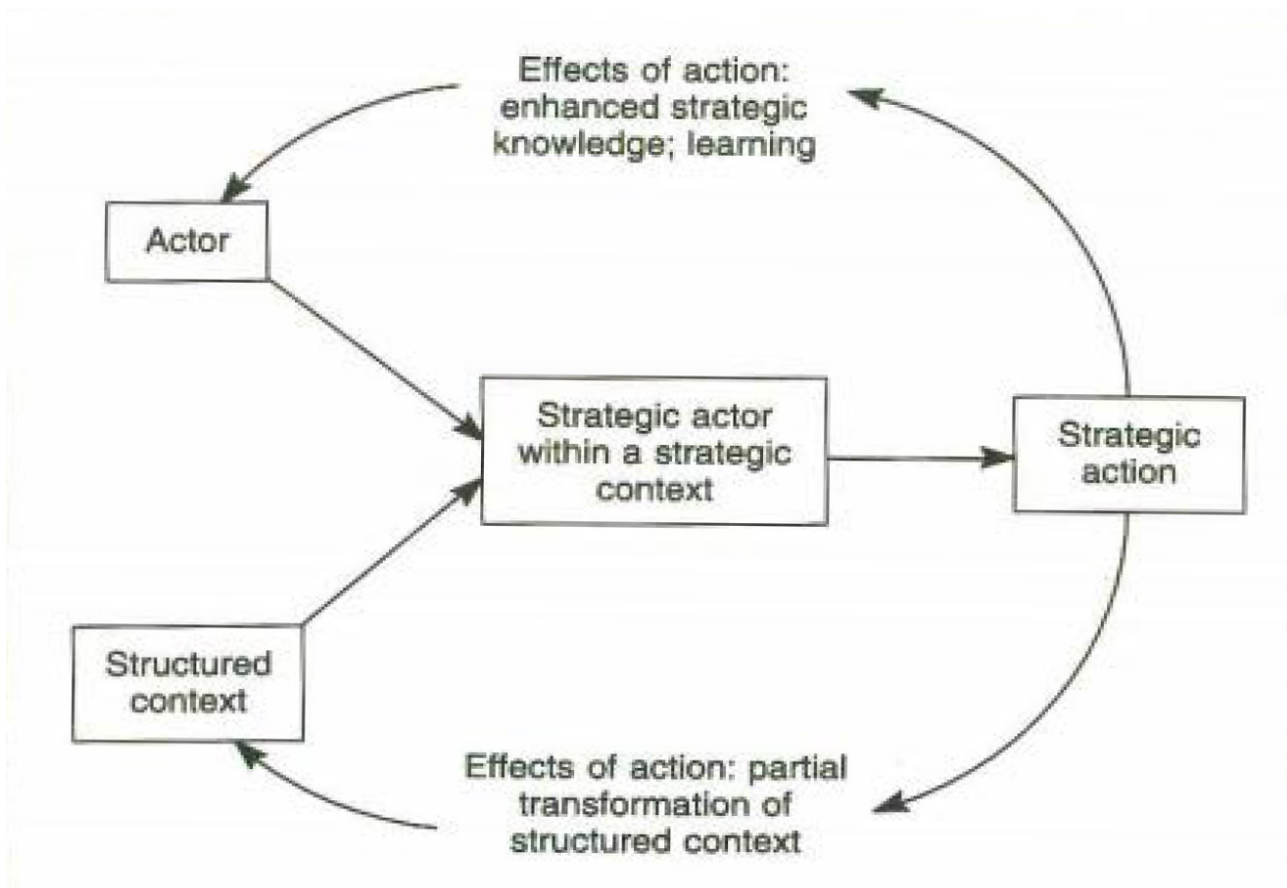
We agree with previous studies that the political context comprises structural and institutional elements. But we disagree with the tendency in much of that work to see outcomes determined by institutions through their role in providing a set of constraints, opportunities, and incentives for agents. And we disagree that agents always respond to these by rationally calculating the costs and benefits simply from the perspective of their own self-interest. The interaction between agents and their context is more complex than that.

- Institutions require political work to be set up in the first place, and to be maintained. Without this they simply atrophy or remain as what Margaret Levi has described as 'empty boxes'.
- Power and political struggle are the processes through which the institutional arrangements and political contexts are changed or maintained.
- Power – its distribution, its forms and its expression – is the force that influences other actors' conduct and beliefs and shapes the political context within which agents act.
- Institutions are, in part, social facts. This means that ideas about institutions are as important as the institutions themselves.
- Agents have to interpret the political context they find themselves in. Different agents will have different interpretations about the room for manoeuvre and whether and how to use it.
- People and groups respond differently to incentives and altered institutions. They do not all bend simultaneously as reeds in the water when the wind changes direction.

- Through strategic and political framing, agents can shift other agents' interpretations of the political context and how they could or should act.
- Agents' behaviours and interests are a result of their ideas about the world and their interpretation of the context and their interests.
- Finally, in order to avoid any misunderstanding, we stress that interests are of course real. However, they are not fixed and they are not self-evident. Agents have to interpret their interests. As such they are contingent and subject to variation.

Political analysis is about focusing the analytical lens on the point at which political processes occur. Analytically speaking, this is where context (structures, power and institutions) is, and where conduct (agency) happens.<sup>99</sup> Figure 7.1 is a simple diagram that conveys an important point. Conduct and context is an **alloy**, a production of something new, rather than an interaction of the pre-existing variables of interests and incentives.<sup>100</sup> As we have argued at length, the precise outcomes of the pathway from 'a strategic actor within a strategic context' to 'strategic action' depend on the contextualised choices of thinking and reflective agents. Agents should be understood not only as individuals but, much more commonly, as groups, organisations and, especially, coalitions. To do this requires examination of the operation of power and the emergence of interests and ideas, as strategic agents interpret their context and options. This means that understanding political conduct and outcomes is **a level of analysis in its own right**.

**Figure 7.1 The structure-agency framework**



Source: Hay 1995: 202.

(Remember that the idea of the 'strategic actor' in politics in Figure 7.1 above refers not simply to individuals but to collectivities – groups, organisations or coalitions – whether formal or informal, short-term or longer lasting).

<sup>99</sup> Note that the central boxes in Figure 7.1 of 'a strategic actor within a strategic context' and 'strategic action' do not approximate anything in the typical PEA diagrams (e.g. DFID, 2004; Fritz *et al.*, 2009). The closest approximation would be the arrows within these diagrams. But, as we argued in Section 5, most PEA reports tend to provide a sequential analysis of stakeholders, institutions and maybe structural factors akin to a template, rather than exploring their interweaving.

<sup>100</sup> The notion of structure and agency as 'alloy' comes from Hay (1995; 2002), i.e. they are mixed together to produce something new.

## Power, ideas and contingency

At the heart of our approach and of the conceptual tools we have outlined is a relentless focus on power; unlike the three generations of political economy. Power is the key 'resource' in politics and the key concept in political science. Power is embedded in structures; it shapes and is framed by institutions; and institutions can also both strengthen and 'tame' it. It constrains what agents can do, but it also can be generated, used and mobilised by them to shape and change both institutions and the structures of power.

We have argued that the failure to examine power sufficiently closely has been a limitation of the three generations of political economy. This has had the effect of transforming the analysis of politics into an economics of politics. We hope that we have offered here a significant correction to this, drawing deeply on other schools in political economy and political science.

## Disaggregated structures, institutions, and agency

The emphasis here on the importance of power, the centrality of ideas, and the presence of contingency establishes clear blue water between Third Generation approaches and our proposed political analysis *in terms of how we see the key factors working together*.

But there is also a second difference. We have argued that existing approaches do not sufficiently disaggregate and specify different and distinct types, forms, expressions of the key factors.

- For example, it is very important to distinguish between individual and different forms of collective agency, noting how the power of agents can increase through cooperation, but also that this cooperation has to be crafted and requires effort and political work to hold the groups or coalitions together.
- Likewise, we distinguished between different forms of structure and different types and expressions of power. These disaggregated concepts provide the analyst with tools of much greater precision. It discourages lumpy and generalising analysis (for example about 'power' in some very loose sense), it encourages a more granular examination, and it forces our attention on the interaction between agents and their context, which is where the inner politics of development unfold.

We summarise the differences between Third Generation PEA and our proposed political analysis in Table 7.1, below.

**Table 7.1: Differences between Third and Fourth Generation Political Analysis**

	Third Generation PEA	Political Analysis
<b>Aim</b>	Behaviour change	Political change
<b>Key concepts</b>	Stakeholder interests, institutions and incentives	Agency, structure, institutions, power, ideas, contingency
<b>Political outcomes</b>	Determined	Contingent
<b>View of politics</b>	Agents rationally find the route through a maze of fixed walls	Agents creatively navigate through a contoured and changing landscape
<b>Leitmotif</b>	Political realities as constraints	Room for manoeuvre always exists

## 7.3 Political Analysis

### A political theory of change: power, structures, and agency

Our approach to the analysis of the politics of development is inevitably bound up with a political theory of change: that is, how it happens and hence how it can be helped to happen. Understanding this will help the international community achieve its over-arching goal of promoting poverty reduction through sustainable and equitable growth, political stability and inclusive development. Our political theory of change can be stated quite simply as the dynamic and contingent relationship between power, structure, and agency.

In all that we have argued, power is central to the politics of development. It is the way in which agents – individual and collective – interact with the structures and institutions of power. It may be developmental, it may not be. It is driven by both interests and ideas. The overarching structure of power is constituted by varying relations of the economic, political, social or ideological structures we have described. They may complement each other, or they may conflict, or both. **Change may start in any one or more of the broad ‘structures’ we have sketched – economic, political, social and ideological – but it will be pushed for, resisted or carried through by human agency.**

**Change occurs when the balance of power changes**, for good or for bad, and not simply as between two contestants, but in and across the structures of power. The following few examples illustrate the point.

- **Social structure.** Change may start to happen from within the social structure – such as the increase in the number of ‘Latino’ voters in the USA and how they generate, mobilise and organise power and use it within the institutions of the US political system. Or it may have its origins in the rise in the number of unemployed young people in South Africa. Their views may be divided too. But agential power, utilising the institutions and spaces in the structure of power and politics is at the core of this.
- **Economic structure.** Change (itself the result of strategic decisions by a new coalition of policy-makers in the structures of political power) in the economic structure and institutions – as has occurred in China and Vietnam in the last few decades – will unleash the potential for new agential forces (amongst workers, new professionals or the burgeoning middle classes, for instance). The institutional room for manoeuvre in the shifting structures of power will shape the new institutions and policies, as will the way in which new forces organise, aggregate and articulate their ideas and interests. All these factors, and the institutions and policies themselves, will differ.
- **Ideological structure.** Change in the ideological structure – the slow emergence of secular ideas, for instance – will have an impact on the power of formerly ideologically influential interests (such as the Church in Ireland, Spain, or the Philippines). This will happen if the secular ideas and agents can either get organised or infuse themselves into other organisations, institutions and agencies. This in turn will affect policies and programmes. The reverse is also the case. The rise of new ideological power can change secular institutions and policies.
- **Political structure.** Decisions about changes political structure can also be the source of a change in the relations of power. These can take place in, for example, the formal (*de jure*) institutions and structures of politics, and in changes in the distribution of power (perhaps brought about by the exercise of power or demands and ideas by new, emerging or better organized interests or external pressure). Decentralisation in Indonesia or devolution in the UK has opened new spaces for new agents to act politically in ways formerly precluded.
- **Agents – individual but much more commonly collective – are the drivers of such change.** They may draw on available structural or institutional resources, or they may generate and mobilise ‘new’ resources within the limits of the possible, with or without external help. And the change they effect may be small or large. It may be in the economic structure and its institutions, or in all or some of the political, social and ideological structures and their institutions.

So, all of this happens through agency – the groups, organisations and coalitions that act to promote or frustrate developmental change – and how such agents operate within the constraints and power relations of their situation and how they organise politically within those constraints (or behind, beneath or across them) to generate and direct ‘new’ power to advance their ideas and their interests.

It may happen at the most parochial level or at the macro level. The issue may concern getting a safe road-crossing for school children in downtown Manila. What kind of coalition are the parents and teachers able to organise and how, if at all, can they be assisted? What is the balance of power on the relevant council that has to make the decision? What links to powerful players in the council, or beyond, do they have and how do they use them, formally and behind the scenes? What is their room for manoeuvre in the local structures and institutions of power? What other groups do they pull in – the church? Or it may happen at the national (regime) level, or in a sector or issue area. The same basic principles for change apply.

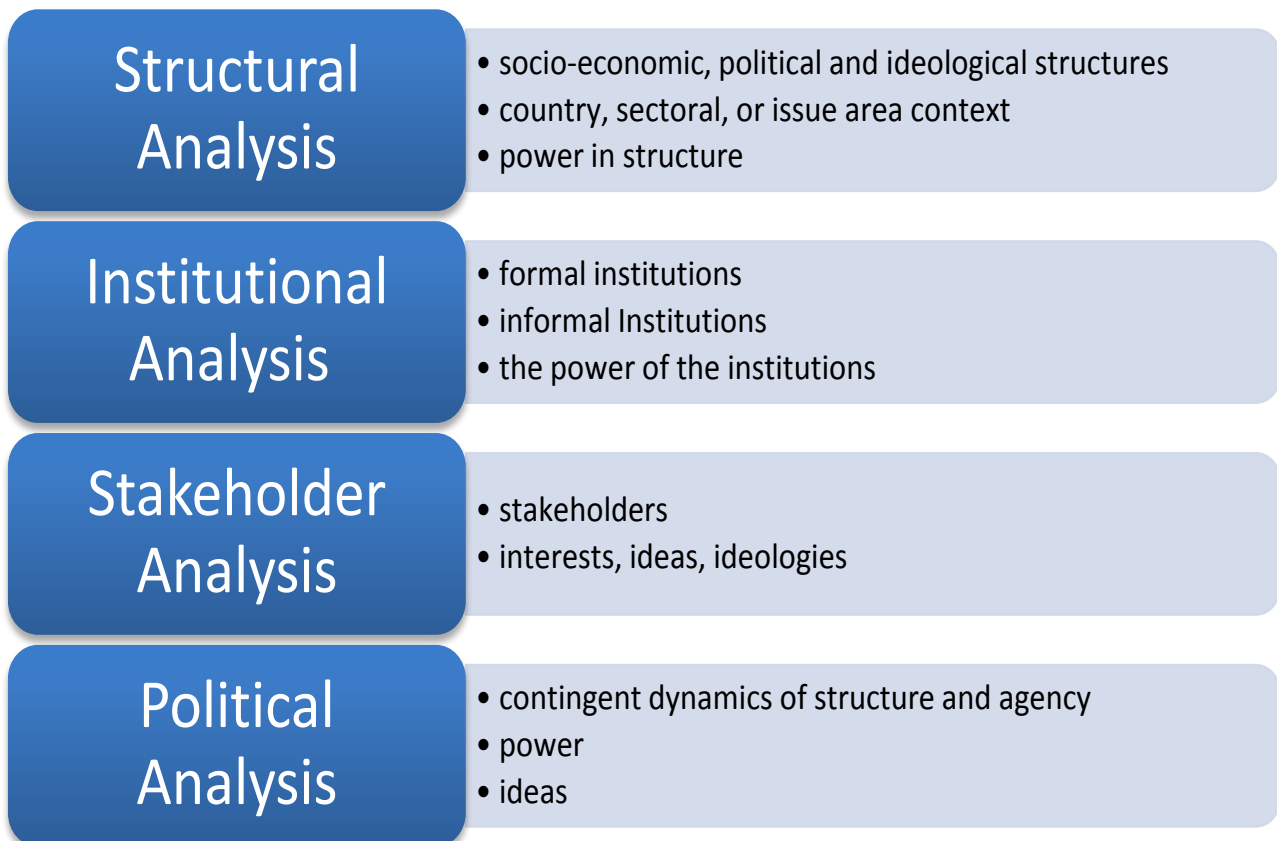
The challenge therefore for donors and other external organisations is, first and foremost, to understand the structures and institutions of power and the agents that control or are controlled by them. This must be done whatever the level or unit of analysis to be understood. The next step is to begin the difficult task of working out whether, where and how to help developmental agents to shift the existing balances of power and the institutional arrangements. This must be done in such a way that they, the local agents, can negotiate and shape their own endogenously appropriate and legitimate institutions and policies that will promote, rather than restrain, development.

## A framework for political analysis

Figure 7.2 represents a simplified set of four sequenced levels of analysis for conducting political analysis. And within each level are the far more detailed, differentiated and disaggregated conceptual tools described in Section 6. In our view, it covers some of the same ground as existing political economy analysis, but uses more refined tools and adds a crucial extra layer. This extra layer, political analysis, is where the dynamic analysis is carried out. It is the point at which agency and context combine to produce political action and outcomes.

The framework will be accompanied by a step-by-step method for bringing together the disaggregated concepts and the political theory of change. It will enable analysts to drill down deeper into the political processes.

**Figure 7.2: Levels of analysis**



But the skeleton of the approach is as follows:

(1) Map the problem or issue:

- National level, sub-national, sector, issue or problem area?
- Can the problem be identified by donor or external analysis?
- Can it be articulated and driven by indigenous demands or mobilisation?
- Can it emerge from external actors generating political and deliberative space for previously unarticulated demands to be made? (a careful combination of the previous two).

(2) Map the first-order stakeholders:

- Identify all those agents – individual and collective – who are, think they are, or potentially are, affected by the problem or issue and/or its resolution, and why and how.

(3) Map the relevant political context, identifying:

- The geographical, economic, political, social, and ideological structures, paying attention to changes in, and tensions or alignments between, them;



- The formal and informal institutions within each structure, paying attention to tensions or alignments between institutions and structures;
- The structural and institutional sources and forms of (formal and informal) power: What are the institutional rules of the game? Which are aligned, which are in tension?

(4) Map the second-order stakeholders

- Structural and institutional analysis may well have identified additional stakeholders, e.g. potential veto players, brokers, coalition partners and other potential collective agents.

(5) Conduct the political analysis

- How do institutions and structures shape what agents can and cannot do (and think of doing)? And how do institutions and structures (both local and external) provide resources for agents to act and shape conduct and context?
- How do agents interpret their political context and their interests? What opportunities for strategic framing exist? What forms of collective agency are feasible and how? What political work is necessary? What is the room for manoeuvre?

**Multidisciplinarity:** We would add one operational point. At the start we stressed that work of this kind is neither easy nor quickly done. Moreover, good political analysis requires multi-disciplinary work and is best done by teams that cover the necessary range of disciplinary, technical, and managerial skills and that draw on both local and international analysts. For example, an anthropologist, an economist, a legal scholar, a political scientist, a sociologist, and a geographer are probably all necessary to map and understand the full range of informal and formal institutions, processes and the structures of power they are embedded in.

## 7.4 Conclusion

Political analysis provides the key concepts, framework, and methods of analysis to grasp how developmental political change happens, is frustrated, and can be promoted.

Political analysis provides the tools for practitioners and policymakers to drill down into the inner politics of development through providing finer and more disaggregated concepts.

It encourages a dynamic form of analysis (avoiding the tendency to structuralism or voluntarism of many other existing approaches). And it offers a sharp focus on *power and agency*, revealing the room for manoeuvre that local agents can find or create.

Again, we stress that while the framework will help practitioners and policymakers think more clearly about *what* to do on Monday morning, political analysis will not tell them what to do. That will also depend on many other factors, including what their institutions, structures of power and political processes will enable or allow them to do.

This paper has been an extended ground-clearing exercise. Although writing it was long and sometimes hard, we felt that this was necessary given the continuing ongoing dissatisfaction with what is currently understood about *how* to bring about better political analysis and developmental political change. This is despite more than a decade of development of various political economy tools aimed at doing precisely that.

Our initial hunch was that, in order to go *beyond* political economy, we needed to go back to basics and do some serious theoretical excavation. As we have argued, existing approaches and tools suffer from a lack of politics and political analysis. They rely too much on economic assumptions and they have failed to take power seriously. They have not sufficiently addressed the necessary political work behind and within institutions that makes them function, or not. And they have failed to see that interests and ideas are part of the same story, and that self-interest is not the obvious and consistent force it is always assumed to be. Previous approaches have also not taken contingency seriously.

Political analysis is about identifying the room for manoeuvre that exists or can be created within political realities. Hence identifying which 'realities' are more or less available for moving is critical. To understand that means understanding power.

If you wish to destroy poverty, prepare to address the power and the politics that keeps people poor. The rest is detail.

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