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Tackling the Governance of Economic Transformation

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Policies to move African economies from growth to transformation are urgently needed, but are they feasible, given typical political-economic constraints? Drawing on a multidisciplinary literature, this paper warns against the twin errors of ignoring such constraints and treating them as insuperable. There is no doubt that typical patterns of power and interest undermine the credible commitments, adequate public good provision, investment coordination, and provisions for joint learning that are crucial in economic transformation. Moreover, efforts to tackle poor economic governance comprehensively have generally failed. However, history tells us that successful economic transformation occurs in steps and is often achieved by targeted measures and focused institutional improvements in priority areas, with a good deal of context-sensitive trial and error. What is needed is a politically smart approach to the conditions for economic transformation, one that is based conceptually on the form/function distinction, empirically on the growing body of fine-grained case studies of experience at sector level, and a problem-driven learning approach to policy implementation.

1 | Introduction

Across Africa, many countries are now accustomed to sustained economic growth. Relatively few, however, are experiencing “growth with depth,” otherwise known as economic transformation.² Economic transformation refers

here to a process in which labor and other factors of production move from lower- to higher-productivity activities. It includes structural change, such as the classic movement out of primary production into sectors of higher average productivity. It also includes within-sector changes, including in agriculture and other primary sectors, as households and firms acquire new capabilities and become able to compete in larger and more distant markets on a growing scale.³

Compared with the most usual pattern of growth, economic transformation (i) raises incomes broadly across the income distribution, because it is more employment intensive; (ii) is robust against price shocks and price cycles, thanks to diversification; and (iii) increases the opportunities for future economic growth, because it creates linkages and synergies.⁴

This helps to explain the current interest not only in transformation as a policy goal but also in new approaches to “industrial policy,” conceived as active promotion of new economic activities of high potential in all sectors.⁵ Making economic transformation a goal of national policy is good economics as well as politically attractive in many countries. Learning how to achieve this goal by pursuing some form of modern industrial policy is an obvious next step. Economic analysis offers several instruments for identifying areas in which investments would help to address the “transformation deficits” of particular national economies.⁶

¹ Supporting Economic Transformation (SET) and Politics & Governance programs, Overseas Development Institute, London.

² ACET 2014; ECA and AU 2014.

³ There continue to be strong reasons for emphasizing productivity gains in agriculture, especially in the early stages of development (Studwell 2013; Henley 2015; ACET 2017). On the other hand, convergence in labor productivity between poorer and richer countries has been fastest when investment has moved into manufacturing, because of the exceptional scope for the acquisition of new technological capabilities found in manufacturing activities (Cimoli and others 2009; Whitfield 2012; Rodrik 2013). In Africa, there are also reasons for thinking that the current period is presenting an opportunity as wage rises in China impel Chinese manufacturers to move the more labor-intensive parts of some global value chains to other world regions (Lin 2013; Stiglitz and others 2013).

⁴ McMillan and others 2017.

⁵ Rodrik 2007a; Lin and Treichel 2011; Lin 2012; Chang 2015; Newman and others 2016.

⁶ te Velde and others 2015.

However, it does not follow that a given country has the wherewithal to make a good job of moving itself onto a transformation trajectory. As is generally understood, economic changes of the desired sort are invariably constrained not only by capacity limitations in business and in government, but by configurations of interest and power—in other words, by the political economy of the country.

In recognizing this elementary point, there are two errors to be avoided. One is to make a nod toward the obvious importance of political economy and then to carry on discussing policy and investment options for countries as if these were technical issues to be settled entirely within the sphere of economic analysis and appraisal. That way lies a slippery slope toward illusory ventures and poor policy advice. Professional economists and others who prefer to stick to the technical matters they know best delude themselves and mislead their clients when they neglect what the best multidisciplinary research has to say about political feasibility. How the workings of interests and power regularly undermine technically sound economic ventures is not a side issue that can be left for later or to others who know more about these matters. Support to investments that are known to be likely for political-economic reasons to fail is not only wasteful but can do real harm.

The other error is the opposite one of assuming that the political economy of transformation rules out a pragmatic approach in which detailed economic and political diagnostics have a central role. This is the trap into which political and social scientists fall when they provide broad-brush accounts that explain development failures without due attention to exceptions and variation.⁷ There is no doubt that most development failures, most of the time, are explicable with reference to power and interest configurations. But this is not the only issue. In history, nearly all successful economic transformation has begun with small initiatives taking advantage of unanticipated openings or “good enough” conditions within persistently unfavorable overall contexts. These experiences point to the validity of a pragmatic approach to industrial policy, including a large element of context-sensitive experimentation.

The argument of this paper, then, is that the current policy agenda around economic transformation needs political economy analysis—as an integral component of advice and decision-making, not an optional add-on—and it needs an equally strong element of pragmatic and optimistic searching. Further, this is not a matter of achieving a balanced or optimal combination of hard-nosed analysis and pragmatic action. There are no trade-offs; the soundest approach will be the one that achieves maximum pragmatism along with maximum realism, or minimum delusion, about the political-economic framework.

The remainder of the paper sets out some of the evidence supporting this view. Although it comes at the matter from a different angle, its conclusions are similar and complementary to those of the excellent *Beating the Odds* by Lin and Monga (2017). Section 2 reviews of the way configurations of power and interest typically obstruct transformation efforts and the delivery of industrial policy. The following section makes the argument for not treating these negative effects as a single thing (be it bad economic governance, imperfect democracies, or systematic rent seeking) that must be comprehensively overturned before anything transformative can happen. Finally, the case is made for an informed pragmatism as the only approach offering substantial promise of making economic transformation a reality in Africa this century.

In approaching these matters, I want to suggest that we need a sense of history. Decisions and support should be guided by awareness, based on documented experience, of (i) which kinds of problems societies are able to solve at what stage in their development, and (ii) how the best changes are often the cumulative result of small victories that could not have been imagined earlier.

2 | How political economy matters for transformation

Typical political incentives and patterns of economic interest representation—the core of what we call political economy—tend to work against economic transformation. They do so through at least four channels. Kunal Sen (2013; 2015) usefully distinguishes three pathways through which politics influences the conditions for economic growth. Putting these together with the consensus of recent literature on industrial policy, we get four channels by which political economy factors can—and usually do—impinge negatively on the feasibility of economic transformation.

Four channels

Sen’s first channel is the willingness and ability of the state to make *credible commitments* to potential investors that their assets and profits will not be expropriated, by one means or another, at some point in the future. This need—the most fundamental dimension of the investment climate—has been met most often through formal protection of property rights and other legally binding rules, including on taxation. Although such institutions matter for growth, they are particularly critical for transformation. The fixed capital investments required for economic transformation are obviously more sensitive to the credibility of the state’s commitments than the fast-turnover commercial activities that are the basis of much recent growth.

⁷ For some specialists, most recently Mkandawire (2015), this error is associated particularly with the concept of neopatrimonialism and a corresponding school of thought that we should junk a concept proven to have little explanatory power. I would argue that the concept itself has an excellent social science pedigree and many explanatory applications, not just in the study of Africa. The problem lies in the excessively broad specification of the outcomes it has sometimes been called on to explain.

The second channel concerns the *public goods* needed to make private enterprise profitable. This includes the investments in public health and education required for the development of an employable labor force as well as the provision of appropriate transport and power infrastructure. By definition, public goods are unlikely to be sufficiently provided by the private sector acting alone. A well-motivated and competent public service may be necessary for public good provision to reach the necessary standard and may indeed be considered a critical public good in its own right.

The ability to correct *coordination failures* is the third channel singled out by Sen. The productivity and profitability of new economic activities often are often highly dependent on other investments taking place simultaneously. Poor timing of the processing or input supply investments needed to ensure the profitability of a new industry can be fatal. Consistently supportive, or at least stable, trade, tax, and credit policies are also essential. If these conditions are unlikely to be met, wise investors will not invest.

Finally, where the challenge is economic transformation and not just sustaining growth, a key entry point for political economy is the degree to which *information externalities and learning costs* can be accommodated in a dynamic setting. According to the industrial policy literature,⁸ an essential role for policy is the facilitation of “learning”—about new technologies, new ways of doing business, and ways of managing new sectors. Industrial success is about discovering which new activities can be undertaken at low enough cost to be profitable. However, such learning is a public good, with spillover effects for the sector or economy as a whole, not just for the firms doing the bulk of the learning. Therefore, an element of public subsidy, delivered selectively and for a limited time to firms trying out new activities, is likely to be required.

Deep structures

What does political economy say about the likelihood of these four types of conditions being met in the typical poor developing country today? The first step in answering this question needs to be rigorously realistic, so that it is clear and explicit that outcomes depend heavily on configurations of power and interest. Only if we have clarity on this can we take the second step of warning against drawing the wrong conclusions from it.

In each of the four channels, typical political-economic patterns have a powerfully negative influence on the conditions for economic transformation. The reasons are numerous and self-reinforcing. To put it first in a summary way, political stability is often bought in ways that prevent

the state from making fully credible commitments to investors; political time horizons work against adequate provision of public goods; bureaucrats are not normally empowered or motivated to play a role in private investment coordination; and the apparatus for managing conditional subsidies does not exist. In each respect, political incentives interact in a perverse way with the incentives of officials, firms, and households.

As recent world history harshly reminds us, the conditions affecting economic progress are not independent of the determinants of social cohesion, civil peace, and internal war. An important foundation stone of the political economy of development is the way societies have dealt with the problem of violence.⁹

In brief, development starts with political and social systems that are not only very unequal but also fragmented along regional, religious, or ethnic lines. Urbanization and, more particularly, large-scale capitalist production eventually generate new sources of socioeconomic identity and cleavage. However, until capitalism takes hold and economies begin to be transformed, political order and civil peace depend on tacit agreements or bargains of some sort governing the distribution of economic rents. The resources to which state power gives access have to be distributed through the allocation of powerful or lucrative positions in a way that is acceptable to the elites of the different ethno-regional communities, particularly those with the greatest potential to mount a rebellion.

This mode of distribution may well be an essential first step in addressing what today we call state fragility, and for that reason a precondition for any kind of social and economic progress.¹⁰ However, it will not usually correspond to any concept of the general or public interest from economic or political theory, let alone the ideal conditions for economic transformation. This may seem relevant chiefly to states recently recovering from or still threatened by civil war. However, the basic observation about interdependence between the stability of the state and certain forms of ethno-regional patronage, clientelism, and corruption is relevant to all countries whose socioeconomic structures are not yet fully capitalist. It is relevant, for example, to all the current members of the East African Community.¹¹

Thus, even after minimally coherent states are established (or fragility is greatly reduced), political leaders will typically acquire power by distributing jobs and services to their followers and clients. Presidents distribute ministries and other public offices to key members of a governing coalition as “prebends”—that is, offices permitting capture of the rents associated with natural resources or administrative monopolies. The discretionary allocation of import licenses, tax concessions, public contracts, and the like works both to enrich elements of the political class and to establish relations of mutual interest and support between politicians and business sectors—or, sometimes, between the political and business wings of the same dominant families.¹²

⁸ Rodrik 2007a; Noman and Stiglitz 2012; Ohno and Ohno 2012; te Velde 2013; Altenburg and Lütkenhorst 2015; Newman and others 2016.

⁹ North and others 2009; Khan 2010; North and others 2013; Hough and Grier 2015.

¹⁰ Kaplan 2008.

¹¹ Booth and others 2014.

¹² Joseph 1987; van de Walle 2001; van de Walle 2005.

In the decade after independence in Africa, a number of “fathers of the nation” managed to combine careful ethno-regional balancing with support to core bureaucratic functions, to the benefit of development outcomes. However, few of their successors were able to sustain this developmental patrimonialism; almost everywhere, state bureaucracies have been worn down by the political logic of clientelism.¹³ The coming of multiparty politics has helped less than many hoped. Politics has become more competitive but more, rather than less, patrimonial.¹⁴ This is not surprising in view of the very recent origins of the contemporary form of democratic state in several high-income countries, including the United States.¹⁵

Economic effects

The implications of these major features of the political-economic setting are powerfully negative, and we have to keep that constantly in mind. Otherwise, we deny history. Because they have largely untransformed economies and social structures, poor countries have political systems that transmit the “wrong” incentives to individuals and organizations in each of the areas we have singled out as important for economic transformation. This happens in at least six ways:

- The imperatives of ethno-regional political settlements commonly undermine the confidence of investors that they will be treated fairly.
- The need to reward regional political barons for their support works against the provision of pure public goods and inhibits the tackling of institutional blockages created by ethno-regional vested interests.¹⁶
- The short time horizons generated by competitive clientelism weaken politicians’ incentives to tackle civil service ineffectiveness or set up durable arrangements for investment and policy coordination, not to mention sophisticated industrial policies.^{17,18}
- Voters do not trust candidates who promise elaborate reforms to address complex institutional problems, partly because there is no precedent for such things succeeding.¹⁹
- Large business interests—or political-cum-economic power holders—find themselves comfortably ensconced in protected import-export, real-estate, transport, or industrial activities. As financiers of politics or as voters, existing economic interest groups shape what governments can and cannot do, which generally works against consistent support for new ventures oriented to changing the structure of economic activity.²⁰
- Business people find it more effective to cultivate relations with individual politicians, especially incumbents,²¹ than to

support to the kinds of formal deliberation councils, and other mechanisms of interest representation, that contributed to early industrial policy in Asia.²²

The combined effect—simplifying and ignoring the many partial exceptions—is that action to stimulate investor confidence, alleviate critical infrastructural constraints, and build organizations to coordinate structural change in the economy is at best postponed indefinitely.

Neither politicians nor public bureaucracies have incentives to seriously address these issues. The politically linked private sector is typically uninterested in changing the current economic model. It may resist investments or changes in license or tax regimes that weaken its current profitability. Uncertainties about the long-term future encourage local and international businesses to continue in rapid-turnover commercial and service activities rather than undertake fixed capital investments or provide large-scale productive employment. Investments in new products and technologies where there is an important element of discovery, with significant positive spillovers to the rest of the economy, do not take place because there are no arrangements for spreading the costs and risks.

3 | Good governance and other unhelpful ideas

It has been customary for the past few decades to view the problems we have been discussing as “weak governance,” to be addressed with comprehensive reforms to improve political accountability and bureaucratic effectiveness. If countries can make political leaders more accountable, enforce limits on corruption, and increase the efficiency of their public services—it has been argued—this will lead to coherent policies for development, improve the business climate, and usher in higher-quality growth.

Is good governance needed?

The mantra of good governance, understood in these broad and ambitious terms, is far from just a donor invention. It is seen as so self-evidently true that it is now integral to the belief system of intellectuals and ordinary citizens in many developing countries. Donors, indeed, are often reproached for not being serious enough about combating bad governance in countries where they work. But comprehensive governance reform is open to serious objections. Political research has become progressively more critical of it, influenced in part by spectacular development successes in Asia under regimes scoring low on conventional rankings for governance quality.

Today’s literature is consistently supportive of professional public administration as a factor in improved development results, but ambivalent at best about the standard panoply of democracy support, accountability, anti-corruption, and citizen empowerment.²³ The likely contribution of democracy, on any relevant definition, to the pace and quality of economic growth continues to be hotly disputed.²⁴ The more ambitious

¹³ Booth and Golooba-Mutebi 2012; Kelsall 2013.

¹⁴ Cheeseman 2015.

¹⁵ Fukuyama 2014.

¹⁶ Kimenyi 1997; Poulton 2014a; Singh and vom Hau 2015.

¹⁷ Geddes 1994; Grindle 2012.

¹⁸ Kelsall 2013; Whitfield and others 2015.

¹⁹ Posner 2005; Keefer 2007.

²⁰ Booth and others 2014; Poulton 2014; Whitfield and others 2015.

²¹ Arriola 2013.

²² MacIntyre 1994; Campos and Root 1996.

²³ Grindle 2004; Meisel and Aoudia 2008; Andrews 2010; Noman and others 2012; Sundaram and Chowdhury 2012.

²⁴ Kelsall 2014; Rothstein and Tannenbergh 2015.

types of civil service reform have usually fallen well short of their objectives.²⁵

Lately, advocates of comprehensive governance reform have been obliged to lean less on the balance of the evidence on institutions and growth, and more on the research (2005) and best-selling book (2012) by Acemoglu and Robinson. Although this works on an extremely broad historical canvas, it can be read as prescribing early adoption of “inclusive” power arrangements and institutions by today’s developing countries.

The good governance and inclusive institutions agendas suffer equally, however, from two fundamental flaws. First, as emphasized by Acemoglu and Robinson themselves, political systems change slowly unless subjected to a major external shock. They change most slowly when economic dynamism is lacking and there is therefore little change in the social class and power structures that are the nutrient broth for patronage politics and predatory rent seeking. Donor-led reform efforts based on the illusion that these structural underpinnings are unimportant, or can be wished away, tend to produce a particular kind of change. After absorbing substantial amounts of reformist effort, they lead to an impressive façade of transparency and accountability arrangements, behind which politics and business continue to be conducted as before.²⁶

Second, it is not in fact necessary for institutions and power structures to change comprehensively for transformative change to take place. Acemoglu and Robinson’s distinction between “extractive” and inclusive regimes may serve well enough their particular “compression of history.”²⁷ But most political regimes since the 19th century that have presided over major economic breakthroughs for their country have simultaneously had *both* extractive and inclusive features. If the standard reading of Acemoglu and Robinson were true, no country would ever have undergone successful economic transformation. A less compressed reading of history in fact teaches us two things. First, until capitalist economic and social development is quite advanced, political systems are generally inconducive to growth and transformation. Second, progressive change does nonetheless happen, sometimes at unprecedented speed. How is that possible?

Encouragement from history

The literature on developmental states in Asia offers three insights into the features of country politics and governance that are important preconditions for economic transformation and those that are not. Together, these observations help offset the rather bleak perspective on possible change that we have offered so far.

²⁵ World Bank 2012; Andrews 2013.

²⁶ Pritchett and others 2010; Andrews 2013.

²⁷ Jerven 2015.

²⁸ Campos and Root 1996; Woo-Cumings 1999.

²⁹ Khan 1995; Khan and Blankenburg 2009.

³⁰ Levy and Fukuyama 2010; Khan 2013; Levy 2014.

³¹ Henley 2015.

³² Asia Foundation 2011.

³³ Bates 1981; 1989; Kelsall 2013.

³⁴ Leonard 2010; Roll 2014.

³⁵ Rodrik 2010.

First, the countries that achieved the fastest industrial progress and/or agricultural transformation were not initially democracies of any kind. During their take-off phase, they lacked many of the qualities today associated with good governance. On the other hand, they benefited from a political leadership that effectively promoted an inclusive form of economic transformation as a national project. In most cases (Singapore and Taiwan seem to be partial exceptions) these were also regimes with highly elaborated systems for ensuring accountability and building consensus. The conventional distinction between good and bad governance fails to capture some of their most relevant features.²⁸

Second, the Asian experience shows that it is not necessary for the bureaucracy of the state *as a whole* to become an effective coordinator of policy and supporter of private-sector investment and productivity growth. Most success stories start in a single sector, with a single politically empowered public agency. This was a theme of Johnson’s (1982) study of the Ministry of Trade and Investment in Japan. It is part of the story about agricultural transformation in Indonesia under Suharto (Henley 2015). The issue, and its relevance to contemporary Africa, is discussed at more length in ACET (2014) and Ansu and others (2016).

Third, given an empowered sectoral agency, the presence or absence of politically supported policy ideas based on sound economics is a critical variable. As Henley (2015) shows, policy assumptions and priorities on their own explain a good deal of the outcome differences between Southeast Asian countries and closely comparable countries in sub-Saharan Africa. As Rodrik (2014) has argued, taking political economy constraints seriously should not mean denying a role to the well-placed and well-communicated policy idea—or to its obverse, the dead weight of economic ideologies whose time has passed.

What further can be said if we broaden out this historical survey to other and more recent examples? In general terms, the following seems true:

- Depending on the particular ways power is configured in a country at a given time—what Khan calls the “political settlement”—well-focused efforts led by the state can stimulate changes that lead eventually to transformational outcomes.²⁹
- Even highly neopatrimonial political regimes can host substantial progress in either social or economic spheres, or both, as illustrated by the cases of Bangladesh;³⁰ Indonesia under Suharto;³¹ the Philippines since the fall of Marcos;³² and some past periods in the post-colonial history of Africa.³³
- In these and other cases, particular public agencies with the right level of political protection for professional management can have substantial benefits, even absent general improvements in governance.³⁴
- Few transformation successes started out with a well-defined plan. Most involved a good deal of thoughtful experimentation or searches for optimal solutions to particular problems—solutions that were feasible and effective in their context.³⁵

In short, systemic changes in governance are unlikely in the short and medium terms, but they may not be necessary to get economic transformation started. If we look closely enough at the historical record, it becomes clear that there are other options than comprehensive governance reform. And, of course, improving economic performance is one of the keys to getting intrinsically desirable improvements in political governance in the slightly longer term.

4 | Getting politically smart about economic transformation

To summarize the argument so far, there are good grounds for attributing the transformation deficits of many developing countries to fundamental features of their political economy. There is little evidence to suggest it is realistic to sweep away these constraints with comprehensive governance reforms, as has been attempted in sub-Saharan Africa over the last quarter-century. On the other hand, there is much historical experience to support a more pragmatic reformism that tackles specific institutional blockages, a few at a time, learning in the process how to do this effectively. By this route, economic outcomes can be made to improve in ways that cumulatively, in due time, make possible further social and political progress.

This is the broad perspective within which I now propose to focus more narrowly on the immediate challenges facing countries where economic transformation figures on the policy agenda. In view of what has been said about political economy, how are the constraints likely to be eased and the opportunities seized? And what approaches to pragmatic reform stand the best chance of success? I suggest that this has conceptual, empirical, and practical dimensions.

Form and function—a vital conceptual anchor

The combination of political-economic realism and pragmatic action that this paper recommends starts with the conceptual distinction made by Chang (2007), Rodrik (2007b), and more recently the 2017 *World Development Report* between institutional form and institutional function.³⁶ Nothing we have seen so far eliminates the need for countries to make headway, albeit step by step, in all four of the channels through which political economy can influence growth and transformation. For that reason, institutions of economic governance really do matter. But the channels only signal institutional *functions* that need to be fulfilled. And the institutional *forms* that have performed them well, or well enough, in historical cases of successful economic transformation have been remarkably diverse.

For example, credible commitments to investors have not always been satisfied by secure property rights. As the experiences of China and Vietnam illustrate, the requirement

can be met more informally, by agreements between political patrons and public or private entrepreneurs about the future distribution of the profits and rents arising from a venture.³⁷

It follows that a pragmatic approach involves, first of all, giving hard thought to which form of arrangement is most likely, in the prevailing context, to perform an identified key function. This may well involve putting aside completely the established models and international notions about “best practice” in order to focus on what might work well enough, being sufficiently aligned with or protected from the prevailing political-economic incentives. “Working with the grain” in this respect—taking into account both the institutional resources and incentive structure—is an essential starting point.³⁸

Empirical stimulation—more and better case studies

Creative and pragmatic thinking about form and function in a particular country or sector does not have to start from scratch. There is a growing literature of case studies on what has and has not worked to satisfy the core requirements for economic transformation. Beginning at the country level,³⁹ this literature has graduated to fine-grained sector studies, using analytics of the kind proposed in this paper. The most notable consolidated set of such studies to date is the one collected in Whitfield and others (2015) and Whitfield (forthcoming), the results of a multiyear research program led by the Danish Institute of International Studies. Further contributions in this vein are appearing apace from the staff and associates of the Effective States and Inclusive Development research program at the University of Manchester, including the recent volume edited by Pritchett, Sen, and Werker (2017).

As a whole, this body of work is adding much-needed granularity to the political economy of change at sector level in Africa and Asia. It provides a resource on which practically minded actors within, or seeking to support, African policy systems can draw when thinking through the form/function question in relation to current policy challenges.

For example, in Section 2 of this paper we identified the credibility of commitments as a fundamental channel of influence for political-economic factors, and we emphasized how, in many countries, the underlying bargain between ethno-regional elites undermines the confidence of investors that they will be treated fairly. The case study evidence suggests exceptions to this pattern where *either* the politicians in power have a direct interest as entrepreneurs in a sector (such as dairy in southwest Uganda, commercial banking in Kenya) *or* the producer group is a key electoral constituency (such as cocoa in Ghana, sugar in Mozambique).

Again, in Section 2 adequate provision of public goods was singled out as likely to be problematic under prevailing political systems, where private and ethno-regional club goods get priority and, especially under competitive conditions, politicians have short time horizons. Both public good provision and sufficient coordination of investment decisions were said to be a function of the quality of the civil service,

³⁶ World Bank 2017.

³⁷ Qian 2003; Steer and Sen 2010; Xu 2011; Coase and Wang 2012; Gray, forthcoming.

³⁸ Booth and Cammack 2013; Levy 2014.

³⁹ Rodrik 2003; North and others 2013; Poulton 2014b.

but that in turn is a challenge for the typical form of politics. This can now be nuanced.

Given short time horizons, politicians do face an intertemporal consistency and collective action problem in professionalizing or reprofessionalizing public service systems—the thesis of the already-cited book about Latin America by Geddes (1994). On the other hand, Grindle's most recent book (2012) places the accent on what has been achieved in the same world region in moments of special opportunity, adding to her compelling previous illustrations the scope for politically smart reform and policy implementation in the otherwise challenging contexts of Latin America.⁴⁰

Not only are there exceptional moments but some case studies suggest that pockets of professional organization can arise in particular sectors, if the political configuration is conducive. While the “pockets of effectiveness” literature has until now focused on public organizations without direct links to productive sectors, such as tax authorities, Whitfield (forthcoming) makes a strong argument for regarding Ghana's Cocobod as such a case. It is seen as replicating the kind of embedded autonomy (freedom from vested interests plus intimate knowledge of the sector) that Evans's famous study (1995; 1998) attributed to the Republic of Korea's industry-supporting bureaucracy.

It is important to recall here that the best economic transformation experiences in Asia do not suggest that the civil service as a whole must become highly motivated and rule governed. This is only necessary for the public agency that has prime responsibility for supporting the prioritized investments with credible commitments, public goods, and coordination.

This point is even more relevant in reconsidering the fourth channel of influence identified as important in Section 2. There are good reasons for thinking that the way the industrial policy literature proposes to handle the challenge of information externalities and learning costs in economic transformation is wildly overambitious under current African political conditions. Selective subsidies to activities and firms judged to be promising by the government and its advisors is an essential feature of the approach, yet this is obviously vulnerable to the type of cronyism that was a feature of old-style industrialization by import substitution. Still, the literature proposes various safeguards to prevent such policies degenerating into the permanently protected monopoly positions and economic inefficiencies that killed off the import-substitution path.

Rodrik (2007a), for example, offers 10 design principles for modern industrial policy, several elements of which are explicitly about managing the political-economic risk. Whether targeted support to innovating firms can be delivered without degenerating into cronyism and corruption obviously depends on the context. However, given that a politically protected pocket of effectiveness dealing with a leading sector may be

sufficient to crack this nut, there would seem to be real scope for a pragmatic and politically smart approach to industrial targeting.

The same case-by-case experience that points to exceptions and room for maneuver of these kinds also suggests warnings about specific things that should not be attempted, or not attempted without special precautions or compensatory measures. For example:

- Do not expect a productivity-raising agricultural initiative to succeed if it depends on a trade policy regime whose implementation can be subverted by politically influential importers of a competing product (irrigated rice in Tanzania).
- Beware of assuming coordination of private-investor and public-infrastructure decisions if delivery of the latter depends on a level of government that is not controlled from the center (again, irrigated rice in Tanzania).
- Do not expect a policy for increasing value addition by building domestic processing capacity to work if the producers of the crop in question get a better price from exporting the raw material, and if they are politically significant while the prospective processors are not (cashew nuts in Mozambique and Tanzania).
- Where necessary, build a new sector without any targeted government support, using the strengths of any relevant producer associations to fulfill the most pressing public-good, coordination, and joint-learning functions; but do not underestimate the collective-action challenges this entails, or overestimate the degree to which donor-financed projects or special vehicles can make up for any deficiencies (horticulture in Kenya; palm oil and pineapples in Ghana).

None of these observations is inconsistent with the political-economic realism advocated in the first half of this paper. But whether they are about exceptions to the general pattern or warnings about specific effects, they have in common that they work at a level of specificity suggestive of measures that could be taken by policy actors that want to combine realism and pragmatism.

The importance of adaptive design

None of the above suggests any cut-and-dried solutions for the economic and political challenges of economic transformation. This is not only because our conceptual and empirical toolbox remains only half full. It is also because of the uncertainty that is inherent in trying to change complex systems. The political-economic systems that shape possibilities for economic transformation are complex in the technical sense that they involve networks of relationships where the sheer number of interacting elements and likely feedback loops, including learning by human agents, makes it impossible to predict in advance what the consequences of a given initiative will be.⁴¹

The implication is that an effective reform approach will be not only politically smart—in the sense of being highly knowledgeable and astute about political-economy constraints, but adaptive by design. It will proceed by what has variously been

⁴⁰ Grindle 1980; 2002.

⁴¹ Harford 2011; Ramalingam 2013; Boulton and others 2015.

called problem-driven iterative adaptation,⁴² systematic trial and error, or an entrepreneurial approach, based on taking small bets and making rapid adjustments.⁴³ Setting up such interventions, whether within public-sector bodies, largely outside them, or using some inside/outside combination, is never going to be easy. However, there is beginning to be a body of experience from countries like Nepal, Nigeria, and the Philippines that is broadly encouraging. That is, sectoral and cross-cutting reforms that improve the long-run conditions for economic transformation can be successful in politically quite unfavorable contexts if their promoters are astute enough about navigating the political-economic obstacles and are committed to learning along the way.⁴⁴

5 | Conclusions

This paper has four principal messages. First, it is important to be realistic about the strength of the political-economic fundamentals working against economic transformation. Such realism has serious implications for the *kinds* of policies and institutional arrangements likely to work for economic transformation African countries. Particular attention should be given to the small set of institutional conditions (“functions”) that have been identified as critical to sustained economic growth in general and economic transformation in particular, including the ability to apply the principles of modern industrial policy.

Second, comprehensive efforts to tackle these problems at one go are likely to fail (producing no more than a façade of good economic governance). Nor do they reflect the way development progress has happened in history. All the most remarkable processes of national economic transformation have occurred in countries with highly imperfect overall governance.

Third, both world history and recently documented experience point to the superiority of searching for arrangements that work in context to deliver sufficient amounts of commitment, public goods, investment coordination, and subsidization of learning, and thereby unlock new productive capabilities. The cumulative effects of a series of small steps of this kind over a number of years are also the best bet for improving governance more comprehensively in the medium and long terms.

Finally, there is a growing body of documented experience that can feed pragmatic reformist thinking of this sort—no less realistic about the political-economic fundamentals but more granular in its analysis. But this evidence is better at narrowing the specification of problems than at generating solutions. Policy frameworks and interventions must therefore adopt a problem-driven and adaptive approach, as well as one that is smart about navigating political-economic obstacles and opportunities. If they do, the prospects for economic transformation in the region become quite bright.

⁴² Andrews and others 2013; 2017.

⁴³ Faustino 2012; Faustino and Booth 2014.

⁴⁴ Booth 2014; 2016.

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