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Development Predestinationism

Trade and the free market, industrial policy or Internet connectivity—there is a long list of potential cures suggested as silver bullets for the condition of poverty. Weak governance and corruption is the latest lead bullet—a malady of maladies following on from poor policies (for which the cure was structural adjustment), poor well-being (human-centered development), and poor capitalists (filling the finance gap). It is also the most leaden of all—the development community knows to move capital, knows how to improve health and (to some extent) education, and even has a pretty good idea about how to reduce inflation. But improving weak governance is apparently a historically laden, context-specific, immensely slow and complex process.

This chapter will question the reasoning behind elevating corruption—at least as it is usually measured—to be more significant than low education, poor health, limited capacity, societal norms, or a raft of other potential barriers to rapid development. And it will suggest that the broader literature around institutional determinism is also too pessimistic. Institutions can in fact change over time scales shorter than the epochal, whatever the usual indicators may report, and weak governance (at least as common measures indicate) is not quite the end-all of development.

Corruption and Development?

It does not take a detailed look at Transparency International's Corruption Perceptions Index to work out what type of countries are thought to be particularly corrupt by the political-risk analysts, aid-agency economists, and think-tank staff members whose opinions it reflects. At the (virtuous) top of the ranking are rich countries: Sweden at number 3, the United Kingdom at 14, and the United States at 19. Toward the (villainous) bottom are poor countries: Ivory Coast at 136, Vietnam at 116, and Tanzania at 111. That developing countries are comparatively corrupt is an unquestioned truth among politicians, businesspeople, and aid-agency staff members across the West. Moreover, this corruption is widely seen as a big reason, if not the key reason, why poor countries are poor.

Yet as the previous chapter's analysis shows, it is difficult to measure corruption. It takes on many forms. And it is far easier to measure outcomes. Herein, therefore, lies the question: are our measures of corruption closely related to progress on those outcomes? The answer, broadly, is no.

The relationship between bribe levels or perceptions of corruption and growth over the first decade of the 21st century hardly jumps out of the data. Some cross-country studies find a link between higher corruption indicators and lower economic growth,[1] but measures such as Transparency International's CPI and the Worldwide Governance Indicators (WGI) are weakly correlated with measured growth outcomes. In fact, a recent analysis of 41 different studies involving 460 estimates of that impact shows that more than 60 percent could find no significant relationship between corruption and growth, while 6 percent actually suggest that more corrupt countries grew faster.[2] (Figures 3-1 and 3-2 show a similar result, with countries with higher indicators of corruption experiencing higher rates of growth.) To quote the 2015 UK Department for International Development (DFID) evidence paper on corruption, "[t]he effect of corruption on macroeconomic growth remains contested, and corruption has not been a determining factor constraining growth."[3]

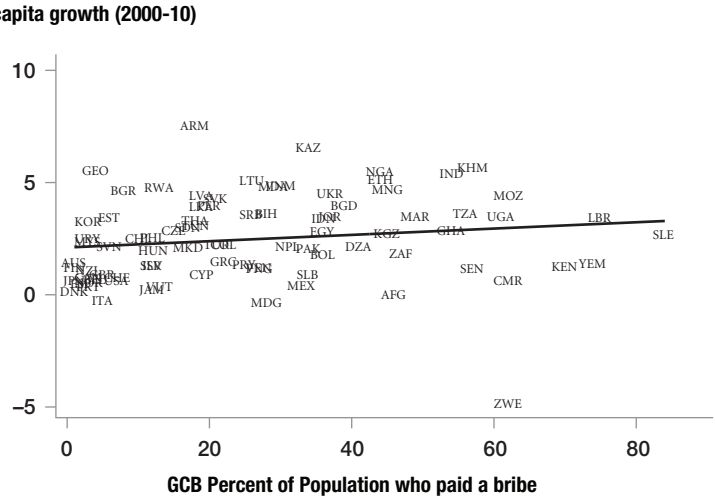
It is important to emphasize four caveats: First, the evidence is weak that corruption as measured is a significant drag on economic growth across all

1 Svensson (2005); and Ugur and Dasgupta (2011).

2 Campos, Dimova, and Saleh (2010).

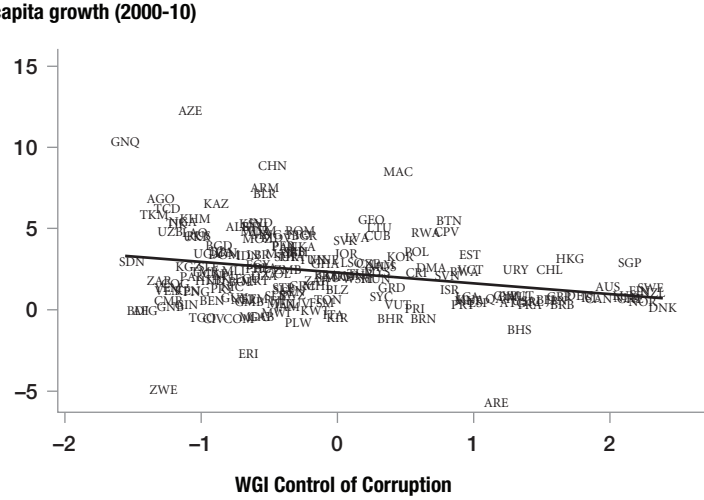
3 Menocal and others (2015, p. 7).

Figure 3-1. The Weak Link between Bribe Prevalence and Growth



Source: Transparency International Global Corruption Barometer and World Bank World Development Indicators.

Figure 3-2. The Weak Link between Control of Corruption and Growth



Source: Transparency International Global Corruption Barometer and World Bank World Development Indicators.

countries, but it may still be a force for slower growth in particular circumstances.[4] Second, whatever its impact on average incomes, corruption is a negative outcome in its own right—people should not have to pay bribes for services or to avoid police harassment, and politicians should not get rich on kickbacks. Third, the DFID evidence paper quoted above suggests stronger links between general corruption measures and inequality, service provision, investment, and tax revenues among other outcomes.[5] And fourth, the general measures of corruption used in these analyses have significant weakness discussed in the previous chapter. Better measures of corruption might show stronger links with other outcomes. And one piece of evidence supporting such an interpretation is that measures of inequality do appear to be significantly linked with slower growth.[6]

To elaborate, it is likely that the impact of corruption depends on other factors and changes from one context to another. Mushtaq Khan from the School of Oriental and African Studies, University of London, has argued, for instance, that in some states corruption may act as a mechanism to allow the resource transfers that sustain political stability.[7] The "greasing the wheels" argument for corruption has received some empirical support in overregulated, institutionally weak settings. Pierre-Guillaume Méon from the Université libre de Bruxelles and Laurent Weill from the University of Strasbourg suggest that countries with poor regulation see higher productivity when corruption increases, while countries with effective regulation see the reverse result.[8] Again, different kinds of corruption are likely to have different economic impacts. Such conditional effects would reduce the overall strength of the relationship between measures of corruption and growth even if corruption really were growth inhibiting under most circumstances. In short, the evidence suggests that corruption (as measured) is an important factor in development outcomes, but probably is not an overwhelming one. It is no more significant and deeply causal than other factors such as learning outcomes or quality infrastructure.

Micro-level evidence also shows a weak relationship between both perceptions and surveyed petty corruption levels in infrastructure and infra-

4 Ugur and Dasgupta (2011).

5 Menocal and others (2015, p. 7).

6 Berg and Osrty (2013).

7 Khan (2012).

8 Méon and Weill (2008).

structure outcomes. There is some evidence linking outcomes such as the frequency of power outages to corruption measures such as Transparency International's CPI.[9] Similarly, a general measure of perceived country-level corruption is associated with lower energy use. But it is also *positively* associated with other infrastructure measures while access to water is not correlated either way.[10] Transparency International's CPI is not significantly related to any of a set of 12 infrastructure outcomes, including levels of investment, extent of access to infrastructure services, telecoms waiting lists, and transmission distribution losses.[11] Meanwhile, the surveyed extent of petty corruption in utility provision is only significantly negatively correlated with the percentage of the population with access to water, with no effect on electricity or telecoms access.[12] Corruption, as reflected by perception measures or bribe payments, is not a major barrier to the provision of infrastructure services.

Again, enterprises in developing countries do not report corruption as one of the most significant challenges they face. Of all firms surveyed by the World Bank (73,108 firms across 123 countries), only 6.2 percent selected corruption as the most serious obstacle out of the 15 possible answers (see table 3-1). [13] Corruption was the most common answer in less than 1 percent of countries and among the top three in only one in seven countries. Compare that to access to finance, ranked first in 29 percent of countries, or electricity, the top concern in more than one out of five countries. Across countries, corruption ranked eighth out of the 15 obstacles, equal with customs, trade regulation, and labor regulations. That put it below crime and disorder, political instability, informal-sector competition, tax rates, and an inadequately educated workforce.[14]

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9 Tanzi and Davoodi (1998).

10 Estache, Goicoechea, and Trujillo (2006). These results, positive and negative alike, are open to all of the usual concerns with econometric exercises regarding questions of causality and the stability of coefficients in the presence of multicolinearity and omitted variables

11 Kenny (2006).

12 Ibid. The percentage of company managers ranking corruption as a major constraint to doing business is correlated with the percentage of managers who see electricity as a major constraint. At the same time greater concern with corruption is *positively* associated with mobile phone access and insignificantly related to other variables.

13 World Bank Group, n.d., "Enterprise Surveys," www.enterprisesurveys.org.

14 For governance: Ramachandran, Leo, and Thuotte (2011) analyze business environment surveys and conclude that the most frequently cited constraints to business in

To argue that corruption is the underlying cause of inadequate electricity or low access to finance—that the surveys misrepresent the importance of the corruption—one must assume that respondents in developing countries are ignorant of that underlying cause. Little evidence supports that assumption. Firms (and individuals) do suggest that corruption is an issue, and the evidence suggests that they are right to do so, but in the great majority of countries other issues are equally or more significant.

Institutions and Change

The argument that corruption is important to development is nested in a larger set of beliefs about the sources of overall development progress that emphasize the role of institutions. Institutions broadly defined are laws, practices, and customs—the rules of the game for social and economic interaction. More narrowly, they are about governance—the way the system works and the sort of issues reflected in both popular perceptions of corruption and academic writing by economists including Daron Acemoglu and Simon Johnson from MIT and James Robinson from the University of Chicago. And as reflected in their work, institutions are considered history-laden.

For example, some researchers argue that the social and political traits of precolonial ethnic groups that dominated particular areas of Africa may matter more to current income levels in those areas than which modern country they are found in.[15] In their landmark paper on the role of institutions in development, Acemoglu, Johnson, and Robinson focus on the colonial period itself:

> There is a variety of historical evidence . . . suggesting that the control structures set up in the non-settler colonies during the colonial era persisted, while there is little doubt that the institutions of law and order and private property established during the early phases of colonialism in Australia, Canada, New Zealand, the United

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African fragile states are electricity, access to finance, and political instability. Corruption and tax rates come in fourth and fifth.

15 Alesina, Michalopoulos, and Papaioannou (2012).

Table 3-1. Corruption Is Not a Top Business Constraint According to World Bank Survey Data, 2006–13

Constraint	Number of firms	percentage
Access to finance	11,680	15.98
Electricity	10,078	13.79
Practices of competitors in the informal sector	9,210	12.60
Tax rates	8,548	11.69
Political instability	6,578	9.00
Inadequately educated workforce	5,514	7.54
Corruption	4,532	6.20
Crime, theft, and disorder	3,539	4.84
Labor regulations	2,437	3.33
Access to land	2,203	3.01
Tax administration	2,186	2.99
Transport	2,095	2.87
Customs and trade regulations	1,970	2.69
Business licensing and permits	1,893	2.59
Courts	645	0.88
TOTAL	**73,108**	

Source: World Bank Enterprise Surveys.

States, Hong Kong, and Singapore have formed the basis of the current-day institutions of these countries.[16]

Tracing through a causal chain, they argue there is "a high correlation between mortality rates faced by soldiers, bishops, and sailors in the colonies and European settlements; between European settlements and early measures of institutions; and between early institutions and institutions today."

Armed with a similar theory, Stanley Engerman from Johns Hopkins and Kenneth Sokoloff from the University of California–Los Angeles suggest that "extreme differences in the extent of inequality that arose early

16 Acemoglu, Johnson, and Robinson (2001)

in the history of the New World economies may have contributed to systematic differences in the ways institutions evolved." They continue by stating that "government policies [tend] to maintain the basic thrust of the initial factor endowment or the same general degree of inequality along their respective economy's path of development. . . . Systematic patterns are also seen in the character of the economic institutions that evolved in the respective societies, even after independence."[17] A recent game among economists has been to go ever further back in their search for the ultimate determinants of modern institutional forms. For example, Bill Easterly and colleagues' probing of the roots of wealth asked "Was the Wealth of Nations Determined in 1000 BC?"[18]

Modern measures of institutions also suggest strong persistence and slow change. For instance, Lant Pritchett of the Harvard Kennedy School and the Center for Global Development and colleagues argue that it would take 600 years for Haiti to reach Singapore's Government Effectiveness score on the WGI even with the most generous interpretation of its rate of progress since independence.[19] The architects of the WGI, Daniel Kaufmann of the Natural Resource Governance Institute and colleagues, themselves suggest reasons to be depressed about global prospects as a whole: "[R]eviewing the time series of the individual sources over the past several updates of the WGI, we have documented that there is very little evidence of trends over time in global averages of our individual underlying data sources."[20] It is hard not to become a little downbeat about the prospects for poor countries as a result.

History certainly does matter to present-day outcomes. Look at the stability of income rankings across 53 countries over time: the average country has moved only 10 places in the rankings over 183 years (see figure 3-3). There are outliers, with Australia and New Zealand improving dramatically and Jamaica falling precipitously, but generally speaking, being relatively rich in 1820 is a good predictor of being relatively rich in 2003.

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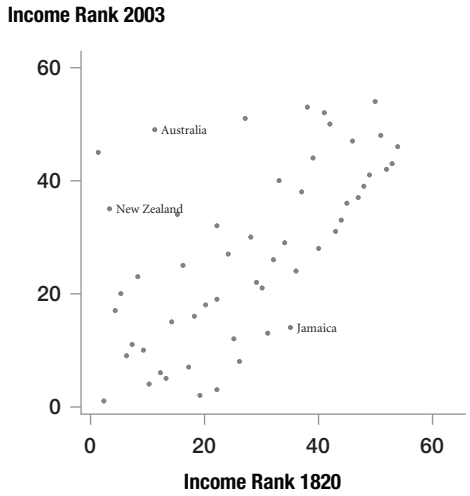
17 Engerman and Sokoloff (2002, p. 35).

18 Comin, Easterly, and Gong (2010).

19 Pritchett, Woolcock, and Andrews (2010). Bill Savedoff, in review comments on this book, notes that Singapore itself would not have rated toward the top of a 1960 WGI measure, suggesting again that institutions, or at least scores on an institutional ranking, can change quite fast.

20 Kaufmann, Kraay, and Mastruzzi (2011).

Figure 3-3. Country-Income Rankings Are Generally Stable over Time



Source: Maddison database (www.ggdc.net/maddison/maddison-project/data.htm).

Institutions and Growth

But for all of the strong evidence that wealth depends on history and that institutional factors are correlated with economic growth, there is still much more to development than slow-changing historically determined institutions.[21]

First, what causes what is open to debate. In a recent review, Richard Bluhm and Adam Szirmai of the United Nations University find "strong support" that institutions are among the sources of long-term growth, but the extent to which growth causes improved institutions "remains highly debated."[22] Edward Glaeser from Harvard University and colleagues go further and suggest that human capital is the basis of development: it causes growth, which causes institutional advancement.[23]

Second, the link between perceived levels of governance and changes in

21 See the review in Acemoglu and Robinson (2008). See also Easterly, Ritzen, and Woolcock (2006).

22 Bluhm and Szirmai (2012, p. 82).

23 Glaeser and others (2004). They also point out important imperfections in contemporaneous institutional measures including that they tend to measure outcomes ("there was little expropriation") not actual institutional constraints ("the president simply could not expropriate often even should he have wanted to").

development outcomes over time is at best partial. In a 2011 study for the European Bank of Reconstruction and Development, Simon Commander and Zlatko Nikoloski conclude that democracy is not reliably associated with economic growth and that the World Bank's Doing Business and Enterprise Survey indicators are not closely linked with outcomes such as higher investment, capital inflows, or firm productivity.[24] They suggest that there is a measurement problem—most of the indicators used to measure institutions are subjective—but the issue may also be that institutions as usually defined matter less than is usually supposed.

Other cross-country studies suggest similarly fragile relationships between institutional measures and economic growth.[25] Denis de Crombrugghe and Kristine Farla of the United Nations University report, for example, that strong institutions are related to income levels but find "no such evidence on growth rates."[26] And specific case studies also suggest that there is more to current outcomes than centuries of history. Take the case of North and South Korea; both had a similar cultural and political legacy in 1945 but have taken dramatically different economic trajectories since then. And perhaps of particular relevance to this book, early studies suggesting that aid promotes economic growth only in the presence of strong institutions have not withstood the test of time, or robustness challenges.[27]

On the question of whether there is more to growth than slow-changing institutions, consider this: In the past 60 years (a blink of the eye in institution-building time), there has been consistent and historically very strong growth in per capita output across most of the world. Among countries for which the Penn World Tables (a preeminent measure of income) have data, about 5.1 billion people live in countries where average incomes have more than doubled since 1960, and 4.1 billion—well over half the planet—live in countries where average incomes have tripled or more. Nearly 2.2 billion people are in countries where average incomes

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24 Commander and Nikoloski (2011).

25 Durlauf, Kourtellos, and Chih (2008); Glaeser and others (2004); Bazzi and Clemens (2013); Jinfeng and Yi (2015); Albouy (2008); and Jie and others (2013).

26 De Crombrugghe and Farla (2012, p. 1).

27 Roodman (2007); Minoiu and Reddy (2010); Doucouliagos and Paldam (2010); and Verspagen (2012).

have more than *quintupled* over the past 50 years. This includes the citizens of China, Japan, Egypt, and Thailand, all of whom have seen around an eightfold increase in average incomes since 1960.

Such growth has not touched all corners of the globe. About 200 million people live in nine African economies where the average income per head *declined* between 1960 and 2010. That includes the populations of Kenya and the Democratic Republic of the Congo. And about another 700 million live in countries where incomes have climbed since 1960, but where the average citizen in 2010 remained less than twice as rich as 50 years before.

But the majority of people alive today live in countries that have experienced unprecedented economic growth, even compared to the Industrial Revolution. Between 1820 and 1870, for instance, GDP per capita for the United Kingdom increased from $1,706 to $3,190—an 87 percent increase—according to data from Angus Maddison of the University of Groningen.[28] If that performance had occurred between 1960 and 2010, this growth would have placed the United Kingdom 34th lowest out of the 107 countries for which the Penn Tables have data. In other words, 73 countries, including the Philippines and Zimbabwe—rarely thought of as economic powerhouses or homes to world-class institutions—have had stronger economic growth in the past 50 years than the United Kingdom did from 1820 to 1870.

Because of all of that growth, a lot of the world is now rich by the standards of just a few decades ago. Nearly 1.7 billion people live in countries where the average income per capita was above $10,000 in 2010. That is nearly the level of the United Kingdom's GDP per capita in 1960 and above the average income in France, Germany, the Netherlands, and Belgium at the time. More than 3.5 billion people worldwide—about half the planet—live in countries with a 2010 average income of $6,000 or more, according to the Penn Tables. That is a little below the GDP per capita of Italy in 1960 and above that of Ireland or Spain in the same year.

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28 The Maddison-Project, 2013 version, www.ggdc.net/maddison/maddison-project/home.htm.

Institutions and Non-Income Measures of Development

These improvements are not only about economic growth and affect more than just middle-income countries: there has been dramatic improvement across a range of different indicators. In fact, the evidence for progress on non-income measures is even stronger. From 1950 to 1999, for example, average global life expectancy increased from 51 to 69 years while the difference between countries narrowed (the standard deviation fell from 13 to 7 years).[29]

All this improvement means one of two things. Either the quality of life that people experience under low-quality governance today is the same as the quality of life found under high-quality governance in 1950, or *average* governance has improved since 1950 so that countries like Brazil and South Africa are as well governed today as countries like the United Kingdom and Canada were in 1950.[30] So which is it? There is evidence for both—some data point to better performance from improving institutions, and some point to better performance despite lack of such improvement. Tables 3-2 through 3-4 help illustrate these connected performance improvements.

Table 3-2 aggregates country data into quartiles based on the countries' governance-effectiveness rankings in the 2011 Worldwide Governance Indicators, and compares the average development outcomes achieved by each quartile over time. In the second quartile of governance quality GDP per capita in 1950 was $1,365. By 2011, it was $5,754. Infant mortality in those countries also improved, dropping from 12.6 percent to 4 percent over that time. Similarly, looking at countries divided into quartiles based on their settler mortality in colonial times, the second (worse) quartile settler mortality predicted GDP in 1950 was $1,867; it had risen to $5,550 by 2011. Second quartile settler mortality predicted infant mortality dropped from 13 percent to 5.6 percent over that period. Both results suggest that either institutions have become considerably stronger since 1950 or the same quality of institutions is associated with far better outcomes. Which is it? The tables suggest better outcomes at a given level of reported governance/mortality when applied to an institutional measure for which we have data going back to 1950: the Polity II measure of democracy. This measure runs from -10 (fully autocratic) to 10 (fully democratic). The

29 Kenny (2005).

30 Ibid.

second quartile score on polity based on setter mortality has climbed from -0.6 in 1950 to 5.8 in 2011. This improvement, especially pronounced since the end of the Cold War,[31] suggests that better outcomes may be coming from better institutions.

Tables 3-3 and 3-4, however, suggest that better outcomes are emerging even without commensurate improvements in institutions. Table 3-3 lists the 13 richest countries in 1950 and their GDP, government effectiveness ranks, infant mortality rates, and Polity scores. Table 3-4 does the same for countries that fell within the same range of GDP in 2011. Gabon and Panama, for instance, had a GDP per capita in 2011 similar to what Australia and Switzerland had in 1950. All of the richest countries in 1950 still score very high on government effectiveness and scored a perfect 10 on Polity's democracy measure in 1950. The countries with similar GDP in 2011 show, with considerably more variance, far lower 2011 government effectiveness and Polity scores alongside lower (better) infant mortality rates. In this sample, the same income is associated with lower democracy and better infant mortality in 2011 than in 1950.

With some evidence of institutional improvement over time and some evidence that outcomes have improved at the same level of institutional quality, the picture is perhaps blurry, but at least it is broadly positive. This should be no surprise since *institutions* covers a range of different things, from constitutions to company and financial structures to electoral rules and methods of educational curriculum design. The concept overlaps heavily with norms and culture. It may be that some types of institution can change more rapidly than other types, that some depend more on context than others, and that the relative importance of different institutions to outcomes changes over time.

Institutions Can Change Quickly

To provide some micro bones to this macro analysis, there are in fact examples of fairly rapid institutional change, as noted by Acemoglu, Johnson, and Robinson in their paper on colonial influences on modern institutions: "It is useful to point out that our findings do not imply that institutions today are predetermined by colonial policies and cannot be changed. . . . In fact, our reading is that these results suggest substantial

31 Kenny (2008).

Table 3-2. Same Institutions, Better Outcomes?

Government effectiveness quartile	GDP Per Capita ($USPPP)		Infant mortality rate (%)		Polity score	
	1950	2011	1950	2011	1950	2011
First	2,060	3,596	16.8	7.7	–3.72	0.30
Second	1,365	5,754	12.6	4.0	–3.39	2.77
Third	2,636	11,840	10.0	2.0	–0.68	5.93
Fourth	6,866	35,395	4.8	0.6	6.50	8.12

Sources: Penn World Tables, Abouharb and Kimball (2007), Polity Database.

Table 3-3. The Richest Countries in 1950 All Had Strong Institutions

1950	GDP per Capita (U.S.$PPP)	Government effectiveness rank	Infant mortality rate (%)	Polity score
United States	12,668	88.6	3.6	10
Switzerland	12,536	97.6	3.1	10
Australia	11,756	95.3	2.4	10
New Zealand	10,602	98.1	2.8	10
Luxembourg	10,550	94.8	4.6	10
Canada	9,739	97.2	4.2	10
Denmark	8,227	99.5	3.1	10
Sweden	8,221	98.6	2.1	10
United Kingdom	7,749	92.4	3.5	10
Norway	7,724	96.2	2.8	10
Iceland	7,116	92.9	2.2	
Belgium	7,083	93.8	5.3	10
Netherlands	6,280	96.7	2.5	10

Sources: Penn World Tables, Abouharb and Kimball (2007), Polity Database.

Table 3-4. Countries Today as Wealthy as the Richest Countries in 1950 Have Weaker Institutions

2011	GDP (US$PPP)	Government effectiveness rank	Infant mortality rate (%)	Polity score
Gabon	12,201	19.4	6.5	3
Panama	12,012	58.8	1.9	9
Botswana	11,519	68.2	5.6	8
Dominica	11,299	70.1	1.3	
Venezuela	10,218	13.3	1.6	–3
Costa Rica	10,094	64.0	10.1	10
Maldives	9,992	44.1	1.2	
Mauritius	9,501	74.4	1.5	10
Brazil	9,205	55.5	1.5	8
Equatorial Guinea	8,962	3.3	10.4	–5
Peru	8,812	49.3	1.9	9
Dominican Republic	8,698	34.6	2.8	8
Grenada	8,422	61.6	1.4	
South Africa	8,368	64.9	4.7	9
Thailand	8,360	59.7	1.4	7
Colombia	8,311	62.6	1.8	7
China	7,827	60.7	1.5	–7
Belize	7,333	43.1	1.9	
Ecuador	6,732	35.1	2.4	5
Suriname	6,588	51.7	2.1	5

Sources: Penn World Tables, World Bank World Development Indicators, Polity Database.

economic gains from improving institutions, for example as in the case of Japan during the Meiji Restoration or South Korea during the 1960s."[32]

Take the case of reforming utilities as another example. Phnom Penh has improved the quality and reach of its water supply with the introduction of market pricing and a decline in nonrevenue water (which was sent through the pipes but not paid for) from 72 percent to 6 percent, intro-

32 Acemoglu, Johnson, and Robinson (2001, p. 1395).

duced between 1993 and 2009. Piped water coverage increased over that period from 40 percent of the city to more than 90 percent in 2009, while water service increased from an average of 10 hours a day to 24.[33] The institutions connected with the water authority, including new regulations and the enforcement of billing, clearly developed quite rapidly. Or look at leakage of the financial variety: the percentage of central government financing for equipment in Ugandan schools that actually reaches the schools has increased from next to nothing to next to everything over the past 10 years, after newspapers published how much money the schools were meant to get.[34]

Even the attitudes that underlie institutions can rapidly adjust. For example, in India the Dalits (or "untouchables," the lowest of India's castes) have been subject to widespread discrimination for millennia and have had access only to a narrow range of jobs thought of as unclean. But a survey designed and led by members of the Dalit community in two areas of Uttar Pradesh found that attitudes and behaviors related to the low status of Dalits had been widely tempered or abandoned over the past 20 years.[35] Dalit respondents report that, since 1990, they are far more likely to sit next to high-caste guests at weddings rather than being seated separately, they are no longer expected to handle the dead animals of other castes, and non-Dalit midwives will attend births in Dalit households. They have moved in large numbers into nontraditional professions such as tailoring and driving, and almost none participate in bonded labor for high-caste patrons.

The changes are huge. In Bulandshahar District, less than 4 percent of Dalits said that non-Dalits would accept food in their household in 1990, but nearly half said that they would today. In 1990, 73 percent of respondents suggested that only Dalits would have handled dead animals; that number fell to 1 in 20 in 2007. Dalits were considerably wealthier in 2007 than they were in 1990. The proportion with a television in Bulandshahar climbed from less than 1 percent to nearly 50 percent, and bicycle ownership rose from around one-third to more than four-fifths. The researchers suggest that the social transformation is far too dramatic to be accounted for by income changes alone.

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33 Das and others (2010).

34 Reinikka and Svensson (2002).

35 Kapur and others (2010).

If institutions and their cultural underpinnings can change rapidly, so can the necessity of strong institutions to development progress. New technologies can reduce the effect of poor institutions. Take the case of the mobile phone. In countries as ill-governed or ungoverned as Somalia, the new technology allowed for the competitive provision of phone services. With far fewer institutional requirements than landlines, and considerably lower costs of infrastructure, mobile phones became available to more than 5 billion people worldwide in only about two decades.

A similar decline in the effect of poor institutions has occurred in health. In the age before vaccines, bed nets, and antibiotics, improving health outcomes required considerable public works and sanitation programs: piped water and sewage, garbage collection, close monitoring of food production, and so on. Although these approaches are still effective today, mortality and morbidity rates can be considerably reduced with far cheaper and more straightforward vaccination campaigns and pill delivery.[36] Again, it is clear that history matters, and that institutions matter to the quality of life and to health care in particular. That only 1 percent of Chad's nonwage health budget officially allocated to frontline clinics actually reaches them has a real impact on the quality of care—and on health—in the country. And improved government service provision alongside private-sector regulation will become increasingly important as health care providers turn from the most basic challenges (infectious disease) and move on to more complex areas (cancer). But still, there is more to life than strong governance, and—perhaps even better news—weak governance is neither unfixable nor an insurmountable obstacle to progress.

Conclusion

The popular perception of corruption discussed in chapter 2 was a broader "system stacked" notion that fits better with the views of institutional scholars as to where the problem of development lies. This popular perception has more to recommend it empirically than a quid pro quo definition in terms of explaining outcomes.

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36 Kenny (2011).

The good news is that the evidence suggests even this broader sense of corruption is not the be-all and end-all of development. The Enterprise Surveys discussed in this chapter suggest that firms believe that lack of capital, poor-quality education, and bad policy choices are more important than corruption as the determinants of their performance. Perhaps they prefer the older explanations for why poor countries are poor over the new institutional economics. And they may well have a point: while historically determined institutions do appear to have a role in explaining which countries are relatively rich or relatively poor, relatively healthy or relatively sick, clearly there is a lot more to development progress than (static) institutions alone.

Governance writ large is clearly necessary to produce relative prosperity and a decent quality of life. No country is peaceful and rich without a functioning legal and regulatory system or public services that provide infrastructure and education. But governance is not the sole preserve of those on the right side of a historical divide. Corruption is a barrier to development, but not such an overwhelming one that any policy or any price is worth paying in the fight to control it. Because corruption is only one of many barriers to development, ill-designed or cumbersome efforts to fight it can themselves be a drag on development prospects. The next chapters discuss how to avoid that trap.