

**ESCOR PROJECT R7616: THE POLITICS OF PRO-POOR GROWTH**

**FINAL REPORT**

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## 1. Introduction

The original objectives of this project were to identify (a) the factors that have shaped the extent to which national political regimes in poor countries have been 'pro-poor' during the second half of the twentieth century and (b) the factors that are likely to lead to similar results in the early decades of the next century. The main method to be employed was statistical comparisons among countries, on both a cross-section and a time series basis. The project in fact took a rather unexpected path, for a combination of three reasons:

1. I discovered that a colleague in the US was already pursuing in depth the line of statistical analysis that I had already previously embarked on and which I originally felt to be the most promising in this project. He has obtained much the same kinds of results as I had anticipated, in essence demonstrating the degree to which the high dependence of governments on incomes from mineral resources results in 'anti-poor' policies and outcomes. There was no point in duplicating this research.
2. The other lines of statistical analysis that we pursued to explore links between national regime types and the 'pro-poorness' of policies proved, with one exception, not to be fruitful, in the sense that no significant and robust statistical results emerged. It is difficult to judge how far this reflects (a) our inability to gather adequate reliable cross-national statistical data on political variables properly to test our hypotheses, or (b) the possibility that our hypotheses were not valid, or too simple.
3. The one line of statistical analysis that proved very rewarding focused on the contribution of different forms of decentralisation to the 'pro-poorness' of public policy. We put more effort into this line of enquiry than originally intended, and have ended up with some very robust and intuitively convincing statistical results. The most striking single conclusion is that *political* decentralisation (as contrasted with either *fiscal* or *administrative* decentralisation) is associated with 'anti-poor' policies, on one definition of the latter.

This report is organised to reflect this history summarised above. In the remainder of this section, I say a little more about the reasons why the project was not pursued and/or did not succeed in its original form, and then devote the other half of the report to the positive findings about decentralisation.

It was originally anticipated that the project would comprise three main, sequential, analytical components:

- Developing indicators of the pro-poor-ness of national regimes.
- Explaining, through statistical analysis, the conditions under which regimes have been pro-poor during the second half of the twentieth century.
- Assessing the extent to which the same factors are likely to operate during the early decades of the next century, and how far there is clear evidence that other factors are becoming significant.

My expectations that this research idea would prove fruitful were based on two factors in particular. The first was that I had recently embarked on this line of analysis, with colleagues, and obtained some robust statistical results, using a novel indicator of political-economic systems labelled RICE, supporting the hypothesis that governments that were dependent on non-tax sources of revenue (principally mineral royalties, also aid) tended to be ‘anti-poor’ in terms of longevity, literacy and education outcomes (Moore, et al., 1999; Moore, et al., forthcoming). The second was that at that time there was considerable interest developing better cross-national data bases of political variables relating to poor countries. This was partly the result of enhanced interest in measuring the quality of governance on a cross-national basis. It appeared that more reliable data were about to become available. I was marginally involved at that time in a major effort within the World Bank, funded by DFID, to assess the quality of existing data bases relating to governance.

As mentioned above, the most promising first line of enquiry was to deepen the analysis we had already done of the effects on the ‘pro-poorness’ of governments of dependence on mineral revenues. However, I discovered that Professor Michael Ross of the World Bank (and now the University of California, Los Angeles), had already embarked on much the same kind of analysis as I had in mind. He has been a very important contributor to a set of related fields of work, and there was no point in duplicating that work. His results (see especially Ross, 2001) strongly confirm that dependence on oil/mineral revenues is ‘anti-poor’ – i.e. associated, all else being equal, with high poverty, mortality, child malnutrition, inequality, military spending and conflict; and with low levels of health spending, school enrolment and literacy.

Taking account of the significant effects on policy of dependence on mineral revenues, Dr. Aaron Schneider and I undertook a wide range of statistical analysis, mainly multiple regression, both to test other hypotheses and, more generally, seek statistical patterns that might orient further research. We used a wide range of explanatory and dependent variables, data series, time periods etc. With the very significant exception of the analysis of the effects of decentralisation (see below), we have no new, significant results to report. Some of the more tangible data problems that we encountered are:

1. Somewhat contrary to my original hopes and expectations, the work mentioned above on 'governance variables' has not yet significantly added to our store of usable data on national political systems (regimes). For example, the World Bank/DFID project mentioned above concluded that, once one applies a few basic tests of reliability, relevance, robustness and in-depth availability to the data series apparently available on governance and politics in poor countries, then there are few data that one can use for large-sample statistical analysis (Knack, Kugler and Manning, 2001).
2. Attempts to explore in more detail the effects of high aid dependence on public policies and/or poverty outcomes were frustrated by the fact that the highly aid dependent countries tend both to be very poor and to have such unreliable statistics, especially on public finance, that they appear as blanks in the main international statistical sources, notably IMF series. (Aid data, from DAC, are more abundant).
3. The World Bank data set on changes in levels of income inequality over time within individual countries (whose reliability is still much disputed by economic statisticians), has a similar income bias in terms of coverage ([www.worldbank.org/research/povmonitor/](http://www.worldbank.org/research/povmonitor/)).

The outcome of these and other factors was that it was difficult to assemble adequate reliable, relevant data series that covered enough of the right countries in adequate temporal depth to test hypotheses in a very thorough or consistent way. These are quite familiar problems in development studies, and it is often possible to discover valid statistical patterns despite them. When, as in this case, the patterns do not emerge, it is not possible to judge how far this is because the hypotheses

are in some sense wrong (or the variables and the relations between them mis-specified), or because the data are simply inadequate to test them.

I have one final comment relating to the original research plan. For reasons explained above, we never got as far as dealing in detail with Stage 3, described in the contract: ‘as balanced an assessment as possible of the extent to which conclusions about the pro-poor-ness of regimes derived from past experience will provide an accurate guide to the future.’ The impact of globalisation was of major concern here. I have carefully kept abreast of new research publications on the impact of globalisation on social/welfare spending by governments. This now strongly suggests the falsity of the widespread perception that globalisation (economic open-ness) will always reduce the fiscal or political capacity of governments to spend on the poor/welfare. As always, we have the best data for OECD countries. This strongly suggests that the negative effects of globalisation can be counter-acted by governments, and in fact, globalisation may galvanise the very groups that support increased attention to the poor (Crepaz, 2002; Genschel, 2002; Swank, 2002; Swank and Steinmo, 2002). Work on Latin America shows a similar result, but one not quite so well founded in good primary data (Kaufman and Segura-Ubiergo, 2001). There does not appear to be comparably rigorous work for other low income regions, but we have every reason to question the interaction of globalisation with other factors.

## **2. Background and Objectives**

There is a major, unresolved debate about decentralisation of government. On the one hand, decentralisation is widely advocated on the grounds that it is in some sense ‘pro-poor’ because it ‘brings government closer to poor people’. On the other hand, political science analysis points to a contrary hypothesis: that centralisation provides the poor with certain organisational and material advantages that they either lack at the local level or possess only in scattered jurisdictions, and that decentralisation will tend to weaken them politically. The rich do not depend on centralisation to advance their preferences, and can wield influence at both the local and the national level. Were the answer to this debate clear-cut, we would probably have discovered it by now. It is ambiguous in part because the term ‘decentralisation’ covers such a wide range of phenomena. In particular (a) decentralisation can take place between a number of different levels, from different starting points; and (b) there are a wide range of political and governmental functions, not all of which might be

(de)centralised to the same degree at the same time. We set out to see how far we could throw light on these issues, on the basis of cross-national statistical analysis, using existing data series.

### 3. Methods

We conceived of *decentralisation* in terms of *decentralisation from central government*: the extent to which power and authority were devolved from central to any lower level of government/state organisation. The analysis covered all countries for which we could obtain the relevant data: 68 countries, using 1996 data. The best available measure of the pro-poorness of governments was the proportion of public spending devoted to ‘social sectors’ (health, education, social security, social welfare, housing, community amenities). That was the dependent variable we set out to explain. We used a wide range of explanatory variables, in order to standardise for the evident effects of such factors as differences in national income per head, globalisation/economic openness, and demographic structure. We were interested in testing for an association between the dependent variable and three different concepts and measures of decentralisation. The concepts are: *fiscal decentralisation* (the relative fiscal resources of sub-national levels of government compared to central government); *administrative decentralisation* (the extent to which sub-national governments are autonomous from central controls); and *political decentralisation* (the extent to which subnational institutions perform significant representation and majority-constraining roles). These distinctions are in the first instance conceptual. The three dimensions of decentralisation are related, though not perfectly: the score of a country on one dimension is connected to its scores on the other dimensions, but there is a wide variety of combinations of levels and kinds of decentralisation. Also, these different dimensions of decentralisation are likely to have independent causal impacts on other variables: the impact of the degree of decentralisation along the fiscal dimension is likely to be distinct from the impact of the degree of decentralisation along the administrative dimension.

One of the main challenges was to find suitable operational measures of these abstract concepts of decentralisation. It was a matter of balancing between (a) the availability of adequate, reliable data series and (b) finding good concrete proxies for these three abstract concepts. We used the following primary measures:

*Fiscal decentralisation*: (a) sub-national government expenditure as a % of total government expenditure; and (b) sub-national government revenue as a % of total government revenue.

*Administrative decentralisation*: (a) the % of total grants and revenues received by sub-national governments accounted for by taxes; and (b) the % of total grants and revenues received by sub-national governments not accounted for by transfers from central government.

*Political decentralisation*: (a) the existence of elections at the municipal level or the state/provincial level; and the (b) existence of constitutionally designated autonomous regions.

Factor analysis confirmed that (a) each set of indicators of these different dimensions of decentralisation clustered together and (b) that the sets of indicators were substantially independent of one another (i.e. they measured different things).

#### **4. Findings**

A number of different regression models were employed. The main findings are: (a) there is no consistent, significant statistical association between *fiscal decentralisation* and pro-poor public spending; (b) *administrative decentralisation* generally appears to be positively associated with pro-poor public spending; and (c) *political decentralisation* is negatively associated with pro-poor public spending, especially when the analysis is restricted only to democratic countries. These findings are consistent with the hypothesis that *administrative decentralisation* has efficiency effects that are useful for the poor. More significantly, perhaps, *political decentralisation* tends to have an erosive effect on the political capacity of the poor to assert their interests in relation to the rich. Advocates and designers of decentralisation programmes need to pay careful attention to the political implications if they are not to disadvantage the poor people whom they often are trying to empower.

#### **5. Dissemination**

There are two slightly different sets of ‘messages’ from this research. The first are the distinctions between the different dimensions of decentralisation (fiscal, administrative, political), and the ways in which they might be measured. The second are the actual statistical findings summarised above. Both messages need to be conveyed to – and assessed by – a number of different audiences: policymakers; academics and researchers from various disciplines who work on decentralisation;

statistical analysts (to validate the quantitative methods used); and journalists and other ‘opinion shapers’. We have to date concentrated on organising the findings clearly into two large distinct (but over-lapping) draft articles for scholarly journals, which are attached:

1. The emphasis of the paper currently titled ‘Decentralisation’ is on the meaning of the concept of decentralisation, the various dimensions of it, and the ways in which they can be measured. This draft has been submitted to *Studies in Comparative International Development*.
2. The emphasis of the paper currently titled ‘Decentralisation and the Poor’ is on the impact of decentralisation on public policy. This draft has been submitted to the *Journal of Development Economics*.

We decided to get the views of academic referees before publishing the results in any other form, to ensure proper peer scrutiny before ‘going public’. Once we have those reviews, we shall publish some summary of the results in a medium more accessible to a non-academic audience. An IDS Working Paper would be very suitable. We shall continue to promote these findings in suitable fora. Dr Aaron Schneider is actively exploring the scope for organising panels on decentralisation at leading political science conferences.

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