

Glimpses of the Political Economy

Political Reforms in Context: Structure, Institutions, Actors - SIA

Political Economy¹ was originally a term used for studying production and trade, and their relations with law, custom, and government, as well as with the distribution of national income and wealth among a given society. By the distributional question political economy is linked up to moral philosophy. In Europe, during the 17th and 18th century (Glorious and French Revolution, in-depth reforms in Western European countries in 19th and 20th century) the new question of equity and equal opportunities appeared. What is the share of wealth for the rich and for the poor? Why and how a society should distribute the wealth? What are the institutional mechanisms that hamper economic and political participation? What are the distributional effects of institutional rule and governance? How can citizens participate in decision-making? What are the obstacles to full participation? What are the economic and political advantages of civil rights and participation?

Today, Political Economy, where it is not used as a synonym for economics, may refer to variety of approaches and concepts helping to understand the dynamics of economic and political change under the umbrella of distributional questions, including Marxian analysis, applied public-choice approaches, the institutional economics (Hirschman, North, Robinson, Acemoglu, Rodrik, Ross et al.). A rapidly growing mainstream literature from the 1970s has expanded beyond the basic distributional questions with the inclusion of institutional issues.

Essentially, Political Economy is concerned with the **distribution of power** and the **control over access to rights, resources and opportunities**² between different groups in a society. At the same time, Political Economy strives for understanding the institutional rules and negotiation processes that **create, shape and sustain** the pattern of governance in terms of governing rules and interaction between stakeholders over time.³

Policy making processes - regardless of how democratic and negotiation-oriented they are shaped - need to consider

(i) the long-lasting **structural context conditions** such as geographical and demographical situation, natural resources, economic, social and political structures, conflict lines. Against this background, the Political Economy looks at

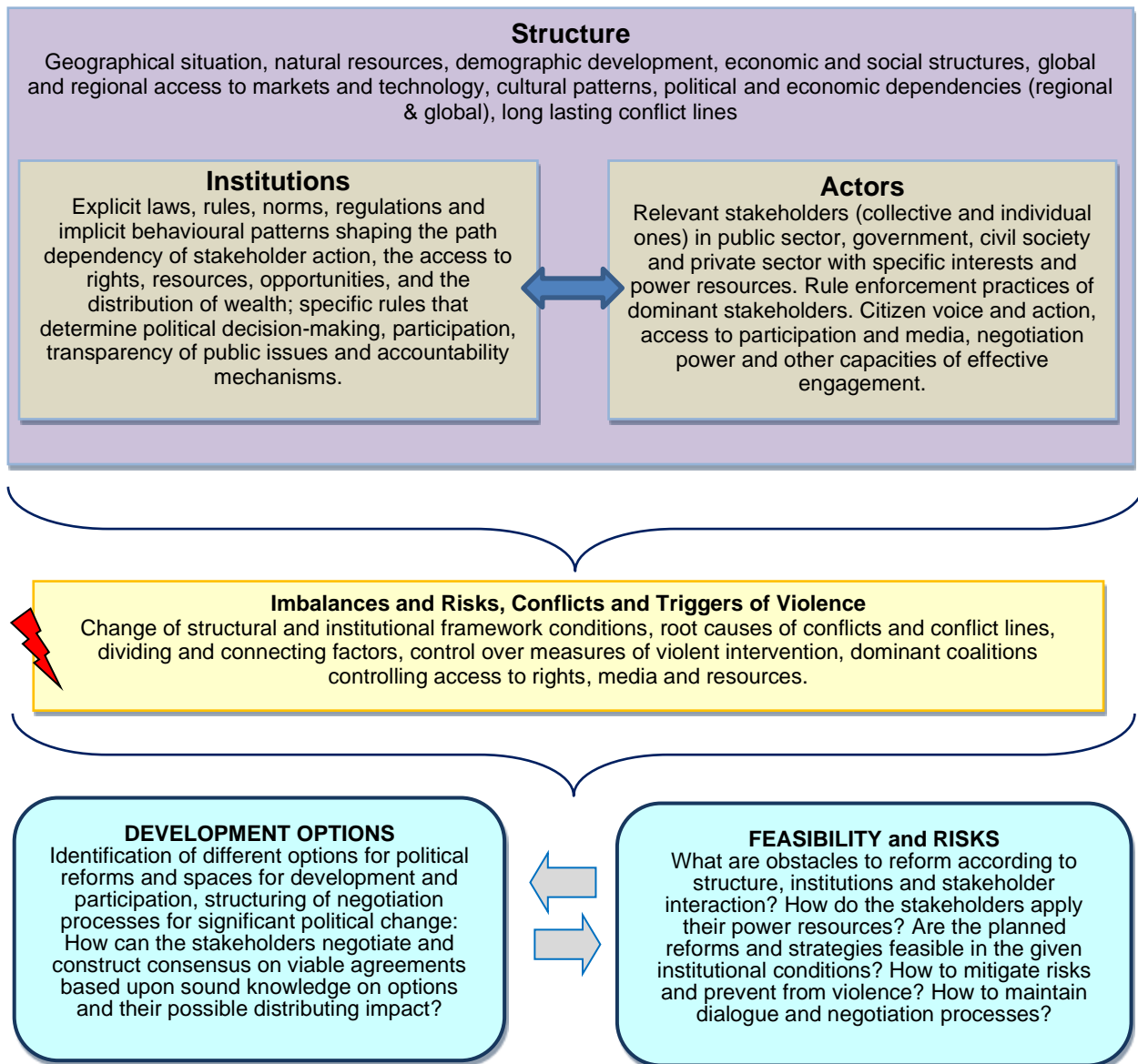
(ii) **institutions** taken as given *rules of the game* that set out the context, incentives, motivations and sanctions in which

(iii) **actors and stakeholders** make choices. These stakeholders (citizen action and pressure groups, political parties, economic and civil society organizations, etc.) are engaged and interested in the reform issue at stake and play their role as opponents or supporters. They interact, negotiate, support or impede political reform processes, looking for allies and using the communication media to strengthen their position.

¹ Sources: Basic concepts developed by SDC PED Network, DFID, ODI, SIDA, IDS, WB PSIA Group; Daron Acemoglu / James A. Robinson: *Why Nations Fail / The Narrow Corridor. States, Societies, and the Fate of Liberty.*

² The concept of *resources* goes beyond material resources such as health and education, and includes non-discrimination and equality in the access to justice, knowledge and political participation in decision making.

³ It is a rather innocent claim to say that citizens are creating the state. Usually, the state is already in place when the citizens are born. The common pattern is that the state shapes his citizens in a way that makes them to adapt, muddle through and accept the state institutions. Citizens - to a very limited extent – are able to influence and shape the state.



Therefore, a paramount issue for them are questions like:

- Who is asking for political reforms? What evidence-based arguments do they put forward?
- To what extent a proposed political reform (development objectives) will change existing power relations? Who will be the winners & losers of the proposed reforms?
- How do the different stakeholders perceive and influence the reform process? What is the behaviour of dominant coalitions⁴ regarding reforms? What strategies and means do dominant coalitions apply to maintain and extend control over the reform process?
- To whom the reforms would open the access to rights, resources and opportunities?
- How do different stakeholders use different power resources? How the different stakeholders are using the communication media in the political debate?

⁴ According to North et al. (2010) dominant coalitions have the power to control the access to justice, political participation, resources and (basic) services. Their power and range of influence may also imply decision-making and resources of state institutions, including threat of violence and use of force.

- What are the spaces for voice and participation of CSOs? How does the government, the private sector interact with CSOs? What are major institutional opportunities and constraints to participation? Who takes decisions on participation in the reform process?
- What are the major risk factors for implementation of the proposed reform?
- What are overlapping conflict lines along social, economic, ethnic and religious boundaries and differences? How does the reform fuel and trigger or moderate violent conflicts? What are the important obstacles to meaningful dialogue among conflicting actors? What are connecting and dividing factors⁵?
- How should the political negotiation and decision-making process be shaped to reach acceptable compromise? What relations and interactions between the stakeholders have to be strengthened to improve the political negotiation process?

In emerging / developing countries, most political reform processes work in a framework of **Limited Access Orders**⁶ where single powerful stakeholders and **dominant coalitions** are striving for enhancing or at least maintaining their control over the access to rights, security, resources and opportunities and access to basic services. They achieve this by different strategies and means, for example, by manipulating and corrupting elections, excluding of other stakeholders from participation, or by influencing communication media, or corruption in public contracting, or nepotism, or influencing justice and other means. The real and potential possibility to impose their will by force is the major power resource of dominant coalitions.

The main **advantage** of using a political economy analysis in a development setting is that it seeks to understand the behaviour of key actors not in a moral, normative or ideal fashion but rather in terms of **strategic responses to the existing structure and institutions**. For example, the act of paying a bribe in exchange for a service may be a survival response in the culture of clientelism, corruption and deficient government services. Another advantage is the explicit recognition of the intersecting space between the **formal rules of the game and the informal practices** of actors on the ground. The political economy analysis has two additional analytical advantages. First, it makes an explicit effort to break down the **policy process into different stages** (e.g. analysing demand, interaction and mobilizing stakeholders, getting access to contents, organizing debate & negotiation, decision making process, implementation & monitoring) and seeks to explain differences across these. Secondly, the political economy analysis could offer a useful framework to **explore change over time**; for example addressing the question of what makes institutions change? Finally, a proper analysis offers an opportunity to document processes with significant quantitative and qualitative information and to triangulate responses to increase the credibility and validity of findings.

A complete survey of the common elements and methodologies that define political economy analysis will go beyond the purpose of this brief summary. However, some of the underlying features include:

⁵ The terminology of connecting and dividing factors refers to the concept of *Do-No-Harm*. This overarching principle distinguishes two groups of factors that influence latent or open crisis and conflict dynamics: connectors and dividers. The principle states that action should meet the minimum requirement that interventions in a given setup do not fuel tensions and conflicts, and that connecting factors (in terms of factors like shared infrastructure, cultural patterns or actors) are strengthened and the dividing factors are reduced.

⁶ Sources: Douglass C. North, John Joseph Wallis, Steven B. Webb, and Barry R. Weingast: Limited Access Orders. An Introduction to the Conceptual Framework. June 2010 / Douglass C. North, John Joseph Wallis, Barry R. Weingast: Violence and Social Orders. A Conceptual Framework for Interpreting Recorded Human History. Cambridge University Press, New York 2009 / Daron Acemoglu & James A. Robinson: Why Nations Fail. The origins of power, prosperity, and poverty. Random House N.Y. 2012

- **Understanding the context as a dynamic changing framework:** Understanding long term structure (defined by Ferdinand Braudel as long waves) requires a significant degree of background work about the specific context. The context as such does not exist. It is actor and change specific. Local and national politicians, young urban or rural women, big cities and remote regions with precarious social infrastructure, and the degree of engagement in reforms may vary basically. Usually sector-specific analysis about the politics behind a concrete local development initiative need to be informed by a national level analysis of political frameworks. For example, the political analysis of a water management scheme can look at the relevant actors and networks around the local provision of safe and clean water, but it will need to be complemented or informed by the dynamics and motivations to deliver public services of the main stakeholders at the national level. Similarly, a proper analysis needs updating to reflect changing factors in the development context. The validity and relevance of a given analysis could be challenged by regular changes at the domestic or international level. In anticipation of permanent change, a good analysis will need to make its assumptions explicit and development practitioners will need to adjust the analysis according to new developments.

- **Institutions matter.** There is an explicit recognition that rules and norms matter to shape individual behaviour (North, 1990). Institutions are taken as given rules of the game that set out the context, incentives, motivations and sanctions in which the actors make choices. Both formal and informal institutions shape behaviour of actors, powerful and powerless ones. Contemporary approaches consider that institutions change over time and tend to reproduce power asymmetries, as they reflect the preferences and interests of influential actor groups. Seen from an institutional perspective, stable democracy and rule of law must rest on – at least - six institutional pillars. The challenge is that efforts to strengthen one or more of these pillars are likely to undermine the others.
 - (i) The monopoly of the legitimate use of physical force.⁷
 - (ii) The separation of powers into a legislature, an executive, and a judiciary functions, as basic model for state governance by dividing it into branches, each with separate and independent powers and areas of responsibility.
 - (iii) Effective state institutions capable to provide public services in terms of quality and equality to people living within its jurisdiction, either directly or by financing provision of services. Basic services should be available to all, regardless of status and income and include the generation of an enabling environment for CSOs (democratic voice and organization) and the development of the private sector and transparent markets.
 - (iv) The autonomy and independence of these institutions from powerful actors and dominant coalitions, trying to capture the state institutions to abuse them to acquire a personal benefit.
 - (v) The existence of meaningful institutions of control and accountability in the meaning of answerability, liability, and the expectation of being accountable to the public and obliged to inform about past or future actions and decisions, to justify them, and to suffer punishment in the case of eventual misconduct. Accountability cannot exist without proper accounting practices; in other words, an absence of accounting means an absence of accountability. As an aspect of governance, it has been central to discussions on corruption in the public sector, i.e., the misuse of public funds and power in the interest of influential private groups.

⁷ The monopoly of the legitimate use of physical force, also known as the monopoly on violence (German: Gewaltmonopol des Staates), is the conception of the state as first expounded by sociologist Max Weber in his essay *Politics as a Vocation* (1919). Weber claims that the modern state “is a compulsory association which organizes domination”. Weber describes the state that succeeds in holding the exclusive right to use, threaten, or authorize physical force against residents of its territory. Such a monopoly, according to Weber, must occur via a process of legitimation.

- (vi) The guaranteed rules and protected mechanisms of democratic civil society organization and decision making on government issues, law and rules in which all the people of a state are involved in decisions about its affairs, typically by voting to elect representatives to a parliament or similar assembly.
- **Actors matter.** Commonly, political economy analysis tends to focus on individuals or powerful change agents as the main unit of analysis. An underlying premise is that political behaviour tends to reflect for the most part, the best interests of such individuals, given their legal, economic and social positions. In this respect, there are some important revisions to keep in mind: Actors are not always individuals but sometimes they are a CSO, a public entity or an enterprise. Actors can also be representatives of a collection of like-minded individuals or organizations with similar interests (i.e., a political party or an association of municipalities). Second, the best interest of individuals does not only include material benefits or rewards. The search for the public goods or even altruistic behaviour can be modelled as furthering the best interest of an individual actor. The concept of actors shouldn't be reduced to humans as rational and narrowly self-interested beings who only strive for maximizing utility as a consumer and economic profit as a producer. In addition, actors tend to have different strategies to cope with obstacles and attitudes towards taking risks, e.g., when they are relatively wealthier than when they are poorer. Over time actors also tend to develop a kind of path dependency, they become cautious and tend to follow well known pathway because of risks and presumably high costs of uncertainty and change. Sound political economy analysis pays special attention to understanding the incentive systems and motivations of actors to cope with change and to cooperate over time. A critical part of reinforcing commitment is to help cement agreements, legitimize decisions, and uphold (enforce) agreements. These commitment devices can take the form of actors, rules or "currencies" (i.e., money, prestige, attention, material goods). These enforcers could be reflected in a formal institution (e.g., the judiciary or a Supreme Court) or an informal institution (e.g., friendship, loyalty, charisma).
 - **Power resources:** The core of political economy analysis is the question of power distribution. In practice, it would be difficult to understand institutional issues and actor's behaviour without analysing visible and hidden power dynamics. As stakeholders, actors activate their power resources and try to enhance them. These resources are e.g., the control over information processes, the power through relations and networking, the power derived from the capacity to negotiate, or the expert power based on achieving influence through knowledge and experience. These resources can also be combined and applied as a mix, depending on the context and situation.

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