Mary Shirley on Stephen Knack's "Governance and Growth: Measurement and Evidence"

Steve Knack's examination of governance indicators shows how little we really understand governance details. His paper points out that broad, non-transparent and subjective indicators such as "rule of law" or corruption may be misleading and even counterproductive. Governments may rightly resist such judgments as biased.

I suggest that the paper could be even more critical of perception indicators than it is. These survey based indicators ask business men to rank their problems on a scale of one to ten. One clear problem with these rankings is that you don't know the metric the person is using. They could be comparing their country to the US and judging it to be corrupt or inefficient, or they could be comparing it to a worse off neighboring country and judging it to be honest and efficient. Using subjective rankings in cross country regressions is thus highly suspect. Furthermore, perceptions are strongly influenced by current events. A business survey in Bolivia a few years ago showed that the number one problem was the judiciary. A year later the survey was repeated with the same sample and the number one problem was policy uncertainty; the judiciary had dropped to forth or fifth place. Sad to say there had been no improvements in the judiciary during the period, but the survey was done at a time of accelerating inflation and recession.

A problem with all broad governance indicators is that they offer us little guidance. They do not tell us how to design policies to correct institutional flaws, nor enable us to judge if reforms have succeeded. Even some of the second generation measures Knack cites seem very broad to me, and not really conducive to reform design and evaluation.

I can explain best what I think is need with an example from the regulation of telecommunications. We wanted to measure regulatory governance using Williamson's lens of contract. Figure One below shows the broad measures of regulatory governance that we developed for a forthcoming publication (Haggarty, Luke and Mary M. Shirley 2002), which are narrow compared to some of the measures in Knack's paper. Figure Two shows the sort of detailed indicators we developed to create the broad measures in Figure One. As you can see, the amount of deep knowledge required to use Williamson's lens of contract is considerable. It requires rigorous case studies, or what have been termed "analytical narratives" (Bates, Robert H., Avner Greif, Margaret Levi, Jean-Laurent Rosenthal, Barry R. Weingast 1998). Yet our task is not finished. We also need to measure the influence of the larger institutional setting (including the legal system, the bureaucratic norms and civil service rules, the electoral rules and political system, and the constitutional balance of powers). Only then can we judge the goodness of fit of these governance measures to their environment, and relate governance to performance.

Such deep, micro-analytics can allow us to design feasible institutional changes and measure their impact. Broader, macro measures such as those attempting to measure governance of an entire country, are much more troublesome and unlikely to provide guidance for reform.

It is my opinion, therefore, that the field experiments that follow this forum should focus on similar micro-analytical cases. This would entail selecting an appropriate project, studying the relevant broad institutions and micro institutions, then designing the micro institutions to fit within the institutional setting, and analyzing the outcome. For example, in the regulatory cases sited above, an intervention might be to try to design a regulatory framework that can function despite a weak judiciary and corrupt bureaucracy. In such a case one would want to maximize competition to create stakeholders who can counterbalance the market power of the former monopoly provider. One way to do this might be to delay the sale of the state owned incumbent provider until a second network holder and one or two cellular operators can become established, and the new regulatory agency is fully staffed and operational. During the continued period of state ownership the government would prevent the incumbent from expanding. The drawback is that this would reduce the sales price of the incumbent, but as (Wallsten, 2001) suggests, there is a trade off between sales price and consumer welfare. As it happens, a natural experiment very much along the lines I describe occurred in Uganda's telecommunications sector and the final price paid for the Uganda Telecoms was in fact considerably more than anyone would have predicted (Shirley and Tusubira 2002).

Figure 1
Regulatory Governance in Six African Telecommunications Sectors

	Cote d'Ivoire	Ghana	Malawi	Senegal	Tanzania	Uganda
Independent of political pressure	●					●
Autonomous w/ good information, limits on discretion	●	○			○	●
Accountable, w/ independent appeals process	○	○	○		○	●
Transparent, w/ monitoring						●
Capable, motivated staff	●					●

Source: adapted from Shirley 2001.

Figure Two: Regulatory Governance Measures

	Cote d'Ivoire	*Ghana*	*Malawi*	*Senegal*	*Tanzania*	*Uganda*
Relations w/ ministry	Separate, nine regulators rep. diff. ministries	Separate but minister may give directives	Separate but minister may make regs.	Not a separate body	Separate; min. may give directives	Separate, minister gives guidelines only.
Nomination, appointment of regulator	Nominated & appointed by nine ministries	Nominated by minister & appointed by pres. Not appointed yet	Nominated by Public Appointments Committee & appointed by president	Nominated & appointed by minister	Nominated & appointed by minister. Chair appointed by president.	Nominated by private professional groups & appt. by minister w/ cabinet approval
Removal of regulator	For cause specified in law.	For cause, but not specified in law.	For specified cause; first regulator removed after elections.	Ministerial decision.	For cause, but not specified in law.	For cause, specified in law.
Independent sources of funds	Fees	Fees	Fees & fines	None	Fees	Fees
Limits on discretion	Law & concession contract detail powers but these do not always agree.	Law & contracts detail powers. Regulator in practice very weak.	Unilaterally imposed new interconnec. Policy. Overturned by courts.	Since regulator is part of ministry, no limits specified.	Law & contracts detail powers.	Law & contracts detail powers.
Power to compel information	Can compel information & investigate operators.	Can compel information, but has poor information.	Can compel information, but has poor information.	Minister can compel & has good information.	Can compel information, but has poor information.	Can compel information, & has good information.
Power to enforce						
Reports & monitoring						
Open to public scrutiny.	Concession agreement never published. No consumer represen.	Not open.	Not open.	Not open	Not open.	Membs. public on commission. Public workshops. Public comment on proposals.
Appeal to neutral, nonpolitical body	Separate council arbitrates disputes; strong defender of operators' rights.	Courts. In one dispute sided with operators against government	Courts. Not tested.	None.	Courts. Courts have sided w/ operators against government.	Tribunal & courts. Courts are indepen. Several disputes settled.
Appropriate staff skills						
Adequate pay						
Revolving door banned						

Source: (Haggarty, Luke and Mary M. Shirley 2002)

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