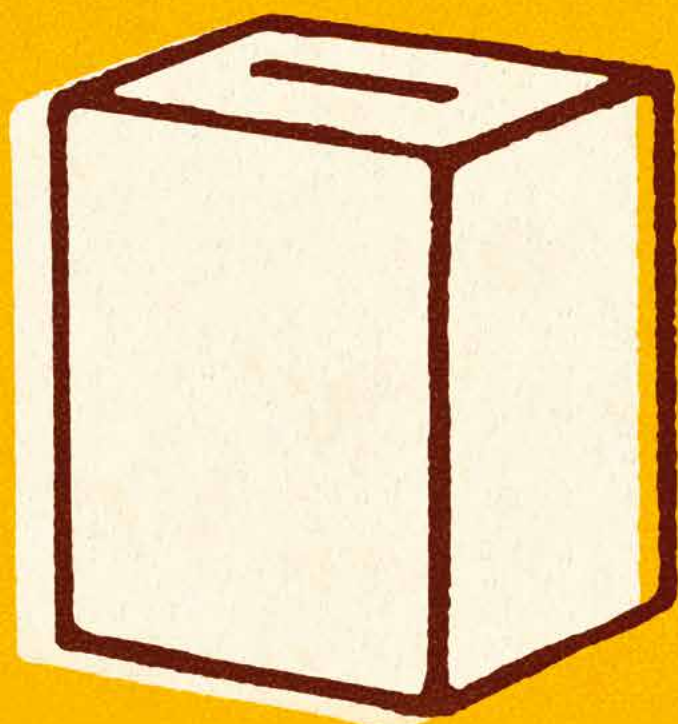


OXFORD GOVERNMENT REVIEW

NUMBER 3 / OCTOBER 2018



THE FUTURE OF GOVERNMENT

THE FUTURE OF CAPITALISM

Paul Collier

POVERTY AND 'BAD' CHOICES:
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FREE MARKETS ARE NOT THE
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INTRODUCTION

Amidst a lot of pessimism, the world needs bold and creative thinking about how to govern, how to unite societies, and how to foster entrepreneurship, jobs and growth. This new issue of the *Oxford Government Review* seeks to spark such thinking.

Capitalism is under fire from several quarters. Pepper Culpepper sets out some of the challenges. His work highlights the place of banks and “banklash” in the current malaise. Capitalism, he argues, needs better to satisfy the demands of the citizens for political accountability whilst still enabling banks to compete in global markets and contribute to domestic economic growth. My colleagues point to several ways forward. Paul Collier presents a new vision which focuses on the “dense web of reciprocal obligations in firms, families, and state”. This is a vision of capitalism rooted within communities. In a different vein, Karthik Ramanna proposes returning some common sense and morality to the free market. This shines a light on how we educate leaders – whether here at the Blavatnik School of Government or in other professional schools across the world.

Many societies are suffering from increasing division and conflict. One possible way forward is to think about what brings people together most happily. More specifically, Jo Wolff asks what makes some cities more congenial to live in than others. His work with Avner de-Shalit ventures into Israel, the UK, Germany and the Netherlands to find out what people enjoy about their cities. It reveals the importance of diversity and effective social mixing, and of non-deferential inclusion such as free concerts in parks. For me, this echoes other work we’ve debated in the Blavatnik School of Government, such as Eric Klinenberg’s *Palaces for the People* on the importance of new kinds of public library, or the speech made here by the former mayor of Medellin, Colombia, about his efforts to build public spaces in which citizens can interact as equals, rather than as rich versus poor. Key to this are buildings that foster a sense of belonging and ownership.

Innovation in the way governments serve their citizens is another imperative. Mara Airoidi reports on the exciting work being done in the Government Outcomes Lab (or GO Lab) to learn quickly and practically about how to help governments to be better at commissioning not-for-profits or private firms to work in communities. Anandi Mani brings to bear the results of her own work which highlights the way behavioural effects can



enhance (or detract from) desired outcomes. Diego Piacentini, who leads the Italian government’s digital transformation, shares the challenges and successes of his work, while Kamal Bhattacharya, a Commissioner on the Blavatnik School’s Pathways for Prosperity Commission, discusses the potential of AI for developing countries.

Finally, we look at the most fragile communities in the world. As I write this introduction, several million lives are at risk in Yemen, and millions have had to flee Syria. The international community needs to support and assist communities in fragile states much more effectively. This was the subject of the Blavatnik School’s participation in the Commission on State Fragility, Growth and Development. Former UK Prime Minister David Cameron (who co-chaired the commission with Donald Kaberuka) shares the thinking of their report.

I very much hope that you enjoy this issue of the *Oxford Government Review*, and that you will share with us your reactions, ideas and support so that we can foster more creative thinking about how to address the very serious challenges ahead. ●

Negie Woods

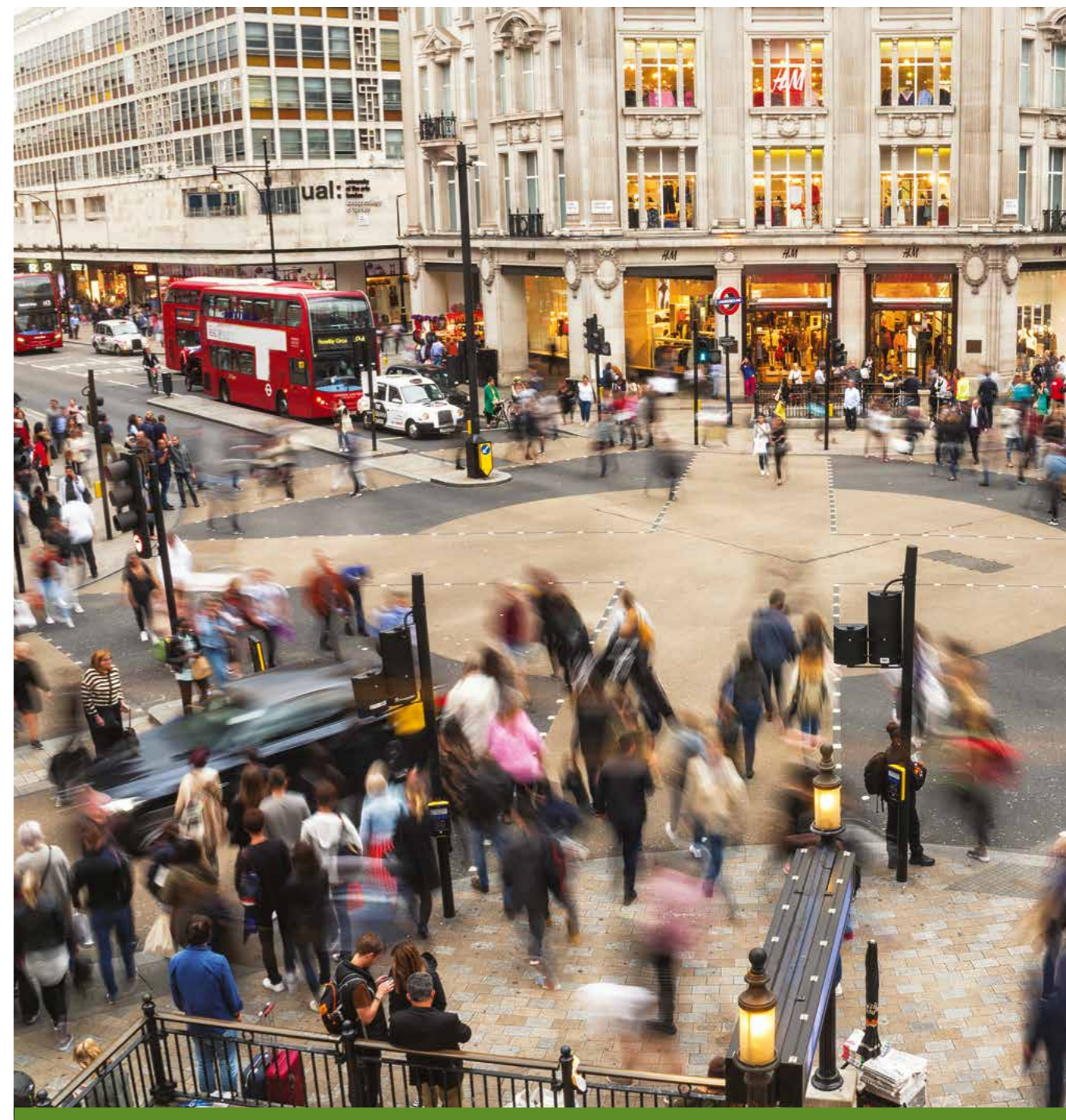
THE FUTURE OF CAPITALISM

Without active public policy, capitalism goes wrong, says Paul Collier – and currently, both left and right are failing to get it back on track.

Capitalism is not working, but it has to work: experience has taught us that it is the only system that can deliver mass prosperity. But experience has also taught us that capitalism cannot be left on autopilot: periodically, it goes off the rails. In the early 19th century it derailed into the hell-on-earth of the first industrial cities; in the 1930s it derailed into mass unemployment; from the 1980s it has derailed into a business culture shorn of ethics, and new mass anxieties. Only active public policy can rescue us from such situations. Public investment organised by local government cracked the first derailment; Keynesian macroeconomics cracked the second; but so far, the current derailment remains unaddressed. My new book, *The Future of Capitalism*, does what its subtitle says: it *faces the new anxieties*.

Since the 1980s, Western societies have been riven by two new divisions: a spatial divide between a booming metropolis and broken provincial cities; and a class divide between the college-educated and the less-educated. For skilled metropolitans, global capitalism has been the gift that goes on giving: in Harold Macmillan's famous 1950s phrase, we 'have never had it so good'. But he aimed his line at provincial manual workers: the group now facing 'burning injustices'. This is the group with the new anxieties: their skills devalued, their prestige shredded, their family structures falling apart. They are the mutineers: Brexit, Trump, Corbyn, Five Star, ADF.

The new populists, and the old ideologues, have seized their chance because the conventional parties of both left and right were lured away from their ethical foundations of pragmatism into fashionable cul-de-sacs. The sound foundations of the Right had been One Nation: firms with a sense of social purpose, such as Cadbury and John Lewis. One Nation was abandoned: the Right was seduced by Friedman's worship of the market – the travesty of Adam Smith in which ferocious self-interest would drive society upwards. It was also tempted, especially in America, by Libertarianism: the cult of individual freedom. Translated into policy, ethics became redundant: the sole purpose of the firm was profit; the sole purpose of the individual was fulfilment through achievement. The task was to deregulate, and intensify competition through high-powered incentives linked to tightly monitored targets such as quarterly profits.



The sound foundations of the Left had been the Cooperative Movement: the construction of reciprocal obligations to address the practical concerns of ordinary people, such as housing, shopping and funerals. It was abandoned: the Left was seduced by the Utilitarian paternalists, dominated by economists, and the Rawlsian victim-seekers and Libertarians, dominated by lawyers. Translated into policy, the economists wanted to empower the state to redistribute consumption through taxation and benefits: the concepts of dignity and desert had no meaning within their framework. The lawyers wanted to confer new rights, dubbed 'human' rights, on favoured groups and individuals: the public interest of the majority had no place in this new hierarchy. In combination, obligations floated up from firms and families to the state, while rights showered down, selectively.

These agendas were very different but they had two characteristics in common: they were dominated by highly educated metropolitans, and neither resonated with the concerns of less-educated provincials. While the New Right and the New Left fussed over implementing their agendas, the new anxieties of spatial and class divides widened, unaddressed.

The Future of Capitalism is pragmatic. The new anxieties have empowered the old ideologues and the new populists, but neither has the least ability to solve them. For that we need carefully crafted new public policies, some of which will offend vested interests, and most of which will upset established ideas. I will sketch a few of them. But the book is also passionate, and there is a reason for it. By chance, my own life has straddled these appalling new divides. I have a foot each side of the new spatial divide. I

live in the most desirable district of Oxford, the neighbourhood of choice for metropolitan success: my postcode has the highest ratio of house prices to income in the entire country. But I grew up in Sheffield, the emblematic broken provincial city – the city made famous by *The Full Monty*. Those people were my family and neighbours: a city with a continuous tradition of specialist steel going back to Chaucer imploded in just five years due to inept public policy. I have a foot each side of the education divide: I am sufficiently educated to have been appointed to chairs at Oxford, Harvard and Paris but both my parents left school aged twelve: they led frustrated lives, their abilities flowers left to bloom unseen. Most painfully, I have straddled the new divide in life trajectories. The book starts with a photograph of two four-year-olds: myself and my cousin, born on the same day, into the same social class and city, and by fourteen both at grammar schools. As I progressed upwards, through chairs, and medals, she plunged into the traumas of teenage motherhood. Divergence echoed down the generations: both her daughters became teenage mothers. Just as capitalism can derail, lives can derail, and I have written *The Future of Capitalism* to heal these avoidable tragedies. In our prosperous world, that is what they are: avoidable.

Finally, to pragmatism: what are the ideas that can truly address these real anxieties? A book cannot be condensed into a few sentences, but I will sketch my approach. And I am relieved to say that the book has been endorsed by intellectual giants: George Akerlof, Michael Sandel, John Kay and Mervyn King. It can be criticised, but not dismissed. The ideas divide into the ethical and the technical.

It is vital that ethics is restored to the centre of public narratives. Not the fashionable ethics of victims and outrage, but the foundational ethics of any successful society: a dense web of reciprocal obligations in firms, families and state. The genius of reciprocal obligations is that they precisely match new rights to new obligations and so are deliverable, and they will only be accepted if they are recognised as meeting legitimate needs. Firms and families, the arenas in which we conduct our lives, are not vehicles for profit and individual achievement: they are the ethical heart of our society.

We can heal the divide in life chances by enhancing the productivity of less-educated people whose homes are the provincial cities. This means a massive shift of focus from cognitive skills for the more school-successful half of youth to vocational skills for the other half. Switzerland does it right: four-year training courses, half-financed by firms who make sure people come out employable. And it means restoring provincial cities: not a giant

“MOST PAINFULLY, I HAVE STRADDLED THE NEW DIVIDE IN LIFE TRAJECTORIES.”



Paul Collier and his cousin, aged four. Image used with permission from Paul Collier's new book *The Future of Capitalism*

Benefits Street, but new clusters of skill-intensive firms. That will take bold, proactive public policies; and it will take money. Who will pay? The skilled and landowners in the metropolis. London is Britain's new oil.

I do not know whether the Right or the Left will rethink first: probably that will differ country by country. But whichever party does so will govern for the following two decades, not just by facing the new anxieties, but by fixing them. ●

The Future of Capitalism: Facing the New Anxieties is published by Penguin and is out now in the UK; in the USA it is published by Harper Collins in December 2018. It is being translated around the world.

Paul Collier is Professor of Economics and Public Policy at the Blavatnik School of Government.

WE CAN END STATE FRAGILITY – AND NOW IS THE TIME

Fragile states are sources of migration, terrorism and poverty. David Cameron asks what fragility is and how we can end it.

One of the things that is most striking about being Prime Minister is the sheer number of issues you are dealing with at any given time. When you leave office, however, you have a unique opportunity to focus on a handful of things – things you feel that perhaps the world is giving too little attention.

With everything that is going on across the globe today, one can forget that the gap between the richest and poorest nations is still a vital issue. More and more it is becoming apparent that we won't deal with this unless we help those countries that are referred to as “fragile states”. For that reason, I have been determined to continue advancing these countries' cause since I left Downing Street.

“State fragility” is shorthand for the conflict and corruption that blights so many parts of the developing world. Some of these countries are poorer than they were 40 years ago. They tend to lack even basic elements of security – and the capacity of governments to deliver the things people need is virtually non-existent. The basic building blocks of democracy are missing. The rule of law. Strong institutions. Properly functioning private sectors. Without these things, there are no rights, no security, no public services, no jobs, wealth or opportunities.

That matters to us all. Fragile states are often the source of the biggest problems in our world today, including mass migration, terrorism and human trafficking. It's no good pretending you can pull up the drawbridge and ignore what is happening on the other side of the world. When states fail, we all suffer.

I'll never forget sitting on the floor of a hut in Helmand, as village elders explained their political situation. They had a national government. That government had been elected. But the reason it didn't have the confidence of the people – the reason so many still turned to the Taliban – was that, not least because of appalling levels of government corruption, they believed this murderous organisation was better at dispensing justice and delivering for its people. In other words, it made life feel less fragile.

There are countless examples of how governments' failings can ruin countries. Often, there are pairings of next-door nations whose fates are poles apart. Ask yourself: why are Botswanans richer than Zimbabweans? Why are Colombians safer than Venezuelans? Why do South Koreans live longer than North Koreans? It's not climate, ethnicity or natural resources. It's the way these countries are run. Geography is not destiny – governance is.

“GEOGRAPHY IS NOT DESTINY – GOVERNANCE IS.”

That is why, as well as keeping Britain’s promise to spend 0.7 per cent of our national income on overseas aid, I made sure a greater proportion of that budget went on helping fragile states to lay the building blocks of democracy and good governance. Global leaders’ commitment was vital, so I put three issues that are so important to fragile states – trade, tax and transparency – at the heart of the agenda when I hosted the G20 in 2013. Then, in 2016, I held the world’s first anti-corruption summit.

But every time I looked at the list of fragile states – from Somalia to Pakistan, Yemen to DRC – I was frustrated by the absence of both analysis and answers. That is why, at the start of 2017, I joined forces with Donald Kaberuka, former chair of the African Development Bank, and senior Pakistani civil servant, Adnan Khan, to chair a Commission on State Fragility, Growth and Development.

Our central question was this: how can more countries escape the fragility trap? We were joined by 13 Commissioners, including the Blavatnik School of Government’s dean, Professor Ngaire Woods. And we were guided by academic directors Sir Paul Collier, also from the Blavatnik School, and Sir Tim Besley, from the LSE’s Economics Department. It was to become the most in-depth and sustained inquiry into state fragility ever seen.

We soon realised how increasingly urgent such work was. The latest estimates showed that, by 2030, half of the world’s poor would live in countries that are “fragile”. With almost 900 million people still living on less than two dollars a day, in too many of the world’s poorest countries, progress is completely stuck. Indeed, we found that some of the things developed countries, non-governmental organisations (NGOs) and donors had done had arguably made matters worse.



Taking evidence from over 40 experts, from government ministers to aid workers, we established what was going wrong in such countries – and, from that, posited what could be done to put it right.

We came up with a host of recommendations. Some of the most important things we had to say fell into three categories: realism, not idealism; national, not international, ownership; long-term reconciliation, not short-term elections.

First, we found that too many international actors, such as donor governments and NGOs, were setting out long lists of unachievable objectives and unrealistic timetables as a condition of aid. We recommended that simple steps that bring jobs and security should be promoted above, for instance, setting new national targets for tackling inequality and climate change. A far greater emphasis on the private sector, which ultimately is the key to growth, is also required.

Second, and connected to that, we heard how priorities were frequently imposed on fragile states from outside, meaning the countries did not feel ownership of them. There was also the worrying tendency of international actors to circumvent governments and deliver assistance directly, undermining the very governance they should be trying to bolster. That is why we recommended working through, rather than around, governments, and getting those governments to set their own national priorities in which their societies could feel invested.

And a third key change we recommended concerned the emphasis on holding early elections – often a condition of aid. Of course, the growth of genuine, inclusive, participatory democracy is vital. But rushing to the ballot box before genuine reconciliation and consensus-building has taken place can be damaging. We recommended putting those building blocks of democracy in place first. And we also recommended that moments of potential change – for example when conflicts end or a long-serving leader dies – are when international assistance can make a significant difference in getting a fragile state on the path to prosperity.

In March, I presented the preliminary findings of the report to the US Senate’s Committee on Foreign Relations before we launched it in Washington DC the following month.

In the months since, our findings and recommendations have proved more relevant than ever.

Only this summer we saw how the rush to elections is perpetuating fragility in Zimbabwe. The fall of Robert Mugabe was a moment of potential change. Yet the international community insisted on early elections as a condition for financial support. As a result, a phase of potentially transformative power-sharing never happened. The opportunity to address deep-seated issues disappeared. The prospect of a peaceful and credible election at some stage in the future was replaced by the reality of a violent and discredited one in the present.

But there is hope. We have also seen our recommendations being put into practice, for example when the Prime Minister, Theresa

May, visited South Africa, Nigeria and Kenya, vowing to focus British efforts on doing business in and trading with Africa – helping to create that diverse, sustainable, wealth-creating, jobs-generating private sector that is so vital to countries’ escape from fragility.

And that’s the point: it can be done. From Botswana to Bangladesh, Colombia to Rwanda, countries *have* moved from fragility to prosperity. That is set within the wider arc of poverty reduction that has taken place over the last 30 years – one of the miracles of our age.

Hearteningly, we are better placed to tackle fragility than at any point in history. The world is richer than ever. We know the ingredients for economic success. We know reconciliation and peace processes work. And we literally have in our hands technology that can raise awareness, cut corruption, deliver aid and help people participate in prosperity. We can end state fragility – and now is the time to do so. ●

David Cameron was Prime Minister of the United Kingdom 2010–2016. He is co-chair of the Commission on State Fragility, Growth and Development, hosted by the International Growth Centre, a research centre run as a partnership between the London School of Economics and Political Science and the Blavatnik School of Government. For more information on the Commission and to read the report in full visit www.bsg.ox.ac.uk/research/research-projects/commission-state-fragility-growth-and-development.

DOES ANGER AT BIG BANKS LEAD TO THE POLITICS OF POPULISM?

Pepper Culpepper uses the 2008 financial crash and its aftermath to look at the interplay between press, public perception and policy.

“OUTRAGE AGAINST BIG BANKS CONTINUES TO DEFINE AN ANTI-ELITE FAULT LINE IN POLITICS A DECADE AFTER THE CRISIS.”

A decade has passed since the freezing of the international financial system and the bailout of large banks around the world. Driven by public outrage at the bailouts, governments in the democracies that are home to the world's largest financial institutions have since 2008 attempted to rewrite the rules governing those institutions, shifting risk from the taxpayer back onto the banks themselves.

Despite these reforms, the outrage provoked by the bailouts has not subsided. Many countries have experienced the dramatic growth of anti-elite sentiment in public opinion, which crystallised in the 2016 votes for Brexit in the United Kingdom and the insurgent presidential candidacy of Donald Trump in the United States. One common thread in these electoral earthquakes was the popular backlash against large banks.

Outrage against big banks continues to define an anti-elite fault line in politics a decade after the crisis. There is a widely shared perception that there are two sets of laws – one for the bankers who drove the economy into the ground and one for the citizens made to pay for the damage to the economy through post-crisis austerity. This outrage undermines confidence and trust in governments to make public policy for the greater good, and it feeds the growth of populist political appeals, from both mainstream and extreme parties. The Edelman Trust Barometer in 2018 found that the financial services continue to be the least trusted sector of the economy, cross-nationally. In the United Kingdom, only 46% of people expressed faith in the sector, despite its disproportionately large contribution to the economy.

The political appeal of attacking banks and their executives creates a demand for public policies that offer simple, symbolically satisfying solutions to the complex problems of effective risk-sharing in the financial systems of the advanced countries. In other words, it leads to policies that are likely to be both bad for economic growth and ineffective at responding to public demands for reform. This dynamic has the potential to create a vicious circle in which ineffectual policy leads to further declines in public trust in government. That is a serious problem for democracy, as trust in government is even lower than trust in banks: in 2018, only 33% of the UK population, and 36% of the American population, expressed trust in their governments, according to Edelman.



The post-crisis era has witnessed the proliferation of a vibrant scholarly literature on the struggles between governments and banks over public policy. Despite this progress, no one has until now systematically explored the feedback loops between policies regulating banks, the public anger towards banking elites, and the content of the mass media. The new research project I am leading at the Blavatnik School of Government, Banklash, will attempt to fill this gap, linking developments in public policy with responses in public opinion and media coverage.

Existing scholarship has generated important insights about different aspects of the politics of financial regulation: the ways in which banks try to influence government officials and the capacity of civil servants to induce change in bank behaviour; measures of the success of anti-bank political appeals with voters; and the way media coverage links elite opinion and mass opinion. Yet there is no existing study of the way these elements fit together, and how they relate to the broader challenges currently facing elites in post-crisis democratic politics. Banklash is the first research project to link the supply-side of policymaking to the demand-side of public opinion in the critical area of post-crisis financial regulation.

The intervening stage of media coverage is a crucial mechanism in determining how public attention and public inattention conditions the political agenda. We know from existing research, including some that I have undertaken, that exposing readers to differently framed vignettes can lead to marked difference in their responses to political parties, interest groups, and individual politicians – both whether they feel warm or cold about them and whether they feel anger, contempt, or other emotions towards them – and indeed to marked differences in their policy preferences. But we have no sense of how media in different countries has portrayed banks and bankers differently.

How does media coverage of financial regulation vary in both intensity and tenor across countries? Answering this question requires systematic media analysis. The project will draw on recently developed machine-learning techniques that increase our ability to speak with confidence about broad differences in media environments. Because the project asks basic questions about

the way in which public attitudes can counteract the power large banks exercise in democracies, the study concentrates on those democracies that are home to the largest international banks: the United States, the United Kingdom, Germany, France and Switzerland. As a comparison case for those countries with large banks, the study also includes Canada, which has a concentrated banking sector but no globally systemically important banks.

For these six countries, Banklash will bring together three elements: comparable information on individual preferences and how those preferences react to different sorts of media coverage of financial institutions; rigorous content analysis of the quantity and tenor of coverage of financial politics in the different national media markets; and detailed process-tracing of the major policy episodes of successful and failed financial policymaking.

Though the financial crisis has passed, it left enduring scars on the politics of those democracies that are home to the largest global banks. In Europe and in North America, citizen anger against bank bailouts and the exorbitant pay of banking CEOs structures political battles over legislation that affects financial institutions. It also affects broader perceptions of fairness in the political system. Governments in different countries have responded with different policies to this common anger, and one goal of the project is to make clear how such variations in policy influence public satisfaction with democratic government. Can capitalist democracies impose stringent new rules on the largest international banks that satisfy the demands of the citizenry for political accountability while still enabling those banks to compete in global markets and contribute to domestic economic growth? In other words, can democracy effectively regulate financial capitalism in the 21st century? That is the question Banklash will try to answer. ●

Banklash is funded by a €2.5 million Advanced Grant from the European Research Council.

Pepper D Culpepper is Blavatnik Chair in Government and Public Policy at the Blavatnik School of Government.

INEQUALITY IN THE CITY

Jo Wolff asks what type of cities appeal to the egalitarian-minded.

“WE ARE INTERESTED IN CITIES BECAUSE THEY HAVE BEEN RELATIVELY NEGLECTED IN POLITICAL PHILOSOPHY, BUT ARE OF INCREASING IMPORTANCE IN THE WORLD.”

Many people, although not all, would say that they are interested in equality. They wish to live in circumstances in which they can regard themselves and others as equals. They don't wish to look up to or down on others. They oppose snobbery and servility, and have compassion for those worse off than themselves, rather than blaming them for their condition, or excluding them from society. This approach – what I would describe as the egalitarian spirit – is inclusive and welcoming, and opposes discrimination on the basis of social class, race, gender, sexuality, religion, disability or any other similar basis.

Not everyone will recognise the egalitarian spirit in themselves. Some, who oppose it, will feel that they have succeeded through their own efforts, and that this is enough to show that they are, in some sense, superior to others. An ever-diminishing number might feel that their birth alone has put them on a higher level. Education and access to higher culture can sometimes lead people to disparage others with different backgrounds and taste. To some degree this may be unavoidable, but those who share the egalitarian spirit are on guard for this in themselves and seek to overcome it.

Where do people with the egalitarian spirit want to live? Specifically, what makes some cities attractive? It's a question I'm currently exploring with Avner de-Shalit, a philosopher and political scientist at the Hebrew University of Jerusalem who first proposed it. We are interested in cities, as distinct from nation states, because they have been relatively neglected in political philosophy, but are of increasing importance in the world. The national government may set policy about such things as tax rates and defence, but, for many people, how their city operates – the planning decisions it makes, how it runs the transport system – is much more fateful for their everyday lives. People also have much more choice about which city to live in: there can be considerable legal obstacles to moving country, but (in most countries at least) it is relatively easy to move from city to city.

In this work we do not set out to argue that people *should* have the egalitarian spirit (although this is something we believe and have explored in other work). Rather, we want to understand what makes some cities more congenial than others to people with that spirit. This, in turn, may help guide city policy in the future.

One obvious thought is that the greater the income equality of a city, the more it embodies the egalitarian spirit. But this is less clear than it might seem. If we were to rank major US cities in terms of embodying the egalitarian spirit, Berkeley, California would come high on any list. But it also has very high income inequality: it is home both to billionaires and those who live on the street. Perhaps paradoxically, financial inequality can be a sign of inclusiveness. Contrast Berkeley with a city that has few poor people and very low ethnic diversity. It may do well in terms of income equality, yet it sounds rather unappealing to those with the egalitarian spirit.

The first stage of our project has been a literature review and discussion between us, and with other theorists, to generate initial ideas on what, if not income equality, helps a city to embody a corporate version of the egalitarian spirit. There are some obvious thoughts. Excellent, affordable, public transport. Public parks, museums, libraries and leisure centres. Accessibility of public space to women, the elderly and minorities. Subsidised housing towards the centre of the city to avoid population dispersion by income. Social services that understand that they are there to serve, rather than to be a gatekeeper to scarce resources. On this basis we can build an initial picture, which, through further reflection, could possibly even be refined into a set of indicators.

But rather than rushing to judgement, we have moved to a second stage. We are interested in the views of the people who live in our cities, and are undertaking a series of interviews, in Israel, the UK, Germany, the Netherlands, and perhaps elsewhere, to understand what people enjoy, and don't enjoy, about their cities. In addition to asking what they think makes a city feel equal or unequal, we ask what they like and they don't like about their experience of the city, and how they are treated by city officials. The purpose is not to generate a statistically significant data set, but rather to bring to our attention common themes from different cities, and to see what we, as theorists, may have missed. We already have some provisional findings from our pilot interviews.

The overwhelming impression we have so far is that what makes people feel welcome or at home in a city is what can be called a **sense of place**. People want to be accepted for themselves and in their own right, although among others with similar entitlements. They do not want to be regarded as a guest or a servant, but as someone who has as much right to live within the city as anyone else. This, in turn, breaks down into several sub-themes.

The first is **sense of meaning**. This has many aspects. First people value living in what can be called 'lively surroundings', with much going on, and the ability to make choices about how to spend their time and effort. They want also to understand the history of their city and their own relation to it.

Diversity and social mixing is a second sub-theme and a natural follow-up from the first. Although our interviewees in a small number of cases felt threatened by the changing social mix of their neighbourhood, on the whole our subjects expressed their appreciation of those who brought something different to the city, even if it was only a more varied cuisine. Diversity brings a range of opportunities and joys.

Thirdly, people want **non-deferential inclusion**, which means being accepted without, for example, constantly having to apologise for their poor use of the majority language, or having it made clear to them that they are being tolerated rather than accepted.



Finally, people appreciate what we can call **non-market access** to goods. This contrasts with a market society, where there is a close tie between economic success and an enjoyable life. But with access to not only free healthcare and subsidised transport, but, for example, free concerts in the park, street festivals, and so on, there are ways in which those with low resources can enjoy fulfilling lives.

These are our preliminary findings. Our next tasks take us in two directions. One is to enrich our understanding further. The other is to refine it into a form, perhaps into a determinate index, where it can be helpful to policymakers who wish to do more to embody the egalitarian spirit. ●

Jonathan Wolff is Blavatnik Chair of Public Policy at the Blavatnik School of Government.

POVERTY AND ‘BAD’ CHOICES: BREXIT AND BEYOND

Anandi Mani challenges the notion that bad choices lead to poverty. In fact, she finds, it’s the other way around: poverty, by draining people’s mental energy, leads to bad choices.

“BEING POOR MEANS JUGGLING EXPENSES AGAINST LOW AND UNCERTAIN INCOMES ALL THE TIME.”

Google searches for ‘What is Brexit?’ peaked on 24 June 2016 – the day after the vote. You would have thought people would have paid more attention before. While the jury is out on the wisdom of the Brexit vote, both this belated Google search and subsequent events suggest that many people did not understand the implications of leaving the EU at the time of the vote. Among the factors believed to have shaped the vote, one has been the financial pressure and uncertainty that many people in the UK face, especially the poor.

Brexit aside, poverty has been found to be correlated with ‘bad choices’. The poor pay less attention to their kids, be it in the number of conversations they have with them or monitoring how much television their kids watch. Relative to the non-poor, they are less vigilant about preventative health measures, such as vaccinations for their children, and tardier at keeping appointments. Given that many of these choices are not directly linked to a lack of money, many people wonder whether in fact, it is these kinds of bad choices that keep people poor. This opinion is heard so often that the idea of people who are ‘deservedly poor’ seems to have taken firm root in some quarters of politics and the media.

But could the causality run the other way around? Rather than ‘bad choices’ leading to poverty, could there be something about the state of poverty that pushes people towards some of these decisions? My co-authors and I have explored this question in our work, by investigating the link between the financial anxiety faced by the poor and their mental attention. We designed experiments to test whether being poor makes a person dumber. We gave participants simple IQ tests and cognitive tasks in several different settings. Shoppers in a US mall were primed to think about their financial concerns before taking the tests. Sugarcane farmers in India were surveyed before and after harvest, when their financial situation went from bust to boom. We tracked drought-ridden farmers in Brazil over the course of a full rain season as rainfall uncertainty unfolds, and we examined financial decisions of farmers in Kenya eligible for cash grants.

Our results suggest that those blaming the poor for ‘bad choices’ seem to have got it the wrong way round. In fact, we found that having low incomes or uncertain incomes considerably reduces a person’s IQ. In the case of the shoppers and sugarcane farmers,



financial anxiety reduces IQ by between 10 and 13 points, which is equivalent to the effect of losing a full night’s sleep or going from age 45 to 60.

Why might this be? Being poor means juggling expenses against low and uncertain incomes all the time, making tough trade-offs like whether to pay the electricity bill or for childcare so that you can work. Continually having to make such tough choices and deal with emergencies requires a lot of mental effort. It leaves a person with much less attention to deal with things that are important in the long term but not urgent – like parenting, health or political engagement.

It has been well known for some time that poor people engage less with politics than those who are not poor. A recent study from the US that builds on the research described above supports the idea that financial anxiety contributes to such lower political engagement among the poor, because of how it reduces their mental bandwidth. It shows that the experience of financial pressure correlates strongly with what is known as a ‘good intentions gap’, where a person planned to vote but did not end up doing so. It finds that the main reason for this gap is forgetfulness – and not a lack of interest or civic-mindedness among the poor, or other structural factors that are known to hinder their access to voting facilities. The study also finds that being primed about financial anxiety has an adverse effect on political engagement among the poor, unless it is something that is salient and immediately urgent.

As for the non-poor, it is not just that they are more politically engaged than the poor. In my recent experimental research, I found that the political views of the non-poor about taxation and about whether the poor deserve support through redistribution is very

much shaped by their own outcomes. Or to be more precise, a self-serving narrative of their outcomes. In our experiment, outcomes depend either mostly upon luck or mostly upon effort. We find that people who get rich through effort discount the possibility that others may have put in as much effort as themselves but just had bad luck. Accordingly, they tend to be much less in favour of taxes that redistribute income to the poor from their ‘hard-earned’ income. To be clear, this preference for lower tax rates among these ‘deserving rich’ is not driven by self-interest: in our experiment, the rich were not subject to the tax rates they proposed. In fact, we found that our participants, rich or poor, are less motivated to look for evidence that could tarnish their favourable self-narrative, even when incentivised to do so.

This combination of greater relative political engagement and self-serving narratives of the non-poor could be a potent one. It could be argued that the political choices made in favour of financial austerity in Britain over the past decade, after the biggest financial crisis in recent times, carry more than a whiff of such self-serving narratives among the ‘deserving’ elite. In fact, it should not be a surprise that recent research has drawn a direct link between regions suffering greater adverse effects of financial austerity and those which voted in favour of Brexit. Between the bandwidth challenges of the poor to be politically engaged and the self-serving narratives of the elite, should we be surprised at the Brexit vote? Since 2008, the increasing inequality in Britain and many other parts of the world has only been driving a bigger wedge between the world views of the rich and poor. ●

Anandi Mani is Professor of Behavioural Economics and Public Policy at the Blavatnik School of Government.

THE DIGITAL ROAD TO THE FUTURE OF GOVERNMENT SERVICES

Italy borrowed **Diego Piacentini** from Amazon to bring the government into the digital age. He describes the process of transformation.

“WE DECIDED TO START OUR WORK WITH A LIMITED NUMBER OF ACTORS WHO COULD PIONEER OUR APPROACH.”

The future of public services is digital, and governments around the world are under increasing pressure to meet the changing expectations of citizens and businesses.

Italy is taking on the challenge. As someone who has spent my career in the technology industry, I was approached to help. In 2016 I took a leave of absence from Amazon, where I am Senior Vice President of International Consumer Business, to assist in bringing the digital revolution to the Italian government.

Like others, Italy has shown progress in the last few years with regards to digitisation of public administration – the country is in 24th place in the 2018 United Nations E-Government Development Index – but much remains to be done.

One of the main drivers for progress in Italy has been the creation, in September 2016, of a Digital Transformation Team to provide central leadership and effective direction for the variety of digital projects involving the public administration. I was brought in to lead it.

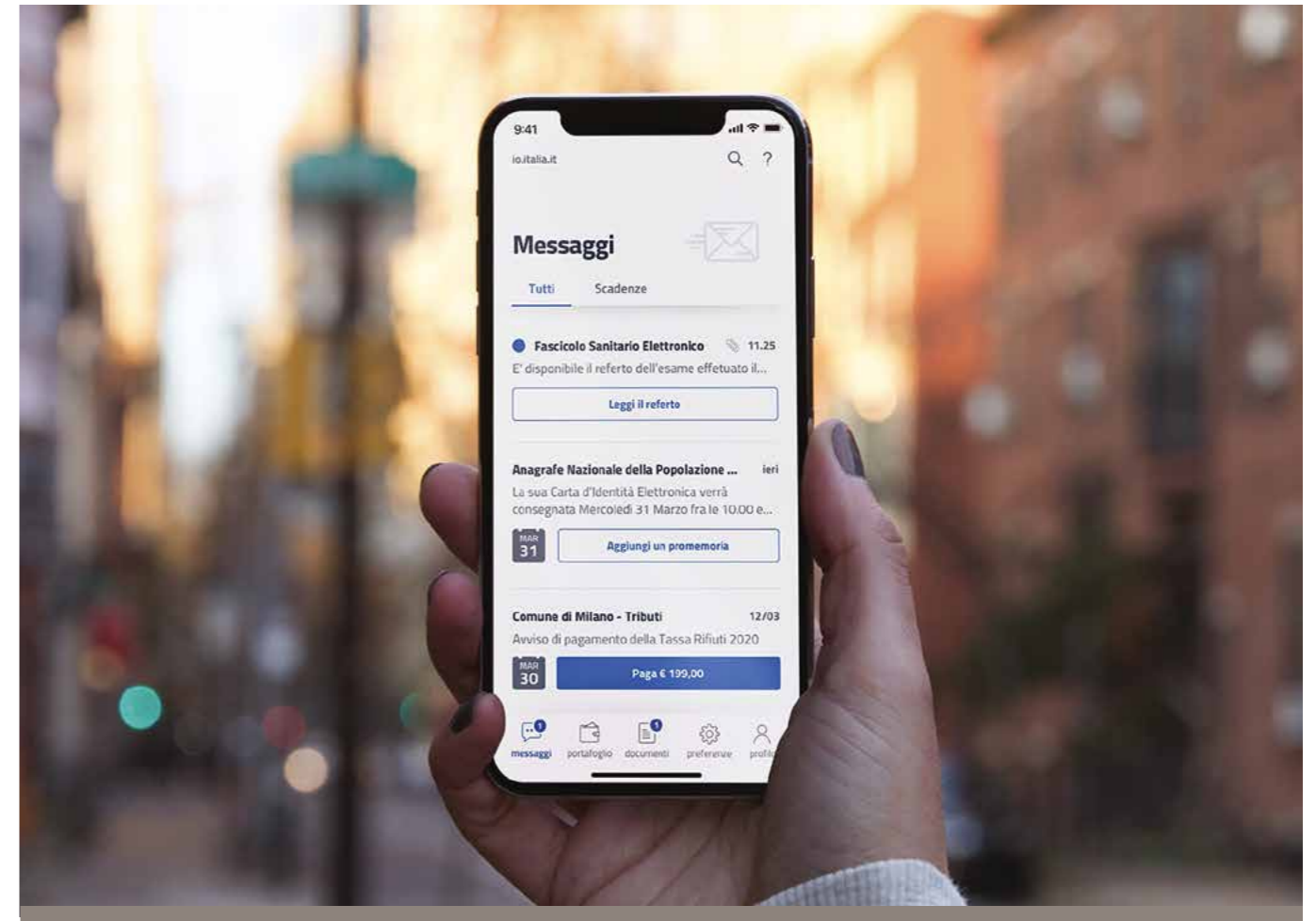
Our work started by looking at the building blocks on which solid digital transformation strategy is based: a national registry, a digital identity system, and a digital payment system. While developing and improving these platforms, we are also working across sectors to develop new tools and systems to manage public data and software, technological development and service design.

The main shift brought by the Digital Transformation Team was the introduction of a holistic approach: while all these projects had been developing separately, they were now considered essential components of the whole strategy – pieces of a puzzle.

Today the team consists of 30 men and women, all with strong skills in information technology, design, data science, and digital development processes. The [Three-Year Digital Transformation Plan](#), published in May 2017, was conceived with the aim of “simplifying the public administration and the life of citizens”.

To implement the plan, we decided to start our work with a limited number of actors who could pioneer our approach – the ‘club of virtuous public administrations’ – government departments, local governments, public agencies, and state-owned technology companies.

For example, we are currently working with the Department of Public Administration to update the Digital Administration Code, which lays the legal foundation for many of the services established in the plan. In particular, we are focusing on making the code



more flexible in keeping up with technological changes; gathering citizens’ digital addresses; and working on a platform to analyse and visualise existing national data in innovative ways.

We also created tools to involve the technology world with public service officials and accelerate change: these include an online discussion space for digital public service, and a community of digital developers and designers who share their expertise to help put citizens at the heart of new digital services.

One of the most tangible projects for citizens will be ‘iO’, a smartphone app that will allow people to interact with the public administration and get access to public services in a simple and intuitive way. A number of local governments and administrations are currently testing the delivery of digital services (such as paying local taxes, registering children for school access, notifications of due payments, and so on) through the app with encouraging results. The Municipality of Gallarate, near Milan, has been able to grant a €5 discount to citizens who pay the waste disposal tax using the digital payment system thanks to the savings it has made through digitisation.

Wider usage of the ‘iO’ app – which we hope to achieve by 2022 – will be the result of cooperation of individuals, public agencies and administrations to integrate new digital systems such as a ‘digital identity’ and population data with hundreds of services offered by all administrations.

But the path towards a fully digitised public sector is long. Much remains to be done, and the most difficult job of all is yet to come.

In the Italian public administration, there are thousands of ‘data centres’ which are, in most cases, expensive, inefficient and poorly

secured. Many European countries started the migration of data to the cloud and/or to a small number of more secure and efficient strategic national data centres several years ago. We have just begun, and even with strong central leadership and clear, agile processes in place, catching up will take a long time.

Another, equally complex job awaits. We need to start changing the way administrations buy digital services and technology. Other countries have already done so. We want to encourage start-ups and SMEs to work with the public administration. To do this, we need to be more flexible, gradually eliminating single-supplier agreements and drastically shortening tender processing times. We need to support the public administration in purchasing technology and services which are measured by results and development potential, rather than multi-year fixed requirements often disconnected from the project’s objective.

To innovate we need continuity, determination and technological skills. Analogue is inefficient and expensive, while a well-managed digital transformation brings real benefits and better service for all citizens, including saving time and money.

Digital transformation has the potential to improve and simplify the relationship between state, citizens and business, and this is a journey that requires openness to change and proactive leadership in the public service itself. Fortunately, we are seeing encouraging signs. ●

Diego Piacentini is Government Commissioner for the Digital Agenda, Italy. He is on leave of absence from Amazon, where he is Senior Vice President of International Consumer Business.

TO OUTSOURCE, OR NOT TO OUTSOURCE? THAT IS *NOT* THE QUESTION

Governments spend billions buying services for the public – with mixed results. Mara Airoidi examines how to get it right.

“THE DEBATE ABOUT OUTSOURCING IS HIGHLY POLITICISED AND HIGHLY POLARISED.”

“Carillion collapse to cost UK taxpayer £148m” – *BBC News*, June 2018

“Privatisation of probation threatening to become ‘contracting disaster’” – *The Independent*, March 2018

“G4S stripped of control over ‘failed’ Birmingham jail” – *Financial Times*, August 2018

Provocative statements have been hitting headlines across the country in the past few months, accelerated by the collapse of Carillion in January 2018. This construction giant buckled under £1.5 billion debt, and as it holds so many UK government contracts, from building hospitals to managing schools, there was fear that the disruption caused by the failure might spread to other outsourced public services. Such fears were compounded when the government announced the early cancellation of private probation contracts in July 2018. Following a highly critical report by the Commons’ Justice Select Committee, the government was forced to take decisive action to avert a Carillion-style collapse.

With such high-profile failures in the outsourcing of public services, questions about the relationship between the state and the private sector have made it high on policymakers’ agenda. And with a hefty bill for the taxpayer, it is high on the public agenda too. At present, the debate about outsourcing is highly politicised and highly polarised. And with many taking a binary stance on whether to outsource or not, it has also become unproductive.

An alternative to outsourcing on trust?

There are many policy tools that have been considered as alternatives to simply trusting that outsourced services will deliver set activities. One in particular is ‘Payment by Results’ (PbR): independent providers are only paid by government when the desired outcomes have been achieved. At first glance the logic is appealing: if we only pay when we get the results we want, we can guarantee high standards of public service and value for the taxpayer. If only.

In reality there is little evidence for the effectiveness of PbR. One issue is that a focus on specified and measured outcomes can lead to gaming and those who might cause targets to be missed may be



neglected. This is a criticism levelled at the Work Programme, which sought to get 785,000 long-term-unemployed people into work but was accused of sidelining the most difficult cases. The same programme highlighted another problem: deficiencies in contract set-up. The government ended up paying even the worst-performing contracts, since it was more expensive to terminate than to pay out. PbR is not, then, a simple story with a problem and resolution. The idea that it will give value for money and deliver effective public services is not a guarantee. Nor is it an open-and-closed failure story either. Perhaps we could think of it as a novel with complex characters and plot twists; perhaps a disappointing ending, but one that is worthy of attention.

Research helps identify which elements matter. These include both technical aspects, such as programme design and how the contract is arranged, and ‘softer’ aspects such as how relationships between stakeholders are maintained. We shouldn’t throw the PbR book into the fire without giving it a second read. This is where the GO Lab joins the conversation.

Exploring what works and learning the lessons

The Government Outcomes (GO) Lab is a centre for academic research and practice based at the Blavatnik School of Government. It was launched two years ago as a partnership between the School and the UK government, both of whom recognised the need for robust academic research and constructive debate around payment by results. Agnostic on PbR, we are intrigued by its premise and the promise, but well aware of the challenges. The aim is to find what does work and understand how the lessons learned can be applied more widely.

In recent years, there has been a ‘new wave’ of PbR known as ‘outcomes-based commissioning’ (OBC), which aspires to retain the benefits of PbR while avoiding the pitfalls. One specific type of OBC that we are currently focusing on is social impact bonds (SIBs). What differentiates SIBs is the involvement of social investors who have a joint financial and social motivation. A SIB brings together three key partners: a commissioner, a service provider, and an independent investor – who may be mainstream, socially motivated, and/or charitable.

The UK has been a pioneer in this area, launching the world’s first SIB in 2010 to support ex-offenders in Peterborough. Since then, there have been over 40 SIBs across the country in a range of policy areas, from supporting homeless people to find housing in Manchester to helping children stay out of residential care in Essex to helping young adults find employment across London.

Collaboration, prevention, innovation

Our latest evidence report, published in July 2018, adds to a growing body of evidence about SIBs’ effectiveness. *Building the tools for public services to secure better outcomes: collaboration, prevention, innovation* looks at the state of play of all UK SIBs. It shows that SIBs may help to overcome three perennial public sector challenges. They may support *collaboration*, allowing local authorities and service providers to work together and ‘wrap around’ citizens to meet their needs. They may encourage earlier intervention to *prevent* a crisis, saving money in the longer term. They may also bolster *innovation*, as risk is transferred to the investor.

We are in the early stages of our research, but what is already clear is that it is no good trying to answer a yes/no question about whether SIBs work. Multiple elements matter in SIBs and we want to understand whether or how they can work together to unlock collaboration, prevention and innovation. It is also important to look at whether SIBs work better than other forms of contracting. A project may have been effective – but was it because of the SIB or would it have worked anyway?

Asking the right questions

So, for us, asking the question ‘do SIBs work?’ is unproductive. At the GO Lab, we are interested in what we can glean from SIBs and PbR that can contribute to the future of policymaking. We want to build on the successes and log these in the policy toolkit. We are also keen to encourage open discussion so we can learn from failures rather than shying away from them.

When zooming back out to the debate around outsourcing, the same logic applies. Rather than debating whether we should outsource public services or do it all in-house, we need to ask a different set of questions. We must look again at the story to see who the complex characters were. What were the conflicts and were any of them resolved? What were the plot twists and could the story have turned out differently if it was written another way? Even if we didn’t enjoy the ending, were there redeeming features? Maybe it wasn’t a five-star novel, but was it worth one or two?

For questions about outsourcing, an ideological debate is not going to cut it. There is a much more nuanced discussion to be had. We aim for a more constructive debate based on robust empirical evidence and open discussion – in which to outsource or not to outsource is not the question. ●

The ‘Government Outcomes Lab’ (GO Lab) is a partnership between the Blavatnik School of Government and the UK Cabinet Office to establish a centre of excellence for innovative public sector commissioning. golab.bsg.ox.ac.uk

Mara Airoidi is Director of the GO Lab and a member of faculty at the Blavatnik School of Government.

HOW AI COULD TRANSFORM DEVELOPING COUNTRIES

Artificial intelligence evokes both excitement and fear. **Kamal Bhattacharya** is confident that the opportunities for developing countries outweigh the threats.

“IF EMERGING ECONOMIES WERE TO ADOPT AN AI-FIRST APPROACH, PERHAPS THEY COULD ADDRESS CRITICAL DEVELOPMENT CHALLENGES.”

Artificial Intelligence (AI) has captured the imagination in a way not seen since the development of the internet nearly three decades ago. The web instantly opened up a whole new world of possibilities and the public was easily able to engage with it. Setting up a website was never really hard, as long as the infrastructure was accessible. Building your own AI application, on the other hand, is much harder. But the many large companies that have staked their future on AI have deep enough pockets to invest over the long term. Thanks to their investment, we are increasingly seeing examples of what AI could potentially do.

We have seen IBM's Watson beating humans in Jeopardy and Google's AlphaGo system learning video games by itself and beating players at Go. We have seen AI systems translating speech simultaneously, making reservations and even engaging in live debates. We have seen evidence for how AI could disrupt industries. But what are the implications of the rise of AI for developing economies?

The current discussion on AI is often focused on its implications for the future of work. In mature economies, AI is automating tasks traditionally executed by humans. In developing economies, however, the rise of the gig economy means that the nature of work is rather different. A lot of the jobs that AI might displace do not exist in abundance in emerging markets in the first place.

If emerging economies were to adopt an AI-first approach, perhaps they could address critical development challenges. Emerging economies often suffer from inefficient delivery of basic services, such as finance, education or health. Imagine if we could redefine how the infrastructure of these economies could work without necessarily mimicking mature economies. How would we go about it?

In education, AI systems could be designed to support teachers in delivering content better. Like all humans, no teacher is perfect, and with AI we do not need to assume a teacher should be. We can de-task the work of a teacher into parts that are perfectly suitable to AI technologies even today and train teachers to focus more on building up students' emotional intelligence. An educational AI system could not only teach educational content but also measure engagement of students with the material, assess how far ahead or behind a student is, support teachers with additional contextual information and deliver individual support for parents and students outside of school.



AI could transform healthcare in developing economies. Emerging markets are traditionally short of doctors and will remain so for the time being. AI could assist doctors to make better decisions, but also assist less qualified but trained medical personnel to take decisions that are traditionally left to doctors. AI can also help with training medical personnel and in many situations can mitigate the risk of medics' gaps in knowledge. This AI system is harder to create than the educational AI described above, but it would be valuable. Primary care in particular involves many routine procedural tasks, which makes up a significant part of the work of doctors. Even if we start here, it could be a huge win for developing countries.

AI is already solving some of the challenges facing the financial sector in emerging economies. People in emerging markets traditionally lack access to credit. There are systems that support payment transactions via mobile phones and provide salient information about spending and saving behaviour to an AI application. The AI then supports human loan assessors to make decisions on an applicant's creditworthiness or decides instantaneously without human involvement. But these mobile network operator-led mobile money systems require investment in infrastructure, such as internet connectivity and regulation of mobile money providers.

So AI has transformative potential, but there are challenges we must confront if AI is to fulfil its potential to help emerging economies. Firstly, implementing strategies to augment human intelligence requires us as humans to appreciate our shortcomings. We need to believe that using AI will fundamentally make us better at what we are passionate about. The AI will not always be right – factors such as human bias creep into programming algorithms, and agreeing on a code of ethics for machine decision-making will be difficult. But humans are not always right either. I believe that embracing AI is a cultural shift that needs to be managed conscientiously.

Secondly, most AI technologies are developed in wealthy mature markets rather than emerging markets. There are many reasons for this – the systems require billions of dollars of investment and highly specialised skills that are more often found in the US or Europe. But it means that AI systems are not yet general-purpose machines that can easily be deployed across the world. The need for AI to focus more on developing economies is particularly evident in healthcare AI. Developing economies carry the majority of the global disease burden, but the top killers in Africa are not of deep concern to the US or Europe.

International development organisations are also not embracing AI to the extent required to reallocate resources that would help developing economies to embrace its potential. There is a lack of systematic approaches and the entire thought-leadership around the impact of AI in developing markets is left to the private sector. AI is based on the ingestion and processing of data, and the data for emerging economies is not yet on the radar of the creators of today's AI.

It should be a priority of companies, countries and international bodies to increase their focus on developing AI systems that are suited to driving systemic transformation in emerging economies. Our current approach needs to change. If it does, the societal and commercial impact could potentially be beyond our imagination. ●

Kamal Bhattacharya is Chief Innovation Officer of Safaricom Innovation Hub, in Nairobi. He is also a Commissioner for the Pathways for Prosperity Commission on Technology and Inclusive Development, a programme founded and managed by the Blavatnik School of Government and funded by the Bill & Melinda Gates Foundation. pathwayscommission.bsg.ox.ac.uk

AUTONOMY AND INCENTIVES IN AFRICAN PUBLIC SECTORS: EVIDENCE FROM NIGERIA AND GHANA

The performance of a civil service has a big impact on a nation's citizens, but what type of management creates the best outcomes? Martin Williams investigates.

“MOST CIVIL SERVANTS WANT TO BE GOOD AT THEIR JOBS AND SERVE THEIR COUNTRIES.”

Civil servants play a key role in the development of African countries. They advise political leaders and make and implement government policies on key issues like the economy, social security delivery and health. A government can only function as well as its civil service, so naturally it is a priority for governments across the continent to improve how their civil services perform. But, incredibly, there is little evidence about which management strategies will get the best results.

In recent civil services' reforms across Africa and around the world, the dominant approach has been to rely on the carrot-and-stick approach of stricter monitoring and stronger incentives for civil servants. Under this approach, the government strictly monitors what civil servants are doing, rewarding those who deliver and punishing those who do not. These rewards and punishments are diverse in form and need not be financial – they can be as simple as an 'employee of the month' award or an informal reprimand – but they share a contingency on perceived performance. Taking this approach is often motivated by the perception that civil servants do not perform because they do not have the right incentives, and a desire to make the public sector function more like the private sector in this regard.

An alternative approach is for governments to focus on empowering civil servants and giving them the flexibility needed to solve the complex problems facing public sector organisations. Rather than assuming that giving civil servants more discretion over how they do their work will lead to idleness or corruption, governments could manage civil servants in the same way as other professionals such as doctors and lawyers. They could be given discretion and flexibility over how best to complete tasks and information about how their work connects to that of their colleagues and the organisation as a whole. This approach is predicated on the ideal of a professional and public-spirited civil service – but some people worry that civil servants might misuse this discretion.

Which approach is more effective? It is an important question with enormous implications for governance in Africa. But until recently, there has been surprisingly little hard evidence about the effectiveness of either of these strategies for managing the civil service – in Africa or elsewhere. So our research team worked with the governments of Nigeria and Ghana to attempt to understand the relationship between these two management strategies and productivity.

In each country, we surveyed thousands of civil servants across dozens of central government ministries, departments, and agencies. The officials were involved in making policy, supervising frontline workers such as teachers and nurses, and advising political leaders. We also worked with each government to collect a rich range of data on performance, measured by each organisation's success at completing the set of projects and tasks it planned to implement each year.

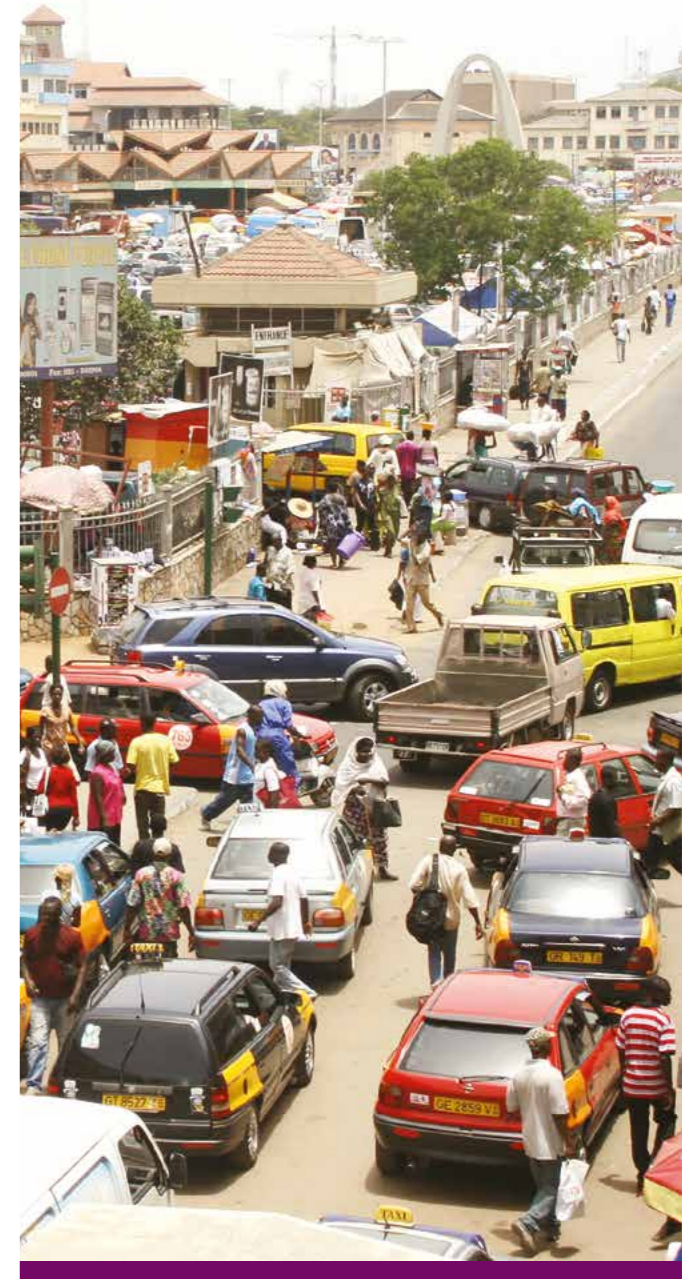
For each organisation, we then created two main indices of the quality management practices. The first was a 'monitoring/incentives index' that measured the degree to which the organisation collected and reviewed data on key performance indicators, and used those indicators to dish out rewards and punishments. The second was an 'autonomy index' that measured the degree to which organisations gave officers discretion to decide how best to complete their tasks, flexibility to tailor their services to the specificities of contexts and clients, and information about how their individual role fit into the work of their team and the broader organisation.

The results surprised us. When we examined the relationship between these management indices and output completion for each organisation in both Nigeria and Ghana, the autonomy index had a positive association with output delivery. By contrast, the monitoring/incentives index had a negative association. This is the opposite of what carrot-and-stick-focused strategies of performance management would predict, but is consistent with the idea that most civil servants want to be good at their jobs and serve their countries, and can act as professionals when they are empowered to. We also found that greater autonomy for civil servants is not associated with greater corruption. These findings are striking, particularly when you consider the recent trend towards a performance approach.

Surprising as this finding is to many people, it does make sense in terms of economic and management theory. Civil servants are not producing widgets in an assembly line, but are designing and implementing complex and unpredictable tasks that require coordination among numerous stakeholders. In contrast, most monitoring and incentive systems are designed to reward performance on a stable set of relatively simple and narrow indicators. Imposing a simple and narrow incentive system on complex and collaborative organisations might spur officers to action in some cases, but it also might make them do the wrong things or be reluctant to cooperate with other civil servants or stakeholders. The latter is what we see most prominently in the data.

What are the implications of this finding for reformers and managers? First, we would stress that these findings do not necessarily mean that the use of monitoring and incentives are bad for performance. Rather, managers in government seem to be placing too much emphasis on improving performance through carrot-and-stick approaches at the expense of empowering officers to use their discretion in a professional manner. Our findings suggest that there may be greater scope to emphasise autonomy and discretion which could yield greater returns.

While these results are suggestive, further work needs to be done to understand the causal processes linking different management practices to performance. We are currently working with the government of Ghana to do precisely this, by jointly delivering and evaluating a new training module on productivity and innovation that draws on the lessons of this study.



But our collaboration with the governments of Nigeria and Ghana show that it is possible to take an evidence-based approach to improving management and productivity in civil services in Africa. It gives us hope that other governments will show the same curiosity, ambition, and rigour in the effort to identify ways to improve performance in their civil services. The rewards of taking this approach could be enormous. ●

Martin J Williams is Associate Professor in Public Management at the Blavatnik School of Government.

The research and this article were co-authored with Imran Rasul (University College London and Institute for Fiscal Studies) and Daniel Rogger (World Bank).

MAKING POLICIES MATTER: VOTER RESPONSES TO CAMPAIGN PROMISES

In many countries, political support is bought rather than gained through policy promises. Julien Labonne examines what happens when voters get better information.

“CLIENTELIST RELATIONSHIPS ARE A REAL PROBLEM: THEY LEAVE POLITICIANS UNACCOUNTABLE.”

Elections in established democracies are often characterised by manifestos, public debates and a proliferation of information. But in many countries in the developing world, the opposite is true. In these countries, the currency of politics is clientelism: the exchange of goods, services or simply cash for political support.

In a clientelist election, voters seem to have little reason to pay attention to campaign promises and politics, and politicians have little reason to make them. Clientelist relationships are a real problem: they threaten the very self-governing principles a democracy is designed to uphold because they leave politicians unaccountable.

It is clearly important to work out how countries can shift away from clientelist politics towards a political discourse with more focus on policy. So we looked at the Philippines, where clientelist politics is dominant. Campaigns tend to have little or no policy content and parties are more likely to be known for personalities or family alliances than for platforms and programmes. Vote-buying is prevalent and widely accepted.

Mayors exercise broad budgetary discretion and control over municipal spending priorities. Philippine municipalities are responsible for local infrastructure projects, health and nutrition initiatives, and other client-facing services. The federal government makes fixed transfers to the municipalities, which constitute 85% of municipal spending. Laws governing transfers to municipalities encourage municipalities to allocate 20% of transfers to development projects, but a number of them fail to reach that target. As a result, voters in the Philippines can reasonably attribute municipal spending and programmes to the efforts of their mayor. These mayors are often characterised as ‘budget dictators’ who are not subject to any meaningful institutional checks and balances.

In the area of the country which we studied, some households are paid between \$20 and \$50 for their votes. These are significant amounts of money for the average Filipino voter. Patronage ties to politicians are pervasive in this area: almost 20% of individuals report that they know the mayor personally, another 41% report an indirect tie to the mayor through one intermediary, and 20% report a link to the mayor through two intermediaries.

We worked with a local NGO to explore whether providing voters with information about candidate promises would affect the way they vote. We interviewed mayoral candidates in the Ilocos



region prior to the 2013 and 2016 elections. We asked them how they would allocate their local government expenditure across 10 categories of public goods and public services. A few days before the elections, voters in randomly-selected villages received information about mayoral candidates’ promises regarding all candidate allocations. In addition, some voters received information about promises made prior to the 2013 elections.

We found that voters who received information about candidate promises are more likely to vote for the candidate whose policies are closer to their own preferences. Those voters were more certain of their beliefs about candidates’ announced policy platforms and their beliefs were more accurate. Put differently, information about campaign promises triggered a shift toward programmatic politics.

Voters who were reminded of past promises rewarded incumbents who fulfilled them. Voters who received information about both current (2016) and past (2013) promises were able to compare the campaign announcements and implemented actions of incumbent mayors. Compared to other voters, they were more likely to vote for incumbents who fulfilled past promises. They also perceived these incumbents as more honest and competent. But we found that voters with ties to one of the candidates exhibited a significantly weaker response to the information about candidates’ promises. Clientelist voters have the most to lose by switching to policy-based voting.

Why, if providing policy information is relatively cheap and effective, do candidates engage in vote-buying at all? It turns out that vote-buying is cost-effective. Information campaigns have low costs per voter, but are only effective for voters whose preferences are aligned with the candidate’s promises. Vote-buying is more costly but highly predictive of electoral support in the Philippines, ultimately resulting in higher electoral returns. While politically effective, policy information has an estimated return of 16 votes per \$500 US dollars, assuming that a candidate can target voters most closely aligned with his or her promises. In comparison, vote buying has a return of 40 votes per \$500 US dollars spent. Informational campaigns are effective, but vote buying is more cost-effective. So it is in the interests of candidates to spend their money on buying votes rather than policy-based interventions.

But there may be a path towards increasingly political discourse based more on policies and programmes. There could be a role for

non-governmental or media organisations to provide this type of policy information in the absence of politicians’ incentives to do so. One possible way of incentivising politicians to pursue policy-based strategies is to increase the targeting or monitoring costs of vote-buying, thus decreasing the compliance rate and making it a less efficient strategy. These efforts can take relatively simple forms – procedural changes to improve voter privacy when casting ballots and additional safeguards to ensure ballot secrecy.

Our research complements an experiment carried out prior to the 2013 municipal elections in some of the same municipalities. Just before the 2013 mayoral elections, similar information about public spending and candidates’ intended allocations was distributed to voters. This was the first time that voters had been systematically exposed to information either about local public spending or about candidate promises regarding allocations. This might have led to a shift whereby politicians started making credible policy promises: the number of projects financed by incumbent mayors during the 2013–2016 term increased drastically in the municipalities in which the experiment was implemented. Incumbents put more effort into providing public goods, proposed budgetary allocations became more salient, and voters and incumbents had reason to believe that voters would punish incumbents who did not fulfil their promises. By the time information about candidate promises was distributed in our 2016 experiment, the electoral equilibrium had shifted to one in which it was plausible to explore the complex effects on voter behaviour of information about past and future policy promises.

Both experiments reveal new dynamics about the move from clientelist to programmatic politics. The Philippines is only one of many countries struggling with the dominance of clientelist politics. But the lessons learned from altering candidates’ incentives and improving voter information could be applied across the world. They could help to provide a pathway for more developing countries to shift to a policy-based political system. ●

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His research was carried out with Cesi Cruz, Phillip Keefer and Francesco Trebbi, who also co-authored this article.

THE VOICE OF PAKISTAN'S WOMEN – THE JOURNEY TOWARDS FULL ELECTORAL REPRESENTATION

Many fewer women than men participate in Pakistan's elections. **Quratulain Fatima** looks at recent measures to redress the balance.

“IN KHUSHAB, PUNJAB, WOMEN VOTED FOR THE FIRST TIME IN 50 YEARS.”

Last year, there were 12.5 million eligible women missing from the electoral roll in Pakistan. These women have been effectively disenfranchised, sometimes for administrative reasons such as not having the mandatory identity card, and other times for cultural and religious reasons such as being considered “not wise enough to elect the right person”.

Pakistan's 97 million registered voters include 54.5 million men and 42.4 million women (the rest are transgender). With this substantial gender gap, it's no surprise that Pakistan ranks last in the world for female participation in elections according to the International Institute for Democracy and Electoral Assistance. A recent pre-election analysis of district-level data by the Election Commission of Pakistan revealed that even in the most developed parts of the country – such as Lahore and Faisalabad – the gap amounts to more than half a million.

Against this backdrop, the country went to the polls last July to choose its next government. When I stepped into the voting booth, I felt privileged. As a woman living in a major city, I simply went to a polling station and cast my vote. But it wasn't that easy for most of the women living in rural Pakistan, where the majority of the population resides. In a strongly male-dominated culture, there are many areas in which women have been barred from voting for decades.

To address the issue, Pakistan's Election Commission initiated a widespread campaign to bring more women onto the electoral roll. Under the Election Act 2017, it was established that the election results would be nullified if female turnout was less than 10% in any given constituency. Suddenly, there was an incentive for the men competing for the political spaces to allow (and in some cases, pressure) women to vote.

In its drive to register women voters, the Election Commission used awareness campaigns, mobile registration units, exclusive registration centres and days reserved for issuing women's identity cards, while enlisting the help of local administration and activists. A number of commissions on the status of women in provinces of Pakistan were also in place before elections. These commissions did constant training, reporting and monitoring throughout the process. They identified low-turnout areas and efforts were made to engage communities to let women vote. Social media played an important role in raising awareness about women's votes, with extensive online reporting.



Many areas were successful in bringing more women to the polls. In Khushab, Punjab, women voted for the first time in 50 years, and there were similar scenes in some conservative parts of the country such as Kohistan, North and South Waziristan and Dir (where last year the Electoral Commission refused to accept council election results due to lack of female voters).

Women came out to vote even in the troubled province of Baluchistan, repeatedly hit by terror attacks during the campaign and on election day.

However, the awareness campaigns and the voter turnout legislation didn't work everywhere. In the Dharnaal area of Chakwal, in Punjab, women's turnout remained below 1% as families stuck to the tradition of preventing women from voting. In some cases women were reportedly turned away from polling stations by male staff due to the lack of female staff or because voting was considered 'unIslamic'.

Pakistan's northwestern province of KhyberPukhtunkhwaah (commonly known as KPK), the province where Malala Yousafzai was shot by the Taliban, is the home region of newly elected prime minister Imran Khan. His party held the provincial government for last five years, yet women remain excluded from elections for cultural and religious reasons.

All in all, however, this election has shown Pakistan that effective legislation and implementation through civil society and government alliances works. After only a year of campaigning efforts, 3.8 million more women voters were successfully brought into the process. Yet this is only a third of the disenfranchised women. We must continue our efforts until the next election if we want to close the gap significantly.

The biggest driver, of course, was the mandated requirement of at least a 10% women voter turnout to ensure a valid election. It

forced political parties and men who colluded to stop women from voting to let them exercise their right. Even right-wing religious parties not only fielded female candidates but also urged women to come out and vote. Increasing women's representation through further legislation to raise the mandatory women voter turnout to 20% or even 50% for the next elections would further reduce the electoral gender gap.

Further cultural change is also required to ensure that women participate meaningfully. In most cases women were allowed to vote just to fulfil minimum turnout requirements, rather than out of a genuine belief in the importance of their participation – and much of the time they had no clue about who they were voting for.

These efforts must not be limited to election-time. To bring missing women into the voter net, all these measures must be duplicated, extended and complemented constantly.

With the new Pakistani government taking oath on an agenda of change, it is high time that representation of women's political voice in democracy was given priority.

Pakistan's 2018 election has been a small step for women's participation, but it is only the beginning of a long and critical journey to overcome administrative and cultural hurdles to Pakistani women's right to vote. Only then would Pakistan's elections truly represent the voice of the people. ●

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A JUST KILLING? HOW NEW TECHNOLOGY SHINES LIGHT ON OLD QUESTIONS

Dapo Akande considers how changing military technology pushes the boundaries of the norms of war.

“IF WE CAN KILL PEOPLE EASILY, WE MUST BE CONFIDENT ABOUT OUR GROUNDS FOR DOING SO.”

In August 2015, a British man was killed in a drone strike. Growing up in Cardiff as a straight-A school student, his future looked promising. But his life was cut short at 21. His killer? The British armed forces, directed by the UK's National Security Council.

Reyaad Khan had become radicalised and joined ISIS in Syria. The government at the time said Khan was plotting “barbaric” attacks on UK soil and that he was killed in an “act of self-defence”.

It was a significant decision in three ways: the British government had killed one of its own citizens; it did so using a drone; and it did it in Syria, a country with which the UK was not at war – Parliament had explicitly rejected military action there in a 2013 vote. Unsurprisingly, the death was controversial.

How to conduct counter-terrorism is a pressing issue in the West, and one that is especially difficult when terrorist groups operate in spaces ungoverned by national authorities. A number of governments have adopted limited but long-term use of force by way of targeted killing, usually using drones. Formally known as unmanned aerial vehicles, drones have two key advantages over planes: they can remain stationary over a target for hours at a time, and, since they are unmanned, there is no risk to pilots.

While the US has led the way, 60–70 countries now have, or are acquiring, drone technology. Several have started to use it for targeted killings, some within their own country, for example Nigeria in its war with Boko Haram. France intends to use drones for targeted killings as of next year, and even Germany, famously cautious in the military sphere, has just acquired the technology. The way Reyaad Khan died will become less and less unusual.

Worries about drones

Targeted killings using drones make many people uncomfortable, and as a professor of international law, I'm interested in this area – particularly because the way we think about it has implications for other uses of technology in conflict, such as autonomous weapons and robotics.

One concern is that drones make it easier to take decisions about killing people. This can be a concern about individual morality: it has been alleged by civil society groups that drone pilots watching the consequences of their acts on a screen thousands of miles away may treat their action as if playing a video game. While research does not bear out that claim about individuals, there is a concern

that since drones lower the costs of killing for the nation, they make it more likely that states will resort to lethal force.

Other concerns relate to the wider framework within which states operate when they take decisions to kill. Many have argued that the US and UK are undertaking assassinations without judicial oversight or legal regulation.

In order to properly assess the legality and morality of targeted killings, a key question to consider is whether we classify the situation as one of peace or war. This has always been critical in international law, but drones make the question both more complicated and more pressing.

If the UK is not at war with Syria, we should apply the standards of peacetime. These standards prohibit agents of the state taking a life other than in very specific circumstances; circumstances which would probably not apply in the case of Reyaad Khan. In war, we apply a different set of questions. Something that looks morally terrible in peacetime – an extrajudicial killing – looks highly desirable in war: a targeted drone killing limits the number of deaths.

However, even where there is scope for targeted killings by defining a situation as war, international law does not allow for the deliberate killing of civilians. So we need to be sure we are killing combatants. Before technology allowed such focused targeting, our approach to this was necessarily broad-brush. Now, however, the question ‘combatant or civilian?’ applies at the individual level. This is not easy. How do we define combatants in a war on terror where our foes are groups of terrorists with ill-defined allegiances, rather than an opposing national army?

Many accuse the US and UK of getting this wrong. Groups have claimed that the US has simply targeted military-age males carrying guns in particular geographical areas such as the border area between Pakistan and Afghanistan. The US has also been accused of killing the leader of a terrorist group through a drone strike and then striking again when people rush to the scene, on the assumption that those people will also be members of the group. The US denies both claims, but they illustrate the ethical and legal complexity.

Technology puts a new spotlight on old questions

By making killing easier, then, advances in technology have put pressure on certain questions that have always existed in international law. Is this war or peace? Is this individual a civilian or a combatant? The technology also makes their determination more critical: if we can kill people easily, we must be confident about our grounds for doing so.

In the first part of this century we have seen a much greater willingness by states to assert that they are engaged in ‘war’ in order to create a greater scope for action. While the UK has not declared war on Syria, it took the view that the targeted killing of Reyaad Khan was merely an extension of its conflict with ISIS, though that conflict had previously taken place only across the border in Iraq.

9/11 was a watershed moment in this regard. Before, states were often reluctant to describe something as war, even when they were obviously engaged in armed conflict. Now western countries are very comfortable doing so. Why this willingness has not always existed is an interesting question, given the leeway that a definition of war provides. It may be because in the past war indicated a degree of fragility and so was politically undesirable. After 9/11, by contrast, the declaration of a ‘war on terror’ allowed political leaders to sound active in the face of a completely unexpected and devastating attack. Or it may be that states have become more



concerned with legality and ethics, and so are more likely to classify a situation as war so that they can have confidence in their ethical and legal scope.

Legitimate basis for targeted killing

My own view is that, in principle, many of the things the UK and the US are engaged in can be called armed conflict, and so can legitimately have the moral and legal standards of war, not peace, applied to them. However, we have to be careful in making that categorisation.

There are two key criteria. First, the intensity of violence: does it go beyond the normal violence we see within the state – the sort of thing we'd expect police to deal with?

This is tricky, because states have an incentive to aggregate violence from all over the world in order to answer ‘yes’. The UK government argued that the action it took in Syria was part of the global campaign against ISIS, for example. In principle, I believe this is a fair approach: you can aggregate violence across borders such that it passes a threshold to qualify as war.

However, in doing that we have to be careful about what violence we are aggregating, and how we answer the second criterion: the existence of an organised armed group to be at war with. To apply the standards of war you should be clear that you are fighting a single group, not a generalised phenomenon. Here, I believe governments have sometimes over-stretched, linking violence by groups that are inspired by each other but not acting together – for example, Boko Haram and ISIS.

Drones allow states to take military action in a more targeted way, and in doing so to reduce the casualties of conflict. They can be a force for good. The key is to ensure that we continue to apply the right scrutiny to our definitions of war. ●

Dapo Akande is Professor of Public International Law at the Blavatnik School of Government and co-director of the Oxford Institute for Ethics, Law and Armed Conflict.

INTERNATIONAL FINANCE: EVEN MORE GLOBAL THAN WE REALISED

International financial regulations are designed around a small number of rich countries boasting major banking sectors. Yet smaller developing countries have voluntarily adopted them. Emily Jones asks why.

“INTERNATIONAL STANDARDS NEED TO BE DESIGNED SO THEY ARE FAR MORE VERSATILE, AND GENUINELY INTERNATIONAL.”

In the wake of the global financial crisis, banking regulators from the world's largest financial centres came together to design new standards for regulating international banks. The standards, dubbed 'Basel III', sought to deter banks from engaging in the risky behaviour that precipitated the crisis. Their primary targets were the large and complex banks on Wall Street and in the City of London. Countless column inches in the Financial Times have debated whether international reforms go far enough to avert another global financial crisis, and scores of academic papers have analysed their economic merits and the political manoeuvring behind their design. These are important issues – we can ill afford another crisis like that of 2007–2008. Yet what do these new international standards mean for the vast majority of countries around the world, which didn't have a seat at the table when these new standards were agreed?

Our study aimed to tackle this vital and less-explored question. We created a new database which used data from the Financial Stability Institute to track whether the international banking standards are being adopted in more than 100 countries. We followed the standards' adoption in eleven developing countries in Africa, Asia and Latin America, interviewing more than 200 regulators, commercial bankers and policy experts in the process. We discovered that regulators in many developing countries are working hard to implement the very latest international standards, so they can use them to regulate their banks.

This is somewhat surprising, because international standards are not designed with developing countries in mind. They are so complex to implement that the Bank of England faced challenges in upgrading its supervisory systems and practices to bring them in line. Yet we found that Basel III and its predecessor Basel II are being used to regulate much smaller banks in developing countries, like Kenya Commercial Bank and Bank Alfalah in Pakistan.

A major reason why regulators in countries with nascent financial sectors were implementing the Basel standards is the globalisation of the banking sector. In the past 30 years, developing countries have become more integrated into global finance than ever before. Banking sectors have been privatised and liberalised, and foreign banks have entered, dominating the financial sector in most developing countries. Banks in developing countries too have expanded, opening up branches and subsidiaries in other developing



countries. In sub-Saharan Africa we have seen a rapid growth in the cross-border operations of South African, Nigerian and Moroccan banks. Ecobank, headquartered in the small West African country of Togo, is systemically important in more than 17 African countries.

The integration of banking in developing countries into global finance has profound implications for the decisions that regulators make. In countries like Ghana and Pakistan, politicians perceive a future for their countries as financial services hubs, and seek to emulate the growth successes of Hong Kong, Singapore and, closer to home, Mauritius. By implementing the latest international standards, they aim to signal to foreign investors that their growing financial services sectors are very much 'open for business'.

Another surprising finding is that while JP Morgan and other large global banks have vocally opposed being regulated under Basel III standards, the largest banks in developing countries are often keen to be regulated under the latest standards. This may be because they face a reputation deficit – they are relative newcomers to the international scene and have to work hard to assure regulators in other jurisdictions, as well as international investors and credit ratings agencies, that they are well-regulated at the parent level. What better way to reassure these actors than to be regulated in accordance with the latest international standards, the very same standards that are used for the largest and best-known banks? In line with this logic, we find evidence that there is a higher incidence of Basel II and III adoption in developing countries that are home to banks with international operations.

But there are reasons to be concerned about the overzealous adoption of international banking standards. In many developing countries, the financial infrastructure and financial markets are insufficiently developed to implement the standards effectively. Basel standards rely heavily on credit ratings agencies to ascertain the creditworthiness of firms, but many developing countries don't have national ratings companies, and international ratings

agencies like Moody's and Standard and Poor's only give ratings to the very largest firms. International banking standards are also incredibly complex, and implementation requires a high level of technically skilled staff, sophisticated IT systems, and excellent historical data on financial transactions. In many developing countries, government institutions and private banks face serious resource constraints.

Given these challenges, the advice from international organisations like the World Bank, International Monetary Fund and Financial Stability Board is to 'go slow'. They advise regulators in developing countries, particularly the least developed, to only implement the more advanced standards at a pace tailored to their circumstances. Such advice is well-intentioned, but it overlooks the pressures that regulators face to forge ahead with implementation. In today's world of globalised finance, regulators cannot simply ignore international standards. They need a mechanism to signal to investors and other regulators that they are doing their job well, and are prudently regulating their banks. At present, accelerated implementation of international standards is the most obvious choice.

Our research has led us to make a series of reform proposals. We recommend that regulators in developing countries pursue the implementation of the standards in ways that reduces the costs and risks associated with implementation. The most obvious steps include only implementing those parts of the Basel framework that are most useful for addressing financial risks in their countries and only applying more advanced Basel standards to the largest banks. Regulators from developing countries can also look to learn from each other, rather than follow technical advice from international organisations, which is usually the default.

More fundamentally, our research points to the need for reforms in the ways that international standards are decided. Since the 1970s when organisations like the Basel Committee were first created, international financial standards have been designed by regulators from the world's largest financial centres, for their own use. The assumption was that regulators in the rest of the world would only look to implement international standards if it was warranted to improve financial stability. This assumption doesn't hold in a context of globalised finance, where regulators need mechanisms to signal to international investors and regulators in other countries that their banks are soundly regulated. International standard-setting structures need to be updated.

Crucially, low- and lower-middle-income countries need to be much better represented in decision-making, and international standards need to be designed so they are far more versatile, and genuinely international. We need a menu of international standards that can be used in a wide range of contexts, whether that's in Chad, Cambodia, or Canada. ●

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She led a team of fifteen academics from around the world, advised by Ngairé Woods (Dean of the Blavatnik School) and Thorsten Beck (Professor of Banking and Finance at Cass Business School). They received funding from the Economic and Social Research Council and the UK's Department of International Development. More information about their project can be found at www.geg.ox.ac.uk/project/developing-countries-navigating-global-banking-standards.

FREE MARKETS ARE NOT THE PROBLEM

Globalisation's record is mixed at best. It's time for elites to return some common sense and virtue to the system, argues **Karthik Ramanna**.

“CRONY CAPITALISTS HAVE NO BETTER FRIENDS THAN ECONOMIC NATIONALISTS.”

Our intellectual and economic elites are in disarray. In the hallowed halls of Oxford, many wise minds struggle to make sense of the democratic votes on Brexit and Trump.

The same is true in several corporate boardrooms, where the titans of finance and industry gather to ponder our uncertain times. Perhaps the voters have been misled or manipulated, some wonder, by Russians or other devious sources? Or perhaps the voters are just plain stupid? Why else would they usher in policies that are seemingly so self-destructive?

In large measure, we find ourselves in today's climate of uncertainty because of our elites. For decades, some leading intellectual and economic elites have sold ideas like unfettered global trade as if they were unmitigated public goods.

In reality, globalisation's record is mixed at best. While free trade has indeed contributed to overall economic growth, the benefits of that growth have largely been concentrated in the hands of a few. Preaching sweeping notions of free trade in a world that is supposedly “flat,” our elites, perhaps unwittingly, ushered in policies that have sold out the working and middle classes of Britain and America.

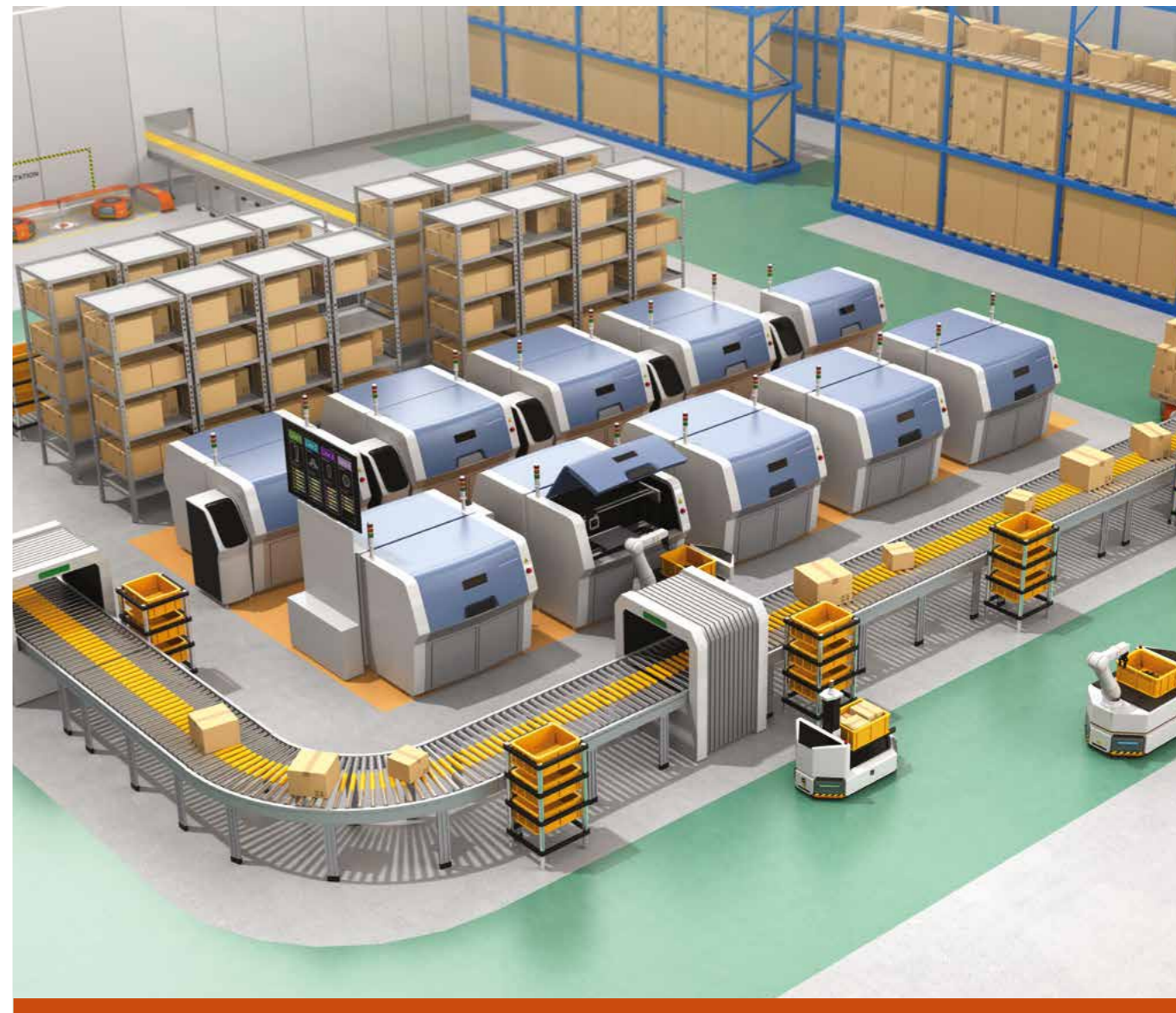
In their struggle to explain voters' angst in the West, many elites have now abandoned globalisation, and some have started to turn against that most basic of modern Anglo-American precepts – free markets.

There's a new intellectual fad in town – protectionism. In a bid to “fix” our societies' woes, some elites now advance a curious version of economic nationalism. This, they promise, will bring jobs and growth back to Western nations.

Beware the cure worse than the condition. Once the jobs are gone, they cannot be brought back. Not in any sustainable way. In trying to bring the jobs back, we will only bring in mediocrity.

If we try to bring offshored jobs back, at least one of two things will happen, probably both. First, companies will be forced to pay artificially higher wages for these jobs, eroding their ability to efficiently direct capital to its most productive uses in society. Put differently, we will be running some “lite” version of the Soviet experiment. And we've all seen how that movie ends.

Second, the smarter companies will just find ways to automate the newly repatriated jobs. Indeed, such job repatriation will actually incentivise companies to automate faster than they



would otherwise. And perversely, this accelerated automation will probably deny workers in poorer countries the ability to accumulate some wealth before being outcompeted by robots.

In an era of greater automation and greater global competition, we need human ingenuity ever more. And, to paraphrase Churchill, no known system of social organisation delivers human ingenuity in the service of meeting our collective preferences better than free markets.

Of course, it is fair to point out that free markets haven't exactly done right by the West over the past few years. Indeed, there have been overreaches. For instance, we took free trade too far too quickly in the 1980s and 1990s, by rushing to export jobs overseas. But swinging the pendulum the other way isn't the answer either. Two wrongs don't make a right.

Moreover, in large measure, what we have thought of as free markets aren't exactly so. If our markets were really free, would we have offered the banks in 2009 bailouts on such generous terms?

Over the past thirty years, some of the most basic rules that shape our markets – for instance, the accounting rules that are supposed to keep our companies and their managers honest – have been corrupted by self-serving and ideological elites. What we think of as a free-market system is largely a network of rules crafted by special interests.

Free markets are not the natural order of man; cronyism is. Free markets are a political construction, and, in fact, they require a good deal of leadership and benevolent rulemaking to sustain. Here we are largely dependent on our elites, who possess the skills and resources necessary to craft good laws for the market. In this critical role, our elites have failed us.

But if our market system is corrupted today, protectionism will usher in still more opportunity for corruption. Crony capitalists have no better friends than economic nationalists. To an entrenched businessman, what can be more delicious than the government limiting the competition?

Here in Britain, Brexit will likely be costly on many dimensions. Perhaps from an economic perspective, it is prudent to conclude that the vote was a mistake. But Brexit also presents an opportunity. An opportunity to recognise the structural corruption wrought on our people by elites with faddish ideas and greed to boot. An opportunity to return common sense and virtue to the design of our market society. ●

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