

DEMOCRACY WORKS | 2014

The Democratic Alternative from the South

INDIA, BRAZIL, AND SOUTH AFRICA



Voices FROM THE *South*

A PROJECT OF

Legatum Institute

Based in London, the Legatum Institute (LI) is an independent non-partisan public policy organisation whose research, publications, and programmes advance ideas and policies in support of free and prosperous societies around the world. LI's signature annual publication is the *Legatum Prosperity Index*TM, a unique global assessment of national prosperity based on both wealth and wellbeing. LI is the co-publisher of *Democracy Lab*, a journalistic joint-venture with *Foreign Policy Magazine* dedicated to covering political and economic transitions around the world.

Centre for Development and Enterprise

CDE is an independent policy research and advocacy organisation. It is South Africa's leading development think tank, focusing on critical development issues and their relationship to economic growth and democratic consolidation. Through examining South African realities and international experience, CDE formulates practical policy proposals outlining ways in which South Africa can tackle major social and economic challenges. CDE has a special focus on the role of business and markets in development. CDE has been instrumental in developing a think tank network in democratic developing countries including the CPR in India and IETS in Brazil.

SUPPORTED BY:



CENTRE FOR POLICY RESEARCH
Premier Think Tank Shaping Policy Debates Since 1973

Centre for Policy Research, India
www.cprindia.org



Instituto de Estudos do Trabalho e
Sociedade, Brazil
www.iets.org.br

Executive Editor: **Anne Applebaum**, Director, Transitions Forum, Legatum Institute

Author: **Ann Bernstein**, Executive Director, Centre for Development and Enterprise, South Africa

This document reflects the input of many who were involved in the Democracy Works project as well as in the writing of this report. Special thanks to Peter Berger, Stefan Schirmer, Simon Schwartzman, Eswaran Sridharan, Walter Russell Mead and Adrian Wooldridge for their advice. Ann Bernstein is also grateful to the Woodrow Wilson International Center for Scholars for its support during the writing of this report.

The Democracy Works project is a joint initiative of the Centre for Development and Enterprise in South Africa and the Legatum Institute in London. The project has been managed and conceived by Anne Applebaum and Ann Bernstein. This report is the major public document arising from the Democracy Works project and is based on twelve commissioned research papers, three workshops in Delhi, Johannesburg and Rio de Janeiro, and three country reports.

These documents are all available at www.cde.org.za and www.li.com.

The views expressed in this paper are those of the author and not necessarily those of the Legatum Institute (LI) or the Centre for Development and Enterprise (CDE).

CONTENTS

Introduction	3
Three democracies and their achievements	6
The democracy advantage: Fighting corruption	11
Challenges in tough times	15
Meeting the challenges: Democracies and policy reform	20
The democratic alternative from the South	24
References	27

Democracy works! The evidence from three important rising democracies makes it clear: there is no need to give up individual rights and freedoms in order to achieve growth or to expand opportunities for the majority of citizens. On the contrary, the experiences of India, Brazil, and South Africa demonstrate that the expansion and strengthening of democratic institutions can pave the way for a second wave of reforms needed to ensure steady high growth and to increase opportunities for the poor. If these countries can harness the energy and vitality of democratic processes to push for effective policies, if their politicians adopt and can sell market reforms and sustainable programmes which will expand opportunities further, then a democratic alternative will emerge from these countries in the global South.

Introduction

After the fall of the Berlin Wall twenty-five years ago, Western democratic capitalism seemed to have triumphed. Many believed that no political alternative could or would compete with it ever again. But the 2008 economic crisis undermined the 'western model' in the eyes of the rest of the world. Political gridlock in the United States Congress, the perceived weakening of American power as well as economic crisis in the European Union and Japan have further tarnished the image of the democratic West and its institutions, far more than Western powers themselves understand.

At the same time, the political and economic rise of China has established another path to development. In the past 30 years China has delivered phenomenal levels of growth, and in doing so has pulled hundreds of millions of people out of poverty. The country appears to have strong leadership and a clear plan for the next phase of its development. To many countries around the world, the Chinese model now seems an attractive alternative to Western-style democratic capitalism: China's very large, successful, authoritarian regime has used both market mechanisms and state capitalism to achieve remarkably rapid and inclusive economic growth.

Thanks to these developments, a battle of ideas—a global contest between democratic and authoritarian approaches to growth and development—is now playing itself out in countries across the globe. For many leaders in the developing world in particular, the advocacy of an authoritarianism, which does not recognise individual rights and freedoms, and does not rely on democratic accountability and independent institutions, is far more respectable now than it seemed to be a decade ago. Leaders from Ethiopia and Rwanda to Azerbaijan and Uzbekistan can and do now look to China, Singapore

and other Asian examples, not the West, as a model for development. South Africa's president, Jacob Zuma, has argued that, "the economic crisis facing countries in the West has put a question mark on the paradigm and approaches which a few years ago were celebrated as dogma to be worshipped."¹

But one important piece of this debate is missing. Whenever democratic capitalism is being discussed—or denounced—those in the debate are almost always speaking about the highly developed, affluent nations of Europe and North America. The conversation rarely refers to the large and diverse group of democratic market economies beyond the industrialised world, including countries like Turkey, Indonesia, Mexico or Chile. This project aims to correct this omission. We propose to move the spotlight away from rich countries—and away from China—in order to focus on three important democratic developing societies: India, Brazil, and South Africa.

Of course these are three very different countries with widely divergent histories. Yet because they have long faced some remarkably similar challenges, they also share more than is immediately apparent. All three are developing countries with many poor people and high levels of inequality. At the same time they combine internationally competitive economic sectors and world-class companies with enormous underdevelopment. Each has experienced relatively high levels of economic growth in the recent past, and in each country large numbers of people, not just a tiny minority, have benefited from that success. Last but not least, all three are stable democracies, which have for the most part been able to deal with racial, ethnic, religious, and other conflicts, which have destroyed many of their neighbours.

In order to understand the new phenomenon of rapidly developing democracies, this project set out to examine the relationship, between political democracy, on the one hand, and inclusive economic growth on the other, in much greater detail than is usually possible. Based on workshops held in Delhi, Rio, and Johannesburg; a dozen papers and three country reports commissioned from scholars in all three countries; and the contribution and advice from four different think tanks, this report looks at the achievements of the past twenty-five years, and particularly at the progress made which is often not sufficiently acknowledged either within these countries or by outsiders. The report then examines more deeply the problem of corruption; one of the most difficult challenges faced by all three countries, and examines how the institutions of democracy are coping with it.

Thirdly, we include a discussion of the challenges facing the three societies today. Like many countries in the aftermath of the global financial crisis, India, Brazil, and South Africa have entered a difficult new phase in their development. All three need a new wave of (remarkably similar) bold reforms—further market liberalisation, more effective education and other social policies as well as a deepening and strengthening of political institutions—in order to return to higher, more inclusive growth and ensure political stability. The evidence from these countries indicates that it is not democratic freedoms or electoral pressures that prevent better policies being adopted and implemented. To meet their challenges each country has to strengthen accountability and then use the advantages of democratic processes and institutions to build a new political consensus for reform. Their leaders will need to adopt and sell the necessary reforms by using a new definition of what constitutes the 'national interest' in each country. The report ends by identifying the components of the emerging democratic alternative from the South.

In launching this project, we made some important assumptions. Above all, we started from the premise that 'democracy' means more than elections. Elections matter of course, they are a means of choosing leaders and policies and periodically 'throwing the rascals out' when needed. But democratic societies are also characterised by a free media and freedom of speech, the freedom to

associate and organise, and the recognition that the state exists to serve individuals, and not vice versa. Successful representative democracies also establish institutions that are independent of both politicians and voters, including non-partisan electoral commissions, central banks and, sometimes, special courts or ministries designed explicitly to deal with corruption.

Our use of the term 'inclusive growth' needs some clarification as well. In countries with large populations, low levels of education and rapidly expanding cities, the nature of economic growth matters just as much as the rate. Growth, in a developing country, must be sustained and labour-intensive. It must produce the higher state revenues necessary to expand basic services, education and health opportunities for those historically excluded from the modern economy. It must not only provide openings for large companies but should also remove barriers to small and medium enterprise, secure property rights and open new opportunities for entrepreneurs from all parts of society.

Inclusive growth requires the involvement of both private and public sectors. No country can grow rapidly without markets and entrepreneurs, and all of the economic success stories of the past half-century have come about thanks to market liberalisation and expansion, in India, Brazil, and South Africa as well as everywhere else. As economist, Jagdish Bhagwati has put it, "Democracy and markets are the twin pillars on which lasting development can thrive."² At the same time, there is a vital role for government in developing countries. In our view, it is a misconception to speak of "the state versus markets". It is far more accurate to think in terms of markets and states, as both need to play their part as effectively as possible to ensure inclusive growth.

In making this argument about India, Brazil, and South Africa, we do not in any way mean to imply that the sole purpose of democratic government is economic growth. Democracy is a value in itself: individual rights and freedoms, democratically selected and accountable government, independent institutions and a culture of dissent have meaning and importance irrespective of whether they make people wealthy. Nor are we arguing that democracy is a necessary condition of inclusive

growth: clearly, authoritarian societies can and have achieved a great deal of growth and development.

Instead, we believe that the story of these three countries shows that inclusive growth is possible in a democracy; that democracy is not an obstacle to growth; and that democracy can in some cases be an enormous advantage to states pursuing high-growth strategies. Democracies can accomplish things that cannot be done in authoritarian states. Both elected leaders and their citizens can use the many rights, freedoms, processes, and institutions that comprise democracy to improve institutions when they falter or fail: fight the scourge of corruption; argue for rule of law, an independent judiciary, better legislation, and regulations; give legitimacy, and create support for policies which may at first seem difficult to accept.

In the developing world, where many are now experiencing grave doubts about the future of democracy, these are not modest propositions. On the contrary, we believe that our evidence supports an alternative way of thinking. Instead of the stale, "East versus West" debate, which has so captured the discourse of politicians, economists, and thinkers around the world, we are instead offering inspiration from the South to those who want to think differently, and to imagine something new.

Three democracies and their achievements

"I prefer the noise of a free press to the silence of the dictatorships." Dilma Rousseff³

When, following independence, impoverished India became the first country to give large numbers of illiterate people the vote, even those designing and promoting the institutions of Indian democracy had their doubts. The country's chief election commissioner described the general election of 1952 as "the biggest experiment in democracy in human history".⁴ Half a century later, this experiment has succeeded beyond anyone's expectations. In a subcontinent riven by divisions of language, caste, ethnicity, and religion, democracy has brought conflicts out into the open and built institutions for accommodating and incorporating hitherto excluded groups. Political analyst, Pratap Bhanu Mehta has written that, "Democracy in India is a phenomenon that by most accounts should not have existed, flourished, or indeed long endured," yet it has "proven an effective and perhaps the only mechanism for holding India together."

Brazil's return to democracy in the mid-1980s is another singular achievement, not least because it has brought historically unequal regions and ethnic groups into the national debate, forcing the country to deal with a long legacy of discrimination. A vast country, spanning half the landmass of a continent and containing nearly 200 million people of African, European, Asian, and Amerindian descent, Brazilians have built a stable polity based on a liberal democratic constitution, with independent institutions that embody and reinforce individual rights and freedoms.

For many decades, most observers inside and outside the country believed that South Africa would eventually explode into a violent, racial war. Instead, South Africans achieved a relatively peaceful transition. The adoption of a democratic

liberal constitution in the 1990s, containing a wide range of strong institutions and guarantees—from the protection of property rights to an independent judiciary, to the right to private education—is one of the great and surprising accomplishments of the late twentieth century.⁵

The relative stability of all three countries is directly related to their democratic achievements. In all three countries there is evidence that the right to vote, and the right to be a citizen, provides dignity and a sense of inclusion for the vast majority of people. Although elections are sometimes cynically dismissed as pointless rituals, support for democracy in all three countries is not just an elite project. Millions of people queued patiently for hours to vote in South Africa's first democratic elections, and a 2011 survey showed that well over two-thirds of the country continues to express vigorous support for democracy.⁶ A new Indian opinion survey—including urban, rural, educated, illiterate, young, old, rich, and poor voters—found that 70 percent of respondents consider democracy preferable to any other kind of government, 95 percent support the right to a fair trial, free expression and the right to vote, and 87 percent support free media and oppose censorship.⁷ Brazil has made it a civic obligation to vote, and polls there also indicate majority support for democracy.

All three countries are multi-party democracies. Two have been tested through the democratic alternation of power. In South Africa this fundamental affirmation of democracy has not yet occurred—one party, the African National Congress, continues to dominate national politics—although one regional government out of nine has been controlled by the opposition since 2009 and the 2014 election is gearing up to be the most competitive ever. In all three countries, free and fair elections are regularly held at national, state, and local levels, and are run by independent electoral institutions

► Rock concert in Rio de Janeiro



that command widespread respect. Despite the size, diversity, and poverty of the electorate and many of the officials, the quality of these elections is equal to that of most mature democracies. Their liberal constitutions have guaranteed the establishment of rule of law, vibrant and competitive media, freedom of association and religion, and robust civic organisations. Despite shortcomings, the judicial system in all three countries stands above party politics ensuring that justice is done, even if often too slowly. "Time and again courts have risen to address political crises, to hold officials accountable, and not only to keep fundamental rights alive but also to give those rights meaning," writes Indian lawyer, Zia Mody.⁸

The democracies of India, Brazil, and South Africa were all initially governed by parties of the centre-left. Yet in all three, the philosophy of left-leaning elites changed, thanks to an economic crisis and the experience of democratic governance. Over time, all three began to enforce fiscal discipline, liberalise markets, and enable the expansion of private enterprise and trade, even while sometimes simultaneously using the language of the left.

To the surprise of almost everyone, South Africa's ANC (in conjunction with its alliance partners in the South African Communist Party and the largest trade union federation, COSATU) evolved into a government committed to fiscal discipline and market economics. Ironically, the ANC may well have been influenced by Chinese leader Li Peng, who at Davos in 1991 reportedly told Nelson Mandela to stop talking about nationalisation: "I am the leader of the Communist Party in China and I am talking about privatisation."⁹ Mandela regularly told ANC meetings this story as an explanation of why the country should embrace a mixed market economy rather than the state-dominated economy many had imagined while fighting apartheid.

This policy shift produced steady economic growth over the past two decades: South African GDP grew on average by 3.2 percent per annum, while GDP per capita grew by 1.6 percent. For at least three years in the 2000s, growth exceeded 5 percent per annum and the period 2003-2008 resulted in the creation of two million new jobs, contradicting those domestic critics who claimed that 'neo-liberal' or capitalist policies would only generate 'jobless growth'.

Through growth, increased employment and the use of state revenues to implement social programmes, South Africa's democracy has improved the quality of life for millions of people in ways that were unimaginable under apartheid. Although the population grew from 40 million in 1994 to 52 million in 2012, the percentage of poor people also fell, from 50 percent in 1992 to 44 percent in 2006.¹⁰ The value of cash transfers and public expenditure on services such as healthcare and housing almost doubled in real terms between 1995 and 2006, but more importantly became better targeted on the poor, who are overwhelmingly black. By 2006 the poorest 40 percent of the population received 50 percent of all social spending. Access to electricity, running water, telephony and many other basic services improved for millions of households with the vast majority of South Africans now having access to these services.

In Brazil, the transition to democracy took place under adverse economic conditions. Under the military governments of the 1980s, Brazil had triple-digit annual inflation, which worsened in the early nineties. The 'Real Plan,' initiated by President Fernando Henrique Cardoso in 1994, finally brought inflation under control. Cardoso promoted fiscal restraint and a tight monetary policy and encouraged foreign investment, which was a major shift for Brazil's previously insular economy. Throughout his presidency Cardoso controlled inflation while preparing Brazil for increased integration into the world economy. He reformed social security, the civil service and the tax system; promoted privatisation of state-owned companies and sought to eliminate deficit spending at all levels of government. His successor President Lula (Luiz Inacio 'Lula' da Silva) continued to uphold currency stability and fiscal austerity and did not reverse the privatisation of public companies, although he represented a return to the political left. At the same time, President Lula introduced new social policy initiatives. In the period 1981-2003 GDP growth was low and irregular—a modest 0.7 percent annually—but starting in the mid-2000s, GDP growth accelerated, reaching an average of 4.2 percent, with per capita growth at 3 percent per annum.

Thanks to these changes, and despite more recent slowdowns, Brazilian poverty is now in single digits. The Bolsa Familia programme, a conditional subsidy for poor families, is one

among many contributors to this reduction.¹¹ Urban jobs, a generous minimum wage, and the introduction of universal pensions have been far more important; the end of chronic inflation did more for the poor than any single programme.¹² Unemployment is now in single digits and the large informal economy is slowly shrinking as more people get formal jobs.

The poor and previously excluded have benefited greatly from the recent economic expansion. Between 2001 and 2011 the household income of people classified as extremely poor grew by an average of 14 percent per annum in contrast to incomes for people living in households classified as upper class which grew by only 2 percent per annum. In the words of Brazilian poverty expert, Ricardo Paes de Barros "the incomes of individuals in the lowest decile of the income distribution is growing at Chinese rates, while the income of the richest decile grows at German rates."¹³ Women's incomes are rising faster than men's, black people's faster than whites, the impoverished Northeast faster than the rich Southeast.¹⁴ These trends have brought down inequality in a very unequal society. Brazil's Gini measure, (an international standard for measuring income inequality), went from 0.60 in 1995 to 0.53 in 2010.

During the first 30 years of independence, India's 'pro poor' approach to development had little effect on poverty rates. Growth was held back by the 'Licence Raj,' a complex regulatory regime involving extensive controls over private investment and production; a steadily expanding and very inefficient public sector; protectionism accompanied by policies designed to increase national 'self-sufficiency'; and restrictions on foreign direct investment.¹⁵

Ad hoc, piecemeal liberalisation, coupled with a slow change in the government's attitude to private business, led to some acceleration of growth in the 1980s. Real change finally came about in 1991, thanks to a balance of payments crisis so severe it forced the Reserve Bank to airlift 67 tons of gold to London in order to secure an emergency loan from the IMF. As a result, the government introduced a significant package of reforms including the devaluation of the rupee, fiscal discipline, the opening of some industries to foreign investment, government disinvestment from some sectors of the economy, the creation of a national stock exchange, and the abolition of many of the regulatory controls of the 'Licence Raj'.

As a result, between 1980 and 1992 average growth was 5.5 percent per annum; between 2003 and 2010 it rose to 8.5 percent. Over the past seven years, 2005-2012, the size of the economy doubled. And although the richest Indian regions in the South and the West were the first to prosper, the centres of rapid growth are now shifting north and inland. The impact of high growth on the poor has been greater than any produced by the 'poverty agenda' of the previous three decades.

India's poorest have benefited directly from this growth. The proportion of the population below the poverty line fell from 44.5 percent in 1983 to 27.5 percent in 2004/5 (and by some estimates down to 22 percent by 2011); during the same period the population rose by approximately 374 million.¹⁶ By one calculation, some 190 million people were lifted out of absolute poverty during this period.¹⁷ India's most disadvantaged, the so-called Scheduled Castes and Tribes, also benefited by experiencing a greater decline in poverty in the early 2000s than other groups.

In addition to lifting living standards for the poor, India, Brazil, and South Africa have become centres of business excellence. All three now contain companies, which compete internationally with the largest and most sophisticated companies in Europe and North America. In India, the conglomerates Tata and Birla, as well as IT giants Wipro and Infosys are among the large multinationals that compete globally and dominate in many markets. Brazil has produced Embraer, a world leader in small to mid-sized jets, Vale, one of the world's largest mining corporations, and Natura, a global leader in the cosmetics and personal care sector. South Africa has the one of the world's best financial sectors. It has produced SABMiller, the second largest brewing company in the world, MTN, the first company to pioneer prepaid cellular telephony—now active in 22 countries—and Aspen, the biggest pharmaceuticals company in Africa and one of the largest suppliers of generic medicines in the southern hemisphere. These are only a few of many examples.

Many of these companies achieved their prominence because of their experience operating in large, boisterous but relatively open developing markets. SABMiller, for example, derives some of its strong business capabilities from the experience of running distribution networks in low-income areas. The company has successfully adapted these to business activities

in almost every emerging market. In Brazil, Embraer, ranked alongside Canadian rival Bombardier as one of the four largest airplane makers after Airbus and Boeing, has been able to develop world-leading expertise in engineering and assembling of aeroplanes, while overcoming challenges within the Brazilian manufacturing sector by contracting out the building of components to the United States and other Western countries.¹⁸ In India, frugal innovation (cutting costs without losing quality) is expanding rapidly: the Narayana Hrudayalaya Hospital has pioneered the practice of performing heart surgery at a scale and order of magnitude that leads to much lower costs yet with equally successful outcomes.¹⁹ In South Africa, the Lodox, a full-body, digital X-ray scanner that uses 90 percent less radiation than conventional X-ray machines produces rapid, high-quality diagnostic images. Initially developed by diamond giant De Beers to combat theft, the portable machine helps doctors across the globe deal with traumatic injuries.

Anyone who has spent even the briefest period of time in any one of these countries can, of course, point out their myriad flaws, and we will return to some of these later in this report. But we have documented their achievements here because, in the tumult and shouting of everyday politics, they are so often forgotten. It is too easy to dismiss Brazil or South Africa for its inequality, or India for its poverty and periodic bouts of religious conflict. If you step back and look at the larger picture, these three democratic developing societies have delivered significant achievements in the last two to three decades.

Democracy and the values, rights, institutions and culture that go with freedom and civic equality are enormous achievements in themselves. The adoption of fiscal discipline and market reforms have lifted many previously excluded individuals, families, regions, and households out of poverty, leading to an expansion of the middle classes in all three countries. In these highly unequal societies, people from different religions, races, tribes, regions, castes, languages, and cultures somehow rub along, mainly resolving conflicts through peaceful means and forging a national identity around democratic rights and values.

The democracy advantage: Fighting corruption

The plague of corruption is prevalent throughout the world. In India, Brazil, and South Africa, three activities are particularly persistent sources of corruption. The first is the funding of political parties, and the monitoring of that funding because without clear, transparent rules, vested interests buy influence and power through the political process. The second are economic activities, which rely on government for regulation or licences such as mining, natural resources, telecoms and real estate which are all marked by an insidious culture of bribery in both public and private sectors.

The third is the special privileges assumed by the political elite, for instance when cabinet ministers abuse public money to fly themselves and their families around or when the family of the president becomes very wealthy through lucrative business deals and when it appears as though the law only applies to 'ordinary' people and not to prominent politicians and their friends. All of this undermines respect for the law and democratic norms. The costs of all three kinds of corruption are high: they act as a curb on economic growth, destroy trust in the political system and government, erode the rule of law and weaken state institutions.

In many countries, corruption is so endemic that it is considered incurable and impossible to eradicate. And yet India, Brazil, and South Africa have created institutions and processes to fight at least some corruption. Many of these tools would be impossible to use in the absence of the democratic institutions which support them. We also know a lot more about corruption in democratic societies than we do in authoritarian states, thanks to the efforts of citizens, NGOs, parliament, state institutions, and the media. This does not mean that corruption is more prevalent in democratic regimes. On the contrary, democracies provide more opportunities for people and institutions to talk about corruption, expose its prevalence and fight for improvements.

Since 2010, for example, the Indian website www.ipaidabribe.com has allowed citizens to report, anonymously, incidents of bribes paid or requested but not paid, in order to receive a government service. In 2012 the website recorded more than 400,000 incidents.²⁰ So frequently was the Transport Department of the Indian state of Karnataka cited on the website that its transport commissioner, Bhaskar Rao, invited the 'I Paid a Bribe' team to present their findings to his staff: "I wanted to use the website to cleanse my department...If I try to do things on my own here I may run into heavy weather...but the evidence on this website gives me some internal support to bring about reforms."²¹

This Indian website, a fine example of Indian social entrepreneurship, has inspired anti-corruption activists around the globe to start similar campaigns. Attempts to set up similar websites in China failed, however: both 'I Made a Bribe' and www.522phone.com were quickly shut down by the government. Although the Chinese authorities stage periodic anti-corruption campaigns, even sometimes executing corrupt officials, these are ineffective. In 2012, the website of China's central bank indicated that corrupt Chinese officials have collectively funnelled some \$120 billion out of the country.²²

Corruption has been a recurring public issue in Brazil since its return to democracy in 1988. The Constitution passed in that year gave new powers to the public prosecutor's office and to audit courts, as well as entrenching press freedom. In the past 25 years, these institutions have been repeatedly tested, emerging stronger over time. The most important corruption scandal under democratic rule involved the first directly elected president of Brazil, after the end of military rule, Fernando Collor de Mello, who resigned his office in 1992 the day before Congress approved his impeachment.²³ Although he was not prosecuted for any crimes, this remarkable event occurred following the mass mobilisation of citizens calling for his



resignation. Newly empowered accountability institutions, including the parliamentary commission of enquiry which investigated the case, as well as media exposure, the Brazilian press association and the bar association which filed the request for impeachment, all contributed to the success of the anti-corruption campaign against him. This incident set an important precedent after 21 years of military rule, and in its wake, parliament established mechanisms designed to increase transparency and oversight of campaign donations.

Brazil's anti-corruption mechanisms continue to function today. In October 2012, the Brazilian Supreme Court returned guilty verdicts in the largest corruption trial in the country's history. This *mensalao* scandal involved several of President Lula's senior staff in a money-laundering scheme that, in effect, turned loans from a state bank into monthly stipends for politicians (hence 'mensalao' or 'big monthly'). The scandal was revealed thanks to a parliamentary commission of enquiry (led and dominated by Lula's party) and the Federal public prosecutor (appointed by Lula); the independent criminal investigation into Lula's advisors was conducted in March 2006, at the height of Lula's popularity. The trial's presiding judge, the first black Brazilian on the Supreme Court, had been appointed by Lula; six of the eight judges who returned guilty verdicts were nominated either by Lula or by his successor, Dilma Rousseff. None of this prevented the court from finding the President's Chief of Staff, the former head of his political party, the Party Treasurer, the President of the Chamber of Deputies and ten former members of Congress guilty.

Courts have also been used to prevent corruption in India. In 2013 the Supreme Court struck down a 1951 law which had allowed people with criminal convictions to remain in national and state legislatures. Courts and other institutions have been emboldened by other democratic processes such as investigative journalism and mass anti-corruption movements. Following media exposure of large-scale corruption in 2010 and 2011, a Gandhian social activist, Anna Hazare, led mass protests in Delhi, including hunger fasts. This movement has produced a new political party, Aam Aadmi (the "Common Man's Party"), led by Arvind Kejriwal, (tax official turned crusading anti-corruption politician) who was elected Chief Minister of Delhi at the end of 2013.

Aam Aadmi's priorities are novel in India, as are its methods. The party regularly uses the internet, mobile phones, and public meetings to gauge the sentiment of its followers, and its leaders go out of their way to demonstrate their desire to stay in touch with ordinary people.²⁴ Aam Aadmi is an example of another phenomenon seen in other democracies where the fight against corrupt politicians often leads to an organic renewal of the political system.

Similar mass campaigns have worked in Brazil. In 1997-1999 over one million signatures were collected by the National Conference of Brazilian Bishops in a campaign against vote-buying. Between 2000 and 2008, 660 politicians were impeached as a result of the law passed as the result of this campaign. And the elections of 223 mayors were nullified under this law in 2008. The Brazilian bishops' initiative led to a larger movement, the National Movement against Electoral Corruption—an umbrella organisation which includes 43 professional bodies, among them the Brazilian Bar Association and the national associations of federal judges, public prosecutors and magistrates—which has successfully campaigned for significant legal changes.

In South Africa, a broad coalition has coalesced behind Corruption Watch, a new institution established in 2012. Its board members include the head of a trade union, a former constitutional court judge and representatives of business, NGOs, and churches. The Executive Director was formerly head of the country's active Competition Tribunal. In its short existence it has already exposed numerous types of corruption from the transport department in the country's leading city to corruption in public schools.

All three democracies have developed accountability institutions which are effective because they are not susceptible to political interference. Brazil's Public Ministry for example, is formally independent of the three branches of government, and is informally known as 'the 4th branch of government' because it plays a significant role in selecting cases to investigate and prosecute. The South African Constitution created the office of the public protector, whose mandate is to 'strengthen constitutional democracy by investigating and redressing improper and prejudicial conduct, maladministration, and abuse of power in state

affairs.’ The current officeholder, Thuli Madonsela, South Africa’s third, was appointed in October 2009. Since then she has conducted fearless investigations of the former Minister of Communications for maladministration and corruption as well as of the country’s Head of Police and its Public Works Minister for signing “fatally flawed” leases for public buildings, among others. In March 2014 she released the results of a two-year investigation into allegations that public money (some \$23 million) was used to expand and improve President Zuma’s private residence in rural KwaZulu-Natal. Her report found that, despite the President’s assurances to the contrary, he and his family had unduly benefited from this unwarranted use of state funds, and recommended that he pay a percentage of the costs.

In each one of these countries, the problem of corruption remains profound, and has not by any means been defeated. In the current Indian parliament, more than a quarter of MPs have criminal charges against them, and 10 percent have serious charges against them such as murder or rape. The same is true in Brazil. In South Africa, corruption allegations touch public officials at the highest levels, including the President and his family.

However, the possibility of reform lies in the nature of the three constitutional democracies. All of them have multiple self-correcting mechanisms; citizens do not depend upon the goodwill of the executive or of the ruling party for political reform. When Parliament itself is corrupt or unable to curb executive power, then individual citizens, civic organisations, the independent judiciary or specially created independent state institutions, all supported by a robust independent media, can take over the task of improving the quality of governance, as they have done in the past. The ongoing battle against corruption ultimately requires more transparency, more effective democratic institutions, and more representative democracy, not less. It is hard to see how authoritarian states can compete with this.

Challenges in tough times

Riding on a wave of market reforms, a positive global economy and a commodity boom, India, Brazil, and South Africa all grew rapidly in the first decade of the twenty-first century. Five years after the start of the global financial crisis, however, all face grave challenges. The weakness of Western economies and the fall in demand for commodities from China has slowed growth. All three countries have allowed fiscal discipline to slip and will struggle to deal with their deficits. If and when US interest rates rise, the cost of national debt will increase and they will become less desirable for outside investors. All three failed to use the high growth period of the 2000s to make their economies more efficient and competitive.

In this climate, many in each of the three countries are asking whether their governments have the political will to introduce the reforms needed. Can the three democracies hold on to their gains and introduce a second wave of reforms that will result in a new phase of strengthened democratic practices, revived economic growth and expanded processes of inclusion for the poor? To explain our answer, we first need to appreciate the challenges they face, and then to understand how the democratic context will shape them.

The buoyant global economy of the mid-2000s allowed many countries to achieve high growth rates while avoiding difficult decisions. Indian industrialist Azim Premji has said that the economic dynamism of those years led to the “mistaken belief that high growth in India was ‘inevitable,’ the new natural”. The resulting complacency allowed Indian politicians to avoid further fundamental economic reforms and in many cases to expand the role of a weak state in economic activities.²⁵ The same is true for both Brazil and South Africa, both of whom now have growth rates hovering around 2 percent per annum, far less than they need.

Certainly all three countries need to restrain state spending. But they must also think harder about the nature of that spending. Some critics have argued that all three democracies are in trouble because they have spent too much money on the poor, having in effect created ‘premature’ welfare states. The financial obligations they have created through grants, subsidies and other programmes for their poorest citizens will inexorably grow with each passing year until they become unaffordable.

Up to a point, there is some truth in this. South Africa hands out some 16 million child grants to about 31 percent of the population. Since the onset of democracy in 1994, the government has also provided free houses to more than three million South Africans who previously lived in shacks, informal settlements or poor rural areas. Even so, the demand has not been met: the backlog for fully subsidised houses remains at almost the same level as in 1994, and is probably unsustainable.²⁶ The policy has created a dependence on the state for housing and discourages the use of these houses as economic assets.²⁷ These commitments are one part of a welfare and social policy system that includes old age pensions, disability grants, unemployment insurance, and land, electricity, water, schooling, and other subsidies.

In Brazil, the well-known Bolsa Familia provides small amounts of money to about 12 million families in exchange for an agreement to use certain services, but this is only one of the subsidies and benefits which go to different groups. Other welfare provisions include non-contributory pensions for rural workers, generous pension packages for government employees, unemployment benefits, and a state top-up for workers in formal sector jobs on very low wages. Large increases in the minimum wage are a further cause for concern. In early 2012, for example, the minimum wage

➤ Commuters at Chhatrapati Shivaji terminus, Mumbai



had increased by 13 percent, whereas in the previous year the economy had only grown by 4 percent.²⁸ Today, the cost of Brazil's public social security system, excluding health, amounts to 11.2 percent of national GDP.²⁹ Although workers and employees contribute 20 percent of their salaries to social security, in 2013 the public deficit on social security was about \$20 billion, and it is likely to increase.

India historically lagged in setting up an elaborate welfare state, but over the past decade successive governments have massively expanded redistributive programmes. The national employment guarantee scheme in rural areas now provides more than 50 million households with some employment.³⁰ Fuel is subsidised and a significant expansion in food subsidies is about to be implemented. The Food Security Act grants 67 percent of India's households a right to 35 kilograms of rice or wheat per year. Together with related provisions that would provide meals to infants and expectant mothers, and subsidised pulses to supplement cheaply available food grains, the law will add US \$6 billion to India's annual fiscal deficit.

Yet the fundamental problem with many of these programmes is not so much that they are 'premature' or 'too costly'—true in some instances, not others—but that the societies are not getting value for money in at least four respects. Firstly, many of these schemes do not even reach the poor, or else they only reach a small fraction of the poor, because the allocated money 'leaks' to corrupt middlemen and they do not create anything of lasting value. Political scientist, Ashutosh Varshney estimates that India's rural employment guarantee scheme costs between six and seven billion dollars per annum—twice as much as the budget for internal security of the entire country.³¹ In addition, between a third and a half of the wages from the scheme get siphoned off in bribes before they reach the intended recipients.³² Many of the beneficiaries of the employment guarantee scheme are also not necessarily poor. In 2009/10 some 60 percent of those who benefited from the employment guarantee scheme could be classified as non-poor.³³

Second, many of these schemes in all three countries are really temporary 'band aids,' enabling the poor to survive, whereas what is really needed are 'helping hands' or ladders that would enable poor people to escape poverty

permanently. In effect, many of these programmes allow current elites to pacify populations, or to assuage their own guilt, while they avoid making hard decisions. T.N. Ninan, publisher and columnist for the *Business Standard* newspaper in Delhi, points out that India's garment industry, though very small relative to its potential, nevertheless employs eight million people. Calculated in 'man-hours' this is the same number of jobs created by the expensive rural unemployment scheme, though the latter earn half the wages. In other words, the government spends billions of dollars creating artificial jobs, but never asks how to improve the prospects of an industry that could create the same level of employment, at double the wages, at a much lower cost. "So why", Ninan asks, "are government hand-outs considered a form of 'inclusion' that is superior to providing people with better paying jobs in successful industrial establishments?"³⁴

We would also ask why any state would spend so much money on a job creation programme while giving so little attention to the training and education of workers? Right now, all three countries are held back economically by their schooling systems. Although all of them have expanded access to education under democratic rule, the quality of teaching remains very low. The vast majority of Brazilian, South African and Indian students perform poorly in international comparative assessments, way behind many other poorer countries.

Thirdly, some of these schemes are an expansion of benefits that used to apply only to the elite, but have now been spread to the entire population without sufficient thought about affordability, or whether a different approach is required now that the benefit must include the entire population. The 1988 Constitution in Brazil established healthcare as a universal right and an obligation of the state, and subsequently created a unified healthcare system that entitled everyone to free, high-quality medical care.³⁵ Unfortunately, the state struggles to provide sufficient clinics and hospitals, and many are not managed effectively. Brazilian state medicine also suffers from a shortage of doctors and nurses, many of whom prefer to work in more affluent, better-resourced institutions.³⁶ Those who must seek healthcare in the public sector therefore face long queues

and waiting periods in underfunded facilities.³⁷ The system is further burdened by lawsuits, which force the state to pay for complex, costly treatments even for the smaller group of people who use mostly private care.

The same is true of the expansion of education in all three countries. The old model whereby the state sets up all the schools, hires all the teachers, and pays almost all the costs is simply not proving to be practical when applied to poor, rapidly increasing, populations in the developing world. Without a new deal with the trade unions it is hard to see effective performance management taking place in these huge mainly undifferentiated education systems. As a result, private entrepreneurs are already playing large roles in higher education in Brazil, and in basic schooling, extra mathematics, computer training and much more in India and South Africa. Further progress will require clever use of new management techniques and incentives, new technology, economies of scale, and innovative thinking of a kind more often found outside the state sector rather than within it.

Finally, some fundamental rethinking of state spending is in order. In all of these cases, the issue is not whether help should be provided to poorer people, but how to do this effectively. Brazilians pay more than 30 percent of GDP in tax, a European level of tax, yet almost half of Brazilians lack sewage connections and the country is plagued with enormous infrastructure backlogs. A disproportionate share of Brazilian tax revenue is absorbed by the public sector wage bill—public sector employees being almost entirely middle-class—which, in absolute terms, more than doubled during Lula's presidency. Industrialist Azem Premji argues that in India, it would easily be possible to increase public sector spending on things people actually need while cutting wasteful expenditure, "We spend a mere 4 percent on education, 1 percent on healthcare, less than 1 percent on social security as against the OECD average of 5.7 and 22 percent respectively... but we spend billions on economically misguided and socially counterproductive activities such as subsidies for power, fuel, inefficient public enterprises, not to mention enormous sums lost through inefficiency and graft."³⁸

Welfare and social policy are only a part of the story, however. Despite the economic growth of the past two decades, many of the bureaucratic, legal systems and policy

approaches of all three countries remain antagonistic towards business, entrepreneurship and the private sector generally, and this has profound effects on economic expansion.

Brazilians have a special name for the inefficiencies, delays, red tape, and infrastructure backlogs that impose excessive costs on Brazilian companies: *custo Brasil*. Taxes are not just high, they are complex and time-consuming to pay. Both India and South Africa have also put up barriers to international investment. India recently attempted to collect retrospective taxes from large multinational corporations according to tax rules that appear to be changeable. South Africa continues to change and raise "black empowerment" requirements—equity, ownership, employment, and subcontracting obligations—creating high compliance costs, and enormous benefits for a small elite in the black population. Over-regulation in all three countries remains a challenge. As author and former businessman Gurcharan Das has written, "every Indian factory owner must on average confront 17 different inspectors, each with power to close down his business."³⁹

Constraints on employers are another area in which the three countries are uncompetitive. South Africa now has the world's highest recorded rate of unemployment, at 35 percent of the workforce and 60 percent for young people aged 18-24. In part, this is because the country's labour laws favour workers who are in formal employment, and discriminate against the unemployed by imposing high minimum wages and making it difficult and costly to fire anyone. India's byzantine labour laws place hundreds of restrictions on potential employers, hampering the expansion of low-skill manufacturing and pushing firms and young people—some 10-12 million of whom enter the labour force every year—into the informal sector. Brazil's labour laws are equally numerous, complex and costly, though the fact that Brazilian employers are allowed to fire people with some ease helps keep unemployment down. Even so, many wind up in the informal sector.

Equally important is overcoming the weaknesses of the state bureaucracy in all three countries. Brazil has the most effective federal bureaucracy of all, but considerable corruption and less efficiency exists in most of the 26 regional states. South Africa and India are struggling with systemic corruption and inefficiency within many parts

of their bureaucracies. In all three countries, the state has become a means for social mobility for particular groups, families, and individuals and this undermines its role as the provider of public goods and guardian of the national interest. In part this has to do with policies of redress (reservations in India and black empowerment in South Africa), which give preference to caste, race and political connections rather than merit. Such policies, in turn, create public servants who take office with the assumption that 'it's our turn now' instead of a commitment to public service. The state also remains a source of social mobility as a consequence of the extraordinarily weak schooling system that leaves so many people badly educated, and with few better options.

More broadly, all three countries need to rethink the role of the state. Ironically, where the state is needed—for effective policing, health, and clean water, managing the provision of infrastructure or of good schools—it is often absent, incompetent or overwhelmed. But where it would be better for the state to step back, in regulation or supervision, it is hyperactively tying up people, companies, entrepreneurs, and investors in mountains of red tape.⁴⁰

This imbalance is particularly visible in the realm of infrastructure. State bureaucracies are too inefficient to manage infrastructure delivery effectively on their own. Government should and could bring in foreign infrastructure investment, but often doesn't, or does so badly. In Brazil, political scientist, Bolívar Lamounier notes that a government-proposed public-private partnership to bring down the cost of electricity was offered on such onerous terms that "it came close to breaking down the sector and may well scare investment away from public and private joint undertakings." He argues that President Dilma Rousseff is prevented from finding the most efficient ways to bridge Brazil's massive infrastructure backlog by her old socialist and nationalist prejudices.⁴¹ These comments could apply equally to South Africa, to India and to many other sectors besides electricity.

Finally, for all three countries to grow in future there must be a much broader, popular recognition that markets, entrepreneurs, and companies are vital for future prosperity. The 'trust deficit' between the state and the private sector must be eliminated. In the words of a senior businessman in South Africa, "At the moment, the government thinks we are crooks and we think they are incompetent." Popular dislike of business also has another source. In India, South Africa, and to a lesser extent in Brazil, the market reforms are believed to have disproportionately benefited large companies, politically connected individuals and 'crony capitalists' of all kinds. As former Secretary of the National Treasury, Marcus Lisboa, has put it: Brazil has witnessed a 'democratisation of privileges' with the steady extension of benefits and discriminatory policies to a range of special interest groups.⁴² This too needs to change. All three countries must now find ways of harnessing markets and increasing their competitiveness in order to increase growth and inclusion.

All of these challenges, complex though they may be, can be tackled without compromising democracy. There is no need to resort to 'authoritarian shortcuts'.

Meeting the challenges: Democracy and policy reform

Pressures for change are mounting in India, Brazil, and South Africa. Economies held back by significant obstacles to further growth, inefficiencies, and unnecessary high costs are struggling to expand at the rate each society requires to deal with poverty, unemployment, and the aspirations of those whose lives have improved in the past 15 years but whose situation is still precarious. Their competitiveness is sliding in a tough global environment. They have expensive social policies and poverty programmes that require expanding state revenues and efficiencies if they are to be maintained. Increasingly active and urban, lower and middle class citizens are protesting about poor services, high taxes, corruption in politics, government, and crony capitalists. Despite their achievements, India, Brazil, and South Africa are still countries with a long way to go in moving very large parts of their population out of poverty and reducing inequalities.

All three countries are entering potentially dangerous times. And in some respects it is the people who have benefited from the growth and inclusion of the past quarter century whose lives have improved, and who want that improvement to continue, who could pose the greatest threat to the status quo. Most of the time, protests are not coming from the very poor, but rather from the urban working and middle classes, and especially from young people with rising expectations who want jobs and the promise of a better future. This pressure could be hijacked by criminals, anarchists, or 'strong men' with populist policies. Instead, democratic leaders can and should harness the energy of protestors for the public good rather than allow it to fester in the streets.

It is quite possible to respond to populist or even anarchist protests with long-term and constructive policies. How countries define what is in the national interest and help improve the lot of those previously disadvantaged can be

the subject of political leadership. One of the strengths of democracy is that leaders can help shape the public debate and the perception of policy choices.

Bold, multi-faceted reform packages are needed in all three countries. But ultimately, the central question facing politicians in India, Brazil, and South Africa is not whether reforms can be identified, but whether they can be carried out. In the past, critics inside and outside the three countries have often contended that democracy itself makes necessary reform difficult: the pressure to 'buy' the votes of the electorate, and especially the votes of the poor, they have argued, will inevitably push developing democracies towards unsustainable redistributive hand-outs. Although the history of democratic India for the past 60 years disproves this argument, as do the shorter histories of democratic Brazil and South Africa, it is nevertheless worth looking more closely at the politics of economic reform in all three countries. Democracy can prove an advantage in implementing this second wave of vital reforms in all three countries if reformers use democratic processes and institutions to their advantage.

Firstly, real change will require new political coalitions. In each country, vested interests or 'distributional coalitions' preserve the status quo. Any reformer who wants to 'sell' their ideas for a change to the status quo will therefore need to identify the constituencies—perhaps the new middle class, or those who aspire to join it—that will benefit from higher growth, better education and more efficient poverty programmes, and encourage them to support the ongoing reform process. Reformers will need to make creative use of all the communication mechanisms on offer in open democracies: the press, the internet, television, radio, public events, public protests, and debates. Opposing views need to be taken seriously, and confronted using information sources that the

➤ Central Business District, Sao Paulo



public trust. New facts can be put into the public arena in order to convince voters of the necessity for change.

A political system that allows different experiments to take place will strengthen efforts to improve growth and inclusion. If political stalemate paralyses or inhibits progress at the national level, cities and regional states, especially in decentralised India and Brazil, can use their autonomy to promote growth and development in different ways. A reform pioneered in one part of the country can, if it works, be communicated and then applied elsewhere. Constituencies for reform will be easier to create in one part of the country if they have already witnessed success in another.

Secondly, reformers must learn to 'sell' the benefits of high economic growth to the majority of voters. Capitalism rarely sells itself. Ironically, companies that can successfully market almost anything are often not very good at communicating the benefits of what they do to the rest of society. They are especially bad at advertising the advantages of competitive markets and high economic growth for the poor. Politicians can and should step in, and openly argue that higher economic growth, sustained over time, will not just create a few rich people, but can move the majority of people from the margins of existence to a job, a house, literacy, and basic services. They can remind voters that growth can transform the psychology of a nation, creating hope and optimism. The revenues from growth can help build a nation state, an effective bureaucracy, and many other institutions, as well as pay for education, healthcare, old age pensions, and poverty alleviation schemes. And in countries such as India, Brazil, and South Africa where large parts of the population were excluded from the market economy and many of its benefits, individuals and regions can acquire the skills and opportunities required to participate fully as workers, entrepreneurs, or policymakers.

In the past, many developing world reformers have shied away from such arguments. Instead of arguing that growth and markets will help the poor and those discriminated against for so long in so many subtle and direct ways, they have been ambiguous, often preferring to stick to traditional rhetoric, and railing against foreign investors and rapacious capitalists. As Gurcharan Das has argued, "India reforms furtively because no political party has bothered to explain the difference between being pro-market and pro-business, leaving people

with the impression that liberal reforms help mostly the rich. They don't understand that a pro-market economy fosters competition which helps keep prices low, raises the quality of products and leads to a rules-based capitalism that serves everyone. The pro-business mindset on the contrary allows politicians and officials to distort the market's authority over economic decisions, leading to crony capitalism. This confusion explains the timidity of reform and why India does not perform to its potential."⁴³

For several decades, all three countries have often meandered between market-oriented reforms and attitudes and a more statist orientation. A determined approach to a second wave of market-oriented reforms will require a more full-blooded and more vocal commitment to market economics, not because they are good for the rich or for the ruling party, but because they are good for everybody, especially the poor. Improved state capacity is essential for higher growth and inclusion in all three countries; this will require more attention to building a professional, honest, and market-supporting civil service.

Thirdly, perceptions are important and actions must match rhetoric. Reformers should use democratic institutions to argue for reform, but they should recognise that these institutions need strengthening as well. Political party funding needs clear rules, some state support, and transparency in order to get 'black money' out of the system. Because transparency often acts against opposition parties—companies and other interests do not want to alienate the government—all three countries must strengthen the culture of democracy, valuing the opposition for its own sake.

There are numerous ways in which accountability can be increased. Mechanisms to increase the accountability of politicians are important. South Africa could re-introduce constituency elections for MPs in a mixed proportional representation system. Brazil could increase the number of representatives in very large cities or states.

In the end, democratic capitalism and market competition will succeed only if they are widely perceived to be fair, and if they are regulated by effective institutions operating within the rule of law, which support markets and do not undermine enterprise. Corruption undermines faith in public institutions; it also undermines faith in the market economy and its key

players in the private sector. Rule of law and the effective and fair administration of justice have both an economic value—they secure property and contracts—as well as a political significance. When citizens see that the values of equality before the law, fairness, and justice are applied to rich and poor, powerful and unknown, then they are more likely to accept the system as legitimate.

If past growth has not been fair, for instance if 'insiders' or large companies or crony capitalists have benefited at the expense of others, then this too needs to be stated openly, understood, and the policies reversed. Reformers in the three countries could profit from deeper analysis of the extent and nature of the "first wave" of democratic reforms: they need a better understanding of who has, in fact, benefited and how these reforms and market opening measures are perceived throughout the country if they are to design and sell the essential second package of reforms.

Above all, a successful second wave of reform will eventually have to redefine what is meant by the expression 'national interest'. Does the nation need hand-outs for a few, or growth for all? Is the greater good served by high government salaries, or by roads and schools? Too often, politicians are cowed by fear of a backlash against lifting a subsidy or privilege for a particular group. T.N. Ninan puts it well: "Until now the accepted wisdom was that economic reforms didn't help the poor, they could not be sold to voters and that there would be a heavy price to pay if 'anti-people' steps were taken such as doubling cooking gas prices."⁴⁴ Yet what seems impossible can suddenly become possible when the real price of a hidden subsidy is explained to the larger mass of people, and when a looming election means that the government is going to be held responsible for spending. A reform that seemed impossible before can become feasible thanks to accurate information and the democratic process.

This scenario has played itself out recently in South Africa when the government, concerned that the issue of a youth wage subsidy would be an electoral aid to its political opponents, quickly pushed a bill through parliament which had been delayed by union opposition for the past four years. Suddenly, when they saw they would be vulnerable at the ballot box they were prepared to take on their union allies and make the case for 'the national interest' in reform. In Brazil,

the threat of international embarrassment and fear that bad press would anger the electorate forced the government to make greater use of the private sector in building infrastructure vital for the World Cup and the Olympics.

Too often, reformers fail because they avoid the contested and difficult issues. Stuck in the politics of the moment, they cannot envision the politics of the future: how coalitions are shifting, how future support for change might be built from the bottom up. This is the great strength of democracy. All three countries have flexible political systems, which provide them with the ability to renew themselves, deal with challenges, and learn from their mistakes. Many outsiders see people protesting or angry and jump too quickly to seeing this as a threat to the stability of the regime. More often it is a way for citizens within these democratic developing countries to push for reform, not revolution. In exercising their democratic right to dissent they can strengthen the country and its political system, and sometimes open the way to better policymaking in the future.

Democracies can take bold decisions in the national interest that change the terms of debate, reshape politics and the trajectory of a society. These three countries have all done it before.

The democratic alternative from the South

This report started with the global debate about different models for development in the twenty-first century. In the context of the 2008 global economic crisis, the tarnished appeal of the West and the rise of China, we asked whether it might be time to turn the spotlight towards the nature of democratic capitalism emerging in the developing world.

Our review of developments in India, Brazil, and South Africa provides powerful insights into three countries which have managed to achieve high growth without sacrificing the political freedoms and legitimacy that democracy provides. We urge interested readers to look closely at the 15 papers which form the basis for this final report, because they give far more detail on the relationship between democracy and growth in these three countries, on the fight against corruption and poverty and on the nature of innovation. From this research, we concluded that the citizens of all three of these countries do not need less democracy in order to grow or to improve the lives of the very poorest, but rather more. Democracy has brought greater prosperity and opportunity in the past 25 years. The further deepening and strengthening of their democratic systems will help reformers to meet the economic, political, and social challenges they face today.

We believe that there are lessons from the study of these three countries for others. None of them offers an 'ideal model' which others can copy precisely. Nevertheless, the experiences of India, Brazil, and South Africa do show that democracy has some particular advantages in the developing world:

Democratic constitutions create a social contract

In countries where democracy is the result of protracted struggle, the new constitution provides a rule book and an overarching ideal of democratic culture, the importance and value of which should not be underestimated. The democratic constitutions of India, Brazil, and South Africa have provided a common set of values, ideas, and rights around which these countries have, in part, built their national identity.

Democratic rights and freedoms protect and empower individuals—even those who do not come from a privileged class.

Although a population which avails itself of the freedom to organise, speak out, and disagree with authority can make life difficult for those in power, these are components of public life which should not be repressed or ignored by societies which hope to lift large numbers of people out of poverty. Transparency holds governments to account. Free flows of information will help people who are both in and out of power understand the real impact of government policies on different sectors of society, especially on the poor.

Democratic societies have the capacity to reverse themselves.

As de Tocqueville argued, the virtue of a democracy is that it makes 'retrievable mistakes'. In rapidly changing countries, this is a particular virtue. Indira Gandhi's flirtation with authoritarianism in India, Brazil's political troubles during the reign of President Mellor and the mensalao corruption scandals, and President Mbeki's disastrous HIV/AIDS policy in South Africa—all of these are examples of mistakes that were rectified peacefully.

Democratic elections provide a mechanism for removing leaders, for establishing the legitimacy of new leaders, and for resolving conflicts.

Of course it is possible to renew a political system through secretive rituals instead of through public elections. But such changes of power always carry a high risk that the new leader may not be seen as legitimate by the majority of the citizens. In countries with wide ethnic, regional, and class divides, this could be extremely dangerous. Ultimately, an illegitimate ruler who is challenged will have to stay in power through the use of violence. By contrast, dissatisfaction with or in the ruling political group in a democracy can lead to the formation of a new political party, not death or exile. Disagreement over a major policy decision can lead to a vote in parliament or an early election, not violent reprisals.

Democratic freedoms can help foster economic and social innovation that authoritarian systems find difficult to produce.

By protecting dissenters from persecution, creating independent universities, entrenching intellectual property rights, and freeing up the business environment, democracies can encourage and protect innovators from all walks of life with radically new ideas. Developing world democracies have proven good at social innovation, producing programmes such as Bolsa Familia in Brazil. Their companies have proven to be particularly good at frugal innovation, and at producing, marketing, and making money in developing world markets.

In a world of contesting ideas about approaches to governance and development, should the future of the developing world be one dominated by authoritarian governments? Are autocracies the best means of producing economic growth and inclusion for the vast majority of the population? The evidence of these three democratic developing societies is compelling, and leads us to respond to this question with a resounding 'no'. It is not necessary as some argue, to give up individual freedoms, rule of law, independent institutions, a free press, and regular elections if you are struggling with the challenges of poverty. On the contrary, democratic rights and freedoms can in numerous different ways help promote sustained development, higher economic growth, and effective routes out of poverty.

However, it is important not to take democracy for granted. Once achieved, there are no guarantees: democratic rights and freedoms can easily be eroded. Democrats need to be vigilant and democracies need to renew and protect their hard won freedoms.

All three countries need a new wave of reforms if they are to hold on to their many achievements and make further big strides in overcoming poverty and underdevelopment. In each country, often in different ways, reforms need to take place in four different but inter-related areas:

- **The quality of democracy matters**—Each country needs to strengthen and increase the transparency and accountability of democratic representation, institutions and processes.
- **Further market reforms**—Market reforms led to the high growth that all three countries have at different times enjoyed over the past two decades. As we have argued, a second wave of reforms is now needed. Macroeconomic fiscal discipline must be maintained. Micro-economic reforms must reduce the costs of doing business in each country, open up competition and markets for new firms and workers, promote a positive approach to the role of business, and stop the slide in global competitiveness in each of the economies. Deregulation would serve the interests of the economy as well as of politics: complex taxes, tariffs, regulations, and subsidies create multiple opportunities for corruption as well as slowing growth.
- **Strengthen the competence and capacity of government as the vital facilitator of growth, employment, infrastructure, and human capital development**—People in developed countries often take the basic functions of their governments for granted, and underplay the role of government in their own history. It is important to remember that an efficient state is just as important in the developing world. Well-functioning state institutions are required to ensure that the gains from economic growth are translated into genuine assets and opportunities for all. Public provision does not necessarily entail public production—many social services are more efficiently produced by the private sector—but government has a vital role in funding or regulating

services such as education or health. All this means that a competent civil service must have the expertise to manage market players. It also implies that reforms to improve state capacity and governance are a vital priority if these democracies are to continue delivering.

- **Policies that expand opportunities for the poor and disadvantaged**—Markets are the engine of development, but in countries with enormous development challenges, poverty, and a history of discrimination and disadvantage against large parts of the population, they are insufficient. Helping the poor, unemployed, and disadvantaged to survive and cultivate the skills essential to their participation in a modernising society and economy are vital in themselves. They are also important politically. If well-chosen policies are rolled-out effectively and at significant scale, they can buy time while economic reforms are implemented, and demonstrate a national commitment to inclusion and recognition of those who are struggling. In each country, the package of policies in this area need considerable reform to ensure value for money, affordability, effectiveness, and elimination of unintended consequences that are costly economically and politically.

In looking at India, Brazil, and South Africa we believe it is possible that these essential reforms can take place. First, democratic governments have choices in how they respond to economic difficulties or crisis, vested interests, and electoral pressures. They can build on the many strengths of democracy to put together the new political coalitions that will support and sustain this second wave of essential reforms, as we have noted. Secondly, these countries have all done it before in the 1990s; in response to similar economic and political challenges, democratic governments in these three developing countries successfully introduced and implemented a series of economic and governance reforms with good returns.

The experiences of India, Brazil, and South Africa offer not a single model, but rather multiple different approaches and solutions to particular challenges. For countries looking for innovative means of helping the poor, for lessons in resolving ethnic conflict, or for ways to make sure that economic growth brings benefits to the very poorest, the three countries all offer lessons about what works and what doesn't. National governments, global leaders, international aid organisations, and multilateral institutions should start making serious efforts to understand how things work in democratic developing countries, and not just in Europe or America, when they are looking to solve political and economic problems or offer policy advice.

There is a democratic alternative emerging from the South. India, Brazil, and South Africa are three pivotal countries to watch.

REFERENCES

1. Memorial lecture given by President Zuma in honour of General Shehu Yar'Adua at the Yar'Adua Foundation, 10 December 2011, Abuja, Nigeria. Available online at: <http://www.thepresidency.gov.za/pebble.asp?relid=5446>.
2. Bhagwati, J. N. "Democracy and Development: Cruel Dilemma or Symbiotic Relationship?" *Review of Development Economics*, Vol 6, No. 2, 2002, p. 158.
3. Dilma Rousseff's, Full Inauguration Speech to the Brazilian Congress, *Huffington Post*, 3 January 2011, available online at: http://www.huffingtonpost.com/2011/01/03/dilma-rousseff-inaugurati_1_n_803450.html.
4. Guha, Ramachandra. *India after Gandhi: The History of the World's Largest Democracy*, London and New York: Macmillan, 2007, p 147.
5. Bhanu Mehta, Pratap. *The Burden of Democracy*, Delhi: Penguin, 2003, p2.
6. Mattes, R. *Democracy in South Africa*, India, and Brazil, Paper prepared for CDE on the Democracy Consensus, December 2013.
7. Medcalf, R. *Facing the future: Indian views of the world ahead*, India Poll, Lowy Institute for Foreign Policy and the Australia India Institute, 2013.
8. McKinsey and Company, *Reimagining India: Unlocking the Potential of India's Next Superpower*, New York: Simon and Schuster, 2013, p. 231.
9. Mboweni, T. "Jordan Wrong on ANC Policy Choice", *Sunday Independent*, 18 November, 2012.
10. The most recent figures are for 2008/09 which show an increase in poverty rate to 48.9% as a result of the recession. See <http://www.statssa.gov.za/publications/Report-03-10-03/Report-03-10-032009.pdf>.
11. Soares, F, R. Ribas and R. Osorio, *Evaluating the impact of Brazil's Bolsa Familia: Cash Transfer Programmes in Comparative Perspective*, International Poverty Centre, United Nations Development Programme, December 2007, available online at: <http://www.ipc-undp.org/pub/IPCEvaluationNote1.pdf>.
12. Gall, N, Braudel Institute, *Lula and Mephistopheles*, Braudel Papers, 2005, available online at: http://pt.braudel.org.br/publicacoes/braudel-papers/downloads/ingles/bp38_en.pdf.
13. Green, D. Tackling Inequality, the Brazilian inexperience, *Financial Times*, 18 March 2013, available online at: <http://blogs.ft.com/beyond-brics/2013/03/18/guest-post-tackling-inequality-the-brazilian-experience/#axzz2sGT0jw9p>.
14. Ibid.
15. Bhagwati, J & A. Panagariya, *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries*, New York, 2013.
16. Official poverty estimates, provided by the Indian Planning Commission, March 2007, available online at: <http://planningcommission.nic.in/news/prmar07.pdf>.
17. Bhagwati, J. & A. Panagariya *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries*, New York, 2013.
18. Wooldridge, A. *CDE Conversations: The World Turned Upside Down – Business Innovation from the South*, March 2012, available online at: http://www.cde.org.za/images/pdf/THE_WORLD_TURNED_UPSIDE_DOWN_Business_innovation_from_the_South.pdf.
19. McKinsey and Company, *Reimagining India: Unlocking the Potential of India's Next Superpower*, New York: Simon and Schuster, 2013.
20. Strom, S. "Web Sites Shine Light on Petty Bribery Worldwide," *New York Times*, 6 March 2012, available online at: http://www.nytimes.com/2012/03/07/business/web-sites-shine-light-on-petty-bribery-worldwide.html?pagewanted=all&_r=0.
21. Campion, M.J. "Bribery in India: A website for whistleblowers," *BBC News South Asia*, 5 June 2011, available online at: <http://www.bbc.co.uk/news/world-south-asia-13616123>.

22. Huang, Y. "Democratize or Die: Why China's Communists Face Reform or Revolution," *Foreign Affairs*, January/February 2013, available online at: <http://www.foreignaffairs.com/articles/138477/yasheng-huang/democratize-or-die>.
23. "Timeline: Brazil," *BBC News*, 14 August 2012, available online at: <http://news.bbc.co.uk/2/hi/americas/1231075.stm>.
24. Kazmin, A. *Financial Times*, "Anti-corruption party to govern Delhi," 23 December 2013, available online at: http://www.ft.com/intl/cms/s/0/8b8ca9d2-6ba7-11e3-85b1-00144feabdc0.html?siteedition=intl#a_xzz2sGWgYcNR.
25. McKinsey and Company, *Reimagining India: Unlocking the Potential of India's Next Superpower*, Simon and Schuster: New York, 2013, p81.
26. Financial and Fiscal Commission, October 2013, "Exploring Alternative Finance and Policy Options for Effective and Sustainable Delivery of Housing in South Africa," available online at: <http://www.ffc.co.za/>.
27. Ibid.
28. "Tick tock," *The Economist*, 24 March 2012, available online at: <http://www.economist.com/node/21551093> and S Schwartzman and M Celidonio de Campos, "Democracy and Inclusive Growth in Brazil", Paper prepared for Democracy Consensus workshop, Rio de Janeiro, May 2013.
29. Ibid.
30. Bose, N., "Raising Consumption Through India's National Rural Employment Guarantee Scheme," Vanderbilt University, October 2013, available online at: https://my.vanderbilt.edu/nayanabose/files/2013/11/Job-Market-Paper_Nayana-Bose.pdf.
31. Dhume, S. "India Singhs the blues," American Enterprise Institute, 10 July 2012, available online at: <http://www.aei.org/article/foreign-and-defense-policy/regional/india-pakistan-afghanistan/india-singhs-the-blues/>.
32. Panagariya, A., "Empowering the poor: Abandon the broken model," *Times of India*, 25 August 2012, available online at: http://articles.timesofindia.indiatimes.com/2012-08-25/edit-page/33367756_1_providers-leakages-private-schools.
33. Bhalla, S.S. *Democracy, Growth, and Development in India: 1951 – 2012*, Paper prepared for CDE on the Democracy Consensus, September 2013.
34. Ninan, T.N. "Handouts or jobs?" *Business Standard*, 5 July 2013, available online at: http://www.business-standard.com/article/opinion/handouts-or-jobs-113070501044_1.html.
35. Schwartzman, S. and M. Celidonio de Campos, "Democracy and Inclusive Growth in Brazil", Paper prepared for Democracy Consensus workshop, Rio de Janeiro, May 2013.
36. "Healthcare in Brazil: Flying in doctors," *The Economist*, 31 August 2013, available online at: <http://www.economist.com/news/americas/21584349-government-imports-foreigners-reach-parts-locals-dont-want-flying-doctors>.
37. Gomez, E. "In Brazil, healthcare is a right," *CNN*, 13 July 2012, available online at: <http://edition.cnn.com/2012/07/13/opinion/gomez-brazil-health-care/>.
38. McKinsey and Company, *Reimagining India: Unlocking the Potential of India's Next Superpower*, New York: Simon and Schuster, 2013, p 82.
39. "Liberal worries," *The Economist*, 10 November 2012, available online at: <http://www.economist.com/news/books-and-arts/21565916-india-open-tolerant-country-so-why-does-liberalism-not-flourish-there-liberal>.
40. Das, G. "Book Review: 'An Uncertain Glory' by Jean Drèze and Amartya Sen | 'Transforming India' by Sumantra Bose," *Wall Street Journal*, 13 December 2013, available online at: <http://online.wsj.com/news/articles/SB10001424052702304854804579234490660743838>.
41. "Why you shouldn't get too excited about Brazil's new middle class," *Brazil Weekly*, 5 February 2013, available online at: <http://brazil-weekly.com/opinion/why-you-shouldnt-get-too-excited-about-brazils-new-middle-class/>.
42. De Barros Lisboa, M. and Z. Latif, "Democracy and Growth in Brazil", (paper prepared for Democracy Consensus workshop, Rio de Janeiro, May 2013), p. 34.
43. Das, G. "Reformulating the liberal agenda," *Gateway House*, 14 August 2013, available online at: <http://www.gatewayhouse.in/reformulating-the-liberal-agenda/>.
44. Ninan, T.N. "Oh for a crisis!", *Business Standard*, 2 August 2013, available online at: http://www.business-standard.com/article/opinion/oh-for-a-crisis-113080201302_1.html.

ADDITIONAL FUNDING:

The John Templeton Foundation

Smith Richardson Foundation

The Lynde and Harry Bradley Foundation

Center for International Private Enterprise (CIPE)



JOHN TEMPLETON FOUNDATION
SUPPORTING SCIENCE—INVESTING IN THE BIG QUESTIONS

SmithRichardson
FOUNDATION



This report is based on three workshops in Delhi, Rio, and Johannesburg, as well as twelve research papers and three country reports arising from the workshops.

To view all the Democracy Works publications please visit:

www.li.com/programmes/democracy-works and www.cde.org.za

Country Reports:

India and the Pursuit of Inclusive Growth

Brazil and the Pursuit of Inclusive Growth

South Africa and the Pursuit of Inclusive Growth

Research Papers:

India: Democracy and Economic Growth

India: Democracy, Growth and Development 1951-2012

India: Democracy and Corruption

India: Uneven Innovation Amid a Noisy Democracy

Brazil: Democracy and Growth

Brazil: Democracy and Inclusive Growth

Brazil: Democracy and Corruption

Brazil: Democracy and the 'Innovation Dividend'

South Africa: Post-Apartheid Democracy and Growth

South Africa: Democracy, Corruption and Conflict Management

South Africa: Democracy, Poverty and Inclusive Growth Since 1994

South Africa: Innovation and Democracy



www.li.com
www.prosperity.com

LEGATUM INSTITUTE

11 Charles Street
Mayfair
London W1J 5DW
United Kingdom

t: +44 (0) 20 7148 5400

<http://twitter.com/LegatumInst>



www.cde.org.za

CENTRE FOR DEVELOPMENT AND ENTERPRISE

5 Eton Road, Parktown,
Johannesburg, 2193
South Africa

PO Box 1936, Johannesburg, 2000

t: +27 (0) 11 482 5140

e: info@cde.org.za