CHAPTER 4

THE POLITICS OF POLICY COHERENCE

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Promoting the policy coherence for development agenda entails a commitment on the part of OECD member governments to economic and institutional reform and change. But since domestic arrangements for policy making and resource allocation tend to be sticky, the question arises as to whether there are particular political settings which are most likely to give rise to greater demands for policy coherence. Chapter 4 examines two hypotheses: first, that a country's level of spending on development assistance as a share of GNI reflects its domestic political-economic arrangements; and second, that the higher the level of development assistance, the greater the commitment to the policy coherence agenda. The analysis shows that the long-run political-economic orientations of OECD member governments, particularly their levels of domestic income redistribution, appear to have a significant influence on development assistance in particular, and to the policy coherence agenda more generally.

Introduction: political institutions and policy coherence

Developed country governments are increasingly confronted by the tremendous challenge of making national policies more coherent with their efforts to promote growth and reduce poverty around the world. An obvious example is provided by agricultural policy, where protection, subsidies, and trade-distorting export support of domestic farmers limit the market access opportunities for developing countries, in particular for crops such as cotton, rice, sugar, and fruits and vegetables. Domestic protection also takes the form of tariff escalation, which discourages investment in developing countries in value-added food processing industries, further undermining the potential contribution of agro-business to the promotion of sustained economic growth. While such policy incoherence may reflect the exigencies of domestic politics in industrial societies, their global cost to developing nations is demanding greater attention from policy makers, not to mention the public and "civil society" at large.

To date, much of the institutional work on policy coherence for development within and among OECD and European Union (EU) member states has involved inter-agency policy co-ordination to promote coherent national policies, as well as positions in multilateral negotiations in such institutions as the World Trade Organization (WTO). The OECD's Development Assistance Committee (DAC) has also played a useful role in promoting the policy coherence agenda, in part by highlighting it in the context of its reviews of DAC members' development programmes.

At a fundamental level, policy coherence for development involves reform and change of policies and institutions. In order to bring a state's development policies into closer alignment, reforms may have to be undertaken in substantive policy areas like trade, agriculture, and migration, in addition to building new institutional mechanisms to promote co-ordination. Yet most political and economic institutions are "sticky" by design and resistant to change; indeed, their purpose is to articulate and enforce the "rules of the game". Policy and institutional change often involves a process of articulating and enforcing new rules, and domestic actors who find themselves on the losing end of these changes may try to resist them.

This raises the question of whether certain political-economic governance structures will have particular advantages in advancing the policy coherence for development agenda. It is worth emphasising that, even in an age of extensive globalisation, the academic literature on comparative political economy has noted significant and enduring differences among OECD and EU member states with respect to such fundamental public policies as government spending on education, health and social welfare. Notably, levels of foreign aid spending as a percentage of gross national product (GNP) vary enormously among these states as well. This relative absence of convergence suggests the strength and importance of domestic political-economic arrangements.

How do these differing institutional arrangements influence national development policies? And what are the implications of these differing institutional structures for the policy coherence agenda? These are the issues that will be addressed in this chapter. Specifically, we will examine the relationship between different domestic political-economic variables and national levels of development spending. Development spending could, for example, be related to whether a country's government has a "left," "right," or "centrist" orientation. It could be influenced by whether a government takes a parliamentary or presidential form, and if the former, whether the government is strongly majoritarian or based on coalitions of many different parties. Alternatively, the commitment to development assistance could be related to a country's internal political-economic structure, such as its level of income redistribution. By examining the comparative political economy literature and the available data, we will focus on some key hypotheses that may help us to understand the relationship – whether one clearly exists – between domestic politics and levels of spending on development policy.

This chapter has three sections. In the first section, we will use the Center for Global Development's *Commitment to Development Index*,[2] along with case study material drawn principally from the DAC's *Development Co-operation Reviews*, to analyse the extent to which DAC members have pursued policy coherence for the development agenda. Next, we will seek to explore the political correlates associated with these findings by testing some key hypotheses which relate domestic politics to levels of development spending. Suggestions for further research, along with policy recommendations will conclude this chapter.

Policy coherence for development: what do the data say?

According to the OECD, "policy coherence for development means taking into account the needs and interests of developing countries in the evolution of the global economy" (OECD, 2003). The OECD points out, for example, that "there is little point" in providing development aid for trade-capacity building if the exports of developing countries lack market access in industrial countries owing to the presence of trade barriers. Policy coherence therefore requires aligning national and multilateral policies in a way that promotes the chances of developing countries to achieve sustained growth.

DAC member countries appear to vary significantly in terms of their capacity to formulate and execute a coherent development agenda that integrates both development and other policies (*e.g.* trade and agriculture policies). But what are the key variables that impede the advancement of a more coherent development agenda? In some cases, there may be an absence of harmony between a national commitment to policy coherence on the one hand and regional institutional frameworks on the other. The Nordic countries, for example, have traditionally provided high levels of development assistance, yet the effectiveness of these policies for development may be undermined by EU trade and agricultural policies, over which the Nordic member states of the European Union also have some influence. In other cases, however, policy incoherence may be due to the internal structure of the domestic government. Federal systems in which power is widely diffused, or fragmented parliamentary systems in which governments are pieced together as coalitions of political parties with widely differing economic platforms, may face greater difficulties in promoting a coherent policy agenda than more unitary systems.

In this section we explore the political correlates of policy coherence both quantitatively and qualitatively. First, we examine the trade and aid scores obtained from the Center for Global Development's *Commitment to Development Index* (the index also includes scores for migration, investment and environment, but we will focus on trade and aid as being the most fundamental development-related *policies* of OECD member country governments).[3] We will see if those scores correlate with any obvious set of political variables. We will complement this approach with a qualitative look, by drawing some selective evidence about national commitments to policy coherence taken from the OECD's *Development Co-operation Reviews.*[4] As the data in Table 4.1 reveal, the Nordic countries generally receive high marks for the levels of foreign aid (as a percentage of gross national income [GNI]) they provide.[5] Two interesting exceptions stand out. First, Finland does not give comparably "Nordic" levels of assistance but is actually somewhat below the DAC average. Second, the Netherlands gives aid at levels that are similar to that provided, say, by Denmark and Sweden.

Table 4.1. **Commitment to development: trade, aid and policy coherence**

Country	Aid score	Trade score	Average	Comments on policy coherence
Denmark	9.0	6.8	7.90	"Denmark is supportive of actions … that promote policy coherence."[1]
Sweden	7.0	6.9	6.95	"… there is still a lack of capacity in integrating EU trade policy within development co-operation …"[2]
Netherlands	6.9	7.0	6.95	"Policy coherence has always been a key concern."[3]
Norway	6.6	1.0	3.80	Not available
Belgium	3.5	6.7	5.10	"internal consistency is an ongoing challenge … against a federalist background where there are manifest centrifugal tendencies."[4]
Switzerland	3.3	4.0	3.65	"a methodical effort has been made to improve policy coherence but for want of political backing it has not always been crowned with success …"[5]
France	3.1	6.8	4.95	"… nothing has been done to untie aid."[6]
United Kingdom	3.0	6.9	4.95	"Achieving coherence…is a priority for the United Kingdom …"[7]
Finland	3.0	6.5	4.75	"… policy coherence … falls short of being a clear statement …"[8]
Austria	2.8	6.8	4.80	Not available
Ireland	2.6	6.6	4.60	"Reforming agricultural trade policies can create difficulties in Ireland …"[9]
Spain	2.4	6.8	4.60	"Spain is one of the few DAC members to have explicitly integrated policy coherence into its legal framework."[10]
Portugal	2.2	6.9	4.50	"Unless the objective of poverty reduction is placed as one of the main considerations … the discussion on policy coherence may lack focus."[11]
Germany	2.1	6.8	4.45	"… the implementation of effective policy coherence will … require a substantial political commitment …"[12]
New Zealand	1.7	7.2	4.45	"… there is a high level of awareness … of development issues across a wide range of departments …"[13]
Australia	1.7	7.2	4.45	"…coherence … has … been endorsed as Australian government policy."[14]

Table 4.1. **Commitment to development: trade, aid and policy coherence (cont'd)**

Country	Aid score	Trade score	Average	Comments on policy coherence
Canada	1.7	6.6	4.15	"Canada's commitment to policy coherence … remains to be articulated in a comprehensive way …"[15]
Greece	1.5	6.7	4.10	"For Greece … policy coherence issues can be especially challenging."[16]
Italy	1.4	7.0	4.20	"There is no specific … mechanism for dealing with coherence …*per se.*"[17]
Japan	1.2	4.6	4.40	Not available
United States	0.8	7.7	4.25	"There is a strong need to identify and address development policy coherence issues in the US system."[18]
Average	**3.5**	**6.6**	**5.05**	

Notes: The following references are from *The DAC Journal*
1. OECD (2003), Vol. 4, No. 3, p. 187.
2. OECD (2000), Vol. 1, No. 4, p. I-39.
3. OECD (2001), Vol. 2, No. 3, p. I-31.
4. OECD (2001), Vol. 2, No. 2, p. II-43.
5. OECD (2000), Vol. 1, No. 4, p. II-44.
6. OECD (2000), Vol. 1, No. 3, p. I-85.
7. OECD (2001), Vol. 2, No. 4, p. I-45.
8. OECD (2003), Vol. 4, No. 3, p. 264.
9. OECD (2003), Vol. 4, No. 4, p. 47.
10. OECD (2002), Vol. 3, No. 2, p. II-35.
11. OECD (2001), Vol. 2, No. 2, p. I-45.
12. OECD (2001), Vol. 2, No. 4, p. II-43.
13. OECD (2000), Vol. 1, No. 3, p. II-49.
14. OECD (2000), Vol. 1, No. 2, p. II-41.
15. OECD (2002), Vol. 3, No. 4, p. II-41.
16. OECD (2002), Vol. 3, No. 2, p. I-53.
17. OECD (2000), Vol. 1, No. 3, p. III-47.
18. OECD (2002), Vol. 3, No. 4, p. I-63.

Source: Center for Global Development, *Commitment to Development Index* and OECD, *Development Co-operation Review* (various issues).

We can also observe an interesting disjunction in several cases between OECD member commitments to aid and to trade with developing countries. Norway, for example, scores very low on the trade score; conversely, the United States, which ranks at the bottom of the aid table, is the highest in terms of foreign trade.[6] Pursuing the political correlates of these differences would make for a useful follow-up to the present study; more on this in the concluding section.

In Table 4.1 we have followed the Center for Global Development's practice of simply averaging the scores on the trade and aid scales, though one could certainly make the case for a weighted score as well. For example, one could argue that the commitment to trade is more important in overall economic terms to developing countries than are foreign aid flows, and as a result we would weigh the two scores differently, with greater weight given to the trade score. Again, while we have taken the average score, the limitations associated with that approach are recognised.

As we can see, when the trade and aid scores are combined, Denmark, Sweden and the Netherlands do exceptionally well in comparison with most DAC member country governments. The question thus arises whether these countries share any political-economic attributes that might help to explain their commitment to development policy. Interestingly, there is relatively little academic literature that explores the connection between domestic political-economic variables on the one hand, and development policy on the other. The literature that does exist focuses on foreign aid spending more narrowly. But despite this restricted focus, the answers to these questions may offer suggestive implications for the policy coherence agenda.

The political correlates of policy coherence

As already noted, research on comparative political economy has stressed the enduring significance of national institutions and political arrangements even in an increasingly globalised world. Further, this literature suggests that "parties and institutions matter, and that they do so not only domestically, but also with respect to foreign policy" (Therien and Noel, 2000). In particular, some authors have tried to demonstrate that the left-right orientation of a government influences its development policies and its foreign policies more generally. According to these authors, political parties with a "left-wing" orientation will promote more generous development policies than those that articulate more "right-wing" public policies (Therien and Noel, 2000).

We have tested some of the key hypotheses in the political science literature on the politics of development assistance using data drawn from Beck *et al.* (2001) along with data on foreign aid flows (used as a proxy measure of commitment to development policy) drawn from the DAC. Two of the most commonly found hypotheses in this literature are as follows:[7]

- **H1**: Left-wing governments will tend to give more foreign aid than right-wing governments.
- **H2**: Countries in which domestic levels of income redistribution are high (or "social democracies") will tend to give more foreign aid than less-redistributive or more "market-oriented" economies.

H1, which emphasises differences in budgetary priorities among left- and right-wing oriented governments, provides an assertion that is commonly heard about social spending generally and foreign aid spending in particular. We have explored it in two ways. First, replicating an approach first developed by Therien and Noel (2000), we have taken every DAC member for 1980 and 2000 and regressed aid spending as a share of GNI against the left, right, or centrist orientations of the government (again, the data on government type comes from Beck *et al.*, 2001). As Table 4.2 indicates, the relationship is utterly non-significant. There is no correlation between the political orientation of the government of the day and the levels of foreign aid it provides *relative to other governments*. Left-wing governments in country Y do not systematically spend more on development than right-wing governments in country Z.

Table 4.2. **Political correlates of development policy**

Table 1.	**Table 2. 1980**	**Table 3. 2000**
Table 4. Left-right orientation	Table 5. .00 (.07)	Table 6. .03 (.06)
Table 7.	Table 8. R^2: 0.00	Table 9. R^2: 0.02
Table 10. "Nordic" dummy	Table 11. .33 (.13)	Table 12. .41 (.11)
Table 13.	Table 14. R^2 : .26	Table 15. R^2 : .39

Source: For left-right orientation, see Beck, T. *et al.* (2001), "New Tools in Comparative Political Economy: The Database of Political Institutions", *World Bank Economic Review*, 15: 1, pp. 165-176, September, www.worldbank.org, accessed 23 February 2005.

This leads, naturally, to a second question: do levels of aid change significantly *within* countries when governments switch from a left-wing to right-wing orientation or vice versa? To examine this question, we have taken time series data on OECD member governments from 1980-2000 and regressed the changes in aid spending against the changes in government. Again, the relationship is non-significant for each country. For example, countries with relatively frequent changes of government, including Denmark, Finland and France, show no correlation between these changes and their levels of spending on foreign aid.

In fact, that finding is also consistent with Therien and Noel, who go on to argue that it is not the immediate party-orientation of the government of the day that determines aid spending; rather it is the *persistence* of a particular orientation over long periods of time. What this means is that some countries seem to have more of, say, a "social-democratic" political-economic orientation, while others have more of a "free market" orientation, no matter the party that is in power at any particular moment. That orientation manifests itself visibly, for example in a country's commitment to domestic income redistribution; thus, some OECD member governments are much more redistributive than others. As a consequence of these long-run political-economic differences, the "right-wing" government of, say, a Nordic country, is likely to maintain a commitment to that country's particular social institutions and arrangements, such as relatively high levels of income redistribution, even though it may have significant policy differences with its "left-wing" counterparts with respect to the role of the private sector in the economy, the generosity and duration of welfare state payments, and so forth. What Therien and Noel find is that when the persistence of a particular political-economic orientation (*e.g.* high levels of income redistribution and social spending *versus* low levels) is taken into account, the effects on foreign aid spending become much more powerful.

We have attempted to update and further specify their results (they paired 1980 and 1990; we pair 1980 and 2000) by regressing aid as a share of GNI against a "Nordic" variable, which seems a convenient proxy for relatively high levels of income redistribution, with the results again reported in Table 4.2. As we can see, the correlation is fairly significant; Nordic countries, which tend to have high levels of domestic income redistribution, seem to provide more aid than their non-Nordic counterparts.[8] The question that we must now ask is *why is that the case*? Why is there a "Nordic difference" when it comes to aid spending?

There is, of course, substantial literature in political science that has emphasised the distinctive nature of the social compact in Nordic societies, and their dedication to "humanitarian values" (Esping-Andersen, 1990). Still, why it is that voters choose or endorse these high levels of domestic income redistribution and foreign aid (which might be seen as the international corollary of domestic redistribution) remains an important topic for further research.

A recent body of literature, drawn from economics, may help to provide an answer. This literature is motivated by the apparent "puzzle" of unrequited transfers. As Mayer and Raimondos-Moller (2003) remind us, "a country that chooses its economic policies with the objective of maximising social welfare would never wish to become a foreign-aid donor". That is because foreign aid can be seen as a collective good. If one country provides it, then others would naturally wish to free ride. But such free-riding behaviour is more limited than one would predict. The question that naturally follows is *why, then, do these transfers occur*?

Mayer and Raimondos-Moller try to provide a theoretical response by building a political economy model which rests heavily on the median voter theorem, or the notion that government policies will closely reflect the preferences of an electorate's swing voters. They assert that:

> Foreign aid, as any actual economic policy choice, is determined through a political process in which all participants pursue their self-interest rather than … the objective of maximising a country's overall welfare. The political process can result in foreign aid giving if at least some people benefit from the country's role as a donor. … At issue, therefore, is whether the giving of aid to foreign residents can benefit some segments of the domestic population and whether the political process enables these

> winners to impose their will on the rest of society. (Mayer and Raimondos-Moller, 2003)

At first glance, this model does not seem to explain the actual patterns of aid among DAC member governments. For example, Mayer and Raimondos-Moller suggest that countries which are large exporters of food and weapons to developing countries would have a particularly strong interest in foreign aid (to help countries pay for these imports). Essentially, the owners of gun and butter assets would lobby governments to provide foreign aid, and the more heavily implicated the median voter is in producing these goods, the higher the levels of foreign aid they would support. If the model of Mayer and Raimondos-Moller provided an accurate reflection of DAC flows, we would expect France, United Kingdom and the United States – all significant arms exporters – to be much more generous in the amounts of aid they provide.

But the largest food and weapons exporter in the world is the United States, which ironically gives the smallest amount of aid of any DAC member as a percentage of GNI. To be sure, one could argue that these (among other) countries would provide even *less* development assistance than they do now, were it not for the presence of vested interests that lobby their governments for foreign aid. Testing that proposition empirically, however, is extremely difficult.

On the other hand, the median voter theorem suggests an intriguing hypothesis, which we will label **H3,** in terms of the policy coherence for the development agenda: *namely, the higher the share of foreign aid as a percentage of GNI, the greater the median voter's interest in government spending on aid*. In other words, even if we accept that development assistance arises for a multiplicity of reasons, only one of which is a direct reflection of median voter preferences (those preferences may not have a one-to-one relationship with government policy due to intervening variables like government and bureaucratic structure, which "shield" public officials to some extent from median voter preferences), the median voter may still demand accountability for the use of his or her taxes when it comes to election time (or to put this in other words, politicians will be more likely to exploit aid as an electoral "issue" the higher the level of spending). Governments that pursue incoherent policies will have a more difficult time persuading the median voter that their tax monies are being well spent, and for that reason we might expect to see a correlation between high levels of development assistance and a policy coherence agenda (again, to put this in other words, opposition politicians will be more likely to attack "ineffective" aid spending in countries where the amounts are relatively high).

Alternatively, one could argue that the median voter in Nordic countries has certain ideas about the relationship between income redistribution and political stability which heavily influence foreign policy in general and foreign aid in particular. For example, it is commonly held in the political economy literature that high levels of income inequality are more likely to breed political instability and conflict (Kapstein, 1999). If the median Nordic voter believes this to be the case, he or she might vote not only for higher levels of redistribution at home, but for higher levels of foreign aid as well.

To summarise the literature on the political correlates of development assistance, the strongest correlation that we can observe appears to be between Nordic countries and levels of foreign aid flows. *Why* these countries (along with the Netherlands) give so much aid remains, however, a puzzle that has not been fully solved. One intriguing explanation is found in their domestic levels of income redistribution (similarly high levels are found in the Netherlands). This raises the question of whether a domestic commitment to income redistribution finds its outward expression in the advancement of a world that is also more equitable. Further, we have suggested that countries which spend relatively large amounts on foreign aid will also have the highest commitment to the policy coherence agenda, perhaps because the median voter in these countries (or politicians seeking their votes) will have a heightened concern regarding the tax monies spent for that purpose.

Conclusions

This chapter has examined some of the political correlates associated with DAC member governments' commitment – or lack thereof – to coherent development policies. Using the available data it has found relatively strong support for the hypothesis that countries with high levels of income distribution tend to give more foreign assistance as a share of GNI than more market-oriented economies, and it appears that these countries also demonstrate a relatively strong interest in promoting the policy coherence agenda.

To be sure, it is likely that there is something beyond the preferences of voters that is reflected in the development policies of DAC member governments. After all, modern democracies have created formidable political institutions which provide some degree of autonomy in policy formation and execution. Further, a host of special interest groups invade domestic political-economic arrangements in an effort to seek rents from the system, which are then paid for by society at large. These and other political and ideological forces must be incorporated into a deeper understanding of the political correlates of development policy and the demand for greater policy coherence.

As we pursue the politics of policy coherence, it will be both useful and necessary to develop more sophisticated quantitative definitions and measures of policy coherence – not to mention a more specific set of policy guidelines. Are free flows of capital and trade necessarily associated with an agenda that focuses on poverty reduction? What migration policies would promote the poverty-reduction objective? These and many other substantive questions need far more analysis than they have received to date.

In terms of quantifying policy coherence, we have also observed in Table 4.1 a disjunction in several cases between the "quantitative evidence" or rankings in terms of aid and trade scores *versus* the qualitative comments made by DAC examiners with respect to national development policies and programmes. Thus, several countries that have relatively low aid and trade scores nonetheless receive high marks for their efforts to promote the policy coherence agenda.

The politics and the policies of coherence for development thus remain relatively little understood. The objective of this chapter has been to review the academic literature that would appear to illuminate some of the key issues at stake, including the influence of government type and political orientation on development policy. If DAC members are to embrace the policy coherence agenda, they will need to have a clearer understanding of what coherence means and how it can be advanced within the context of their particular political-economic institutions and arrangements.

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NOTES

1. Ethan Kapstein is Paul Dubrule Professor of Sustainable Development, INSEAD. It should be noted that the opinions expressed and arguments employed in this chapter are the sole responsibility of the author and do not necessarily reflect those of the OECD or of the governments of its member countries.
2. The *Commitment to Development Index* may be found at www.cgdev.org, accessed 23 February 2005.
3. This is not to deny the importance of migration and environmental policies for development. It is simply to assert that if OECD countries wish to have an influence on the growth prospects of developing countries, then trade and aid policies are likely to be most decisive over a policy relevant time horizon.
4. It should be emphasised that some of these reviews are now several years old and one would expect national approaches to policy coherence to have evolved since they were written.
5. It should be noted that the Center for Global Development also seeks to assess the "quality" of aid as well as the quantity in this ranking.
6. Sara Dahlsten of OECD also points out that the United States provides significant amounts of development assistance through private charities and foundations, which is generally not the case among other OECD/DAC member country governments.
7. We have not tested certain hypotheses, for example whether parliamentary type matters, for the simple reason that the vast majority of DAC member governments have parliamentary systems based on proportional representation. In order to test patterns of aid spending against types of political-economic arrangement, one has to see where there is significant variance, so that changes in aid can be tested against some key variables that appear to differ across governments.
8. The robustness of the result, labeled R2 in the Table, is weakened somewhat due to the fact that Finland provides aid at below DAC-average levels, while the Netherlands, which is not counted as a Nordic country in the regression analysis, spends high above the DAC average.

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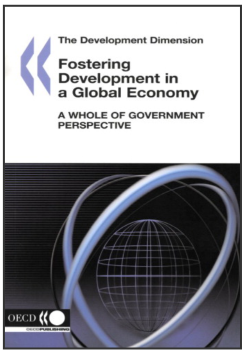
The Development Dimension
Fostering Development in a Global Economy
A WHOLE OF GOVERNMENT PERSPECTIVE
OECD