Real Incentives for Real Reform

Inducing Meaningful Institutional Change in Developing Economies

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Between 1995 and 2009, more than $1.4 trillion (in 2008 U.S dollars) was spent on official development assistance (Organization for Economic Cooperation and Development [OECD] n.d.). This sum represents an enormous commitment on the part of the developed world to the promotion of economic growth in the less well-off parts of the world. One of the overriding themes at the G-8 meetings in the summer of 2005 was the necessity of increasing this commitment. The funds are not coming solely from public coffers. A number of private charities make donations that dwarf many governments' contributions.

Considerable debate continues to rage over this money's effectiveness, but aid to date clearly has not accomplished the goals originally envisioned, and several in-depth studies detail aid's failures as well as a host of unintended consequences of present aid programs.[1] There is even evidence that aid has retarded or arrested reform in some countries (Coyne and Ryan 2009).

In this article, I argue that a straightforward and effective aid program can be constructed. This program rests on four fundamental propositions:

1. The developed world has made a substantial commitment to encouraging economic growth in the developing world.

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1. See, for example, Wedel 1998 and Easterly 2001, 2006.

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2. The fundamental causes of economic growth are reasonably well understood (De Soto 2000; Acemoglu, Johnson, and Robinson 2004; North 2005). An institutional framework that creates and protects property rights and limits government expropriation lies at the heart of economic growth.
3. Well-developed measures of these institutions—such as the Fraser Index of Economic Freedom of the World (EFW Index), the Heritage Index of Economic Freedom, and the International Country Risk Guide—provide independent, relatively unbiased estimates of the quality of a country's overall institutional framework.
4. People respond to incentives. In developing countries, self-interested rulers have far greater knowledge of their country's institutions and ways of changing those institutions than outsiders do.

Therefore, I propose the following thought experiment: imagine a fund created to provide an annual prize to the five best leaders in poorer countries. The best would be selected based on the countries that have made the largest jump in the EFW Index. This prize ideally would be funded privately and would be given to rulers directly, regardless of their democratic credentials and without conditions as to what they do with the money. In the following sections, I develop more completely the arguments for such a prize and provide details about its operation.

Institutions

Public-choice theory recognizes that political actors are not altruists. Although some may have altruistic tendencies, they are rational actors, like the butcher and the baker. This insight revolutionized how politicians and political life are evaluated. It has not, however, been fully embraced by development organizations or in thinking about poor countries and institutional change. Only by accepting this fact can meaningful progress be made in thinking about economic development.

Many writings emphasize the importance of institutions.[2] All present strong evidence—empirical, analytical, and narrative—that what matters and has mattered for countries' economic growth is institutions. In other words, the countries that have good institutional structures, those that discover ways of structurally encouraging profitable and productive economic activity, generate greater wealth than do the countries that lack such institutions.

Institutions—"the rules of the game in a society . . . the humanly devised constraints that shape human interaction" (North 1990, 3)—are endogenous to a country. Although they are themselves shaped by a host of factors (including societal structure, norms and mores, religious principles, geographic and climatic conditions,

2. These writings include the academic—such as Olson 1982, 2000; North 1990, 2005; Easterly 2001, 2006; Easterly and Levine 2003; and Acemoglu, Johnson, and Robinson 2004—as well as the more quotidian, including numerous articles in *The Economist* and the *Wall Street Journal.*

and available resources), their root source lies in the actions of a country's individual residents. All nations' institutional structures change as a result of their citizens' actions and evolve in different ways. Because all of the factors just noted and others cited in the literature of economics are largely unchangeable conditions, they, along with colonial history, may be viewed as an initial endowment. Although there is some evidence that a particular initial endowment increases the likelihood of good institutions, one thing is certain: a nation's populace determines the nation's institutional structure through the choices it makes.

Many rulers have overseen the implementation of positive reforms and productive institutional evolution. George Washington refused a third term when popular opinion was firmly behind him, instituting a practice of a two-term (at most) presidency, which was finally broken only by Franklin D. Roosevelt in the mid–twentieth century. Jerry Rawlings of Ghana was a despot with a brutal track record, but he eventually oversaw an effective and open handover to elected rule. Many turning points throughout the evolution of nations' institutions clearly show that benevolent rulers can play an important role. However, usually "those who benefit from the existing set of institutions are forced to accept change" rather than being altruistic actors (Acemoglu, Johnson, and Robinson 2004, 80).

Whether successful reform requires exceptional leaders is, however, not my concern here. Suffice it to say that change can and often does occur without such exceptional people. Exceptional leaders sometimes clearly have spearheaded reform and accelerated or catalyzed the process. However, in other cases, reform succeeded without an enlightened despot's pulling the strings. Although exceptional people do appear occasionally, my argument relies instead on average, unexceptional individuals in a position of political power.

Daron Acemoglu, Simon Johnson, and James Robinson (2004) argue that the problem in carrying out effective institutional change is not one of irrational actors. Rather, it is difficult to contract effectively for positive institutional change. Because those in power cannot capture a portion of the resultant rents, they have little incentive to risk a present position of wealth and power for an uncertain and possibly lower financial future yield or social status. In short, rulers face a contracting problem. The side payments—the amounts that the rulers capture by bringing about institutional change—are simply not great enough. A ruler confronts this obstacle: even if he is a caring human being, productive institutional change may leave him and those close to him worse off. Douglass North, John Wallis, and Barry Weingast (2009) express this reality when they point out that any change in institutions must be incentive compatible for those in a position to foster or hinder such change.

In order to foster positive institutional evolution and thereby economic growth effectively, development assistance must change the incentives of a country's elites. This reality and the failure to incorporate it in most development programs explain in large part why such programs have systematically come to naught.

If what is funded is important, the way in which it is funded is equally important. Michael Kremer (2002) highlights the overreliance of development efforts and international organizations on push techniques in the market for health care. Funding the inputs to research and development often results in unintended consequences. He emphasizes the possible effectiveness of pull techniques that reward the final provision of a drug that meets certain criteria (one targeted at a disease endemic to poor areas or combination therapies that mitigate the risk of drug resistance, for example), and he asserts that a guaranteed profitable market for a product will increase the supply.

The most notable recent example of the effectiveness of pull techniques is the Ansari X prize for private spaceflight. The objective was to encourage the creation of genuine alternatives to government provision of spaceflight and a rapid leap in thinking and available technology. After only eight years, the prize was given. The recipients spent at least twice the value of the prize in the process of winning, but the prize had a significant effect in concentrating attention and encouraging innovation. It significantly stimulated the desired outcome without specifying or even knowing how it was to be brought about.

Giving a reward for outcomes (a pull technique) overcomes collective-action problems by introducing an exogenous payoff, thereby solving the problem of insufficient side payments pointed out by Acemoglu, Johnson, and Robinson (2004).[3] To date, however, nearly all aid efforts have involved push strategies, funding the perceived inputs of growth.

It is clear, as evidenced by the great differences in wealth around the world, that some countries have managed to overcome the collective-action problems associated with positive institutional change. Development efforts must focus on ways to replicate these endogenous changes. However, no two countries have followed identical paths in improving their institutions. Although we know what the end state looks like, we do not and never will have a clear roadmap of how to get there. A one-size-fits-all approach, the micromanagement and central planning historically typical of development organizations, will continue to yield disappointing results. Instead, what is needed are ways to encourage innovation and experimentation.[4]

A successful aid program therefore must do three things: make reform incentive compatible for elites; overcome the knowledge problem inherent in selecting which reforms to implement; and fund outcomes rather than inputs.

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3. Pull techniques have a weakness in that the relevant product must be identified and specified in advance of production. This weakness does not hamstring the usefulness of pull strategies in creating incentives for institutional evolution because it is possible to clarify and describe the type of evolution and development to be rewarded.

4. Sharun Mukand and Dani Rodrik argue that "appropriate policies and institutional arrangements have a large element of specificity, and experimentation is required to discover what works locally" (2005, 374–75).

The Framework

We know that institutions matter. We also know that institutional structures are one of the few determinants of a nation's success that are amenable to proactive change and intervention. We know some of the steps necessary to affect institutional change positively,[5] and we can measure the outcomes reliably. We know that successful reform is endogenous and that the necessary steps are unique to each country. We know that increasing the reward for a certain behavior will elicit more of it. How then can we reward the entrepreneurs of positive institutional change?

Prior identification of such local entrepreneurs is difficult. However, one can overcome this knowledge problem: designate a residual claimant for positive reform, someone who can meaningfully encourage institutions that "provide security of property rights and relatively equal access to economic resources to a broad cross-section of society" (Acemoglu, Johnson, and Robinson 2004, 9).

This residual claimant should not simply be selected at random, however. For greatest effect, the residual claimant should be part of that elite whose incentives we seek to shift. The clearest and lowest-cost individual to designate is the country's ruler. Rulers are certainly members of the elite: they know enough about local conditions and power bases to grasp and retain the reins of power. Rulers may not be the actual authors of change, but rewarding them for results will induce them to locate, encourage, and compensate those who can bring about appropriate reform.

In order for payment for performance to be effective, there must be a meaningful, reliable measure of outcomes. Although we do not have a clear idea of the unique individual steps that need to be taken to achieve the desired outcomes, we do have a measure of the outcomes themselves in the indices of institutional quality.

Putting these pieces together, a fund should be established to pay each year the rulers of the countries that move up the largest number of places in the EFW Index.[6]

Such a system would guarantee countries' rulers an outside award and take the place of side payments. It would also mean that rulers, in competition for such a reward, would be engaged in a race to the top rather than to the bottom. The main impact would be to lower the costs of positive governance, a feat not yet achieved by the World Bank through its conditionality—defined as "the conditions attached to funds disbursed by international finance institutions" and "policy based lending" (Koeberle 2005, 57). As Christopher Coyne and Matt Ryan (2009) point out, the current aid system actually rewards many of the worst and most brutal despots around the world rather than penalizing them in any way. Thus, aid as it currently exists provides incentives for rulers to fight off reform and to quash institutional improvements.

5. For a useful road map, see Sautet 2005.

6. One might use one of the other indices discussed in the introduction. However, the International Country Risk Guide is proprietary, and therefore one does know what its components are. The Fraser EFW Index is based more on hard data and less on subjective perceptions than the Heritage Index of Economic Freedom; hence, it has the advantage of being less subject to charges of bias.

A transparent award would substitute legitimate rents—the prize—for the illegitimate variety of corruption and theft currently rife in aid programs and conditionality. Under such an arrangement,

1. Five annual prizes of $50 million each would be awarded.
2. The criterion to win a prize would be derived from the Fraser EFW Index, and the prize would be given directly to the five current rulers of the countries that moved up the greatest number of places in the index.
3. The prize would be given to the country's ruler over three years: $25 million in the first year, $15 million in the second year, and $10 million in the third year.
4. A ruler would receive the second and third payments only if his country maintained its score (*not* ranking) from the initial year of the award.
5. The prize would have no conditions attached as to the form of governance in the country that wins it or what may be done with the money.
6. Private donors would fund and administer the prize.

Point 1: Five prizes of $50 million each would be awarded. The total prize amount needs to be large enough to matter to rulers. Some rulers who carry out positive reforms may be ousted shortly afterward because they must alter political institutions in order to change economic and social institutions. Other rulers will need to buy off special interests because they are doubtless not the only ones who benefit from the current state of affairs. Rulers may need to distribute some of the increased payment to certain constituents. In general, however, the idea is simple: we know that increasing the reward for a behavior increases the behavior's frequency. Incentives matter. This experiment is an exercise in acting at the margin.

The desired outcomes are to reward the best of the best and to encourage competition between rulers. What will not work is to reward absolutely any improvement in any country, which would lead to rulers' improving as little as possible while still reaping the reward. This sort of incentive is embedded in the current state of affairs in attempts at conditional lending. Although under the program proposed here rulers probably would still make the smallest changes they can, the number and magnitude of such changes necessary to win will dramatically increase as countries compete with each other. The imposition of clearly delineated scarcity in the award system is essential to encourage innovation and spur more rapid change.[7]

Point 2: The criterion to win a prize would be derived from the Fraser EFW Index. The prize would be given directly to the current rulers of the five countries that move up the greatest number of places in the index.[8]

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7. In addition to the financial reward, there is prestige value in being singled out for recognition. It is important to recognize that prestige matters and commands its own price. In order to leverage the financial outlay optimally, the award should be made at a suitably grand banquet with all possible pomp. To be publicized as one of the five best rulers of a given year gives a significant fillip to a status-conscious leader and acts as a powerful complement to a financial prize.

8. Because the goal of the program is to improve the well-being of the poor in the developing economies, we might limit the prize to countries starting in the bottom three or four quintiles. However, it may well be

> The [Fraser] index measures the degree of economic freedom present in five major areas:
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> 1. Size of Government: Expenditures, Taxes, and Enterprises
> 2. Legal Structure and Security of Property Rights
> 3. Access to Sound Money
> 4. Freedom to Trade Internationally
> 5. Regulation of Credit, Labor, and Business. (Gwartney, Hall, and Lawson 2010)

As a basis for evaluation of institutional quality, it is easiest to use an established indicator or indicators, such as the Fraser index. This index clearly specifies the criteria for such evaluation (rankings), and it is drawn from numerous data sources. The authors state forthrightly that the index is a work in progress; they are continually seeking new and better ways to quantify institutional quality. A careful examination of each of the criteria used reveals that what is measured makes it difficult to institute short-term leaps up the index rankings without making changes that would take significant time to reverse.

Economic Freedom of the World: 2010 Report (Gwartney, Hall, and Lawson 2010) includes a wealth of evidence that the index is highly correlated positively with improvements in life expectancy, economic growth, income per capita, income of the poorest 10 percent, adult literacy, access to improved water sources, human development, and political rights and civil liberties. It is also highly correlated negatively with infant mortality, percentage of children in the labor force, and corruption. The evidence shows that the index tracks institutional changes well. Improvement in a country's Fraser ranking is also strongly correlated with improvements in the quality of life for the poorest in developing countries (Norton 1998). Thus, it is clear that although an improvement in a country's ranking results in the rich getting richer, it also signifies positive improvements for the poor.

A further reason for relying on the EFW Index rather than the other indices is that it has an established record and is the Fraser Institute's primary product. It is therefore less likely to be adjusted to reflect any particular ideological position. In addition, all of the underlying data are made available to the public.

Point 3: The prize would be given directly to the current ruler of a country over three years: $25 million in the first year, $15 million in the second year, and $10 million in the third year. The prize would be paid directly to the ruler because a large barrier to successful outside intervention is a lack of both depth and breadth of specific knowledge. The direct, unconditional award of money to the country's ruler alleviates

that only the countries in the bottom half of the EFW Index would find it easy to make substantial jumps in their ranking, so even a prize that was available to all countries would most likely be won by countries starting from lower positions. However, a rule that a country and national ruler would be able to win the prize anew each year until that country is deemed to have made it into the category of "economically free" would mitigate concerns that the prize will not help those with very low incomes.

this problem. Rulers clearly have a more complete picture of their country's institutional environment than outside observers do. This knowledge doubtless played a part in how they gained their current position. They know the centers of power in their country, and they are best placed to discover who might be enlisted at least cost and greatest benefit in the search for progress.

They also know better than development workers where their country's comparative advantage in institutional innovation lies or know most about where to find such information. They therefore know more about what their country can do at the least cost to move up the rankings and improve the institutions that lead to prosperity and increased opportunity—in other words, how to get the biggest bang for their buck—or at least they know far more about these things than do outside observers (Mukand and Rodrik 2005).

"Prosperity happens when all the players in the development game have the right incentives" (Easterly 2001, 289). The rulers are best situated not only to be advocates for good incentives, but also to implement policies that create those incentives. It is they who need to be either deposed or co-opted; therefore, they are best placed to turn their institutional entrepreneurship toward productive ends instead of safeguarding what they already have. Ensuring that such people face the right incentives when making decisions about which actions to take can make a powerful difference.

*Point 4: A ruler would receive the second and third payments only if his country maintained its score (*not *ranking) from the initial year of the award*. The second part of point 3 and the entirety of point 4 are included to allay or at least to mitigate another concern—backsliding by countries that have made strides in improving their institutional quality. At present, countries are as likely to move backward as they are to move forward. Disbursal of the award over three years and the prospect of winning repeatedly will increase the incentives for rulers to continue to innovate and for their successors to maintain institutional improvements.

Point 5: The prize would have no conditions attached as to the form of governance in the country that wins it or what may be done with the money. Whether a ruler came to power through democratic elections or military force, what matters is the present. One wants existing rulers to institute better policies in their countries. Policies that disadvantage entrenched elites require concerted political will to institute. Concentrated political power can make it more likely that this will can be mustered. Concentrated power is seldom used for productive change. In fact, as the recent cases of Venezuela and Zimbabwe illustrate, it is often used for ill. However, in both of these cases a sizable reward for different policies might shift the balance for Hugo Chavez or Robert Mugabe. Because concentrated power can be used for both constructive and destructive ends, and because the prize is designed to create incentives for the constructive variety, it is best to leave the question of political form to the ruler and his constituency.

Moreover, the criterion for receiving the prize needs to be straightforward and should represent measurable improvements in governance. It is best not to complicate the criterion with additional, hard-to-measure elements such as the degree or quality of democratic institutions.[9]

Point 6: Private donors would fund the prize. If the program is run through an agency such as the World Bank, considerable pressure will be brought to alter the criterion when a favorite country (probably one receiving large amounts of official aid) does not receive the prize. The staff necessary to assist the countries in "setting the conditions for institutional change" would inexorably grow. In contrast, a private fund need do no in-country work. No bureaucracy need provide technical assistance or other forms of advice as to how to maximize the odds of receiving the prize. Each country would be left entirely to its own devices as to how it would go about trying to improve its institutions.

If this condition appears unrealistic, consider the size of concentrated private giving over the past decade. In 2009, private philanthropic giving from OECD countries to developing countries exceeded $52 billion (Adelman 2011). The most notable and probably largest donor has been the Bill & Melinda Gates Foundation, which has overseen the distribution of more than $25 billion since 1994 and made grants of $2.6 billion in 2010 alone (Bill & Melinda Gates Foundation 2011). My proposal would require $250 million, or less than one-half of one percent of private giving. It should be feasible (although not easy) to find the funds for this endeavor from private sources.

Consequences

I now consider some of the proposed framework's possible consequences. Some are tractable; others are no worse than the status quo; and still others are worth the cost:

1. Backsliding
2. Coups d'état
3. Identifying the recipient (Who is the ruler?)
4. Equity
5. Gaming the system
6. False reporting
7. Lack of popular support for reform

Backsliding

Backsliding is common in reforming countries. Indeed, it seems highly likely that a country will squander hard-won institutional quality when certain groups feel the

9. This issue has been a major problem for the Ibrahim Prize, which is restricted to democratically elected African rulers. The prize has been given only three times in the five years since its inception.

pinch. One critique of my proposed framework might be that there is little guarantee that recipient countries will not merely fall back to their old ways.

However, this program would certainly not make the situation any worse. The multiperiod structure would lead to greater incentive for reform and change in successive years as the total amount on the table for a country grows, and it would also ensure that a ruler would have an incentive to continue the policies initiated by a predecessor. However, such a structure, although helping to solve one problem, would raise the likelihood of another: stretching the prize out over time increases the incentive to depose a ruler.[10]

Coups d'État

It is possible that these incentives might foster coups d'état in some countries. Sudden changes can be a force for positive or negative reactions. A coup or revolution may depose thoroughly rotten rulers and replace them with more moderate forces, but it may also bring less savory characters into power. Political changes of all sorts—violent or bloodless, despotic or democratic—occur regularly all over the world.

To increase the likelihood that those who take over have better reasons to govern productively would be a monumental achievement. Contrary to most current incidents of political change outside of constitutional structures, this outcome would have a positive impact, akin to the takeover of a corporation. Either the incentives provided by the prize will lead to the solution of the collective-action problems (as in a shareholder-based takeover), or an individual or a small group will believe that he or they can run the country better and thus claim the prize (a hostile takeover).

The only way that the prize will increase the likelihood of a general increase in coups is if those out of power and seeking to acquire it believe that they can manage the country more productively or can be more powerful and effective advocates and entrepreneurs for productive change. Thus, my proposed plan will result in competition not merely between countries, but also within them—and of the sort that leads to the creation of rents, not their dissipation.

There is an additional concern, however. If indeed the prize were awarded over three years, the fund would seem to increase the incentive for nonproductive seizure of power after the initial award is made, with the implicit guarantee of significant cash flow in the following years. This situation might cool the initial drive to reform. One can avoid this problem by not giving the prize to new rulers who take over in the middle of the prize process.

Even if we do not place such limits on who can receive the prize, we have two reasons to be optimistic about its impact.

10. In addition, a substantial move up in the rankings involves quite dramatic institutional reforms that grant greater economic freedom to individuals. It would be difficult even for a dictator to reduce those freedoms.

First, unless the coup were carried out so as to not disturb any of the criteria measured in the EFW Index, the guaranteed funds would disappear as the country's score fell.[11] In fact, instead of having a chaos-inducing effect, the prize would provide incentives to discover less tumultuous means of grabbing power, thus fostering a move toward more stable governance.

Second, anyone who replaces the previous ruler will have an incentive to continue the previous policies in order to increase his personal wealth. We must remember that the larger goal of this prize is to improve the general entrepreneurial environment in a country, not to look out for rulers. The only concern that has real bearing is whether the prize makes new rulers initially less likely to reform—a doubtful but acceptable risk.

Identifying the Ruler

In totalitarian regimes, it is clear who should receive the reward. However, in democracies or pseudo-democracies it may be more difficult to decide who should be the prize recipient. I suggest that the chief government official—be that the president, prime minister, or person of some other title—receive the payment. In democracies, political reality may necessitate that the ruler contract ahead of time with a congress or parliament to use the prize money in a certain way, either sharing it with other elected officials or using it for specific public-works programs. This matter, however, can be left to the individuals concerned.

Equity

The leader may be neither the most meritorious individual nor the one who has had the most to do with positive reform. However, the objection that someone who is not the most deserving may receive the prize should not stand in the way of a program that can make a significant difference for the poor and disfranchised. The proposed framework offers a way of bringing about significant change for the world's poorest people. If unpleasant or downright nasty people benefit in the process, that outcome is a small price to pay.

Although it is a mistake to view the political leadership as a monolithic entity (Bates 1999), rulers are the most visible and clearly identifiable individuals who have a large impact on their countries' institutional structure. As such, they are the ones best positioned to solve the collective-action problems of institutional provision.

Neither a president nor a king has complete control, and it often will be impossible to reward directly those who carry out the change. However, designating the ruler as residual claimant gives him an incentive to oversee and stimulate the desired

11. In cases of particular tumult, a country is dropped from the EFW Index altogether until data from that country again become reliable or available.

change rather than to oppose it. Rulers are also in a much better position than aid workers to overcome the knowledge problem, and they can create their own incentives for the most deserving parties.

This framework is a method of unleashing the creative force of the competitive market and encouraging positive improvement in the institutional environment. Rulers who win will in all probability be forced to provide good incentives for others in their countries and will themselves have powerful incentives to locate the people who are best suited to shift the system in a positive way. It is not necessary for outsiders to know who these people are. It is merely necessary to designate a residual claimant and provide incentives for him to find them.

Gaming the System

This objection has more to do with current aid regimes than with the proposed structure. The idea that a ruler might make positive improvements in one year in order to receive the prize but then rescind them the next and so shuffle between recipient and recalcitrant is certainly a problem for the current system and is largely the outgrowth of individualized rewards devoid of competition and the lack of clear, measurable criteria as to what counts as an institutional improvement. Rather than rewarding any country that makes *some* positive change, the prize would reward only those who made the largest strides and would spread out disbursement of the prize money so that cycling becomes less attractive. Those who gamble on small and easily revocable reforms are likely to be disappointed. Thus, even in the most pessimistic view, this prize program can do no worse than the current aid regime.[12]

False Reporting

This issue is closely related to the previous point, and, again, it is difficult to do worse than existing aid systems. The contention that a ruler would have an incentive to falsify at lower expense the data relevant for the rankings rather than to engage in the expensive process of reform is telling. Such falsification is indeed likely to happen—or, rather, to continue. This problem is a serious obstacle to all attempts to intervene in poor economies. Current aid programs constantly encounter false or altered accounting.

The independence of the index to be used, however, sets this framework apart and helps to ensure that the data receive constant scrutiny. The EFW Index is an attempt to use easily reportable, verifiable numbers from multiple sources. It does not entirely succeed in this effort, but it is certainly better than most available alternatives, and when the index authors believe a country's data are not sufficiently reliable, they

12. The system is also less likely to be manipulated if the prize money is raised privately and is not tied to maintaining the sinecures of in-country bureaucrats.

simply exclude the country from that year's index. Moreover, the organization producing these measures has reputational capital at stake in ensuring that its measures track positive change.

An additional benefit of using the EFW Index is that it is established and readily accessible to rulers who wish to know how they are being evaluated. Being straightforward and understandable, it represents criteria not subject to alteration by either the donors of the prize or the recipients. In contrast, World Bank conditionality has been subject to continuing renegotiation by both parties to the agreement.

Lack of Popular Support

Most, if not all, long-lasting change is internally motivated. The idea that my proposal assumes outside intervention regardless of popular opinion is true in the general sense, but not in the specific. In part, this proposal aims at decreasing one side of the two-sided obstacle to change. The two sides are the lack of an incentive for positive change on the part of those in charge and the collective-action problems of organizing for positive change on the part of the beneficiaries. Some individuals, almost certainly the majority, would benefit from reform. Once again, if they cannot organize themselves in a more conducive environment, reform may not last. The removal or reduction of one side of the equation provides only an opportunity, not a certainty.

The Impact

Under my proposed alternative to the current system of aid, we would unleash the creative force and coordinating power of entrepreneurs and markets instead of acting as outside central planners—however benevolent—attempting to impose effective governance. Although, as Acemoglu, Johnson, and Robinson (2004) assert, it is impossible to contract effectively for positive regime change internally, it is certainly possible to lower the cost and to raise the benefit of doing so to a ruler who advocates change. Increasing a behavior's payoff results in more of that behavior, and pull strategies should be used at least to augment and perhaps to replace altogether the current push strategies.

The World Bank spent more than $9 billion on programs related to governance in 2010 (Independent Evaluation Group 2011). In 2007, the bank established its "Strengthening World Bank Group Engagement on Governance and Anticorruption" strategy in an attempt to incorporate good governance as a criterion for all lending. However, despite this sharpened focus, the attempt has failed miserably. The World Bank's evaluation arm, the Independent Evaluation Group, states: "The evaluation's desk reviews and case studies showed that the Bank's record in helping to achieve countrywide governance improvements was limited" (2011).

The failure of these attempts to manage reforms directly should cause us to rethink our approach, but not to despair. It is, thankfully, not necessary to know how institutional change occurs. All that is needed is an application of basic economic theory: increasing a behavior's reward increases that behavior's frequency.

The proposed prize would require an outlay of $50 million each year plus minor administrative costs. This sum is hardly insignificant. However, when compared with the $20.1 billion the World Bank spent in 2004 aid (World Bank 2004) and the $9 billion in 2010, it is a trifle for something that might have dramatic effects. This prize, when tied to improvements shown to have a clear correlation with economic growth and a better quality of life for the poorest, would encourage innovation and rent-creating leadership.

Conclusion

Economic growth and the improvement of the lives of millions are goals worthy of our attention. The current aid effort is driven, at least on the surface, by laudable goals. However, existing methods of implementation lack an important weapon in their arsenal. The constant attempt by private donors and public organizations to find the next magic solution is doomed to failure. Aid organizations' tendency toward central planning is regrettable. One-size-fits-all, command-and-control solutions should be shunned. We must find ways to stimulate institutional innovation that comport with human nature rather than strive against it.

When this approach is more widely followed by means of programs based on dynamically oriented paradigms that embrace human proclivities, the laudable goals of development assistance will become more achievable, the poor will be freer to pursue their own ends, and the stage will be set for them to take control of their own institutional structures.

To substitute legitimate rent capture by rulers (the prize) for the rents they are either unable to capture (those that result from positive behavior) or those that are illegitimate (in the form of aid theft) is a meaningful step in this direction. Whether rulers use the prize money to fund their next election, to buy off the interests opposed to change, or to plan their retirement, the market's creative forces and local actors' specific knowledge will be aligned to "provide security of property rights and relatively equal access to economic resources to a broad cross-section of society" (Acemoglu, Johnson, and Robinson 2004, 9) and will yield the outcomes for the poor that conventional aid programs have persistently failed to achieve.

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