

**JOHNS HOPKINS SCHOOL OF ADVANCED  
INTERNATIONAL STUDIES (SAIS)**

**THE ROLE OF EXTERNAL ACTORS**

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**WEDNESDAY, MARCH 24, 2010**

**3:15 P.M.**

**WASHINGTON, D.C.**

*Transcript by  
Federal News Service  
Washington, D.C.*

LARRY DIAMOND: Okay, well, my experience is if you just start talking, people will start listening. So I'll start talking. We're in now our final session. We've been talking about external actors, so we're hardly inaugurating a discussion of that. But we're going to have a more explicit discussion of that with the president of the Center for Global Development and the former vice president of the Inter-American Development Bank and one of the most prolific, insightful and widely respected writers about economic development, Nancy Birdsall.

To be followed by her vice president – (laughter) – at the Center for Global Development who looks too young to be a vice president of anything – (laughter) – but is in fact widely experienced on these issues, particularly with regard to Africa and has written some very widely cited books on African development and was for a time the deputy assistant secretary of state for African affairs.

And they are, of course, Nancy Birdsall and Todd Moss. Normally when I chair panels, I have you right at my side and I can pass you messages saying your time is expiring, but since I don't know how much time you have, Nancy, and since it's your conference – (laughter) – I think that we're just going to trust in self-regulation here.

NANCY BIRDSALL: That's really dangerous. I think you – (inaudible, laughter).

MR. DIAMOND: It worked with the banks in 2008. (Laughter.)

MS. BIRDSALL: As my husband says, I definitely talk too much, so – (laughter) – you better wave at me after – after 10 minutes. I also want to mention that the president is an economist and the vice president is a political scientist. (Laughter.)

MR. DIAMOND: That's for important balance. (Laughter.)

MS. BIRDSALL: So I asked Frank if we could have this session on the role of external actors. Maybe it wasn't necessary because as it turns out, so much of the discussion has focused on the role of external actors, in particular from the U.S. So I thought it would be interesting for us at the center and with my colleague Molly Kinder who's here, who are working on what should be – how can we help the U.S. have a good development strategy in Pakistan to explore, tell you what we're doing, mention some issues as I see them based on some of the conversations today and hear from you.

And I'd like to also mention that Alex is on the study group we have put together of outsiders with us to, over the next year from time to time, have meetings and then send an open letter to the administration commenting on what we see is going on and how – trying to be helpful and constructive.

So the first thing is this is all based on – some of you may know or remember that the Congress has authorized – not yet appropriated – 7.5 billion (dollars) in development assistance for Pakistan over the next five years. So that's a big ramping up of what the U.S. had been doing earlier. And in fact, the study group will be looking at not just development assistance but other policies, especially trade, for example, and our approach to investment that might matter in encouraging creation of a capable state and a more prosperous society in Pakistan.

So one thing that struck me thinking about this morning is that we have in Pakistan in terms of what the U.S. role could be actually three communities – not two. We have the military security community, the development community and the democracy community. Second thing I wanted to mention is some relevant facts about Pakistan and I mention these as background for the discussion.

I'm doing it as a professional economist – and I wrote down an amateur, little g aficionado – (laughter) – who has – in part because of this cash on delivery project that someone – Jerry mentioned – I have become absolutely passionate. This project is about a new aid modality. And I've gotten absolutely passionate about the need for the development community and particularly the aid community to think not just of the policy process but of the political process. So in that sense, amateur probably little g more than big G in the excellent way that Brian distinguished them this morning.

So what are some facts? The first thing I wanted to say is it's a classic case for those of you who don't follow Pakistan of growth without development. There has been growth actually over quite a long period of time. Reasonably good – 3 to 5 percent I think. I'd have to look it up. But social indicators – education, mortality, girls in school, all those kinds of things – absolutely – basically almost stuck. Particularly I know the data from 1990 to about 2005. It's amazing. It's amazing. And particularly compared to Bangladesh, which is a poorer country in per capita income. And certainly compared to India as well.

Second one of my other sort of pet obsessions is the middle class. And so I did a paper recently on the size of the middle class across countries and what does this mean. And on the share of the middle class in total income. And using the definition where you take off – I took off the top 10 percent of households in one version of this paper – (chuckles) – what is the size of the middle class in Pakistan?

And I'm talking about in theory – although not in the data because you can't find it in the data – a middle class that is independent of the state. So not people who work for the government, not people who work for state enterprises, not people whose jobs or livelihood depend on some sort of privileges that they can extract regularly from the state.

So I'll just give you an idea. This is the share of the middle class as I defined it – above \$10 a day by the way – so it's a fairly high standard of per capita income. In Sweden, U.S., Mexico – okay, in Sweden, taking off the top 10 percent, 80 percent – the middle class has – my middle class has 80 percent of all the income.

In the U.S., 70 percent of all the income. This is about – it's old data. It's about five years ago. It's Mexico, about 36 percent of all income. In China, about 15 percent of all income – 40 percent in urban areas, zero in rural areas, once you take off the richest people. So ask yourself what is it in Pakistan.

MR. DIAMOND: One?

MS. BIRDSALL: Zero.

MR. DIAMOND: Wow.

MS. BIRDSALL: So once you take away the top 10 percent of earners or income gainers in a country like Pakistan – this is also true in most of low income Africa – everybody's poor by my definition – which is under \$10 a day. By the way, the poverty line in the U.S. is about \$25 a day, roughly speaking. And in Europe about \$30 a day. Okay, so that's the second fact.

Third fact is we have the lawyers in Pakistan. Many of you will have read about the lawyers recently. I just learned today – because I asked and one of my staff members helped out – this is actually a long tradition, so it's an institution that goes back to the days of Jinnah, who was the first head of Pakistan who was a lawyer.

And so the group of lawyers – must be fairly small in terms of numbers – has maintained a kind of esprit around the independence of the judiciary, which, as you will all know if you remember in the last – in the Musharraf era, they pushed hard when he was pushing against – he was trying to sort of pack the court and take away – take out the chief justice. Governance – another fact – governance indicators. How am I doing? Five minutes?

MR. DIAMOND: Well, you've got – you're in – 10 minutes into it – how much time do you have?

MS. BIRDSALL: I need five more minutes.

MR. DIAMOND: Fine. Take it. (Laughter.)

MS. BIRDSALL: So governance indicators. Pakistan does very badly but as you might expect on the Kaufmann-Kraay governance indicators, which are the World Bank-style – Brian's shaking his head, but anyway –

MR. : (Off mike.) (Laughter.)

MS. BIRDSALL: In this set of indicators which economists know well, invented by economists, but I think people like Larry probably know about it too, there is something called voice and accountability and there's something else called government effectiveness. And I just wanted to raise that because Pakistan is near the bottom amongst the following countries: Pakistan, India, Bangladesh, Afghanistan, Indonesia, Nigeria, Brazil. Brazil's at the top, Afghanistan's at the bottom. And on –

MS. : On which ones?

MR. DIAMOND: Voice and accountability.

MS. BIRDSALL: Let's just take one at a time – voice and accountability. Brazil's at the top. Afghanistan's at the bottom. And Pakistan is near the bottom. On government effectiveness, Brazil's at the top, Afghanistan's at the bottom, and Pakistan is, you know, it's low, but it's number four out of the seven – not as so much close to Afghanistan as close to, say, Bangladesh – but worse. But the point is that there's – it's really bad on voice and accountability and you probably wouldn't be surprised –

MR. DIAMOND: This is for last year?

MS. BIRDSALL: This is 2008. Not as bad on government effectiveness – and that's not surprising because we think of Pakistan as being – you know, there are a lot of competent people and they manage a fairly well-run government. On Freedom House indicators – I'm sure Jennifer would be glad to know we looked them up –

JENNIFER WINDSOR: Yay!

MS. BIRDSALL: – Pakistan is on political rights in the fourth of six categories where six is worst. And on civil liberties, in the fifth of six categories where six is worst, which – these are three different dimensions: civil, political, voice and effectiveness – maybe the four –

MS. WINDSOR: Voice and accountability actually –

(Cross talk.)

MR. DIAMOND: Includes the Freedom House indicators.

MS. WINDSOR: – correlate with our political rights and civil liberties.

(Cross talk.)

MR. : It includes your index.

MS. WINDSOR: Yeah.

MS. BIRDSALL: Okay, so coming to the end. Another point – failures of the past. I won't go into those – both for the democracy community obviously, I would say, and for the development community. Those of you who don't know, it's pretty straightforward – pretty much failure. (Laughter.) For the security community –

MS. WINDSOR: Failure.

MS. BIRDSALL: Pretty bad. (Laughter.) Ten billion dollars on military aid in the last eight years. It's maybe getting a little better now because now the Pakistanis feel much more beleaguered themselves about their internal security. But that's why I'm glad Alex is here.

Okay, so ending. What are the dilemmas that we're grappling with – and when I say “we,” it's the study group, but we're grappling with them because we want to be helpful to the United States government. So I'm going to list four and Molly might want to add something because I've just been thinking during the sessions about what hooks into the sorts of issues we've been discussing.

So the first one is – the first dilemma is, for the U.S., the tradeoff between what feels like short-run security, something to fix the short-run security problem and inputs that would address long-term development issues, including building a capable state. So including more jobs – so jobs in the short run, security in the short run in the FATA region and so on, versus whatever spending might lead to long-term sustainable growth and a prosperous middle-class-driven society.

Second dilemma, we could call it the Holbrooke strategy versus working outside the government, a little bit more what the (USAID/U.S. aid ?) strategy – at least on the democracy goal has been. Holbrooke strategy appears to be we are going to work through the government. We're going to put our money through the government.

We're not going to go through civil society groups. We're not even going to focus, as far as I can understand, on local government. We're going to work with the federal government and try to build up its capacity. And this is linked a bit I assume to the idea that then we'll have more – a better dialogue on a whole range of issues.

Third dilemma – it's not a dilemma. It's a fact. It's an opinion of mine. The U.S. has no leverage at all. And it's probably foolhardy for our Congress and our development community and our politicians and our professionals to think that development assistance is providing any leverage. And there – okay, so I won't go – you all are agreeing, so I don't need to elaborate. (Chuckles.)

A fourth dilemma is what I would call the problem of disempowered or never-empowered women as a symbol of the kind of feudal status of many – the feudal system in Pakistan. And the very clear strategy in the U.S. government assistance – in the assistance program to build up government capacity. I mean, obviously you can do a lot of the things that Scott and others of you have talked about. In Pakistan, you can help the parliamentary committees and train auditors and –

But what's the return to that when you don't have any middle class to hold the accountable – the government accountable except these lawyers – (laughter) – thank goodness, in a way – who are on the big G, not the little g, right? And you don't have even the voters – you don't have anything like in Brazil where conditional cash transfers are bringing more people who are close to – you know, they're poor but they see growth – many of them are getting jobs on

working class salaries – to constituting – and it's an incipient middle class in the way we think of it in the U.S. – the 60 acres and a plow kind of tradition.

So those are the dilemmas that we're already grappling with focused heavily on the development assistance strategy. It's very interesting that Molly and I after one study group meeting where there were many things discussed, including what should be the programs of the U.S.? Should they be education? Should they be energy – fixing the energy sector? Should they be dealing with water? Should they be focused on institutional capacity of the government?

We realized that there was other entire discussion that was brought to us mostly by the security people about what are the assumptions in terms of objectives. And I think it – so that's what we decided to write up for our first open letter. It's an open letter to Holbrooke. We emphasized the how of development assistance. The need to be as transparent, for example, as possible to the Pakistanis as well as to Americans about what's going on. Molly, do you want to add anything? So this is a little bit just –

MS. : What's the likely leverage that you would have on Dick Holbrooke is one of the things I would ask. (Laughter.)

MR. DIAMOND: Probably less than the Pakistani government has. (Laughter.)

MS. BIRDSALL: You know where the leverage – any leverage would come? From the people in this room.

MS. : Yes.

MS. BIRDSALL: That's why it's an open letter. (Laughter.)

MR. DIAMOND: Molly, you have anything – (inaudible, cross talk)?

MS. BIRDSALL: Molly, do you want add anything to –

MOLLY KINDER: No, just that it's a – 1.5 billion (dollars) that's been planned for Pakistan. I think a clear objective is through development assistance – through economic development assistance to build Pakistan's democratic institutions and accountability in governance. But a very small fraction is traditional democracy and government assistance.

So the question is sort of, how do you use infrastructure spending and education to do all these other objectives? And so I think it's a really difficult challenge and what Ambassador Holbrooke has really suggested is to put more of the money through these public institutions. But the question is how do you sort of put money through these institutions and at the same time build their capacity when they're so weak. So that's the challenge.

MS. BIRDSALL: When there's waste, corruption, patronage and so on. Yeah, I forgot to say that just another fact: 10 percent of the prospective money next year – more or less – this is very gross numbers – is specifically for democracy building. About 40 percent is for

education, health and social programs. And 40 percent if for infrastructure and agriculture. And then the last 10 percent is for what is in Molly's chart or (Ren's ?) chart called "border initiatives and strategic communications." (Laughter.) So I guess that's the money for –

MS. KINDER: The terrorism.

MS. BIRDSALL: The terrorism.

MR. DIAMOND: The FATA program.

MR. : (Off mike.) (Laughter.)

MR. DIAMOND: There's a big program in FATA.

MS. BIRDSALL: I don't know, maybe – could I ask Alex if he wants to add anything to the –

ALEX THEIR: I'll wait and then comment after.

MR. DIAMOND: Okay. Todd.

TODD MOSS: Okay. Thanks very much. Thanks, Frank, for inviting me to such a – to address such a great group and for being last at the end of a long day. It's great. (Laughter.) So it's obviously cliché now to say democracy is about more than elections. But I actually want to start by saying that there's actually some very key moments where the election matters a whole hell of a lot – Nigeria is coming up to that moment right now.

And that as a U.S. government – you know, what I saw inside State is we actually don't have a stable pot of money to deal with this. We're always scrambling. We're always late. And democracy spending is something that's very easy to steal and move to other things. It's not earmarked on the Hill. So that's a problem.

Something else I would say that I know folks mentioned earlier that elections can be a source of violence. And obviously Kenya, Zimbabwe are examples of that. But it also seems to me that – and I know some of you here have written about this – that if you go back to the early 1990s, it seemed that elections in Africa were going to kind of be the mechanism for political change – huge amount of optimism. And I think most of that has dissipated and I was actually going through all of the kind of disappointing election examples we have.

And it got me back to the first book that I read as a political scientist which is the Jackson and Rosberg, "Personal Rule in Africa" and the subtitle of that is "Prince, Autocrat, Prophet, Tyrant." (Laughter.) And I started thinking, well, we've now got these princes that are using elections to kind of justify what are almost dynastic rule.

We've got Gnassingbe in Togo and now Bongo in Gabon, maybe Wade in Senegal. Maybe Museveni in Uganda also passing onto their sons and using a flawed electoral mechanism

to legitimate that. We've got several examples of tyrants kind of hanging on by stealing elections.

And we've also got this example where you have a coup and then you – you know, everybody, you know – the AU suspends you and everybody gets all upset. But then you quickly have a deeply flawed election and everybody just piles back in. You know, Aziz in Mauritania is a perfect example of that. I mean, it just happened exactly along that –

And that is starting, I think, to really – I think less so than the – well, we're not getting the economic benefits of democracy. I think this kind of cynicism about the electoral process and the total lack of an ability to kind of enforce those electoral rules when it's an incumbent that's threatened is sort of behind some of that backtracking. So I think that the democracy and development folks are probably – I'm probably closer to Jerry – that there's a lot more common areas.

There are some areas where there's still a dispute. I would say at the – there's probably need for more of a focus on the demand side for democracy and on the social contract. And if we think about the dilemmas that the donors face and I'll just talk briefly about two of them. One is that most of the donors like to focus on the poorest countries – on the poorest segment of the population within a country. But if you are actually thinking about democracy promotion, you wouldn't focus on them at all. You would focus on helping to create a middle class. And that would mean very different kinds of programmatic decisions.

You also get this issue of what to do in countries where democracy is looking pretty bad or worrying, but in terms of the state machinery to produce development outcomes is pretty good. And here, you know, Rwanda and Ethiopia are good examples that the democracy folks are really worried, but the development folks want to spend more and more money in those two countries because they can show results.

We had Owen Barder, one of our colleagues who lives in Ethiopia – he called Ethiopia an outcomes machine. (Laughter.) And he just – you can pour more and more money into Ethiopia and you get great development outcomes, but you know, there's some worrying political trends. So that's another tension.

But the one I really want to talk about is on – the focus on expenditure versus the other side of the budget ledger. So the donors have mostly focused on how do you spend money to reach the poor, how do you provide social services in a more efficient way that you get value for your dollar. And with the idea, either explicitly or implicitly, that you help to build democracy by, well, people will start to see public services provided by the state that will help to legitimate the state.

But I think the more important side is on the taxation side of this social contract. We know that taxation is kind of the basis for state building. What happens when you've got – as is the case with most low-income countries in sub-Saharan Africa where half or more of state revenues come from outsiders. What does that actually do for democracy? How do we actually think about that?

I think, you know, it's not just a kind of theoretical problem. It's a very real problem that creates – that helps to create distortions in that social contract where citizens pay taxes in exchange for social services and that relationship develops. That gets completely distorted when, if a government wants to do something, they call up the Swedes and they work it out rather than having to explain to their own population why they're taking their money and what they're going to get in return.

And what that might mean if you cared more about the taxation side is, okay, you can worry about social expenditure programs, but how about trying to build tax capacity? Maybe think about matching grant type arrangements that you would actually try to encourage greater and more rational tax collection.

And then this gets to a shortcut that we've been sort of thinking about and I think this is why I was asked to speak today – is that when you start to get this unearned income from the outside like aid or we could consider oil revenues and unearned income that comes from the outside, you don't have to do anything to your population to extract oil revenues.

One of the ideas that's kind of cooking out there and that we're going to be doing a lot more work on is using oil revenues – distributing them in cash handouts, instead of trying to put them through dysfunctional state systems. Nancy first – at least in the CGD realm – first proposed this with Arvind Subramanian in the Iraq case, which I was talking to Larry about.

And Lauren Young – who's back there – and I worked a little bit in looking at Ghana and we chose Ghana explicitly for a few reasons. Mostly because it's considered one of the strongest democracies in Africa. And I certainly am extremely worried that oil – the finding of oil in '07, it's coming on-stream at the end of this year – is a very, very significant threat to Ghana's democracy.

And it's really – what we proposed is a, kind of, modified version of the Alaska Permanent Dividend Fund (sic). And the reason that we proposed it are a few. One is that you would see immediate welfare gains. And it's probably much better welfare impact for individuals than you would get even through ideal kind of development spending programs. So the last World Bank's expenditure tracking survey in the education sector – and keep in mind, this is Ghana; it's not Chad – was guessing – is estimating about 50 percent of the funds in education sector are totally lost.

The second is a real clarity about the use of public funds. Third would be equity. You know, in Ghana for example, most of the development spending is in the south. The north gets very little. That's the case in most African countries. You have great regional disparities. The really big reasons – and this is not the reasons we tried to use when talking to Ghanaians – but the really big reasons, which happen to also be the same reasons that Alaska did it, is that, one, it creates incentives for better tax collection. Ghana does have a value-added tax. You know, much more connected to the population.

MS. BIRDSALL: Does everybody know what Alaska does?

MR. : (Off mike.)

MS. BIRDSALL: You didn't explain what it is.

MR. MOSS: Okay. Let me explain Alaska in a second. So one is to create the incentives for better tax collection as part of that state building process. And lastly, really to try to create, almost in an artificial manner, that constituency for demanding better public management of funds. It's that demand side of the social contract.

And this gets back to the Alaska. What happened is following a series of procurement scandals in Alaska, where money was being wasted and – despite relatively good oversight – they write checks on the profits from the dividends kept offshore to every citizen. So I think last year it was like \$3200 for every Alaskan citizen – about 6 percent of average income. But the idea was to create tremendous public demand and scrutiny on the politicians. That was the idea to lock in that accountability that they weren't able to get in Alaska.

And even in a place like Ghana, which is really good relative to its neighbors, not so great on a global scale, we thought this would be a tremendous benefit. Whether they'll do it or not, I don't know. But it certainly helps to create more of a discussion about what are they actually going to do with those funds and what's the mechanism for the public to hold them accountable. So I'll stop there.

MR. DIAMOND: Well, there's much that I'd like to say but that's not my role at the moment. Francisco then Tom then whoever puts their hand up.

MR. FERREIRA: So the question I have is not so much on the specifics of these two presentations. It's a little more general, and it's actually probably a bit provocative and almost rude, so I ask for your –

MS. WINDSOR: That's okay. I've already set the stage.

MR. FERREIRA: (Chuckles.) I ask for everybody's apology in advance. It's probably motivated by the fact that I'm in a minority not only in being an economist but also in being non-American. But here's what I was thinking when I was listening to the conversation this morning, and also a little bit now was of a bumper sticker – and I live in Mount Pleasant, which has some of the best bumper stickers in the world – you live in Mount Pleasant, too?

Yeah, you too? So you may have seen this! My favorite one was during the Bush years in the Iraq war and was one that said in large letters, "Be nice to America." And then underneath it in small letters is, "Or we'll bring democracy to your country." (Laughter.)

So I was listening to you guys this morning and I was thinking about that bumper sticker, and here's the question. For us in development economics, you know, we have the Bill Easterlys of the world who keep reminding us – someone mentioned earlier, do no harm, right? And Bill Easterly says, you know, aid can be actually harmful in a number of ways because of

disincentives; because of Dutch disease, which means you've got a lot of aid, your currency gets overvalued so maybe you're less able to sell your exports. But he also thinks of lots of other things.

I'm not actually completely in agreement with Bill on all of these things; I've argued against him on a number of fora. But he's keeping people on their toes about aid – does it actually do any good? When – before you try to do something, think about the effect of what you're doing on the people you're trying to help. And what Dutch disease and incentives are for us, I presume that nationalism – or if you want to be a little more candid towards it, the idea that the principle of self-determination.

The idea that Pakistan's democracy is fundamentally an issue for Pakistanis; or Brazilian democracy is fundamentally an issue for Brazilians, much as you know, it was possible for people running Brazilian electoral systems to provide aid to Florida during your recount of the election, at Chavez's offer, right? But and yet, I think apart from Chavez, too, people sort of – (inaudible) – to offer because we didn't think it would be particularly welcome. So the question is do you guys worry about that at all? I mean, is there a number of cases in which it would be most helpful by not trying to help?

MR. DIAMOND: I really feel compelled to just interject one thing here, Francisco. I mean, there is a certain realm of the democracy-assistance community – I think a lot of it is represented around this table, or at least in their past experience – whose strategy is and purpose is and self-conception is not to impose democracy on a country – certainly not the way we did in Iraq – but to work with, partner with, empower and support – I mean, ideally – significant and truly authentic actors on the ground that are trying to do this. Now, whether that always works out that way is another question and I'm sure – what?

MR. : (Off mike, inaudible) – perception?

MR. DIAMOND: I think the perception got a lot worse when we invaded Iraq, if I can just be blunt about it. Alex?

MR. THEIR: There was an interesting presentation by Nancy, and I don't want to turn this into a Pakistan discussion but it's a great case and I just want to make a couple points about it because I think that it really does bring up some fundamental dilemmas or conundrums. And maybe I'm just adding to the list.

The big-picture question that is driving us in Pakistan is security. That's the reason why the bill is there. It's not because we suddenly started to care about Pakistani well-being. And it therefore has become entirely a debate about instrumentalization of development assistance. What we want to know is what lever will development assistance push towards our ultimate security goal.

And in that sense, I think that the one good piece of that which is interesting, although I don't think we have much evidence to be able to answer the question, is that a lot of the debate – at least within the democracy-development community about Pakistan – has become about

legitimacy. What is it that will contribute to the establishment of state legitimacy in Pakistan that will, first of all, potentially end the cycle of repeated return back to military rule, and that will start to deal with some of the long-term grievances which may be feeding militancy?

And so I think that's a – it's a good debate and it comes back to the question of, well, what is the impact? What is the potential leverage? But it raises as many questions that I think from everything that I've heard and read broadly and specifically to Pakistan are almost entirely unanswered thus far.

One of the interesting debates that we had around the table which is what's happening in this strategy, is okay, you have a \$1.5 billion lever to pull that's going to somehow increase the legitimacy of the Pakistani government. What's the lever? Are you turning on the lights? Are you paying parliamentarians more? Are you sending kids to school?

And what is evident about every discussion that I've been at, nobody knows. And it tends to be sectorally driven. There are sectoral partisans because, ultimately, most of us work in specific sectors and the electricity guys say what a difference that's going to make and it's going to create jobs and so on. And the education people have that argument. So that is a huge question, this question of which sector.

And then the other thing because this is about external actors, the big debate is about us, and what is it that's going to make them like us more and therefore want to follow our policy prescriptions and ideas more? And there's also a fundamental disagreement in that arena between people particularly in the FATA – in the tribal areas programs – who say, you know what, we don't want any fingerprints on this; we're completely radioactive. And we want people to think that this is suddenly that the Pakistani government cares about their development after 60 years of not caring. And so no fingerprints; no U.S. fingerprints, no signboards.

But then understandably, you start to have people in the administration and in the Congress and maybe more in the State Department saying, hold on, they have to know that this is from the American people. Our taxpayer dollars supported it and we want them to like us even if they don't like their own government. And so this fundamental question about whether – how we as external actors promote the process of legitimization is so fundamental to what we're doing in Pakistan. But unfortunately, stepping back from it, I think that we thus far have very little ability to answer that question.

MR. DIAMOND: Okay. That's an honest assessment. Gerry?

MR. HYMAN: Yeah, thank you. I mean, next year, we could have a Schwartz session for more than a day on Pakistan, but let me – so let me just take part of Pakistan as an advertisement for my earlier comment this morning, which is the nondivision, it seems to me, or at least the integration, of the democracy agenda and the rest of the development agenda.

(Off-side conversation.)

And I use advisedly the language “the rest of the development agenda,” rather than democracy versus development agenda. I don’t know how, following – again, following Alex’s comments here, most of which I agree with, some of which I have some doubts about, including the question about our conjoined interest in security with the Pakistan public.

I don’t know how, Nancy, you’re going to get a middle class – and I agree that, that is critical – and how you’re going to get better development outcomes in Pakistan, no matter what subsector of development you want to look at, without a change in the political economy of Pakistan.

I don’t know how you’re going to get a better government without talking about words like “capacity,” which to me ring a bit hollow if you don’t have performance and accountability and transparency and so on in the elements that make up the government of Pakistan. And by that, I mean not just the bureaucracy but the parliament and the presidency and the parties.

These are kleptocratic parties; they are networked parties; they cannot easily break out of their – the cycle that they’re in because it’s part of their very nature. Without a major change in the policy party system and the nature of the elite and the nature, I might say, of the distribution of equities into the public sector so that you have a middle class that’s not contained either entirely under the government salary scheme or dependent upon government largess to get their licenses, registration and a hundred other things, I don’t see how you’re going to get there.

One possibility of course you could say is education, and I think education would be a great thing partly because of the madrassa issue, partly because of the security issue. But that in my opinion is not going to yield a very substantial outcome in Pakistan and certainly not unless than measured in generations, not just years. But I’m not even sure that would work.

Nawaz Sharif is reported to have taken 21 containers of material when he was given the right to leave to Saudi Arabia. That’s what he took with him. He’s the alternative to Zardari – (chuckles) – who has been convicted of corruption and who, but for his presidency, is probably going to return to jail.

So the two political contending parties there are headed by two people – I mean, I don’t want to cast dispersions here in this room because this is AID – (laughter) – but it’s hard to see how – and they control these parties. I should say, I suppose as a – I did the democracy in government assessment in Pakistan two years ago for AID, so we looked at a lot of these kinds of things.

The lower ranks of the political party – just to stay on that for one minute – cannot move because the two families at the top, or the two leaders at the top, control everything. There is no mobility within the party, there is no mobility within the parliament, there is no alternative voice, there is no constituency public management because you don’t have both an economic and political class of people that can weigh in, in a political economy that is not entirely controlled by the people at the top whether in the parties, in the government, in every other sector of the society.

I think there are a couple of possibilities – and I won't continue on this but I think there are a couple of possibilities, one of which is shopkeepers. Another of which is possibility the lower rungs of the political parties; the people who cannot move up because they're frozen into place. A third is Karachi. That's a whole other story which we can get into later.

But I don't see how you have a separate democracy agenda and development agenda in a country like Pakistan. It seems to me it's an advertisement for the impossibility of moving forward on either side without taking into account all of the rest of the portfolio. So without getting more into Pakistan, it seems to me it's a clear case.

MR. DIAMOND: So I guess one question that could be asked, if I can channel Brian Levy, is, is it possible for the change in that political economy to be incremental so that Pakistan might get in some foreseeable period of time to the good-enough governance of Bangladesh, or would there need to be a disruptive transformational break of some kind, somehow induced by some pressure? Anyway, Tom, I apologize sincerely. You're next.

MR. MELIA: Well, my first smaller point was meant to be in response to Nancy's presentation, which I thought was very clarifying and it dovetails a little bit with Gerry's more comprehensive comment about Pakistan, which is to ask whether – you were describing middle class in economic terms, and Pakistan it turns out, doesn't have a middle class in economic terms.

But my observation about seeing political transitions around the world in the last couple decades is that there's something else that – it overlaps with an economic middle class but it's different. It's the cultural middle class that creates the real political demand on government, on political actors, et cetera. Gerry was talking about that just at the end there about whether shopkeepers are that, or other people in Karachi, et cetera.

And you excluded, Nancy, from your definition of middle class, anybody who gets a public salary. And in a lot of places, people who get a public salary are part of that cultural middle class that actually puts demands on actors in government.

I'm thinking of teachers, for instance, which in many places turn out to be quite politically active at that community level, and they're present everywhere in a country. They're kind of the sinews of democratic culture even if they're taking public paychecks; and other kinds of organized workers. You know, organized labor is diminishing everywhere but in many places it still is a political conscious group of low-paid workers that is frequently mobilized for political action.

And so I wonder if maybe as you go forward, if you might think about broadening your notion of the politically relevant middle class to include some other sectors in the way that Gerry mentioned and a couple of the ways that I've mentioned.

The other larger point I wanted to make is responding to Francisco's bumper sticker. And I know that a lot of us have bristled at the – and Larry kind of spoke to this – many of us who have been involved in the democracy-assistance business for a long time bristle at the sense

that, you know, we're all tagged now with George Bush's legacy and we're trying to live that down and move beyond it.

We know have some evidence that the Bush legacy is going to be harder to move beyond. In President Obama's second budget request to Congress – last year's, you could say they weren't fully in place and it wasn't really the Obama administration's foreign aid request, but by now, it's got to be the Obama administration's foreign aid request.

And in a report that we're going to issue at Freedom House at the beginning of next week, critiquing and describing the request of the – set aside the National Endowment for Democracy – but of the foreign operations request to Congress, there is a portion that is categorized as “governing justly and democratically,” which is a small portion of the overall. But within that section of the budget request, 41.6 percent of the request is for Afghanistan.

MR. DIAMOND: And how does the request in total amount compare with previous years?

MR. MELIA: It is slightly up but not –

MR. DIAMOND: Not enough to –

(Cross talk.)

MR. DIAMOND: So you're saying the non-Afghanistan partners decreased.

MR. MELIA: Slightly, yes.

MS. WINDSOR: (Inaudible, off mike).

MR. MELIA: Afghanistan gets more money in democracy assistance than every region of the world – Africa, Latin America, Middle East – no region gets as much money in the president's proposal as Afghanistan.

And if you look at the Af-Pak/Iraq – which sometimes are one country, I guess, in the way I read about it in the newspaper – Af-Pak/Iraq gets 52.5 percent. So if you're a pedestrian in Mount Pleasant looking at bumper stickers and you're talking about how does the United States do democracy in the world, well, we do it to a very large extent in places where we have soldiers on the ground.

Democracy promoters wear flak jackets and have armed security guards with them. They drive in armored vehicles to get to their training sessions to work with parliamentarians, to work with civil society leaders, to do all these things. So more than half of the American investment in democracy promotion is done in these three places, where security is the overriding concern.

The fourth country in the – and the other two in the top five are Mexico and Sudan. You could make a case that Mexico is also a conflict zone and that the investment there is driven by

security concerns along the border and with narco-trafficking and all that. And Sudan is another conflict zone. So democracy promotion is structured around our security policies.

And so Ghana is not even on the list of top-20 countries. I mean, it's really important in Africa but it's not really important in the U.S. The countries in Africa that are in the top-20 list of investment are – after Sudan – Nigeria, DRC, Zimbabwe. So if you're a Brazilian or a Mount Pleasant person and you're looking at bumper stickers, it hasn't changed – I guess the message is it hasn't changed that much. We've shifted from Iraq to Afghanistan but the fact is that the U.S. is doing democracy where we're at war or where there are wars.

MR. FERREIRA: Can I have one second to – (inaudible, cross talk)?

MR. MELIA: Yes, please.

MR. FERREIRA: This is to say that the problem isn't only what it does to this 52 percent. It is that in a world of Al-Jazeera and CNNs and so on, that pollutes the other 48 percent, or whatever it is, in a very pervasive way.

MS. BIRDSALL: It pollutes in the 52 percent, too, of course.

(Cross talk.)

MR. DIAMOND: Is it very brief?

MR. HYMAN: Yeah, one sentence. This is not a unique year. You go back to the beginning of Iraq and all of the so-called increase in democracy assistance has been 50 percent – if you take Iraq and Afghanistan out – and certainly if you take Sudan out – you would have a decline. If you keep Sudan in and you just keep the others in there, you would be about even, maybe a little bit lower. And that's been true since 2003.

MR. DIAMOND: Okay, Joel, you're next.

MR. BARKAN: Yeah, just to flesh out the factoid there, in the Bush years, DRC, Sudan, Liberia – five countries that the bulk of the money in democracy assistance that was going to Africa, I want to address, Tom, two observations. First of all, on elections. They're not all that. That is, we can look at them in terms of what the meaning is, but rather that different categories are – (inaudible). Several countries are doing rather well and others are like you say.

And you focused attention on where it should be focused; that is, what do we do about these semi-authoritarian regimes? And you spoke about the problem of oil. That's independent of the donors. But the equivalent of oil in respect to the donors is budget support. The Bank and the Brits – not us – have come on big-time and at least from the countries that I'm particularly familiar with, like Uganda, have essentially financed neopatrimonial regimes and made things worse.

That is, you basically finance regimes by hoping that you get the macro right. The Meleses, the Kagames, the Musevenis are of a different order than their predecessors – that is to say, the Moises and the Budhows (ph) of 20 years ago. And they know how to please the international community, particularly the IMF. SDo they've got this big flow of funds.

And picking up on your point on taxation, it creates a disincentive to get your revenue authorities operating well. And Ghana is a good case in point, whereas Kenya, as difficult as things have been there, only 8 percent of their budget is financed by the donors and the record of the Kenyan revenue authority is spectacularly low over the last few years.

So we have to be very careful about what incentives and disincentives and budget support – Paul Collier has also said this. It's essentially the equivalent of oil. It's not a panacea; it does work in some places – Tanzania might be one. I don't think we pay enough attention to it, aside from the Bank, in the U.S. because we don't provide budget support. We need to pay more attention to it in terms of stands we might take on it vis-à-vis the multilaterals.

MR. DIAMOND: Thank you. Frank?

MR. FUKUYAMA: I'm going to pass – (inaudible, off mike).

MR. DIAMOND: Okay, I have Scott next.

MR. HUBLI: Just very quickly to pick up on a few things on this instrumentalization of democracy as an instrument of national security policy because I think it is one of the things that will be very difficult to do. I think, as Gerry kind of says, that the spending on democracy has always been associated with security interests and there has been that linkage.

I think that what's different is that in the past, there was always a bit of a dotted line there and it became a solid line, I think, in the Bush era in a much more clear way. That, for example, don't proliferate or we will democratize you and we will appropriate \$75 million to democratize you.

I mean, that linkage between democratization – I mean, I think all of us that work in this field think that long-term efforts to promote more democratic states around the world is positive in terms of kind of U.S. national security interests, but the second that that dotted line becomes a straight line, you transform all of these hardworking democratic activists around the world to instruments of U.S. national security policy, which is just incredibly destructive.

So I think that that is going to be one challenge in reconstructing this a little bit. I think just on the kind of demand-side, supply-side kind of issue, it's interesting because I think for a long time, when people were talking about needing to strengthen the demand side relative to the supply side for good governance, they were talking about civil society investments; investments in civil society demanding good governance rather than kind of building a middle class strategy of some sort where there was a little bit more clarity about – there was less patronage from or a direct linkage to the foreign donor, in a way. And so I think it's an interesting concept.

I think there's all sorts of questions raised about how to do that and political feasibility and the like, but I think that in a lot of places, particularly when you envision the demand side as civil society, which in some contexts it has been, it's been the supply side that's been weak and that there – you know, if you look at Latin America, ossified political parties – traditional political parties – that haven't been able to reform, increasing societal expectations, kind of the space is filled by populist political movements. But anyway, I'll stop.

MR. DIAMOND: Speaking of demand and supply, we've had seven people speak now and I have seven more people. Cinnamon, do you still wish to speak?

MS. DORNSIFE: (Inaudible, off mike.)

MR. DIAMOND: Okay, but so even if we run a few minutes over I think to allow our two original speakers time to respond, if the remaining people could just try and be as concise as possible. Douglas, you were next.

MR. GRUBE: Okay, I'm a consultant. I just got back two weeks ago from two-and-a-half weeks in Pakistan. I've spent three years in Afghanistan; I spent three years earlier in Pakistan up in the NWFP. So I feel like after six or seven years of my life in that area of the world, I have a little bit of – no, I don't have any understanding. I've been there too long to really think I do.

And I tell the story of people who go there and after the first week, they say, I've got this place figured out; it's just like – and they mention some other country. A month later, they say, well, I've got a question or two. And after they've been there a year, they say, I don't understand this place at all. And then you know they're learning something.

But anyhow, there are a couple questions that came up. And, Tom, the comments you made about the amounts of money that are going places, it did two things. One is, it just made me realize I'm hitting all the biggees because I'm going to Sudan next. So I've had Afghanistan, Pakistan and Sudan.

MR. MELIA: That's where half the consultants in town are going to be. (Laughter.)

MR. GRUBE: I think so. Well, I want to keep up with the party. But the other thing is that in Pakistan, when I was there, they have this huge amount of money allegedly that AID has and they've been sitting on it. There's RFAs, RFPs, RF-whatever coming out. There's one that they're waiting for, another that they're waiting for, another one that they're waiting for.

There's supposed to be a huge amount of money. And they don't have the capacity. USAID has said they do not have the capacity to handle it. They wanted to channel an awful lot of it through nongovernment – meaning, private sector, for-profit and NGOs. They still haven't figured out how to do that. And after looking at and talking with a lot of the major NGOs there, they don't have the capacity to do it. They're going to embed new accountants in these to try to keep track of the funds.

MS. BIRDSALL: Auditors. They're called auditors.

MR. GRUBE: No, these are something else. These are going to be day-to-day people. That's what I was told.

MS. BIRDSALL: We're also training – (inaudible, cross talk).

MR. GRUBE: Yeah, well, we're doing that too but anyhow, so it's going to be a huge mess and I think that it points to a – or gets to a question that was also raised. And that is the role of donors and are they or can they be both positive or negative, or are they ever one or the other?

And my feeling is a concern in Pakistan/Afghanistan, and I'm not sure about in other parts of the world because I've spent most of my life in those areas, the donors are one of the biggest problems there is. And I think one of the problems is that we, being the U.S., tend to think of us as the donors. We ain't. We're only one of them. And one of the problems we have is that if you go to Afghanistan or Pakistan, you're going to fall over donors.

And one thing donors love to do is talk about coordination. And one of the things that donors don't do is coordinate. (Laughter.) Everybody wants to be the coordinator but nobody wants to be coordinated. And it's one of the biggest problems that I've seen in those two countries and it's probably going to get worse. So I think that it's almost a net loss to have a bunch of donors there, particularly when they have pots of money that are so large, nobody can manage in the first place.

And we had this experience in Afghanistan where, during the three years I was there, every major, mega-million-dollar project that was implemented or started ran into trouble. They were closed early. They were cut out and reassigned in little pieces to everybody else. What are we doing now? Hundred-million, \$200 million projects. That doesn't work, but we haven't learned that yet. It doesn't work in Afghanistan, and Afghanistan has no capacity. It's marginally better than Pakistan.

So you know, that's another real concern I have about the donors, donor coordination and the size of our – U.S. – projects. They're just unmanageable. The contractors can't manage it; AID can't manage it; the government can't manage it.

MS. BIRDSALL: It distorts NGOs.

MR. GRUBE: Huh?

MS. BIRDSALL: I think it distorts NGOs that – just, I mean, you know, Freedom House didn't actually go into those countries because it would have been two-thirds of our entire budget.

MR. GRUBE: Just one other thing – and this is kind of one of the things that is gone through. We seem to assume, in much of the aid work, whether it's democracy and governance

or whatever, that we can go in there and we're going to win the minds and hearts of people if we throw a lot of money at them. Well, keep throwing money at them and they'll pretend – you know, it's like the rice Christians I ran into in Hong Kong. You keep giving them rice and they're good Christians; somebody else gives them rice, you'll get something else.

Well, it's a little bit the same way. And that sounds very cynical, but it is true. And I mean, I've seen it too much. And I must admit, I have a real identity problem because I was in Afghanistan, I look at my card, it says, "international development consultant" and I was running a local governance project. Now, you figure out which I am, you know? I don't know. But anyhow, those are just concerns.

The problem of the donors and the amounts of money that are going into these countries, and the lack of coordination among donors, even within – and when I say among donors, I mean even U.S. donors – those of us that come from the same country. Hell, we don't cooperate with each other. You know, one of my biggest battles was with the other USAID-funded people in Afghanistan. It really was. It was one of the biggest problems.

MR. DIAMOND: Okay, so the remaining people on my list are Peter, Joan, Mitchell, Jennifer and Diego. So –

PETER LEWIS: I'll be quick, or I'll try. I was struck by the counterpoint between some of Gerry's comments and some of Todd's comments. Gerry talked about – very eloquently – about deep, structural, historical problems in Pakistan's politics and political economy. Todd talked about the lack of alacrity and flexibility in democracy and governance funding.

And I think there's a kind of a disconnect here between big, overarching analysis and narratives – the question of, what are the fixtures and the features of the system? How do we get to a certain model or ideal type of democracy? How do we get to a certain model or ideal type of market economy?

Should we go in at the macro, the meso or the grassroots, micro, level? These kinds of problems, and then the actual opportunities that present themselves on the ground. And I've really been persuaded by much of Bill Easterly's argumentation along these lines over the last few years. DFID and the U.K. has focused a lot of attention, as has the Bank, on drivers of change. In other words, you've got an existing equilibrium, and this system, whether it's Nigeria or Pakistan, and yet, there are forces in play.

There is a middle class which owns zero percent of assets, but is articulate and in the public sphere, as there is in much of sub-Saharan Africa. There are regulatory agencies, some of them under the radar and in very small, dark corners of the state, that actually do their job. There may be a halfhearted initiative to start up an anti-corruption agency, which then takes center stage and absolutely shifts incentives and calculations throughout the state.

One could tell a narrative of ossified structures and elites for Mexico, 1994, for India in 1977 – the list could go on – and all those systems shifted. So I think the challenge, as I think about the initiatives of the Center for Global Development and some of the various things like

that – I think the challenge is making an informed analysis of where the possibilities for tipping the equilibrium are.

What forces, whether they're market forces, institutional forces, or social forces have the possibility of tipping the equilibrium? And how do you make interventions, which are frankly opportunistic and I would use the word subversive, to try and enhance those forces? Larry talks about allying with certain groups and working with people in these countries rather than imposing some frontal, top-down model. And I think it's very much in the spirit.

And so, I just reflect on this because I think things like the expansion of cell phones or the introduction of a robust anti-corruption agency, or signing onto EITI – the Extractive Industries Transparency Initiative – and doing one significant audit in Nigeria, or issuing licenses for private talk radio in Ghana – these have been transforming innovations that were not necessarily tracked or monitored by political elites, and had unanticipated consequences. So I would just urge more of that kind of – what does Easterly call it – seeking, and a more tactical kind of approach.

MR. DIAMOND: Thank you, Peter, that's very helpful. Joan?

MS. NELSON: Just to add to the point that's already been hammered on about too much money, in addition to everything that's been said about it, putting a lot of money into a poor society or organization anywhere is almost automatically corrupting. So that it's not merely a question of not having the management capacity; it's that you are establishing incentives that are counterproductive. And there's just massive evidence of that.

And by now, there should also be quite a lot of evidence that putting very large amounts of money into any organization, group or country doesn't make them love us. And more broadly, I'm going to make an opinionated remark that it isn't so much that we don't have the answers on what we can do; we do have the answers and we don't like the answers, so we won't accept them. But that's not terribly helpful.

MR. DIAMOND: What was the answer?

MS. NELSON: Pardon?

MR. DIAMOND: Give us two examples of the answers we have that we don't like.

MS. NELSON: The sorts of things we've just been talking about for the last half-hour or hour, many of which boil down to, we don't – which is essentially one of the points Nancy made. There are a lot of situations in which we don't have leverage, and we care deeply, and we therefore want to put in a lot of money, but – (chuckles) – it ain't going to work. But we don't want to accept that.

MR. DIAMOND: That's the recognition of a reality, but it's not –

MS. NELSON: Pardon?

MR. DIAMOND: It's a recognition of a reality, but it's not an answer in the sense of a solution.

MS. NELSON: Fair enough, fair enough. Revision is totally appropriate. Separate point – a lot of talk about middle class, most of which, I think, is very valid, where there's been no mention, all day, of many countries with deep ethnic and religious divisions, such that talking about “the middle class” is at best very partial. And there are a lot of people around this table who can say a lot more on that subject than I can. But it is a striking omission in our discussion.

MR. DIAMOND: Okay, thank you. Mitchell?

MITCHELL ORENSTEIN: I'll try to keep my remark to exactly one minute. But I thought that was an interesting and impassioned discussion here, about the way that aid is serving – sorry – about the way that aid is serving security interests of the U.S. It has to be pointed out, though, I think, that the reverse has also typically been true – that the security umbrella provided by the U.S. has been one of the major factors in democratization in many, many different countries.

I'll just take one set that I know well, in Central and Eastern Europe. If you look at those countries which have been successful democratizing, the bulk of them got into NATO first, before they got into the EU, even though the EU is often credited with democratizing those countries. And those countries that are having severe problems are where the Russian army never fully withdrew, essentially.

So it seems to me that a lot of the assistance over the last 10 or so years has been in the context of fighting the end of the Cold War, in which, in developing countries, there was a huge increase in security that led people towards democracy. And the question we're facing right now is how to conduct democracy assistance in a situation where we can't actually provide security.

MR. DIAMOND: You're the first person that I've ever seen at a conference who said he was going to speak for a minute, took his watch out, and spoke for a minute. (Laughter.) So I want you at another conference. (Laughter.) Jennifer?

MS. WINDSOR: Oh, now you've thrown the gauntlet down. Okay, I wanted to be a little fair – one is to this budget. There are actually increases in a number of African countries that those of us from outside have been pushing for a while – Ghana, Tanzania, Mali, Malawi. So actually, you're seeing – there's a lot in this budget to like, and in the top recipients, you do have Indonesia, Ukraine, Serbia, Bangladesh, Georgia, Tanzania.

So I think part of the message is coming through, but there's kind of a split in levels. And that split in levels has always been there. So I mean, I love to kick the Bush administration, because it's, like, my favorite thing to do, but since I was in the Clinton administration, that quixotic U.S. government approach of just raining money on particular countries and then stopping.

Nigeria's a perfect example. Every part of the U.S. government took an interagency team member to Nigeria – like, 200 U.S. government agencies running around, coming up with ideas. And we flooded the country with \$100 million, and I think \$50 million in democracy, at some point. And then, within two years, it was down to \$3 million for Nigeria, and then cut below that. So there is this inability, I think, in the U.S. government to think – we just react with big pots of money.

And I couldn't agree more; if we could just level out the levels – it messes up the U.S. government, it messes up the countries, and frankly, it messes up the organizations like mine or NDI's or IRI's, that get this – you know, they want to go in there. There's a lot of money. But suddenly, you have half of your staff, is focused on Iraq. Well, that's not – I mean, that is a distortion. I mean, we didn't do it – Freedom House – for that reason. And also, we don't do well with security teams, sort of, with us.

So I will say something on this tactical versus strategic. I've been thinking about it, because I was part of thinking more strategically at USAID. And I think strategically has meant consolidated into large – and Todd has written about this – large, multimillion-dollar, \$150 million projects that have everything else embedded in them. And it's been a disastrous model, not just for democracy, but it's been for development. And I think we'll see whether any of these fix-it processes help, but I think the role of the U.S. government, whether it's the security forces or USAID personnel, what their role is, is still undefined.

And we'll have to see what comes out of it, but I think we have to think about – and the more strategic they get, the more they want to be, sort of – so there's something to be said for tactics, because if you do look at what democracy assistance has shown over the years, it's at the tactical level. It's not at the strategic level, which doesn't mean you shouldn't be thinking about strategy, but I think it's come with an unintended consequence.

MR. DIAMOND: Finally, Diego?

DIEGO ABENTE: Thank you. I'll try to be brief. I don't know if I'm going to stay within the minute that I'll try to. Anyway, I will say three things. The first point I would like to make, I will make it as a non-North American. I believe that democracy is a universal value, and I don't think I'm the only one. And I don't think the democracy community is located only in the United States.

We have a democracy community in other developed countries, and developing countries, too. The difference is the democracy community in the United States and developed countries has money, and normally, we don't. But I think we share something in common, which is the belief that democracy is a universal value, number one.

And number two, I am not extremely concerned by the fact that the United States will put money where their security concerns are. That seems, to me, logical. Every country does that – not only the United States. I think it's something very good that the United States is, now, not equating security concerns with the trend in dictatorships, like the one in Brazil or in Chile or in so many other countries in the world. So I think the fact that this country, like every other

country in the world, should look after its security seems, to me, like a logical thing. We do; Brazil does; Argentina does; Russia does; every country does it.

Second, I think there is a difference between Afghanistan and Iraq – at least the perception. This is a political speech, but I'm saying it as a reflection of that perception. The perception is, Afghanistan was a war of necessity. Nobody really criticized the invasion of Afghanistan. You may not like the war; you may not like the fact that so many civilians are dying, et cetera, et cetera; but Afghanistan is seen as a war of necessity.

Whereas, in the world, Iraq was not. And I think that is a big difference. Now, going back to my – I mean, going to my third point, the issue of party system in Pakistan, that Gerry raised, I think is a very important one, and is very important not only in Pakistan, but also in other countries of the world – I think everywhere. But the problem that I'd like to raise is, is that a problem of supply, or is it a problem of demand?

My feeling is that politicians act rationally. If they develop clientelistic parties, it is because that is the rational way to deal with the situations in which they operate. So to me, the issue is the issue of demand, and that goes to what Nancy mentioned – the issue of, for example, the size of the middle class, which is a class that, by not being tied to the state, is likely to be demanding collective goods, as opposed to individual goods.

Or, for example, the existence or nonexistence of strong collective actors, which would also be putting demands – demanding collective, as opposed to individual, goods. And that leads me to a question to Todd Moss, whether or not he has an idea about strengthening this demand, since we don't have the oil that Alaska has.

MR. DIAMOND: Actually, I was going to ask you a question, but first, go ahead. No, no – you go ahead first. My question is whether we had time for me to make any comments, but anyway –

MR. FUKUYAMA: (Inaudible.)

MR. DIAMOND: Okay. So go ahead, and then I'll follow and then we'll turn it back to our speakers.

MR. FUKUYAMA: I guess I've been a little bit, just, confused by this whole discussion, because I don't really understand where we're coming out, in terms of –

MR. DIAMOND: That's why I wanted to say something, but anyway, go ahead.

MR. FUKUYAMA: I thought Joan had the answer and I was going to hear it, but the answer is that there is no answer. (Laughter.)

MR. DIAMOND: No, I think I heard a couple answers, but anyway, go ahead.

MR. FUKUYAMA: But I just want to follow up on the middle class issue that Nancy raised, and others have talked to around this table. What that concretely means, in terms of strategy – because, you know, the theoretical argument in favor of it is, you know, it's really good, in a country like Pakistan with all of the stratification and so forth. But could somebody describe to me what a middle-class focused strategy would be?

I can think of ways that you do this. You'd stop doing stuff in the countryside. You'd stop rural development. You'd stop, you know, dealing with all these poor people in distant places that you can't really get to anyhow and you focus on cities and you focus on visible things going on near the capital, because that's where all the political action is. And that's a pretty tough-minded strategy. And I think you can actually make a serious case that maybe, since we don't know how to do rural development, just forget about all these things that we can't do and focus on things that we can.

MS. WINDSOR: Don't get with the ag community.

MR. FUKUYAMA: Yeah, well, okay. So can someone tell me whether this is a completely unreasonable interpretation of the things I've heard, and if so, why?

MR. FERREIRA: I can say something in 30 seconds on – (inaudible, off mike).

MR. DIAMOND: Yeah, go ahead.

MR. FERREIRA: Okay. You've just summarized, Frank, very eloquently, why I'm so worried about Nancy's pervasive message, and how influential it is on the World Bank. I don't mind – the message that the middle class matters so much. I don't know whether you would agree with what Frank just said, or not. I suspect you might not. But my fear at the Bank, as now, people are starting to think very much about the middle class – what I tell them is, I want our social programs to look, to have the incidence profile of the CCTs that I showed you.

I don't mind a focus on the middle class if what it means is, let's get people who are poor today not to be poor anymore. If they're not poor anymore, what are they? They're the middle class. I'm happy with that. I think if we forget the – part of what I was trying to say in my talk earlier – and I didn't quite articulate it well – was that part of the beautiful thing about the new, sort of, contracting – (inaudible) – I think is that some of the middle class is altruistic, and wants to pay for programs that go to the poor and not to themselves.

That, I think, is a very important part of the thing. I'd like the middle class to focus on – the middle class is wonderful, but the way you want the middle class to grow is by getting poor people to move there. If what that means is interpreted the way you interpreted it, I'd be very, very worried about it.

MR. DIAMOND: Yeah, but – and one could also say that the middle class saw their self-interest in creating a better society. Don't you think that's fair to say?

MR. FERREIRA: As long as the money's going where I think it should go – (inaudible, laughter).

MR. DIAMOND: So let me very briefly just make a few comments, and then back to the two of you. First of all, I hope we don't leave here too pessimistic, in two respects. Number one, I think we can point to a number of respects in which democracy and governance assistance has had, you know, at least modestly positive effects, and sometimes possibly helping to nudge countries over identifiable tipping points.

First of all, we do have a very systematic study of USAID democracy and governance assistance, you know, looking at all the dollars, evaluating the impact in terms of Freedom House scores. It's been criticized, to some extent, for what were seen to be somewhat simplistic inferences, but I mean, it did document with the most systematic – and I know the scholars involved, and I think, quite objective, in terms of not carrying biases into it – analysis, that there was a positive impact.

Now, their conclusion was simplistic in the sense that, for every dollar, you get X-point-oh-something percent increase in the Freedom House score. And obviously, when you multiply that by the number of dollars going into Afghanistan now, that's not going to be the outcome. So it's not formulaic.

MS. BIRDSALL: Not unless they pay us a lot of money.

MR. DIAMOND: And secondly, I would say that you can look at what Ned has done and, again, identify moments where assistance from actors like Ned definitely helped reinforce the efforts of political and civic actors within a country to have a better election, to organize a transition, to demonstrate electoral fraud, to improve civic functioning, to do various things like that.

I will say I think it's not irrelevant to this discussion, that Ned is helping to support – now, Joel is deeply involved in it and I am, somewhat – through the World Movement for Democracy, I think, you know, a somewhat serious look at evaluating democracy assistance. And one of the things we've done is a survey of recipients of assistance.

And I can tell you – Joel, correct me if this is unfair – that one of the most frequent things we're hearing from recipients of democracy assistance is that there is a disconnect between the flows of political assistance – democracy and governance assistance – and what the major providers of this aid – the established democracies like Europe and the United States – are doing in their diplomacy.

And Nancy, I will just tell you that, what they are saying to us from the ground in these countries does not match up with the claim we are making that we have no leverage. I think there are, you know, certainly identifiable cases where we have no or virtually no leverage, but I think that there are a lot of cases where we have a lot of leverage, and where both the social scientists, and certainly the American government, have simply underestimated, analytically, how much leverage we have.

This is a difficult proposition to falsify, because we've rarely tried to exercise it, because we're so scared – the people who are there temporarily for a few years – of screwing up on their watch – you know, taking risks on their watch – that we rarely, you know, get as creative and press things out as we might.

The second point is, I think we do have identifiable instances where development assistance has worked. A lot of them are in East Asia. Talk about the security relationship – Taiwan, Korea, Thailand. Those are three discrete instances of successful American development assistance. All three – and add Singapore, Malaysia and the other successes, the Indonesian semi-success in East and Southeast Asia, it seems to me, had one thing that the typical African situation has been lacking.

And that is, the leaders had the political will to deliver development, even while they were certainly stealing something for themselves. And they had it because they were – I'm sorry, Brian, I'll use this term – up against the wall. They realized communist China was there, and they were going down if they didn't deliver development.

And the reason why I want to put some of those African leaders up against the wall is because I think if they don't realize that they're going down, politically, if they don't deliver development, they'll never get the political will and will never break out of this extremely low-level, bordering on collapsing, equilibrium that a lot of African countries have been trapped in.

I think that, if, on the other hand, we take what I think is your extremely valuable suggestion to us at the beginning of this day, that we, rather than back up from the end state, that we have, in our developed Denmarks to the realities in these countries and see how can we move forward incrementally, which I take to be – and I think you would agree – one of the important insights from the North, Wallis and Weingast work.

And then think practically, innovatively, and very often, incrementally, well how do we inch forward, or maybe, at critical, turning point moments, lurch forward, then I think we can get to lots of creative strategies. And what Peter's said has a lot of promise in that regard. I have other things. I'll leave them till later. Which order do you want to go in? Okay.

MR. MOSS: Why don't I just make two small points and then give Nancy the last word, okay? So in answer to Frank's question, what does the middle class tend to look like, you know, there's no more sort of transformative or powerful story than the person saying, you know, I'm the first person in my family to go to college.

And it's trying to create that opportunistic – that opportunity of families, that they get out of poverty forever. So what would that be different from what the Bank does now? It would be much more on the business climate issues, which keep entrepreneurs down. And you know, I know this isn't popular, but much less of a focus on very low-level, super-basic education and much more emphasis on the higher education levels.

And then I want to just – the last point is just to agree with peter that, you know, you try and identify these forces and support them, but the point I was making about the U.S. having a broken budgetary system and a broken bureaucratic dynamic that doesn't allow us to take advantage of those opportunities.

Just to give a concrete example, Guinea was coming up on legislative elections about three years ago. And we knew that the rolls were a mess and it was going to be a disaster. We wanted to try to find some money to help fix that. We had about a six-month time period. Well, the budget process, which made a lot of those allocation decisions about three years earlier hadn't foreseen local legislative elections in Guinea, so there was no money for that.

And we were told, nope, we don't have any money to do that; we can give you a water project instead. And of course, that's no help at all. (Laughter.) So that's – our policymakers, even if they are able to, kind of, pick winning drivers of change don't have the tools, because of our system, to enable them to take advantage of that.

On the Ghana – I'm glad to see that Ghana has GJD money. I don't know what would be in there. My guess is, it's programmed for community radio or something like that. I mean, they're decided way ahead of time. So thank you.

MR. DIAMOND: Okay, Nancy.

MS. BIRDSALL: Okay, well, that was really – it's been quite an interesting day – lots and lots of food for thought. So Frank, you had the right idea in the first place. A couple of comments. First, Larry, my comment about leverage was specific to Pakistan and specific to the development assistance money. At the same time, although I'd like to think that there's more leverage everywhere with development money and democracy money, my own experience is, there isn't as much as people think, especially if they sit on Capitol Hill.

And so I think that the message for this kind of community, here in this city, has to be a little bit more, we've got to work on the long-term – building a capable state, creating – you know, doing whatever it takes to have a middle class that leads to a capable state, having more prosperity, making people's lives better. You can't do it quickly, and you can't do it by bribing or pushing around or talking a lot about ownership and participation. That's the first thing I wanted to say.

Second, on what is the middle class strategy, because it's such a good question, first, it's macroeconomic stability. That leads to growth. This is from my, sort of, fairly primitive efforts to figure out what's going on, based on evidence of the change in the size of the middle class, as I defined it, between 1990 and about 2005. The common thing is good macro policy leading to steadier growth, which leads to jobs – people having salaries, or wages.

It's not only, or mostly, these entrepreneurs that we all wish there were more of – (chuckles) – in African cities, and the small and medium-enterprise movement. It seems to be much more about, sort of – what was the Marxist – the proletariat, jobs – you know, working-class jobs. And so of course, that comes from a whole lot of different things. And it's, maybe,

mostly urban. But I also agree with Chico (sp), that we have to think of it as people moving into the middle class, and not feeding the rich, in terms of policies.

And so in Pakistan, Gerry has some good points. You know, as long as we don't deal – try, in a dialogue, if not with leverage, to deal with the lack of taxes on land, or to deal with the cheating in the financial sector, or the failure to ever raise energy tariffs, which means that rich people get plenty of energy, or the failure to deal with water pricing, which means that the rich guys, who are upstream, get all the water and everybody else feels cheated, then we can't do all the things that we'd like to – we can't imagine those things done.

But when you get growth and you start to get what I would call a middle class, what's interesting is that the poor are able to free-ride on the middle-class instincts. That's where Chico and I agree. That's what's happening in Brazil – that's my interpretation. There's a middle class that starts to see, we want stability. We don't want crime in the streets. We want more universal programs. The middle class has always fought for universal social programs.

When they're universal, as is the case here and in Europe, then everybody gets them, including the poor. So I think, though, that the development community hasn't thought enough about what is the tactic or the strategy for building an enterprise. Now, I love what Peter Lewis said. I think that's where we can be optimistic, that on both democracy-building and development – and it's related to the little g or the small g. You just try to do things.

I think what USAID did in Central America in the '70s and '80s, when I was at the IDB – it was impressive. It was all these small NGOs, and they were sort of ready when opportunity struck, for other reasons. So that's why this idea that Todd and I are talking about – you know, help deal with the oil by – it's a small thing, in a way, but even talking about the idea of direct distribution of the income gets people thinking about the tax side, the demand side, the revenue side – the demand side, especially, that Todd emphasized.

And on tactics, I think we should learn from the East Asians that you invoked, Larry. They were pragmatic. They learned as they went along. They tried things. Then they adjusted. They didn't have a model; they didn't have a framework; and they didn't have a strategy. You know, the only strategy, as you suggested, was, we can't let most of our population be co-opted by the communists in the North. And so they did have an incentive. And honestly, I think that was more important than the aid money.

But let me stop there, with – maybe the last thing is – it's some combination of I heard of do no harm when there's money flowing in, whether it's for development or democracy. Be careful about the harm it can do, the perceptions that it can create that are counterproductive. And at the same time, think in terms of building something so you're ready to jump. And think tactics, not strategy.

MR. FUKUYAMA: All right. Well, I guess it's over to me, again. So it's been a really, I think, impressive day, and a lot of really great comments. We have recorded all of this, so we will put transcripts up and we will have a certain number of papers to follow up. I hope the

Journal of Democracy gets some good ideas out of this. So I would really like to thank everybody for coming and participating today.

My hope is that we will – I'm going to give up the leadership of the Schwarz Forum in the summer, when I move, but my hope is that, in various guises, we can continue this discussion down the road. So just administratively, we have drinks in the next room. At 5:30, those of you that have RSVP'd for dinner at the Jefferson Hotel, which is just around the corner on 16<sup>th</sup> Street, we have a very –

SETH COLBY: (Inaudible, off mike.)

MR. FUKUYAMA: Oh, we don't? Oh, at the Jefferson, okay. So by 5:30, those of you that have RSVP'd, if you could – and it's called the – which room? The wine room? Something – it's like a wine cellar, with a replica Thomas Jefferson's dumbwaiter. So by 5:30, those of you that have RSVP'd, if you could make your way over there. Otherwise, I'd like to thank all of the participants – great day, thanks very much. (Applause.)

(END)