How did China Create “Directed Improvisation”?  

Posted on May 10, 2017  
written by Lant Pritchett  

Yuen-Yuen Ang, a Professor of Political Science at University of Michigan came to speak at Harvard the other day and I was lucky enough to hear her presentation. Her most recent book is How China Escaped the Poverty Trap, which is an original and insightful take on what is perhaps the biggest development puzzle of my lifetime: how did China escape from long-term stagnation and political chaos into the fastest and longest and most poverty reducing burst of economic growth in the history of humankind?  

Her framing of the fundamental problem is the conventional wisdom is that good institutions lead to greater wealth through higher levels of productivity and that greater wealth leads to better institutions. This obviously leads to a “chicken and egg” problem (metaphorically, this is not about real chickens (or cash)). Her unconventional insight is that this means the first challenge of development is to harness ‘weak/wrong/bad’ institutions to create markets.  

History has shown us that this first step of the chicken and egg problem of harnessing weak institutions to create markets is not at all an easy task. Gerschenkron's “advantages of backwardness”—the “advantage that, because the leading countries have pioneered technologies and industries, this makes it possible for the followers to progress more rapidly than their predecessors—are belied by the empirical experience of “Divergence, Big Time.” Most countries that began behind in the post World War II era have remained behind, and disturbingly, many gotten even further behind. And this divergence is not just in per capita income. The “big stuck” in state capability documented in our book demonstrates that (a) many countries in the world have weak state capability and (b) the measured progress in state capability is very slow.  

There have been three popular approaches to the “harnessing weak institutions to create markets” problem. One has been the idea to first “build institutions” by the creation of the forms and structures of governmental organizations (e.g. post offices, Central Banks, police forces) with the hope form will create function—or, more prosaically, “fake it till you make it.” Another has been more or less “big bang” efforts of market driven reform, on the presumption that freeing markets will lead to stronger institutions (or that both can be built simultaneously). A third has been to “integrate” and draw on the strength of existing institutions (like countries joining the EU).  

Professor Ang’s insight is that China recognized the weaknesses of each of those approaches and wanted to begin a process of “adaptation” and for that they needed to create conditions conducive to “directed improvisation.” In PDIA lingo this is the challenge of “authorizing positive deviation.”  

Her insight is that the central government in China had to balance between control that was “too loose” and control that was “too tight.” She shows that the central government issued directives of three types. One clearly prohibited local governments from doing some things. It was no question of “anything goes.” Another type of directive clearly mandated that all local governments had to do certain things. But the third type specified objectives but was deliberately vague about how to accomplish the objective and made it clear innovation was allowed but did not specify exactly what was allowed. This created a space in which local governments could create their own innovations and attempts that the central government might have never thought of, while at the same time, allowing the central government the space to claw back if things were headed in bad directions. This, she argues was central to China’s ability to (in our words) “crawl the design space” incrementally towards a market system. The organizational and institutional forms created on the path—like Township and Village Enterprises—were, as to be expected, unique hybrid forms. These allowed much of the functionality and dynamism of a market economy even before there were private firms and clear delineation of property rights.  

This insight about creating conditions in which local governments were allowed to pursue “directed improvisation” and not strictly limited to what was forbidden and what was mandated reminded me of the old saw about different types of approaches. In some countries “everything which is not expressly forbidden is allowed”, in others “everything which is not expressly allowed is forbidden”, some in which “everything is forbidden, even that which is expressly allowed” and those in which “everything is allowed, even that which is expressly forbidden.” The challenge of building prosperous economies...
and capable states is creating the conditions in which there is possibility of innovation and improvisation, while not pushing systems into chaos.

There are three points in the more general context of development.

First, this "directed improvisation" is not the same as "directed experimentation." That is, one might say that the path towards innovation is a series of centrally directed and tightly controlled "experiments" that are evaluated rigorously. But that approach has three important limitations. First, it can easily push responsibility for innovation away from the local back to the "top" and leave design to a centralized process. But precisely the reason for a decentralized approach to innovation is to get ideas no one would have thought of. Second, this process is too slow as a means of exploring the design space. As Nadel and Pritchett (2015) show, with even a modestly large design space and modestly sensitivity of success to design there are too many alternatives for a typical "design-implement-evaluate" process to explore. What is needed are many options being explored simultaneously, even with the capacity for real time adoption of design. Third, this approach implicitly assumes that organizational learning and organization capability building are two separate processes and that an organization can "juggle without the struggle." In fact, the process of doing the innovation is often what creates the capability to implement.

Second, the main challenge of development is not what donors or philanthropists or any other outsiders do or don't do, the main challenge is how governments (and societies more generally) can create conditions of a "good struggle" in which the authorization of positive deviation leads currently weak/bad/wrong institutions both to be able to delivery functionality of specific types and creates a long slog path to better institutions.

Third, even though donor and external agencies are not the principal actors, they can be a force for good or actually an obstacle. External funders have particular problems with directed improvisation. There are powerful pressures for donors to fund activities against a strict log-frame that specifies exactly what will be done by whom and when. This is a management and accountability structure to ensure against malfeasance so that all resources are disbursed only against the prescribed activities. But if all budget is locked into specific categories and even specific activities at the beginning of the project/program it is very hard to create space for a "search-frame" approach as the actors don't have free resources.

Professor Ang is making important advances in understanding how development can be made possible in her approach to Complexity and Development 2.0.

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