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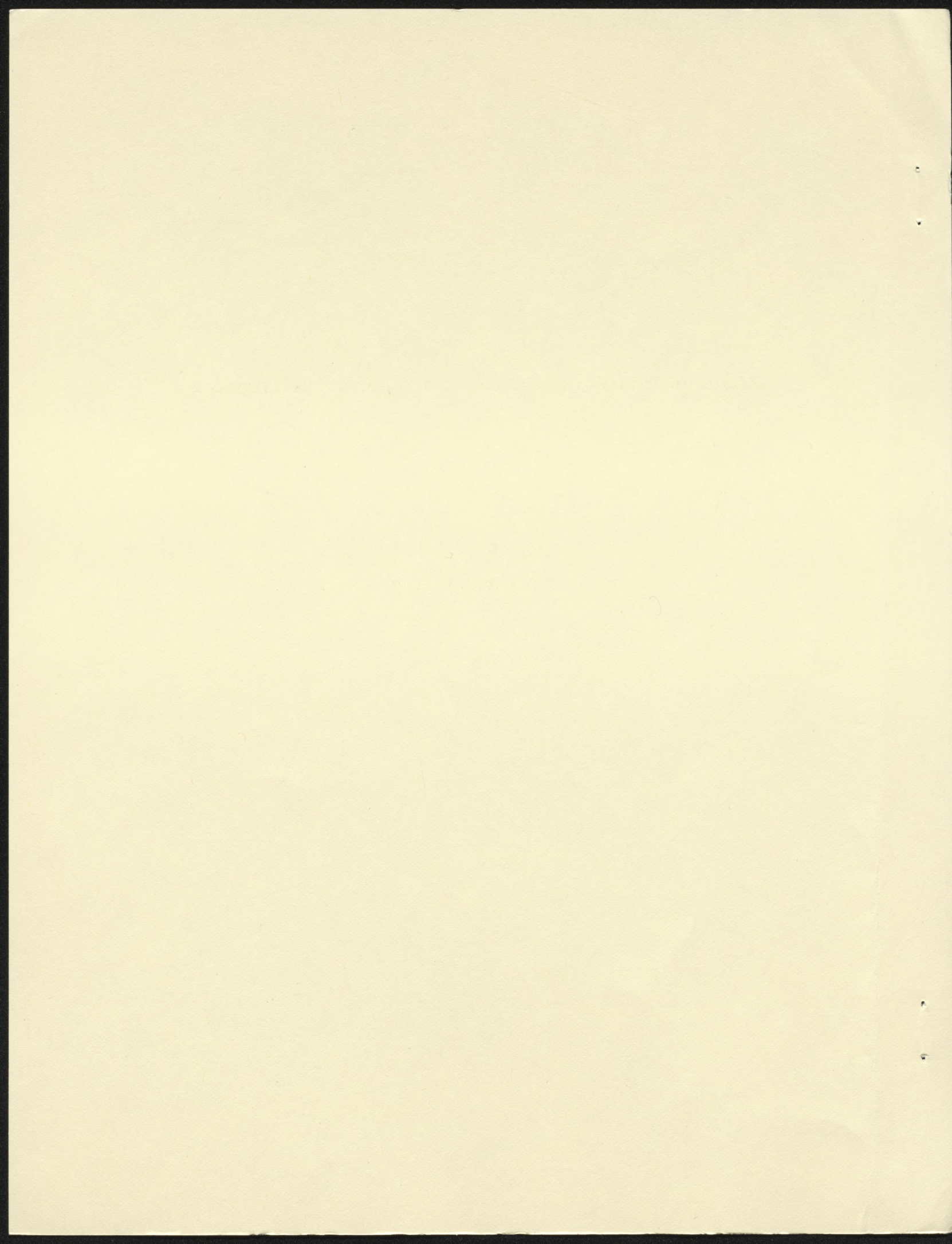
Robert H. Bates

**Macro-Political Economy
in the Field of Development**

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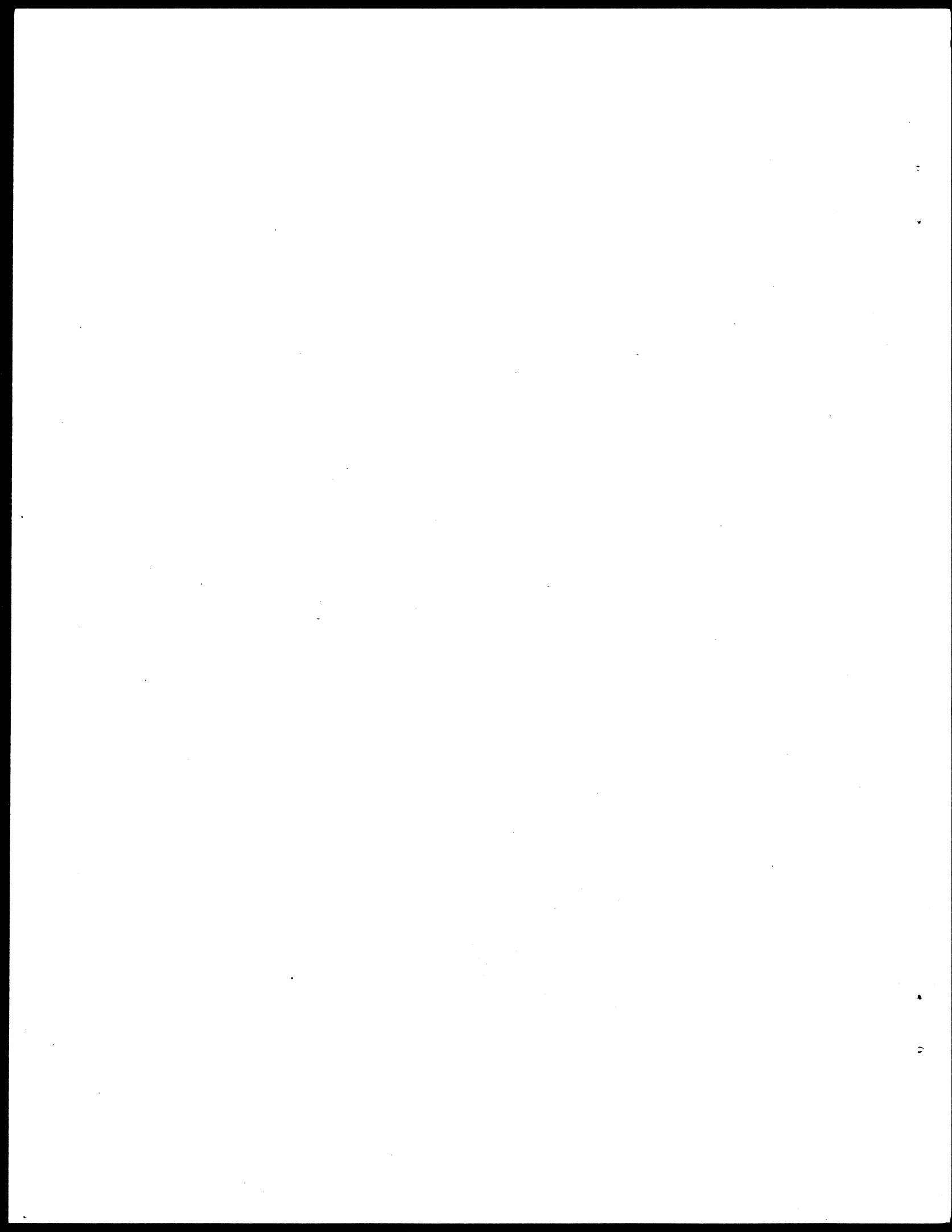
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Macro-Political Economy In the Field of Development

Robert H. Bates

Duke University

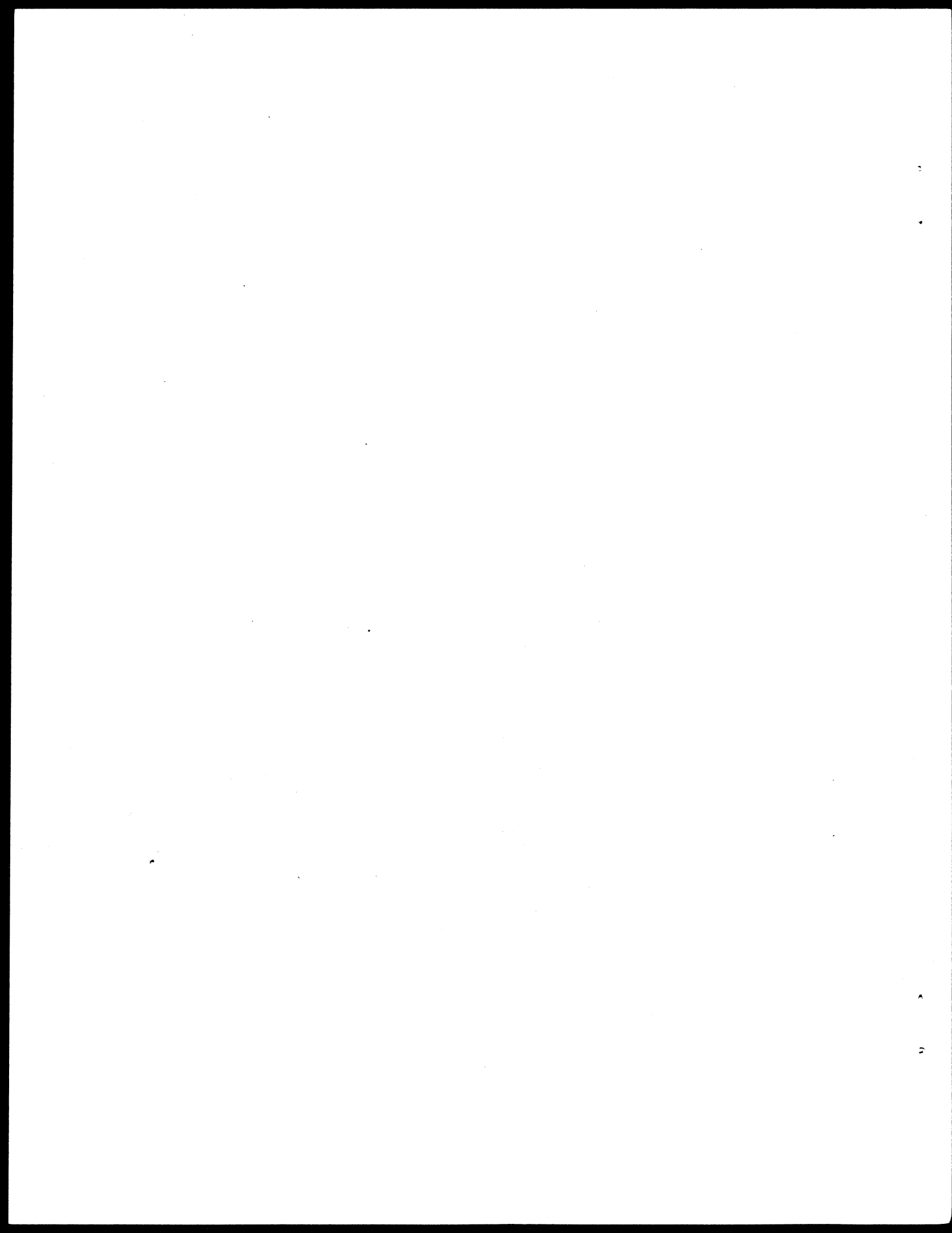


Abstract

In the development field, the modernization school placed too great a stress on tradition and constraint and accorded too small a role to choice and opportunity. The movement toward political economy represented an attempt to place development studies on choice theoretic foundations.

In the search for such foundations, some moved toward decision theory; others toward micro-economics. Both forms of reasoning overlooked a central analytic problem: that of aggregation.

This article seeks to convey and to criticize the major attempts to develop a theory of aggregation applicable to developing societies; to offer a theoretical alternative; and to highlight the frontiers of the political economy of development.



Macro-Political Economy in the Field of Development*

by

Robert H. Bates

Duke University

I work in the developing areas, particularly in Africa. This essay will therefore focus on the political economy of development.

In contemporary political science, the study of developing societies began in the 1950s. Cambridge provided the birth place for important traditions in the field and its content was shaped by the intellectual interests of its parents. They focused on the modernization of traditional societies. They focused in particular on the political significance of mass communications and of human culture.

As did so many of my generation, I made my way to Cambridge to train with the pioneers of development studies. In my early work, I largely adopted their definition of the field. But later I changed. The seeds of doubt had been planted early on, and they propelled me toward a political economy perspective.

Interests and Optimizing Behavior:

My dissertation focused on the role of the Mineworkers' Union and the United National Independence Party in implementing the government's labor policy in post-independence Zambia. Adopting the social-psychological approach which had dominated my graduate training, I attempted to explain the failure of the government's policy in terms of the inability of the union and governing party effectively to communicate the foundations for the government's labor policy: its wider national perspective, its development objectives, and its need to appropriate an investable surplus from the mining industry. The deficiencies of the union and political party as channels of communication between the government and the labor force, I argued, helped to explain the continued militancy of the laborers.

I still recall one of my professors, Myron Weiner, peering across at me while clutching a marked up copy of my thesis in his hand and saying: "Bob. I think you are wrong. I bet the workers know the government's position. I bet they understand the government's policies. They simply disagree." He was right, of course.

Upon reflection, it became apparent to me that the broader problem was that the study of communications and persuasion simply failed adequately to deal with the role of interests. Contemporary research into the study of framing and judgments has begun to span the divide between social psychological theories and theories of optimizing behavior.² But while I was a graduate student in the mid-1960s, the gap remained too wide easily to be transcended.

As I became more deeply involved in the study of Africa, I encountered data which weakened my commitment to a second mainstay of development field: the notion of culture. Largely through the work of Melville Herskovitz, Africa had provided one of the key illustrations of the power of culture: the so-called "cattle complex."³ Students of African culture noted the myriad ways in which cattle were used, not only -- or even principally -- for sustenance, but also for social and religious purposes. They stressed the "non-economic" role of cattle, arguing that the value placed upon them exceeded any possible value which would be warranted by the market. In support of this argument, they cited studies documenting the unwillingness of pastoralists to sell their cattle to meat packers and to reduce herd sizes, even in the presence of high

costs of herding and the low quality of grazing land. Persons caught up in the cattle complex, they argued in addition, proved uniquely resistant to change. They failed, for example, to send their children to school, to acquire literacy, or to move into modern occupations. The pastoralists' attachment to their cattle therefore demonstrated the power of culture, they concluded, and by implication the limited value of economic reasoning when applied to the developing areas.

As I immersed myself in African data, I encountered persuasive reasons to doubt the accuracy of this hypothesis -- and the intellectual position which it supported. I learned, for example, that much of the data on the pastoralists sale of cattle had been gathered from official government sources. The principal source for these data was a meat packing firm which had been licensed by the colonial government to function as a monopsonist when purchasing cattle and as a monopolist when selling meat. Government regulations were imperfectly enforced. And it was therefore unsurprising that the official data, collected by the licensed buyer of cattle, showed a low rate of cattle sales, while informal accounts, which took note of the unlicensed market where competitive prices were

offered, suggested a much greater willingness on the part of the pastoralists to market their cattle.⁴

Further reading disclosed other weaknesses in the notion of the "cattle complex." In accordance with comparative advantage, Africans practice pastoralism in the semi-arid zones; in addition, they run their herds on lands where private rights are sometimes poorly defined. For both reasons, they tend to run herds of greater size than western observers would consider optimal. For the outsider would not appreciate the level of risk which pastoralists face in their semi-arid environment; nor might the outsider initially appreciate how property rights weaken the incentives to restrict herd size so as to safeguard grazing lands. The tendency to hold herds of too great a size therefore could represent not any "non-economic" attachment to cattle but rather a rational response to economic incentives -- incentives created by an environment of risk and imperfectly defined property rights.⁵

What, then, of the resistance to change on the part of pastoralists? Why their apparent reluctance to invest in literacy, modern skills, or new occupations? One possibility, of course, was that the cultural theorists had again got their facts wrong; but a

careful appraisal of the data on cattle keeping, literacy, and urban migration suggested that they were right and that pastoralists were less likely to educate their children, export them to the cities, and place them in modern occupations.⁶ What field work revealed, however, was that the differences in the behavior between pastoralists and others did not reflect different cultural values, but rather different opportunities.

I drew this inference on the basis of intensive field work that I carried out in rural Zambia in the early 1970s. In the villages I studied, parents invested in their young. They did so by bearing the costs of their education and by equipping them with the skills with which to acquire high paying jobs. Given the patterns of development in Africa, this meant equipping them for jobs in the urban sector, particularly in public administration. Expenditures on the schooling and the education of children yielded, by my calculations, roughly a 9 percent rate of return, in terms of financial support received by parents in their old age.⁷

This reasoning suggests an explanation for the failure of the pastoralists to invest in a "modern" life style. For if the commitment to literacy,

education, and urban migration represents a form of investment, then the extent of these activities should vary with the magnitude of the costs of devoting resources to them. The magnitude of these costs is determined by the return the resources could earn in other activities. And, in the rural sector in Africa, the raising and breeding of cattle represents the major alternative investment. Investments in cattle yield a rate of return equivalent to the biological rate of increase in the herd, appropriately discounted for the risks. And given the growth of per capita incomes in Africa and the wealth-driven preference for meat, the economic rate of return is even higher than the physical rate of increase.

The implication is clear: Behavior which has been interpreted as the result of tradition, passed on by socialization and learning, can instead be interpreted as the result of choice, albeit choice made under constraints. Pastoralists do not resist modernization because they must, given the constraints imposed upon them by their culture; they resist modernization because they chose to do so. And a choice theoretic explanation proves more powerful; for it explains as well the behavior of those who do in fact choose to "modernize."

In the broader field of development studies, the cattle complex stood as a distinctive phenomenon, almost a curiosity which was trotted out, as it were, to demonstrate the power of culture. While the uncovering of alternative explanations should have proved unsettling to development theorists, because of the marginality of the phenomenon, it did not. Far more powerful and persuasive, rather, was the growth of rural rebellions.

By the tenets of modernization theory, rural, agrarian societies were classified as "traditional" and urban, industrial societies as "modern." As members of traditional societies, rural dwellers were held to be poorly informed, conservative, and politically passive; under the impact of education, the mass media, and urbanization, they became well informed, innovative, and politically aggressive. As recounted in Daniel Lerner's parable of the grocer and the chief, the modernization of traditional societies required the psychic transformation of those living in the rural areas.⁸

Upon undertaking field work in rural Africa, I rapidly discovered how misleading this framework could be. The rural dwellers I --and others-- encountered were not poorly informed. Field workers found

themselves repeatedly grilled about recent political events in the United States and queried about the details of contemporary American fads.⁹ Nor did villagers appear all that conservative. In "my" village I found repeated efforts at entrepreneurial behavior; and in an adjacent field site, my colleague, Thayer Scudder, chronicled the innovation of at least three major economic activities--fishing, cattle keeping, and cotton cultivation--in less than two decades.¹⁰ Nor did villagers prove to be politically inactive. "My" village had led an insurrection which tied down the Rhodesian army for several months in the early 1960s; and this insurrection paled in significance beside what peasant revolutionaries were beginning at this time to accomplish in Vietnam.¹¹

Many of us thus learned that rural dwellers were not poorly informed and tradition bound; rather, many were well informed and capable of altering their behavior. Nor was it because of the might of the mass media, of education, or of urban-industrial society that rural dwellers changed. Rather, they were the initiators, not just the recipients, of change. Above all, they proved perfectly capable of initiating political action.

Radical Political Economy

The rise of rural rebellion in Vietnam drew attention to the writings of Che Guevara, Fritz Fanon, Mao Tse Tung, and others who championed the peasantry as a revolutionary class.¹² Given that the modernization school had consigned the peasantry to the ranks of the politically passive, the school itself was discredited as a consequence of their revolutionary ardor. What rose in its place was a new form of political economy: the dependency school.

The dependency school possesses a fascinating intellectual parentage.¹³ Basically, however, it represents an analysis of the manner in which imperialism transforms the growth of capitalism from an intra-national into an international phenomenon. The process of exploitation, it is held, no longer takes place solely between classes within advanced industrial nations, but instead extends to the world system, wherein the advanced industrial nations extract surplus from the underdeveloped periphery.

To Marxists, this analysis explains why labor movements in advanced industrial nations had proven resistant to militant appeals and why class revolutions

instead broke out in pre-industrial societies. To others, it provided a general framework for understanding political violence in developing nations, and in particular in colonial societies. The dependency school provided a framework for understanding why the penetration of international markets and centralizing states into the agrarian societies of the third world should result in political violence.

Upon reflection, however, the dependency school itself proved unsatisfactory. It did so in large part because it exhibited many of the limitations of its predecessor. Rural, agrarian societies stood as passive victims, international capitalism as the active agent. More broadly, peripheral, developing societies lacked the capacity for choice; they were constrained by their location in the world economy. Both assumptions proved wrong.

From the dependency perspective, it proved anomalous that members of rural, agrarian societies could act as economic entrepreneurs, seek foreign investment, utilize it to enhance productive capacity, and prosper.¹⁴ It also proved anomalous that rural political leaders could act as political entrepreneurs and overwhelm the power of first world nations.

Moreover, as Bill Warren and others were quick to recognize, the dependency school strikingly underestimated the capacity of third world states to manipulate international trade to their advantage and to transform their domestic economies.¹⁵ As argued by Trimberger, Alavi and others, third world governments proved capable of exercising an autonomous political capacity for economic choice.¹⁶ In particular, they chose the manner in which they sought to position themselves with respect to international markets. Some, as in Africa, sought to withdraw defensively from them; others, especially in Asia, chose to aggressively compete. A primary difficulty with the dependency form of political economy, then, was that it failed to recognize the scope for choice in the third world and the magnitude of its significance.

The Limitations of Micro-level Reasoning

In search of choice theoretic foundations for the study of developing societies, many scholars turned to economic reasoning. Some turned to decision theory. Others turned to micro-economics. But both encountered severe difficulties, the most significant of which proved to be the problem of aggregation.

Decision Theory: Peasant rebellions in the underdeveloped world captured the attention of the profession. As already noted, they shifted the intellectual center from the modernization school to radical political economy. It was James C. Scott who in his classic The Moral Economy of the Peasant ¹⁷ shifted the center of the field by approaching a radical theme from micro-foundations borrowed from rational choice theory.

Peasants dwell on the margin of subsistence, Scott argued, and they are therefore risk averse. Employing an elementary model of risk aversion, Scott explained the apparent preference of peasants for economic, social, and political arrangements which yield a relatively low but certain reward as opposed to those which yield a higher average reward but also a higher probability of falling below the subsistence margin. In so doing, Scott "accounted for" many of the stylized facts characteristic of agrarian societies:

In the economic realm:

The conservative commitment to traditional crops which, while low yielding on average, yield reliably in good years and bad.

The preference for the growing of food crops as opposed to cash crops.

The failure to specialize in production.

In the social realm:

The preference for incorporative institutions, such as extended kinship and common property.

The preference for redistributive institutions.

In the political realm:

Patron-client relations, in which low wages are exchanged for certainty of employment.

The preference for proportional as opposed to fixed rate taxes.

More significantly, Scott accounted for peasant revolutions. Colonial powers promoted the spread of private poverty and the market and thus undermined social defenses against risk. In Vietnam, at least, they also changed the system of taxation. The result was that under colonialism the peasantry was left at higher levels of subsistence risk. Colonialism therefore violated the ethical foundations of peasant

society: the ethical premise that society be arranged such that no one lose their entitlement to subsistence. And the resultant moral outrage fueled the political insurrections which led to the overthrow of the colonial government.

Scott based his analysis on choice theoretic foundations. He accounted for collective behavior by showing how it was consistent with the rational behavior of individuals, given their individual preferences. And yet, as Popkin was quick to point out, Scott's account proved profoundly deficient.¹⁸ Scott may well have correctly characterized peasant preferences (although Popkin expresses doubts); but, Popkin argues, he failed to account for social outcomes. Between individual preferences and social outcome there falls the problem of aggregation. And, as Popkin so devastatingly exposed, Scott had left this problem unexplored.

For Scott, the practices and arrangements of pre-industrial society supplied outcomes which fully accorded with individual preferences. In this society, all risk averse agents received assurance of their subsistence entitlements. Moreover, when values were violated, then social checks were provided to protect them: the peasants rebelled.

The problem, of course, is that there is no reason to expect social outcomes to bear a systematic relationship to the preferences of individuals. For a variety of powerful and fundamental reasons, decisions reached by individually rational agents can result in socially irrational customs.¹⁹ As argued by Popkin, this problem arises with particular clarity with respect to the provision of public goods, and it proves devastating to Scott's analysis of peasant rebellion.

A pure public good is neither exhaustible nor excludable; if one person consumes it, its value to others remains undiminished. As a consequence, rational individuals will not incur the costs of creating a public good; each person does better waiting for someone else to pay for it and then enjoying its benefits for free.²⁰ All people might prefer that the public good exist, but no one is willing to initiate efforts to supply it. There is therefore a fundamental disjunction between individual values and social outcomes. Equally as important, the preferences of actors, and the assumption of individual rationality, fail to explain the collective outcome, for the outcome may well be unanimously non-preferred.²¹

With respect to collective goods -- such as the creation of new political orders or the making of

revolutions -- it is therefore inappropriate to reason from the level of individual values to the level of collective outcomes. As Popkin and others pointed out, attention must therefore focus on the key intermediate step: the process of aggregation, whereby individual preferences gain collective expression.

Market-based Reasoning: The search for choice theoretic foundations for the study of development also led to the use of market-based reasoning.

This was particularly true of the work of those who sought to account for divergent rates of economic development. Some scholars examined the relative rates of growth among contemporary developing nations. They stressed that the open economies of the newly industrialized nations did better than those which sheltered themselves from world markets. This was true historically, they argued. And it was particularly true during the 1970s, when those countries that altered domestic prices in response to the shift in world market prices brought on by the oil price shock recovered more quickly than did those that failed to pass on to domestic markets the prices prevailing in world markets.²²

Other scholars examined variations in growth rates historically, and they too explored the role of markets in leading rational decision makers to achieve the social good of rapid development. Some explained the successful rise of particular economies in terms of property rights. Given appropriate property rights, market forces would lead to the formation of prices that would equate at the margin the private with the social costs and benefits of economic alternatives, thereby generating incentives that would promote the efficient allocation choices by private decision makers.²³ Others emphasized the role of government policies. Some economies failed to grow because government policies generated dead weight losses by creating monopoly rents, distorting prices, and restricting the flow of resources into their most efficient use.²⁴

Particularly since the late 1970s, the use of market-based reasoning has won renewed respect in the development field. Some speak of a neo-classical revival, with a stress on the capacity of markets to orchestrate socially desirable outcomes from individually optimizing choices.²⁵ Others speak of the new development economics, with its assertion of the desirability of markets and its skeptical appraisal of

the role of governments.²⁶ Whatever its theoretical stance or its orientation toward governments, this thrust in the development field represents a sustained and concerted attempt to re-found development studies on choice-theoretic foundations. It too, however, confronts several basic problems.

As market-based theorists, practitioners of this form of development economics invoke the criterion of Pareto optimality. In some cases, they employ it to compare allocations made by politicians with those that would be generated by the market; in this way, they gain insight into the impact of politics upon the operations of the economy.²⁷ In other cases, they employ the Pareto criterion normatively, using it to assess the social costs of political decision making. In this way, they critique the actions of governments.²⁸

It is difficult, however, to employ Pareto optimality in either fashion. When used normatively, Pareto optimality presumes that economic efficiency provides a measure of what is socially best; but it can serve as a measure of welfare only if the endowments brought to an exchange economy are themselves just. Particularly in the context of development studies, this assumption is difficult to defend. For in many of

the markets of greatest significance to the developing countries, prices are formed as a result of bargaining between agents from the developed world, who enter the market richly endowed, and those from the developing countries, who enter it impoverished. It is therefore difficult to impute ethical properties to efficient allocations induced by market forces, or to censure on normative grounds politically induced departures from them.

In addition, the strongly normative orientation of those who employ market based reasoning appears often to detract from positive analysis. Institutions which yield allocations which are not Pareto efficient are held to impose social costs. They are therefore more condemned than studied by market-oriented scholars. And decision makers who chose to allocate resources in ways that do not conform to markets are often branded as "irrational". By implication, their behavior is placed beyond the scope of systematic study. Those seeking a choice theoretic framework for the study of development therefore often find the works of market-oriented theorists a disappointing source of insights.

Illustrative is the work that has grown out of the public choice tradition. Much of it is based on the theory of the predatory, the rent seeking, or the

revenue maximizing state. The common theme is that political activity imposes economic costs upon society.²⁹ The point, while perhaps a valid one, so dominates the analysis that it obscures deeper political questions. Why would rational political elites make socially irrational--i.e.inefficient--decisions? If groups in fact impose economic costs on the rest of society while reaping private economic benefits, how do they get away with it? The failure to address such questions leaves the politics of the process under analyzed, even while highlighting the normative lessons.

Lastly, market-oriented approaches fall victim to the same problem which bedevil the attempt to ground the study of development on decision theory: the problem of aggregation. Micro-economic theory contends that the market will generate prices that will furnish incentives for agents to allocate their resources such that no agent will chose unilaterally to alter its behavior. At such a point, no agent can be made better off without making some other agent worse off, and no agent will therefore willingly agree to depart from that allocation. As a method of aggregating individual preferences into collective outcomes, voluntary

exchange in markets therefore yields predictable results; it generates an equilibrium.

Economic theory also indicates, however, that markets behave this way only under very special circumstances. Common to many forms of market failure is the element of strategic behavior. Where one agent's conduct affects in a perceptible way the value of the outcomes associated with choices by other agents, then that other agent must choose strategically--i.e. make choices while taking into account the behavior of other agents. In strategic environments, rational choices by individuals no longer aggregate in well behaved ways. Equilibria may no longer exist; if they exist, they may no longer be unique. Under such circumstances, market-based reasoning may no longer give insight into collective outcomes.

Developing economies exhibit all the usual sources of market failure: poorly defined property rights, production externalities, incomplete markets, and so forth.³⁰ And, of course, developing economies, like all economies, require the formation of public goods. Law, order, justice and security, as well as roads, health and education, are relatively scarce in many developing societies, and are highly desired. Their

provision is frustrated by the inappropriate incentives that characterize all public goods and the difficulty of organizing collective action to secure their supply. In a public goods environment, maximizing behavior by private individuals simply will not yield the market equilibrium. Under such circumstances, market based reasoning therefore cannot explain how individually rational choices generate collective outcomes.

In an attempt to provide micro-foundations for the study of development, then, some social scientists turned to decision theory; many others turned to micro-economics. Both approaches sought to establish choice theoretic foundations for the study of development. The two approaches diverged radically in their normative position. For Scott and others, the market was unjust; it failed to guarantee subsistence to poor people. For many market economists, by contrast, market allocations furnish the basic measure of the public welfare. It is ironic, then, that the two approaches ultimately proved vulnerable to the same shortcoming: an inadequate theory of how the choice of individuals will yield collective outcomes.

Toward a Political Economy

What is needed, then, is a theory of aggregation. And the theory has to stress the aggregating role of institutions other than markets.

One such theory--the theory of collective action--stresses the role of interest groups; another--democratic theory--the role of parties and elections. Both contribute much to the political economy of development. But both also suffer severe limitations.

The Theory of Collective Action: The theory of collective action provides a form of political economy. As most often applied, it examines the behavior of individuals in market settings, but ones in which actors possess incentives to engage in strategic behavior. It is frequently used to account for political intervention in markets.

The theory begins by recognizing that prices in markets constitute public goods; arbitrage ensures that all agents face a single price in a market and all agents on a single side of a market therefore stand to benefit from a favorable shift in the market price. Governments possess the power to affect prices. They can regulate prices directly; or, by imposing tariffs, issuing licenses, or regulating production or

marketing, they can help to determine the level of market prices. But lobbying to secure governmental intervention is costly. Efforts to secure favorable protection from government therefore run afoul of the same incentives which confound the provision of other forms of public goods. Behaving rationally, individuals do better to let someone else bear the costs of lobbying and then receive the benefits for free. But when all agents free ride, favorable policies are not supplied, and economic interests remain unprotected.

How, then, do we explain the incidence and forms of protection that we commonly observe? Why in the developing areas do the small fraction of persons who work in large scale, urban industries receive tariff protection, for example, while the major portion of the population that works on small scale farms find their incomes undercut by cheap foreign imports? Why are markets subject to political rationing, such that markets become political machines? Why are large scale, inefficient firms protected by governments, while the small scale, relatively efficient informal sector is taxed? And why do fights over economic distribution become conflicts among ethnic communities?

A series of factors clearly affect the incentives to organize in efforts to shape government policy. They affect incentives to free ride. And they thereby help to explain why some interests prevail, while others loose out, in the struggle for economic advantage.

One factor is "size," by which is meant market share.³¹ When there is but one firm in a market, for example, then, if the benefits of protection exceed the costs, the firm will lobby for protection; there will be no incentives to free ride, for while the firm pays all the costs, it also captures all the benefits. And when there are but a small number of large actors, then it still may be individually rational for a single actor to bear the costs of supplying the collective good by lobbying for governmental protection; for each may be large enough that the benefits exceed the financial costs of lobbying. But when there are a large number of small agents--and large fixed costs of organizing--then the benefits to each from securing a rise in price may not exceed the costs of lobbying, and each, behaving rationally, may seek to free ride.

It is partially for these reasons that the large few may secure better deals from government than the numerous small. In the developing world the small

number of large firms in the "modern sector" may constitute more active lobbyists in defense of their interests than the large number of smaller producers in the rural sector. In many poor countries, family farmers "employ" the greatest number of workers and their output renders them the single largest economic sector. But being "small," peasant farmers possess weak incentives to engage in collective action. The size distribution of production weakens the incentives to organize in support of policies which enhance their collective economic standing. Government intervention therefore rarely promotes positive pricing policies for peasant farmers; to the contrary, it often violates their interests. Rural dwellers in the developing world are often subject to low price policies, and collective action helps to account for that significant fact.

The theory of collective action also helps to account for behavior which otherwise may appear anomalous--or irrational. Most persons in Africa, as elsewhere in the developing world, live in rural areas. And, for reasons just outlined, most of them are ill-favored by government policy. But rather than organizing in defense of their collective interests as peasant producers, they instead tend to organize in

defense of "traditional" ethnic claims. And rather than calling for the collective benefit of higher prices, these ethnic claims instead tend to take the form of demands for political spoils -- for the group's fair share of roads, clinics, and other divisible benefits.

Some have looked at this behavior and labeled it irrational: an example of the persistence of primordial loyalties and traditional cultural values. The theory of collective action provides an alternative interpretation.

The theory stresses that organization is costly, if only because the incentives to free ride must be overcome. Those seeking to organize are therefore more likely to appropriate existing organizations than they are to form new ones. Ethnic associations often offer pre-existing forms of organization in rural Africa, whereas farmers' associations must be created. Moreover, given the numerous linguistic communities in Africa, it is often far easier to mobilize within existing language groups than it is to organize across them; and those seeking to secure resources may therefore seek to organize subsets of the rural community rather than farm interests as a whole. Consideration of the costs of organizing therefore

helps to account for the relative attractiveness of narrower appeals, made on ethnic lines.

The theory of collective action also stresses the role of selective incentives: costs or benefits which can be conferred contingently depending upon the performance of a desired act. When armed with selective incentives, a political entrepreneur can reward those who contribute to the collective good and penalize those who fail to do so; political contributors then no longer find it in their interests to free ride. Political entrepreneurs may therefore concentrate their energies on manipulating selective benefits in efforts to build effective political organizations. And it is therefore not surprising that we find rural political organizations featuring claims for such divisible benefits as schools, roads, and clinics, rather than such collective goods as the structure of relative prices.

Consideration of the costs of organizing and of the role of selective incentives thus helps us to understand why rural political organizations may take the form of ethnic groups as opposed to producer associations, and groups which seek governmental efforts to supply divisible improvements rather than more favorable producer prices.³² Ethnic groups are

not formed because producers and politicians are irrational. Rather, they are formed precisely because rural dwellers--and political organizers--respond rationally to incentives.

The theory of collective action thus provides insight not only to the incidence of effective political action but also into its form. There are significant limitations to the theory, however, and these warrant great emphasis.

As a theory of government, the theory of collective action constitutes a species of capture theory. It provides a theory of the political action that reduces the interests of the public sector to the subset of economic interests that have become organized. But, as already intimated, the act of organization is often performed by politicians. And the theory of collective action too often omits these agents from consideration, and the significance of the institutional incentives that motivate them.³³ The result is that the theory may provide an account of policy formation that is incomplete or wrong.

The theory of collective action offers a theory of capture: it explains market intervention as a response to the impact of organized interests. But many

accounts of governmental intervention suggest a different dynamic. They suggest that organization follows governmental intervention rather than preceding it.

In the developing areas, politicians intervene in markets; the reasons often have to do with ideology or conceptions as to how development can be achieved (as by shifting resources from agriculture to industry). Often the consequence is the alteration of prices in some market; for illustrative purposes, we can assume that prices are lowered. The result of this shift in prices is the failure to achieve market equilibrium; when prices are lowered, the quantity demanded exceeds the quantity supplied. Those in charge of the governmental program thereby gain the opportunity to ration; they can channel benefits to those who support them, withhold benefits from those who oppose them, and thereby build a loyal constituency for themselves and the programs that they control. The benefits that the politicians allocate are, of course, worth more to the large economic interests. Large interests therefore become the most vocal clients of public programs, lobbying to maintain them and the benefits that they provide.

The theory of collective action would interpret this pattern as suggesting that large interests organize, support politician who promote key programs, and thereby extract collective benefits from government. But, as just narrated, the causal process may actually run in the opposite direction.³⁴

This difference in interpretation proves critical. For if it is correct, then we must look to factors that the theory of collective action ignores. We must look to the political incentives that shape the economic choices of politicians; for, by this analysis, they are not perfect agents of economic interests, but rather possess distinctive political incentives of their own. It therefore becomes essential that we understand the nature of the political problems that they seek to solve when making economic policy. We must also look at the ideologies that motivate their interventions. If politicians are in fact the initiative takers, we must turn our attention from the economic forces that promote demands for political intervention to the political forces which shape its supply.³⁵

These comments serve to underscore the significance of another factor left out of the logic of collective action: the institutional structure of politics. If efforts by economic interests to collude

are subject to the incentives of free riding, then those interests which gain access to state power may be in a position more effectively to organize in defense of their common interests than those who are excluded. Backed by the coercive power of the state, they can sanction free riders and police and enforce agreements that restrain competition. The implication is clear: Insofar as the constitutional order facilitates access to state power, it thereby apportions the capacity to organize. The constitutional structure thus helps to determine which interests can, or cannot, shape collective outcomes by engaging in collective action. It helps to determine which economic interests are politically effective.

In the 19th and early 20th centuries, for example, the industrializing states treated trade unions as illegal combinations, even while stabilizing cooperative agreements that restricted competition by firms. Changes in the franchise that gave greater power to the working classes later made it possible for defenders of labor's collective interests to pass new laws. Legislation made it possible for labor to coerce free riders, as by imposing closed shop agreements. These politically supplied innovations enhanced the bargaining power of labor. Evidence of the

significance of the legal order in the less developed countries is offered by the contrasting positions of agricultural interests in the colonial states of Africa. In Ghana, indigenous farmers were excluded from the interests represented by the colonial government; in Kenya, settler dominated the colonial legislature. Farmers in Kenya could legally sanction competitive behavior by their own kind, actions which in Ghana were treated as illegal restraints of trade. The result was that farmers in Kenya used their control over the state legally to collude, to restructure markets, and thereby to extract profits which exceeded the levels attainable in competitive markets. By contrast, farmers in Ghana were compelled to compete; collusion on their part was ruled illegal. As a result, other economic interests and, in particular the large commercial trading firms that were allowed by the state to organize, set prices against the farmers and extracted revenues from them.³⁶ The constitutional order thus allocates the right to organize, and thus determines which economic interests become organized and effectively engage in collective action.

The theory of collective action supplies a means for analyzing the aggregation of interests that both accounts for the incidence and the form of interest

aggregation. But it omits from consideration the impact of political facts--such as the independent motivations of politicians and the structure of political institutions. It thereby threatens to miss-specify the relationship between interest group formation and policy choice. This and other instrumentalist theories--capture theory, the theory of rent seeking, and so forth--thus may require basic reinterpretation. For the analysis should, it would appear, begin with the political.³⁷

Democratic Theory: Perhaps no other field in the social sciences has focused so centrally on the problem of aggregation as has democratic theory. Those studying voting and majority rule have characterized the way in which the preferences of rational individuals translate into collective choices. The principal lesson is that in general, one cannot expect an equilibrium to exist; and, as any outcome can be defeated, political decisions represent arbitrary outcomes. The most general elaboration of this conclusion is contained in the famous chaos theorems, as by McKelvey, which indicate that the non existence of a majority rule equilibrium implies that virtually any policy outcome is possible.³⁸

One implication is normative: one cannot attribute superior ethical properties to outcomes that evoke the support of a majority. Equally as significant are the implications for positive analysis. Clearly political outcomes do tend to be more stable and more predictable than we would expect, given that the choices made under democratic procedures could in principle wander all over the space of possible outcomes. The research task, then, is to identify the additional constraints that appear systematically to restrict and thereby to account for the range of political outcomes.

Some scholars have investigated the impact of control over the agenda.³⁹ If any outcome can defeat any other outcome, then the order in which alternatives are subject to consideration will determine which outcome survives. This insight has been exploited to examine the impact of rules and procedures over policy making; to account for the political power of parliamentary leaders, i.e. those who control the sequence and order of legislative deliberations; and to explain the power of legislative committees.⁴⁰

Scholars have also investigated the impact of institutions. Shepsle and Weingast, for example, demonstrate how the rules of the United States Congress

induce a stability and predictability of public policy, when arbitrariness might be expected.⁴¹ Subsequent researchers have investigated the role of amendment procedures and the committee system in influencing legislative choices.⁴²

In the face of the progress of this research, development specialists can only experience great frustration. For democratic institutions far less commonly exist in the developing nations than they do in the industrialized world. Moreover, political institutions in the developing world tend often to be more fragile: they are less constraining and more frequently changed. The methods of analysis which have so powerfully illustrated the impact of institutions on the way in which the preferences of individuals aggregate into collective outcomes in democratic societies therefore offer little assistance to those who are attempting to develop a theory of governmental behavior relevant to developing societies.

Some general lessons go through, of course. Faced with the lessons of the chaos theorems, for example, development specialists can readily critique policy proposals which stress political participation as a way of securing optimal levels and mixes of public services. These policy proposals are advanced by

social democrats, who believe that more participation is better than less, and public choice theorists, who seek decentralized means of bidding for public goods. And understanding the conditions of Black's Theorem helps to shed light on the significance of restricting the range of preferences, either by coercion or indoctrination, for the attainment of political stability; conversely, it illustrates as well why cultural complexity may produce turmoil in countries experimenting with democratic procedures.⁴³

Moreover, even when democratic institutions do not exist on a national level, majority rule may be used in more restrictive domains. It may be employed in local councils, for example. Or key administrative committees may employ voting when allocating such important resources as licenses, contracts, or foreign exchange. In such settings, the insights that have been achieved about the impact of agendas and other institutional features upon political outcomes would of course be relevant.

In general, however, outside of offering an interpretive heuristic or a set of tools for understanding relatively restricted phenomena, this major stream of political investigation proves a disappointing source of theory for the study of

governmental behavior in the developing countries. For the basic conditions which support positive political analysis--electoral accountability and the existence of well defined institutions--prevail but ephemerally in the less developed societies, by comparison with the advanced industrial nations.

Quo Vadimus?

Many of us in the development field were drawn to political economics because we sought an approach that would emphasize the centrality of choice. We have moved away from the heavily market-oriented approaches from which many initially took guidance. And we have given increased recognition to the way in which political facts--the interests of politicians and the power of state structures--help to determine which material interests can make an impact upon collective outcomes. We are frustrated, however, by our inability to adapt many of the tools forged for the study of aggregation to the developing areas. In environments relatively bereft of democratic institutions, we find ourselves unable to make strongly predictive statements about how the choices of rational individuals are likely to yield collective outcomes.

Nevertheless, in a situation of such seeming adversity, those who work in the development field possess exciting opportunities. The most significant of our advantages is the broad overlap between problems central to the field of development and those relevant to political economy. Normal progress in the one field offers the prospect of breakthroughs in the other.

The Study of Institutions: Distinctive of much work in contemporary political economy is a concern with institutions. Distinctive to the developing areas is the multiplicity of institutions, particularly in the political arena. I have already stressed their changeability and the difficulty this creates. What I wish now to stress are the advantages. The very impermanence of political institutions in the developing areas underscores the degree to which these institutions are themselves objects of choice.

One implication is that those studying the developing areas stand in a position to work on a subject that stands at the very frontier of the field of political economy: the problem of institutional origins. Another is that by working on this problem they can generate results that will themselves feed back into the development field. Researchers stand poised to return to one of the basic foundations of the

political economy of development -- those that rest on Marxism.

I have argued that for many in the development field the movement towards political economy represented a search for choice theoretic foundations. For many purposes, choices are best analyzed while treating institutions as constraints. But, especially when longer time periods are analyzed, factors that are treated as fixed can instead be regarded as variable. One of the characteristics that distinguishes the development field from other fields of social science is that it analyzes change in the long run. As a consequence, students of development can treat institutions as endogenous. And when they do so, there opens up an exciting topic for research: the relationship between capital and institutions.

The factor of production that generates inter-temporal change is capital. In particular, growth occurs when individuals chose at one time period to withhold resources from present consumption to form capital and thereby to create enhanced economic possibilities in later time periods.

Because capital is inter-temporal, the decision to invest is inherently shrouded in uncertainty. It would

be prohibitively costly to write contracts that would foresee all possible contingencies; and it is therefore impossible to form markets in which persons could exchange such contracts and thereby organize investment programs that would be optimal, given their preferences.

A major implication is that there are strong incentives to create institutions to compensate for the poor performance of capital markets. Both those who demand capital and those seeking to invest possess strong incentives to innovate institutions that reduce risks and thereby facilitate mutually beneficial investments.

For two reasons, potential investors in the developing areas would possess particularly strong incentives to create new institutions. Insofar as the developing areas are characterized by a low stock of capital, the value at the margin of new investments should be high; opportunities yielding a high level of return remain as yet unexploited. Secondly, capital markets remain poorly developed; property rights are ill-defined, or defined in such ways as to make it difficult to collateralize loans; and government regulations limit the pooling of risks on national or international markets. Both those who demand and those

who supply capital to the developing areas are therefore strongly motivated to develop institutions designed to lower risks.

The formation of capital is central to development. And, for the reasons just given, those who seek to augment the capital stock of the less developed countries often find it necessary to play a major role in the creation of institutions. Capital markets therefore become a prime source for the innovation of non-market institutions in the developing world.⁴⁴ Realization of the full potential of this line of reasoning represents one of the most productive margins of the research frontier of the political economy of development.

Adding to the luster of the topic is a profound sense of intellectual closure. Classically, the study of capital has played the central role in the analysis of development. And a principal insight of Marxism is that capital not only determines the productive potential of the forces of production but also evokes adjustments in the relations of production. Marxist theory has failed to provide an adequate account of the causal linkages between the institutional and economic levels of analysis. The line of investigation

advocated here is exciting precisely because it offers a means of closing that analytic gap.⁴⁵

The Politics of Adam Smith: A second topic promises to promote a fertile interchange between development studies and political economy: the study of the political introduction of markets.

In the contemporary era, the World Bank, the International Monetary Fund, and the bilateral aid agencies of most western nations seek to promote the use of markets in developing countries. In this they are aided by the burden of debt that many developing countries bear. For to qualify for further lending, the developing nations must agree to adopt economic policies prescribed by their creditors. And among the foremost of the conditions imposed for further lending is that third world governments liberalize their markets. Governments in the developing world are being asked to abandon attempts to allocate administratively key resources -- food, credit, and foreign exchange, for example -- and instead to let market forces determine their allocation.

In the contemporary developing world, then, markets are being created as political acts. Just as the classical economists and the politicians of their

time debated the repeal of the Corn Laws, so too are intellectuals and politicians in the developing world now debating the liberalization of key markets. Political conflict focuses on the issues of openness and free trade. Some countries, such as Ghana, appear to have shifted from interventionist policies to policies favoring the use of market forces; in Zambia, by contrast, political reactions against the formation of market prices for the allocation of foreign exchange led to the termination of relations with international creditors. In some countries, as in the Southern Cone of Latin America, the movement toward markets has led to violence; in others, it has been peacefully achieved.

What accounts for the variance in the political support for the introduction of markets in less developed countries? Why have political leaders in some countries been able to win popular support for market based policies, whereas in others, interventionist programs prevail? Why are there no political parties in Black Africa which see it in their interest to campaign as parties on the right, championing less government intervention rather than more? Investigating questions such as these would lead

to an exploration of the political preconditions for the existence of free markets.

Just as the study of capital will lead students of development to the analysis of the Marxian foundations of political economy, so too, then, will the study of the structural re-adjustment of third world economies lead them to the analysis of the Smithian roots of the discipline.

Discussion: In closing, it might be useful to offer a schematic characterization of the political economy approach and to highlight the factors which differentiate it from others. Our critique of the earlier approaches suggests that they can be contrasted in terms of the position they take with respect to four key postulates.

1. The individual actor is the basic unit of analysis.
2. Individuals--including politicians--are rational.
3. Politics is relatively autonomous; institutions create incentives for politicians.
4. Individual rationality implies social rationality.

Table 1 records the different stances taken by each of the approaches to these four assertions.

I have already identified two frontier topics in the political economy of development. By way of conclusion, it may be useful to return to the second. For a further discussion of the politics of the transition to markets provides a way of highlighting the distinctive properties of the political economy perspective and, in particular, of distinguishing it from the market-oriented approaches with which it is often confounded.

There exists at present a strong demand for the strengthening of markets in the developing areas. This demand is most forcefully articulated by such international agencies as the World Bank and the International Monetary Fund. It is also articulated by neo-classical development economists, who point to the losses of efficiency and the destruction of incentives brought on by government "interference".⁴⁶ It is less frequently articulated within the developing countries that stand as the intended beneficiaries of market liberalization.

According to conventional economic reasoning, under free markets, all parties would be better off; and rational individuals should therefore agree to let the market govern the allocation of resources.⁴⁷ But because of their endorsement of postulate 4, market-

oriented economists lack the tools adequately to account for the opposition of third world governments to the introduction of markets. But because of the stand it takes to this postulate, the political economy approach finds this behavior less difficult to explain.

By premise 3, political institutions stand relatively autonomous from the economy; they therefore create incentives of their own. And, by premise 2, politicians, behaving rationally, will respond to these incentives. Behaving rationally, politicians may therefore make political choices which are individually rational but economically perverse, as noted in postulate 4.

Armed with these assertions, we can begin to understand why rational politicians may favor policies that distort markets. When governments shift prices away from those which would prevail at market equilibrium, they create an imbalance between supply and demand; private sources of supply leave the market; and the good sold in that market rises in value as demand exceeds supply at official prices. The result is that officials who control the market now control a good which has achieved new value. Additionally, they have created the opportunity to ration: to give the good to some and to withhold it from others.

Government intervention in markets thereby creates the capacity to form patron-client networks, or political machines. Through the controlled market, public officials can organize a group of faithful supporters who owe their possession of the valued commodity--now rendered scarce by government policy--to official favor.

We thus can understand the political utility of market intervention. And we can therefore better understand why strategies of market intervention may be chosen by politicians. The political economy perspective also casts light on the persistence of market intervention. In particular, it helps to explain why, even though all may be made better off from the promotion of markets, there may be few organized demands for government withdrawal from them.

Premise 3--the assumption of individual rationality--explains in part why this is so. Many individuals, behaving rationally, exhibit an aversion to risks. Many therefore prefer the certainty equivalent of the incomes they receive in the regulated market--be it ever so low--to the possibly higher but future--and therefore inherently uncertain--incomes they would receive in the unregulated market. The stance taken with respect to premise 4 also contributes

to the analysis. For even were all individuals certain that they would benefit from the free market, behaving rationally, they might fail to engage in efforts to force the government out of the market; for there may be benefits to free riding--to letting others pay the costs of political action, while seeking to secure the economic benefits for free.

Why, then, would not politicians intervene and provide the necessary organization? We have already explained why it is individually rational for a politician to advocate government intervention; the regulation of markets facilitates the construction of political organizations. When all politicians pursue their individual political interests, however, then the costs to society exceed the private benefits; and political leaders, and followers, may come to realize that there are better forms of economic management. But--and this is what is critical--no single politician can afford unilaterally to initiate a program of economic reform. For if one politician unilaterally renounces the apportionment of special benefits, then that politician's rivals would be in a position to gain a political advantage by defending the fortunes of interests that prospered by receiving special favors. For any politician to commit to a program of withdrawal

from the market, that politician will have to act in concert with others. And such organized withdrawals will be difficult to achieve, given the temptation to reap the short-run political rewards to be gained by protecting those who owe their special fortunes to the structure of protection provided by l'ancien regime. Once again, as emphasized in postulate 4, there is a disjunction between collective and individual rationality.

Market-oriented reasoning emphasizes the benefits of the market; it stresses individual rationality; and given the power of the analogy of the hidden hand, it presumes that rational individuals will secure any social outcome which they unanimously prefer. Political-economic reasoning would also emphasize the benefits of the market; it too would stress the rationality of individuals. But it sees many reasons, some arising precisely from the rationality of individuals, why markets may not be created in situations where persons would benefit from their introduction. It provides insight into why economic policies, which might enhance the collective welfare, would not be provided politically, even by rational individuals.

Conclusion

In political science, a commitment to choice-theoretic reasoning is often equated with a commitment to market economics. And, indeed, in the early days of rational choice theorizing in political science, it was as if the prize went to those who could make the analysis of politics resemble as much as possible the analysis of economies.⁴⁸ I have therefore ended this essay by addressing a topic in political economics in an attempt to highlight the distinction between political economy and the use of market-based reasoning, particularly in the field of development.

There is a second reason for ending this essay in such a manner: to achieve a sense of closure. For I began it by shouldering aside, as it were, the contribution of cultural studies. But now at the end, I want to return to this scholarly tradition. For having ventured into the field of political economy, scholars have acquired new tools; and that it may now be time for them to return with these tools in hand to analyze the significance of distinctive values and institutions. Who can fail to appreciate the opportunity offered by contemporary game theory to provide a formal structure for kinds of symbolic displays analyzed by Goffman or Geertz, for example?

Work on games of imperfect information offer grounds for analyzing their powerful insights into the subjective side of influence and power.⁴⁹ And who can fail to appreciate the significance of models of collective choice for the analysis of such institutions as lineage systems, village councils, or systems of traditional authority? Already some scholars have recognized the value of applying these tools. One can hope that their contributions represent but a beginning of a new tradition of research into the properties of significant institutions.⁵⁰

Nothing I have said in this essay calls into question my conviction that the particularities of specific cultures count. For anyone working in other cultures it is perfectly obvious that peoples' beliefs and values matter; so too do the distinctive characteristics of their institutions. What needs to be elaborated, rather, is the manner in which these factors systematically shape collective outcomes. A major attraction of the theories of choice and human interaction that lie at the core of contemporary political economy is that they offer the tools for causally linking values and structures to their social consequences.

In the early years of political economy, "rational choicers" posed as revolutionaries, attacking their sociologically minded brethren. Now it may be time to promote the synthesis and re-integration of these traditions. Because they work in cultures possessing distinctive beliefs, values, and institutions, those studying the developing areas may be best placed to take this important step.

* I wish to thank John Aldrich, William Bianco, James Alt and Kenneth Shepsle for comments on this paper.

² See the collection in "The Behavioral Foundations of Economic Theory," edited by Robin M. Hogarth and Melvin W. Reder, a special issue of The Journal of Business 59, 4(October 1986).

³ See Melville J. Herskovitz, "The Cattle Complex in East Africa," American Anthropology, New series 28 (1926):230-272, 361-380, and 633-669.

⁴ See the discussion of the Liebeg's plant in Alan H. Jacobs, "Pastoral Masai and Tropical Rural Development" in Agricultural Development in Africa, ed. Robert H. Bates and Michael F. Lofchie (New York: Praeger, 1980). See also the discussion in R. L. Tignor, The Colonial Transformation of Kenya (Princeton, N. J.: Princeton University Press, 1976) and J. Forbes Munro, Colonial Rule and the Kamba (Oxford: Oxford University Press, 1975). The works of Harold Schneider did much to disabuse the wider profession of its credence in the cattle complex. See, for example, Harold Schneider, Livestock and Equality in East Africa: The Economic Basis for Social Structure (Bloomington, Indiana: Indiana University Press, 1979).

⁵ See also Robin Fielder, "The Role of Cattle in the Ila Economy," African Social Research 15 (June 1972):327-61.

⁶ See the data in chapter 8 of Robert H. Bates, Rural Responses to Industrialization (New Haven and London: Yale University Press, 1976).

⁷ Ibid.

⁸ Daniel Lerner, The Passing of Traditional Society (New York: The Free Press, 1958). See as well, Karl Deutsch, Nationalism and Social Communications (Cambridge, Massachusetts: M. I. T. Press, 1953). See also Everett M. Rogers, Diffusion of Innovations (New York: The Free Press, 1962).

⁹ The favorite political topics were racial tensions in the United States; the favorite cultural topic, mini-skirts.

¹⁰ See, for example, Thayer Scudder, "Man-made Lakes and Social Change," Engineering and Science 29, 6 (1966):18-22.

¹¹ Many of us in the development field began fully to comprehend what we had been told by Barrington Moore in a half decade before: that rural dwellers provided the revolutionary class of our time. See Barrington Moore,

The Social Origins of Dictatorship and Democracy

(Boston: Beacon Press, 1966).

¹² For a useful collection, see Norman Miller and Roderick Aya, eds., National Liberation (New York: The Free Press, 1971).

¹³ See the discussion in Alain de Janvry, The Agrarian Question and Reformism in Latin America (Baltimore, Md.: Johns Hopkins University Press, 1981) and Gabriel Palma, "Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment, World Development 6 (1978):881-924.

¹⁴ See, for example, the materials contained in Polly Hill, The Gold Coast Cocoa Farmer (London: Oxford University Press, 1960) and The Migrant Cocoa Farmers of Southern Ghana: A Study in Rural Capitalism (Cambridge: Cambridge University Press, 1963).

¹⁵ Bill Warren, "Imperialism and Capitalist Industrialization," New Left Review 81 (1973):3-44.

¹⁶ See Ellen Kay Trimberger, "A Theory of Elite Revolutions," Studies in Comparative International Development 7 (1972): 191-207 and Hamza Alavi, "The

State in Post Colonial Societies: Pakistan and Bangladesh," New Left Review 74 (1972):59-81.

¹⁷ James C. Scott, The Moral Economy of the Peasant (New Haven and London: Yale University Press, 1976).

¹⁸ Samuel P. Popkin, The Rational Peasant (Los Angeles and Berkeley: University of California Press, 1979).

¹⁹ See the classic analysis in Kenneth Arrow, Social Choice and Individual Values (New Haven and London: Yale University Press, 1968). See also the analysis of the implications of collective dilemmas, particularly the prisoners' dilemma, contained in Russell Hardin and Brian Barry, eds. Rational Man and Irrational Society? (Beverly Hills: Sage, 1982).

²⁰ For a readily accessible general treatment of market failure, see Dennis Mueller, Public Choice (Cambridge: Cambridge University Press, 1979).

²¹ Examples are provided in Peter Fishburn, "Paradoxes of Voting," American Political Science Review 68 (1974):537-47. See especially the "dominated winner paradox," in which a commonly employed voting procedure can lead to the choice of an alternative, "y", even though every voter would prefer another alternative, "x", to "y".

²² Of special interest here is the work of Bela Balassa. See, for example, his articles: "The Newly-Industrializing Developing Countries After the Oil Crisis," Weltwirtschaftliches Archiv 117 (1981):1027-38 and "Structural Adjustment Policies in Developing Countries, 1978-1990," World Development 10 (1982):23-38. See also World Bank, World Development Report, 1987 (Washington, D.C.: IBRD, 1987).

²³ Douglass C. North and Robert Paul Thomas, The Rise of the Western World (Cambridge: Cambridge University Press, 1973).

²⁴ See, for example, Deepak Lal, The Poverty Of 'Development Economics', Hobart Paperback 16 (London: The Institute of Economic Affairs, 1983) and Ian M. D. Little, Economic Development: Theory, Practice and International Relations (New York: Basic Books, 1982).

²⁵ The phrase is Little's. See his Economic Development.

²⁶ See, for example, the discussions in Robert H. Bates, ed. Toward A Political Economy of Development: A Rational Choice Perspective (Berkeley and Los Angeles: University of California Press, 1988).

²⁷ Robert H. Bates, Markets and States in Tropical Africa (Berkeley and Los Angeles: University of California Press, 1981).

²⁸ Lal, The Poverty and Little, Economic Development.

²⁹ See, for example, T. N. Srinivasan, "Neoclassical Political Economy, the State and Economic Development," Asian Development Review 3 (1985):38-58; Deepak Lal, "The Political Economy of the Predatory State," Discussion Paper, Development Research Department, World Bank, June 1984; and Anne O. Krueger, "The Political Economy of the Rent Seeking Society," American Economic Review 64 (1974):291-303. A useful collection is provided in David C. Colander, ed., Neoclassical Political Economy: The Analysis of Rent-Seeking and DUP Activities (Cambridge, Mass.: Ballinger Publishers, 1984). For correctives, see Margaret Levi, Of Rule and Revenue (Berkeley and Los Angeles: University of California Press, 1988) and Barry Ames, Political Survival (Berkeley and Los Angeles: University of California Press, 1987)

³⁰ Historically, the potential for external effects led to the endorsement of "big push" efforts at industrialization. As guardians of the collective welfare, the government was held to be more sensitive

to the external benefits created by a productive investment than would private firms. See R. Nurske, Problems of Capital Formation in Underdeveloped Countries (Oxford: Basil Blackwell, 1953); P. Rosenstein Rodan, "Problems of Industrialization of Eastern and South Eastern Europe," Economic Journal (June-September 1943); and Tibor Scitovsky, "Two Concepts of External Economies," Journal of Political Economy (April 1954). As Lal and other critics presciently point out, there is no particular reason to expect governments to make the correct choice either. The failure of private decisions may imply the necessity for public ones, but not their correctness. See Lal, The Poverty.

³¹ This discussion follows portions of the line of analysis developed in Mancur Olson, The Logic of Collective Action (Cambridge: Harvard University Press, 1965).

³² See the discussion in Donald Rothchild and Victor Olorunsola, eds. State Versus Ethnic Claims: African Policy Dilemmas (Boulder, Colorado: Westview Press, 1983) and also the discussion in Donald L. Horowitz, Ethnic Groups in Conflict (Berkeley and Los Angeles: University of California Press, 1985). For a treatment which stresses the role of cultural symbols, see

Crawford Young, The Politics of Cultural Pluralism (Madison, Wisconsin: University of Wisconsin Press, 1976).

33 Two closely related approaches vividly exhibit this tendency: the theory of rent seeking and capture theory. For the former, see the references in note 29 above. For an introduction to the latter, see George J. Stigler, "The Theory of Economic Regulation," Bell Journal of Economics and Management Science 2 (Spring 1971):2-21.

34 An example is provided by the literature on campaign contributions by interest groups in the United States. See for example Gary Jacobson, Money in Congressional Elections (New Haven and London: Yale University Press, 1980).

35 An illustration of the significance of these dynamics is offered by agricultural programs in the United States, where the creation of the Department of Agriculture led to the subsequent formation of new groups, some promoted by bureaucrats hoping to create active support in Congress for agricultural programs. See Grant McConnell, The Decline of Agrarian Democracy (Berkeley and Los Angeles: University of California Press, 1953).

36 See Robert H. Bates, Essays on the Political Economy of Rural Africa (Berkeley and Los Angeles: University of California Press, 1983).

37 A major implication of this analysis is that the proper role of large, organized interests in such instrumentalist theories is to account for the perpetuation of policies rather than their creation.

38 Richard McKelvey, "Intransitivities in Multidimensional Voting Models and Some Implications for Agenda Control," Journal of Economic Theory 12 (June 1976):472-82.

39 Michael Levine and Charles Plott, "Agenda Influence and Its Implications," Virginia Law Review 63 (1977): 561-604.

40 See, for example, Kenneth A. Shepsle and Barry R. Weingast, "The Institutional Foundations of Committee Power" American Political Science Review 81, 1 (March 1987):85-104.

41 Kenneth A. Shepsle, "Institutional Arrangements and Equilibrium in Multidimensional Voting Models," American Journal of Political Science 23 1 (1979):27-59 and Kenneth Shepsle and Barry Weingast, "Structure

Induced Equilibrium and Legislative Choice," Public Choice 37 (1981):503-519.

⁴² A useful overview of this literature is contained in Mathew D. McCubbins and Terry Sullivan, Congress: Structure and Policy (Cambridge University Press, 1987).

⁴³ By Black's Theorem, a necessary condition for a majority rule winner to exist is that preferences be "single peaked." See Duncan Black, The Theory of Committees and Elections (Cambridge: Cambridge University Press, 1958). See also Alvin Rabushka and Kenneth A. Shepsle, Politics in Plural Societies (Columbus, Ohio: Charles E. Merrill, 1972).

⁴⁴ This insight motivated the early work of Guillermo O'Donnell. See Guillermo O'Donnell, Modernization and Bureaucratic Authoritarianism: Studies in South American Politics (Berkeley: Institute of International Studies, 1973). O'Donnell's formulation proved too broad and imprecise to withstand close scrutiny, however. See David Collier, The New Authoritarianism in Latin America (Princeton: Princeton University Press, 1979). At a more micro-level, I have employed this line of reasoning to account for the development and structure of agrarian institutions in Kenya. See

Robert H. Bates, Beyond the Miracle of the Market: The Institutional Foundations of Agrarian Development in Kenya (Cambridge: Cambridge University Press, forthcoming). Critical to the analysis of this problem is Oliver Williamson, The Economic Institutions of Capitalism (New York: The Free Press, 1985).

⁴⁵ The relevant critiques and the first steps at re-founding the analysis on appropriate micro-foundations are to be found in: G. A. Cohen, Karl Marx's Theory of History: A Defense (Princeton: Princeton University Press, 1978); John E. Roemer, A General Theory of Class and Exploitation (Cambridge: Harvard University Press, 1982); and Jon Elster, Making Sense of Marx (Cambridge: Cambridge University Press, 1985).

For many reasons, the program will be difficult to complete. One of the main difficulties is that insofar as institutions are conceived of as investments made by optimizing agent, as this line of analysis requires, then particular innovations cannot be studied singly, as they now are. For what would represent an optimum innovation would depend upon the portfolio of other investments already held. To illustrate: the investor in an agricultural project in Florida would possess a different repertoire of instruments for handling risks than would one in Kenya, and for that reason alone

could be expected to create a different institutional form for that investment.

The kind of analysis done by Williamson (The Economic Institutions), where given institutional designs are analyzed in isolation from the range of other means of dealing with risks which are available, is thus not strictly valid. The problem becomes particularly significant which the origins of institutions are examined cross nationally.

⁴⁶ See the classic World Bank reports, Accelerated Development in Sub-Saharan Africa: An Agenda for Action (Washington D.C.: The World Bank, 1981) and Toward Sustained Development in Sub-Saharan Africa: A Joint Program of Action (Washington D.C.: The World Bank, 1984).

⁴⁷ The cause of market distortions must therefore lie in politicians who are economically irrational--or poorly informed about the laws of economics. See, for example, the contributions in Theodore W. Schultz, ed. Distortions of Agricultural Incentives (Bloomington, Indiana: Indiana University Press, 1978).

⁴⁸ See, for example, Warren F. Ilchman and Norman Thomas Uphoff, The Political Economy of Change

(Berkeley and Los Angeles: University of California Press, 1971).

⁴⁹ See for example Irving Goffman, The Presentation of the Self in Everyday Life (New York: Doubleday Anchor, 1959) and Clifford Geertz, Local Knowledge (New York: Basic Books, 1983).

⁵⁰ Examples would include Ivor Wilks, Asante in the Nineteenth Century: The Structure and Evolution of a Political Order (Cambridge: Cambridge University Press, 1975); Richard Posner, "A Theory of Primitive Society, With Special Relevance to Law," The Journal of Law and Economics 23 (1980):1-53; and Robert H. Bates, Essays, Chapter 1.

Table 1: Distinctive Approaches

	Individual as Basic Analytic Unit	Individuals-- and Politicians-- as Rational	Politics as Relatively Autonomous	Individual Rationality Implies Social Rationality
Political Culture Approach	No	No	No	--
Radical Political Economy	No	Yes	No	--
Decision Theoretic Approaches	Yes	Yes	No	Yes
Market Oriented Approaches	Yes	Yes	No	Yes
Collective Action and Related Approaches	Yes	Yes	No	No
The Political Economy Perspective	Yes	Yes	Yes	No

-- : The approach takes no stand on this issue.

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