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Country Economics Department
The World Bank
December 1989
WPS 304

# The New Political Economy

## Positive Economics and Negative Politics

Merilee S. Grindle

Neoclassical political economy explains why developing countries do not adopt development specialists' advice more regularly. But it misrepresents the dynamics of policymaking in developing countries and cannot easily explain policy changes or "wise" policy choices.

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Neoclassical political economy provides compelling theory in response to the question, "Why should reasonable men adopt public policies that harm the societies they govern?" Microeconomic assumptions about individual self-interest are applied to the political claims of citizens, to the actions of politicians and policymakers, to the behavior of bureaucrats, and even to the actions of states more generally. Citizens, politicians, bureaucrats, and states purposely use the authority of the state to distort economic interactions to their own benefit. In doing so, they are behaving in a way that is politically rational, however irrational the economic results may be for society. The solution is to limit government; less politics makes better economics, or so the argument goes.

Grindle argues that this perspective on politics misrepresents the dynamics of policymaking in developing countries and is seriously limited in its ability to explain how policy changes come about or how policies are chosen that lead to socially beneficial outcomes.

She indicates that society-centric models of political economy adopted from the U.S. experience are not relevant for most developing countries. State-centric adaptations come somewhat closer to the reality of how public policy is formulated and implemented there. But even state-centric applications do not address the dynamics of policymaking and implementation in developing countries and are therefore unable to explain policy changes or wise policy choices.

Grindle argues that these are critical weaknesses of neoclassical political economy, and they present policy analysts with a challenge: can alternative models of politics be conceptualized that address issues of change, predict the content of change, and maintain a role for those who seek both politically and economically viable solutions to the major problems facing developing countries in the decades ahead?

She recommends an alternative approach to political economy that does not treat politics as a negative factor in policy choices. She emphasizes understanding the preferences and perceptions of policy elites, the circumstances that surround the emergence of policy issues, the concerns of decision makers, and the factors that affect the implementation and sustainability of policy change. In such an alternative, politics consists of efforts at problem solving through bargaining and the use of political resources in the context of great uncertainty.

Economic and political logic are not always at loggerheads and there often exists a space in which citizens, public officials, and analysts can maneuver to achieve policy choices that are both politically and economically wise. It is worthwhile to attempt to model this space and to use such models to help craft policy advice.

This paper is a product of the Macroeconomic Adjustment and Growth Division, Country Economics Department. Copies are available free from the World Bank, 1818 H Street NW, Washington DC 20433. Please contact Raquel Luz, room N11-057, extension 61588 (67 pages).

The New Political Economy:
Positive Economics and Negative Politics*

by
Merilee S. Grindle

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*Prepared for presentation at a conference on The New Political Economy and Development Policymaking, Lake Paipa, Colombia, July 12-15, 1989.

# The New Political Economy: Positive Economics and Negative Politics [1]

As they approach the 1990s, many development economists are deeply concerned about the future of developing countries. In Latin America, they are perplexed about altering development strategies that generate systemic inflation and recurring balance of payments crises. Crippling foreign debt, linked to increased energy prices and recession in the international economy, can also be traced to the policies of governments that dreamed too grandly, grew too large, spent too much, and taxed hardly at all (Sachs 1985; Balassa, Bueno, Kuczynski, and Simonsen 1986; Kuczynski 1988; Fishlow 1985). In much of Africa, only the most bright-spirited would not find cause for disillusion. Corrupt and personalistic governments have almost ceased to exert authority in many societies and populations have retreated into family, ethnic, or village security systems and the plethora of parallel markets substituting for the formal legal and economic systems that no longer function (Sandbrook 1986; Hyden 1983; World Bank 1984; Jones and Roemer 1989). In such conditions, poverty, strife, inefficiency, and administrative collapse confound plans for short or medium term recovery. Despite a number of success stories, some Asian countries have also been characterized by stymied growth, inefficient agricultural and industrial sectors, and policy making systems that serve only a narrow range of interests (Haggard 1989; Bardhan 1984; Johnson 1983; Rudolph and Rudolph 1987).

The 1980s were a decade in which these conditions cut deeply into the consciousness of development economists. Not surprisingly, the issue of policy reform came to dominate discussions among specialists. Increasingly, governments were urged to establish a macroeconomic policy context more conducive to growth, to adjust sectoral policies to increase efficiency and responsiveness to the market, and to lessen the regulatory and interventionist presence of the state in economic interactions (see, for reviews, Roemer 1988; Perkins 1988). Neoclassical economists stressed structural adjustment, liberalization, privatization, and decentralization as important elements of a successful development strategy. Nevertheless, this concern about the centrality of policy reform to development fueled increasing disillusion when many governments proved reluctant to introduce reoriented policies, even when under considerable pressure from international financial institutions. Despite the impetus of the worst economic crisis in the modern era, policies damned as inimical to growth often proved difficult to alter. Authoritarian and democratic governments alike frequently appeared unable to overcome the stalemate of existing policy to adopt strategies that policy advisors recommended as being more efficient and more effective in generating growth. Many economists echoed the concerns expressed by Gerald Meier:

> Governments continue to undertake policies contrary to the normative principles of development economics and in contradiction to the policy lessons from development experience. Inward looking policies, inflationary budgets, policies of deliberate industrialization, urban bias, and factor market distortions continue despite the policy recommendations of development economists (1989:1).

After at least three decades of research, analysis, and advice-giving, it is understandable that some development economists would be tempted by pessimism.

The sense of disillusion is perhaps all the greater because neoclassical economics had traditionally held high expectations about the motives behind state policy.[2] Policy analysis, focused on achieving optimal solutions to given problems, had assumed a benign and welfare-maximizing state, a state that was disembodied from the identity of its leadership, the diverse claims of its citizens, or the orientations of its historical evolution. In particular, planning models of the 1960s assumed that policy makers, planners, and the institutions of the state held notions of the public interest that corresponded to economic notions of welfare maximization.[3] In short, behind policy analysis, advice, and planning was an implicit notion of states whose purpose was to do good (see Colander 1984a; Bardhan 1987). Presented with technical evidence of how to achieve increased welfare, states would adopt apprcpriate policy. In such a perspective, failure to achieve goals was the result of incomplete information, faulty analysis, or institutional weaknesses in carrying out policy (see especially Killick 1976:164-165).

The harsh realities of the 1980s made it increasingly difficult to sustain assumptions about welfare maximizing states. In fact, research, experience, and frustration combined to encourage considerable interest in the study of political economy among development economists. Among diverse political economy models that are bewing explored in this context, recent neoclassical models have helped resolve the clash between theory and empirical observation by replacing the image of the benign state with its mirror opposite, the negative state. Whereas the benign state was assumed to be motivated to do good, the negative state of neoclassical aproaches was characterized as a creature of self-seeking interest groups and/or self-serving leaders and could be expected to do harm to societal welfare unless it was carefully restricted in its activities. Work in the 1970s and 1980s utilized concepts such as the rent-seeking society and the predatory state to account for why states adopted and then persisted in pursuing policies that introduced and increased distortions in the economy, creating and exacerbating inefficiency, stagnation, and inequality (see especially Lal 1984; Conybeare 1982; Krueger 1974; Bhagwati 1982; Srinivasan 1985). Politicians and bureaucrats ceased to be seen as value neutral public servants and became, in narrative and in model construction, narrowly motivated to stay in power or to maximize their individual gains through rent-seeking and the encouragement of directly unproductive profit-seeking (DUP). Moreover, while the benign state was always empirically elusive, the image of the negative state has strong empirical referents for many economists who have worked in developing countries. Intuitively and conceptually, then, neoclassical political economy provided answers to a number of questions about the role of the state and public policy in economic development.[4]

This new political economy, a theoretical orientation developed primarily by economists and encompassing the perspectives of public choice, collective choice, and social choice theory, has proved extraordinarily useful as a construct for explaining economically irrational policy to neoclassical economists and political scientists alike. It offers parsimonious formal theory to respond to Robert Bates' challenging question, "Why should reasonable men adopt public policies that have harmful consequences for the societies they govern?" (Bates 1981:3). Although there are distinct strains of thought within this neoclassical approach, they are based in a set of basic assumptions about human behavior. In neoclassical political economy, as developed primarily by economists, traditional microeconomic assumptions about the primacy of individual self-interest are applied with equal consistency to the political claims of citizens, to the actions of politicians and policy makers, to the behavior of bureaucrats, and even to the actions of states more generally (see Conybeare 1982; Hirshleifer 1985). Through the lens of self-interest, politics becomes endogenous to policy choice and can be modelled along with more traditional economic variables. Moreover, neoclassical political economy offers an explanatory framework to help development specialists understand why governments of developing countries do not adopt their advice with greater regularity.

The new political economy also offers a profoundly cynical view of the political process. Clearly, there is much empirical evidence to support a deeply skeptical attitude about the existence of a benign state. However, the neoclassical approach adopts the notion that individually ration behavior in politics leads to economically irrational outcomes. That is, individual self-interest pursued in a political arena results in policies that are collectively wasteful and, ultimately, individually irrational also. Moreover, neoclassical political economy suggests that politically rational behavior is capable of fairly consistently overwhelming the demonstrable logic of good economic policy advice. It thus makes the task of explaining the potential for policy reform and change extremely difficult and limits the applicability of its policy relevant advice. Carried to its logical conclusions, it may well be a trap for those concerned to bring about change in existing policies and institutional arrangements. The new political economy has many strengths, but is weakened as an approach to understanding policy making in developing countries and as a policy analytic tool by the assumption that politics is a negative factor in attempting to get the policies right. This chapter presents a critique of an explanation of policy making that predicts negative outcomes for society and that emphasizes the inability to introduce significant change in development policy.

In the following pages, I assess the relevance of neoclassical political economy for explaining policy making in developing countries and consider its utility in policy analysis. Thus, I am less concerned here with a critique of the basic assumptions of the models that have been developed than with the utility of the models in capturing the nature and process of policy dynamics. Granting the assumptions, I ask how accurate and useful the tools of neoclassical political economy are in the analysis of public policy in developing countries. This is, then, not primarily a critique of formal theory, but of the utility of formal theory.

Briefly, I argue that society-centric political economy models adopted from the U.S. experience are not particularly relevant for most developing countries. State-centric adaptations come somewhat closer to the reality of how public policy is formulated and implemented in these contexts. Even with more appropriate applications, however, the new political economy is most useful for explaining stasis rather than change and "bad" policy choices rather than "good" ones.[5] That is, I argue that the perspective is reductionist in a way that impedes efforts to conceptualize or explain what is most sought after by many of its adherents--change and improvement in the nature of development policy in a society. A model of policymaking relevant for this era of economic crisis and political upheaval would be one in which politics is assumed to be neither inherently negative nor inherently positive for the selection and pursuit of public policy. It would accept politics, not as a spanner in the economic works, but as the central means through which societies seek to resolve conflict over issues of distribution and values. In such a perspective, politically rational behavior would not be viewed as a constraint on the achievement of collectively beneficial public policy.

## The New Political Economy: The Logic of Argument

Neoclassical political economy asserts that the basic unit of social analysis is the individual (see for example, Buchanan and Tullock 1962; Colander 1984b; Riker and Ordeshook 1973; Barry and Hardin 1982). Individuals are rational and as such, they seek to maximize individual utilities or values, characterized as the pursuit of self-interest. Self-interest is theoretically contentless until individual preferences are revealed through behavior, although it is generally assumed that self-seeking individuals will pursue enhanced economic welfare or economic security. Individuals will seek to maximize their gains from economic interaction; simultaneously, they will seek to use government to increase and protect these gains. The new political economy seeks to understand the non-economic market of political activity, using the language and analytic tools of the economist (see Hirschleiffer 1985:53).

Central to understanding politics through this perspective is the assertion that individuals cannot always achieve their self-interest individually. At times, it will be rational for them to join together with other individuals whose self-interest corresponds with their own, to press for the achievement of individual goals. In this way, individuals can transform their pursuit of self-interest into group action (see especially Riker and Ordeshook 1973). The payoff to members of the group for joint action is the enhanced possibility that individual goals will be realized. Rational individuals, therefore, are encouraged to cooperate with like-minded others if and when such cooperation clearly results in a more optimal individual payoff than when acting alone. When the achievement of such goals involves making claims on government, the basis for political action is laid. Generally, politics is considered to be activities in pursuit of self-interest through voting by individuals and lobbying for favorable policy outcomes by groups (see Alt and Chrystal 1983; Buchanan and Tullock 1962).[6]

Lobbying involves seeking access to benefits that cannot be acquired through a competitive market; lobbying activities will increase the more government intervenes in the economy (see Buchanan 1980). Economic benefits sought through non-economic markets are considered by most neoclassical political economists to be wasteful in that they result in a loss of social welfare (Srinivasan 1985:43; see Bhagwati 1982 for a discussion). The use of the state to maximize economic gains for specific interests has been dubbed "rent-seeking" (see Samuels and Mercuro 1984:55-56; Krueger 1974).[7]

Mancur Olson, in considering the problem of collective action, notes the difficulty of sustaining joint activities if individuals perceive they will achieve the sought after benefits even without contributing their time, effort, or money to group action (see Olson 1965). This problem of the free rider means that groups tend to remain small and narrowly focused on achieving specific goals that will accrue only to group members if action is successful. In politics, therefore, narrowly focused special interest groups will tend to emerge in order to press government for specific benefits for their members--a special tax exclusion or allotment of funds for a neighborhood school, for example.[8] For neoclassical political economists, then, politics is characterized by a plethora of special interest groups competing for access to the benefits that can be allocated by government and individual voting behavior that is motivated by self-interest, electing those who promise to deliver these benefits and punishing those who fail to make such promises or who fail to make good on them if they are elected (Downs 1957). According to Olson (1965; 1982), public policy reflects the existence of distributional coalitions in society that seek to shape and control the allocation of public resources to the benefit of their members.

This perspective on politics is similar in many regards to a long tradition of democratic political theory in the United States. In the pluralist model often adopted by political scientists, society is also composed of self-interested individuals. Motivated by the majoritarian requisites of democratic government, they join together in groups and then coalitions of like-minded individuals to press for favorable government action.[9] Interests are usually economic, but groups also form around shared concerns for neighborhood, ethnicity, religion, values, region, or other goals. They lobby, they contribute to campaigns, and they vote in order to influence public officials to act on their behalf. In the pluralist tradition, democratic politics is based on large numbers of such groups competing and coalescing around the promotion or protection of common policy goals.[10] Political conflict in democratic society is moderated by the fact that individual group members have multiple interests and affiliations that tend to be crosscutting, limiting the intensity of their commitment to any one goal, and by the need of the group to join in coalitions with other groups in order to have enough power (i.e. votes) to influence government. Party competition also is moderated by the need of parties to attract voters, most of whom reside in the middle of the spectrum of political opinion (see Downs 1957).

In the pluralist tradition, as in much neoclassical political economy, public policy is the result of the pushing and hauling among interest groups and their efforts to influence government through lobbying--this is a society-centric view of the determinants of policy, as we will see later. Interest groups raise issues to public attention and place them on the agenda for government action and it is their lobbying activities that determine decisional outcomes. The actions of public officials reflect the distribution of power among interests in society. Pluralist and neoclassical political economy theories clearly agree that the key to understanding politics and public policy is to understand the composition and interaction of interest groups in the society and the claims they make on government.[11]

Pluralists and neoclassical political economists tend to part company, however, over the issue of how the public interest is achieved in policy. In the pluralist tradition, the public interest is ultimately served through the conflict and competition of interest groups. The tendency for interests to be fragmented is counteracted by the need in democratic government to achieve majoritarian consent--in the population at large or within representative bodies of lawmakers--that requires groups to compromise on positions and form coalitions around more broadly defined interests. Minorities are protected because of the difficulty of putting together majority coalitions and the need, in doing so, to moderate extreme positions. Those affected adversely by proposed or actual legislation have an opportunity to organize to oppose it. The impediments to acquiring consent under democratic rules is--at least theoretically--supposed to act as a control on the growth of government, ensuring the widest possible scope for pursuit of self-interest in the economic marketplace. This pluralist tradition of the public interest emerging from competition in the political marketplace is a clear analogy to the notion of efficiency achieved in the economic marketplace through the competition among numerous firms. In democratic practice, the Founding Fathers institutionalized this pluralist political economy. In defending the notion of a federal republic, for instance, James Madison argued that "...the society itself will be broken into so many parts and classes of citizens, that the rights of individuals or of the minority will be in little danger from interested combinations of the majority" (Federalist Paper No. 51).

In contrast, neoclassical political economy perceives in the conflict and competition among interest groups a clear threat to the ability of government to respond to the public interest with policies that are economically rational for society in general. The logic of collective action tends to enforce smallness in groups and to keep their interests narrowly focused on specific benefits for group members. The result of their activities to influence government is a parcelling out of policy to the narrowly defined interests and a growth in the size and incoherence of government as elected public officials scurry to respond to a multitude of specific interest groups. Rent-seeking by interest groups overwhelms the notion of a public interest. The result is incoherent and burdensome policy that distorts economic interactions and encourages inefficiency through excessive regulation put into effect in order to protect or promote a plethora of interests (Buchanan 1980; Olson 1982). While an "invisible hand" regulates economic markets, an "invisible foot" results in their distortion through politics (see Magee 1984).

To remedy this situation, the clear need is to limit closely the activities of government so that it will have less with which to reward specific interests (Buchanan 1980). Limited government is the neoclassical solution to the problem of state policy (see Colander 1984a:5). If there is less to acquire through efforts to influence government, there will be less political activity focused on extracting benefits from government and a more unfettered economic system, able to respond with greater speed to market forces. According to Bennett and DiLorenzo (1984:217), "the problem of reforming the rent-seeking society is widely perceived to be the adoption of an appropriate set of rules to limit the burdens of government." In this formulation, less politics generally means better economics. For neoclassical political economists, interest group competition in the absence of specific rules to control its scope breeds big government and distortion of the normal functioning of the market.

> ...so long as governmental action is restricted largely, if not entirely, to protecting individual rights, persons and property, and enforcing voluntarily negotiated private contracts, the market process dominates economic behavior....If, however, government action moves significantly beyond the limits defined by the minimal or protective state...the tendency toward the erosion or dissipation of rents is countered and may be shortly blocked (Buchanan 1980:9).

Thus, in the neoclassical view, politics and markets are often in conflict in the sense that the efficient operation of competitive markets is easily threatened by policy interventions resulting from interest group pressures on government. Public policy tends in this way to reflect politically rational choices that lead to economically irrational outcomes.

When the new political economy has probed inside the state and inquired into the decision making of political and bureaucratic elites, it has also presented rational political choice as an impediment to achieving the collective economic good. Although the focus of most work has been society-centric, in which government action is presumed to reflect vested interests found in society, some analysts have sought to explain the behavior of actors within the state or of the state itself. In more state-centered explanations of the politics of economic policy making, politicians are as rational and self-seeking as are voters. Their self-interest, however, is expressed as the desire to maximize their hold on power. Power is thus the end sought by politically rational officials. They will therefore be motivated to use government resources to reward those who support their hold on power and, at times, to punish those who seek to unseat them (see for example Ames 1987; Bates 1981). In this way, policy elites become less reactive to interest group pressures and more active in attempting to maximize their chances of staying in power by putting together supportive coalitions and using public resources to "buy" support. The actions of political elites are contentless in terms of normative preferences in policy; they will take any policy position if it promises to maximize their short term goal of staying in power. The policy that tends to emerge from this situation is largely incoherent and even contradictory and inimical to economic stability and growth because of the short term time horizons of the politicians and their lack of commitment to the content of public policy as long as they believe that it will win them support.[12]

Neoclassical political economy, when it takes a more state-centric approach, also makes a series of statements about the behavior of non-elected public officials. Bureaucrats are also individualistic self-seekers. Generally, their self-interest is to maximize their own economic welfare, but it can also be that of enhancing their power or benefitting their home village or ethnic group or some such goal. When provided with policy resources to distribute--import licenses, for example, or the location of school sites--they will seek to maximize their self-interest either by selling the resource to whoever offers the highest price or by allocating it to preferred clients. Thus, corruption and clientelism can be understood to result from non-economic markets that function through bureaucratic resource allocations. Bureaucrats are rent-seekers, just as their clients are. The new political economy thus provides a third explanation for the economically irrational allocation of public resources.

A fourth application of the new political economy is the idea of the predatory state (see Lal 1984). In this perspective, the state becomes the unit of analysis, not the citizen, the politician, or the bureaucrat. The state as a rational actor seeks to maximize short-term revenues and will seek out a variety of forms of taxation that will allow it to increase its wealth and to grow in size, even at the cost of overall economic development. Predatory states are particularly likely to tax trade and to maintain an overvalued exchange rate and to maintain large inefficient bureaucracies (see Killick 1988:7; Findlay 1988; Conybeare 1982). Economically irrational development strategies are thus introduced and perpetuated by predatory states acting in rational ways to enhance their power.

Neoclassical political economy provides a compelling explanation of economically irrational policy outcomes in developing countries. It asserts that individuals, politicians, bureaucrats, and states purposely use the authority of the state to distort economic interactions to their own benefit. Empirically, developing countries provide numerous cases of such economically irrational outcomes. For instance, there are many examples of predominantly agrarian societies whose governments have followed policies that have systematically over-taxed agriculture in the interests of urban and industrial development (Bates 1981; Anderson and Hayami 1986). It is not difficult to find cases of countries locked into development strategies that are generating little growth because of the combined economic and political power of vested interests; the continued pursuit of import substitution is often credited to this situation. There are also numerous examples of policies with short term benefits but long term costs--an overvalued exchange rate or extensive protectionist measures, for instance. Similarly, many governments adopt cumbersome and inefficient policy mechanisms such as import licensing when more administratively efficient mechanisms, such as tariffs, are readily available. Moreover, governments often invest widely in projects rather than formulating and implementing more general policies; in neoclassical analysis, this is because specific interests lobby for specific benefits, not general ones, or because politicians are concerned with buying the support of specific groups in their single-minded pursuit of power (Olson 1982; Bates 1981). It is also often true that development resources get systematically misallocated during implementation processes (see Grindle 1980). Neoclassical political economy explains these outcomes without having to assume ignorance, stupidity, or willful misbehavior on the part of citizens, policy makers, or bureaucrats.

How Applicable is the New Political Economy to Conditions in Developing Countries?

While a large number of economically irrational outcomes in public policy can be explained with neoclassical political economy, it is worth considering whether this approach correctly captures the dynamics that lead to such outcomes in developing countries. That is, current work in political economy identifies--often correctly--certain policy outcomes, from which it infers political processes that led to such outcomes. The question here is whether the inferences are warranted, given what is known about processes of decision making and policy implementation in developing countries. In particular, can the process of government decision making in developing countries be explained through recourse to the activities of rent-seeking lobbies? Power-seeking politicians? Rent-seeking bureaucrats? Predatory states?

The first of these alternatives, that policy choice corresponds to the actions of pressure groups on government with resultant policies reflecting their interests, is a society-centric explanation of policy making (see Grindle and Thomas 1989). In this perspective, the activities of states and policy elites are dependent variables. When the new political economy has tried to explain the policy preferences of politicians, bureaucrats, or states in general, it has adopted a more state-centric approach in which these actors have greater autonomous capacity to shape policy outcomes. In the case of the society-centric explanation of public policy, emphasis is placed on the use of political markets by economic agents; in the case of more state-centric applications, political agents make use of economic resources for political ends.[13]

In what follows, I suggest that neoclassical political economy is least applicable to the dynamics of policy making in developing countries when it takes a society-centered approach, that is, when it is based on assumptions about interest mobilization and more or less acquiescent government response to lobbying activities. It is more applicable when it replaces this society-centric view with a more state-centric perspective based on political elites who are actively engaged in maximizing their hold on political power or on rent-seeking bureaucratic officials. Even here, however, the approach tends to misrepresent the political meaning of the actions of political elites and bureaucratic officials. Finally, while the notion of predatory states has been adopted for predictive purposes in some cases, there is little theoretical support in either economics or politics for treating states as unitary actors or assuming purposive behavior on the part of the state as a collectivity. In what follows, the notion of predatory states is not dealt with because of the difficulty of assuming that unitary states act out of individual self-interest in the sense developed by neoclassical economists.

Lobbying by Interest Groups

Some economists and political scientists have found the new political economy to be useful as a way of understanding public policy in the United States (see especially Alt and Chrystal 1983; and Keech, Bates, and Lange 1989, for reviews). In particular, they find its explanation of the activities of lobby groups and elected officials to be consistent with aspects of contemporary American politics such as "hyperpluralist" fragmentation of interest groups, the power of small, focused lobbies over the substance of policy in specific areas, the extreme difficulty of aggregating interests, the sensitivity of lawmakers to the demands of narrow constituencies and the re-election imperative, and the reactive and incoherent nature of much public policy (see Alt and Chrystal 1983; Riker 1982).[14] There is much evidence in contemporary politics in the United States that public policy has, in fact, been parcelled out to organized interests and that the government has moved far from its original role in protecting rights and enforcing contracts to one that is highly interventionist and regulatory. In fact, much policy making in the United States tends to be an extremely open and highly visible public pulling and hauling among narrowly focused interest groups, legislatures, and executive offices and the accumulation of legislation is vast and often contradictory. Many have referred to the "iron triangle" of lobby groups, legislators, and executive agencies that results in extensive allocation of benefits to special interests. It is clear that organized interests in the United States are a highly visible source of power and initiative in public policy making.

This pattern of policy "driven" by societal interests, of the state as a more or less neutral arena in which competitive lobbies fight for control of policy resources, is much less in evidence in the vast majority of developing countries. In these countries, policy making tends to be more closed, less visible, and more centered in the political executive (see Grindle and Thomas 1989). In many countries, citizens often have their first information about policy when it is formally announced or decreed by the political leadership. In general, high level administrators and political leaders dominate the policy making process. It is they, not legislators, who tend to be the targets of those who would influence the decision making process. They may or may not retain office through elections and their tenure in office is often highly ambiguous. Perhaps most important, extensive organized interest group activity tends to be less clearly defined in developing countries than in the industrialized democracies of the West. Large portions of the population--peasants and urban shantytown residents, for instance--are generally not organized for sustained political activity, although they may, from time to time, make their demands known through actions such as protest marches, riots, or strikes. Ethnic or family identities may play critical roles in politics even though they are not publicly organized. Additionally, many authoritarian regimes in the third world actively discourage representation of societal interests through formally constituted interest groups. "Interests" clearly exist in developing countries, of course, but the extent to which they are or can be formally constituted to represent goals of a membership, and their capacity to gain access to the state, need always to be identified empirically. In many cases, "barriers to entry" are high and any assumptions about democratic responsiveness need to be scrutinized carefully.

Lobbying activity is consequently difficult to identify in many developing countries. In some cases, elite organizations--the ubiquitous national chamber of manufacturers or the national agricultural society, for instance--may be well organized and vociferous, but wield their real political influence behind the scenes in informal interactions with political leaders, not through votes or more visible lobbying activities. In other cases, the most important economic interests in a society may not even be formally organized. The power of some interests over particular policy choices may be more implicit than explicit--few decision makers are unaware of the concerns of the military or foreign investors, for instance, although these "interests" may not articulate their needs explicitly or publicly. In other cases, organizations will lack access to policy makers or even the capacity to control their followings or exert pressure on the decision making process. Sometimes, organized groups may actually be dependent clientele organizations of bureaucratic agencies or of particular political leaders, with little capacity to press a policy agenda on their patrons in government. Similarly, political parties in one party or dominant party states have very little power independent of government leadership. In clientelistic states, interest group activities tend to be highly disaggregated and personalized and to focus more on influencing implementation activities than decision making about which policies should be pursued. Thus, the assumption that policy outcomes represent societal interests and that policy is made in response to the activities of lobby groups often seriously misrepresents the dynamics of policy making in large numbers of developing countries.[15] In addition, the political economy analyses that have emerged in the United States are about political interactions that occur within the context of agreed upon rules of the game for political competition or about how those rules get agreed upon (see Riker 1982; Barry and Hardin 1982; Buchanan 1980). In developing countries, however, it cannot always be assumed that the rules of the game are established or agreed upon. Where this is the case, the use of society-centric political economy models is misleading.

The Actions of Policy Makers

In its more state-centric applications, the new political economy has sought to provide insight into the behavior of policy elites. It asserts that (elected) political leaders want to stay in power; they will maximize their chances of achieving this end by using policy resources to reward supporters or potential supporters (see Lindbeck 1976; Ames 1987; Bates 1981; Anderson and Hayami 1986; Bennett and DiLorenzo 1984). According to this view, policy outcomes can be systematically traced to efforts of policy elites to buy political support and to establish and maintain supportive coalitions.[16] This perspective corresponds to much that can be observed in developing countries, where, as we have argued, policy elites are central to policy making. Political stability and the maintenance of power tend to be major preoccupations of these political actors because, in many cases, they are very vulnerable to the loss of political power (see Grindle and Thomas 1989). Moreover, the regimes they lead are also often vulnerable. Coups and leadership changes are regularly noted phenomena that can have severe personal consequences for political leaders because they can result in imprisonment, exile, or even death for those who held prominent roles in the overthrown government. For this reason, it is reasonable to expect that such elites are extremely sensitive to the need to satisfy certain societal and government (military, public servants) interests in repeated bids to establish or maintain support. According to Ames' (1987) analysis of budgetary politics in Latin America, for instance, normal politics is the politics of survival. "Given the frequency of military coups, the dismal reelection record of incumbents, and the volatility of open economies, executives can rarely take political survival for granted. To the maximum degree possible, every program must be subjected to the executive's drive for security" (p. 211).

Nevertheless, the new political economy overemphasizes the direct link between policy and political support building. In fact, policy elites may have little direct information on the interests of particular groups in society or of the limits of tolerance for policy actions that do not directly benefit, or that can even harm, these interests. As noted, policy making tends to occur in relatively closed circles and the decision making process may be highly centralized in a few critical leadership positions. Similarly, interest articulation structures (lobby groups) are often much less visible, dense, or apparent than is the case with long established Western democracies. This is not to argue that policy elites are unconstrained by societal interests, but only that the link between state and interests is elusive in terms of how societal policy preferences are made known to decision makers. Thus, policy elites are vulnerable to the claims of many interests, but they may survive politically on the basis of astute intuition about politically relevant groups rather than through the more direct knowledge that results from organized interest group lobbying. They know that some of their decisions can have personally harmful consequences, but they often have little direct information about the limits of societal tolerance for policy change. Support coalition formation or the capacity to mobilize non-elite groups for political support may be especially difficult under conditions of very imperfect information.

Given the problems of interest representation in policy making in developing countries, there is considerable scope for the preferences of policy elites to influence the choice of policy and to define what is acceptable policy (see Grindle and Thomas 1989). Their space to define policy is greater, as is the potential to make mistaken judgments, given the problem of information. In addition, there is extensive evidence that policy elites are not idea free and that politicians are not contentless in terms of their preferences. They generally have very explicit notions of what constitutes good policy and, although clearly concerned about staying in power, they are not undiscriminating in terms of maximizing their capacity to do so. They have historically and ideologically determined coalition partners and support groups, as well as clearly defined opponents whose support they will not seek, even in the interests of staying in power. Once this is acknowledged, the idea of power maximization should become a less central assumption about what drives policy elites. Power is less an end than a means to an end.[17] Moreover, where states have played significant roles in defining and directing the course of economic development, it is reasonable to assume that policy elites will have definite ideas about "the national interest" or "the public good" that go beyond individual self-interest. Similarly, where the role of the state is large, it is reasonable to expect that policy elites will have some scope to act on these ideas (see Bardhan 1987).

In addition, of course, many decisions made by policy elites are not directly relevant to central issues of staying in power. Decentralizing the ministry of health, selling certain parastatals, raising interest rates marginally, or refocusing rural school curriculum are decisions of a different magnitude than a devaluation or an end of subsidies on urban transportation or basic foodstuffs. While these latter decisions can bring down a regime and/or political leaders, the former are unlikely to have such consequences and cannot be easily explained through a strategic "calculus of survival" (see Ames 1987; Grindle and Thomas 1989). Thus, if policy elites play critical roles in decision making, it makes sense to try to understand how their preferences are formed and how they are influenced in ways that go beyond the banality of asserting that they'd like to stay in office. Specifying preferences more fully than is done in current political economy applications would result in a better capacity to predict the content of policy.

### The Activities of Bureaucrats

A second state-centered application of current political economy analysis focuses on the rent-seeking behavior of bureaucratic officials. This has proved a fertile ground for neoclassical political economists, particularly in discussions of trade policy (see Krueger 1974). Public officials in developing countries are thought to exchange access to disaggregated public resources--an import license, for example--in return for some personal benefit, usually economic in nature. In trade theory, this transaction explains the preference for highly disaggregable protectionist measures, the corrupt behavior of public officials, and the difficulty of altering inefficient policy tools. According to the perspective developed, importers are given preferential access to scarce goods and bureaucrats not only enjoy enhanced power, they also can feather their nests. This is an important application of the new political economy because it allows analysts to focus on the extensive nature of resource distribution that occurs during the implementation of policy in developing countries. It also highlights the extent to which societal interests interact with state officials inside the state in the normal functioning of government through day-to-day decisions about resource allocation.

While analysts of policy in the United States have long pointed to the important role that implementation plays in developed countries, this process is even more central in developing countries. There, because policy making tends to be a closed and executive-centered activity, large portions of the population are excluded from influencing the making of laws, decrees, and policies that often have direct impact on their lives. In contrast, during policy implementation, they may have much greater capacity to reach the bureaucrats charged with pursuing the policy and to bring pressure to bear on these officials (see Grindle 1980; Tendler 1982). Bending the rules, seeking exceptions to generalized prescriptions, proffering bribes for special consideration, having a friend in city hall--these are immensely important aspects of political participation in developing countries and they often become more important the more closed the policy making process. For political economists, the venality of public officials mirrors the interest of societal groups or individuals in acquiring access to the resources of the state.

Nevertheless, the interaction of individualistic rent-seeking bureaucrats and individualistic rent-seeking citizens does not explain the most critical aspects of the politics of policy implementation in developing countries. Implementation activities, for example, tend to be closely tied to regime maintenance goals. Political elites and policy makers often recognize, at least implicitly, the importance of the policy implementation process because of the vulnerability of the regimes or administrations they serve. Policies may have implicit goals--provide payoffs to those who can strengthen regime stability--as well as explicit goals--achieve the stated goals of the policy--that become apparent only through the accommodation, rule bending, and resource allocation that occurs after policy decisions have been made (see Grindle 1980). Similarly, clientelism often serves to hold a tenuous political regime together, a regime that must continue to provide specific benefits through piecemeal resource allocations where it is not accorded widespread legitimacy (see Bratton 1980; Sandbrook 1986). Thus, the slippage that occurs between what is stated as policy and what is actually implemented--the slippage that results from the myriad times rules are bent and particular understandings are reached--may be more than simply venal. It may be a direct result of the need to provide tangible benefits or immunity from policy to individuals or groups throughout a social hierarchy. "Accommodation of interests," rather than corruption or rent-seeking, may more fully capture the dynamics of policy implementation because it draws attention to complex and intentional use of the process, not only by bureaucratic officials, but also by political leaders. Again, although neoclassical political economy correctly describes a series of economically irrational policy outcomes, it is often making incorrect inferences about how those outcomes were generated. Frequently misinterpreting the meaning of such interactions, the approach can easily lose sight of the political consequences that are more significant than nest-feathering.

If current political economy analyses correctly describe a series of policy outcomes, is there any reason to be concerned that the approach makes a series of inappropriate inferences about the power of organized interest groups and the motivations of policy elites and bureaucratic officials? I believe it does, because understanding the process of how policy is made and implemented makes it possible to assess how and when policy changes come about and, thus, how policy reforms can be introduced and sustained. A better understanding of process, for example, can provide insights into how problems become policy issues, what circumstances surround efforts to change policy, what role policy elites, technocrats, advisors, and others play in defining alternatives, how choices are determined, and what factors influence the implementation and sustainability of new policy initiatives. Without such insights, efforts to change bad policy into better policy is a directionless enterprise. In the next section, I consider the problem of getting from here to there in terms of reforming policy in developing countries.

## Getting from Here to There

The new political economy has provided a number of policy prescriptions for restraining rent-seeking behavior and for limiting the extent to which such politically rational behavior can lead to collectively irrational outcomes. Analysis of rent-seeking, for example, has led to comparisons among policy mechanisms that differ in terms of how susceptible they are to such behavior. Thus, Krueger (1974) is able to recommend tariffs over licensing as a policy tool because the welfare loss associated with tariffs is demonstrated to be less than what is lost through licensing. Tariffs are more general policy instruments and thus less susceptible to rent-seeking by individuals. Similarly, extensive evidence of behavior that is individually rational but socially destructive, such as "the tragedy of the commons," has been understood through the analytic tools provided by the neoclassical political economy and recommendations have been made about its amelioration (Hardin 1968; Russell and Nicholson 1981). Alternative policy and institutional mechanisms to limit or control the destruction of common property, such as developing binding rules for its use, developing institutions of private property, or establishing conditions under which collective management can be effective have been suggested (see Runge 1986; Popkin 1988).

More generally, Kenneth Koford and David Colander (1984) have suggested several mechanisms to limit the amount of rent-seeking that occurs. Among them are taking actions to increase the availability of information about who benefits from rent-seeking, using moral sanctions to limit its extent, establishing laws to restrict policies that encourage rent-seeking, and taxing rent-seeking activities. At the broadest level, the central policy prescriptions of the new political economy support much current development policy advice--liberalize the economy, privatize some public activities, limit the scope of state intervention in the economy. As suggested in previous pages, according to this perspective, limiting the extent to which politics can intrude into the workings of the economy limits the extent to which state intervention and regulation can overwhelm the efficiency of economic interactions (see Bennett and DiLorenzo 1984).[13]

These policy prescriptions would be fairly easy to apply in developing countries if one were to begin with a political, institutional, and policy tabula rasa. The problem, of course, is that such prescriptions are addressed to governments that have long histories of state intervention in the economy, that have helped create powerful groups in the society that benefit from existing policy, and that have become well acquainted with the use of disaggregated policy tools that can be parcelled out for political ends. According to neoclassical political economy, such situations result from rational behavior on the part of individuals. However, while the new political economy provides tools for understanding bad situations and for recommending policies that will engender better situations, it provides no logically apparent means of moving from bad to better. For example, as we have seen, it is argued that tariffs are more economically efficient in rent-seeking societies than licensing mechanisms for import controls. But, if licensing import controls are widely used in a particular country, and they are contributing to a variety of individual self-interests, then there is nothing to explain how or why these politically useful mechanisms would be traded in for mechanisms that offer politicians, bureaucrats, and importers less individual utility. Locked into an ahistorical explanation of why things are the way they are and the notion that existing situations demonstrate an inevitable rationality, it is hard to envision how changes in such situations occur except through catastrophic events or the exogenous introduction of wise statesmen or technocrats who are somehow above petty political rationality. Both such alternatives have been used, and both are inadequate to explain policy change.

Mancur Olson, in The Rise and Decline of Nations (1982), presents a tightly argued explanation for the inevitability of economic decline in countries in which rent-seeking has become widespread. Such activities are likely to be found most pervasively in stable societies, where the number and diversity of lobbies increase over time and increasingly make claims for rents. Lobbies cause the government to intervene on behalf of specific interests and eventually constrict the normal functioning of an economy so much that it is difficult for new technology to be introduced and for the economy to adapt effectively to new conditions. As a result, growth slows and may even stop, especially in situations in which there are few incentives for rent-seekers to join in large organizations such as unions or broad-based associations. Rent-seekers, Olson argues, will not voluntarily relinquish their hold on policy in the interest of improving general economic performance. They can only be dislodged when a society experiences some catastrophic event, such as a revolution, an invasion, or a war. In the absence of such a shock, little improvement in the nature of economic policy can be expected.

Robert Bates (1981), in applying public choice theory to the African context, presents an equally disheartening scenario for the possibilities of change. At independence, he argues African leaders, motivated by the desire to modernize their societies through industrialization, imposed policies to extract resources from their overwhelmingly agricultural societies for use in urbanizing and industrializing. Relatively autonomous in their choice of policy at the outset, they soon become captive to the beneficiaries of the policies they have introduced and lose their capacity to alter policy. Urban middle class bureaucrats, the new industrial class, the urban working class--sectors in fact created by state policy--increase in wealth and political power to the extent that they can demand the perpetuation and increase of policies to benefit them. Aware of the potential for unrest because rural areas are paying the costs of urban and industrial development, governments buy the loyalty of rural elites, and their assistance in keeping the rural peace, through projects and subsidies even while more general policies continue to discriminate heavily against the sector. The mass of disadvantaged farmers, as rational actors with low potential to acquire political power, respond in economically rational ways to burdensome public policies--they stop producing for the market and they withdraw into self-sufficiency, barter, or black market activities. The impact of this behavior then rebounds in national terms--declining agricultural productivity and foreign exchange from agricultural exports lead to increasing efforts to squeeze the sector, extensive foreign borrowing, and massive deficit spending in order to continue to respond to the demands of increasingly insistent urban interests. Politicians, wanting to remain in power, become locked into a cycle of increasingly irrational policy--subsidizing a few rural interests while destroying agricultural productivity; rewarding inefficient industrialists, workers, and bureaucrats while destroying the economy. Ultimately, military coups and other forms of political upheaval are the only way out of this spiral of increasing demands and decreasing resources. In all likelihood, however, newly installed governments will quickly degenerate into equally destructive cycles, to be replaced by other governments, and so on.

To explain policy changes that reflect increases in economic wisdom in rent-seeking societies, other scholars have introduced enlightened technocrats or statespeople who are somehow liberated from the pursuit of self-interest and thus able to see beyond short term goals to long term public interests. In the general context of negative politics predicted by neoclassical political economists, change is explained exogenously by benign leadership or disinterested advice. For example, at the conclusion of a lucid article on the new political economy and development policy, T. N. Srinivasan introduces benign leadership as a way out of the political trap created by extensive rent-seeking. "Let me conclude," he writes, "with an encouraging note. It would appear that leaders in developing countries are becoming increasingly aware of the negative economic and political consequences of rent-seeking interventions in the economy" (Srinivasan 1985:58). He goes on to cite examples of leadership in India, China, and some African countries where significant public policy reforms have occurred. However, he offers no explanation for the appearance of these leaders or their ability to escape the logic that binds ordinary mortals, unless, of course, the concept of self-interest is expanded to include the capacity to conceptualize the long term public interest as individual utility maximization, in which case the concept of self-interest becomes effectively meaningless.

If cataclysms or benign leaders are necessary for policy reform to occur, it could be expected that the introduction of changed policy would occur only sporadically. Several examples of significant policy changes in the 1980s suggest, however, that despite the universally agreed upon difficulty of introducing reform in public policy, such as was suggested in the introduction to this paper, its incidence has not, in fact, been as elusive as neoclassical political economy would suggest. Consider, for instance, the case of The Gambia. During an eighteen month period beginning in 1985, policy makers in that country introduced a series of significant policy and institutional changes that affected virtually all aspects of the economy (see Radelet 1988; McPherson 1988). Macroeconomic reforms included a float of the national currency, an increase in interest rates by the Central Bank, and a moratorium on contracting important debt obligations. At the sectoral level, rates for public transportation, water, and electricity were raised in 1985 and again in 1986. In agriculture, markets for domestic and international trade in rice were liberalized, the producer price of groundnuts was greatly increased in both years, and fertilizer marketing was deregulated. In addition, taxes on fish exports were abolished and prices for petroleum products were also raised. Institutionally, the government froze the wages of the civil service and, through several measures, reduced the number of government jobs by almost eighteen percent. It also initiated a cleanup of the customs agency. Greater changes were introduced in 1987 and 1988. These reforms, even in conjunction with a series of supportive external conditions, imposed significant and immediate costs on broad sectors of the population and on virtually all politically important interests. Taken together, it is hard to imagine how such changes could be explained through the microeconomic reasoning of neoclassical political economy.

While the case of The Gambia may be unusual for the number and extent of the changes introduced, many countries in the developing world adopted important, if more limited, sets of reforms in the 1980s.

Consider the case of Ghana. In the context of declining economic growth and considerable political instability, the government devalued the currency significantly in 1983, imposed an austerity budget, reduced price supports and controls on many consumer products, privatized some state-owned enterprises, and improved public sector efficiency (see World Bank 1988:116; Younger 1989). The introduction of these politically difficult measures was supported by external financing, increased investment in key economic sectors, and an increase in public sector salaries. From the perspective of neoclassical economics, all of these changes could be viewed as improvements in existing economic conditions. Nevertheless, despite "sweeteners" to some groups, the policy changes had negative short term effects on important groups and imposed heavy social costs on broad sectors of the population, changes that politicians motivated primarily by the desire to maximize their power might wish to avoid at all costs. Given the initial context, such initiatives would not have been predicted by neoclassical political economists, nor, once agreed upon, could they be explained using the political logic of the approach. The rent-seeking behavior that explains economically irrational policy choices cannot readily explain the adoption of choices that conform to neoclassical notions of enlightened policy.

Significant structural reforms would certainly not have been predicted in Mexico, an almost classic case of rent-seeking lobbies associated with a strategy of import substitution holding policy captive to its economic interests. A currency float that meant massive ongoing devaluations, drastic cut-backs in imports, removal of non-tariff barriers to trade, restructuring of public enterprise, tax reforms, decreases in important consumer subsidies, as well as many other economic reforms were introduced over a seven-year period and generally sustained despite a major drop in real income, massive unemployment, high rates of inflation, and a significant threat to the hegemony of the ruling political party (see Carr and Anzaldúa Montoya 1986; Maxfield and Anzaldúa Montoya 1987). The economic and political crises were real, but they engendered neither further rent-seeking accommodations nor coups, revolutions, or other cataclysms. Instead, the crises resulted in ongoing negotiations, a sustained commitment to implement a changed development strategy, and a search for a new basis of consensus in society. All of this occurred with virtually no payoffs available to the large number of politically important groups that were affected by the changes.

The list of examples of countries that have made major changes in basic development policies is extensive.[19] Stabilization and structural adjustment programs have been sustained in Costa Rica, Bolivia, Thailand, Korea, Ghana, and Turkey, among other countries (see Lindenberg 1988; World Bank 1988; Younger 1989). Indonesia has introduced significant trade and financial market changes (Flatters 1988; Usman and Robinson 1988). Bolivia has introduced extensive new tax policies, as have Colombia, India, Jamaica, and Malawi (see World Bank 1988). Bangladesh has introduced and sustained trade and industrial policy changes (see Mallon and Stern 1988). The case of China after Mao is well-known. Some countries, such as Bolivia, Sri Lanka, and Ghana, have undertaken major initiatives to target low income groups most affected by stabilization and structural adjustment measures, programs and policies introduced even in the absence of significant political power among such groups (see Thomas and Chibber 1989). Social expenditures have been redirected to low income groups in Mexico, Morocco, Brazil, and Ivory Coast (see Thomas and Chibber 1989). In Mauritius, a policy aimed at reducing environmental degradation was instituted, even in the face of opposition from industrial interests that were causing pollution. These countries vary significantly in regime type, histories of political stability, and nature of vested interests. Clearly, each of them faced severe economic conditions and many faced political crises of various sorts and degrees of magnitude, but neoclassical political economy offers no insight into the processes through which change occurred or the ability of governments to select policies they believed would bring longer term benefits to their societies. The explanation of change is a far more challenging task than the explanation of stasis.

The new political economy recommends itself for its analytic rigor and parsimony. Overall, it allows analysts to understand the pursuit of policies that distort economic interactions, the systematic leakage of policy resources for political ends, and the resistance of policy makers and publics to altering existing practice because it indicates that existing practice represents a politically optimal solution to the problem of staying in power or extracting rents. These characteristics, however, make the theory inadequate for explaining what ought to be of great interest to development specialists, especially those who proffer advice about development policy--an understanding of how change occurs. This gap translates into an inability to explain how to get from here to there in terms of introducing alternative policies. This is a critical weakness of the theoretical approach and one that presents a challenge to policy analysts: can alternative models of politics be conceptualized that address issues of change, predict the content of change, and maintain a viable role for those who seek both politically and economically viable solutions to the major problems facing developing countries in the decades ahead?

## Bases for an Alternative Political Economy

The limitations of the new political economy derive not from the fact that it is reductionist, as all theory must be, but that it is reductionist in a way that makes it difficult to explain change and the content of change or to envision a constructive role for politics, even though it accepts politics as an inevitable part of economic systems. In the context of developing countries, in which historical and contextual factors are extremely complex, a model of political economy should provide a means of understanding these factors. One possibility is to consider an alternative model, less directed at parsimony and more at capturing critical moments when change occurs, for such moments reveal essential political dynamics at work in a society. Some elements of such a model are sketched out in brief below.

First, given the centrality of policy elites and the state to the policy process and economic development, an approach that encourages understanding what occurs within the state and at the intersection of state and society would be appropriate way to begin the task of explaining policy in developing countries. For instance, how do policy elites and policy managers perceive the issues, stakes, options, and constraints surrounding a particular policy problem? In response to such questions, concepts such as self-interest and power maximization explain little that is substantively interesting. In the context of developing countries, in which policy elites play critical roles in deciding policy outcomes, a model of political economy should provide a means of understanding what their preferences are, how they are formed, and how interaction among policy elites and between them and others influences the choices made about the content of public policy. A recent study of twelve reformist initiatives, for example, found that policy elites come into any particular decision making situation with general policy references formed by ideological predispositions, professional expertise and training, memories of similar policy situations, position and power resources, political and institutional commitments, and personal attributes and goals (Grindle and Thomas 1989). Explaining particular instances of policy change is difficult without taking these factors into consideration.

In order to understand the preferences of policy elites in policy reform situations, and in order to sketch out the range of options available to them, an appropriate model of political economy should also be able to address a series of contextual issues that surround any particular decision making situation. These general or background factors affect the specific choices made by policy elites. The organization of societal interests, historical and international contexts, the administrative capacity of government, and the influence of prior and coterminously pursued policies all shape the preferences of decision makers and play an important role in explaining similarities and differences among countries. These variables relate to the institutional and historical context within which decisions are made; choices are not made in a void but are part of ongoing patterns of conflict and conflict resolution in a society as well as means through which "optimal" solutions are molded by what appears to be possible. Considering these patterns introduces the very real possibility that states, for historical and ideological reasons, have interests and preferences that cannot be reduced to individual self-interest (see, for example, Bennett and Sharpe 1985; Grindle 1986; Haggard and Moon 1983). Thus, for example, the fact that some states tend to select statist solutions to public problems while others consistently favor market solutions or that unmobilized low income groups are favored in one and ignored in another can only be convincingly explained by considering broad contextual factors.

The values of policy elites and an appreciation of the context within which they make decisions forms a basis for considering policy making in general. However, a model of political economy that can explain change should also explain the specific outcomes of particular decision making situations. For example, the circumstances surrounding the emergence of a particular issue have been shown to be of critical importance in explaining how that issue will be treated by decision makers (see Grindle and Thomas 1989). A particularly important distinction in explaining variable outcomes is whether policy elites perceive that an issue is somehow tied to a crisis, be it economic, political, or social, or whether they consider it an issue that needs to be dealt with on a politics-as-usual basis (see Hampson 1986). At issue here is the extent to which decision makers believe they have no choice but to act to avoid a more threatening situation or, conversely, believe that dealing with a problem, although important, is not particularly urgent and that failure to act will not lead to some disaster. This distinction is critical because, depending on how the issue is perceived, different policy makers will be involved, the scope of change considered appropriate will differ, and the appraisal of the political and economic stakes will be distinct. Thus, in a context of perceived crisis, policy elites tend to be most concerned about macropolitical issues such as legitimacy, social stability, the costs and benefits of alternatives to major political coalitions in society, and the longevity of the regime in power. They will perceive that the stakes are very high, but also that such difficult conditions require significant and timely response, often a reversal of prior policy. Major innovative change could be anticipated in such a situation of perceived crisis.

In contrast, if a particular issue emerges under conditions that can be considered politics-as-usual, the dynamics of decision making will tend to be very different and the change envisioned will be that of an incremental or marginal adjustment or series of such adjustments in existing practice; there is little sense of urgency surrounding the reform and policy elites will have much more autonomy to take up the issue of change when the moment seems propitious or to place it on a back burner when they do not. Under these politics-as-usual circumstances, decision makers are likely to be most concerned about the impact of change on bureaucratic compliance and response and about micropolitical issues such as clientelism and narrow coalition building. Moreover, high level decision makers are likely to be only peripherally involved in such issues. In consequence of the circumstances surrounding agenda setting for particular issues, therefore, the politics, preferences, and options considered by policy elites are likely to be very different when a devaluation is considered than when the issue involves such changes as the decentralization of the ministry of public works or a reforestation initiative. A model that allows for the analysis of agenda setting circumstances and the specific concerns of decision makers can therefore go much further in a predictive sense than a simpler analysis based solely on notions of individual self-interest.

After decisions to change policy have been made, a useful model of political economy should also be able to assess the extent to which those decisions will be successfully pursued by considering the nature of conflict surrounding efforts to implement changes (see Thomas and Grindle 1989). All actions to alter existing policies will encounter opposition or resistance, and the nature of that conflict is important in determing the course of policy implementation and the resources needed to sustain such initiatives. Research by Grindle and Thomas indicates that the type of conflict surrounding efforts to carry out policy change is strongly conditioned by the characteristics of the policies being implemented. Some policies, for example, have a short term impact on broad sectors of the population or on particularly important sectors--the ending of of a consumer subsidy program, for example, that results in higher prices for basic staples. In contrast to these costs, benefits are often highly concentrated--removal of pressure on the public budget, for instance. This same kind of policy change also tends to have an immediate impact in terms of its costs because it entails little administrative or technical complexity to implement--it may be almost "self-implementing." Policy characteristics such as these add up to publicly visible and immediate change and are very likely to engender reactions and conflicts that are public and explicitly political in nature. Riots, protests, public debate, and extensive criticism of public leaders, for instance, tend to be strongly related to policies with such characteristics. These public and political responses mean that the stakes tend to be quite high, not only for the durability of the reform but also for the reputations and tenure of political leaders and even for the life of the regime itself. Policy elites undertaking such initiatives will require considerable political resources of legitimacy, popularity, regime stability, and/or external threat if policy changes with visible and immediate costs are to be sustained.

In contrast, many policy changes result in costs that are concentrated on individuals or narrow groups, that produce generalized benefits that may not be immediately apparent and that are imposed in highly disaggregated fashion, often over a considerable period of time--an import tax levied on certain luxury goods is an example of this kind of policy change. Generally, carrying out such changes may entail considerable administrative and technical interaction before they can be considered accomplished. The benefits to public policy and economic welfare will therefore only be visible in the medium or long term. Policy changes with these characteristics tend to engender conflict that is played out within bureaucratic arenas, either through the resistance of public officials or the personalistic claims of clientele groups or some combination of these. Reformers need to be concerned about issues of bureaucratic compliance and responsiveness in these situations. The stakes for policy elites tend to be much lower than for these kinds of reforms than for those that get carried out in more public arenas. Usually, sustainability of the change is called into question by bureaucratic and clientelistic responses, but not the viability of the regime in power or its leadership. Those promoting reform will want to be able to count on resources that have meaning within bureaucratic contexts--hierarchical authority, incentive systems, financial resources, technical control mechanisms, and the like.

These are a complex set of elements to employ in a model of policy making in developing countries. They emphasize developing the capacity to explain the timing, nature, and scope of policy change and to consider its viability once introduced. This alternative to neoclassical political economy places considerable emphasis on the preferences and perceptions of policy elites and on the possibility of calculation and miscalculation on their part of the potential risks in introducing changed policy. It makes a distinction between crisis and non-crisis ridden decision making and a distinction between the macropolitical and micropolitical concerns of decision makers. In doing so, it enables analysts to begin to explain and even to predict the content of reform initiatives. Importantly, it presents the possibility that policy elites are strategic managers within complex policy contexts who have a set of complex preferences and who are seeking politically, bureaucratically, and economically viable outcomes. It also lays the basis for predictions about success or failure in the introduction of reform.

What is important to an alternative political economy model, then, is not the pursuit of individual self-interest as if it existed in a void, but ways to conceptualize the bargains, pacts, compromises, and efforts that are made on an ongoing basis in an effort to craft policy that is acceptable to those who have the greatest stakes in the outcome and to those who have the greatest capacity to stymie and to support the effort. Rather than the sum total of individuals seeking their self-interest, the view of politics that this alternative presents is one of efforts at problem solving through negotiation and the use of political resources in the context of great uncertainty. The results of such processes of problem solving can be good, bad, or indifferent for the economic system, for society, or for individual sectors of society. This is an important point, for it suggests the possibility that there often exists a space in which policy elites can maneuver to achieve policy choices that are both politically and economically wise and that the institutional and historical context within which policy decisions are reached help define a space for negotiation, problem solving, and conflict resolution. If this space exists in a large number of situations, then there would be an important role for the policy advice that development economists can provide. It may well be worthwhile to attempt to model this space and to use such models to help craft policy advice.

Ultimately, both economists and political scientists need to abandon notions and models of politics that cast it necessarily as an obstacle to achieving optimal economic outcomes. It is valuable that neoclassical political economy has credited politics with a basis in rational behavior; it is less positive that it has done so in a way so as to cast economics at odds with politics. Development economists might begin to feel less beleaguered by what they see as the inevitable hegemony of politically rational behavior over the collective economic good if they believed more fully in the possibility that some political values--the compromise of conflicting interests, the search for more equitable solutions to public problems, the achievement of social and political stability based on a reasonable set of rules about how collective problems are best resolved, the creation of public trust based on a shared sense of legitimate authority, the search for basic consensus on the nature of the public interest, the definition of an agreed upon role for government to perform, the importance of social stability for economic growth--have value equal to the achievement of economic efficiency. An effective model of political economy would be one that was fully interactive, not one that demonstrates how politics systematically eats away at economic goals.

# NOTES

1. An earlier version of this chapter was thoughtfully reviewed and commented upon by Robert Paarlberg, Dwight Perkins, Stephen Reifenberg, Michael Roemer, and Judith Tendler. I am extremely grateful for their insightful advice. In addition, T.N. Srinivasan and David Abernethy provided valuable comments on the conference paper.

2. I adopt a Weberian notion of the state in this chapter, that is, an enduring set of executive and administrative organizations whose role it is to control a given territory and to make authoritative decisions for society (see Grindle 1986).

3. In an often-cited article appearing in 1976, Tony Killick discusses the implicit notions of politics held by development economists in the past. "[E]conomists have adopted a 'rational actor' model of politics. This would have us see governments as composed of public-spirited, knowledgeable, and role-oriented politicians; clear and united in their objectives; choosing those policies which will achieve optimal results for the national interest; willing and able to go beyond a short term point of view. Governments are stable, in largely undifferentiated societies; wielding a centralized concentration of power and a relatively unquestioned authority; generally capable of achieving the results they desire from a given policy decision. They are supported by public administrations with ready access to a very large volume of relevant information which can be processed efficiently" (p.171).

4. In this paper, the terms neoclassical political economy and the new political economy are used interchangeably. Neoclassical political economy has been developed by both economists and political scientists; in this chapter, work on politics by economists is stressed. A very broad literature exists on political economy; this paper deals with only a part of it (see Keech, Bates, and Lange 1989 for a review; see also Alt and Chrystal 1983). Moreover, even within neoclassical political economy, there are important differences in approach. As indicated in this chapter, a critical difference among them is whether they approach issues from a society-centered or a state-centered perspective. What unites these models, however, is their basis in assumptions about the primacy of individual self-interest in political behavior.

5. "Bad" policy, as used here, is meant to reflect notions of policies that neoclassical economists consider economically irrational in a general sense. As used in this paper, a "good"

policy, from the perspectives of neoclassical economics, is one that promotes the efficient function of economic markets.

6. Riker and Ordeshook (1973), for example, define politics as "the selection of the preference of some person (or the potential preference of some person) to be the choice of society" (p.2).

7. For Buchanan, Tollison, and Tullock (1980:ix), rent-seeking is the "resource-wasting activities of individuals in seeking transfers of wealth through the aegis of the state." Bhagwati (1982) demonstrates that under some conditions, rent-seeking is not welfare reducing. However, the general consensus among economists is that rent-seeking is inefficient for society.

8. Larger organizations will emerge, according to Olson, only if there is some coercive means to force them to join or if there is some incentive other than the achievement of collective goals (see Olson, 1965).

9. Pluralist theory is generally traced to the group model of government associated with David Truman (1951). Its roots in democratic theory are found clearly in the writings of James Madison and Alexis de Tocqueville. Robert Dahl (1951, 1971) is perhaps the best known exponent of democratic pluralism in the United States.

10. While neo-classical theory is largely silent on the issue, pluralists differ in terms of the equity outcomes of interest based political decision making. Some have argued that virtually all interests have the capacity to organize and attempt to influence government and thus, the actions of government are just in the sense that they represent the outcome of an open competitive market of ideas (see Truman 1957; Dahl 1961; Lane 1959). Others, however, have noted the extent to which social class, education, money, and access privilege certain groups and gain them preferential treatment by government (see Lowi 1969; McConnell 1967). In this view, government action is usually biased in favor of the interests of the middle and upper classes and against the poor, the disorganized, the unorganized, or the disenfranchised.

11. Pluralist scholars differ over the passivity of public officials in the face of interest group pressures. In some perspectives, public officials almost mechanistically register the aggregation of interests upon them; in most cases, however, they are seen to play more active roles, arbitrating among groups, negotiating compromises, and even pulling together winning coalitions of interests.

12. Political elites seek to maximize support not only in terms of votes but also in terms of rewarding groups whose support is essential when votes are irrelevant or when there is no agreement that voting will determine the outcome of conflict. Thus, public resources that flow to the military, large industrialists, important ethnic or regional groups, or religious leaders, are seen

as resource transfers by political elites to buy the support of these groups even in nondemocratic settings. Among the most interesting work in this regard has been the effort to deduce the political logic of support coalition formation from analyses of government expenditures (see Ames 1987).

13. T.N. Srinivasan has suggested that society-centric explanations focus on the demand side of politics, while state centric approaches reflect supply side dynamics. The important point of distinction for political analysis, as with economic analysis, is the reversal of independent and dependent variables in these two perspectives. Demand side approaches (society-centric) assert that social groups initiate policy and politicians respond to pressure. In supply side perspectives (state-centric) politicians initiate policy and citizens respond with support. (Personal communication, August 1989)

14. Riker argues that under simple majority rules, there is an ongoing process of the formation and dispersion of minimum winning coalitions around specific issues. "Each coalition gains by dispossessing the losers; the ultimate result is that everyone has victimized everyone else, and everyone is probably worse off" (Koford and Colander 1984:212).

15. For the policy analyst, cataloguing the organized interests that are affected by a particular policy reform--a standard procedure in much Western policy analysis--may be an unproductive exercise unless there is concomitant appreciation of the real capacity to exert influence and the real impact of informal processes of power in a given country. Findlay and Wellisz (1984) distinguish between a society-centric democratic lobbying model and a more state-centric authoritarian model in which "the prince" is driven to justify his rule by maximizing the output of his regime...." Even in democratic systems in developing countries, however, a purely society-centric model may misrepresent the dynamics of policy making and state leadership.

16. What the new political economy explains is not new to students of politics. Political scientists studying developing countries have long known of and dissected the political logic of clientelism, corruption, and policy choice in ways that did not expect economic rationality but as ways to achieve or ensure political stability, support, or power.

17. I am grateful to David Abernethy for this formulation of the limits of neoclassical analysis.

18. Many have pointed out that this clear policy advice has not been adopted historically by some of the most dynamic developers in the third world. Korea, for example, is a case of a highly interventionist state that through a highly centralized decision making system, effectively "orchestrated" policy in coordination with politically insulated state technocrats and a captive private business sector (see Haggard and Moon 1982).

19. Many such policy changes are discussed in papers appearing in Perkins and Roemer (forthcoming).

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