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Post-State Development: The Primacy of Markets Over Planning

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I. The Question of Balance

National governments have played an important role in the successful development experiences of East Asian countries. However, elsewhere in the world-including countries in Africa, Latin America, and the Middle East and North Africa-the government has often appeared to be an obstacle rather than a catalyst, stifling markets instead of facilitating their role in growth and development. In this chapter, we examine the question of balance and the relationship between the state and markets in the process of economic development. Achieving a balance between private markets and public policies poses a significant challenge. In the early years of development experiences following World War II and the end of the colonial era, the idea that the state is a benevolent supporter of development gained a foothold in public policies, albeit implicitly. However, the history of corruption, poor governance, and the capture of state apparatuses by special interest groups in many developing countries rendered this idea indefensible. More recently, a negative view of the government's role in development has predominated; yet, this view is theoretically based and has failed to explain the constructive and significant role of the state in numerous successful development experiences, particularly in certain

East Asian countries.

Now, a middle-ground perspective has emerged that recognizes both the strengths and weaknesses of the public and private roles, offering empirical analyses of the mistakes governments make in the development process and the conditions under which these flaws can be corrected. The fine lines between economic sectors have also become a subject of greater interest. This is not only because the public and private sectors can often work together constructively, but also because the dividing lines between them are not always clear. As Professor Elinor Ostrom, recipient of the 2009 Nobel Prize in Economics, pointed out, we should accept that certain phenomena “do not fall within the realm of dichotomies: the market versus the state.” [1]

In this chapter, we discuss the roles and limitations of planning and development policies as undertaken in developing countries, taking into consideration the problems of economic transition to more competitive market economies, the fundamental question regarding the appropriate role of the

1. Ostrom, E. (2010), ‹Beyond markets and states: Polycentric governance and complex economic systems› American Economic Review, 100: 641. See also Stiglitz, J. (2009), ‹Moving beyond market fundamentalism to a more balanced economy,› Annuals of Public and Cooperative Economics, 80(3): 345-60.

state, and how public and private economic activities can be made mutually supportive. The chapter begins with a brief review of the nature of development plans and a summary of general planning issues. After examining the main arguments in favor of planning in developing societies and taking a brief look at various planning models and program evaluations, we move on to examine the requirements for maximizing social benefits from market economies, evaluating the arguments for and against a broader or narrower role for the state in contemporary developing countries. Subsequently, we examine some modern theories in the formation of development policies, including studies on the impact of political actions on the quality of policy decisions. Finally, we will look at three important patterns of governance methods and reforms: addressing the problem of corruption, implementing decentralization, and encouraging broad-based participation in the development process.

II. Development Planning: Concepts and Rationale

In the early decades following World War II and the end of the colonial era, the pursuit of economic development was reflected in a near-universal acceptance of development planning as the surest and most direct path to achieving economic progress. Until the 1980s, very few people in developing countries questioned the feasibility and prudence of formulating and implementing a national development plan. Planning became a way of life for government ministries, and every five years or so, the latest development plan would be announced through major ceremonies. National planning was viewed as providing the fundamental, and perhaps the only, institutional mechanisms for overcoming the major obstacles to development and ensuring high and sustained economic growth. Unfortunately, however, planning did not achieve what was hoped of it. Nevertheless, the existence of a comprehensive framework for development policy can play an important role in accelerating growth, reducing poverty, and achieving human development goals.

A. The Nature of Development Planning

Economic planning can be described as a deliberate government attempt to coordinate long-term economic decision-making to influence, direct, and sometimes control the level and growth of a country's principal economic variables (such as income, consumption, employment, investment, saving, exports, imports, and the like) in order to achieve a set of development goals. [2]

2. For a more detailed discussion of planning and planning models, see Todaro, M.P. (1971), Developing Planning: Models and Methods, Nairobi,

Proponents of economic planning in developing countries argue that an unregulated economic market can-and often does-place these countries in a state of economic dualism, unstable markets, low investments in critical sectors, and depressed employment levels. Specifically, they claim that the market economy is incompatible with the fundamental operational tasks of low- and middle-income countries, which consist of mobilizing limited resources in a manner conducive to bringing about the structural change necessary to stimulate balanced and sustainable growth for the economy as a whole. Consequently, planning became accepted as a fundamental and pivotal means of guiding and accelerating economic growth in nearly all developing countries.

B. Planning in Mixed Economies

Most development plans were formulated and implemented within the framework of mixed economies in developing countries. These economies are characterized by an institutional setting wherein there is private ownership and private sector operation of some productive resources, while others are owned, or directly influenced, by the public sector.

Kenya: Oxford University Press; and Gittinger, J.P. (1984), Economic Analysis of Agricultural Projects, 2nd ed., Baltimore: Johns Hopkins University Press.

The actual division of property between the private sector and the public sector varies from one country to another, and neither sector can, in reality, be considered isolated from the other. However, mixed economies are often distinguished by a strong and substantial level of government influence, government ownership, and government control. The private sector in developing countries typically comprises four traditional forms of private ownership alongside a newer fifth form:

1. The subsistence sector: Consisting of small private farms and handicraft workshops that sell portions of their products in local markets.
2. Small-scale businesses: Commercial businesses and service activities owned by an individual or a family in the formal or informal urban sector.
3. Medium-sized enterprises: Agricultural, industrial, commercial, or transport enterprises owned and operated by local entrepreneurs.
4. Large-scale enterprises: Manufacturing plants, mining companies, or plantations that are jointly owned or wholly foreign-owned, catering primarily to foreign markets but occasionally making significant local sales (the capital for these enterprises usually comes from

abroad, and a large portion of the profits is transferred out of the country).

5. Domestic corporations: A growing number of relatively large-scale domestic corporations, primarily managed and largely owned locally, often listed on the stock market in countries such as Brazil, Russia, and China; these are more common in middle-income countries than in low-income countries, and are rarely found in the least developed countries.

In the context of this institutional setting, we can distinguish two main components of development planning in mixed economies:

1. The deliberate government use of domestic savings and foreign finance to implement public investment projects, mobilizing scarce resources and channeling them into areas expected to make the greatest contribution toward achieving long-term economic objectives, such as the construction of railways, schools, hydroelectric projects, and other components of economic infrastructure, as well as the establishment of import-substitution industries or prospective future export sectors.

2. Government economic policies (such as taxation, industrial licensing, tariff setting, modification of production and import quotas, interest rates, and prices) aimed at stimulating, directing, and sometimes controlling private economic activities to ensure a harmonious relationship between the interests of private business owners and the social objectives sought by the central government.

Therefore, even when planning is highly active, there is almost always a balance between strong market stimulation and central control, as is evident from our simplified description of planning in mixed economies.

C. The Rationale for Development Planning

The early and widespread acceptance of planning as a mechanism for development was based on a set of economic and institutional arguments. We can cite four of these commonly used arguments, with the market failure argument being the most dominant among them.

Market failure: Markets in developing countries are characterized by imperfections due to the immaturity of their structures and processes. Commodity and resource markets are often poorly organized, and the frequent presence of distorted prices means that producers and consumers react to economic signals and incentives that inaccurately reflect the true cost borne by society for those goods, services, and resources. Accordingly, the argument posits that governments have a significant role to play in integrating markets and correcting prices. Furthermore, the failure of the market to correctly price the factors of production can, presumably, also lead to significant disparities between private and social valuations of alternative investment projects. Consequently, the absence of government intervention supports the notion that the market will lead to a misallocation of present and future resources, or at least an allocation that may not serve the long-term social interest. This market failure argument is one of the most frequently cited reasons for expanding the role of government in less developed countries. [3]

3. United Nations, Planning the External Sector: Techniques, Problems, and Policies (New York: United Nations, 1965), p. 12; R. Helfgoth and S. Schiavo-Campo, «An introduction to development planning,» UNIDO Industrialisation and Productivity Bulletin 16 (1970): 11. A more sophisticated version of the market failure argument can be found in Heinz W. Arndt, «Market failure and underdevelopment,» World Development 16 (1988): 210-229. For a concise explication of the economic rationale for state intervention, stressing not only market failure and externalities but also public goods, natural monopolies, incomplete markets, and imperfect information, see World Bank, World Development Report, 1997 (New York: Oxford University Press, 1997), Box 1.4.

Resource allocation and mobilization: This argument focuses on the premise that developing economies cannot afford to waste any amount of limited financial and human resources on unproductive projects. Therefore, investment projects must be selected within the framework of a comprehensive development program that takes into account externalities, indirect repercussions, and long-term objectives. Skilled labor should also be utilized in areas where its contribution is most beneficial. It is assumed that economic planning helps identify existing constraints and limitations by selecting and coordinating investment projects, thereby ensuring that these limited resources are directed toward the most productive areas. Conversely, this argument posits that competitive markets tend to generate lower levels of investment and direct this investment toward less socially important areas, such as the production of consumer goods geared toward the rich.

Attitudinal and psychological impact: It is often assumed that a detailed statement of national economic and social objectives by the state in the form of a specific development plan can have a significant psychological and behavioral impact on a diverse and fragmented society, and may succeed in rallying citizens behind the government through a national campaign to eliminate poverty, ignorance, and disease, or to promote national identity. By mobilizing popular support across social classes, ethnic affiliations, religious groups, and tribal factions, and by calling upon all citizens to work together to build the country, this argument claims that an enlightened central government, through its economic plan, can better provide the necessary incentives to overcome divisive forces and discouraging, disruptive traditional forces, as part of a joint effort to achieve widespread social and material development.

Foreign aid: The formulation of detailed development plans was often a necessary condition for receiving bilateral or multilateral foreign aid. Governments are in a better position to solicit foreign aid when they have a list of projects and can convince donors that their funds will be used as a key component of a well-designed and internally consistent action plan. The argument that developing countries need an approved plan to receive various forms of assistance remains as true in this century as it was in the past. [4]

4. Recent examples include climate change adaptation assistance, notably the Strategic Programmes for Climate Change Resilience (see Box 10.2), the IMF/World Bank Poverty Reduction Strategy Paper (PRSP) process, and the US Millennium Challenge Corporation (MCC) Compacts. (The role of foreign aid in theory and practice is examined in Chapter 14, Section 14.4).

I. The Development Planning Process: Some Basic Models

1. The Three Stages of Planning

Most development plans have traditionally relied on some form of a macroeconomic model. Economy-wide development models can be divided into two primary categories: The first consists of aggregate growth models, which involve macroeconomic estimates of planned or required changes in principal economic variables. The second encompasses multi-sector input-output, social accounting, and computable general equilibrium models, which emphasize (among other things) production, resources, employment, and the foreign exchange implications of a specific set of final demand targets within an internally consistent framework regarding the flow of intermediate products. Finally, perhaps the most important component of plan formulation is the detailed selection of specific investment projects within each economic sector through the technique of project appraisal and social cost-benefit analysis. These three “stages” of planning-aggregate, sectoral, and project-provide the primary intellectual machinery for planning authorities. All these mechanisms were, and still are, heavily used by the World Bank and other development agencies, as well as by the governments of developing countries.

2. Aggregate Growth Models: Targeting Macro Variables

The first and simplest development model used in virtually every developing country is the aggregate growth model. The model deals with the economy as a whole in terms of a specific set of macroeconomic variables that are considered most crucial for determining the growth rates of national output: saving, investment, capital stock, exports, imports, foreign aid, and the like. Aggregate growth models provide a convenient method for forecasting output growth (and perhaps employment as well) over a three- to five-year period. Almost all of these models represent various iterations of the basic Harrod-Domar model.[5] By specifying targeted growth rates for the Gross Domestic Product (GDP) and the national capital-output ratio, the Harrod-Domar model is used to determine the amount of domestic saving necessary to generate this growth. Typically, it is unlikely that this requisite amount of saving will be achieved based on existing saving functions; therefore, the

5. Although aggregate, such models are often quite elaborate with equations for different sectors of the economy, and necessarily linear.

fundamental problem is how to generate additional domestic saving, secure foreign assistance, or attract private foreign capital inflows.

3. Multi-Sector and Sectoral Targeting

A much more sophisticated approach to development planning is the use of some form of an inter-sectoral or input-output model, wherein the activities of major economic sectors are interconnected through a set of simultaneous mathematical equations representing the specific production processes or technologies used in each sector. All sectors are viewed as producers of outputs and users of inputs from other sectors. For example, the agricultural sector is a producer of outputs (e.g., wheat) and a user of inputs from the industrial sector (e.g., machinery and fertilizers). Thus, the change in direct and indirect repercussions of planning can be traced by looking at the demand for the products of each sector: on production, employment, and imports from other sectors across the entire economy in an interconnected web of economic dependencies. By establishing planned production targets for each sector across the economy, the inter-sectoral model can be used to determine intermediate materials, imports, labor volume, and capital requirements to formulate, albeit theoretically, a comprehensive economic plan with consistent joint production levels and to identify the required resources.

II. Planning Models and Plan Consistency

The process of formulating a comprehensive and detailed development plan is much more complex than described in the literature on development plans, particularly the three-stage approach. The plan formulation process involves an ongoing dialogue and feedback loop between national leaders setting priorities, planners, statisticians, research personnel, and officials in ministries and specialized agencies. Internal rivalries and conflicting objectives (not to mention political pressure from powerful interest groups) must always be taken into account. This has often led to the failure of development plans or at least of planning mechanisms that followed the path of aggregate planning models, input-output, and project planning, as these plans failed to achieve their objectives due to a general inability to achieve a comprehensive and internally consistent development plan.

III. Government Failure and the Primacy of Markets Over Planning

Problems in Plan Implementation and Plan Failures

The results of development planning were generally disappointing. The widespread rejection of comprehensive development planning due to the poor performance of development plans had a number of practical consequences, most notably the adoption by a majority of developing countries of a market-oriented economic system.

What went wrong? Why did the initial euphoria about planning gradually turn into disillusionment and despair? We can identify two overlapping sets of answers: one deals with the gap between the theoretical economic benefits and the practical outcomes of development planning, and the second deals with more fundamental flaws in the planning process itself, particularly in its relationship to administrative capacities, political will, and plan implementation.

Theory Versus Practice

The core economic arguments for planning mentioned above-namely market failure, divergences between private and social valuations, resource mobilization, investment coordination, and the like-often turned out to be poorly supported by actual planning experiences. Tony Killick, a senior research associate at the ODI Global research center, argues that "government has rarely succeeded, in practice, in reconciling social and private valuations, except in a piecemeal manner." Mr. Killick identifies a fundamental problem, which is that "plans rarely become documents that are actually implemented, and they likely have limited influence on resource mobilization and the coordination of economic policies."[6]

Looking at the specific case of the market failure argument and the presumed government role in bridging the gap between social and private valuations of benefits and costs, the experiences of government policies in many developing countries often exacerbated these gaps rather than bridging them, turning the issue into government failure instead of market failure. Government policies frequently tend to increase divergences between social and private valuations rather than reduce them.

For instance, public policies have raised wages above the price of labor or the true value of scarce resources through various mechanisms, such as minimum wage legislation (at a

6. Tony Killick, «Possibilities of development planning,» Oxford Economic Papers 41 (1976): 163-164.

level higher than the wage that might correct market failure), tying wages to educational attainment, and structuring wage rates at higher levels based on international wage standards.

Similarly, factors such as investment depreciation, tax exemptions, overvalued exchange rates, low levels of effective protection, production and import quotas, and the rationing of financial credit at low interest rates have served to reduce the private cost of capital below its social value. The net effect of these distortions in the prices of production inputs was to encourage private and public enterprises to adopt capital-intensive production methods to a far greater extent than would have been the case had public policies sought to correct prices.

Another example: Economic signals and incentives in many developing countries exaggerated the private valuation of returns from education at the secondary and tertiary levels, to the point where private demand for additional years of schooling far exceeded the social benefit. The tendency to ration scarce, high-paying jobs based on the level of education attained, and the policies of most developing country governments to subsidize the private cost of education at higher levels, created a situation where the social return on investment in the quantitative expansion of education appeared barely justifiable compared to alternative investment opportunities.

In light of the examples above, we may conclude that the gap between the theoretical economic benefits of planning and its practical outcomes in most developing countries was substantial. The gap between public discourse and economic reality was even wider. While these policies were supposed to be concerned with ending poverty, reducing inequality, and alleviating unemployment, many planning policies in developing countries inadvertently contributed, in reality, to the persistence of those very phenomena. Some of the primary explanations for this stem from the failure of the planning process itself, a failure which in turn arises from specific and distinct problems.[7]

Flaws in Plans and Their Implementation

Plans were often overly ambitious. They attempted to achieve too many objectives simultaneously without considering that some objectives compete with or even contradict one another. They were frequently grandiose in design but vague regarding the specific policies needed to achieve the desired goals. In this regard, these plans share much in common with the long

7. Ibid., 164.

list comprising sixty to a hundred or more policy issue areas found in the conditional agreements set by the World Bank and the International Monetary Fund. Finally, the gap between plan formulation and implementation remained vast; many plans were never implemented for reasons that were not publicly articulated, or at least not fully disclosed.

1) **Inadequate and Unreliable Data:** The economic value of development plans depends to a large extent on the quality and reliability of the statistical data on which they are based. When these data are weak and unreliable, or unavailable as is the case in many poor countries, the accuracy and macroeconomic consistency of quantitative plans diminish significantly. Furthermore, the compounding of poor data with a shortage of economists, statisticians, and planning experts (a common situation in most low-income and many middle-income countries) makes attempting to formulate and implement a comprehensive and detailed development plan a burdensome and frustrating task at all levels.

2) **Unanticipated Internal and External Economic Disturbances:** Because most developing countries have open economies and rely on the fluctuations of international trade, aid, speculative "hot" capital flows,

and private foreign investment, it becomes highly difficult for them to engage in short-term forecasting, let alone long-term planning. The surge in oil prices in the 1970s wreaked havoc on most development plans. However, the energy crisis was merely an extreme manifestation of a broader trend of economic factors over which most governments in developing countries had limited control, despite their critical role in determining the success or failure of their development policies.

3) Institutional Weaknesses: The institutional weakness of the planning process in most developing countries involves the separation of planning institutions from the day-to-day government decision-making machinery, the failure of planners, administrators, and political leaders to engage in continuous internal dialogue and communication regarding objectives and strategies, and the international transfer of institutional planning practices and organizational arrangements that may not be suited to local conditions. Additionally, there was much concern about the incompetence and lack of qualification of civil servants, cumbersome bureaucratic procedures, excessive caution and resistance to innovation and change, interpersonal and interdepartmental conflicts (for example, finance ministries and planning institutions often had conflicting rather than cooperative authorities within governments), and a lack of commitment to national goals compared to regional, partial, or even private objectives on the part of political leaders and government administrators. Due to the prioritization of private interests over the national interest, political and administrative corruption became rampant in many governments.[8]

4) Lack of Political Will: Poor planning performance and the wide gap between plan formulation and implementation are also attributed to the absence of commitment and political will on the part of leaders and top-level decision-makers in many developing countries.[9] Political will entails much more than noble intentions and grandiose rhetoric. It requires extraordinary capacity

8. For an overview, see World Bank, World Development Report, 2002 (New York: Oxford University Press, 2002). For an analysis of the effects of corruption, see M. Shahid Alam, «Some economic costs of corruption in LDCs,» Journal of Development Studies 27 (1990): 89-97; Susan Rose-Ackerman, «Corruption and development,» Annual World Bank Conference on Development Economics, 1997 (Washington, D.C.: World Bank, 1998), pp. 35-68; and Pranab K. Bardhan, «Corruption and development: A review of issues,» Journal of Economic Literature 35 (1997): 1320-1346.

9. Albert Waterston, Development Planning: Lessons of Experience (Baltimore: Johns Hopkins University Press, 1965), p. 367.

and a great deal of political courage to challenge political elites and special interest groups, and to convince them that development serves everyone's long-term interests, even if some will incur short-term losses. Without the support of these groups, whether by choice or coercion, the developmental will of some politicians will face stiff resistance, frustration, and even internal conflicts.

5) Conflict, Post-Conflict, and Fragile States: In extreme cases, violent conflicts or the widespread failure of the state to perform its functions effectively have led to catastrophic failures in achieving basic development goals. In such cases, developmental assistance is usually essential.

IV. **The Policy Shift Toward Free Markets in the 1980s**

As a result of disillusionment with planning and the failure of government intervention, many economists, some finance ministers in developing countries, and heads of major international development organizations called for the increased use of market mechanisms as the primary tool to promote greater efficiency and more rapid economic growth. US President Ronald Reagan pointedly referred to the "magic of the marketplace" in his 1981 speech in Cancun, Mexico. If the 1970s could be described as a period of heightened public sector activity in pursuit of more equitable development, the 1980s and 1990s witnessed the resurgence of free-market economies.

As part of domestic market liberalization programs, a majority of developing countries sought, with varying degrees of earnestness, to generally reduce the public sector's role and encourage greater private sector activities, while ending distortions in interest rates, wages, and consumer goods prices. The intent of these changes was to facilitate the operation of market mechanisms and thereby achieve more productive allocations of investments. Additionally, these "liberalizing" developing countries sought to improve their comparative advantage in the international economy by depreciating their exchange rates, promoting exports, and eliminating trade barriers.

Among the international organizations that preached the virtues of free markets were the International Monetary Fund (IMF) and the World Bank, in addition to several donors like the United States Agency for International Development (USAID). The IMF required the implementation of substantial liberalization programs and economic policies to improve comparative advantage and enhance macroeconomic stability as conditions for its extensive support. The World Bank also scrutinized its lending programs in deep detail to ensure that proposed projects could not feasibly be undertaken by the private sector.

V. **Government Failure**

Just as markets are prone to imperfections, so is the government, which is vulnerable to various forms of failure.[10] Theoretically, therefore, the government can correct market failure, but in reality, it sometimes fails to do so, despite costly expenditures, and may even make matters worse in some instances. Thus, government regulations may improve economic sector efficiency by breaking up monopoly power, for example, or may enhance social welfare by curbing pollution. But poorly designed regulations can stifle emerging economic sectors or

10. For perspectives of problems of government failure, see Anne Krueger, «Government failures in development,» Journal of Economic Perspectives 4 (1990): 9-24; Nicholas Stern, «The economics of development: A survey,» Economic Journal 99 (1989): 597-685; Roger E. Backhouse and Steven G. Medema, «Laissez-faire economists,» in The New Palgrave Dictionary of Economics, Second Edition, 2008, Steven N. Durlauf and Lawrence E. Blume, eds.

even facilitate corruption. When special interest groups form, finding ways to benefit from regulations through rent-seeking, these groups may resist regulatory adjustments even long after the conditions that gave rise to them have passed. There is a general presumption that when markets function well, the government should not intervene, as there is no efficiency-based justification for such intervention. Instead, there are often substantial benefits to allowing decisions to be made on decentralized bases. Generally speaking, individuals and families are more knowledgeable about their own preferences and circumstances than the government could ever be.

While government failure can sometimes be grave regarding specific interventions, the scope of failure becomes broader when it comes to comprehensive development planning. The government can help by pushing the economy toward a better equilibrium when the market cannot achieve it alone, but conversely, it can make matters much worse by pushing the economy toward an inappropriate equilibrium. Similarly, public programs can reduce social risks, but it has been observed that development planning can increase these risks due to error-correction problems. Markets may make grave errors, but through decentralized decision-making mechanisms, they can often self-correct more easily.

In contrast, although markets generally may not be able to overcome coordination failures, coordination between government agencies, or between central and local governments, cannot be permanently or stably achieved either.

More broadly, development planning, which sometimes relies on the pursuit of broad consensus, can be more rigid than markets, which can be more flexible and responsive to unexpected shocks, such as changes in global markets. In other cases, instead of emanating from public consensus, development plans may be heavily influenced by powerful special interest groups, which could lead to strengthening elite power rather than achieving more equitable development goals. Development plans also face a widespread problem of incentive compatibility; meaning the objectives of the plan and its implementation mechanisms may be inconsistent with the private interests of many key actors in the economy. Even when workers are directly employed by the government, motivating them to perform hard or creative work may be more difficult than it is in the private sector.

However, just as market failure does not always justify government intervention (since governments, as previously noted, may make matters worse), government failure is also not necessarily an argument for leaving private markets entirely alone. For example, in South Korea, the Pohang Iron and Steel Company was a highly efficient public enterprise before it was privatized in 2000, while the Steel Authority of India, also a public sector enterprise, was an example of inefficiency. Subsidized interest rates existed in East Asia in the context of accelerating growth, and similarly in Latin America in the context of slowing growth or stagnation. Unproductive, rent-seeking activities can easily be found in poorly functioning private markets, just as they are in inefficient government institutions. Accordingly, a simplistic judgment on the relative merits of public and private economic activities cannot be made outside the context of the specific circumstances of each country.

However, for developing countries seeking to expand market reforms, either due to dissatisfaction with their public sector performance or due to pressures from the IMF and the World Bank, a number of social, cultural, and economic prerequisites must be met.

VI. The Market Economy

Socio-Cultural Prerequisites and Economic Requirements

Markets achieve many positive things, not least of which is providing goods that consumers want, wherever and whenever they want them, and offering incentives for innovation. Professor Amartya Sen, a Nobel laureate in Economics, has pointed out that a blanket opposition to markets is as strange as a blanket opposition to conversation.[11] As he also notes, some conversations can cause harm, even to the speakers themselves, but that is no reason to oppose conversations generally. Similarly, the presence of negative effects from certain market mechanisms does not justify rejecting them entirely. Promoting an efficiently functioning market system requires social, institutional, legal, and cultural conditions, which are often limited, if not entirely absent, in developing countries. Moreover, fraud, corruption, monopoly, and other market failures do not disappear simply by adopting a wave of neoclassical economic ideas.

A well-functioning market system depends on at least the following twelve facilitative legal and economic practices:[12]

11. Amartya Sen, Development as Freedom (New York: Knopf, 1999), p. 6.
12. This framework draws from Nathan Keyfitz and Robert A. Dorfman,

1. Clearly defined and documented property rights, and procedures for documenting and transferring property rights.

2. Commercial laws and an independent judicial system to enforce them, especially contract laws and bankruptcy declaration procedures.

3. Freedom to establish businesses in all sectors, except those generating significant externalities, without the need for excessive licensing requirements, coupled with equal freedom to enter professions, trades, and obtain government positions (i.e., equal economic opportunities).

4. A stable currency and banking system, including an efficient and reliable system for transferring funds.

5. Government supervision or operation of natural monopolies (i.e., economic sectors characterized by increasing economies of scale), such as in sectors where technological efficiency requires the plant size to be large enough to supply a substantial portion of the national market.

6. Provision of adequate information in every market regarding the characteristics of available products and the state of

The Market Economy Is the Best but Not the Easiest (mimeograph, 1991), pp. 5-6.

supply and demand, for both buyers and sellers.

7. Independent tastes: protecting consumer preferences from the influence of producers and suppliers.

8. Government management of externalities (both beneficial and harmful) and the provision of public goods.

9. Mechanisms to implement fiscal and monetary stabilization policies.

10. Social safety nets: providing assistance to ensure a suitable level of consumption is maintained for individuals affected by adverse economic conditions, particularly in cases of involuntary job loss, and workplace injuries and disabilities.

11. Encouragement of innovation, especially through the issuance and enforcement of patents and copyrights.

12. Security against violence, which is one of the most fundamental social pillars.

Clearly, market reforms entail much more than merely ending price distortions, privatizing public enterprises, and declaring markets free. The setbacks faced by market reforms in many transition economies can be attributed to the absence of some, or many, of the institutional preconditions for markets to function. Thus, governments have important limits, just as markets have similar limits, as shown in the earlier review of market failure.[13] Once again, the issue remains one of balance.

VII. Governance Patterns and Reform

Addressing the Problem of Corruption

Corruption is the abuse of public office for private gain, and it is a form of theft. Corruption indices systematically rank incidents of corruption at higher levels in developing countries compared to developed countries, which is understandable and reflects a relationship of both cause and effect.

13. For further analysis on the subject, see Arndt, «Market failure and underdevelopment,» and Bruce C. Greenwald and Joseph E. Stiglitz, «Externalities in economies with imperfect information and incomplete markets,» Quarterly Journal of Economics 101 (1986): 229-264. For an in-depth analysis of the role of infrastructure in development, see World Bank, World Development Report, 1994 (New York: Oxford University Press, 1994). An interesting commentary was provided by Alice Amsden, who noted that when the operations evaluation division of the World Bank reported that South Korea and Taiwan used extensive government intervention to industrialize, the bank refused to publish this analysis. See Alice H. Amsden, «From P.C. to E.C.,» New York Times, January 12, 1993, p. A15, as well as Richard Grabowski, «The successful development state: Where does it come from?» World Development 22 (1994): 413-422; Ajit Singh, «Openness and market-friendly approach to development: Learning the right lessons from development experience,» World Development 22 (1994): 1811-1823; and Jene Kwon, «The East Asia challenge to neoclassical orthodoxy,» World Development 22 (1994): 635-644. See also Alejandro Foxley, «Latin American development after the debt crisis,» Journal of Development Economics 27 (1987): 211-212.

The absence of corruption encourages investment and efforts dedicated to expanding production rather than fighting over its distribution, thereby promoting growth. To some extent, improving governance and reducing corruption can, in and of itself, be a means to accelerate the development process. In addition, as societies become wealthier, good governance becomes a widespread demand by the populace.

This latter effect makes the simple correlation between income and good governance difficult to interpret: which causes the other? Poor governance practices, such as bribery, press censorship, and the restriction of civil liberties, often coexist and clearly reinforce one another. There is clear evidence that good institutions, such as the rule of law and constraints imposed on elites, lead to higher growth and income. However, reform can also spawn further reform; for instance, when the press in Taiwan gained greater freedom, numerous scandals were published, which in turn helped the public press for reform, and the adoption of elections provided a mechanism to strengthen this popular will.

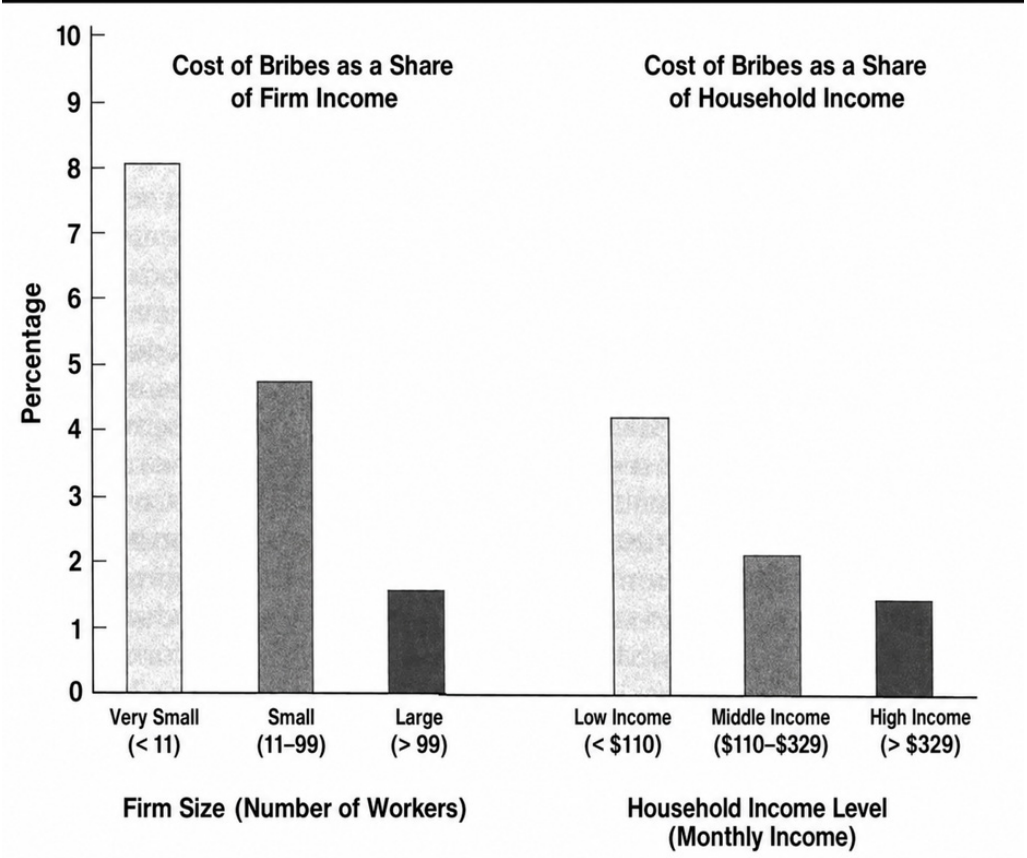
Ending corruption is vital for development for several reasons. First, as previously noted, honest governance can enhance growth and sustain higher incomes. Furthermore, the correlation between ending corruption and empowering the masses indicates that this is a direct developmental objective. Finally, the impacts of corruption fall disproportionately on the poor, acting as a fundamental brake on their ability to escape poverty.[14]

Ending corruption and improving overall governance can also be viewed as part of a poverty reduction strategy. While the rich can pay large bribes under corrupt systems, the poor pay a far greater portion of their incomes in the form of bribes and other forms of extortion. In other words, corruption can be seen as a regressive tax (meaning its proportion decreases as income rises) that heavily burdens the destitute poor. Additionally, the concept of a "government for sale" means that the government belongs to the highest bidder. The poor receive fewer services in their local communities, including substandard education and deteriorating healthcare facilities when corruption is rampant, making it difficult to mobilize the

14. The literature has been mixed on this question and has been plagued with statistical identification difficulties. However, recent evidence suggests that when endogeneity is accounted for, the extent of regressivity can be very strong: see M. Shahe Emran, Assadul Islam, and Forhad Shilpi, «Admission is free only if your dad is rich! Distributional effects of corruption in schools in developing countries,» [http://dx.doi.org/10.2139/ssrn.2214550] (https://www.google.com/search?q=http://dx.doi.org/10.2139/ssrn.2214550). This paper also provides a good literature review on this topic.

resources needed to escape the poverty trap. Moreover, micro-enterprises owned by the poor pay a far greater percentage of their revenues in bribes compared to larger companies, and low-income families pay a higher percentage of their incomes in bribes than higher-income families do, as can be observed in Figure 1 regarding the case of Ecuador.

Figure 1: Corruption as a Regressive Tax: The Case of Ecuador



Source: World Development Report 2000-2001. World Bank Report, The Assault on Property. Page 102, Figure 6.2.

Countries that have avoided corruption or successfully addressed it have been able, on average, to promote competition and participation in the economy, and have avoided enabling major monopolies, such as the energy sector, to acquire excessive power as they have in many countries. These countries have also ensured that privatized companies faced levels of competition, enhanced the professionalism of government apparatuses, improved salaries and bonuses for civil servants, and made government spending more transparent through clearer regulations regarding procurement and the budget.

They have also reduced the immunity of senior officials from legal prosecution, provided independence for the judiciary, and enacted and enforced transparent merit-based promotion policies. At the same time, they terminated inefficient systems and worked to make new systems more transparent and efficient.[15]

15. World Bank, The Quality of Growth (New York: Oxford University Press, 2000), ch. 6. The actual extent to which bribery is regressive remains somewhat controversial. In addition to Emran, Islam, and Shilpi, «Admission is free only if your dad is rich!,» op. cit., other useful surveys and findings include Abhijit V. Banerjee, Rema Hanna, and Sendhil Mullainathan, «Corruption,» in The Handbook of Organizational Economics (2012); J. Hunt and S. Laszlo, «Is bribery really regressive? Bribery›s costs, benefits and mechanisms,» World Development 40, No. 2 (2012): 355-372; J. Hunt, «How corruption hits people when they are down,» Journal of Development Economics 84, No. 2 (2007): 574-589;

Given the many forms of corruption and its variation across countries and regions, there is no single optimal method for combating it. Simple grassroots monitoring can, sometimes on its own, play a significant role in procurement processes or in the collection and distribution of local government funds.[16]

Recent experiences also indicate that even in an environment of widespread corruption, genuine progress can be made in overcoming government flaws, at least in certain contexts, through focused reform efforts at the local level. This may threaten some local interests, but it should not threaten-and may indeed serve-interests at the national level.

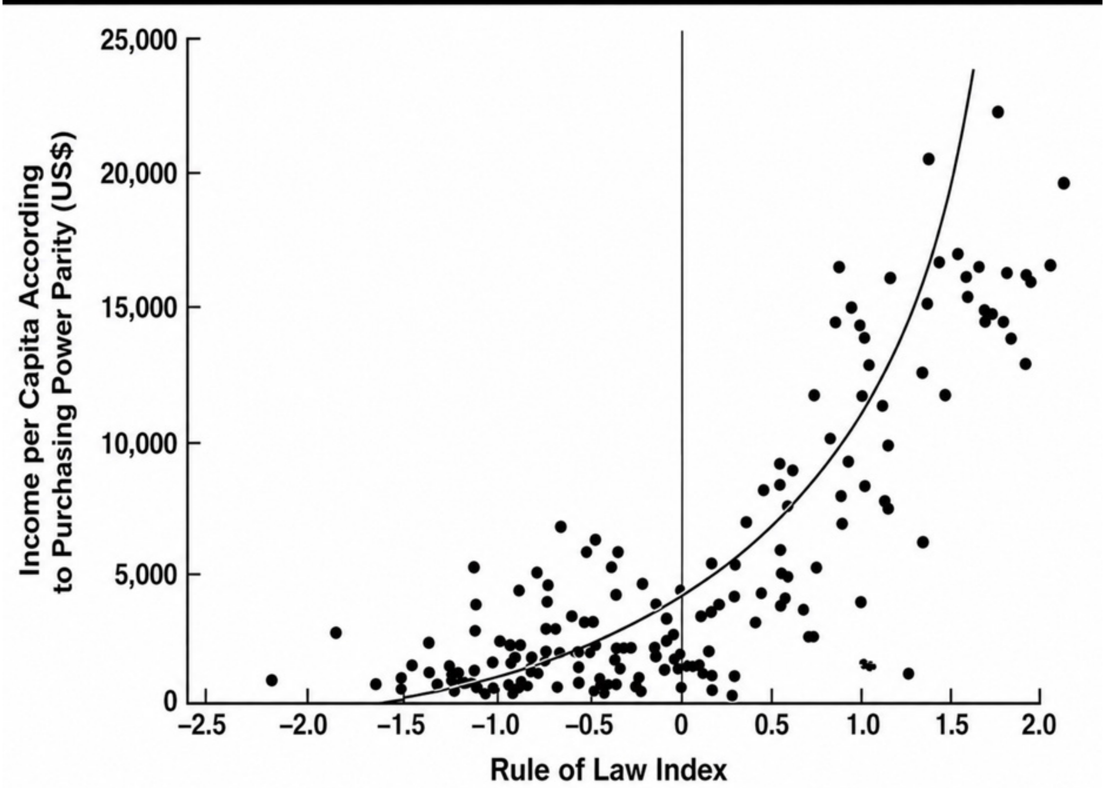
For example, urban elite members do not gain a net benefit from the abuse of rural power or from the absenteeism of teachers and health workers in the countryside, and may therefore support reforms that address these problems. It

and Jakob Svensson, «Who must pay bribes and how much? Evidence from a cross section of firms,» Quarterly Journal of Economics 118, No. 1 (2003): 207-230.

16. See, for example, Benjamin A. Olken, «Monitoring corruption: Evidence from a field experiment in Indonesia,» Journal of Political Economy 115 No. 2 (2007): 200-249; and Ritva Reinikka and Jakob Svensson, «Fighting Corruption to Improve Schooling: Evidence from a Newspaper Campaign in Uganda,» Journal of the European Economic Association 3, Nos. 2-3 (April-May 2005): 259-267. See also Shantayanan Devarajan, Stuti Khemani, and Michael Walton (2013), «Can civil society overcome government failure in Africa?» The World Bank Research Observer, Vol. 29, no. 1 pp. 20-47.

can be argued that grassroots monitoring of health facilities in Uganda serves as an example of successful and popular local reforms. Such an example raises a broader and highly interesting possibility: the potential to eventually reform higher-level institutions through bottom-up repair or reform. The relationship between the rule of law and per capita GDP can be observed in Figure 2.

Figure 2: The Relationship between the Rule of Law and Income per Capita



Source: World Development Report 2000-2001. World Bank Report, The Assault on Property. Page 103, Figure 6.3.

Decentralization

Decentralization has long been an established approach in developed countries. Significant powers exist at the local and state levels in the United States, Canada, and Germany, powers that are enshrined in their constitutions. The European Union also operates, formally at least, according to the principle of “subsidiarity,” meaning that decisions are to be made at the level closest to the citizen. The United Kingdom has devolved decentralized powers to Scotland and Wales, in addition to strengthening the powers of local governments. In Italy, power has been devolved to its twenty regions and their provinces. Local governments are, by nature, closer to the urban and rural problems they have to deal with.

Recently, trends toward decentralization and urban autonomy have become more significant in growth trajectories in the developing world, as democracy has spread in Latin America and in other regions, and the political process has allowed for greater autonomy, particularly financial autonomy, at regional and local levels of government. The constitutional reforms that accompanied democratization processes have, in many cases, provided an opportunity to codify a greater degree of local autonomy. One of the main motives for the adoption of decentralization by central governments was often to share the financial burden with regions and cities. However, decentralization, in some instances, took on a path of its own that became difficult to contain.

Decentralization in Brazil, which comprises twenty-six states and over 5,000 municipalities, dates back to at least the 1891 constitution, but the modern phase of power devolution began with the 1989 constitutional reform, which granted states new powers and responsibilities, developed the federal fiscal system, and increased the local share of government resources.

Fiscal decentralization came in the wake of the debt crisis in the 1980s and the perceived need to make structural adjustments by reducing the federal budget deficit and distributing part of the burden of these adjustments to the regions. However, many observers believe that the resources available to states and cities remain too small compared to their responsibilities, creating more burdens than opportunities. In Mexico as well, the wave of decentralization began in the late 1980s following the debt crisis, alongside privatization, liberalization, and deregulation programs. Constitutional reforms granted additional powers and responsibilities to states and municipalities. But, as in Brazil, local governments complain that the resources available to them are insufficient to carry out their increasing responsibilities.

A third example from Latin America is decentralization in Bolivia, which began in 1994, recognizing local forms of organization and citizen participation. Indigenous and citizens' organizations sought to play an active role under the new system, despite ongoing conflict. Decentralization resulted from a mix of pressures from local governments and grassroots organizations, as well as from international institutions.

An example from the Middle East region is the experience of the United Arab Emirates. The current federation has succeeded and endured as a result of granting the seven emirates broader powers to manage their local affairs, compared to the situation in the nine-member alliance that preceded the founding of the state, which was short-lived due to the concentration of power in the proposed capital at the time.

Senegal's experience is a well-known example of decentralization in Africa. In 1996, heads of rural councils were made more accountable to their constituents, and regional governments were established with the aim of developing and implementing development policies at the regional level. Indigenous and citizens' organizations sought to play an active role under the new system, despite the persistence of some forms of conflict. Decentralization emerged as a result of a combination of pressures exerted by local governments and grassroots organizations, in addition to the influence of international institutions. Nevertheless, the fiscal constraints on local governments in Latin America remain small compared to those facing local governments in Senegal, and comprehensive fiscal reform remains a top priority. High hopes were pinned on the democratically elected government that came to power in 2013, and this experiment remains subject to practical testing. In Asia, decentralization has advanced rapidly alongside democratization pathways, while established democracies, like India, have provided a greater degree of local control, especially within the framework of the 74th Amendment to the Constitution. As for China, a degree of decentralization has occurred to some extent, within the confines of the existing centralized administrative system.

Developmental Participation

If the goal of economic growth is human development, then without participation, economic growth can be achieved without human development. Certainly, participation-meaning giving those most affected by development policies a voice in them-can be considered an end in itself among the goals of development. Furthermore, participation also means enhancing human capabilities and achieving other developmental objectives. More importantly, economic growth is greatly facilitated by human development, and it is difficult to sustain without it. Experience has shown that participation in the development process improves project performance. With genuine and full participation by beneficiaries in selecting which projects are chosen and how development aid is generally utilized, lower levels of corruption and greater developmental outcomes are expected for every dollar spent. The topic of developmental participation has been a subject of debate for several decades. The United Nations has worked to promote it since the 1970s; it became a prominent academic subject in the early 1980s; and in the late 1990s, the World Bank announced its support for developmental participation. Some researchers have criticized this shift, viewing the World

Bank's use of the concept of "participation" as potentially functioning at times as a strategy to cut project costs or deflect criticism. Nevertheless, the World Bank has clearly recognized the advantages of engaging governments and civil society as partners in development projects and reforms, since reforms can only be serious and sustainable under such a partnership.

As for potential objections to the principle of authentic participation: First, poorer countries need to make policy decisions and get certain relief operations up and running immediately. Heavily indebted countries in need of immediate debt relief feel pressured to prepare plans rapidly and provide more than just rhetoric about civil society participation. Even if mechanisms for participation already exist, they require time to be activated, to ensure sufficient voice, aggregate the preferences put forward, and establish genuine means of implementation. But in most cases, mechanisms for authentic participation do not even exist, as establishing them can take years even with the full cooperation of the central government and local power brokers.

Second, the sick and unskilled may be unable to participate effectively in development projects, let alone possess an audible voice in the decisions that affect them.

The third objection is the time cost; the poor are preoccupied with trying to survive. They may earn low wages, but that does not mean they have the time to do volunteer work. This is especially true for women, who work long hours in economic activities and at home as well, because they cannot afford the cost of alternatives to domestic production. They might, quite reasonably, view expectations of participation as unpaid labor.

Donors and developing country governments need to develop ways to reward participation. But a large part of the problem lies in the superficiality that characterizes participation in practical reality during decision-making. These three objections suggest that there are genuine constraints on participation.

Distinguishing between the different types of participation is a valuable starting point, and has long been proposed by a number of writers and interested parties. For example, Professors John Cohen and Norman Uphoff examine degrees of participation along three dimensions: types of participation (in decision-making, implementation, benefits, and evaluation); the identity of participants (which includes residents, leaders, government personnel, and foreign personnel); and how participation occurs (the basis, form, extent, and effect of participation).[17] David Deshler and Donald Sock distinguish "authentic participation"-which can involve either citizen control, cooperation with delegated authority, or a partnership agreement between citizens and institutions-from "pseudo-participation," which can involve appeasement, consultation, or information sharing rather than power sharing, as well as "therapy" and manipulation.[18] The deeper problem is that authentic participation is often not in the interest of central or local government officials and other elites.

Many non-governmental organizations (NGOs) have pledged, at least publicly, to adopt the most complete form of participation, and aid has often been mobilized through these organizations. However, the staff of these organizations often perceive, rightly or wrongly, that the beneficiaries lack the requisite skills and expertise to make fundamental decisions or manage projects efficiently.

The administrative competence of beneficiaries is a less tangible output than, for example, the percentage of farmers

17. John M. Cohen and Norman T. Uphoff, «Participation›s place in rural development: Seeking clarity through specificity,» World Development 8 (1980): 213-235.
18. David Deshler and Donald Sock, «Community development participation: A concept review of the international literature,» paper presented at the conference of the International League for Social Commitment in Adult Education, Ljungskile, Sweden, July 22-26, 1985.

to whom irrigation canals are delivered. Therefore, NGO staff, even with the best motives, may not see authentic participation as a priority; rather, they may view it as a burden or a disruption.

It is also clear that NGO staff depend for their livelihood on development work, and they have no material interest in working themselves out of a job. Consequently, voluntary failure may be present, as staff have incentives to encourage participation as long as it enhances project efficiency, but not necessarily beyond that. Such a level of participation may achieve some benefits, but it typically does not achieve the transformational social benefits of authentic participation.

Sarah C. White wrote about NGOs in the Philippines, which were theoretically committed to authentic participation, and enabled some local residents to develop and control their own organization. But when this organization wanted to bypass the intermediation of the NGO and deal directly with donors, the NGO did not allow it to do so.[19] Victoria Michener studied the case of a non-formal education project run by an NGO (Save the Children in Burkina Faso). Participation itself was one of the project's six goals, intended to "increase the level of community participation in educational decision-making and

19. Sarah C. White, «Depoliticising development: The uses and abuses of participation,» Development in Practice 6 (1996): 6-15.

the management of educational activities."

Participants were expected to play an active role in recruiting teachers and students, determining curricula, constructing and maintaining school buildings, and paying costs such as teachers' salaries. Generally, such projects would be supposed to rank very highly in participatory project classifications like the Cohen and Uphoff framework, as they provide significant participation in decision-making, implementation, benefit, and evaluation.

Yet at the same time, Ms. Michener observed an undercurrent of "planner-centered participation," particularly regarding the emphasis on responsibilities and beneficiaries. For field workers, participation comes with a commitment that beneficiaries offer something in return-that is, payments in exchange for project benefits, whether financial, in-kind, or in the form of donated time.

However, participants usually resent these requirements, at least within the local context. Villagers can often neither afford the withdrawal of the NGO nor dispense with the assistance, yet at the same time, they lack the resources necessary to sustain the project on their own.[20]

20. Victoria J. Michener, «The participatory approach: Contradiction and

Genuine grassroots participation at all levels provides the foundation for democratic, responsive government. Participation will not cure all the ills of government, including the constraints imposed on democracy itself, but it will go some way toward mitigating policy distortions within the contexts of developmental reform. Unfortunately, the rhetoric still outpaces reality.

VIII. **Conclusion: A Three-Legged Stool**

We can conclude that successful development requires improved performance by the public sector, the private sector, and the people. Each has serious weaknesses that must be addressed. Every "leg" of this "three-legged stool" needs to be strengthened. At the same time, each of these parties plays an essential and complementary role in achieving balanced, shared, and sustainable development.

co-optation in Burkina Faso,» World Development 26 (1998): 2105-2118.

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(1) Ostrom, E. (2010), 'Beyond markets and states: Polycentric governance and complex economic systems' American Economic Review, 100: 641. See also Stiglitz, J. (2009), 'Moving beyond market fundamentalism to a more balanced economy,' Annuals of Public and Cooperative Economics, 80(3): 345-60.

(2) For a more detailed discussion of planning and planning models, see Todaro, M.P. (1971), Developing Planning: Models and Methods, Nairobi, Kenya: Oxford University Press; and Gittinger, J.P. (1984), Economic Analysis of Agricultural Projects, 2nd ed., Baltimore: Johns Hopkins University Press.

(3) United Nations, Planning the External Sector: Techniques, Problems, and Policies (New York: United Nations, 1965), p. 12; R. Helfgoth and S. Schiavo-Campo, "An introduction to development planning," UNIDO Industrialisation and Productivity Bulletin 16 (1970): 11. A more sophisticated version of the market failure argument can be found in Heinz W. Arndt, "Market failure and underdevelopment," World Development 16 (1988): 210-229. For a concise explication of the economic rationale for state intervention, stressing not only market failure and externalities but also public goods, natural monopolies, incomplete markets, and imperfect information, see World

Bank, World Development Report, 1997 (New York: Oxford University Press, 1997), Box 1.4.

(4) Recent examples include climate change adaptation assistance, notably the Strategic Programmes for Climate Change Resilience (see Box 10.2), the IMF/World Bank Poverty Reduction Strategy Paper (PRSP) process, and the US Millennium Challenge Corporation (MCC) Compacts. (The role of foreign aid in theory and practice is examined in Chapter 14, Section 14.4).

(5) Although aggregate, such models are often quite elaborate with equations for different sectors of the economy, and necessarily linear.

(6) Tony Killick, "Possibilities of development planning," Oxford Economic Papers 41 (1976): 163-164.

(7) Ibid., 164.

(8) For an overview, see World Bank, World Development Report, 2002 (New York: Oxford University Press, 2002). For an analysis of the effects of corruption, see M. Shahid Alam, "Some economic costs of corruption in LDCs," Journal of Development Studies 27 (1990): 89-97; Susan Rose-Ackerman, "Corruption and development," Annual World Bank Conference

on Development Economics, 1997 (Washington, D.C.: World Bank, 1998), pp. 35-68; and Pranab K. Bardhan, "Corruption and development: A review of issues," Journal of Economic Literature 35 (1997): 1320-1346.

(9) Albert Waterston, Development Planning: Lessons of Experience (Baltimore: Johns Hopkins University Press, 1965), p. 367.

(10) For perspectives of problems of government failure, see Anne Krueger, "Government failures in development," Journal of Economic Perspectives 4 (1990): 9-24; Nicholas Stern, "The economics of development: A survey," Economic Journal 99 (1989): 597-685; Roger E. Backhouse and Steven G. Medema, "Laissez-faire economists," in The New Palgrave Dictionary of Economics, Second Edition, 2008, Steven N. Durlauf and Lawrence E. Blume, eds.

(11) Amartya Sen, Development as Freedom (New York: Knopf, 1999), p. 6.

(12) This framework draws from Nathan Keyfitz and Robert A. Dorfman, The Market Economy Is the Best but Not the Easiest (mimeograph, 1991), pp. 5-6.

(13) For further analysis on the subject, see Arndt, "Market

failure and underdevelopment," and Bruce C. Greenwald and Joseph E. Stiglitz, "Externalities in economies with imperfect information and incomplete markets," Quarterly Journal of Economics 101 (1986): 229-264. For an in-depth analysis of the role of infrastructure in development, see World Bank, World Development Report, 1994 (New York: Oxford University Press, 1994). An interesting commentary was provided by Alice Amsden, who noted that when the operations evaluation division of the World Bank reported that South Korea and Taiwan used extensive government intervention to industrialize, the bank refused to publish this analysis. See Alice H. Amsden, "From P.C. to E.C.," New York Times, January 12, 1993, p. A15, as well as Richard Grabowski, "The successful development state: Where does it come from?" World Development 22 (1994): 413-422; Ajit Singh, "Openness and market-friendly approach to development: Learning the right lessons from development experience," World Development 22 (1994): 1811-1823; and Jene Kwon, "The East Asia challenge to neoclassical orthodoxy," World Development 22 (1994): 635-644. See also Alejandro Foxley, "Latin American development after the debt crisis," Journal of Development Economics 27 (1987): 211-212.

(14) The literature has been mixed on this question and has been

plagued with statistical identification difficulties. However, recent evidence suggests that when endogeneity is accounted for, the extent of regressivity can be very strong: see M. Shahe Emran, Assadul Islam, and Forhad Shilpi, "Admission is free only if your dad is rich! Distributional effects of corruption in schools in developing countries," [http://dx.doi.org/10.2139/ssrn.2214550](https://www.google.com/search?q=http://dx.doi.org/10.2139/ssrn.2214550) . This paper also provides a good literature review on this topic.

(15) World Bank, The Quality of Growth (New York: Oxford University Press, 2000), ch. 6. The actual extent to which bribery is regressive remains somewhat controversial. In addition to Emran, Islam, and Shilpi, "Admission is free only if your dad is rich!," op. cit., other useful surveys and findings include Abhijit V. Banerjee, Rema Hanna, and Sendhil Mullainathan, "Corruption," in The Handbook of Organizational Economics (2012); J. Hunt and S. Laszlo, "Is bribery really regressive? Bribery's costs, benefits and mechanisms," World Development 40, No. 2 (2012): 355-372; J. Hunt, "How corruption hits people when they are down," Journal of Development Economics 84, No. 2 (2007): 574-589; and Jakob Svensson, "Who must pay bribes and how much? Evidence from a cross section of firms,"

Quarterly Journal of Economics 118, No. 1 (2003): 207-230.

(16) See, for example, Benjamin A. Olken, "Monitoring corruption: Evidence from a field experiment in Indonesia," Journal of Political Economy 115 No. 2 (2007): 200-249; and Ritva Reinikka and Jakob Svensson, "Fighting Corruption to Improve Schooling: Evidence from a Newspaper Campaign in Uganda," Journal of the European Economic Association 3, Nos. 2-3 (April-May 2005): 259-267. See also Shantayanan Devarajan, Stuti Khemani, and Michael Walton (2013), "Can civil society overcome government failure in Africa?" The World Bank Research Observer, Vol. 29, no. 1 pp. 20-47.

(17) John M. Cohen and Norman T. Uphoff, "Participation's place in rural development: Seeking clarity through specificity," World Development 8 (1980): 213-235.

(18) David Deshler and Donald Sock, "Community development participation: A concept review of the international literature," paper presented at the conference of the International League for Social Commitment in Adult Education, Ljungskile, Sweden, July 22-26, 1985.

(19) Sarah C. White, "Depoliticising development: The uses and abuses of participation," Development in Practice 6 (1996):

6-15.

(20) Victoria J. Michener, “The participatory approach: Contradiction and co-optation in Burkina Faso,” World Development 26 (1998): 2105-2118.

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