Paper prepared for the Office of the Vice President for Human Resources and Operational Policy, World Bank, Washington DC.

PARTICIPATION, MARKETS AND DEMOCRACY

by

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Working Paper # 705
December 1993

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ABSTRACT

This paper examines the role of popular participation, in particular through NGOs, in both promoting democracy (seen as essential for better governance) and the maintenance of a market economy. Making a crucial distinction between the forms and characteristics of good government, it finds no empirical relationship between the form of government and successful development. It argues that while democracy promotes liberty it may not promote opulence, while mass participation through pressure groups may harm rather than aid the attainment of both opulence and liberty. Finally, it examines the role NGOs should play in World Bank operations, and finds there is no presumption one way or another that this is desirable, and argues that the only test is the contingent one of cost-effectiveness.

JEL classification: B1, D72, D73, H00, O19

"For forms of government, let fools contest;
whatever's best administered, is best."
(Alexander Pope: Essay on Man)

INTRODUCTION AND SYNOPSIS

A most remarkable movement from the plan to the market-both in development thinking and practice -- has characterized the last two decades. This in turn has opened up new questions about the sustainability of a market economy, not least about the necessary bulwarks against the unavoidable political pressures for its subversion. An emerging theme amongst both practitioners and analysts of developing countries is the role of popular participation, and in particular of non-governmental organizations (NGOs) in both the promotion of democracy (seen as essential for better governance) and the maintenance of a market economy. This paper seeks to set the resulting debate in its historical and intellectual context, and thereby provides a critique of what may turn out to be yet another development fad.[1] It also attempts to provide some guidelines on how an official multilateral agency such as the World Bank should deal with NGOs. This introduction provides a synopsis of the argument.

The debates surveyed in this paper are of relevance for World Bank operations in two ways.

First, in its policy based lending operations the Bank is being urged to complement its strictly economic conditionality with political conditions which favor the development of popular participation through civil associations and the development of democracy. It being assumed that such participation and democracy will further the aims of good governance and thus promote development. To sort out this debate the first section of the paper outlines two rival views of the relationship between the state, society and the economy. It particularly commends the view of the

classical economists of the Scottish Enlightenment, who made a vital distinction between the forms of government and the characteristics of good government.

As the bank is charged with identifying the latter whilst not taking a view on the former, this distinction is of some operational significance. Particularly as is argued in the first and second parts of the paper, there is no necessary empirical relationship between the form of government and successful development. A particular form of government -- democracy -- and its associated freedom of association and free speech, may however be considered to be valuable in promoting another end-liberty, which is however distinct from the end of attaining opulence (in classical terminology) which from experience is best promoted by the market. Hence, while democracy promotes liberty, it may not promote opulence, which depends upon an efficient market economy, and which in turn does not require a democratic form of government for its maintenance. This implies that the World Bank can (as it has in the past) concentrate on the characteristics of good government (policies) without getting entangled in the dangerous question of the ideal form of government.

The second way in which the debates about participation impinge on Bank operations is through the claim that both the design and implementation of World Bank projects and policy based lending will be improved through the active association of NGOs. The second part of this paper shows how this view is based on the American pluralist tradition of political sociology. It outlines the views of the new political economy which takes a less benign view of the role of pressure groups (NGOs) in promoting opulence, and also of another strand of political sociology which views the populism promoted by mass participation as also a possible enemy of liberty. Hence this part

concludes that mass participation through pressure groups in a democracy may harm rather than aid the attainment of both the ends of opulence and liberty.

The last part of the paper summarizes the discussion and also draws the implications for Bank operations. In particular it emphasizes that there is no presumption, one way or the other, about the benefits from associating NGOs with particular Bank operations. The test must be the contingent one of cost-effectiveness. Thus the use of NGOs in project lending -- which largely finance public goods -- must depend upon the actual merits of each case, namely whether this provides the least cost mode of provision.

I. THE STATE, ECONOMY AND SOCIETY -- TWO RIVAL VIEWS

Questions concerning ethics, politics and economics are necessarily intertwined in thinking about the interconnections between participation, democracy and markets. To fix ideas it may be useful to begin with a summary of the links that the founders of the subject of political economy -- Adam Smith and David Hume -- saw between ethics, economics and politics.[2]

Both Smith (in The Moral Sentiments) and Hume recognized benevolence as the primary moral virtue. But they also recognized its scarcity. However, fortunately, as Adam Smith was at pains to show in the Wealth of Nations, a market economy which promotes a country's "opulence" does not have to depend upon this moral virtue for its functioning. A market order merely requires a vast number of people to deal and live together, even if they have no personal relationships, as long as they do not violate the "laws of justice".

The resulting commercial society does promote some moral virtues -- hard work, prudence, thrift and self-reliance (which have been labelled the

"vigorous virtues").[3] But as they benefit the agent rather than others, they are inferior to the primary virtue -- altruism. Nevertheless, as these lower order virtues promote general prosperity, they do unintentionally help others. Hence the market economy and the resulting commercial society is neither immoral or amoral.

A good government on this classical liberal view is one which promotes "opulence" through a policy of promoting natural liberty by establishing laws of justice which guarantee free exchange and peaceful competition. The improvement of morality being left to non-governmental institutions. It would be counterproductive for the State to legislate morality.

This classical liberal view of the State seen as a civil association, as noted by Michael Oakeshott, goes back to ancient Greece. On this view the State is seen as the custodian of laws which do not seek to impose any preferred pattern of ends (including abstractions such as the general (social) welfare, or fundamental rights), but which merely facilitates individuals to pursue their own ends.

This view of the State and its relationship to society and the economy, has been challenged in Western thought and practice, according to Oakeshott, by a rival conception of the State as an enterprise association -- a view which has its roots in the Judaeo-Christian tradition. The State is now seen as the manager of an enterprise seeking to use the law for its own substantive purposes, and in particular for the legislation of morality. Since the truce declared in the 18th century in the European wars of religion, the major substantive purposes sought by States seen as enterprise associations are "nation-building" and "the promotion of some form of egalitarianism".[4] Historically, both have led to dirigisme and the suppression or control of the market. This needs further elaboration.

The mercantilist system which provided the foil for Adam Smith's great work, arose, as Eli Heckscher has shown (in his monumental study Mercantilism), from the desire of the Renaissance princes of Europe to consolidate their power by incorporating various feuding and seemingly disorderly groups which constituted the relatively weak states they inherited from the ruins of the Roman empire, into a "nation". Its purpose was to achieve "unification and power", making the "State's purposes decisive in a uniform economic sphere and to make all economic activity subservient to considerations corresponding to the requirements of the State". The same nationalist motive also underlay the very similar system of mercantilist industrial and trade controls that were established in much of the post war Third World.

In both cases the unintended consequences of these controls instituted to establish "order" was to breed "disorder". As economic controls became onerous people attempted to escape them through various forms of evasion and avoidance. As in 18th century Europe, in the post war Third World, dirigisme bred corruption, rent-seeking, tax evasion and illegal activities in underground economies. The most serious consequence for the State was an erosion of its fiscal base and the accompanying prospect of the unMarxian withering away of the State. In both cases economic liberalization was undertaken to restore the fiscal base, and thence government control over what had become ungovernable economies. In some cases the changeover could only occur through revolution -- most notably in France.[5]

But the ensuing period of economic liberalism during the 19th century's great Age of Reform, was short-lived in part due to the rise of another substantive purpose that most European states came to adopt -- the egalitarian ideal promulgated by the Enlightenment. Governments in many developing countries also came to espouse this ideal of socialism. The apotheosis of

this version of the State viewed as an enterprise association were the communist countries seeking to legislate the socialist ideal of equalizing people. The collapse of their economies under similar but even more severe strains than those that beset less collectivist neo-mercantilist economies is now history. But the desire to promote egalitarianism through State action still lingers on as part of social-democratic political agendas in many countries.

The locus and nature of the argument of those who want to use the State to promote egalitarianism has however shifted in a subtle way. In the past such activists, who sought to transform society through State action, usually argued in favor of some form of revolution whereby the "anointed" would seize power and irreversibly transform society, if necessary by indoctrination to create a New Man.[6] With the revolutionary route at least tarnished by the hideous outcomes in communist countries -- which even fellow travellers now concede -- a new constitutional mania[7] has set in. This emphasizes substantive social and economic rights in addition to the well-known rights to liberty -- freedom of speech, contract, and association being amongst the most important-emphasized by classical liberals. It seeks to use the law to enforce these "rights" based partly on "needs", and partly on the "equality of respect" desired by a heterogeneity of self-selected minorities differentiated by ethnicity, gender and/or sexual orientation. But no less than in the collectivist societies that have failed, this attempt to define and legislate a newly discovered and dense structure of rights (including for some activists those of non-human plants and animals) requires a vast expansion of the government's power over people's lives. Their implementation moreover requires -- at the least -- some doctoring of the market mechanism. Fortunately to date in most Western societies this

"rights-chatter" has just remained that, but it is an important strand in the participation and democracy debate, as we shall see.

While the philosophers of the Scottish Enlightenment were quite emphatic about the characteristics of good government, they were undogmatic about its particular form. They were however clearheaded about the nature of Political Man, and saw clearly why the implicit assumption about the character of the agents running a State viewed as an idealistic enterprise association, namely that they were Platonic Guardians, was fallacious. Nor were they starry eyed about the propensities of majoritarian democracies to serve the public weal. Thus Hume, in his essay "Of the Independence of Parliament" noted:

> Political writers have established it as a maxim that, in contriving any system of government and fixing the several checks and controls of the constitution, every man ought to be supposed a knave and to have no other end, in all his actions, than private interest. By this interest we must govern him and, by means of it, make him, notwithstanding his insatiable avarice and ambition, co-operate to public good. Without this, say they, we shall in vain boast of the advantages of any constitution and shall find in the end that we have no security for our liberties or possessions except the goodwill of our rulers; that is we shall have no security at all.
>
> It is therefore, a just political maxim that every man must be supposed a knave, though at the same time it appears somewhat strange that a maxim should be true in politics which is false in fact. But to satisfy us on this head we may consider that men are generally more honest in their private than their public capacity, and will go greater lengths to serve a party than when their own private interest alone is concerned.
>
> To which we may add that every court or senate is determined by the greater number of voices, so that, if self- interest influences only the majority (as it will always do), the whole senate follows the allurements of this separate interest and acts as if it contained not one member who had any regard to public interest and liberty.

As we shall see Hume was prescient about the predatory nature of majoritarian democracies.

However, the obvious bankruptcy of totalitarian communism, as well as the dirigiste neo-mercantilism of many developing country governments, has led many in the West to assume that, this offers support for their own institutional arrangements which supposedly combine a market economy with majoritarian representative democracy. Issues of good governance, which since Adam Smith have been known to determine the relative wealth of nations, are assumed to be coterminous with the establishment of Western style democracies in the Third and Second World.

However, despite the moral virtues of democracy in preventing that corruption of absolute power in autocracies decried by Lord Acton, the historical evidence does not support any necessary connection between a particular form of government and the promotion of prosperity. In the post war period one only has to consider the Far Eastern "Gang of Four", or the more successful economies in Latin America -- Chile, Mexico, and until the 1980's Brazil -- to realize, as Lee Kwan Yew has recently been proclaiming from the housetops, that there is no causal relationship between democracy and development.[8] Even in the rocky transition from the plan to the market, as the contrasting experience of Russia and China show, glassnost may not help perestroika! This does not mean that authoritarianism or military autocracies are either necessarily good for development.

The essential point is that various types of government, as long as they maintain the essentials of a market order, can promote development. But if (as I do) one also attaches a positive value to liberty, then democracy is to be preferred as a form of government not because of its instrumental value in promoting prosperity, but because it promotes the different but equally valuable end of liberty. As usual De Tocqueville is both prescient and succinct. "It is true", he writes in <u>The Ancien Regime</u>

> that in the long run liberty always leads those who know how to keep it to comfort, well-being, often to riches: but there are times when it impedes the attainment of such goods; and other times when despotism alone can momentarily guarantee their enjoyment. Men who take up liberty for its material rewards, then, have never kept it for long ... what in all times has attracted some men so strongly to liberty has been itself alone, its own particular charm, independent of the benefits it brings; the pleasure of being able to speak, act, and breathe without constraint, under no other rule but that of God and law. Who seeks in liberty something other than itself is born to be a slave.

II. PARTICIPATION AND DEMOCRACY -- SOCIOLOGISTS VS ECONOMISTS

De Tocqueville, however, is even more relevant for our subject as the progenitor of what has become the school of "pluralist democracy" amongst American political sociologists. This is another important strand in the current debates about participation, markets and democracy. Any textbook on political sociology will inform the reader that there are three theoretical perspectives on the subject: the class model (due to Marx and his followers); the elite model (due to Pareto, Mosca, Michels and Weber) and the American pluralist model which harks back to De Tocqueville's classic Democracy in America. The first has been discredited by the collapse of communism. The second by the failures of dirigiste modernizing elites in many parts of the Third World. This leaves the third -- almost by default -- as the remaining theoretical perspective that American political sociologists are now seeking to apply to the Third World.

In his great book Democracy in America, De Tocqueville maintained that: "all the causes which contribute to the maintenance of a democratic republic in the United States are reducible to three heads: I. The peculiar and accidental situation in which Providence has placed the Americans. II. The laws. III. The manners and customs of the people" (Vol. I. Ch. XVII). Of these he assigned the greatest weight to customs. He wrote:

> These three great causes serve, no doubt to regulate and direct American democracy; but if they were to be classed in their proper order, I should say that physical circumstances are less efficient than the laws, and the laws infinitely less so than the customs of the people. I am convinced that the most advantageous situation and the best possible laws cannot maintain a constitution in spite of the customs of a country; while the latter may turn to some advantage the most unfavorable positions and the worst laws.

Amongst the customs that De Tocqueville identified as being most important for maintaining democracy in America were the myriad civil voluntary associations he found in the country.

> The political associations that exist in the United States are only a single feature in the midst of the immense assemblage of associations in that country. Americans of all ages, all conditions, and all dispositions constantly form associations. They have not only commercial and manufacturing companies, in which all take part, but associations of a thousand other kinds, religious, moral, serious, futile, general or restricted, enormous or diminutive. The Americans make associations to give entertainments, to found seminaries, to build inns, to construct churches, to diffuse books, to send missionaries to the antipodes; in this manner they found hospitals, prisons, and schools. If it is proposed to inculcate some truth or to foster some feeling by the encouragement of a great example, they form a society. Wherever at the head of some new undertaking you see the government in France, or a man of rank in England, in the United States you will be sure to find an association. (Vol. II, Ch. V)

These myriad of voluntary associations (or NGOs as they would be called today), moreover, provided the bulwark against the tyranny of the central executive in democracies, according to De Tocqueville, once the traditional aristocracy which, with its sense of "noblesse oblige", usually stood between the rulers and the ruled in the Ancien Regimes in Europe, had been extinguished with the rise of democracy. These voluntary associations were necessary as an intermediating layer between the ruling elites and the masses to prevent the abuse of power by the elites, and to allow the ordinary citizen to participate in the political process. Thus, he wrote:

> In aristocratic nations secondary bodies form natural associations which hold abuses of power in check. In countries where such associations do not exist, if private people did not artificially and temporarily create something like them, I see no other dike to

> hold back tyranny of whatever sort, and a great nation might with impunity be oppressed by some tiny faction or by a single man.

Despite the critique of the American pluralist model which follows, it is of the greatest importance to note that this essentially political role of voluntary associations in maintaining freedom, which was De Tocqueville's main concern and principal insight, still remains valid. It requires the freedom to associate and of free speech to be maintained. But whether a polity dominated by voluntary associations, or what we would today call pressure groups or interest groups necessarily serves the cause of the market economy and thence development, is an open question. But in answering it is of vital importance to note that such associations, because they must have substantive purposes to exist,must necessarily be enterprise associations.

However, starting with Bentley and culminating in the works of Truman and Latham, an influential strand of American political sociology has argued that free competition amongst pressure groups leads through a process similar to Adam Smith's "invisible hand" to subserving the general welfare, even though each group is only promoting its own particular interest. Perfect competition amongst interest groups, with the State acting as an umpire, is thus the political analogue of the perfect competition paradigm of the economist. As in the economic model with free entry and exit, the size of the associations would not necessarily pose a problem, because any untoward pressure by one group would call forth pressure by a countervailing group, if necessary being newly created for this purpose. Thus, as Truman, for example saw it,

> in the first place, ... most pressure groups would be weak and divided in those circumstances in which they asked for too much from society, since their members also had "overlapping" memberships in other groups with different interests and would thus oppose excessive demands...in the second place, there were

> "potential groups" that would arise and organize to do battle with the special interests if the special interests got too far out of line. (Olson, p. 124)

This school therefore thinks that the pressure group equilibrium would be just and desirable.

This school, moreover, tended to put group interests above the interests of the individuals which composed the group. As Bentley (p. 211) stated: "There is no group without its interest. An interest, as the term will be used here , is the equivalent of a group". This thought also underlies the notion of the "corporatist state" which has found much favor with continental European thinkers since the 19th century. But corporatism is no friend of the market. In fact many supporters of the pluralist model look upon the growth of economically motivated pressure groups as providing desirable restraints on the market. Thus Truman (p. 61) wrote:

> There are ... a number of reasons for the prevalence of associations growing out of economic institutions .... There has been a series of disturbances and dislocations consequent upon the utopian attempt, as Polanyi calls it, to set up a completely self-regulating market system. This attempt involved a policy of treating fictitious factors of land, labor and capital as if they were real, ignoring the fact that they stood for human beings or influences closely affecting the welfare of humans. Applications of this policy inevitably meant suffering and dislocation -- unemployment, wide fluctuations in prices, waste, and so forth. These disturbances inevitably produced associations -- of owners, of workers, of farmers -- operating upon government to mitigate and control the ravages of the system through tariffs, subsidies, wage guarantees, social insurance and the like.

This benign view of pressure groups has been questioned by Mancur Olson. Instead of assuming that all interests can be organized with equal facility, he asks the basic question for an economist: what are the costs and benefits for individuals to join various interest groups?

Unlike the rather vague objectives assigned to participation in pressure group activity by political sociologists, Olson rightly looks upon these groups at least in the economic sphere as engaging in attempts to use

the political process to obtain special economic benefits for their members. These can in general be described as "subsidies". This pressure group politics is of necessity redistributive economics. Olson argued that small concentrated interest groups are more likely to form and succeed in their aim of influencing the democratic political process to their ends than larger, more diffused groups. For the pay off from any given "benefit" acquired through the political process for any individual member of a pressure group diminishes with the size of the group. Also the larger the group the more difficult it becomes for it to coalesce to subserve its aims because of the ubiquitousness of the free-rider problem in organizing collective action. A member who will benefit from the collective "benefit" even if he does not participate in its acquisition, will attempt to shirk bearing his share of the costs of the collective action if he can get away with it. An example of the relevance of Olson's theory is the stylized fact that in developing countries with a preponderance of farmers, agriculture is taxed for the benefit of urban consumers, while in developed countries it is subsidized at the cost of a much larger number of urban consumers.

Those larger pressure groups which do form and are effective, such as trade unions, attract members according to Olson by offering "selective benefits", not collective benefits. Thus members may have to join trade unions if union membership is a condition for obtaining a particular job. But this is likely to leave the common interests of many large groups unorganized. As Olson concludes: "Only when groups are small, or when they are fortunate enough to have an independent source of selective incentives , will they organize or act to achieve their objectives .... But the large unorganized groups [with common interests] not only provide evidence for the basic argument of this study: they also suffer if it is true" (p. 167).

Thus, far from being the benign social equilibrium of the political sociologists, for the economist, a pressure group equilibrium may not serve the common weal.

Olson later (1982) went on to argue that because of the deadweight costs of the taxes and subsidies associated with a pressure group equilibrium, an economy riddled with pressure groups is likely to bear a heavy burden of such costs, and hence likely to have sluggish growth. He blamed the decline of nations on the growth of interest groups whose aim must necessarily be to use the political process to redistribute income to themselves. This by necessity -- given the fixed economic pie at any point of time -- is a zero-sum game, a Hobbesian war of all against all. Whether this view is consonant with economic history remains controversial as witness the conflicting claims in the collection of essays in Mueller.

A more serious challenge to Olson's malign view of interest group activity has been provided by Gary Becker, who has sought to provide a rigorous formulation of a model of competition amongst pressure groups for political influence. He partially restores the more benign view of such participation of the political sociologists.

Becker models the influence exerted by pressure groups in terms of costs and benefits -- much as Olson -- and reaches similar conclusions about the efficacy of smaller over larger groups, because of the problem of controlling free riding. But his introduction of the deadweight costs of the taxes and subsidies, which comprise the pressure group equilibrium, and which effect individual's utility, allows him to put a more benign picture on the Cournot-Nash noncooperative political game he models. In this game the influence that pressure groups (divided into those who pay taxes and those who receive subsidies) is assumed to be zero-sum. As in the political

sociology literature there is a countervailing "potential" taxpayer group to every group that seeks subsidies, and as the overall political budget constraint implies that, the amount raised in taxes equals the amount spent in subsidies: "aggregate influence is zero; increased influence of some groups decreases the influence of others by equal amounts" (Becker, 1983, p. 376). Moreover because of the deadweight costs of both taxation and subsidization the game is negative sum in these instruments.

These assumptions allow him to derive a number of remarkable "second best" efficiency theorems about the pressure group equilibrium. Thus because an increase in the deadweight costs of taxes (subsidies), raises the costs (reduces the benefits), it discourages pressure by the relevant pressure group. Then: "if the gain to groups that benefit exceeds the loss to groups that suffer, and if access to political influence were the same for all groups, gainers could exert more political pressures than losers, and a policy would tend to be implemented" (Becker 1988, p. 101). This, as he notes, is the famous compensation principle for Pareto optimality in welfare economics, and remarkably it is now resurrected without actual compensation having to be paid! Equally remarkable is the theorem that: "political policies that raise efficiency are more likely to be adopted than polices that lower efficiency" (Becker, 1983, p. 384).

But as Becker (1988, p. 91-2) himself notes in passing:

> Aggregate efficiency should be defined not only net of deadweight costs and benefits of taxes and subsidies, but also net of expenditures on the production of political pressure ... since these expenditures are only "rent-seeking" inputs in the determination of policies. Therefore, efficiency would be raised if all groups could agree to reduce their expenditures on political influence.

But this admission undercuts much of the benign character of the pressure group equilibrium. For with perfect competition amongst pressure

groups, we would also expect perfect competition amongst the rent seekers. That, as is well known, will lead to them spending an amount in rent-seeking equal to the total rents sought. This plus whatever expenditures "taxpayers" have to expend to counter the predatoriness of those seeking subsidies, amounts to the deadweight rectangles of rent-seeking costs which will invariably outweigh any of the conventional Harberger triangle losses which the Becker framework seeks to minimize. The Becker efficiency conclusions about a pressure group equilibrium would thus seem less than robust, and once the deadweight costs of rent-seeking are included it would seem that the more gloomy view taken by Olson about the anti-growth and anti-development effects of an economy dominated by pressure groups is more persuasive.

Further doubt on the benign view that emerges from Becker of a pressure group dominated economy -- or as I prefer to call it a factional state -- is cast by another of his theorems, which follows directly from his assumptions that both taxpayers and subsidy recipients are interested in reducing the deadweight costs of taxes and subsidies. Not surprisingly the commodity tax structure that will then be chosen in his pressure group equilibrium will follow the so-called Ramsey tax rule -- that is tax rates will be related inversely to the elasticity of demand for the good, as this minimizes the Harberger triangle loss for collecting any given revenue. But as Brennan and Buchanan have shown, the Ramsey tax rule is also the one which will be adopted by what I call an autonomous revenue-maximizing predatory state. This is not merely coincidental. It underlies the basically predatory nature of a distributivist pressure group dominated democracy! That the Ramsey rule would also be followed by Platonic Guardians, who by assumption seek to limit revenues to fund essential public goods, offers cold comfort to more cynical political economists who see revenue maximization as the

hallmark of predatoriness.

Further doubt is cast on the benign view of a polity and economy dominated by pressure groups by the imperfect empirical evidence which is available about the outcomes in economies dominated by them, as well as by the divergences between theory and actuality about the characteristics of existing pressure groups.

On the first, the Lal-Myint comparative study on the political economy of poverty, equity and growth, attempted to classify the 21 countries studied into self-explanatory categories defining the central attribute of their polity during the period 1950-85. The two major categories were of states which were classed as autonomous and factional. In the former the State was seen to stand above the factional pressures exerted by its constituents, and to subserve its own ends. In terms of these ends this category subdivided into the benevolent Platonic Guardian (or one should also add the more darker Nietzchian) state attempting to maximize some social welfare function as it saw it, and the more self-serving predatory state seeking to maximize the revenue which the "monarch" could spend at his pleasure. The second category of factional states were those where the States subserved the interests of those who succeeded in capturing the government. The main difference between the two types -- oligarchic and majoritarian democratic -- distinguished within the category was based on the composition of the polity. Table 1 provides the classification of the countries in these broad categories, and a rank ordering by growth rates. It is apparent that, first, any inference about any strong correlation (leave alone causation) between forms of government and economic performance is insecure, but that, secondly, by and large, the performance of the autonomous states tends to be better than that of the factional ones.[9]

TABLE 1

Growth And Type Of Polity

Region		Growth Rate	Autonomous Plat	Predatory Rev Max	Predatory Bureau Max	Factional Olig	Factional Dem
As	Hong Kong	8.9	✓				
As	Singapore	8.3	✓				
As	Malaysia	6.9					✓
As	Thailand	6.7		✓			
LA	Brazil	6.6		✓			
LA	Mexico	5.7			✓		
ME	Malta)	5.6					
ME	Turkey)	5.6	✓				
ME	Egypt	5.4			✓		
As	Indonesia	5.3		✓			
LA	Costa Rica	5.0					✓
LA	Colombia	4.7				✓	
As	Sri Lanka	4.7					✓
Af	Malawi	4.3	✓				
LA	Peru	4.1				✓	
Af	Nigeria	3.7					✓
LA	Jamaica	3.3					✓
As	Mauritius	2.9				✓	
Af	Madagasgar	2.0				✓	
Af	Ghana	1.3		✓			
LA	Uruguay	1.1					✓

Ranked in terms of growth performance.

The second piece of factual evidence which casts some doubt on the perfectly competitive pressure group model is the finding for both developed and developing countries that, apart from the large associations that can utilize selective incentives to gain recruits, most other associations tend to be dominated by relatively more affluent, better educated and middle or upper-middle class members. As the political scientist Schattschneider put it succinctly: "The flaw in the pluralist heaven is that the heavenly chorus sings with such an upper class accent. Probably about 90 per cent of the people cannot get into the pressure group system" (pp. 34-5).

As usual an economist has tried to provide an explanation. The political sociologists explained this finding by arguing that "the higher status individual has a greater stake in politics, he has greater skills, more resources, great awareness of political matters, he is exposed to more communication about politics he interacts with others who participate" (Verba and Nie, p. 126). By contrast Hirschman, argues that it is because high status individuals are also relatively high income ones, they are likely to have satiated their wants for various private goods. They "may [then] engage in politics because they have become disenchanted with the pursuit of happiness via the private route" (p. 75). Moreover, unlike the free riders who populate the Olsonian collective action universe, Hirschman's high status political activists participate

> because there is much fulfillment associated with the citizen's exertions for the public happiness. These exertions are in effect often compared with the pleasurable experiences of eating and drinking .... It is in the very struggle for justice and liberty that the thirst is quenched and the craving is gratified. Who then, would want to miss all that active pleasure and get a free ride to what is at best the comfortable, and usually somewhat disappointing, outcome of these processes? (p. 91)

Though this might explain why many of the principals of NGOs may be altruistic, it does not tell us whether their actions serve the interests of

the economy or polity. Certainly in some European countries, e.g., Britain, it is arguable whether the influence of the "chattering classes" has helped rather than hindered their economic development (see Weiner, Letwin).

Finally, there is the role of mass participation and its effects on electoral politics. Here studies of participation in voting in those democratic countries without compulsory voting, have shown: first, that voters are generally badly informed in most democracies, and second, that in many democracies the percentage voting in elections is not very much more than half of those eligible to vote.

Economists have again provided a "rational choice" explanation of this ignorance and apathy in voting behavior. Given that the act of voting involves some positive costs to the individual, whereas the probability of his vote affecting the electoral outcome is infinitesimally small, the paradox as Downs noted, is not why there is a low voter turn out, but any turnout at all! A similar argument applies to the costs and benefits of being well informed.

The role of parties, party allegiance and the "competitive struggle for the peoples vote" which Schumpeter (1950, p. 269), identified as the most distinctive feature of democracy, then plays a central role in Downs theory of democracy. Its most important positive conclusion (of course dependent on the simplifying assumptions on which it is based) is the so-called median voter theorem (which was first derived by Hotelling). This shows that if voters can be ranked along a single dimension (usually defined as the left-right spectrum), have single peaked preferences, and there are only two political parties, then in a majoritarian democracy both parties will have an interest in converging on programs that appeal to the median voter. This has been used by Stigler, Meltzer and Richards, amongst others in the

economic field to explain both the growth of government transfers in democracies as well as their inevitable capture by the middle-class (the so-called median voter).

One implication of these median voter models of the growth of distributivist welfare states -- which in effect become transfer states -- is that the political pressure for redistribution and hence the growth of government will decrease with growing prosperity. For with growth, as well as the operation of the transfer state, the median income comes to be closer to the mean. It being noted that, as in the pressure group model, because of the deadweight costs associated with the taxes and subsidies of the transfer state, it will not be in the interest of the median voter to redistribute all the income above the median to himself. Peltzman has provided a richer model in the median voter tradition which removes some of the shortcomings of the simpler versions. He has also tested it with cross country regressions which include many developing countries and found it provides a fairly good explanation of the growth of government. The Lal-Myint study found that the Peltzman model also provided a statistically significant explanation for the differences in the levels of government non-defense expenditures in the 21 countries studied.

The relatively jaundiced view of the economic effects of majoritarian democracies, emerging from this strand of the new political economy, is complemented by that of a number of political sociologists, e.g., Lipset, who do not see a very high level of political participation to be in the interest of democracy. The example of Hitler's Germany weighs particularly heavily on their minds. The rise of the Nazis through the ballot box was based on their activating many previously inactive groups. This school therefore fears that if non-elite political participation is too widespread,

demagogues may exploit the badly informed by playing to the "irrational" impulses of the masses. A similar view is taken by those who see "populism" as the bane of Latin American politics and the cause of much of its bad economic performance in recent decades (see Dornbusch and Edwards).

By contrast other political sociologists adopt a common belief amongst the unreflective that, as Verba and Nie put it: "Where few take part in decisions there is little democracy; the more participation there is in decisions, the more democracy there is" (1972, p. 1). If this is merely made a definition of democracy then one cannot cavil with it. But then one has to ask, with the political economists and those political sociologists who take a darker view of the consequences of such mass participation, whether the Hobbesian state of nature such a "democracy" might engender on Olson's view, or the loss of liberty itself on Lipset's view, makes this "democracy" worth having.

III. IMPLICATIONS FOR WORLD BANK POLICY

Thus at the end of the above discussion, we are left to swim in very treacherous waters, when we try to work through the effects of those slippery but seemingly obvious concepts "participation" and "democracy". To avoid drowning in them it may be best as the great Scottish philosophers emphasized to concentrate not on forms of government but the characteristics of good government- on policies. As the World Bank is charged with advising on the latter and forbidden to deal with the former, it should find this view congenial.

The most important aspect of good government for economic development (and hopefully for liberty), as we have noted, is for the state to view its functions as those of a civil and not an enterprise association. This means that, besides providing the essential public goods at the least cost in

terms of revenue, it should not engage in the promotion of any particular morality -- be it that based on egalitarianism, or fundamental rights.

As redistributive political games are necessarily zero-sum, and also involve deadweight costs, a good government will not exacerbate the natural proclivity of human beings to use the political market place to achieve what they cannot obtain through the private market place. The damage that the politicization of economic life can cause for development has been a persistent theme in the writings of Lord Bauer. His initially lonely position has been amply justified by experience in the last two decades. To the extent the cry for greater participation in the mechanics of development is one for accentuating these redistributive games, it needs to be eschewed.

We have also argued that more recent versions of this game have come to be based on so-called social and economic rights, whose upholding, it is claimed, must form the basis for the "real" participation of the masses and hence "genuine" democracy. But democracy as we have argued can only have instrumental value, and if combined with the State viewed as an enterprise association can be inimical both to the ultimate ends of promoting popular "opulence" and liberty.

This does not mean that "participation" viewed as affirming the classical liberal freedoms to associate and speak one's mind is not valuable. It is -- as it promotes liberty. But this is a different end, though no less valuable than opulence. The latter, experience has shown, is best promoted by markets. But because participation -- in the above limited sense -- and markets are thus instrumentally desirable, it does not follow, as some seek to claim that, the latter requires the former. This is just another reflection of the fact that there is no necessary causal link between democracy and development. We may wish to promote the former

because it at least helps to prevent tyranny and hence promotes liberty -- a valued end. But it is a fallacy to give in to the natural human failing to believe that all good things go together -- so that democracy will promote development. But neither, I hasten to add, is there any necessary link between authoritarianism and development.

Nor does it appear essential either for democracy or development to promote voluntary civil associations, despite the claims of the pluralist American tradition. Particularly in an enterprise state, they can (as discussed above) become the instruments of competitive rent-seeking with inimical effects on economic development. By their very nature these pressure groups must themselves be enterprise associations. For the state to promote any of them would amount to its endorsing the aims of that particular enterprise -- something which a state viewed as a civil association is charged not do.

But in a such a state, there would also be no need to take any baleful view of these associations. Though there is always the danger, as with religious associations which seek to convert the state into an enterprise association, that they may seek to use the political process to subvert the state as a civil association by attempting to take it over. The bulwarks that can feasibly be erected against such outcomes, and others which subvert the state seen as a civil association, is the subject matter of much current research in so-called constitutional economics, but it lies beyond the scope of this paper.

Nor would there be a presumption, one way or the other, about using these voluntary private (enterprise) associations in the provision of public goods (including programs which alleviate absolute poverty, which classical liberalism views as a public good).[10] This would depend on the actual

merits of the case, as judged by the standard efficiency criterion: is this the least cost way of providing a particular level of the relevant public good. As most World Bank project lending provides finance for investments in public goods, the association of so-called NGOs in bank projects must remain an empirical and contingent matter. There can be no general presumption about its desirability. As we have argued, any attempt to do so through the notions of "participation" and "democracy" remains seriously flawed.

But are there specific types of Bank projects in which involving NGOs might on the basis of existing evidence be useful? And can anything be said about the types of NGOs that the Bank might find useful in its work?

A Bank report by Holt, identified three conditions for participation (defined as "the poor's influence in decisionmaking in poverty reduction programs") as a necessary component of effective and sustainable poverty reduction programs. These were:

> (a) when the poor possess information not known to outsiders that is necessary for program success;
> (b) when collective action is required for effective management;
> (c) when the government must rely on poor people to expand the public resources that are put into projects.

Amongst the sectors identified as having benefitted from participation were: agriculture (including forestry, livestock, irrigation and agricultural extension); rural water supply; urban development (including urban water supply); environment and resettlement; and credit (group lending schemes and micro-enterprise).

Of the three criteria listed above the importance of (a) and (c) cannot be gainsaid. But these used to be part of standard procedures for the design of World Bank projects. There may be critical technical local knowledge (to be distinguished from preferences), for instance about local

ecology or customs, on which the success of a particular investment project will depend. But certainly in the 1970s when I was associated with the Bank's project evaluation work, particularly in agriculture, obtaining this local knowledge through site visits at the design stage of the project was considered standard practice. Assuming this has not changed, to label this process as "participation" is to use emotive language, which given the slippery nature of the concept of "participation" discussed above, is likely to aid neither clarity of thought nor the relief of poverty.

Similarly, in many social sectors such as health and education it has been part of Bank practice, in the project design, to include some form of cost-recovery from project beneficiaries, as this provides at least some surrogate for the "willingness to pay" criterion which ensures the efficiency of market provision of private goods. So there is again nothing new about criterion (c).

More worrying is criterion (b), particularly if it is implied that the collective action required for the provision and maintenance of public goods should be through some form of popular participation. As the discussion in the previous sections has highlighted there is no presumption that such participation will necessarily enhance efficiency or even help the poorest. Nor, when the local knowledge which is required for the proper design of public goods projects concerns subjective individual preferences, is there any participatory mechanism which will ensure that these can be objectively ascertained, and more seriously, as social choice theory has emphasized, be aggregated into any meaningful social welfare function.

Thus there seems little that participation can add, beyond what has been standard Bank good practice in designing projects, namely obtaining all the relevant local information and designing appropriate incentive

mechanisms (which most often mimic those of the market) for the maintenance and use of public goods projects. Whether or not particular NGOs can help in this process must be a contingent matter.

Perhaps more help in providing some general guidelines for Bank relations with NGOs may be provided by some typology of NGOs? A useful one is provided by Clark. He divides them into six types:

(1) Relief and welfare agencies -- e.g., Catholic Relief, various missionary societies

(2) Technical innovation organizations, e.g., the Intermediate Technology Group

(3) Public sector contractors -- e.g., NGOs funded by Northern governments to work on Southern government and official aid agency projects, like CARE

(4) Popular development agencies. "Northern NGOs and their Southern intermediary counterparts which concentrate on self-help, social development, and grass roots democracy," e.g., local OXFAMS, CEDI and FASE in Brazil

(5) Grassroots development organizations. "Locally based southern NGOs whose members are the poor and oppressed themselves, and which attempt to shape a popular development process"

(6) Advocacy groups and networks, "which have no field projects but which exist primarily for education and lobbying", e.g., environmental pressure groups in the North and South.

One useful purpose served by this typology is that given the discussion in previous sections, whilst the type of associations under 5 and 6 may form a very important part of creating a civil society and maintaining essential liberties, their endorsement by the Bank would clearly be inappropriate. On

the other hand the associations under (2) and (3), are service associations (to coin a label), and there use on particular projects must depend upon the merits of the particular case. For here there is a paucity of evidence on the general effectiveness of such NGOs. As Clark -- an OXFAM employee -- notes: "there is surprisingly little objective reporting of NGO projects. Northern NGOs own writings generally concentrate on the success stories and, being aimed largely at their supporting publics, serve a propaganda purpose. The NGOs tend to commission few objective evaluations, ... and so may not even know much about their successes or failures" (p. 52). One of the few evaluations available is by Tendler of 75 USAID NGO projects. This, though not as rigorous as the standard project evaluation methodology (which is hopefully still being followed by the Bank) does dispel some of the common myths about these "service" NGOs. Thus for instance she found that NGOs do not benefit the poorest of the poor. The beneficiaries were most often in the middle and upper range of the income distribution, as many NGOs have moved away from their initial strictly relief and welfare projects (with careful targeting of beneficiaries) "towards conventional development projects". Also what was described as participation by the poor in the projects was also a myth. Distinguishing between "participation" and "decentralization" she found that, there was greater decentralization in these projects but the decisionmaking was dominated by NGO staff and the local elite. Lest it be thought this was undesirable she also found that projects which reached the poorest were usually designed by do-gooding outsiders! The study thus confirms many of the theoretical points we have made in earlier sections.

If as we have argued there may still be a case based on contingent factors on associating particular "service" NGOs with Bank projects, one

essential piece of missing information that is required is on the past track record of the NGO in delivering the requisite services. For this purpose just as the Bank evaluates its own past projects, it might be desirable to get independent audits done of the past performance of NGOs seeking to be associated with Bank projects. As according to the OECD over 30 percent of NGOS annual funds come from official sources, it would not compromise their independence if official and multilateral institutions were to demand such an audit.

This leaves the associations under (1) and (4). These are largely religious and/or relief associations. Subject of course to the proviso about an audit of past performance, there is some reason to believe that on some type of poverty alleviation projects they may have a comparative advantage. As historically the churches have been the main organizations for alleviating destitution and what can be called conjunctural poverty (due in agrarian economies to vagaries of nature),[11] they are likely to have organizations both for identifying the poorest as well as in monitoring any benefits they receive. This is of importance in overcoming the adverse incentive effects that have bedeviled many poverty alleviation schemes. They may therefore, provide a more effective channel for disbursing foreign aid aimed at dealing with destitution and conjunctural poverty. But churches are par excellence enterprise associations, which have in the past and in some cases still seek to take over the state. Thus, in countries where the church is at odds with the state there is a danger that if foreign aid donors channel their aid to help the destitute through such churches, they will be looked upon as partisans in a local political struggle. Once again, therefore, the Bank could find itself in treacherous waters.

Besides the church, self help organizations like rotating credit associations (of which Bangladesh's Grammen Bank is a notable example), and the friendly societies which grew up in 18th and 19th century Britain to deal with destitution and conjunctural poverty, have been of importance.[12] As these are part of the civil associations rightly lauded by De Tocqueville, which help in maintaining liberty, and furthermore promote the classical liberal vigorous virtue of self-reliance, they are to be commended. But whether public action and support is required for them to flourish is dubious. As the experience in the West has shown, the establishment of welfare states which sought to substitute public for private benevolence, has led to the nationalization of these associations.[13] These intermediate institutions of civil society were forced to surrender their functions and authority to professional elites and the bureaucracies of centralizing states. For their current Third World counterparts too, the public embrace of either foreign aid institutions or their own governments could (for reasons of political economy) be the kiss of death!

Hence our rather gloomy conclusion that apart from a case-by-case appraisal of the desirability of associating the service associations identified above, World Bank involvement with other NGOs is neither likely to promote efficiency or liberty (nor their associated instruments -- markets and democracy).

ENDNOTES

*This paper has greatly benefitted from the comments of members of a seminar at the World Bank on an earlier draft.

[1]See Lal (1983) and Little for a discussion of development fads of the 1950s through the 1970s. See Bebbington and Farrington, Drabek, and Stevulak and Thompson for references to the literature and discussions on the role of NGOs in development. Amongst the World Bank material on the subject in addition to the last reference above, also see Salmen and Eaves and Ribe et al., Barry remains an excellent critique of the political sociology literature on participation and democracy, and which also takes a fairly cool look at the early political economy literature on the subject. Ostrom et al., is also a useful collection relevant to the subject of this paper. Finally, an excellent paper by Gerson examines popular participation in economic theory and practice. Besides providing a useful summary and critique of the quantitative studies of the effects of participation on project effectiveness (e.g., by Esman and Uphofff and Finsterbusch and Wicklin) he also surveys the available World Bank evidence. A number of points he makes may be noted as they complement the argument of this paper. First, as general equilibrium theory has shown, for non-public goods the market provides the most comprehensive and efficient form of popular participation. Moreover it is the "willingness to pay" criterion embedded in the market which economists try to evoke and implement when considering the provision of public goods. Second, the belief that participation provides some easy way to elicit the preferences of beneficiaries of public goods is belied by Arrow's famous Impossibility theorem about aggregating individual prefer-

ences into a social choice function without violating some unexceptional conditions such as non-dictatorship! Third, that some form of cost-recovery, through the contribution of time or money by beneficiaries is an effective form of participation, even in the provision of public goods.

[2]An excellent account of this is in Muller.

[3]This is Shirley Letwin's term to describe the "moral" content of Thatcherism.

[4]This corresponds to what Oakeshott (1993) calls the productivist and distributionist versions of the modern embodiments of the enterprise association, whose religious version was epitomized by Calvinist Geneva, and in our own times is provided by Khomeni's Iran. Each of these collective forms conjures up some notion of perfection, believed to be "the common good". Of these three versions Oakeshott (p. 92) notes:

> first a "religious" version , where "perfection" is understood as "righteousness" or "moral virtue"; secondly a "productivist" version, where "perfection" is understood as a condition of "prosperity" or "abundance" or "wealth"; and thirdly a "distributionist" version, where "perfection" is understood as "security" or "welfare". These three versions of the politics of collectivism succeed one another in the history of modern Europe ... And in our own time the politics of collectivism may be seen to be composed of a mixture in which each of these versions has its place.

[5]This is based on Lal and Myint. On the French Revolution see Aftalion.

[6]Sen characterizes the Chinese cultural revolution in these terms and with some implicit approbation!

[7]This term and the following argument is due to Ken Minogue.

[8]See Gourevitch for a further elaboration of the tenuous link between forms of government and their promotion of markets.

[9]Nor is there any connection between military regimes, and mutatis mutandis, authoritarian regimes and development. For a detailed study of the links between the military and development see Alexander Berg and Elliot Berg.

[10]See Lal for a substantiation of this point, as well as a general discussion based on the findings of the Lal-Myint study on poverty and development.

[11]In Lal (1993) following Illiffe I distinguish between three types of poverty. The first is the mass structural poverty which has been the fate of much of mankind until the era of modern economic growth. This as the experience of current developed and a growing number of developing countries shows can be cured by efficient growth. World Bank policy advice and project lending which helps in this process necessarily alleviates this historic hard core of poverty. This still leaves the problems of destitution and conjunctural poverty which have traditionally composed the problem of poverty that public policy has sought to alleviate. In the agrarian economies of the past, labor was scarce relative to land, and hence destitution was due to a lack of labor power to work land (either their own-because of disabilities -- or from family members -- because they had none). This is still true of parts of Africa. With population expansion and growing land scarcity destitutes emerged who lacked land, work or adequate wages to support their dependents. Finally, throughout history there has been conjunctural poverty where people have fallen over the brink (albeit

temporarily) because of climatic crises or political turmoil. In industrial economies, the trade cycle has added another form of conjunctural poverty associated with cyclical unemployment.

[12]See Green.

[13]Green provides a detailed account of the U.K. experience.

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