

Is There a New Political Economy of Development?

John Toye

Some exponents of the neoliberal economic philosophy of the 1980s see themselves as creators of a whole new social scientific paradigm based on the application of the methods of economics to the study of politics in developing countries. This New Political Economy of development uses the assumptions of neoclassical microeconomics - methodological individualism, rational utility maximisation and the comparative statics method of equilibrium analysis - to explain the failure of governments to adopt the "right", i.e. neoliberal, economic policies for growth and development. In this way, neoliberalism presents not merely "a body of settled conclusions immediately applicable to policy", but also, in the form of the New Political Economy, an account of *why* its own prescriptions over forty years of the practice of development have until recently found so little political favour. At their most ambitious, the neoliberals strive for the unification of economics and politics - both in normative and in positive modes under the banner of rational choice theory.

Let us begin by sketching some of the characteristic features of the NPE, noting where appropriate variant versions. This is attempted in the following section. We argue that major features are an unrelievedly cynical view of the state, and a sharp disjunction between that view and the political requirements for the adoption of liberalisation policies in the economic sphere. The inherent pessimism of the NPE is problematic in itself, but it also in turn draws attention to another problematic feature, namely the exclusion of international economic and political causal factors from the frame of analysis.

In order to explain the features of the NPE which have been highlighted, a third section of this chapter takes a more detailed look at the origins of some of its constituent ideas and, finally, offers an

alternative view, both of the political process in developing countries and of the politics lying behind the NPE approach itself. The answer to the question posed in the chapter title - "Is there an NPE of development?" - is both "yes" in a literal sense, and "no", in that both the newness of the NPE and its status as good political economy can easily be exaggerated.

By now, a vast and quite variegated literature has accumulated which might be packaged with the label of "the new political economy". No attempt is made here at a comprehensive survey. We note only the very broadest distinctions between its main variant types. However, the reader will need to know some of the examples of the NPE literature which are taken as especially representative of the genre. Its flavour is well conveyed by both Buchanan, Tollison and Tullock (1980) and Collander (1984). Surveys of results from the work in the NPE vein can be found in Bhagwati (1982) and Srinivasan (1985). The relevance of the NPE to developing countries is asserted enthusiastically by Findlay (1989); its limitations in this regard are stressed by Meier (1989).

The NPE is characterised first of all by a profoundly cynical view of the state in developing countries. To say, as exponents of the NPE do, that people in political positions are typically motivated only by individual self-interest is, and should be, shocking. It is shocking because it denies and disparages all the norms and values of political life no less dramatically than those ancient philosophers who pretended they were dogs in order to demonstrate their scorn for the ideals of the Greek polis. However one defines the public interest, and however much scope one grants to the protection of private interests as part of the definition of the public interest, the unbridled pursuit of self-interest by rulers belongs to the pathology of politics - to tyranny or dictatorship or, ultimately, to anarchy.⁽¹⁾ To attribute individual self-interest as their exclusive motive to politicians in developing countries is to deny their sincerity, their merit and, ultimately, their legitimate right to govern. While this is

appropriate criticism for particular rulers or regimes, in the developing no less than in the developed areas of the world, as a general characterization of the state in developing countries, it is breathtaking in its scope and pretension. The NPE is not merely saying unflattering things about Third World politicians - that they are misguided, myopic, or cowardly. Its claims are much more extreme: that their unbridled egoism makes them constitutionally unfit for any political role whatsoever.

Why so extreme? The NPE contrasts its negative view of the state with the assumption of the benign or benevolent state which (the NPE claims) underpinned the literature on social democratic planning and, by extension, much of the development planning literature of the 1950s and 1960s. Indeed that assumption has at times proved misleading and unrealistic, especially when used in combination with another assumption frequently implicit in those discussions of planning - that the state was also omni-competent, i.e. it had access to all the information and policy instruments that it needed to achieve its objectives, whether benign or otherwise. But there is a puzzle here. Would it not have been better tactics for the neoliberal challenge to focus on the myth of the omni-competent state in developing countries, rather than the myth of the benevolent state? Given that the prescriptions of neoliberalism are represented as the true embodiment of the public interest of ldcs would not it have been advisable to doubt politicians' competence, while suspending disbelief in their good intentions? Then at least one would not have produced a theory where prescription and description are so seriously at odds as they are in the NPE, where the body of settled policy conclusions is so readily (too readily, in truth) to hand, while the political process is damned as incapable of serving *any* conception of the public interest.

The political hypotheses of the NPE are too cynical, too extreme, and it is this extremism (the reason for which we will speculate on in the penultimate section) which creates the second major feature of the NPE, its pessimism. For the major prediction of the new political economy in its positive mode must be that significant chan-

ges towards the "right" neoliberal policies will not, or will hardly ever, take place. Where the interests of rulers and ruled conflict, personally self-interested politicians will not make arrangements which secure the legitimate interests of citizens. In the absence of a natural harmony of interests, rulers serve themselves better by using their power to exploit others, and political arrangements which limit rulers' pursuit of self interest are the only constraint on this exploitation. If such arrangements do not exist or have been subverted - which is the scenario in developing countries, according to the NPE - then the adoption of "good" policies becomes an impossible dream. An inherent inability to implement policies that are taken to be obviously socially desirable amounts to more than just gloom about the prospects for reform. It is much more deterministic and much more pessimistic than this. It is (as it has been dubbed elsewhere) "an economic hypothesis of equilibrium unhappiness" - or an EHEU theory (Toye, 1987: 122-7).

That the NPE is indeed an EHEU theory has been recognised by Grindle (1989: 31-2), who states that:

"...while the new political economy provides tools for understanding bad situations and for recommending policies that will engender better situations, it provides no logically apparent means of moving from bad to better... Locked into an ahistorical explanation of why things are the way they are and the notion that existing situations demonstrate an inevitable rationality, it is hard to envision how changes in such situations occur ..."

If a conceptual taboo did not prevent it, neoliberals might accurately describe their political diagnosis as one of the *structural* frustration of sound public policy. They are in any case vulnerable to the riposte that such a diagnosis gestures in the direction of long-run dynamic theory, but does not actually specify any dynamics.

In an interdependent world with an unequal distribution of political power, it is only to be expected that some of the dynamics of policy changes in poor, developing countries will be international in cha-

racter. But the NPE typically pays much less attention to international influences on public policy in ldc's than to national influences. Its frame of reference for analysis is the individual developing country. This is either analysed as a unitary entity, as in theories of "the predatory state" (or "the Leviathan state") which has its own rational self-interest; or as an arena in which outcomes result from the pursuit of rational self-interest by individual ldc politicians, bureaucrats and other actors. In the best examples of the NPE, for example Repetto's analysis of irrigation projects (see Moore, 1991). Other actors do include international influences like multinational construction companies and international aid agencies. But this is not usually the case. The international actors are kept typically beyond the framework of analysis. The desirable policies are desirable domestic policies for developing country governments. Usually no complementary policy changes are demanded by NPE theorists from the developed countries' governments, or from the international institutions which they largely control. Ironically, in view of its heavy emphasis on international trade and investment, the NPE usually takes a very "closed economy" approach to policy-making in developing countries. This in turn renders it particularly defective

for illuminating actual policy changes in the 1980s, when the debt crisis and internationally-sponsored structural adjustment programmes were responsible for so much of the policy change that did - NPE pessimism to the contrary notwithstanding - occur in developing countries.

Why are a profoundly cynical view of Third World states, a rigid pessimism about the prospects for reform and a country-focussed analytical framework such prominent features of the NPE? The answer to this riddle, it will be argued here, is to be found not in the intellectual sphere, but in the realm of rhetoric.

The NPE is an economic theory of politics, and uses the assumptions of neoclassical microeconomics. But nothing in those assump-

tions, or in the economic theory of politics as such, requires or determines the three major features of the NPE that have been identified. In the transposition of the economic theory of politics from its earlier reference to developed countries (and particularly, the United States) to its present reference, via the NPE, to developing countries, a number of significant component parts have been removed and replaced with something different. Such flexibility of the content of the economic theory of politics emphasises that neo-classical microeconomics is not so much a doctrine as a method. It is a particular brand of logic, within which a great variety of different models of reality can be constructed, but not *any* model of reality. It is even more like a set of Lego than the "tool-kit" with which it is usually compared.

It is worth noting just how flexible the economic theory of politics has been over the years, in order to avoid the mistaken view that the conclusions of the NPE can simply be read off from its neoclassical starting points. Three examples are discussed, concerning the nature of interest group pressures in the political process, the origin of social rigidities and the optimal size of the government sector.

Originally, the pressures of interest groups in the political process were evaluated positively: they were a good thing. Interest group pressures were interpreted as equivalent to a competitive process in the political arena. The political need to achieve a broad consensus for the government's programme of measures ensured that extreme demands would be moderated by compromises, while the reasonable expectations of minorities would be respected in the process of coalition-building. The political competition of interest groups thus served not only to protect, but actually to construct the public interest. In the NPE, all this has changed. Interest group competition has become *destructive* of the public interest (identified with liberalisation policies) and symptomatic of a political fragmentation which occurs when politicians and administrators (illegitimately) as well as ordinary citizens (legitimately) pursue their individual self-interest (Grindle, 1989: 13).

An even more dramatic change has occurred on the question of the origin of social rigidities, because here the shift of emphasis occurs between the earlier and later works of the same author - Mancur Olson. In the revised edition of his path-breaking *The Logic of Collective Action*, Olson summarises its key finding as follows:

"...even if all of the individuals in a large group are rational and self-interested, and would gain if, as a group, they acted to achieve their common interest or objective, they will still not voluntarily act to achieve that common or group interest" (1971: 2)

This finding, that paradoxically, rational individuals will not organise themselves to achieve their common interests is then used as a critique of writers in the pluralist tradition who assumed not only that interest group pressures were benign, but that they would indeed manifest themselves. It was not the benign nature of interest group pressure which Olson questioned in 1971, but the logical inconsistency of assuming that self-interested individuals will voluntarily sacrifice in order to promote group aims (ibid: 126). But a decade later, the story line has been completely reversed. In *The Rise and Decline of Nations* (1982), notwithstanding the difficulties of group collective organisation, such groups are argued, not only to exist, but also to "reduce efficiency and aggregate income in the societies in which they operate and make political life more divisive" (1982: 47). Interest groups' activity is then used to explain the relatively slow growth performance of Britain, India, China and the South African apartheid system. Not only have interest groups changed from being unproblematic to being the critical source of socio-economic ills, but the logical flaw which Olson originally spotted in interest group theory has dropped progressively out of sight.

A third example of the changing content of the economic theory of politics concerns the role of government. Anthony Downs, the pioneer of the economic theory of politics, used the theory to argue that the government sector would be inevitably *under-extended* (1960: 341-63). His argument turned on the cost to citizens of ac-

quiring information about remote dangers which could, if they occurred, cause massive damage, and which the government could potentially prevent. His example was the possible threat from improved Soviet space capability. Today, environmental problems, such as CO₂ emissions and global warming would be a much clearer illustration. However, by the 1980s, the NPE is concerned exclusively with the *over-extension* of government. The argument used is the power of interest groups to vote themselves increases in public expenditure while diffusing the resultant costs through rises in general taxation.

The purpose of indicating these three major *voltes-face* in the content of the economic theory of politics is not to pass an opinion on whether the early version is better than the later one, or vice versa. Two points are relevant to our argument about the NPE. One is well put by Hindess (1988: 20-1), who remarks "how radically different conclusions can be generated from the same set of abstract principles" as a result of different and essentially arbitrary assumptions about the conditions in which they are supposed to apply. The other is that all three changes are consistent with each other. They together represent a dramatic shift away from a pluralist, participatory ideal of politics and towards an authoritarian and technocratic ideal based, not on big government, but on small and highly efficient government. In the longer perspective, they signal the return in the 1980s to dominance of the non-participatory strand of Western liberal political theory (Hexter, 1979: 293-303).(2)

One can argue that the economists of politics are absorbed in the technical ingenuity of their models, so that their work merely reflects the larger shift in the political mood that occurred in the 1980s. They may not have been aware how conveniently their new conclusions suited it; and there is certainly no evidence that they deliberately altered them to gain political favour with the New Right. But it is not necessary to claim this. All that is necessary is to make the negative point that there is nothing about the practice of the economics of politics which inevitably generates the cynicism, pessimism and contracted domestic focus of the NPE.

Nor, when one comes right down to it, is there anything about the theory of rent-seeking which drives one inevitably towards these features of the NPE. The original analysis of government economic controls did not provide a new political economy. Its author, Anne Krueger, explicitly declined to draw any political conclusions from her discussion of rent-seeking (1974: 302). Its significance in the doctrines of neo-liberalism was economic, not political. It was aimed at showing that trade controls are much more costly in terms of economic welfare than they had previously been taken to be. Empirical estimates of the size of the loss inflicted by the use of trade restrictions have, over the years, normally been small. Typically the gain in efficiency to be derived by the removal of trade controls has been estimated to be around 3-5 per cent of GNP - an amount equivalent to one year of growth in the case of many developing countries. If governments of ldc's believed that trade controls could be used to improve their growth rate in the medium and long-term, they might well be willing to trade-off static efficiency losses of this kind of size against their expected increase in long-run growth. Trade liberalisation as a policy was handicapped because its pay-off was stated, even by its own advocates, to be relatively small. Krueger's rent-seeking theory was an attempt to address this problem, in the belief that the true economic costs of protection must be higher than had previously been calculated.

Krueger identified an additional source of static welfare loss from protection, namely the resources which are used up by economic agents in competing for an allocation of administratively allocated import licences. Such resources produce nothing and, at the limit, could equal in size the economic rents which the licensing regime creates. Thus the *potential* costs of using quantitative restrictions on imports were shown to be much greater than had previously been considered. This was a fundamental neo-liberal insight and it has not been gainsaid. But its implications for political economy remain to be fully assessed. They are not at all as straightforward a confirmation of the tenets of the NPE as it might appear at first blush.

The additional welfare losses arising from a QR regime result from an unproductive, but resource-consuming, competitive scramble for import licences that bring windfall gains to those who acquire them. For these additional losses to be realised in practice requires such a process to exist. But does it exist? It does not exist when the competitive scramble which we actually observe in developing countries is conducted by those who would be otherwise unemployed; clerks who fill in forms, leg-men who stand in queues at government offices are consuming largely their own time and effort, and it is often sadly true in developing economies that these do not have any alternative productive use, and therefore no economic value. But more importantly for the NPE, a competitive rent-seeking process does not exist when licences are allocated by a process of pure patronage of the sort which self-interested political leaders use to reward their cronies. When a military ruler instructs officials of the Foreign Trade Ministry to issue import licences to his chief henchmen and lieutenants, there is no competitive process and no resource cost involved. This point is usually over-looked. In neo-liberal discussions of "the politicization of economic life", the scramble for spoils and patronage are lumped together as if they were slightly different aspects of essentially the same phenomenon, whereas for the purpose of gauging the real significance of rent-seeking theory they have diametrically *opposite* implications.

The cynical view of Third World states, that self-interested state rulers, lacking much in the way of institutional constraints, maximise their own welfare at the public's expense fits most easily with the scenario of patronage, rather than with that of the competitive scramble for spoils. The competitive scramble theory assumes that rulers are indifferent about the identities of the winners of the spoils. If this were true, it would be difficult to explain why the authorities would continue to oppose an auction of import quotas. An auction, after all, captures the rents of the import licences for the ruler's own treasury, while eliminating their dissipation on unproductive activities. Its crucial disadvantage, from the self-interested politician's viewpoint, is that it also abolishes clandestine politi-

cal control over the distribution of unearned benefits. And, on that criterion, the competitive scramble is no different from an auction.

It is difficult to argue, in the light of these considerations that it is the logic of the theory of rent-seeking that has produced the characteristic features of the NPE. The theory of rent-seeking has no specific theory of political economy built in to it, and, to the extent that it is based on the idea of impersonal competition for rents, stands at some distance from the cynical account of Third World rulers' behaviour which the New Political Economy offers. (It also has some surprising implications for standard neo-liberal prescriptions of trade policy - concerning the policy ranking of QRs, tariffs and domestic subsidies - but these would take us too far from our present theme to explore here.)

An important hiatus thus exists between the neoclassical roots of the NPE (whether in the economic theories of politics which existed before 1980 or in the original theory of the rent-seeking society) and the actual form and content which characterises the NPE of the 1980s. To elucidate the NPE solely in terms of its genealogy in economic science would be inadequate and confusing. The rhetorical uses of economic theory must also be brought in to any explanation of why the NPE is as it is. Economic theorising always takes place within a specific changing historical context. Our assumption here is that two-way interaction can take place between economic theories and their changing context. Larger-scale change in the political mood, such as occurred in the 1980s, can affect what is theorised and the substance of the conclusions of theory. Influence can also flow in the reverse direction, as theorists deliberately seek to alter the stances of public policy makers. If these assumptions are valid, one should not expect to be able to confine the intellectual history of the NPE just to its lineage in logic: there may well be strange logical leaps of the kind which have been noted above. We need to turn elsewhere to investigate why one kind of intellectual

tool is produced from the tool-kit at one moment, and another kind of tool at another time, or why the same tools produce opposite policy conclusions in succeeding periods.

It may be worth emphasising a corollary of the assumption of two-way interaction between theorising and its historical context. It is that the economic theory of politics (of which the NPE is an off-shoot) itself rests on too narrow foundations. "To take account of the role of ideas (influencing, and being influenced by, public policy) must require, at the very least, a more complex model of the individual actor than Downs and the public choice school appear to offer" (Hindess, 1988: 22). Although this chapter does not offer a detailed critique of the internal logic of the NPE, this is one major point which such a critique would have to include(3).

But leaving that aside, what was the historical context of the emergence of the NPE, and what were the extra-scientific factors that shaped its development? These are large questions, and what follows is the merest sketch. Let us start from one further puzzle of the 'new political economy', its title. Why does the NPE refer to itself as "new"? The standard answer to this is that it is new because it rejects the naivety of the development economists and others who in the 1950s and 1960s believed that the state was an agency that promoted social welfare - the assumption of the benevolent or do-gooding state. But this is to respond to one naivety with another. To suggest that all that was needed to give birth to the NPE was a process of gradual disillusion with the benevolence of the state in developing countries has the same simple-minded quality as the benevolent state assumption has itself.

One could put another case. It is that very few development economists forty years ago believed that the state in developing countries was concerned unreservedly to maximise social welfare. Quite a lot of economic work is technical and requires no particular view of the state. The assumption of the benevolent state, when it appeared without qualification, was usually more a matter either of pure diplomacy or of 'reformist hope'. It is vital to recall that the

development economists of that time were largely foreigners to the developing countries, where they operated with either explicit or implicit sponsorship of their home governments. They wanted to assist their adopted country in their capacity as professional 'improvers', but not to get entangled with local politics. As professional economists seeking to promote reforms, they assumed the existence of certain institutions and attitudes, as it were trying to coax them into life while aware that they were often not in fact there. *Saying* that they were not there in public would, however, have been easily interpreted as a political act. The benevolent state assumption in developing countries was thus a convenient myth for those in a false position, not their firm belief. Many felt morally uncomfortable in their inability to explore openly the reasons for their professional frustration, but most of these loyally respected the diplomatic imperative.

What the orthodox could not acknowledge publicly in the 1950s and 1960s surfaced as dissent. Specifically, it appeared in the neo-Marxist political economy of development. In the work of Paul Baran (1957, 1973), this combined a cynical view of the ldc state with strong and critical emphasis on the role of foreign capital in frustrating rational development. Gradually this tradition bifurcated, with some neo-Marxists retaining the stress on the determining pressure of foreign capital ("capital logic") and others locating the source of distorting pressures in the domestic class system above all ("class logic"). The class logic version of the Marxian political economy of development is morphologically almost identical with that version of the NPE which concentrates on the problematic role of interest groups. Both have political processes which guarantee economically irrational outcomes. The only important difference is that the former attributes the pressures for economic irrationality to an exploitative class, while the latter attributes it to the activities of self-interested groups. And both, of course, keep out of sight the international pressures which a capitalist system generates on developing countries. It is thus highly misleading to ignore the influence that neo-Marxism exerted on the NPE. The success of neo-Marxism in discrediting the assumption of the benevolent state pa-

ved the way down which the New Right moved triumphantly in the 1980s. The NPE is new specifically in succession to the "old" political economy of neo-Marxism.

The decisive events in ensuring this succession took place, as usual, in the sphere of high politics. Some time at the end of the 1970s, at the end of McNamara's time as President of the World Bank, diplomacy no longer seemed to require tact and tongue-biting, but instead a justification for a much more active intervention in the local politics of developing countries. Neoclassical economists, many of whom were then still producing project appraisal manuals with shadow prices and income-distribution weights, went back to the box of Lego and produced instead various sanitised versions of neo-Marxian political economy, sanitised in that they were deducible from individual rational self-interest rather than anything so unorthodox as 'class'. (The neo-Marxists were having sufficient difficulty with class themselves!(4))

The move from the "old" neo-Marxism to the new political economy can be traced both in academic discourse and in practical affairs. Among academics, some have simply abandoned the conceptual vocabulary of neo-Marxism in favour of that of public choice analysis, on the basis that the latter furnishes a more consistent and powerful set of hypotheses about the political economy. Others have tried to blend neo-Marxism into rational choice theory, analysing long-term historical developments in terms of a predatory state acting under constraints of bargaining power, transactions costs and discount rates (Levi, 1988). This is essentially an attempt to modernize a Marxist analysis of the autonomy of the state that goes back to Engels' *Origin of the Family, Private Property and the State*.

In practical affairs, one classic study in the switch from Marxism to the NPE is the trajectory of David Stockman, who was responsible for putting the supply-side revolution in US economics on the conservative political map, and was President Reagan's Budget Director during his first term. His early student Marxist politics; his discovery of a "Grand Doctrine" in the corruptions of the welfare state,

if post-FDR America could be so called; his conviction of the high moral quality of a thorough-going anti-statist revolution; and his bitterness at the "triumph of (U.S.) politics" which defeated that revolution as soon as it had produced a Republican electoral victory - all of these things mark him as a bell-wether of a generation that succeeded, but only briefly, in foisting on conservatism an ideological position. The transition from the old to the new political economy found in David Stockman its representative figure (Stockman, 1985).

The re-vamping of the neo-Marxist class logic story with the aid of methodological individualism left its major rhetorical features unaffected. The introduction of rational self-interest as the sole motive of politicians and bureaucrats did not change the neo-Marxist view of the state as an entity merely pretending a real concern for the public interest and national welfare. Like neo-Marxism, the NPE makes strong normative claims, essentially taking it as obvious that a certain set of social and economic arrangements is right. The conjunction of a cynical view of the politics of existing regimes and strong normative claims leads both to produce a bleak and deeply contradictory pessimism about the possibilities of progress. But the aim in both cases is not so much to interpret the world as to change it, and for that purpose cynicism and pessimism are powerful ideological instruments of persuasion - if they can be combined with a vision of a liberating crisis.

The NPE found in the profound economic shocks of the 1970s a catastrophe that served as a surrogate revolutionary crisis. The liberation was to be provided, not by classless intellectuals, but by international economic experts. Dudley Seers who postulated (1979) "the congruence of Marxism and other neo-classical doctrines" provided the clue to these and other parallels. For in both neo-Marxism and the NPE, what is attempted is no less than the unity of theory and practice.

On this interpretation, it makes no sense at all to try and refute the cynicism and pessimism of the NPE about the governments of de-

veloping countries by pointing to current examples of successful reform programmes in Africa and Asia (as Grindle (1989) does). For it is here that the economic catastrophe has taken place, and the international economic experts of structural adjustment have arrived. Most of the empirical evidence from the 1980s on policy reform is contaminated (from a scientific point of view) by the very rhetorical success which the NPE theorists have achieved in underwriting international action in support of liberalising reform. The appearance of contrary cases represents failure for the scientist, but signals success for the soothsayer. But the comparison of the new political economy with the neo-Marxism and the indication of the strong soothsaying element in both should not be taken to imply that the intellectual achievements of the NPE have been negligible. Apart from Krueger's theory of rent-seeking, the NPE has provided enlightening explanations of how microeconomic incentives can sustain particular types of projects and programmes which are meant to be, but are not in fact, developmental. These may look oddly similar to the now despised "vicious circle of cumulation causation" theories of the past, but they are welcome because they are more thoroughly grounded in the analysis of individual behaviour. It is the large-scale analyses of the NPE which are flawed - by exaggeration, self-contradiction and *arriere-pensee*.

What changes are needed if our thinking is to be released from these flaws? The NPE is one of those branches of modern economics which, in the words of A.K. Sen (1984: 7), "seems indeed to be based on the corset-maker's old advice: 'If madam is entirely comfortable in it, then madam most certainly needs a smaller size.'" The assumptions of methodological individualism are painfully restrictive (Meier, 1989: 20-2). Social, political and indeed economic *structures* have to be re-introduced into the analysis. In doing so, however, it is very important - and this is one other vital legacy of the NPE - not to do so to the exclusion of individual

agency and the single person's power of self-determination. A structuralism which treats people *only* as determined by structures is no less objectionably reductionist than an individualism which treats society, polity and economy *only* as the aggregates of self-determined individual action. A consensus is now emerging that agentless structure versus structureless agency is a false dilemma and that this long-standing dualism has now to be set aside in favour of theories that permit reciprocal interaction between the individual and the social setting. The argument here is owed to Giddens (1984), but many others, including Lawson (1985), Hodgson (1988) and Dearlove (1989) have endorsed it(5).

By way of illustration, let us consider the problem of nationalism. Nationalism, the denial of legitimacy to regimes where political rule is not coextensive with one language or culture, presents difficulties of explanation both for the economic theory of politics and for neo-Marxism. It seems to be such a powerful force in the modern world - whether we look to its First, Second or Third incarnations. Yet both neo-liberalism and neo-Marxism, if they do not ignore it altogether (in the manner of Olson, whose book on *The Rise and Decline of Nations* is innocent of any index entry for nationalism), represent nationalism simply as a product of economic interests, either individual or class interests. The individual economic interest route collapses in self-contradiction for the same reason as does the analysis of voting in terms of rational choice: there is a paradox of national identification exactly analogous with the paradox of voting. The fate of the nation is so little affected by the moral or material investment of a single nationalist in its well-being, that no nationalist would make that investment (Barry, 1970: 45-6). The class economic interest route collapses when called upon to explain the persistence of nationalism in officially classless societies like the USSR and Eastern Europe in the period of state socialism (Kolakowski, 1978: 103-5).

Any explanation of nationalism, its growth and its consequences, must have recourse to certain *structural* features of the social world. These features may include class, but are not restricted to

class as neo-Marxism might claim. Relevant structural features of social life for an analysis of nationalism would be the pattern of social stratification, the form and functions of the education system, the level of literacy, the degree of secularisation and the nature of migration and other contacts with more developed countries (Gellner, 1983). In that long run in which we are all dead, it is the changes in these features of society which produce the rise and decline of nations. But in the short and medium run, they act as the parameters of individual choice. Any individual is free to choose to become a revolutionary nationalist hero or heroine. He or she is equally free to renounce the nationality of birth and to assimilate to an alien culture. Nothing prevents some people from deciding to do both of those things (witness those English *emigres* who have become leaders of the IRA). Finally, nothing prevents other people from deciding to do neither, perhaps because they agree with Santayana that "nationality is ... too implicated in our moral nature to be changed honourably, and too accidental to be worth changing." Even in the short-run, the existence of structural determinants does not abolish individual choice.

It is important to insist also that choice is not necessarily exercised only after a process of economic calculation. "In the growth of nationalist feeling and agitation, there is no need to assume any conscious long-term calculation of interest on anyone's part ... It would be genuinely wrong to try to reduce these (nationalist) sentiments to calculations of material advantage or social mobility" (ibid: 61-2). As Barry (1970: 45) has put it, national identification leads to certain kinds of actions which lie outside the framework of economic calculation, and the most useful response is to work out the circumstances in which it does so. Yet the fact that nationalism lies somewhere beyond rational calculation should not permit neo-liberalism to brush it aside, as of little significance. After all, the 'erroneous' domestic economic policies which the NPE attributes to the cynical self-interest of ldc rulers, are also frequently interpreted as the policies of economic nationalism (Burnell, 1986: 37-9). If that were true, one would surely want to be equipped with a form of political economy broad enough to analyse nationalism and its

economic policy impact, in the variety of shapes in which it appears in different developing countries. The realisation by the international financial institutions that structural adjustment has a "missing political dimension" may be a reflection of their own previous willingness to view economic liberalisation through the prism of the NPE, when this boldly excludes, by assumption, the considerations which might make economic nationalism intelligible.

If a renewed emphasis on social structure is accepted, then the institutions of political life take on an expanded significance(6). They are no longer seen merely as a set of constraints (unchanging and unexplained) within which individual politicians and bureaucrats rationally maximise their utility. Their role in conferring legitimacy, authority and power on those who participate in them can be understood, as can the associated concept of institution-building and institutional decay. If the problem is that self-interested behaviour by rulers of developing countries has increased, one must enquire how structures have changed to weaken the institutional constraints on opportunistic self-aggrandizement in the realm of politics. One could go further and argue that the real problem is the inability to re-construct institutional constraints in some ldc's once the externally imposed colonial institutions were swept away, for once traumatic external interventions have de-stabilized old societies. Politicians have responded to this empty institutional space in many diverse ways. Some, like President Mobutu of Zaire have been a by-word for rampant corruption. Others, like Flight-Lieutenant Jerry Rawlings are not corrupt, but are driven by a (sometimes violent) messianic puritanism to save their country. In some cases, such as Pol Pot and the Khmer Rouge in Kampuchea, chiasm turns atrocious: the rulers do not accumulate wealth, only the piled-up human skulls of the killing fields.

It is impossible to discuss how different politicians in the Third World react to what Lucy Mair (1965: 34) once called "the breathless speed with which historical circumstances have extended the room for manoeuvre" without addressing the moral factor in poli-

tics - its absence in certain instances of anarchy or tyranny; the particular kinds of constraints which are imposed on politicians and bureaucrats in hypocritical regimes, where considerations of political 'visibility' become important, and the instances where, *mirabile dictu*, ldc rulers actually are benevolent, although possibly also misinformed about how best to tread the road paved with good intentions. Thus the re-introduction of structuralist ideas is not just a device to revert to the assumption of benevolent ldc governments, which as has been argued, was in any case previously advanced with considerable mental reservations even by those who espoused it. It is a proposal to inject into political economy a much richer and more refined analysis of politics than the NPE permits. It is also an invitation to apply a more refined understanding of politics not only to governments of developing countries, but also to the international actors in political economy.

As for the validity of the NPE's "body of settled conclusions immediately applicable to policy", the reintroduction of structures and institutions to the debate helps to explain why an automatic presumption in favour of free market solutions may not be warranted. Markets themselves are institutions. Markets for agriculture often have to be developed, that this is costly and that the costs often have to be borne by the state. The cutting back of state activity may, in plausible circumstances, actually hinder the desirable goal of greater scope for economically rational pricing of rural inputs and outputs. Essentially the same lesson applies to the growth of small-scale industry. One can argue from an inherent imperfection in labour contracts to the need for institutions to moderate the welfare losses inflicted by authoritarian managers of work: the growth of these labour unions is rarely encouraged and often actively discouraged by neo-liberal advocates of economic liberalization. Yet their healthy development is necessary both to protect employees from exploitation and unfair discrimination and to contribute to pluralism in the political arena. Women as a gender are exposed to widespread and persistent discrimination and devaluation, which their access to the labour market does not itself dissolve. Women must have strong grass-roots organizations to confront these persistent

disadvantages, and that the key issue is how they can harness some of the power of the state to sustain their struggle for appropriately equal treatment with men.

What the state can do to promote rural markets, to foster small-scale industry, to respond intelligently to the pressures of labour unions and womens' organizations and to address a great range of other legitimate tasks of development depends upon how well the government's own institutions are working. Why insist, with the neo-liberals on minimal government, if better government is a possibility? Government budgeting institutions are crucially involved in any agenda for better government. Yet even those who recognize the need for *more* government expenditure, lack a clear vision of how the selection and management of rational expenditure programmes can be institutionalized. On the revenue side of the budget, neo-liberal emphasis on fees and user charges diverts attention from the reconstruction of progressive tax systems.

Finally, international institutions can help or hinder the government's attempts to address the tasks of development. This is true in two particular senses illustrated in earlier essays. If the policies prescriptions of the IMF or the World Bank are too standardized and are attempted to be pressed home without due consideration for local institutional variations, the effects will be unhelpful. At the same time, there is no innate requirement that the international financial institutions should always behave in this Procrustean way. They, too, are a terrain for learning and innovation. The innovations of the 1980s have been significant, though not all of them have delivered what their inventors believed that they would. Much scope remains for further learning and new institutional departures that will provide a better combination of incentives and disciplines for developing country governments than has been achieved so far.

Notes

- (1) It may be of interest to explain why the statement that "politicians and bureaucrats are motivated only by individual self-interest" is shocking. First,

it is assumed that the proposition is not tautological, that is, it does not mean that whatever these actors do must be self-interested in some sense, because otherwise they would not do it. Second, if the statement is not empty because tautological, it means that these actors when faced with any conflict between their own individual interest and the interest of any other person will infallibly prefer the former. Third, it is assumed that conflicts of interest do occur, and that a natural harmony of individual interests does not prevail. When conflicts of interest occur between individuals in *economic* life they are arbitrated in the market place by the "invisible hand" of the price mechanism which, on given assumptions, can achieve an "efficient" reconciliation of conflicting interests. But even Adam Smith did not suppose that market-generated outcomes could be efficient without an overarching framework of law and regulation to maintain the socio-political parameters within which markets can work efficiently. Now if the politicians and bureaucrats, who are responsible for enacting laws and enforcing regulations, use their *political* power to advance personal and private interests when they conflict with the public interest, they betray their duty to the general public and that is, and ought to be shocking. The application of the neo-classical self-interest assumption to politics is, therefore, something much more fundamental than the simple "extension" of a behavioural assumption from one arena of social life to another.

(2) The participatory strand in Western political theory starts from Aristotle and runs through Machiavelli and Guicciardini, Harrington, Ferguson and Rousseau. The non-participatory strand starts with the Stoics and runs through the Roman legists, Magna Carta, Coke, Blackstone, Bentham and James Mill.

(3) For an earlier attempt to discuss the basic logical difficulties of certain economic theories of politics, see Toye (1976). A good recent discussion is Dearlove (1989), as well as Hindess (1988).

(4) In this regard, they follow closely in the footsteps of Marx himself. *The Communist Manifesto* speaks of two classes, bourgeoisie and proleteriats, but in his other writings three-layered and other multi-layered models of class structure are to be found; and when Marx discusses class in what was later to become Volume III of *Capital*, the manuscript breaks off before the definition has properly begun (Praver, 1978: 146-7).

(5) Strictly speaking, it is the recent revival of this argument that is owed to Giddens. It has long been a commonplace of the anthropological literature. Malinowski (1926: 56) wrote that "the savage is neither an extreme 'collectivist' nor an intransigent 'individualist' - he is, like man in general, a mixture of both." The anthropological discussion has focussed on the question of how, if society is continuously re-created by the transmission through socialization, education, etc.) of social roles (husband, parent, teacher, judge, ruler), social change can occur. Emmet (1960) suggested that change was the product of individuals deciding (rather in the manner of an actor's ad-libbing) marginally to reinterpret their roles. (The recent absorption of some of the anthropological literature by students of Third World politics, especially in France, has led to the re-appearance of the theatrical metaphor as a key to political understanding).

(6) Bates (1989) also emphasizes the importance of institutions, but from inside the methodological individualism tradition. His argument is that while rational individuals should constitute the unit of analysis, "they compete within a set of political institutions; and the structure of these institutions shapes their interactions so as to determine the outcome that will hold in equilibrium" (ibid: 10-13). While criticizing market-based theories of politics, he advocates further work in the same tradition as the literature on the theory of committees and elections.

References

Baran, P.A., (1975) 1973, *The Political Economy of Growth*, Harmondsworth, Penguin.

Barry, B.M., (1970), *Sociologists, Economists and Democracy*, London, Collier-Macmillan.

Bates, R.H., (1989), "Some Skeptical Notes on the 'New Political Economy' of Development", Duke University (mimeo).

Bhagwati, J.N., (1982), "Directly Unproductive, Profit Seeking (DUP) Activities", *Journal of Political Economy*, October

Buchanan, J.M., R.D. Tollison and G. Tullock (eds.), (1980), *Towards a Theory of the Rent-seeking Society*, Texas A. and M. University Press

Burnell, P., (1986), *Economic Nationalism in the Third World*, Brighton, Wheatsheaf Books.

Collander, D., (1984), *Neoclassical Political Economy*, Cambridge, Mass., Ballinger

Dearlove, J., (1989), "Neoclassical politics: public choice and political understanding", *Review of Political Economy*, (1), 2, 208-37.

Downs, A. (1960), "Why the Government Budget is Too Small in a Democracy", *World Politics*, XII, No. 4 (July), 541-63.

Emmet, D., (1960), "How Far Can Structural Studies Take Account of Individuals", *Journal of the Royal Anthropological Institute*, No.90.

Findlay, R. (1989), "Is the New Political Economy Relevant to Developing Countries?", *PPR Working Papers* (WPS 292), Washington DC, The World Bank.

Gellner, E., (1983), *Nations and Nationalism*, Oxford, Basil Blackwell.

Giddens, A. (1984), *The Constitution of Society*, Oxford, Polity Press.

Grindle, M., (1989), "The New Political Economy: Positive Economics and Negative Politics", Cambridge, Mass (mimeo).

Hexter, J.H., (1979), *On Historians: Reappraisals of some of the Masters of Modern History*, Cambridge, Mass., Harvard University Press.

Hindess, B., (1988), *Choice, Rationality and Social Theory*, London, Unwin Hyman.

Hodgson, G.M., (1988), *Economics and Institutions: A Manifesto for a Modern Institutional Economics*, Oxford, Polity Press.

Kolakowski, L., (1978), *Main Currents of Marxism*, Oxford, O.U.P.

Krueger, A.O., (1974), "The Political Economy of the Rent-seeking Society", *American Economic Review*, 64 (3), June.

Lawson, T., (1985), "Uncertainty and Economic Analysis", *Economic Journal*, Vol. 95, No. 380, December.

Levi, M., (1988), *Of Rule and Revenue*, Berkeley, University of California Press

Mair, L., (1965), "How Small-scale Societies Change" in J. Gould (editor), (1965), *Penguin Survey of the Social Sciences 1965*, Harmondsworth, Penguin.

Malinowski, B., (1926), *Crime and Custom in Savage Society*, London, Routledge and Kegan Paul.

Meier, G.M., (1989), "Do Development Economists Matter?", *IDS Bulletin*, 20: 3, July.

Moore, M.P., 1991, "Rent-seeking and Market Surrogates: the Case of Irrigation Policy", in Colclough, C. and J. Manor (editors), *States or Markets?*, Oxford, Oxford University Press.

Olson, M., (1971), *The Logic of Collective Action. Public Goods and the Theory of Groups* (Revised edition), New York, Schocken Books.

Olson, M., (1982), *The Rise and Decline of Nations. Economic Growth, Stagnation and Social Rigidities*, New Haven and London, Yale University Press.

Prawer, S.S., (1978), *Karl Marx and World Literature*, Oxford, Oxford University Press.

Seers, D., (1979), "The Congruence of Marxism and other neo-classical doctrines" in K.Q. Hill (ed.), *Towards a New Strategy for Development*, New York, Pergamon Press.

Sen, A.K., (1984), *Resources, Values and Development*, Oxford, Basil Blackwell.

Srinivasan, T.N. (1985), "Neoclassical Political Economy, the State and Economic Development", *Asian Development Review*, (3) 2.

Stockman, D.A. (1985), *The Triumph of Politics: The Crisis in American Government and How it Affects the World*, London, The Bodley Head.

Toye, J., (1976), "Economic Theories of Politics and Public Finance", *British Journal of Political Science*, Vol.6.

Toye, J., (1987), *Dilemmas of Development. Reflections on the Counter-Revolution in Development Theory and Policy*, Oxford, Basil Blackwell.