Development as Institutional Change: The Pitfalls of Monocropping and the Potentials of Deliberation*

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Development theory has moved from a single-minded focus on capital accumulation toward a more complex understanding of the institutions that make development possible. Yet, instead of expanding the range of institutional strategies explored, the most prominent policy consequence of this "institutional turn" has been the rise of "institutional monocropping": the imposition of blueprints based on idealized versions of Anglo-American institutions, the applicability of which is presumed to transcend national circumstances and cultures. The disappointing results of monocropping suggest taking the institutional turn in a direction that would increase, rather than diminish, local input and experimentation. The examples of Porto Alegre, Brazil, and Kerala, India, reinforce Amartya Sen's idea that "public discussion and exchange" should be at the heart of any trajectory of institutional change, and flag potential gains from strategies of "deliberative development" which rely on popular deliberation to set goals and allocate collective goods.

According to Hoff and Stiglitz (2001: 389), modern economics has concluded that "[d]evelopment is no longer seen primarily as a process of capital accumulation but rather as a process of organizational change." "Capital fundamentalism," [1] with its focus on increasing the capital stock, has been supplanted, first by "technology," then by the role of ideas more generally, and finally by "institutions"—particularly basic governance institutions (see Evans, forthcoming). Unfortunately, the insight that the quality of basic governance institutions should be considered the key element in fostering growth has proved anything but a panacea.

Currently, the dominant method of trying to build institutions that will promote development is to impose uniform institutional blueprints on the countries of the

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global South—a process which I call "institutional monocropping." This process has produced profoundly disappointing results. Even for those scholars who do not subscribe to William Easterly's (2001b) pessimistic assessment that "the trillion dollars spent on aid since the 1960s, with the efforts of advisors, foreign-aid givers, the International Monetary Fund and the World Bank, have all failed to attain the desired results," it is clear that we need more analytically satisfying, practically effective implementations of the basic insight that governance institutions matter.

A number of economists, including Dani Rodrik and Amartya Sen, have argued that, instead of imposing a "one best way" based on the supposed experience of now-developed countries, we should be seeking ways to foster institutions that improve citizens' ability to make their own choices. Could deliberative institutions founded on a "thick democracy" of public discussion and interchange improve developmental performance? A variety of economic arguments and evidence suggest that they could. Two well-known examples—the state of Kerala, India, and the city of Porto Alegre, Brazil—provide empirical reinforcement, suggesting that such institutions can engage the energies of ordinary citizens, increase their willingness to invest in public goods, and enhance the delivery of those goods. There is, in short, good reason to push institutional analysis in the direction of exploring the "deliberative development" hypothesis.

Growth Driven by Ideas and Institutions

Earlier versions of growth theory translated more easily into policy strategies. "Capital fundamentalism" made intuitive sense: to better satisfy their needs, people must be more productive; to be more productive, they need better tools (both physical and intangible); increases in the capital stock mean better tools and, therefore, become the key to better satisfying needs. When intuitive sense can be embodied in an elegant, parsimonious model like the Harrod-Domar growth model (Domar 1946), its attraction as a theoretical basis for development policy making is irresistible.

Unfortunately, capital fundamentalism did not work, either theoretically or empirically. Robert Solow (1957) pointed out that capital fundamentalism neither made theoretical sense nor accounted for the long-term trajectory of American growth.[11] Nor, as Easterly points out, did focusing simply on capital work for the global South. King and Levine (1994: 286) conclude, "[I]nternational differences in capital-per-person explain little of the differences in output-per-person across countries; and growth in capital stocks accounts for little of output growth across countries." Capital remains central to growth[3] but is now acknowledged as only one factor in a complex mix.[4]

One obvious element in the mix is new ideas. By focusing on ideas as non-rival goods capable of delivering increasing returns, the "new growth theory"[5] shifted attention away from a simple Harrod-Domar logic of investment and consumption. At first, a focus on ideas seems optimistic: in theory, if poor countries were able to start using the stock of ideas that rich countries have already accumulated, their growth rates would skyrocket. In practice, however, taking advantage of other countries' ideas proves difficult. Although ideas are non-rival, their returns can still be considered property, and can be controlled and even monopolized (Romer 1993a: 71–2). Current struggles over intellectual property rights are indicative of the frus-

trations of poor countries over the ability of rich countries to continue monopolizing the returns from new ideas. Even more fundamentally, garnering returns from most ideas depends on the ability to put them together with complementary inputs such as capital, skilled labor, and (most importantly) institutional frameworks.[6]

Figuring out how to take advantage of returns from ideas leads directly to a preoccupation with institutions. While ideas in the traditional sense of "technology" are important, ideas that shape the social organization of production and create incentives have more weight in the long run. Examples range from double-entry bookkeeping to the McDonald's franchise's operations manuals. Basic administrative norms or legal rules almost certainly have the greatest impact of all. Proponents of the new institutional economics, like Douglass North (1981, 1986, 1990), argue compellingly that the quality of the ideas embodied in these kinds of governance institutions is essential to explaining differential rates of development. At the same time, North explicitly rejects the idea that the most economically efficient institutional forms will emerge through some kind of automatic functionalist process.

In the case of basic rules and the governance institutions that go with them, the possibility of ideas that are disadvantageous to long-run development getting "locked-in" (Arthur 1990, 1994) is all too plausible (Bardhan 1989, 2001; Pierson 1997). Institutions generate shared expectations. Actors who share expectations regarding each others' behavior have a strong advantage over those who don't know what to expect (Bardhan 2001: 276). This kind of "network externality" generates strong increasing returns to any institutional form that manages to last long enough or spread widely enough to become the basis of shared expectations (Chang and Evans, forthcoming). Once institutions take hold, they are likely to endure even if they have a long-run negative effect on development, limiting the likelihood that more efficacious institutions will emerge (Grief, 1994).

Questions of power and distributive conflict further complicate the problem. Any set of institutions entails a distribution of gains and losses. The "institutional winners" are likely to gain political power along with economic benefits and, as Bardhan (2001: 278–9) points out, they are unlikely to support institutional changes that diminish their gains relative to other participants, even if the change would result in greater productivity that would increase their returns in absolute terms. Vested interests in the distributive results of "bad" institutions make them harder to change and help keep poverty traps firmly in place.

By focusing on ideas and institutions, new growth theory and the new institutional economics make the disadvantages facing poor countries appear more formidable. Their theoretical predictions are consistent with the ugly fact that the North-South divide has persisted despite half a century of "development" and substantial industrialization in the South (Arrighi, Silver, and Brewer 2003). Existing institutions are likely to reinforce rather than dissolve poverty traps. Only with a set of basic institutions specifically adapted to overcoming poverty traps are the cumulative disadvantages of poverty likely to be surmounted.

Having decided that institutions are the key, we need a theory of institutional change that will allow us to transform them. Unfortunately, our theories of how fundamental institutional change occurs are underdeveloped (Hodgson 1988; Chang and Evans, forthcoming). The interaction of ideas, presumed behavioral repertoires,

cultural assumptions, and organizational forms are complicated enough, but a theory of institutional change must also address political power and conflict (as Haggard emphasizes in this volume). Hence, it is not surprising that an institutional approach may produce perverse results when processed through a policy paradigm committed to perceiving development as a "technical" problem (Ferguson 1994).

Institutional Monocropping

Instead of prompting imaginative new departures in development policy, the "institutional turn" in development theory (Evans, forthcoming) has been accompanied by a set of policies that has little more sensitivity to the political complexities of institutional change than older, more-capital-equals-more-development strategies. The standard strategy begins by insisting on institutional monocropping, the institutional equivalent of old-fashioned strategies of agricultural monocropping.

Institutional monocropping rests on both the general premise that institutional effectiveness does not depend on fit with the local sociocultural environment, and the more specific premise that idealized versions of Anglo-American institutions are optimal developmental instruments, regardless of level of development or position in the global economy. International organizations, local policy makers, and private consultants combine to enforce the presumption that the most advanced countries have already discovered the one best institutional blueprint for development and that its applicability transcends national cultures and circumstances. They do this with increasing aggressiveness across a range of institutions—from debt-to-equity ratios in private firms, to relationships between central banks and bank presidents, to the organization of public hospitals or pension systems.

The theoretical attraction of monocropping as a model for institutional change is understandable. The basic institutions of rich countries are, by definition, associated with development (at least in those countries). Having institutions that rich-country investors can understand and work with would seem likely to enable poor countries to attract foreign investment. Re-inventing the wheel is generally considered a bad idea. The flawed governance systems that prevail in most countries of the South make it easy to believe that imposition of universal forms is a superior alternative to local efforts at "muddling through."

From the perspective of Northern governments, multilateral institutions, and transnational corporations, the practical and political attractions of monocropping are still more obvious. For any organization trying to manage operations in multiple contexts, increasing the uniformity of those contexts makes management easier. When the Wal-Mart head office checks on a local Wal-Mart store, knowing in advance how the store will be organized makes life easier. If the organization is the same whether the store is in Chile, Korea, or South Africa, global operations are more easily managed. The same holds true for an IMF official trying to keep track of the budgets of a set of African countries, or a State Department official trying to negotiate a trade agreement.

Even global elites, committed in theory to seeing the world as a network of legitimately autonomous entities with valuable cultural and historical distinctiveness, are likely to find monocropping a comfort in practice. For a UNESCO advisor committed to cultural diversity, monocropping facilitates advising education offi-

cials in a range of Sub-Saharan countries (Meyer 2003; 2000). But, for private managers who see the world as a hierarchically organized "tree structure" rather than a network of legitimately autonomous political and cultural entities, monocropping becomes more than an attractive theory or a comfort. It becomes a "conception of control" (Fligstein 2001).

If it is not hard to understand the attractiveness of institutional monocropping, it is also not difficult to understand why it has failed. The superficiality of the imposition of institutional forms is part of the problem: "reforms" are imposed in those organizational realms most easily subjected to external pressure—the formal rules of public sector organizations. As Roland (SCID 38:4, 110) points out, these are institutional contexts that can be "moved," at least superficially, relatively quickly. Arenas that are less accessible and less transparent but still fundamental to the functioning of these organizations, such as the informal networks of power and operating routines that produce actual organizational outputs, are ignored, almost of necessity. Estimates of the capacity of these organizations to implement the new formal rules therefore tend to be unrealistically optimistic.

In practice, disjunction between formal structures and the underlying, more informal structures of power and practice renders the formal structures ineffectual. We lack good estimates of how much disjunction between formal rules and the informal power relations institutions can tolerate before becoming dysfunctional, but strategies of institutional monocropping seem to cross the boundaries of dysfunctionality on a regular basis.

The prospective problems deepen when we expand our view to look beyond disjunctions between formal and informal functioning within the organizational realms that are the primary targets of monocropping. The sets of organizations targeted by institutional monocropping are in turn embedded in a larger set of societally structured power relations. Haggard's admonition (SCID 38:4, 75) that adequate analysis requires that we "dig beneath institutional arrangements to the political relationships that create and support them" is apt. Hoff and Stiglitz agree, noting (2001: 418–20) that imposing new sets of formal rules without simultaneously reshaping the distribution of power that underlies prior institutional arrangements is a dubious strategy from the perspective of political economy.

Overall, there are strong analytical arguments why institutional monocropping is unlikely to improve the developmental performance of the individual countries on which it is imposed. A broader critique argues that, even if institutional monocropping were to improve performance in individual countries, global uniformity in the organization of national political economies would still be a risky proposition. If biologically diverse ecologies are more robust in the face of environmental change and diversified investment portfolios are superior in the face of risk, shouldn't institutional diversity have adaptive value for the global political economy as a whole? The global political economy will, without doubt, confront unforeseen threats and challenges. Our collective ability to devise adaptive responses may well depend on our ability to draw on a diverse "portfolio" of institutions. Even if certain abstract institutional properties—such as transparency and accountability—have value that transcends context, the global imposition of a uniform set of specific institutional structures is a dubious proposition if we value the diversification of social, political, and economic risk.

These arguments for the disadvantages of the external imposition of a uniform set of exogenously evolved institutional forms are independent of the specific content of the institutions imposed. Additional questions can be raised regarding the specific content being imposed by the current round of institutional monocropping. For Chang (2002), institutional monocropping constitutes, in List's phrase, "kicking away the ladder." He argues that the institutions currently being imposed on the South are not in fact those that characterized the now-developed countries during their period of ascension, and that the imposition of these institutions will hinder, not facilitate, development in the South. Nor are the idealized versions of Anglo-American institutions that are being offered identical to those most closely associated with the "embedded liberalism" of the post–World War II "golden age of capitalism." In most arenas of public life, especially those concerned with the delivery of public services, institutional monocropping offers the sterile proposition that the best response to bad governance is less governance. Its advocates are then surprised when their efforts result in the persistence of ineffectual governance, "angry atomization" among the citizenry, and political paralysis (O'Donnell 1993).

Global development experience over the course of the past quarter of a century is consistent with analytically based expectations that monocropping would work poorly in practice. If monocropping were a developmentally effective strategy, we would expect accelerating growth rates in the South during the past two decades of intensified efforts at institutional monocropping. Instead, the last twenty years have witnessed a decline in growth rates among the supposed beneficiaries of this process in the South, both absolutely and relative to the growth rates of the rich countries of the North. Easterly (2001a: 211), for example, finds that when the countries of the South are weighted equally, a "slowdown in developing country per capita income growth from 2.5% in 1960 to 1979 to zero over 1980–98" becomes evident. Even some of the specific positive effects that might be expected to flow from monocropping do not appear to work consistently in practice. For example, mimicking the institutions of advanced countries is not necessarily the most effective way of making local environments more hospitable to investors from rich countries (see, for example, Pistor 2000).

The most obvious concrete examples of monocropping's lack of efficacy are the governance-related conditionalities imposed by the international financial institutions (IFIs), which usually do not "take," and often fail to produce the expected results even when adopted.[7] Argentina, the "poster child" for the rewards of conformity in the late 1990s, was transformed into a dramatic example of failure. Post–1989 institutional restructuring in Russia provided perhaps the grandest example of the pitfalls of institutional monocropping. At the same time, the star performers in terms of sheer economic growth during the last ten years—e.g., China, Vietnam, and Malaysia—exhibit institutional patterns that are embarrassingly hybrid relative to the monocropping ideal.[8]

Failure to deliver accelerated growth in real incomes is only the beginning of the problems with monocropping. Anglo-American models of public institutions tend to neglect the delivery of collective goods and emphasize the provision of individual incentives over distributional outcomes. If improving public health institutions or correcting biases against investments in primary schools within educational systems are the goals, then there is no reason to assume the superiority of Anglo-

American institutional models. Disappointing results with respect to income growth, the measure on which monocropping should be the strongest, suggests that broader assessments would be even more negative. Such conspicuous pitfalls inevitably raise the question of alternatives: If monocropping is not a good solution for low-equilibrium institutional traps, what other strategies should be explored?

Deliberation and Development

Dani Rodrik (1999a: 19) proposes the obvious alternative to monocropping, arguing that it may be "helpful to think of participatory political institutions as meta-institutions that elicit and aggregate local knowledge and thereby help build better institutions." Rodrik turns the premises of institutional monocropping on their head and suggests an additional critique: external imposition of institutional blueprints undercuts the more fundamental job of developing institutions that allow effective social choice, and reduces the possibility that societies will develop the capacity to "build better institutions" of other kinds. Rodrik's idea of beginning with politics (and more specifically, political choices) that emerge from the full repertoire of local institutions is a fundamental challenge to the idea that there is "one best institutional way" which can be technocratically imposed by global elites on the nations of the global South. This challenge finds powerful intellectual support in Amartya Sen's work on social choice and development.[9]

Sen's argument for the fundamental priority of "participatory political institutions" begins with the premise that "thickly democratic" decision-making institutions built on public discussion and exchange of ideas, information, and opinions offer the *only* way to adequately define desirable developmental goals.[10] Equally important, such institutions offer the opportunity to exercise one of the most important of all human capabilities: the ability to choose. As Sen (1999a: 291) explains, "processes of participation have to be understood as constitutive parts of the *ends* of development in themselves." While recognizing that "a democratic search for agreement or a consensus can be extremely messy and many technocrats are sufficiently disgusted by its messiness to pine for some wonderful formula that would simply give us ready-made weights that are 'just right,'" Sen (1999a: 79) remains firm in his conviction that technocratic shortcuts must be rejected because "the issue of weighting is one of valuation and judgment, not one of some impersonal technology."

For those who agree that the Rodrik-Sen alternative merits exploration, new questions arise: How might "participatory political institutions" be implemented in practice? What can we say about the likely developmental consequences of their implementation? These questions raise, in turn, a host of interesting theoretical issues. They also draw attention to the relative dearth of empirical evidence regarding the developmental consequences of participatory institutions beyond the most micro levels of "community" and "project."

The most interesting efforts to build public discussion and exchange directly into processes of governance can be loosely labeled "deliberative democracy."[11] "Deliberative democracy" (or, as Fung and Wright (2003: 20) call it, "empowered participatory governance") is a process of "joint planning, problem-solving and strategizing" involving ordinary citizens, in which "strategies and so-

lutions will be articulated and forged through *deliberation* and *planning* with other participants," such that "participants will often form or transform their preferences in the light of that undertaking," thus allowing solutions that would have been impossible given initial preferences. If it were possible to implant this sort of deliberative process in political units large enough to impact developmental trajectories—say, the provincial or municipal level—we would have something that could be called "deliberative development."

Thinking about deliberative development provides a refreshing angle for reviewing existing theoretical arguments about how democratic decision-making might affect developmental strategies and performance. Efforts to explore the possibilities of deliberative development can build on existing experience with "thin" electoral democracy and small-scale experiments in participation. Even more importantly, they can draw upon the small set of innovative experiments which appear to approximate deliberative development in practice in municipal and regional governance.

One of the salient features of contemporary globalization is that democracy, in the "thin" sense of electorally-sanctioned transfers of formal political power, has become a hegemonic norm. Nations that do not transfer power electorally risk being considered less than full members of the international community. The global spread of electoral norms is an encouraging trend from the point of view of deliberative development. Democratic elections and civil rights remain the foundational prerequisites for the flourishing of "thicker" deliberative processes. As "thin" democracy becomes more nearly universal, it becomes more plausible to think about trying to institutionalize something closer to full-blown social choice exercises.

At the same time, the spread of electoral democracy strengthens Sen's arguments that elections must be complemented by more information-intensive forms of deliberation. The era in which electoral democracy might be touted as a developmental panacea is long gone, if it ever existed. When popular participation in decision-making consists only of conformity to electoral norms, the result is what Yusuf and Stiglitz (2001: 249) call "hollowed-out" democracy. With the proportion of the population willing to make the trip to the polls on the decline and costly television sound-bites becoming the major informational basis for electoral decisions, the electoral process comes closer to reflecting the thin informational base associated with Arrowian impossibility (see fn. 10) than the kind of "social choice exercise" that Sen advocates.

As electoral transfers of power have become the norm in a widening set of countries, it has become increasingly clear that holding regular elections and maintaining at least nominal protection for civil rights, while clearly necessary, is not sufficient in itself to give public discussion real bearing on the weighting of developmental goals or the allocation of collective resources. In sum, the spread of electoral democracy creates a normative and formal institutional base for the development of deliberative institutions, and shows simultaneously why the institutionalization of social choice cannot be restricted to elections.

As disillusionment with thin electoral democracy at the macro level points toward the necessity of "thickening" democratic institutions, the diffusion of experiences with participation at the micro level of projects and communities helps substantiate the idea that deliberative institutions may be practically feasible.[12] Be-

cause the connection between deliberative institutions and economic outcomes is extremely difficult to assess at larger levels of aggregation, positive evidence on a smaller scale is one way of increasing confidence that broader experimentation is worthwhile. Recent work on the impact of participation on the effectiveness of World Bank projects is a good example.[13] According to Kanbur and Squire (2001: 215), "[d]evelopment practitioners have come to a consensus that participation by the intended beneficiaries improves project performance." Even at the national level, IFIs now feel that "'ownership' has been shown to be a key factor in the success or failure of structural adjustment loans" (Kanbur and Squire 2001: 215).[14]

The implications of this shift should not be overstated. "Participation" in projects and "ownership" of loans involves limited possibilities for the exercise of choice—certainly not the sort of full-fledged social evaluation exercise that Sen advocates. Participation at the level of communities, as opposed to projects, allows broader scope, but the question of how much real "empowerment" is generated remains (Houtzager and Moore 2003). Nor do even these mild-mannered versions of choice-making necessarily find receptivity among global policy makers. The rejection of the draft version of the 2000–01 *World Development Report*, in part on the grounds that it excessively foregrounded the idea of empowerment, is a good case in point (Wade 2001a, 2001b).

The uncontested global hegemony of electoral democracy and the growing body of evidence that other forms of participation are developmentally effective combine to create a political environment in which deliberative development is a proposition that must be taken seriously. Nonetheless, in order for deliberative democracy to be attractive as a development strategy, three problems must be overcome. First, deliberative institutions must be "socially self-sustaining" in the sense that ordinary citizens are willing to invest their own time and energy in the decision-making opportunities that such institutions offer and to provide electoral support for the parties and political leaders that advocate them. Second, deliberative institutions must, under some set of empirically plausible conditions, be able to overcome the "political economy problem": the opposition of powerholders who have vested interests in existing decision-making structures. Finally, there is the "growth problem": deliberative processes must not be so economically inefficient or so biased against investment that they reduce real income growth to an extent that outweighs their intrinsic benefits.

If the answers to either the social sustainability question or the political economic problem are negative, then deliberative strategies are infeasible. If the answer to the growth problem is negative, then deliberative institutions are unlikely to be attractive, even to those who value their intrinsic properties. None of these questions can be answered on an *a priori* basis, but it is still possible to bring some theoretical argument and even a bit of empirical evidence to bear on them. The problem that has been most thoroughly considered in the traditional development literature is, not surprisingly, the growth problem.

While there is no clear theoretical logic for predicting the effects of broadly based deliberative decision-making on growth, old arguments that participation will be anti-growth if it creates a bias toward redistribution have become less compelling. Recent empirical work suggests that redistributive strategies can actually have a positive effect on real income growth. Stewart (2000: 5) notes a wide range of

empirical studies showing that "countries with more equal income distributions have higher growth."[15] Although the overall relationship still remains contested (e.g., Fishlow 1995; Li and Zou 1998, Landa and Kapstein 2001), the debate has produced support for arguments connecting egalitarian policies with growth that are quite consistent with Sen's capability approach. Greater equality is associated with higher general levels of health, nutrition and education, which in turn make for a more productive population. Likewise, more egalitarian distribution of assets (land and credit being the archetypal examples[16]) makes productive contributors out of people previously unable to use their energy and ideas because they lacked complementary inputs. Overall, the arguments that egalitarian strategies can enhance growth are as compelling as the arguments that such strategies might impede it.

If recent economic thinking debunks older ideas that redistributive strategies are a threat to growth, recent work on the economic consequences of electoral democracy debunks the idea that democracy impedes growth. Rodrik (1999a, 1999b), for example, argues that democracy, while not increasing overall growth rates,[17] does improve the quality of growth. He concludes that "[m]ore participatory regimes produce greater equality . . . without cost to economic growth and while producing greater stability and resilience overall (1999a: 33)."

Growing concern with "corruption," "kleptocracy," and "predatory states" (see Haggard SCID 38:4, 53–81) suggests additional arguments for a positive relationship between effective deliberative institutions and growth. Deliberative institutions "raise the bar" with respect to the transparency and accountability of the state apparatus. The institutionalization of open discussion and public interchange as a central part of political decision making is, almost by definition, a check on predatory rulers whose policies would otherwise subvert incentives for investment and divert resources to unproductive uses. Given that corruption has proved so intractable to conventional strategies, the potential contribution of deliberative institutions can hardly be ignored.[18]

The effects of deliberative institutions on the efficiency of public administration are obviously related to their impact on the supply of collective goods. Allocating infrastructural investment on the basis of technocratic criteria or "effective demand," which weights preferences by wealth and income, is only efficient up to a point. By giving citizens access to an expanded set of information about the allocation of public resources, and supplying public managers with better information about citizen preferences, deliberative processes should make investments—particularly infrastructural investments—more "efficient," in the sense of fulfilling felt needs. Changes in incentives complement informational gains. Participating in decisions about allocation also gives citizens a clearer stake in monitoring the implementation of those decisions. Increased ability to monitor the allocation and results of public expenditures is the flip side of willingness to make larger investments in public goods. The two in combination should help mitigate the undersupply of collective goods that is an increasingly key obstacle to improved quality of life in the countries of the South.

Even if they can be shown to improve efficiency and stimulate growth, deliberative institutions may still be unattainable. Functionalist views of institutionalism that assume easy evolution in the direction of the "fittest" institutional forms are

particularly unlikely to apply to deliberative institutions.[19] Even if public deliberation works, and those with power or privilege benefit, along with the rest of the community, from improved governance in terms of greater political stability or lower costs of enforcing norms, diminished power is an almost definitional result for private elites and politicians. As their ability to distort public allocation of resources to suit their private ends suffers, they are likely to respond defensively. As Sen (1999a) points out, technocrats may be equally threatened; imposing institutional blueprints enhances the power and prestige of technocrats, who are likely to find giving greater weight to the deliberations of ordinary people to be frustrating, if not demeaning.

The "political economy problem" is likely to be the biggest impediment to the institutionalization of deliberative institutions. Deliberation may be desirable, both because of its intrinsic impact on capabilities and because of its overall economic effects, but may still not be political feasible. This would create a "Catch–22" situation: With self-interested elite opposition preventing the instigation of deliberative experiments, empirical evidence for the benefits of deliberative institutions will be hard to amass, but without clear evidence of the potential for success, it would be difficult to convince "honest doubters" to experiment with deliberative forms. This situation makes the few relatively durable experiments that exist all the more valuable.

Deliberative Development in Practice—Two Illustrations

To further explore the mechanisms and consequences of deliberative development, I will use the two examples that are analyzed in Fung and Wright (2003). The process of "participatory budgeting" initiated by the city of Porto Alegre, Brazil, has become a widely cited example of deliberative democracy at the municipal level. The even more well-known case of Kerala, India, provides another example at the sub-national level, in this case a state of about thirty million people. Together, these two cases offer an opportunity to see how the abstract concepts of public discussion and exchange might be translated into concrete institutional realities.

Porto Alegre, Brazil

Porto Alegre's process of "participatory budgeting" (OP) was designed by a new Workers' Party city administration in 1989 to improve upon the corrupt, clientelistic system of allocation of public funds that had prevailed in Porto Alegre, as in most Brazilian cities.[20] By engaging the citizenry—especially those citizens most deprived of public services—in the allocation of investments in public infrastructure, the administration hoped to produce a distribution of public investments that would be both more efficient and more equitable.

While definitely "messy," the system appears to work. Its success in achieving social sustainability is impressive. The system requires substantial investment of citizens' time in a yearly cycle of deliberations, starting with sixteen regional assemblies that discuss the prior year's results and elect delegates who then meet on a weekly or biweekly basis, preparing in turn for a second set of regional assemblies. This second set of assemblies decide on the coming year's priorities and elect

a smaller number of delegates to serve on the Municipal Council of the Budget." These delegates meet on a biweekly basis with representatives of the municipal administration to finalize the city's budget (Baiocchi 2003b: 52–4). Far from declining over time, participation in the budgetary process has expanded. Dramatic increases in the first few years of the program's operation have been followed gradually by further increases in later years.

The system has also had positive "capabilities" spillovers. Baiocchi (2003: 63) observes that, as a result of their participation, ordinary citizens not only "acquire specific competencies related to budgeting but also acquire skills in debating and mobilizing resources for collective goals." In addition, the more engaging political environment appears to have led citizens to perceive other kinds of collective action as worthwhile; the number of neighborhood associations has tripled since the program began, and the number of housing cooperatives has increased fivefold. Participatory budgeting has also proved to be politically charismatic in electoral terms. Not only has the Workers' Party, which initiated the reforms, won an unprecedented four terms in the municipal government, but the banner of participatory budgeting has been taken up by other municipalities and at the state level (Schneider and Goldfrank 2001; Baiocchi 2003a).

The Porto Alegre experiment confirms some of the hoped-for economic effects of deliberative development. More effective popular control over the allocation of public expenditures did lead, at least initially, to greater willingness of citizens to invest in collective goods. Under previous city administrations, personnel expenses absorbed almost the entire budget; only two percent of the budget was available for investment. After five years of the deliberative system, a small initial increase in taxes coupled with increased efficiency allowed this percentage to increase to twenty percent (Baiocchi 2003: 55–6). Consequently, essential public infrastructure has expanded dramatically. During the decade of the system's operation, sewer coverage has doubled from less than half the homes to ninety-eight percent, and access to potable water has gone up from seventy-five percent to ninety-eight percent. The number of schools has more than doubled. The city's system of collective transportation has won awards for its efficiency. While Porto Alegre cannot point to dramatically higher growth rates than the rest of Brazil, the city does seem to have grown at a comparable rate, supporting the basic high-service, growth-neutral hypothesis.

Kerala, India

The state of Kerala in India presents an analogous dynamic over a wider scale and a longer period of time.[21] Relentless competition among political parties, high levels of participation in unions and other civil society organizations, and an epic history (spanning the 1930s through the 1970s) of popular mobilization to secure land reform lead contemporary observers to marvel at Kerala's "sheer density of civic organizations and the vigor of associational life" (Heller 2000: 497). Recently, Kerala initiated a "Campaign for Democratic Decentralization" which has shifted to village councils (*panchayats*) allocational control of more than forty percent of the state's public budget. This last accomplishment is all the more impressive because it was clearly not in the simply defined interests of either state bureaucrats or of the

public sector unions which form the single most important base of the political party pushing the changes (Isaac 2000; Isaac and Heller 2001). Democratic decentralization has deprived these core groups of important sources of power and patronage, suggesting that the political economy problem is not always insurmountable.

Kerala's long tradition of intense popular engagement in political decision making has also borne developmental fruit (at least in Sen's "capability" terms), resulting in a level of human development comparable to that of nation-states with many times its level of per capita income. Literacy levels are over ninety percent in Kerala, as opposed to fifty percent for the rest of India. In 1995, Kerala's level of infant mortality was a fraction of the level found in other Indian states, more comparable to that of South Korea, which had thirty times its income level (Heller 1999: 8). Sen notes (1999a: 22–3) that, if we consider staying alive as the most basic capability, then the citizens of Kerala are better off than African Americans living in the United States, since the Keralites' life expectancies are longer. All of these accomplishments depend on unusually effective delivery of public services, such as basic education and health care, which in turn is rooted in the extraordinarily high level of popular involvement in the process of governance.

Some critics (e.g., Tharamangalam 1998) have argued that, despite these accomplishments, Kerala still demonstrates the anti-growth effects of intensive popular participation. It is indeed true that, during the late 1970s and early 1980s, Kerala's growth rates fell behind India's overall growth rates, which were themselves mediocre. Kerala's growth performance in the late 1980s and the 1990s, however, kept pace nicely with the quite respectable overall Indian growth of the period. In the period of 1985–1993, for example, manufacturing output grew at 5.9 percent in Kerala and 5.5 percent in India as a whole (Heller 1999: 211). Likewise, overall investment levels in Kerala in the late 1990s were slightly higher than the Indian average (Heller 1999: 233). These results put Kerala in the "growth-neutral" category.

Implications for Deliberative Development

What are the implications of these cases for the questions that this article raised earlier as central to an overall evaluation of deliberative development? Their evidence is clearest with regard to the social sustainability question, but they also shed interesting light on both the political economy problem and the growth problem. At the same time, they help clarify the political and organizational character of deliberative institutions.

The answer to the question of whether non-elites will become sufficiently engaged to make deliberation work is clearly positive. These cases show that, despite the greater investment of citizens' time and energy required, deliberative systems are not necessarily undermined by the apathy that plagues thin democracy. When systems of deliberation are seen as actually shaping real outcomes, ordinary citizens tolerate their messiness and invest the time and energy required to make them work. Rather than making the "rational" choice that their individual input will have little impact on the final outcome and therefore doesn't warrant the cost of lost time, ordinary citizens appear to agree with Sen that the ability to make choices is an intrinsically valuable and rewarding mode of human functioning.[22]

At the same time that they supply a positive answer to the social sustainability question, these cases also offer some valuable hints as to how the political economy problem might be surmounted. First of all, they make it clear that effective social participation requires a solid context of formal institutions. They confirm Houtzager and Moore's (2003) proposition that the "uncoordinated and decentralized actions of civil society" are insufficient for the emergence or sustenance of deliberative institutions. In both of these cases, the formal organizational apparatuses of politics—state administrations and political parties—play central roles.

Elite technocrats may be potential enemies of deliberative institutions, but a public administrative apparatus with the capacity necessary to both provide informational inputs and implement the decisions that result from the process is a central element in making deliberation possible (see also Heller 2001; Evans 1995, 1996).[23] While hardly free of corruption, both Kerala and Porto Alegre enjoyed, by the standards of the global South, relatively competent and organizationally robust public administrations. Without this initial administrative infrastructure, it would have been very hard for deliberative politics to succeed.

The process of institutionalizing deliberative processes is also closely linked to the dynamics of party competition. In both Kerala and Porto Alegre, the push toward deliberative procedures was driven by combative left-wing parties with Marxist ideologies, which had been allowed (and forced) by the larger national context of electoral competition and civil rights to focus on mobilizing strategies. Engaging their base in a positive project of governance made sense to these parties as a political strategy. Without the impetus of electoral competition, it is unlikely that these deliberative experiments would ever have taken hold.

These cases suggest then that there is a selected set of political elites who may have a strong positive stake in deliberative institutions. Elites whose "political capital" takes the form of mobilizational skills and whose constituencies are poor and middle class may find the construction of deliberative institutions a very attractive project. Power lost due to the greater transparency introduced by deliberative democracy does diminish the scope for using public works as clientelistic rewards; however, it is likely to be more than compensated for by the power and legitimacy gained by the increased ability to deliver public goods in general, and by the increased engagement of constituents in the political process. This logic underlines once again the importance of firmly enforced electoral rules and civil liberties to the construction of deliberative institutions. An "electoral playing field" that maximizes returns to peaceful mobilization offers strong incentives to political elites to explore deliberative options.

Administrative elites are also potential supporters. More accurate information on where real needs lie and more effective monitoring of the allocation and delivery of public goods should improve administrative performance, legitimacy, and eventually willingness to invest in the administrative apparatus itself. These improvements, in turn, compensate competent administrators for new constraints of their technocratic privilege. The problem of private elites and the parties that represent them remains,[24] but even so, opposition should not be uniform. Private elites with a long-run view that values the developmental potential of good governance and investment in public goods may be won over, provided they can be persuaded

to move beyond conventional ideological presuppositions about the "economic irrationality" of deliberative institutions.

All of these changes have implications for the growth problem. Expanded and more efficient delivery of vital basic services—e.g., education, health care, and public infrastructure—is good for growth in the long run, as are reductions in corruption and violence. Objectively, deliberative institutions produce many of the characteristics normally associated with a "good investment climate." The question is whether the ideological hostility of private elites will reduce local productive investments to a degree that will counterbalance the positive effects of better governance and infrastructure.[25] The cases of Porto Alegre and Kerala suggest that the best hypothesis continues to be that deliberative development, like thin democracy, is growth neutral.

If the growth-neutral hypothesis is correct, detractors of deliberative development will always be able to point to authoritarian regimes that grow faster than deliberative ones, and to argue that the increased capabilities made possible by the material success of these regimes may compensate for lost opportunities for citizens to exercise choice. Such analysis misses the basic point that it is the prerogative of the citizens of these countries to decide which capabilities they value most highly. It also misses another basic point: neither thin democracies nor authoritarian regimes guarantee higher growth. Easterly's (2001a: 211) 1980–98 data even suggest that the "rational expectation" for a random country in the South is zero growth. Under these circumstances, the option of growth-neutral deliberative institutions that create the possibility of exercising choice and offer more effective delivery of collective goods is attractive.

The potential benefits of deliberative development are not, of course, automatically available to any region or city that finds them attractive. The political investments and institution building required to embark on successful experiments in deliberative democracy should not be underestimated. Nonetheless, what Kerala and Porto Alegre demonstrate is that deliberative development is not just a theoretical and philosophical imperative, as Sen's work suggests, but also a real possibility.

Beyond Institutional Monocropping

The starting point for the argument presented here was the puzzle of why development theory's new focus on institutions appears to have had such minimal positive impact on developmental outcomes in the global South. I highlighted one answer to the puzzle: specification of the basic institutional insight occurred along a "path of least analytical effort" that assumed that we already knew what institutions were needed. The development establishment seized on unreflective, ideal-typical versions of a particular subset of supposed Anglo-American institutions as the "one best way." Using technocratically designed blueprints backed up by global political and economic pressure to impose this vision produced the strategy of institutional monocropping, the pitfalls of which are now plain.

The obvious response to the disappointing results of institutional monocropping is to facilitate (or at least not suppress) the construction of local social-choice institutions. Sen's focus on capabilities as the end point of development offers strong theoretical support for this option by making deliberative institutions both an ines-

capable means of orienting development efforts and a fundamental intrinsic good in themselves. Sen's perspective fits perfectly with Rodrik's (1999) admonition that we should treat "participatory political institutions as meta-institutions" that are essential tools in improving the quality of other institutions.

My own discussion here has explored the potential of one variation on this basic "local-choice" hypothesis by outlining the potential of deliberative development as a way of "thickening" institutions of social choice and putting participatory political institutions at the center of the transformation of governance. A broad array of theoretical arguments and related empirical evidence on the developmental effects of distribution, participation, and investment in citizens' capabilities suggests that the deliberative development hypothesis does, indeed, have potential. The two cases reviewed here reinforce the proposition by suggesting that deliberative strategies improve governance, increase the supply of basic collective goods, and are intrinsically satisfying to the citizens that participate in them, while remaining "growth neutral"—at least relative to the current (admittedly disappointing) median growth performance in the global South.

Doubters will argue that the deliberative development strategy has its own pitfalls. Two contrasting critiques will be raised. First, skeptics will foresee the danger of a new form of institutional monocropping, with poor countries pressured to adopt the superficial trappings of deliberative institutions as the next "fashion" in modern institutions.[26] Several factors make this ironic outcome improbable. For local political and economic elites in search of "institutional window dressing," the choice of deliberative allocation of public investment differs drastically from "property rights" or "sound accounting principles." It is a choice that diminishes elite power, engages non-elites, and raises their political expectations. In short, the positive aspect of deliberative development's political economy problem is that it makes adoption unlikely unless it emerges out of real political support at the local level. Indeed, the maximum that global advocacy for deliberative development is likely to accomplish is a partial leveling of local political playing fields, diminishing slightly the bias against the emergence of deliberative solutions.

The mirror-image pitfall that might be invoked is that, by privileging local decision making, deliberative development will encourage parochial and regressive development strategies which ignore the genuine benefits of institutional borrowing and economic ties with industrialized countries. While this is a possibility, an equally plausible argument is that the development of local deliberative institutions will make borrowing more effective. Privileging the development of local capabilities for making choices can realize gains from increase local ownership, better exploit local knowledge, and create a better fit with existing local institutions. Even the IFIs have conceded that trying to impose imported blueprints without worrying about "local ownership" is quixotic. Embedding the process of institutional borrowing in an overall matrix of deliberative development should lead to more carefully selected borrowing, fewer resources wasted on failed transplants, and, therefore, more successful borrowing.

A variant on the "pitfalls of parochialism" critique would be that deliberative development would undercut basic policies designed to sustain investments in productive assets. To be plausible, this argument must heavily discount the power of the global context in which local deliberation must take place. Even the most paro-

chial regions of the contemporary global political economy have been penetrated by the presumption that growth depends on offering adequate incentives to private investors. If the hegemonic diffusion of this "common sense" view were insufficient, the persistent political and economic power of local elites with a direct interest in policies that protect returns to capital can be counted on to ensure continued attention to investment, especially in a democratic political system.

Concern about possible pitfalls should not overshadow the potential of deliberative development. The intellectual and ideological playing field on which fights over development strategy take place needs leveling. Local actors interested in pursuing deliberative development shouldn't be derailed by assertions that economic theory predicts anti-developmental consequences for deliberative institutions when, if anything, the reverse is true. Likewise, when the "development establishment" reflects on William Easterly's (2001b) conclusion that "[t]he best the foreign aid community can do is to support genuine change on those precious occasions on which it happens," it should be more open to considering instances of deliberative development among those "precious occasions of genuine change" that need nurturing.

Notes

* I would like to thank the editors, Atul Kohli, Dani Rodrik, and Anne Wetlerberg for their valuable comments and suggestions. Remaining analytical and empirical errors are, of course, my own. For an earlier effort (in Portugese) to make this argument, see Evans 2003.

1. See King and Levine 1994; Easterly 2001a: chapter 3.
2. Even Evsey Domar agreed. See Domar1957: 7-8; Easterly, 2001a: 28.
3. See Jorgenson et al., 1987; DeLong and Summers 1993; Kim and Lau 1994, 1995; and Young 1995.
4. See Blomstrom, Lipsey, and Zejan 1996; Barro 1997; Lin and Lee 1999; Easterly 2001a; Hoff and Stiglitz 2001: 428; Meier and Rauch 2000: chapter 3.
5. Since ideas are "non-rival" goods, simultaneously useable by any number of different economic agents, their use is naturally subject to increasing returns. You and I can't use the same wheelbarrow at the same time but, once someone gives us the idea, you and I and all our cousins can all build wheelbarrows. Once a useful idea or piece of knowledge has been created, the cost of using it again is essentially zero, so returns from its use increase every time it is used. See Romer (1986, 1990, 1993a, 1993b, 1994) and Lucas (1988). For recent summaries see Aghion and Howitt (1999) or Easterly (2001a: chapters 3, 8, 9).
6. The effects of complementarities among skilled workers and between skilled workers and capital illustrate the problem. Skilled workers will want to move to places where they can get higher returns by combining their skills with those of other skilled workers. Concentrations of skilled workers are likely to attract capital (see Kremer 1993; Noorbakhsh and Paloni 2001; Hoff and Stiglitz 2001: Appendix A; and Easterly 2001a: 150-60). Poor countries will suffer triply by having lower initial concentrations of skilled workers, by losing skilled workers to richer countries, and by the fact that their citizens will have less incentive to invest in training than workers in rich countries.
7. See Kapur 1997, 2000; Kapur and Webb 2000; Killick 1995.
8. Looking at China, for example, Qian (2003) observes, "that China has managed to grow so rapidly despite the absence of many conventional institutions such as rule of law and secure private property rights is puzzling." The same observation could be made with respect to Vietnam (Van Arkadie and Mallon. 2003) or Malaysia (Rodrik, 2002). In each of these cases, local political choices trumped global blueprints.
9. *Development as Freedom* (1999a) is perhaps the most accessible synthesis of Sen's voluminous work on development and social choice. See *Studies in Comparative International Development* 37, 2: 54-86 for a set of commentaries on Sen's arguments in *Development as Freedom*.
10. In contrast to Arrow (1951, 1963), Sen argues (1999b: 354) that while social choice may be "impossible" if it is assumed that the informational basis for making decisions is very restricted,

modest additions to the informational base on which social choices are made—for example, even partial interpersonal comparisons of utility—are sufficient to make social choice feasible. As Sen sums it up (1999a: 279), "what is at issue is not the possibility of rational social choice, but the use of an adequate informational base for social judgements and decisions."

11. For discussions of how "deliberative democracy" might work, see Benhabib (1996); Bonham and Rehg (1997); Elster (1998); Gutman and Thompson (1996); Mansbridge (1990); Fung and Wright, (2003).
12. E.g., Uphoff et al. 1979; Uphoff 1986, 1992; Ostrom 1990, 1995; Tendler 1997. Also relevant here is work on secondary associations (e.g., Cohen and Rogers 1995) and social capital (e.g., Evans 1996; Putnam 1993, 2000; Woolcock 1997) and social mobilization (e.g., MacAdam, Tarrow, and Tilly 2001). The recent collection by Houtzager and Moore (2003) on "the politics of inclusion" is particularly interesting.
13. Deepa Narayan's (1994, 1997, 2000) work is some of the most compelling.
14. See also Branson and Jayarajah (1995).
15. These recent studies build, of course, on a long tradition of work going back at least to Adelman and Morris (1973), Chenery, Ahluwalia, et al. (1979), and Streeten et al. (1981).
16. On the specific case of land distribution see, for example, Lipton (1993), Deininger and Squire (1998), Ravallion (1998).
17. Przeworski and Limongi (1993) and Przeworski et al. (2000) also argue that having a political regime with regular electoral succession is neutral with respect to growth. See Haggard (this volume) for a summary of their findings.
18. Just as they help deal with corruption, deliberative institutions may help channel conflict in ways that avoid the kind of politically and economically debilitating violence that plagues so much of the South. Party and union conflict in Kerala occasionally spills over into physical violence, but Kerala has escaped the communal violence that chronically plagues other parts of India, the kind of anarchic class violence that undercuts the possibility of effective governance in other Indian states like Bihar, and the armed struggle that has sprung up in still other states (Heller 1999; 2000: 500). Like Kerala, Porto Alegre is characterized by intense political conflict, but not the kind of anarchic violence that is endemic in rural areas and has even spread to the urban south-east (e.g., the recent assassinations of municipal leaders in Campinas, Santo Andre).
19. Again, see Pierson (1997), and especially Bardhan (2001).
20. The discussion that follows is drawn primarily from Baiocchi (2003a, 2003b). See also Abers (2000); Baiocchi (2001); Baierle (2001); Pozzobon (1998); Santos (1998); Fedozzi (1997); Genro and Souza (1997).
21. There is a vast literature on the Kerala case, including (among many other sources) Franke and Chasin 1989; Heller 1999; Isaac, Thomas, and Franke 2000; Isaac, Thomas, and Heller 2003.
22. These experiments also support Hirschman's (1981: 85-91) optimistic proposition that the very exertions required by public involvement may be satisfying in themselves.
23. In Fung and Wright's terms (2003: 25) each of these cases "harnesses the power and resources of the state to deliberation and popular participation."
24. Goldfrank's (2001) comparative analysis of more and less successful cases of deliberation at the municipal level also suggests that leaders of parties not associated with deliberative development can be among its most implacable and effective opponents.
25. Heller (1999: 234-35) notes that, in 1997, a prominent Indian business magazine ranked Kerala in the top 15 percent of all Indian states in terms of "twenty-eight objective measures of physical and social infrastructure, labor, government, and fiscal incentives." In the same survey, the *subjective* evaluation of potential investors ranked Kerala in the bottom quarter.
26. Indeed, the spread of superficial adherence to the norms of electoral democracy might be taken as a precedent for this preoccupation.

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