

UNITED STATES GOVERNMENT

# Memorandum

DS/PPU Robert Simpson

**TO :** DAA/DS, Ms. Marjorie Belcher  
**THRU :** DS/PPU, Mr. Robert Simpson  
**FROM :** DS/RAD, Kenneth Korhner, Acting *KKK*

**DATE:** 4/9

**SUBJECT:** Small Activity on Application of Political Economy Approaches to Problems of Rural Development

Problem: In its development efforts, A.I.D. has consistently had to confront problems of institutional development and design. Macro-policies frequently fail for lack of adequate institutional mechanisms for reaching the poor, stimulating their participation, mobilizing local resources, or assessing local needs and demands. The agency has had a good deal of experience in working with such local institutions as local governments, water users associations, cooperatives, etc. but we generally lack a clear understanding of how to design and stimulate effective participatory structures.

Discussion: In the analysis of comparable problems within the United States, applications of political economy theory have played an increasing role in dealing with problems of representation, policy implementation, the design of welfare programs, and the allocation of resources for "public goods" (such as health or infrastructure programs). Analysis of L.D.C. problems are increasingly citing this American literature and making use of political economy models for explaining events. Nevertheless, there has been little systematic application of political economy models to LDC problems since the Ilchman-Uphoff study several years ago. A growing consensus seems to be emerging that further work in this area is required. We need better understanding of the processes of institutionalized collective choice.

Proposal: DS/RD proposes a small activity be undertaken to contract with Resources for the Future in collaboration with the Agricultural Development Council to organize and sponsor a three day workshop which would bring together political economy theorists, scholars working on LDC problems, and development practitioners to explore possibilities for applying political economy theory to the problems of rural development.

- a) Budget: \$34,914
- b) Timing: May - June, 1979
- c) Output: (i) Set of background papers commissioned specifically for the conference.  
(ii) State-of-the-art paper reviewing existing approaches and applications and making recommendations for further work. This would follow the conference within six months.



d) Contractor: Resources for the Future  
Relevance to DS/RD Program:

- (i) Funding for this activity is already programed in the current Congressional Presentation.
- (ii) The case studies undertaken in DS/RD's contract with Development Alternatives, Inc. (Local Action I) and the case studies forthcoming in the cooperative agreement with Cornell University (Rural Development Participation) will provide much useful data to the seminar on the role and performance of local institutions in development. The proposed seminar on Political Economy and Rural Development would permit the application of a specific body of theory to these and other relevant materials. The consequences of this analysis could then find their way quickly into program and project analysis through DS/RD's applied research/consulting projects.

Action: Request approval for small activity.

Approved: Kenneth A. Milon

Disapproved: \_\_\_\_\_

Date: 4/4/78

Attachments:

1. Budget
2. Background Paper
3. Selection Explanation

DRAFT BUDJET FOR AN RFF/AID CONFERENCE ON SOCIAL  
CHOICE AND RURAL DEVELOPMENT a/

Honoraria b/

State of the Art Paper	\$ 1500
Conference Papers (5 @ \$400)	2000
Panelists (4 @ \$200)	800
	<hr/>
	4300

Travel

25 Program Participants at an average of \$200 each	5000
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Lodging, Meals, etc.

25 Participants @ \$100 avg.	2500
Two lunches for 35 @\$8	560
One dinner for 35 @ 25	875
coffee, miscl. 2 days for 35	100
	<hr/>
	4035

Conference Facilities, etc.

Rooms	400
Recording of Panel	200
	<hr/>
	600

Direct Costs of Organization, Editing, etc.

Telephone	800
Xeroxing	1500
Mailing	500
Supplies, etc.	500
Editorial Assistance	700
Special Retyping	1000
	<hr/>
	5000

RFF Support

Salaries and benefits	
Principal Investment 2 man @ \$4263	8526
Secretary/Admin Asst. 25 man @ \$1155	2888
	<hr/>
	11414

Indirect Costs

40% of RFF salaries and benefits

4565

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15979

Total Conference Budget

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\$ 34914

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- a/ This budget does not provide for foreign travel either of AID personnel or of LDC scholars.
- b/ No honoraria for paper discussants are included in this budget. It is assumed that such payments will not be necessary.

AID 1350-1X (7-71)	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT	1. Cooperating Country Interregional	Page 1 of 10 Pages
		2. PIO/T No. 931-1155-3188804	3. <input checked="" type="checkbox"/> Original or Amendment No. _____
PIO/T	PROJECT IMPLEMENTATION ORDER/TECHNICAL SERVICES	4. Project/Activity No. and Title (Political Economy Seminary) Special Projects/Inputs	

DISTRIBUTION	5. Appropriation Symbol 72-1181021.3	6.A. Allotment Symbol and Charge 843-36-099-00-20-81	6.B. Funds Allotted to: <input checked="" type="checkbox"/> A.I.D./W <input type="checkbox"/> Mission																																			
	7. Obligation Status <input checked="" type="checkbox"/> Administrative Reservation <input type="checkbox"/> Implementing Document		8. Funding Period (Mo., Day, Yr.) From 7/1/79 To 9/30/79																																			
	9.A. Services to Start (Mo., Day, Yr.) Between 7/1/78 and 8/1/78		9.B. Completion date of services (Mo., Day, Yr.) 9/30/79																																			
	10.A. Type of Action <input checked="" type="checkbox"/> A.I.D. Contract <input type="checkbox"/> Cooperating Country Contract <input type="checkbox"/> Participating Agency Service Agreement <input type="checkbox"/> Other																																					
	10.B. Authorized Agent AID/W																																					
	<table border="1"> <thead> <tr> <th colspan="2">Estimated Financing</th> <th>(1)</th> <th>(2)</th> <th>(3)</th> <th>(4)</th> </tr> <tr> <th colspan="2"></th> <th>Previous Total</th> <th>Increase</th> <th>Decrease</th> <th>Total to Date</th> </tr> </thead> <tbody> <tr> <td rowspan="2">11. Maximum A.I.D. Financing</td> <td>A. Dollars</td> <td>-</td> <td>36,155</td> <td>-</td> <td>36,155</td> </tr> <tr> <td>B. U.S.-Owned Local Currency</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td rowspan="2">12. Cooperating Country Contributions</td> <td>A. Counterpart</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>B. Other</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>					Estimated Financing		(1)	(2)	(3)	(4)			Previous Total	Increase	Decrease	Total to Date	11. Maximum A.I.D. Financing	A. Dollars	-	36,155	-	36,155	B. U.S.-Owned Local Currency					12. Cooperating Country Contributions	A. Counterpart					B. Other			
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	B. U.S.-Owned Local Currency																																					
12. Cooperating Country Contributions	A. Counterpart																																					
	B. Other																																					

13. Mission References	14. Instructions to Authorized Agent  SER/CM is requested to negotiate a contract with Resources for the Future to provide the services described in block 19. B.
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15. Clearances - Show Office Symbol, Signature and Date for all Necessary Clearances.			
A. The specifications in the scope of work are technically adequate <i>Norman K. Nicholson</i> Norman K. Nicholson, DS/RAD	B. Funds for the services requested are available <i>John Ryan</i> DS/PO, John Ryan	C. The scope of work lies within the purview of the initiating and approved Agency Programs <i>Harlan H. Hobgood</i> Harlan H. Hobgood, DS/RAD	D. E. F.

16. For the cooperating country: The terms and conditions set forth herein are hereby agreed to  Signature and date:  Title:	17. For the Agency for International Development  <i>Kenneth A Milow</i> Signature: Ken Milow  Title: Chief, Program Division	18. Date of Signature  6/30/78
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AID 1350-1X (9-70)	Cooperating Country Interregional	PIO/T No.	Page 4 of 10 Pages
PIO/T	Project/Activity No. and Title Political Economy Seminar		

22. Reports by Contractor or Participating Agency (Indicate type, content and format of reports required, including language to be used if other than English, frequency or timing of reports, and any special requirements)

1. 20 copies each of 5 background papers for conference. To be submitted to DS/RAD in reproducible copies prior to conference.
2. 20 copies of State of Art Paper. To be submitted within 6 months after the conclusion of the conference to DS/RAD.
3. 20 copies of the draft summary of conference proceedings or of the manuscript for a book to be published on the conference including this summary. (See 19 B for explanation of alternatives).
4. At the conclusion of the project, copies of the above materials will be submitted as follows:  
2 copies to AID Reference Center  
3 copies to Documentation Coordinator DS/PO/DUI  
(Copies submitted to DS/PO/DUI will include a title page showing title of the report, title of the project as set forth in the Cooperative Agreement and the contract number. One copy of each report shall be clearly typed on white paper so that it may be photographed to produce a microfilm master. Technical reports shall be accompanied by an author prepared abstract.)

23. Background Information (Additional information useful to Authorized Agent and Prospective Contractors or Participating Agency; if necessary cross reference Block 19.C(4) above.)

Proposal from RFF and letter of amendment  
Draft Conference Proposal  
Estimated Conference - Budget prepared by DS/RAD

24. Relationship of Contractor or Participating Agency to Cooperating Country and to AID

A. Relationships and Responsibilities The contractor will confer with and receive advice from the DS/RAD project manager on all non-contractual details of the conference, including participants, background and state of the art papers, other publications, and the conference agenda.

B. Cooperating Country Liaison Official

n/a

C. AID Liaison Officials

Dr. Norman Nicholson, DS/RAD or other designee of the Office Director, DS/RAD.

CONTINUATION  
SHEET

FORM SYMBOL

TITLE OF FORM

DEPARTMENT OF STATE  
AGENCY FOR  
INTERNATIONAL DEVELOPMENT Worksheet  Issuance

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1. Cooperating Country  
Interregional

2.a. Code No.

2.b. Effective Date

2.c.  
 Original OR Amendment  
No: \_\_\_\_\_

3. Project/Activity No. and Title

Political Economy Seminar

Indicate block  
numbers.

Use this form to complete the information required in any block of a PIO or PA/PR form.

Objectives:

To provide AID with a strengthened knowledge base for designing programs and projects to bring about improvements in the life of the rural poor which are consistent with mechanisms of public choice and decision making in LDCs.

19.B.

Description:

Many of AID's efforts to effect positive changes in the life of the rural poor in LDC's have fallen short of their goals because of our inadequate understanding of the processes of decision making and public choice at local and higher levels in LDCs. The work of political economists particularly public choice theorists, on these processes in the United States, and to a limited extent in LDCs, offers a promising approach to these critical aspects of planning and implementing rural development. Very little of the recent work of individual analysts and insightful practitioners of the political economy of development has been published in a synthesized form readily accessible to or applicable by development practitioners.

Under this project, the contractor will organize a three day conference in the Spring of 1979 on the application of political economy approaches to rural development problems. This conference will bring together leading theorists in fields of political economy relevant to development problems; theorists and practitioners of rural development and representatives of the small group of scholars who have attempted to apply public choice approaches to rural development problems. A total of 25 participants will be invited from the U.S. and 8 from LDCs.

The conference will be designed to:

1. Assess the existing scope and future prospects for the application of a specific body of political economy concepts to rural development problems.
2. Identify new, specific directions for applied research by political economists on problems of rural development.

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CONTINUATION  
SHEET

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1. Cooperating County

2.a. Code No.

2.b. Effective Date

2.c.  
 Original OR Amendment No: \_\_\_\_\_

3. Project/Activity No. and Title

Political Economy Seminar

Indicate block  
numbers.

Use this form to complete the information required in any block of a PIO or PA/PR form.

The conference will be structured around the discussion of 5 background papers on major institutional and public choice problems in rural development, and on specific attempts to apply public choice concepts to such problems. The papers will be commissioned from leading scholars and practitioners and distributed to participants in advance of the conference. Formal discussants for each paper with relevant specialized interests or experience will be included among the conference participants. The conference will conclude with a led assessment of the conference discussions and agreement on promising directions for further research and application.

The contractor will commission a major state-of-the-art paper on the conference topic from a distinguished scholar in political economy. Research on the paper will be begun before the conference. It will also incorporate the author's reactions to and assessments of the conference in a final version to be completed after the conference.

The background papers, state-of-the-art paper and a summary of the conference discussions will be made available to AID for its use as soon as they are available. The contractor will prepare a revised version of these materials for publication as a book, unless it is determined that they do not, as a body, merit wide distribution.

Outputs:

The direct outputs of the conference will be the five background papers, the state-of-the-art paper and the summary of conference proceedings. With the exception of the proceedings, these will be made available to AID as soon as they are in a clean, reproducible form.

After the conference the contractor, with the advice of the DS/RAD project manager, will determine whether the written outputs of the project merit preparation for publication will only be drawn upon if the contractor informs DS/RAD in writing of their intention to publish the conference outputs.

These outputs will be distributed to appropriate recipients within AID by DS/RAD whether they are published or not.

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2.a. Code No.

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Political Economy Seminar

Indicate block  
numbers.

Use this form to complete the information required in any block of a PIO or PA/PR form.

Additional analyses or interpretations of the conference results will be prepared as appropriate.

Management Responsibility:

The contractor for this conference will have sole responsibility for ensuring that the conference, its preparation and follow up occur in a timely fashion. A conference coordinator or individual with equivalent responsibilities should be identified by the contractor as a contact person for the DS/RAD project manager.

In addition to the contractor funded under the project, the Agricultural Development Council has agreed to participate in the planning and conduct of the conference. ADC has also offered to fund a pre-conference planning meeting in 1978. None of these supplementary contributions by the ADC will be funded under this contract, nor will they be considered within the scope of services to be provided by the contractor.

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1. Cooperating Country  
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 Original OR  Amendment

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Political Economy Seminar

Indicate block  
numbers.

Use this form to complete the information required in any block of a PIC or PA/PR form.

Estimated Budget for the Conference on  
Social Choice and Rural DevelopmentHonoraria<sup>b</sup>

State of the Art Paper	\$ 1,500
Conference Papers (7 @ \$400)	<u>2,800</u>
	\$ 4,300

Travel

25 domestic participants (at an average of \$200 each)	5,000
8 foreign participants (at an average of \$2000 each)	<u>16,000</u>
	\$21,000

Lodging, Meals, etc.

25 domestic participants @ 4 days average x \$50	5,000
8 foreign participants @ 7 days average x \$50	<u>2,800</u>
	\$ 7,800

Conference Facilities, etc.

Room	400
Recording Conference Sessions	<u>500</u>
	\$ 900

Direct Costs of Organization, Editing, etc.

Telephone	800
Xeroxing	1,500
Mailing	500
Supplies, etc.	500
Publication	<u>4,000</u>
	\$ 7,300

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 Original of: No. \_\_\_\_\_

3. Project/Activity No. and Title

Political Economy Seminar

Indicate block  
numbers.

Use this form to complete the information required in any block of a PIO or PA/PR form.

RFF Support

## Salaries and benefits

Principal Invest. 2 mon. @ 4,263

\$ 8,526

Secretary/Adm. Asst. 2.5 mon. @ 1,155

2,888

\$11,414

## Indirect Costs

45% of RFF salaries + benefits

\$ 5,136

TOTAL BUDGET

\$57,850

Proposal for  
A Working Conference on Possible Contributions  
of Public Choice Theory to Rural Development Programs

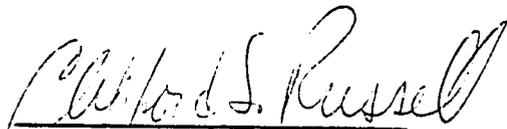
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Resources for the Future

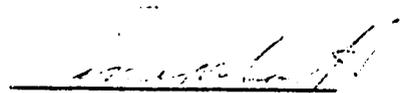
to

Agency for International Development

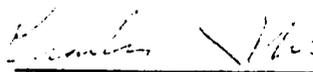
April 1978



Clifford S. Russell  
Head, Institutional  
Research Unit  
Resources for the Future  
Principal Investigator



Emery N. Castle  
Vice President  
Resources for the Future



Charles J. Hitch  
President  
Resources for the Future

## Background and General Description

Resources for the Future proposes to hold, with the financial support of AID, a small working conference designed to explore the potential for the application of public choice theory to problems of rural economic development.

It has become increasingly clear over the past decade that purely economic approaches to development planning (whether stressing macro policy variables or project efficiency calculations) are inadequate either to explain what happens during development or to prescribe what should be attempted to reach a particular goal. Institutional factors are simply too important to ignore. On the other hand, there is widespread dissatisfaction with the methods available for reflecting institutional constraints and opportunities in either positive or normative analysis. To put the case briefly, it appears to many that the familiar approaches to the study of institutions lack the support of a theoretical framework which is explicit and rigorous enough to permit of testable empirical hypotheses and reasonably specific predictions.

Efforts have been and are being made to close this perceived gap between needs and analytical capabilities. Dandekar, de Janvry, Ruttan, and Schultz are names which come to mind in this connection. (Norman Nicholson, at AID, with whom we have discussed this proposal, has also worked on the problem.) At the same time, there is occurring rapid and impressive development of the field variously called social or public choice or the new political economy. This hybrid of economics and political science stems from early (even 19th century) work on voting rules, but has really taken

on a separate existence in the years since the publication (1951) of Social Choice and Individual Values, by Kenneth Arrow. Though dominated by theorists over its brief life, the field is beginning to attract people with interests in application. It is certainly too early to promise dramatic results from these efforts, but there is no doubt that at least modest successes have been scored in quite practical matters.<sup>1</sup> i.e.: the rational self-interest view, which holds that people act in their individual self interest even in collective choice settings. That is, the view explicitly eschews explanations based on concern for the community. This view, while it may seem narrow and even reprehensible to those schooled in, for example, sociology, has the distinct advantage of generating testable hypotheses.<sup>2</sup>

In the circumstances, it seems to be a propitious time to bring together people who work on practical, rural development problems, analysts from the development field who are exploring institutional issues, and scholars from the public choice field. There would be two major goals to such an endeavor:

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<sup>1</sup>For example, workers at Cal Tech have helped the Public Broadcasting System to refine its system for having station managers collectively choose how limited program production funds will be spent each year. Because the programs, once produced, have the character of public goods, this problem is analogous to many difficult public choice situations. See John Ferejohn, Robert Forsythe, and Roger Noll, "Practical Aspects of the Construction of Decentralized Decisionmaking Systems for Public Goods." Paper presented at forum on Applied Social Choice, Resources for the Future, January 16-17, 1978. Washington, D.C.

<sup>2</sup>One of the challenges to the field, for example, has been to explain why self-interested individuals bother to vote, when the costs must outweigh the expected benefit (which is determined by the benefit of winning and the tiny probability that the individual vote will make a difference). One hypothesis that has been suggested and tested involves what game theorists call "regret" - i.e.: the feelings you would suffer with if you did not vote and it turned out your side lost and lost by only one vote. This approach seems quite promising. See John Ferejohn and Morris Fiorina, "The Paradox of Not Voting: A Decision Theoretic Analysis," American Political Science Review, vol. 68, no. 2 (June 1974) 525-536.

- the production of an assessment of the current prospects for fruitful application of social choice ideas to rural development problems;
- the stimulation of new interest in such problems in the social choice field, with a view to improving the longer run prospects for useful research.

#### Planning Meeting

A meeting has been tentatively scheduled for 4 May in Minneapolis to involve representatives of AID, ADC and RFF for the purpose of discussing the agenda of such a conference and the identity of potential participants. From RFF's point of view such a meeting promises to be most valuable because our contacts in and knowledge of the rural development/institutions field is limited. The meeting participants will be, as things now stand, Clifford Russell and Emery Castle from RFF, Vernon Ruttan of the University of Minnesota, Abraham Weisblat of ADC, Joel Guttman of Rand, and Norman Nicholason of AID.

#### Preliminary Conference Plan

In line with the attached budget, and our past experience with similar enterprises, we are now planning on a two-day working conference to be held in the Washington, D.C. area in the spring of 1979. The specific location will be chosen later, but we can see arguments for three different locales: Brookings, which is convenient to RFF; a Rosslyn hotel, which would be convenient to AID; and the Reston Sheraton, which is convenient to Dulles.

It is our current intention to schedule 5 discussion papers at the conference; these to be divided between:

- problem descriptions from those familiar with field-level problems;
- specific attempts to apply social choice ideas to those problems.

We would hope to have for each paper formal discussants whose background would be in social choice work (or who could be identified as trying to bring social choice into development). Further, there would be a closing panel to assess the evidence of the discussions and to suggest fruitful next steps.

Overarching the conference itself would be the production of a state-of-the-art paper by a distinguished scholar. This paper would be based both on the scholar's reactions to the conference and on independent study and reading and would constitute an informed, independent assessment of prospects.

It would be RFF's intention to consider the resulting volume of papers, including the state-of-the-art paper, and such discussions as seemed especially valuable, for publication as an RFF book or Research Paper. The state-of-the-art paper could be circulated independently within AID and elsewhere if that promised to be useful.

#### RFF's Background and Requirements

RFF's principal interest in this conference lies in the potential for application of public choice theory in a new direction. The basis for this interest is described in some depth in the attached "prospectus" for

our Institutional Research Unit.

The most important condition from RFF's point of view is that RFF have freedom to publish (or not to publish) the proceedings of such a conference in the form we decide is appropriate. (In the unlikely event of a decision not to publish, we would provide AID with unpublished copies of the proceedings for AID's use, in numbers we can agree on beforehand.)

It is also important that all parties understand that in setting up the conference, especially in final choice of topics and speakers, the final authority and responsibility lies with RFF although we will welcome advice from both AID and ADC.

#### Budget

A budget for the conference is attached. This does not include any money for the planning meeting which is, we understand, to be funded by ADC.

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Revised Budget for an RFF/AID Conference on  
Social Choice and Rural Development<sup>a</sup>

Honoraria<sup>b</sup>

State-of-the-Art Paper	\$ 1,500
Conference Papers (5 @ \$400)	<u>2,000</u>
	3,500

Travel

25 program participants at an average of \$200 each	5,000
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Lodging, Meals, etc.

25 participants @ \$100 average	2,500
Two lunches for 25 @ \$8	200
One dinner for 25 @ \$25	625
Coffee, misc. 2 days for 25	<u>80</u>
	3,405

Conference Facilities, etc.

Room	400
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Direct Costs of Organization, Editing, etc.

Telephone	800
Xeroxing	1,500
Mailing	500
Supplies, etc.	500
Publication	<u>4,000</u>
	7,300

RFF Support

Salaries and benefits	
Principal Invest. 2 mon. @ 4,263	8,526
Secretary/Adm. Asst. 2.5 mon. @ 1,155	<u>2,888</u>
	11,414

Indirect Costs

45% of RFF salaries + benefits	<u>5,136</u>
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Total Conference Budget	\$36,155
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Budget - p. 2

a/ This budget does not provide for foreign travel either of AID personnel or of LDC scholars.

b/ No honoraria for paper discussants are included in this budget. It is assumed that such payments will not be necessary.