Market Politics and Foreign Assistance

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A broad consensus emerged in the 1980s on the economic policies needed for stable growth and development, to the effect that there really is no alternative to a market economy, supported by conservative fiscal and monetary policies and open trading policies. Yet there were disappointingly few examples in which developing countries were able to implement comprehensive reforms over sustained periods. To be sure, there were cases where ambitious reform programmes were initiated, and even a few where those programmes withstood the test of time. But the economic changes implemented were often quite modest and piecemeal: rollback and recalcitrant implementation of reforms was common. Certainly by the acid test of success — sustained, non-inflationary growth, and the ability to begin re-attracting voluntary foreign investment and flight capital — the 1980s were the lost decade for vast regions of the Third World.

In fact, despite periodic announcements of reform, growth-stunting economic policies have persisted in some countries for decades, well beyond what any reasonable observer might attribute to periods necessary to learn and correct for their ill effects. Increasingly economists blame politics for the tenaciousness of bad economic policies over such long periods, but where their prescriptions are most deficient is in taking into account the role that civil, legal and political institutions play in determining economic success or failure.

Elements of success and failure

Much has been learned in developing countries over the past decade about the politics of economic policy reform. The history all too often

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is one of doing too little, too late; ineffective implementation of reforms by officials and institutions with a stake in the status quo; popular dissatisfaction, directed not at the failed policies of the past but at the pain and disruption of reforming them; loss of credibility due to unmet expectations; and erosion or outright reversal of the reforms. Yet there were some cases in which dramatic and comprehensive economic reforms were initiated and sustained, producing economic revitalization and eventually strong popular support.

Many newly democratic governments came to power in developing countries during the 1980s with huge popular mandates for reform. Frequently, not unlike the newly proclaimed democracies in Eastern Europe, they inherited economic crises of staggering proportions and a political system that had been cynically misused and abused by their dictatorial predecessors. Nowhere was the need for comprehensive economic structural reform more pressing, for example, and with the departure at long last of Ferdinand Marcos more possible, than in the Philippines. In that case, the macro-economic crisis was underlaid by a lengthy period of micro-economic mismanagement, characterized by pervasive governmental controls and interventions and a persistent maldistribution of land and wealth. Yet, despite her huge initial popular mandate, President Aquino opted for gradual and piecemeal economic reform policies, on the theory that otherwise reform would be unacceptable. An informal political–business coalition that included several old Marcos cronies survived and continued to benefit from an economic system characterized by a high degree of centralized control. Little progress was made in laying the foundation for broad-based economic growth. By 1989, privatization and decentralization had stalled, and much of Mrs Aquino's popular mandate had disappeared.

In those cases where the economic and financial crisis was extreme, and the preceding period of disequilibrium quite prolonged, rapid and comprehensive adjustment policies tended to have a better chance of being successfully instituted and sustained. The classic example is Bolivia, where dramatic and far-reaching monetary and fiscal reforms, instituted by a newly democratic government, broke the back of hyperinflation almost within a matter of days. The crisis had been allowed to build under successive military juntas for so long that the popular mandate was very strong for dramatic change. The government availed itself of this opportunity to introduce fundamental and far-reaching market reforms, so that economic stabilization could be followed immediately by structural realignment and

revitalization. Having been implemented quickly, the reforms were already in place and beginning to produce positive results by the time the pain of economic stabilization began to temper support for the programme.

Economic and financial crises were also inherited by the new democracies of Argentina and Brazil, but with far less salutary results. What was lacking in these cases was a political and institutional structure that provided checks and balances on the power of traditional factions so that needed economic reforms could be implemented effectively. The new governments opted for gradual implementation of structural reforms; later they discovered that these reforms were much more easily opposed or reversed when initiated several months or years into an austerity programme. As a result, although political parties and systems changed, economic results tended to stay dismally the same.

In Argentina, President Alfonsin took office in 1983 with strong popular support. But he took over an economy rocked by the mismanagement of successive military juntas, of which hyperinflation was only a symptom. As a residual from the Peronist years, the national government and related parastatal entities played an enormous role in the production, distribution and consumption of goods and services, with resultant high costs, poor quality and spotty availability. Parastatals were susceptible to higher costs owing to the influence of national labour unions and central governmental regulatory bodies. They were sources of lucrative political patronage, and caused enormous fiscal losses which the government paid for by expanding the money supply. They were themselves interested parties fully capable of lobbying for access to administratively rationed and subsidized inputs, credit and foreign exchange. When Alfonsin's party was voted out of office in 1989, the country was again convulsed with hyperinflation; it has continued to dog his (Peronist) successor.

The entrenchment and resistance of interested factions also proved capable of throttling economic reform programmes in Brazil and many other newly democratic countries. One obvious reason was that those factions frequently faced the prospect of losing market control and various perquisites stemming from that control. Often the bureaucracies themselves, as fully interested economic factions, became obstacles to reform, through recalcitrant and inept design and implementation of economic programmes. With failure came loss of credibility for the governments concerned and, inevitably, for the concept of reform itself, with the result that the threshold of economic and financial crisis had to be that much higher the next time to provoke an attempt at reform.

The more centralized the system of economic decision-making, the more opportunities are presented to officials to ration the scarce resources of society and to exercise personal discretion over a wide array of benefits, from subsidized foreign exchange and credit to waivers, licences, tax breaks and access to basic inputs to production. Indeed the degree of centralization may be the characteristic that most distinguished between countries in their ability to achieve desired economic reforms in the 1980s. In Bolivia, for example, one of the least developed and poorest economies in South America, a large informal sector predominated, while state intervention and control were confined mainly to the obsolete but limited formal sector. In Argentina and Brazil, sophisticated systems of computer-assisted administration and control were overlaid by large and pervasive systems of quasi-governmental production and resource allocation. Those systems in turn created their own large and powerful constituencies. They also created enormous opportunities for corruption and graft. The general rule is: he who decides who gets subsidized can become very rich.

In addition to the degree of centralization, some economists have identified equity of land distribution as an empirical characteristic useful in distinguishing between economic performances across countries. Here the Latin American economies and the Philippines, where land ownership is highly centralized in patterns inherited largely intact from colonial periods, may be contrasted with the model economies of East Asia, like Taiwan and Korea, or even Japan. In Korea and Japan, land redistribution was instituted by the allied powers following the Second World War. Land ownership in Taiwan began to change when the Nationalists took over in the 1930s. But land distribution in itself is hardly an explanation for the far superior post-war performance of the East Asian economies.

Instead, the most intriguing aspect of land distribution is what it implied about the political influence of the land-owning, agricultural factions in each country. A better hypothesis is that, although land redistribution partially reshuffled the old political economic alignments in Korea and Japan, this was not sufficient to allow new export-oriented policies, such as competitive exchange rates and low tariffs, to be implemented without significant opposition from the domestic agricultural factions. In Taiwan, too, the post-war agricultural sector was closely aligned with the Nationalists and

clearly a faction to be reckoned with. Each of those countries instituted economic policies to assuage and compensate the interests of their agricultural factions, in return for freedom to proceed with export-oriented policies in the rest of the economy. Farmers were protected with high tariff and non-tariff barriers, and subsidized by domestic food prices maintained at extremely high levels. Over time, the new export-oriented policies gave rise to new alignments that benefitted from them — specifically, the export sector. This policy mix proved to be remarkably stable, and survives largely intact in each of those countries, providing a continuing staple for discussions with trading partners about effective domestic protection.

Although traditional or in-power factions may have a stake in opposing change, often there are no viable alternative factions capable of its advocacy within the political system. Hernando de Soto (1989), from Peru, details the enormous political and institutional hurdles that must be overcome by individuals and businesses when they are not a part of the dominant faction. His prescription is to mobilize alternative factions so that they can represent their own interests, but this may not be feasible without political and institutional reforms. Even in a democracy, alternative constituencies must be enlightened as to what various policy options would imply for them, if they are to be effective. They must also be given the means to voice their concerns and interests within the constitutional process. And there must be checks and balances that limit the ability of any single faction to gain and retain unchallenged political and economic control.

Conditionality

If no creative compensation schemes are forthcoming, and the factions in power oppose needed reforms, the onus often falls on international donors to insist on reforms as a quid pro quo for the provision of funds to stabilize the economy. This 'conditionality' pits host country officials against donor officials in negotiations. The components and the pace of the economic programme are frequently negotiated down to very little margin for error and much higher risk of failure. Nevertheless, it is usually announced that major economic reforms are being made; this raises expectations that cannot be fulfilled and results in disillusionment when the programme fails.

The performance of Honduran economic policy in the 1980s is an excellent example. In that country the same fixed exchange rate against the US dollar had persisted since 1917. Flexible exchange-rate policies were a topic of donor discussions with Honduran officials with increasing urgency throughout the 1980s, as the domestic currency became more and more overvalued. It was evident that the country was severely hampering its own exports, which in nominal dollars rose by less than 0.3% on average annually between 1980 and 1988. Each year the government announced that major policies and programmes were being put into place to stimulate exports, but in general these were hopelessly bureaucratic and inaccessible except to a tiny minority of firms. The unfortunate result of this disparity between rhetoric and performance was that many Honduran businessmen came to believe that for some reason they were simply incapable of producing products that foreigners wanted to buy. At the same time, it became a political article of faith that the currency would never be devalued. Frequent political speeches, editorials and cartoons were devoted to denouncing international donor representatives for advocating a policy of flexible exchange rates.

This illustrates an unfortunate pattern that can surely serve no useful purpose. Government officials, often with a private interest in maintaining the status quo, publicly oppose the sorts of reforms that are needed to pull their own economies out of stagnation. At the same time, they attempt to bargain down the extent of the reforms and, through ineffective implementation, their impact. Donor conditionality posits that governments will oppose implementation of needed economic reforms, and that, in its absence, they will not be undertaken. This underlies the conventional wisdom that the IMF and the World Bank provide a useful foil for governments that for 'political reasons' cannot take appropriate action on economic policy without an external mandate. The ill logic of this approach is that economic reforms that have no domestic constituency — not even within the government itself, which must implement them — can never be effectively implemented and sustained.

failure of reform

If mandated by externally imposed conditions, economic adjustment rarely engenders grass-roots support. The transition from failed policies to successful ones is often painful. Typically, the pain of adjustment is blamed on the new policies rather than on the failed policies of the past or the slow and recalcitrant implementation of reforms. If previous economic programmes have failed, market expectations of failure in the current attempt will induce inflation, capital flight, hoarding and so on. This will only augment the chorus

of criticism and calls for a return to administrative controls and a reversal of the experiment with decentralized economic decision-making.

Where reforms have been comprehensive and sustained, often the government's programme has succeeded in building domestic constituencies that favour and benefit from the new policies. Sometimes special inducements, such as export subsidies and export processing zones, have succeeded in creating those new constituencies and providing quick and positive feedback to policy-makers about export successes. The objective is not to achieve a trade-neutral regime, but instead to bias the system in favour of exports, at least temporarily, in what might rightfully be called redistributive governmental policy-making. But when accompanied by appropriate exchange-rate and macro-economic policies, such inducements can help to sustain export-oriented policies in the initial stages of introducing structural reforms. Successful examples of the use of this tactic in the 1980s include the Dominican Republic and Costa Rica.

Thus, for reforms to be sustained, it may be necessary to build alternative constituencies that stand to benefit from them, or more broadly, to change the relative costs and benefits of adhering to the old policies. Given this, it would seem a minimal requirement that international donor assistance should not reinforce existing political and economic relationships, if those relationships underlie bad policies and practices. But international aid is more easily channelled in large quantities with minimal staffing requirements if the recipients are governmental and quasi-governmental agencies rather than part of a decentralized private sector. And especially in the context of the sovereign loans typical of today's external debt negotiations, governments are usually keen to receive all of the aid directly, for balance-of-payments support. For the donors, too, the quickest disbursement mechanism is to use the aid for stabilization of the immediate financial crisis. Unfortunately this may have the unintended side-effect of removing the immediate political impetus for undertaking economic reforms in the first place.

An innovative funding mechanism was pioneered by AID in the 1980s which partially offsets the tendency for bureaucratic inertia to set in once foreign balance-of-payments assistance has been secured. The African Development Fund was designed so that balance-of-payments assistance is made available regionally, to be allocated to those countries with the best economic reform programmes. The funds are reallocated on an annual basis, in effect rewarding those countries that demonstrate the most initiative and comprehensiveness in coming to grips with their economic problems. In essence, the concept is to remove any single country's continuing claim to specific balance-of-payments support levels, and thereby reward the best performance among countries.

In contrast, perhaps no more cogent example of bureaucratic inertia can be offered than the sad history of Egyptian economic policies since President Sadat asked for US help in a new Marshall Plan for his country in the wake of the Camp David accords. Now that the Plan has run several years longer than its namesake, it is fair to ask why it has met with such tepid success. Ironically, the massive and continuing dose of Congressionally earmarked assistance probably reinforced Egypt's highly centralized and bureaucratic system of economic decision-making, bypassing the critical question: what are the core functions of government that will facilitate the growth of open and decentralized markets? The principal lesson from Egypt is that, if balance-of-payments assistance is awarded without reference to past performance or current plans for economic reform, there will be no incentive to reshuffle those bureaucratic and factional alignments that have been responsible for promulgating inappropriate economic policies in the first place.

Political economic theory

Few paradigms exist to explain the performance of economic policy reform programmes in developing countries which structure internally consistent analytical frameworks. But two extreme perspectives have emerged. The first is the public choice paradigm, which focuses on the allocation of public resources in the political market, emphasizing redistribution to powerful interest groups (Downs, 1957; Buchanan and Tullock, 1962; Olsen, 1965 and Becker, 1983). This literature has quite naturally led to analysis of rent-seeking and directly unproductive activities which generate 'government failure'.

In this perspective all government activity is predatory. Its extension to Third World countries has been used to show how irrational development strategies can be introduced and perpetuated by politically rational states (Lal, 1984). In some of this work, the state as a rational actor seeks to maximize short-term revenues and ferret out a variety of taxation schemes that allow it to increase its wealth and grow in size, albeit at the cost of slower economic

development. This framework has been used to point out that governments are likely to tax trade and to maintain overvalued exchange rates as well as large inefficient bureaucracies.

The predatory government paradigm has the value of being able to explain policy outcomes that inhibit economic growth without having to assume ignorance, stupidity, or wilful misbehaviour on the part of citizens, politicians, or bureaucrats. While it offers an analytical framework for understanding 'bad' policy choices and making recommendations about how they can be avoided (essentially, by minimizing the size and scope of the public sector), it provides no logical apparatus for policy reform; for moving from bad to more effective policies. The paradigm in effect locks the analyst in a straitjacket, with improvements occurring only through catastrophic events or the exogenous introduction of a wise statesman or benign dictator who is willing to focus on the collective good. In essence, this paradigm is limited by its profoundly cynical view of the political process.

The fact is that most governments evidence both productive and predatory behaviour, good governments being characterized more by the former and bad governments by the latter. Moreover, as Rausser (1990) argues, in some cases 'effective governments pursue productive activities while engaging in predatory activities for political economic reasons. Specifically, predatory policies can compensate those groups and individuals that have sufficient power to limit or obstruct efficient policies.'

The concept of government purely as predator may, in fact, be an over-reaction to the harm done by the paradigm at the other end of the spectrum (namely, the conventional welfare economics framework), where the state intervenes in a benign fashion to alleviate market failures. Market failures emanate from a number of different sources: unclear and insecure property rights, significant externalities, imperfect competition, imperfect information, myopia, irreversibilities, lack of effective demand for and (mal)distribution of public and mixed goods, and so on. These fundamental conditions are the causal explanations for 'missing markets'. Because of widely variable and in some instances very large transaction costs, private negotiations, even with well-defined private property rights, will not solve the market failure problem (Coase, 1960).

Nevertheless, as Stiglitz (1989) emphasizes, market failures abound in developing countries, and it would indeed be fortuitous if a benign instrument such as government intervention could be found for solving them all. In fact, there is considerable empirical evidence for scepticism about the existence of a benign government or dictator anywhere in the world. Instead, James Madison's view of the state as being composed of factions, each of which pursues its interests, either singly or in coalition, appears to be much closer to reality. This view underlies the checks and balances characterizing the political systems of Western industrial economies. Following this line of reasoning, the role that civil, legal and political institutions play in diffusing political and economic power may be the single most important underpinning for a market economy.

Market politics

It must be acknowledged that the best examples of successful economic development in the 1980s were not nascent democracies but rather holdover authoritarian regimes: Chile, Thailand and Korea are the most often cited. Examples from earlier decades might include Hong Kong, Taiwan or Singapore. Yet the overwhelming weight of modern evidence suggests that the most open and democratic societies are the most successful economically, and that free and decentralized markets are the most successful in producing sustained economic growth, a condition conducive to political liberty. Sustaining economic success in the long run may in fact require democracy: certainly there are no examples of modern industrial countries that have continued to achieve success in growth and development under authoritarian or totalitarian governments. Even in the short run, the civil, legal and political institutions of democracy in many cases seem to be an important ingredient of success in the economic sphere.

The problem is that democratic systems sometimes produce extremely disappointing economic policies; hence the lure of authoritarianism. Likewise there sometimes are significant instances of market failure that can be improved through non-market organizational structures, including governmental intervention and regulation. Depending on what one believes to be 'market failure', this reasoning, if taken to extremes, can imply central planning and control. Difficulties arise for nascent democracies when the pain of
6 economic adjustment itself is perceived as evidence of market failure, lending credibility to calls for a reversion to or reinforcement of central planning and control. These may be accompanied by a concerted effort to label decentralized political and economic decision-making as chaotic, always a prelude to the argument in favour of authoritarianism.

The irony is that dictatorship, far from being the foundation for economic growth, may be its antithesis, because corrupt and inept regimes and economic policies cannot be changed by the will of the citizenry. There is no better confirmation of this than the post-war experience of Eastern Europe under communist dictatorship, or the post-revolutionary experience of Russia under Stalin. And it is also true that for every example of economic success among the authoritarian regimes of the Third World there are several examples of failure. The distinctive feature of dictatorship is that by its very nature it is unaccountable to most citizens and their representatives. Although this may seem an advantage when unpopular decisions have to be taken in the public interest, it also means that economic policies which hurt society generally but benefit a crony elite are impervious to change, at least through constitutional means.

In contrast, democratic pluralism can and does provide an important discipline on the performance of governments and officials. Democratic pluralism means a political and legal system that allows citizens to assemble, speak out against, and remove from office governments that do not serve their interests, while protecting their human and civil rights so that they can perform these responsibilities. Unless one is willing to believe that politicians and bureaucrats are inherently benevolent and wise, democracy is ultimately necessary for successful economic performance. In the final analysis, elections allow citizens to replace inept and corrupt officials and governments that have pursued failed economic policies. An open polity may be the single most important underpinning for an open economy, in the sense that diffusion of political power, ease of entry and representation in the political arena by alternative economic factions, the fair rule of law, and access to and clear limitations on the powers of government officials all facilitate the growth of decentralized and private markets. Capitalism flourishes best in a climate of freedom and diffuse power.

Democratic pluralism initiatives

In the Western industrial economies many institutions and practices complement and reinforce free and decentralized market systems, in addition to free elections and protection of human and civil rights. For example, it is almost a cliché that economic reform programmes cannot work, even if lip service is paid to them, unless the officials who must implement them also actively support them. This makes reform in pluralistic systems problematic, since elected politicians must represent the desires of their constituents. But why is it that there is usually so little grass-roots support for reforms that open up the economic system to market forces?

One reason is that often very little is told to the public about the seamier aspects of non-market rationing of society's resources by government authorities. As a rule, the greater the number of market interventions by government, the more opportunities are presented for corruption and graft. Access to officials is the best means of obtaining subsidized foreign exchange, easy credit, tax breaks, investment subsidies, protection from foreign or domestic competition, licences, approvals, exemptions and so on. Typically, a cadre of politically well-connected firms and individuals has formed whose members take advantage of any or all of such benefits, and into which entry is extremely difficult. This means that the political barriers to economic reform are likely to be formidable, because one faction or another is likely to be benefitting from each of the policies and practices due for reform.

But there can be no electoral revolt against unethical behaviour if the electorate remains uninformed of it. And even in a country with a relatively free press, without independent watchdog entities within the government to report on and prosecute corruption and graft, and the will to do so on a continuing basis and at the highest levels, there will be little to report. On the other hand, cracking down on corruption hard and early in a new administration is an excellent way to establish credibility for an economic reform programme, even when elections have been won with small margins: witness the successes of President Salinas of Mexico in gaining credibility for his government by jailing several corrupt public sector officials and prominent tax dodgers. The key is to ensure that such investigations and prosecutions will become an ongoing feature of permanently constituted watchdog institutions, to provide the government's programme with continuing credibility.

Western development assistance provides technical and institutional support to recipient governments in a wide variety of ways designed to complement and support economic reform. Why not promote enactment or improvement of legislation to prevent insider trading, conflicts of interest, influence peddling, corruption and graft? Why not create and/or strengthen independent governmental watchdog institutions with the expertise and clout to expose and prosecute corrupt government officials? Parliamentary watchdog committees also could provide an important oversight function. Within ministries and parastatals, donor resources could be used to strengthen inspectors general. Inevitably, public exposure of unethical behaviour that took advantage of policies arrogating to government the job of rationing society's resources would produce pressure to change those policies.

A necessary condition for pluralistic systems to function effectively is the existence of a loyal parliamentary opposition that serves as a check on the activities of the party in power and presents an alternative programme for consideration by the electorate. With regard to economic programmes it has become increasingly apparent that the parliamentary opposition requires access to informed and independent economic analytical capabilities in order to fulfil this role. Economics is a technical field that requires experience in interpretation, especially because different policy options imply relative trade-offs that are difficult to quantify and indeed sometimes even to comprehend. Opposition legislators may be reluctant to accept the interpretations and projections underlying the programme put forward by the party in power. For good reason: there is likely to be considerable self-interest on the part of the government in seeing that its economic analyses and forecasts support its political programme. In some countries the problem extends to the raw data itself, which is manipulated, misrepresented and withheld until no longer pertinent.

The unfortunate result, if the opposition does not have access to independent sources of analysis of the trade-offs between various policy options, is that it ends up taking uninformed postures, often underpinned by political ideology, with a consequent unworkable opposition economic programme. (Of course, if the opposition then gets into power, and is serious about its rhetoric, it may actually magnify the economic crisis.)

Western development assistance frequently supports the creation and upgrading of statistical and economic research centres and staffs within governmental and quasi-governmental institutions, and sponsors independent economic think-tanks. Why not extend support to the creation and staffing of non-partisan analysis units within legislatures, with the objective of informing parliamentary negotiations concerning the consequences of various policies?

Another area of importance to the formulation of economic policy in pluralistic systems is the access of various interest groups and factions to executive and legislative officials for the purpose of influencing their decisions or votes on matters that affect them. In this process one should not discount the role of the lobbyist in providing information to officials about how various policies would affect constituents. Often the problem is not too much lobbying, but too little; in other words, only one side or faction is heard. Of course, there is always the danger that the most persuasive argument will be a bribe. The solution that many democratic nations have found to the latter problem is to require registration of lobbying groups and reporting of their financial activities, under fairly comprehensive definitions, and then to regulate their access to executive and legislative officials. Often such groups are prohibited from contributing to political campaigns, or, if they are allowed to contribute, those monies may not be used by the politician to finance personal expenses. For non-elected officials, there would seem to be no good reason for money to change hands.

It is to be expected that such regulation would encourage interest groups that normally do not have access to officials to form coalitions and attempt greater participation in the process of trying to inform and influence decision-makers, providing additional counterbalance to the traditional interest groups. Donors have financed projects to upgrade the professionalism of the legal system in various countries: the extension of support to promote legislation to regulate lobbying activities would be a logical next step. Donors could also extend support for the formation of private, non-profit civic organizations that represented the economic and political interests of broadly based interest groups. Examples might include consumer societies, small business organizations, exporter associations, farmer associations, and so on. As representatives of the economic interests of civil society, such interest groups can provide an important counterweight to government and the economic factions that are dependent on it.

Some of the worst economic policies are founded on the patronizing and statist predisposition that, if there is a problem, greater centralized bureaucratic control is necessary to address it. But even under ideal conditions, the required informational and technical capabilities simply do not exist to allow centrally administered economies to succeed. And, as so amply demonstrated by the horror stories recently emanating from former communist countries, centralized political and economic power without democratic checks and balances breeds corruption and graft; insults added to the injuries of stagnation and ineptitude.

Decentralization of those public sector activities that can be most effectively managed at the local level — coupled with privatization or liquidation of activities that the public sector need not be involved in providing — is the appropriate response. Decentralized public sector activities are more transparent and accessible. Local officials are much more liable to be held accountable for their actions concerning public resources and regulatory activities. The diffusion of power to local levels enhances citizen control of public sector activities, thereby providing them with the incentive to participate in the political system.

Constraints on effective decentralization may include political structures that make local politicians responsible to the national government or party rather than to local constituents, legal structures that constrain local taxing and spending authorities or create monopolies, lack of qualified local technical and administrative personnel, and systems of transfer from national to local governments that reward losses rather than performance in generating revenues. Western development assistance already aids local governments in developing countries through a combination of projects and support for reform of policies and laws that constrain better local government performance. Donors are also quite active in support of privatization and/or liquidation of state-run enterprises. Why not amplify these activities with a direct linkage to the economic policy reform goal of reducing national government control over production, distribution and consumption of society's goods and services? The cleanest method by which this could be accomplished would be to direct Western donor resources as much as possible directly to private sector activities and decentralized governmental activities, so as not to shore up and prolong the existence of centrally administered systems of economic control.

Conclusion

If the economic reform programmes of the 1990s are to be effective, they will have to be based on practical prescriptions that take the political environment into account. What is known about the predatory nature of government will have to be applied to achieve the desired objective in terms of policy reform. In some cases, it may be necessary to compensate interest groups with the power to impede reform. In other cases, an opening of the political system to the broader representation of alternative interest groups may be the only way to sustain effective economic policies. Innovative approaches will be needed to support the development of civil, legal and political institutions and practices that reinforce the growth of decentralized, private and open markets. For the design of such approaches we shall need a better understanding of the symbiosis between open, democratic societies and open, liberal economies; of how democratic pluralism can provide an important discipline on the performance of governments and officials in setting economic policy; and of the role that democratic institutions play in diffusing political and economic power, a role that may be the single most important underpinning for a market economy.

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