

**RURAL DEVELOPMENT, PUBLIC CHOICE THEORY  
AND LOCAL GOVERNMENT**

Among laws controlling human societies there is one more precise and clearer, it seems to me, than all the others. If men are to remain civilized or to become civilized; the art of association must develop and improve among them at the same speed as equality of conditions spreads.

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Spring, 1984

## INTRODUCTION

Eleven years ago, the United States Congress turned international development assistance theory on its head. The "New Directions" mandate required American foreign aid to reach rural dwellers with basic services, encourage small scale agriculture, fund basic education, and support client states efforts in population planning. Hitherto, American development efforts had focused on building the infrastructure for industry: dams, harbors, power facilities, heavy roads, farm machinery and advanced education.<sup>1</sup>

Even if the congressional mandate surprised the international assistance community as a whole, there were members of it who had been rethinking development strategy for several years. Edgar Owens and Robert Shaw, for example, each one time USAID (United States Agency for International Development) officers, published Development Reconsidered in 1971. There they argued that genuine, sustainable, far-reaching and equitable economic development had to begin with small-farmer agriculture. The wealth to generate broad national growth, the markets to support national industries, and the resources to feed these industries has to begin where the majority of Third World dwellers, lived and worked in rural agriculture. This sector was not the anchor that slowed national growth, but the repository of the Third World's productive capacity. Ignored and exploited by urban-centered pricing and disadvantageous terms of international trade, weakened by its own institutional poverty, it would stagnate. Cultivated, it would flourish and lead national growth.<sup>2</sup>

Since 1973, USAID, the World Bank and most other major international donors have designed projects and developed programs explicitly aimed at

rural development. Yet there are few political leaders or assistance bureaucrats satisfied with the result. Indeed, most studies find a deepening crisis in the Third World, and feel little progress has been made by a decade

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of rural development projects.

Regardless of development strategies, the Third World would probably have been seriously disappointed the past ten years. Industrial world inflation and recession, exploding energy prices, heavy debt burden, and declining commodity prices have each, in their turn, buffeted Third World economies. Still, some isolated rural progress should have been visible. One must begin to wonder if the rural development strategy was simply an error. That perspective, however, may grow from an incomplete understanding of the strategy.

Owens and Shaw argued that an almost revolutionary change in the rural-urban relationship had to occur, one that included economic, educational, and institutional dimensions. While their economic concerns have received some attention, their reasoning on the institutional or

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organizational level has largely been ignored.

It is the purpose of this paper to explain why those institutional and organizational concerns are absolutely critical to rural development. Ignorance or abandonment of the institutional dimension will slow and perhaps defeat rural development strategies entirely. To explain this point, the paper will apply to rural development a body of theory applied primarily in

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the industrial democracies: public choice theory.

This paper argues that several features of development in rural areas can usefully be regarded as collective or public goods, and that the rural development strategy of the last decade has foundered on its inability to solve public choice problems: to translate individual self-interests into

collective interests. The paper argues that rural development strategies require investment,, self-restraint, risk-taking and careful prioritizing in areas where public good problems abound, and that the emphasis by donors and Third World governments on central governments as the primary agents of the process has placed insurmountable handicaps in achieving collective action. Local rule making institutions and political process and government, it argues, avoids by now well known weakness of national governments and their bureaucracies while it brings certain genuine advantages to achieving local collective interests. Along with advantages growing from size and proximity in identifying free riders, using selective incentives and pressuring resource pool violators, local politics provides an arena to spawn leadership specialized in working with the public whose collective action is required for local rural development projects. Such leaders or "political entrepreneurs" are needed to generate and manipulate information, to build and draw on trust, and to integrate an often differentiated but functionally interdependent community. They are needed to help individuals translate limited and uncertain information into calculi which achieve collective goods. Finally, the paper argues that a local political process is an effective means of educating people to understand their enlightened self-interest, and its relationship to collective action. This paper, then offers two major points:

- rural development in the Third World is a process for which public choice theory has substantial predictive and explanatory power; and,
- this theory, when applied to the issues of Third World rural development, suggests that substantial change in the location and design of rule making and rule implementing institutions must be made.

## PUBLIC CHOICE THEORY

Public choice theory deals with the problem of "public goods." Goods which a producer cannot "ration" or "market" and are therefore freely available to all consumers if provided to any, are considered to be "public goods." For example, if national defense or clean air are supplied at all they cannot be denied any inhabitants of a geographic area. If present for some, they are available to all. In response to this uncontrolled availability, a rational man postulate would predict that each person, wishing to maximize his income and minimize his expenses, would consume such available goods, but not volunteer to share their expense. He would be a "free rider." Under these circumstances, of course, funding to continue provision of the good is problematic. This pattern is intensified whenever the public good under question has a high fixed cost: were the fixed cost lower, a single consumer or a small group might be willing to pay the cost because of the value he or they would consume, notwithstanding the fact that others would consume it as well. As many key improvements needed for Third World development cannot be "rationed" and do indeed have such a high fixed cost, investment in them is limited.

In these cases, individual behavior varies according to whether one belongs to a cohesive group: a group which can use some sanction or incentive to enforce or ensure individual compliance with a collective behavior or to privatize the benefits or costs of certain individual behaviors.<sup>6</sup> The value of public choice theory is that it explains why behavior which is rational for a person acting as a member of a cohesive group is equally irrational for that same person as a free individual. Thus the public choice approach helps explain why some behaviors and goods are produced in quantity under certain

organizational structures, and not produced at all under others. More important, it shows why this outcome is in itself rational, and suggests how this pattern may be changed. The next section of this paper will argue that several key elements of rural development are systematically underproduced in the Third World; and not simply because of inadequate wealth, but because of the disjunction between individual and collective rationality, and the absence of institutions through which groups which can translate the former into the latter.

### **DEVELOPMENT AND THE RATIONAL INDIVIDUAL**

There is little debate that infrastructure, the efficient use and conservation of natural resources, technical innovation in agriculture, and efficient allocation of development capital are important in Third World rural development. Yet each is in scarce supply. Public choice theory helps explain why:

Infrastructure: Roads, bridges, irrigation channels, fences, safe water supplies, tube wells, market facilities, community centers, telegraph and telephone facilities, elementary schools, vocational training facilities, catchment dams to control erosion, etc.: most agree that this list of capital investment is necessary for rural development. The Economist wrote, the: "principal problem for half of the world is how to organize rural labor for the construction of necessary local infrastructure such as fences, ditches, roads and irrigation works. But these goods are generally public or collective goods: once produced, the benefits of the good will be shared in some measure by all in the relevant area. Where is the incentive voluntarily

to share in the cost? As fixed costs are generally prohibitively high, no single individual has an incentive to provide the good. As government ministries and international donors are visible exhorting and promising to bring development, the rational peasant will wait for them to pay the costs, the very outcome predicted by public choice theory.

Resource Conservation: Forests, fishery resources, water, topsoil, grazing lands, often appear to be in endless supply. Individual consumers look at the forests of the Amazon, the grazing lands of the Sahel (the arable land lying between the Sahara desert and the farming lands of West Africa), woodlots in the Sahel, the fish resources throughout the world, as pools of resources where no individual's behavior alone could possibly affect the continued supply. Resource conservation, in these situations faces dynamics which parallel public goods. For no individual has any compelling reason to reduce his consumption: after all, if he sacrifices for the collectivity, but no one else does, it will make no difference in the supply in either the long or short run. However, in the short run he will be poorer; perhaps he will starve. Social costs and personal costs are disjunctive, and few cases can be cited where either markets or governments have been effective in connecting

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the two anywhere, including the Third World.

Overconsumption (beyond replacement levels) of such goods as tropical forests, grazing lands, wood lots and topsoil is in itself of legitimate concern. Beyond the loss of that specific resource, however, is the problem of broader environmental degradation: as grazing lands are stripped, water retention drops, erosion occurs and marginal lands become deserts. As tropical forests are cut, thin topsoils erode, water sheds deteriorate, siltation worsens, water supplies degrade, and flooding occurs. As woodlots are cut, wind erosion worsens, land degrades, water runoff increases, etc.

The very basis of rural life is threatened by the "tragedy of the commons." Yet for the individual actor who is acting alone in pursuit of his self-interest, his abstention alone from the resource in question probably is at best a speedier suicide than is the prospect of long term resource exhaustion. As the costs of conservation are fairly high the individual "consumer" will try to externalize his costs to others who will resist if they can. Perceiving the good from its immediate market value rather than from its longer term replacement value, he will oppose efforts made toward conservation, probably to a level too low to protect the good.

Technical Innovation: The rational, individual peasant is not usually concerned alone with expanding his crops. He is also concerned, some argue primarily concerned, with security. A seemingly irrational/inefficient system of scattered plots helps protect him from total crop failure. Similarly, his "social security" system lies in the social relationships he has nurtured and responds to throughout the year. The decision to attend a funeral celebration in a neighboring village for two or three days during a key phase of the crop cycle may cost him some production, but it maintains his secure membership in a system of social and political relationships that are his security in times of crop failure, personal injury or family crisis. Equally, conspicuous success can cause hostilities, exclusion from valued social relationships; even violence. So the peasant is interested in more than simply making his own "green revolution."<sup>10</sup>

But he is not without interest in higher income. The problem is that most official programs of technological innovation suffer from three key failures:

- they fail to comprehend the non-economic demands on the peasant farmer's life, and may therefore expect higher labor intensity than will be

forthcoming;

- they fail to comprehend the risk they ask the peasant to take to pay for unknown and costly inputs (seed and fertilizer) which may place the peasant in real danger of penury should the crop fail;

- and, they fail to understand they face a "market for lemons" cost picture, where the uncertain and unreliable performance of government programs in the past leads rational peasants to devalue the claims and inflate the costs of all new programs in the present.<sup>11</sup> For this very sensible last reason alone, peasant innovation in agriculture would be slow. The rational peasant would wait for others to bear the risks, for others to experiment with the social system, for others to deal with an unreliable government. Once others have proven one can survive and prosper with technical change, the rational peasant will then change his farming practices. Let others bear the risk, particularly since the risks appear to be so high. Agricultural production, embedded as it is in the entire life of the community, will not respond to market and technological strategies which assume rational and atomized producers.

Because of these factors, government attempts to expand agricultural production are received skeptically if at all. The many outsiders who hold the view that Third World peasants are "traditional" and blind to economic incentive miss the key point. The peasants are reluctant to take risks because the costs versus the benefit, particularly when prior government performance is considered, are very disadvantageous. Why should they bear

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excessive potential economic and social costs for very uncertain benefits? If everyone reasons similarly, of course, innovation will not occur. Given the above logic, initial field innovations may require community-wide commitment and support.

Allocating Development Resources: When resources are finite (as of course they always are), choices must be made. To the extent that these choices bring a greater economic return for the resource once expended, efficiency is increased and one aspect of human welfare is served. All this is particularly important when applied to development investment: investments in goods and projects expected to yield a sustained economic

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return in the future.

Calculating a return on resources is of course always subjective. Western market systems have been criticized for their insensitivity to social costs and returns, and their often poor reflection of the replacement costs of finite resources. In some measure, as a conscious attempt to avoid these errors, the bulk of investment decisions in development countries are made administratively, and from the center. In this model, economists and planners, guided by sophisticated political leadership, would rationally allocate resources to balance economic and social values and measure and compensate for long term opportunity and resource costs.

When development devoted itself to steel mills, harbors, airports, railroads, etc., this system may have been tenable. The failure of so many such projects to ever attain economic viability suggests, in retrospect, that planners dealing with even a few such decisions faced insurmountable uncertainties. In a world where rural, small-farmer, agricultural development is a high priority, this approach faces even more serious obstacles.

As compared to urban and industrial development projects, rural development projects are far greater in numbers, smaller, require more community involvement, are more complex to fund and administer, and must be adapted and customized for an incredible variety of local conditions. Under these conditions, national-level planners needed help. In many countries they

turned to local/rural "planning" systems to help set priorities, allocate  
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resources, and implement projects.

Among the problems these approaches experienced were the way the goals and incentives of local officials and local dwellers differed from national officials. Development funds, to local personnel, appeared as a common pool resource. The rational rural dweller and his representative sought to get as much funding as possible for as many projects as possible. When funds were (and in nearly all cases still are) allocated to local projects from several national sources, no local dweller had an incentive to design projects and set priorities to maximize efficiency among local wants and need. The choices of one ministry rarely affected the decisions of a second or third ministry on other local development projects. The rural dweller could see that local wants did not face a zero-sum contest among themselves. If there was money for rural electricity, he would attempt to get it, even though he and his fellow local leaders or farmers might place a higher utility on secondary roads or potable water. For the local dweller, all projects were "top"  
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priority, at least when communicating to central ministerial officials.

Similarly, even if the value of an irrigation project in a neighboring village may substantially exceed the value of the same project to his village, there was no return from the government, nor were there any institutionalized methods of making side payments to encourage the local leader to agree to and support a higher priority for the neighboring village's project. The outcome of all this is that a central government which lacked the information to rationally decide among local development projects seemed unlikely to get that information under most bottom-up local planning systems. Even where nominally dominant rational planning ministries were to vet and set priorities among the plethora of local project proposals, their authority has been undercut by

their lack of power: Ministries of Finance and technical ministries have appeared to continue to control the bulk of investment funds.<sup>16</sup> And since these projects were, once again, characterized by high fixed cost and low or zero marginal cost, the market could not function to choose priorities. They remained in limbo: central governments lacked information to make efficient decisions and markets could not.

This section has argued that the principles of microeconomics as applied by public choice theory help explain why several, generally agreed on, key aspects of Third World development will generally be undersupplied. Infrastructure, optimal use and conservation of natural resources, agricultural innovation, and efficiency in allocating development funds are limited by the rational behavior of individuals under current institutional conditions. The remainder of this paper will explore why and how those institutions and conditions might be changed.

### **COLLECTIVE ACTION, RULES AND DEVELOPMENT**

One can look at the problem of underdevelopment at least from two levels. From the local perspective, development can be viewed in general as a kind of "public good." Development as the sum total of economic modernization, institutional growth, education, etc., fits a key characteristic of the public good: once its here, all will share in it, regardless of who pays; therefore the rational person will pay as little as possible. The problem is this is precisely the characteristic which leads to free riding and underinvestment in collective goods (and underrestraint in consuming from common pools). Thus, local development as a general goal or idea would not energize individuals,

but enervate them: they, following their self-interest, would wait for others to pay for or bring "development." As central government is in most cases the only viable government institution, and most discusses and espouses development, the rational rural dweller would wait for it to deliver development. In fact, rural development is nearly everywhere stagnant, and there is overwhelming evidence that local communities are weak if not feeble partners in development projects; both conditions are consistent with this reasoning.<sup>17</sup>

Of course, and at a more specific level as we have seen above, the same logic obtains. Whether it be a dam, a bridge, a woodlot or improved agricultural technology, rational rural dwellers would not provide these public goods alone. They would wait for others to pay for them, seeking to minimize their own expenditures and/or risk, and maximize their own returns and/or usage. Whether the issue is looked at the macro or micro level, key goods for development will be underprovided.

Public choice theory and welfare economics point emphatically to the solution: public goods can be provided when individuals in groups bind themselves together to behave collectively through the use of rules. Such rules can take a variety of forms and have a variety of origins. They include private contracts with third parties as enforcers; social customs undergirded by social pressure or sacred sanctions; professional "norms" sanctioned by membership in exclusive associations; rules within voluntary associations using membership as a sanction; rules defined by sovereign bodies for the members and backed by legal coercion; rules entered into by and among

sovereign bodies, and others.

Since independence, the bulk of Third World governments have sought to make rules through centralized authority and through formal law. This law has

been defined virtually exclusively by unitary governments, has emphasized administrative decision processes such as national planning which have limited input, and been enforced primarily through centralized, hierarchical, and professionalized bureaucracies. In theory, such a system of sovereign rules is among the most compelling. Yet, by most yardsticks, Third World rural development has stagnated.<sup>19</sup> As this paper has argued, this has been in part because of the inability of Third World governments to surmount the collective goods problem. Why have they failed?

Like all rules, of course, a law is not a social reality because it is simply a "law." First, it must effectively sanction non-compliance (and/or reward compliance) and be known to do so. Second, as a tool of social policy seeking support because of agreed upon ends, it must be based on sound reasoning and be adaptable and adapted to varying conditions as they affect its soundness. The second observation is simply to note that the "if...then" logic expressed by a rule must be sound if it is to achieve the desired social outcome; and that as varying contextual and environmental factors affect the original hypothesis, they must be taken into account in its administration. Neither of these observations are profound, but each has profound implications for the bulk of Third World governments' development efforts.

First, all rules are problematic. Individuals are uncertain as to the probability that sanction or reward will actually be coupled with rules. "Policemen" are never everywhere and bureaucracies always operate with some error. Furthermore, individuals can never be certain as to the reliability of the logic undergirding a rule and therefore of the likelihood of specified outcomes. Finally, individuals can never be certain of the behavior of others regarding any single rule. All of these can be reasons to ignore or evade rules.<sup>20</sup>

As numerous analysts have observed, the reliability and reach of Third World bureaucracies in rural areas is dismal. Lacking certitude about rules, individuals make guesses as to their personal interests, and often choose to evade or ignore those rules. This is particularly a problem for compliance where individuals have a financial interest in evading rules: in free-riding, in exploiting common-pool resources, and in evading compulsory and uncertain technical innovation. Centralized authorities and hierarchical bureaucracies have, by their own deliberate policy, concentrated rule-making and enforcement powers in their hands. Thus, as their "reach" fell short of the rural areas, there existed no leadership cadre or institutional structure to fill these

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gaps in "rules." One is left with an unanswered question: how are individuals to be persuaded or to persuade themselves to set and follow rules for the collective good?

The second problem associated with making rules real is their credibility and record as effective social policy. As societies are indeed extremely complex, and composed of multiple systems of human interaction, social

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engineering must be sophisticated and adaptable to succeed. For any single group of actors to attempt to define and adapt the plethora of rules needed by societies pursuing dramatic economic and social transformation is to take on an immense, perhaps impossible task. For, programs and rules which effectively address a variety of ecological, economic, social and political problems and resources are necessary for rural development. In any country, natural resources and infrastructure may range from plentiful to non-existent; localities vary dramatically in income, number of landless, and extent of land pressure; local political institutions may be moribund, vital or mixed; and experience with centrally based programs in the past may have colored a locality's orientation toward new "development" programs from open to

hostile.

The basic problem when rule making is centralized, is that, the scale of activity is so large and the cost of analysis and differentiation among such local characteristics is so high that a flexible strategy utilizing a variety of tactics has not been possible. Centralized rule making has generally required categorization, systematization and routinization. All these, particularly in programs which attempt broad (geographic), and deep (distance from headquarters) coverage, have been biases toward inflexibility. Selective incentives and flexible implementation are difficult to devise and maintain in such a system. Indeed, the irony is that the same dynamics of distance, space and uncertainty which make flexibility imperative have tended to make officials seek greater hierarchical control, and lead to a less flexible

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organization.

Similar problems bedevil centralization of rule implementation. Requirements that decisions be referred up lengthy chains and the tendency for national offices to be clogged with such requests, have slowed intolerably actions by central bureaucracies in developing countries. This is particularly troublesome when bureaucracies are working in conditions of great uncertainty, when information costs are high, when technological underdevelopment makes information leakage high, and when national policies and funding are always uncertain. Bureaucrats as centralized rule makers are caught in double bind: because of these factors, field personnel are reluctant to commit themselves without headquarter support, and headquarter personnel often cannot adequately evaluate proposed actions with the information they do have. Either way, incentives delayed can mean programs lost. This is particularly burdensome when some local support has existed; for those who take risks learn to avoid them in the future. If local leaders

support projects and rules which are disrupted or found to be fictions, their current stock of influence is diminished and their inclination and ability to

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support programs again in the future decline proportionately.

We conclude this section with a dilemma: rules are crucial to Third World rural development; yet the concentrated power of the centralized state has failed to bring rules to rural development. Is there any solution?

## LOCAL GOVERNMENT AND RURAL DEVELOPMENT

So far this paper has argued that public choice theory is useful in understanding the slow pace of rural development in the Third World. It has argued, furthermore, that attempting to define and implement rules at and from only one level in a political system makes difficult the two challenges of making those, rules real and making them effective. The remainder of this paper will argue that the establishment of sub-national rule making and implementing institutions in Third World countries is essential to surmount the "public choice" problem impeding rural progress.

As the discussion which follows will show, however, a simple "deconcentration" or "delegation" of functions to subordinate levels of a bureaucracy is unlikely to have these results. The behavior discussed below presume the existence of a semi-autonomous political life where actions and outcomes are real, where local political actors can win local rewards (and face local sanctions), and where consequences (bads and goods) must be lived with. When there is such a political life, this paper hypothesizes three things can happen. Specifically, semi-autonomous, sub-national political communities when dealing with substantive areas appropriate to their geographic and technical scale, can:

- help make rules operating realities by providing structures of incentives and opportunities which: reward local leadership for defining and integrating community needs, building coalitions around them; and which provide local leaders who will persuade individuals when information is incomplete that the risks and benefits of supporting a "public good" either by contribution or restraint are favorable to their interests;

- help make rules effective by allowing local conditions to guide, modify

and undergird rules and programs which will provide and/or protect "public goods;"

- help communities expand their rule making potential by providing experiences and incentives through which social learning can occur, which can be the basis for more enlightened, long-term, and community-oriented calculations of self-interest and rational behavior, and can define new areas where "public goods" might be provided.

Leadership and Making Rules Real: As we have already noted, the conventional solution to the "public good" problem in the Third World has been use of law defined and administered by the unitary state and its bureaucracy. In this approach, when a tax, a resource conservation program, a premium for risk taking is enforced by law, the "public good" or free-rider problem should disappear, for that particular good. The problem with this relatively "simple" solution, as we have seen, is that the problem is less simple than it appears.

In the absence of an overwhelming authoritarian actor on the horizon, rules must carry some momentum with them. One way of doing this is to reflect some degree of social consensus, of collective purpose. Since unanimity in political life is extremely unusual, coalitions must usually be drawn together to integrate diverse purposes. Even then, individuals must still be persuaded not to try to "ride-free."

All these issues are extremely pertinent to the rural Third World. Even a rural peasant community is composed of differentiated groups: generations, ethnic groups, farmers and herders, those with access to irrigation and those without, those with better and those with poorer land, wage earners, merchants, and so forth. Various public goods will certainly have differing value to them. Conflict may have occurred among them in the past. Still,

cooperation among them and among those who value goods differently will probably be necessary to provide the goods. How is that accomplished? Through a unique function of political leadership: building coalitions.

Coalition building and community integration have been found in empirical work to be key prerequisites for effective community political life. Robert Dahl found the mayor to be the key integrator in New Haven, Connecticut. It was the mayor who sorted out contending goals, defined and began new positive sum games, and moved to new and more complex goals. Overall, Mayor Lee was a successful entrepreneur in essentially developmental programs because he had information, personal knowledge and contacts, negotiating skills and resources, which he used to bridge class, ethnic, and stylistic barriers to collective action. He did not pursue every some good with public support, but used his local intelligence to avoid ones with excessive conflict. When he perceived a good would ultimately earn a "profit" locally, he used timing, specific rewards, his credibility and trust to integrate the community around

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the good. The key role of the entrepreneur is reflected by Dahl:

" Group dynamics" is what he [Mayor Lee] would call it, but whatever it was, the careful courting of the voters, the personal link with Yale, the creation of a pro-administration business organization, the accommodation with the politicians, and control of the bureaucracy had the practical effect of mobilizing his opposition, giving him the support he needed, and creating apparent consensus. From afar the Lee coalition seemed to have the order, body, and unity of a symphony. But in many ways it was a one-man act with Lee assuming the combined role of composer, arranger, conductor, and performer.

As Dahl explains, however, there was no groundswell of demand to redevelop New Haven. What there was, was a vague sense of discontent, a latent feeling that something should be done to improve the city. It was the politician who galvanized the action. "It was Mayor Lee himself who set about to sniff out discontent, generate demands, actuate consensus and create

agreement on a strategic plan."'' Lee succeeded because:

He possessed a detailed knowledge of the city and its people, a formidable information-gathering system, and an unceasing, full-time preoccupation with all the aspects of his job.

Ann Greer notes the role of leadership in her study of municipal politics in Waukegan, Illinois:

Insofar as a political executive is successful in establishing close communication with the effective leaders of the various groups in the community, he increases his ability to receive early consultation. He is able to suggest and persuade and he gains the opportunity to negotiate early, non-divisive compromises.

The local political entrepreneur, then is in a position to gather and manipulate information about proposed projects that can bridge the gap between uncertain information and risk; he is able to build trust through his personal relations with local people which add weight to his information and assurances; and use his local intelligence to integrate a differentiated yet interdependent community to support varied and complex collective goods. As a local political life becomes more vigorous, "citizen-entrepreneurs" will find incentives also to organize to produce other collective goods. Diverse sources of initiative help to provide diverse collective goods, but, assuming human rationality, will only develop as a community's ability to reward its leaders develops. As leaders make themselves useful to other members of the community, there are additional "costs" to consider for those who resist

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collective action.

Trust is a key resource in leading collective action when information about costs and benefits is ambiguous. It bridges known problems, costs and needs, to reach uncertain solutions and benefits. It provides room for political entrepreneurs to "log roll" a coalition and draw on resources until returns appear.

It is necessary for leaders to integrate structurally differentiated yet interdependent communities. It is also a key factor in persuading local dwellers they should personally support a collective behavior. Samuel Popkin recently wrote:

When a peasant makes his personal cost-benefit calculations about the expected returns on his own inputs, he is making subjective estimates of the credibility and capability of the organizer, "the political entrepreneur," to deliver. The problem of the supply of collective goods and the choice among alternative patterns of supply make "mechanisms for coordination of expectations and the pooling of resources" a central issue. Hence, the importance of the leader as a political entrepreneur—someone willing to invest his own time and resources to coordinate the inputs of others in order to produce collective action or collective goods—cannot be underestimated.

In a world of limited and uncertain information, as we have seen, individuals must make guesses as to the likelihood of behavior being sanctioned or rewarded, and even as to the value to them of specific public goods. Those guesses are complicated by how widely problem and policy areas vary in scale: of cost, of input, of technology, and of the numbers and preferences of other people involved. Under such uncertainty, persuasive leadership to help translate problems into policies is essential.

In his analysis of peasant behavior in Southeast Asia, Samuel Popkin found several ways in which political entrepreneurs could define local needs and goals, and help rural dwellers choose collective action.

He found local leaders could generate and interpret information to persuade peasants that each person's contribution was necessary to produce a collective good. Individuals could be persuadedg individuals that each person's contribution was necessary to elicit others' support. One could also break up the collective good into many smaller pieces, where each person's

contribution could be linked to an identifiable product, leading to the final product. Of course, when individuals had chosen to contribute for altruistic or ethical reasons, a credible leader was still necessary to persuade them of

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the efficacy of contributing through a given structure.

With these strategies, the local political entrepreneur can make a strong case to the relevant "public" that the rules and goals he selects serve the members' individual and collective interest. As he is successful with some goods, he will build a "bank" of confidence on which he can draw to persuade people to support other goods. Thus leadership and local government themselves become a good generated by a local political process. As they succeed, they make possible more rules and thereby more collective action.

Administration and Making Rules Effective: Let us assume a coalition has been built and individuals have been persuaded it is in their interest not to attempt to ride free. The "public good" can still be lost if individuals find

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administration of sanctioned programs to be erratic, ineffective or unfair. Not only must leaders persuade their "constituents" that a program is in their interest, and that it is in their interests not to ride free; its administration must be seen to fit local needs, be seen to sanction behavior equitably, and be seen to work.

In an insightful analysis of the obstacles blocking protection of a common pool resource, wood resources in the Sahel, James T. Thomson shows how crucial effective administration is in protecting public goods, and how poorly national institutions have performed. Because of the importance of this study it will be cited at length:

Policing is an indispensable start towards management. It demonstrates somebody's direct concern with trees and puts potential violators on notice that they are illegally infringing collective or individual

interests in the Woodstock.

State **control** and policing of the **Woodstock** to the exclusion of all local involvement in management is a major weakness of many contemporary Sahelian reforestation schemes. It dissociates policing and **harvesting interest**: foresters police alone, and everybody else harvests on the sly. Financing now available to Sahelian forestry agencies is insufficient to permit massive staff increases. Therefore, exclusive state policing as a control system seems doomed to severely suboptimal performance, and **sustained-yield Woodstock** management by such means is unlikely.

Local policing, where **trees** are collectively owned by local **units** or held by individuals, **appears** to offer a useful alternative. However, it must resolve the enforcement problem or witness a return to the working rule governing unregulated common property **Woodstock** exploitation: "cut anywhere but at home."

Individuals may indeed be able to see the value of collective action, but **the** existing institutional structure may make it impossible. As Thomson noted:

The Sahelian peasants are often admonished to become aware of environmental degradation. By implication, ignorance or plain stupidity underlie peasants' current failure to take better care of the land and trees that support them. But it is highly unlikely that peasants fail to see the ecological breakdowns occurring around them. They may be aware and concerned, yet simultaneously immobilized by inappropriate rules.

As an alternative, Thomson recommended local institutions:

Village governments or quarter committees could regulate access. Local management units would be empowered to exclude non-residents. By reducing information costs and facilitating the consensus required to maintain a local regulation system, such units might well cut policing and investment costs involved in building collective supply.

Adequate collective management decisions depend on **accurate** knowledge about who is doing what with the **Woodstock**. **Wood must** presumably be **distributed** under some locally acceptable formula which would equitably **apportion** supply and hardships associated with short supply. Details of distribution formulas appear to be an intimately local matter, defined by each local unit's consensus about what is right and proper. Two general conditions hold, however.

First, such formulas must be enforceable to be effective. If those who run short are permitted to raid the collective **Woodstock**, the not inappropriate first come, first served rule will replace good management.

Second, a formula will only work if it is seen by villagers to achieve equity. Inequitable arrangements will be violated by aggrieved peasants pressed for fuel. Accurate information gathered in ways which local people consider reliable can avoid this. Considerable room for local experiment exists here, but the smaller the user group and the greater their daily interaction the lower information costs will be...

What were the faults of State managed resource control? Insufficient information to attune their program to local needs; no means of discovering, defining or building a local consensus behind operating rules; inadequate intelligence to enforce effectively any rules; and insufficient money to put an effective force into the field. This is not unique to Sahelian resource management. In his comprehensive analysis of Third World rural administration, Jon Moris observes:

Again and again the typical failings of field units reveal inadequate organizational intelligence and adaptability in their own operation: rigid adherence to targets long after circumstances have changed, crises which could have been anticipated, spare parts not ordered on time, a lack of contingency plans, and so forth.

As Moris and others analyze the objective characteristics of the Third World environment, the development task, and the organization and resources of Third World national bureaucracies, these problems are perhaps unavoidable. Specifically, they characterize bureaucratic performance as inflexible, 41 delayed, weak in the field, and as biased to urban/external interests. These combine to make central bureaucracies ineffective in controlling free-riders through either sanctions or selective incentives, and in altering individual calculations which discourage collective interests.

As Samuel Popkin explains, there are many reasons why a peasant might choose not to support a collective endeavor:

Many collective projects benefit an individual whether he contributes or not. When weighting his contribution, a peasant can be expected to take account of several factors relating to costs and benefits. First, expenditure of resources, that is, if a peasant contributes to a collective action, he must expend valuable resources. If a project fails, the peasant loses his investment; additionally, he may be punished for participation if the action (such as rebellion) fails. Second, positive rewards, that is, the value of the direct and indirect benefits. Third, probability of his action leading to reward (efficacy), that is, the effectiveness of a contribution depends on its marginal contribution to the success of the endeavor. This, in turn, depends on how other actions aggregate, whether they bring the effort sufficiently close to success to make a contribution worthwhile. Fourth, leadership viability and trust, that is, when estimating the probability of success, a potential contributor takes into account not only the volume of resources mobilized but the leadership skill with which they are mobilized as well.

Ineffective administration thus increases the likelihood that peasant will withdraw from collective action.

How might local government operate better? First, and as discussed by Thomson, local dwellers are more likely to design a better program. They know locally acceptable ground rules, be aware of abuses and free-riders, be able to fine-tune programs to fit varying local conditions, define equitable (and therefore broadly acceptable) allocations of volunteer administrative responsibility, and discern early and alter flawed programs and strategies.

Secondly, and perhaps more profoundly, as Thomson emphasizes, a locally based program has greater likelihood of enforcement, as it merges the interests of the administrators or "policers" with the local dwellers. Having agreed locally on a collective task, having designed the program to fit local needs, those charged with enforcing the collective behavior have a greater likelihood of actually enforcing it because they will also share the benefits of success. The incentive to obey and to enforce is far stronger than when an external-bureaucrat enforces a program agreed upon far away, in an area he

neither knows nor plans to stay in for long.

A third advantage is the increase in institutional capacity which grows from greater flexibility in institutional design .This is explained in a seminal article on American metropolitan government by Vincent Ostrom, et al. Here is described the flaws of centralized, comprehensive government, and is identified a scheme to maintain its virtues while evading those flaws. In this analysis, "gargantua" bears a striking resemblance to Third World national governments:

Gargantua unquestionably provided an appropriate scale of organization for many huge public services...

However, gargantua with its single dominant center of decision-making, is apt to become a victim of the complexity of its own hierarchical or bureaucratic structure. Its complex channels of communication may make its administration unresponsive to many of the more localized public interests in the community. The costs of maintaining control in gargantua's public service may be so great that its **production** of public goods becomes grossly inefficient.

The solution is not radical and comprehensive decentralization, for bureaucracy is not the "enemy." Rather, making decisions at levels which do not correspond to their relevant "publics" is the problem:

The multiplicity of interests in various public goods sought be people in a metropolitan region can only be handled in the context of many different levels of organization. The polycentric system is confronted with the problem of realizing the needs of wider community interests or publics beyond the functional or territorial bounds of each of the formal entities within the broader metropolitan region. The single jurisdiction, in turn, confronts the problem of recognizing the organizing the various subsidiary sets of interests within the big system.

Some goods such as flood-control or water-basin management must be handled at regional or perhaps national levels. However, Ostrom's thesis is that organizing around the smallest public which can reasonably be expected to

afford a public good, can avoid spill-overs and/or internalize externalities, will maximize individuals and communities' ability to define rules for themselves which provide the public goods they want and need.

Finally and fourthly, as Mancur Olson has shown, small organizations need pay lower organization costs, decision costs and information costs. At the same time smaller organizations can utilize informal communications, social cohesion, face-to-face loyalties and social pressure to strengthen

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themselves. Diverse empirical research lends credence to these hypotheses. For example, research on contemporary American urban services has indicated that citizens serviced by smaller bureaucracies are more pleased with those

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services than they are by public services managed by larger ones. In the Third World, Freeman and Loudermilk found local authorities essential for effective management of small-scale, tube-well irrigation projects in rural

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Pakistan. Thomson, of course, found what little progress had been made in wood-lot management grew from local, not centralized actions.

The operational problem, then, for Third World leaders is to adapt scale of organization to the task at hand:

The problem of gargantua, then, is to recognize the variety of smaller sets of publics that may exist within its boundaries. Many of the interests of smaller publics might be properly negotiated within the confines of a smaller political community without requiring the attention of centralized decision-makers concerned with the big system. This task of recognizing the smaller publics is a problem of "field" or "area" organization.

In summary, a second way local government helps surmount the rationality of individualistic behavior is by improving the administration of collective projects and policies. As a locally based organization, it avoids the inflexibility and external orientation which weaken national bureaucracies, operates with lower organization costs, and can better tailor programs to local wants and needs. If it can increase the likelihood of effective

sanction against free-riding and reduce successful evasion of rules of self-restraint it can reinforce the influence of local leaders, and viability of local institutions.

Social Learning and Creating Political Communities: So far this paper has regarded individual decision making as occurring within a relatively fixed ceteris paribus: individuals will make rational choices in a relatively narrow definition of their self-interest. Clearly, however, individuals can define their self-interest diversely: some individuals seek wealth, for themselves alone; others live lives devoted to serving the needs of others. Major contemporary theorists have argued however, that a community's

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characteristics can change individual decision parameters. The last section of this paper will review one case, study and the theory it implies which argue that a strong tradition of local rule making can affect how individuals conceive of self-interest, and change how they define and link individual and collective interests. To do so, I shall quote a length from Alexis de Tocqueville's analysis of rural and small-town America in the 1830s. In many key ways, his analysis of development, collective action, public goods, and the social condition of agrarian America parallels that of the contemporary Third World.

In the masterpiece, Democracy in America, Tocqueville sought to explain what social system would replace the rapidly declining traditional aristocracy of Western society. To Tocqueville, aristocracy created a set of obligations, rights, privileges and responsibilities, and defined a system of authority and obedience which structured social relations, balanced liberty and order, and provided for the general welfare: it created and sustained rules, and thereby provided collective goods and assessed long-term social costs.

Tocqueville believed that the social changes of the 18th and 19th centuries would spread an equality which would act as a solvent to dissolve this social fabric and its ability to generate rules. Tocqueville was not, on balance, an opponent of equality per se. What he feared was the social disintegration which he felt it carried. For Tocqueville saw humans as intrinsically individualistic and egoistic: without some force propelling them together, men were inclined generally to close out community-wide concerns and pursue ever-narrowing personal and petty preoccupations:

Individualism is a calm and considered feeling which disposes each citizen to isolate himself from the mass of his fellows and withdraw into the circle of family and friends; with this little society formed to his taste, he gladly leaves the greater society to look after itself.

How then could collective action be based? Anticipating Mancur Olson's analysis by one hundred and fifty years, Tocqueville wrote:

When no firm and lasting ties any longer unite men, it is impossible to obtain the cooperation of any great number of them unless you can persuade every man whose help is required that he serves his private interest by voluntarily uniting his efforts to those of all the others.<sup>52</sup>

He continued to offer a solution to this isolation:

In democratic countries knowledge of how to combine is the mother of all other forms of **knowledge**; on its progress depends that of all the others.

Public choice theory and this analysis of rural development have shown such an art is difficult to perfect. Still Tocqueville saw an essentially rural, under-developed America teeming with voluntary associations and exploding with community projects. Why?

For Tocqueville a large portion of the answer in America lay in the very experience individuals had with local self-government. First they learned of their need for one another, and their need to find voluntary grounds of action:

In aristocratic societies, while there is a multitude of individuals who can do nothing on their own, there is also a small number of very rich and powerful men, each of whom can carry out great undertakings of his own.

In aristocratic societies men have no need to unite for action, since they are held firmly together.

Every rich and powerful citizen is in practice the head of a permanent and enforced association composed of all those whom he makes help in the execution of his designs.

But among democratic peoples all the citizens are independent and weak. They can do hardly anything for themselves, and none of them is in a position to force his fellows to help him. They would all therefore find themselves helpless if they did not learn to help each other voluntarily.

As local decisions and issues affected citizens they learned the connection between their interests and the community, they learned of their interdependence:

It is difficult to force a man out of himself and get him to take an interest in the affairs of the whole state, for he has little understanding of the way in which the fate of the state can influence his own lot. But if it is a question of taking a road past his property, he sees at once that this small public matter has bearing on his greatest private interests, and there is no need to point out to him the close connection between his private profit and the general interest.

Thus, far more may be done by entrusting citizens with the management of minor affairs than by handing over control of great matters, toward interesting them in the public welfare and convincing them that they constantly stand in need of one another in order to provide it.

From this process, shared values and local leaders would develop:

The general business of a country keeps only the leading citizens occupied. It is only occasionally that they come together in the same places, and since they often lose sight of one another, no lasting bonds form between them. But when the people who live there have to look after the particular affairs of a district, the same people are always meeting, and they are forced, in a manner, to know and adapt themselves to one another.

Some brilliant achievement may win a people's favor

at one stroke. But to gain the affection and respect of your immediate neighbors, a long succession of little services rendered and of obscure good deeds, a constant habit of kindness and established reputation for disinterestedness, are required.

Local liberties, then, which induce a great number of citizens to value the affection of their kindred and neighbors, bring men constantly into contact, despite the **instincts which** separate them, and force them to help one another.

At the same time that individuals learned of their need for one another, their interdependent interests, and became familiar with one another, they learned self esteem and self confidence:

He trusts fearlessly in his own powers, which seem to him sufficient for everything. Suppose that an individual thinks of some enterprise, and that enterprise has a direct bearing on the welfare of society; it does not come into his head to appeal to public authority for its help. He publishes his plan, offers to carry it out, summons other individuals to aid his efforts, and personally struggles against all obstacles.

As well as this self-confidence, Tocqueville believed the experience of local government taught individuals enlightened self-interest:

The Americans, on the other hand, enjoy explaining almost every act of their lives on the principle of self-interest properly understood. It gives them pleasure to point out how an enlightened self-love continually leads them to help one another and disposes them freely to give part of their time and wealth for the good of the state.

This enlightened conception of self-interest undergirded and encouraged the American's propensity to cooperate with his fellows:

"In the United States there is hardly any talk of the beauty of virtue...they boldly assert that such sacrifice is as necessary for the man who makes it as for the beneficiaries."<sup>59</sup>

Tocqueville drew a picture of a society where citizens learned through

exercising political responsibility of their interdependence and shared interests, and of their need for self-restraint. They developed confidence they could achieve great things and believed in their obligation to obey law because they saw it as their own: each man's rights were another's obligations, and vice-versa. "So one may think of political associations as great free schools to which all citizens may come to be taught the general theory of association."

While Western society in the 19th century was of course quite different from the contemporary Third World, there are equally some critical parallels. Multi-ethnic states, weakened or destroyed traditional authorities, rapid urbanization and industrialization, new bases for social, economic and political power, all combine to form disintegrated societies, then and now. Institutions to define rules and operating societies to sustain them are weak or nonexistent. If contemporary research has shown us that tradition is a far more persistent force than earlier modernization theorists had thought, they have not shown it successfully reconstituting local communities. Instead, Third World governments have relied upon centralized governments. But as Tocqueville saw in 1830, and contemporary analysts have suggested more recently, such a strategy is ineffective in defining rules which structure behavior to provide public goods:

It is true that centralization can easily succeed in imposing an external uniformity on men's behavior...Centralization easily imposes an aspect of regularity of day-to-day business; it can regulate the details of social control skillfully check slight disorders and petty offenses; maintain the status quo of society...In a word, it excels at preventing, not at doing. When it is a question of deeply stirring society or of setting it a rapid pace, its strength deserts it. Once its measures require any aid from individuals, this vast machine turns out to be astonishingly feeble; suddenly it is reduced to impotence.

Understanding the limits on the power of central administration, and the need

for individuals to choose to provide public goods, he wrote:

Look where you will, you will never find true power among men except in the free concurrence of their wills. Now, patriotism and religion are the only things in the world which will make the whole body of citizens go persistently forward toward the same goal.<sup>64</sup>

It was from free choice that Tocqueville believed collective action must grow. And local government taught people to make such free choices. It was a powerful way to connect individual interests to collective interests: It gave confidence that collective goods were possible, it alerted people to long-run payoffs, and it turned purely economic calculations into partly altruistic and ethical ones. It broadened the bases of group membership, and through enlightened self-interest and community legitimacy, it lowered the threshold of visible economic returns which individuals required to join in communal action. To Tocqueville, it was the major builder of patriotism. It helped, thereby to define and sustain rules and thereby to reconstruct communities:

The Americans have used liberty [local political life] to combat the individualism born of equality, and they have won.

The lawgivers of America did not suppose that a general representation of the whole nation would suffice to ward off a disorder at once so natural to the body social of a democracy and so fatal. They thought it also right to give each part of the land its own political life so that there should be an infinite number of occasions for the citizens to act together and so that every day they should feel that they depended on one another.

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That was wise conduct.

## **SUMMARY AND CONCLUSIONS**

This paper has argued that much of the persistent rural underdevelopment in the Third World can be understood through public choice theory. By looking at the rational incentive individuals have to maximize their interests as individuals, one can understand why apparently desirable collective behavior often does not occur. Third world rural development requires massive rural capital investment, restraint in use of common pool resources, risk-taking, and mechanisms to efficiently allocate resources; these are all activities where collective action by the citizens is crucial. Hitherto, that has not occurred. This is because national agents have lacked the funds, the information, the extensive personnel and the legitimacy to provide the good or to regulate and/or coerce the behavior necessary to provide the desired goods. This situation may well be exacerbated by conventional central planning systems and developmental rhetoric: not only does the national government lack the mechanisms to turn individualistic interests into collective interests, its preemptive approach to development in general discourages localities from moving onward by themselves: why pay the costs of development as an "individual" community when there is a national collectivity to provide development at no local cost? The outcome of all this is persistent rural underdevelopment throughout virtually the entire Third World.

This paper has argued a second thesis: that public goods can be produced in the rural Third World through local politics and government. They bring three advantages:

First, a local political process gives political entrepreneurs or leaders an opportunity and an incentive to build coalitions and trust, and to persuade thereby local dwellers that a project or program will succeed. Through the local leader's access to information, he is in a position to log-roll, make

side-payments, time contributions, and call for contributions on faith and trust. In each respect, the local leader can use favors and persuasion to replace the uncertainty which surrounds most individuals' decisions regarding collective action. Identifiable and locally selected leaders will also develop reputations for reliability and failure to help preempt the "market of lemons" which currently deflates the value of most nationally led programs. A local political process is an opportunity to define operating rules.

Second, in providing and maintaining a plethora of relatively small administrative units, it offers organizations whose scale, operation, decision making, feedback, flexibility and constituency-orientation can be far more efficient and effective than the exclusive use of national bureaucracies has been. Combined with these administrative advantages are the likelihood that free-riders and common-pool violators can be identified and pressured more easily by a smaller organization than a larger one: it is an opportunity to make rules effective.

Finally, local government and politics facilitates social learning. If rural dwellers can legally take collective action; can tax themselves, hire personnel, let contracts for services, and set an agenda of local tasks, they can learn from their successes and mistakes. Through the experience of local government they have an opportunity to learn the benefits and costs of collective action, of their dependence upon one another, of their individual and collective potential: of their enlightened self interest. While they will not always choose wisely, they will make choices, see the results, and have the opportunity to learn and make new choices in the future: it gives them an opportunity to build a polity, something sadly lacking in most of the Third World.

Perhaps the long-run key to strengthening rural development is altering

the domestic political economy of the Third World. For all the rural dwellers' possible parochialism and ignorance, and it is arguable how much of the distrust of rural areas grows out of urban-intellectual-elite bias and how much from empirical knowledge, a rurally controlled project or program must satisfy a different group of people than a centrally based program; rural dwellers rather than urban, bureaucratic elites. Even if one assumes neither group knows anything whatsoever about rural development at the start, local leaders and local governments have an incentive and, by proximity to the field, a greater opportunity to learn from their mistakes. As Lindbloom has shown, large organizations in general tend not to learn well from their environments.<sup>66</sup>

In the Third World, this is intensified. Foreign advisors return to their metropole, and national bureaucrats move to a different project and area. Since they are accountable not to the consumers but to the organization, they attend to pressures from above rather than below. Since the organization's survival grows from politics in the center, it too largely ignores the rural dwellers.<sup>67</sup> Neither learning nor change occurs: "Errors have been repeated time and time again; in some countries we are now in the third cycle of the implementation of badly chosen policies. Communication to headquarters units is faulty, and planners seem asleep."<sup>68</sup>

But the rural dweller and his representative have incentives to learn from their mistakes. They must live with them. They can see the unfinished project, feel the unmet priority, and know their continued needs. If arenas exist for them to express this information and these preferences, and leaders and officials responsible for local policies are responsible to them, persons can learn from those mistakes. But learning is unlikely without information, an arena to formalize that learning, and people whose self-interest requires

them to attend to those lessons. And none of these are likely as long as urban interests and institutions preempt and dominate rural decision making.

Will local governments always operate "better?" Of course they will not. They will be vulnerable to many serious problems. Elites will gather a disproportionate share of some project benefits. Projects will be started which will be too large, or technically complex for a locality to complete, collapse in local conflicts, waste (in some opinions) scarce capital, and make demands on the central government for recurrent personnel costs it will find difficult to fill." Many of these problems can be prevented by adopting judicial safeguards, mixed responsibility for programs, the use of inspectorate-general, and the other administrative periphanelia of federalism. Still, even when such problems occur, are they greater than the rural passivity and stagnation generally noted today in the literature? Is it not worth the risk to attempt a theoretically sound even if radically new approach to rural development? Even in the danger of local errors lie the seeds of learning and eventual wisdom, virtues in short supply always, and not currently apparent in centralized bureaucracies.

The real failure of rural development strategies hitherto followed is their failure to believe in, organize, energize and institutionalize the ultimate source of all wealth: the people. It is they who are the real agent of development, and they who must be trusted. Without institutions through which they can establish rules to pursue their common purposes they will perforce remain passive. That is virtually a tautology. Rural dwellers cannot develop without collective action and they cannot act collectively without institutions with which they can define, structure and sustain those actions. Paternalism, whether well-meaning or venial, renders and perpetuates them as subjects.