Part VI

Comments

Comment

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The question of how political factors affect economic performance has been receiving increasing attention. This development is in part because of the renewed interest in growth and a revitalized discussion on its determinants. Puzzled by the large and persistent differences in economic performance across countries, economists started to search again for factors to explain these differences. Political factors seemed an obvious candidate. There is now a body of literature investigating the relation between political factors and growth across countries and the Costa Rica conference presented a suitable opportunity to review this new empirical literature. What has the new empirical literature revealed in terms of which and how political factors matter? What do we know? What don't we know?[1]

1 WHAT WE KNOW

We know that elections do not matter – at least not for the economic performance of the country. They do not matter, even if the elections are qualified by their degree of fairness, liberty of the opposition to organize and so on. There is little disagreement in the recent empirical literature: democracy measures that are based on the number of elections are not associated with economic growth.[2] And the result is not so surprising, given that for every star economic performer that happens to have an authoritarian regime, one can think of a dictatorship with a very bad economic performance. Also on theoretical grounds, it is not clear how democracy and rapid growth are linked. Presumably an important channel would be through the increased stability of property rights. However, as Olson and McGuire point out, in Chapter 3 of this volume, an autocracy can deliver a regime of stable property rights if the autocrat behaves like the 'settled bandit' and cares about the productivity of the tax base. On the other hand, as a well-known Latin American scholar used to say, it is possible even in a democracy to

end up electing a new dictator every few years. If each new 'dictator' behaves like a 'roving bandit', that is, he does not care about reducing the tax base because he only gets one take, then this democracy would be characterized by instability and insecure property rights. The number of times people go to vote is not related to economic performance, on either theoretical and empirical grounds.

Constitutions do not matter. Although, to my knowledge, there is no indicator to quantify the quality of constitutions, based on our efforts and some related research we can be pretty sure that the rules laid down in constitutions are not related to economic outcomes.[3] The problem is that in many countries, the implementation differs substantially from the written rule. For example, the fact that the independence of the central bank is guaranteed by law does not necessarily mean that it is truly independent. Or, the fact that a constitution guarantees property rights does not mean that an investor can commit resources with confidence. On the contrary, this appears to be a characteristic of countries where the uncertainty of property rights is large: the written rules differ substantially from their implementation.

Political instability matters a little. Cross-country studies show that the number of politically violent events such as assassinations, riots, executions or violent government transfers are only very weakly related to economic performance.[4] This result may be surprising: one might expect countries with more political violence to experience less investment and growth. One reason for this weak result could be that entrepreneurs may be well insulated from such political events, and these may not imply a greater insecurity for property rights. The exception is the number of coups and revolutions. This variable is more closely associated with economic growth and has become a standard institutional variable used in cross-country studies.

Ethnic polarization might matter. Not many studies have quantified this factor. However, in Chapter 18 of this volume, Kimenyis's results suggest that, at least in Africa, the degree of ethnic difference is an impediment to economic development. This result could be explained if the uncertainty of property rights were higher in more ethnically diverse societies. It is easy to picture a situation in which competing ethnic groups take turns in using state power to appropriate large rents, thereby rendering the business environment highly uncertain. On the other hand, Switzerland is ethnically a very diverse society and nobody would claim that this fact threatens the security of property rights. Instead, the different groups are held together by a complicated set of political institutions that have a stabilizing effect. Therefore, ethnic

polarization probably matters only if it is associated with political institutions that do not promote stability.

Corruption matters sometimes. Most people would expect corruption, at least if it is pervasive, somehow to harm economic performance. The empirical evidence is not entirely conclusive, however, as corruption is obviously inherently difficult to measure. One measure of corruption has been provided by commercial country risk assessments based on expert opinion. These corruption measures are associated weakly with growth and more robustly with investment.[5] Our previous research suggested that one reason why measures of corruption might not always be relevant for economic performance is that some forms of corruption add to the cost of doing business but do not harm it very much.[6] On the other hand, some forms of corruption create large uncertainties and are presumably much more harmful for entrepreneurs, and ultimately for growth. Failure to distinguish between these different kinds of corruption would lead to flawed corruption indicators.[7]

Uncertainty about the institutional framework matters. One set of indicators of the uncertainty of the institutional framework has been provided by country risk evaluators for foreign investors. They include a wide variety of uncertainties, such as expropriation risk, repudiation of contracts by governments, bureaucratic delays and contract enforceability. Keefer and Knack in Chapter 7 of this volume show that these factors explain a significant part of the differences in growth through surveys among local businessmen in a number of LDSs.[8] The political factors that seemed to affect entrepreneurs most were unpredictable changes in rules and regulations, low credibility of policy announcements, and lack of consultation. In our sample, these factors were found to affect growth both by lowering investment and by reducing the efficiency of the allocation of resources. The results of these investigations were promising and a more detailed investigation of these factors seems worthwhile.

Volatility of macro policies matters. As Gavin and Hausmann, in Chapter 5 show the volatility of fiscal and monetary policies can have a significant effect on growth. For example, they find that about 50 per cent of Latin America's 'growth gap' can be explained with a composite index of macroeconomic volatility. The results of Brunetti, Chapter 6 in this volume, confirm this conclusion: the standard deviation of domestic taxes, of the black market premium, and of the real exchange rate are all significantly related to growth. The latter is even robust if one controls for a number of other determinants of growth that have been proposed in the literature. It is not completely clear how the

uncertainties about macro policies translate into lower growth, but they appear to have an adverse effect through lowering investment, by undermining educational attainment, and by reducing the efficiency of the allocation of resources. It would be interesting to investigate how the macroeconomic uncertainties are linked to the micro-level uncertainties described above.

To summarize, we have learned that many political factors do not appear to matter for economic performance, but that others appear to matter a lot. The factors that matter include uncertainty about rules and regulations, constant policy surprises, low credibility of policy announcements, low contract enforceability, high risk of expropriation and volatile macroeconomic policies. All these factors can be interpreted as different expressions of an underlying instability of the institutional framework. The theoretical link between this kind of uncertainty and growth is provided in a framework such as Aizenman's in Chapter 8: in the presence of irreversibilities in investment and delusion adverse to investors, uncertainty, (for example about the future profit tax rate) leads to permanently lower levels of investment – and ultimately growth.

2 WHAT WE DO NOT KNOW

What we do not know is which political institutions promote the stability of property rights. In other words, why is it that some countries have environments in which uncertainty about rules and regulations is low, where entrepreneurs do not have to fear constant policy surprises, and macroeconomic policies are relatively stable? Instead of wondering why many countries have such unstable environments, perhaps we should wonder more why a few countries have such stable environments. For example, by looking at Table 5.1 in Gavin and Hausmann (p. 100) the impression is created that the real puzzle is not that there are countries with very volatile macro policies, but that there are a few exceptions of stable countries. Which are the political institutions that promote such stability? What should we recommend to countries plagued by instability?

The attempt to answer these questions often depends on our respective backgrounds. Somebody with an Anglo-Saxon background would probably think in terms of constitutions, and checks and balances. The Swiss will be tempted to think that direct democracy and federalism would be the solution for unstable countries. A follower of the 'Asian way' would probably plead for strong bureaucracies and corporatist

structures. However, it is always possible to think of counter-examples, where these political institutions were transferred to a different country and failed to produce the desired result: constitutions have been copied but not implemented, federalism has led to increased, not reduced, rent-seeking, and so has corporatism. Real solutions will probably have to be sought at much lower levels of aggregation, and they will probably comprise a whole set of complementary institutional reforms.

Let me illustrate this with a more specific example of institutional reform: the question of which political institutions promote fiscal discipline and reduce the volatility of fiscal policies. A simple answer would appear to be to tie the hands of government through rules – for example by introducing constitutional limits on fiscal deficits such as a balanced budget rule. However, studies of balanced budget rules have shown that they may provide only cosmetic fiscal discipline because they create incentives to shift expenditure off-budget and lead to a more intransparent budgeting.[9] Nevertheless, there may be institutional reforms that could be introduced at the level of the budget process, which would improve incentives for fiscal discipline and stability. Examples of such institutional reform include giving the central ministries more power in the budget preparation process than the spending ministries, establishing 'watch-dog institutions', which prepare independent revenue estimates to diminish incentives to overestimate revenues; and limiting congressional powers to propose additional expenditures. Such budgetary rules have been found to have a positive effect on fiscal discipline.[10] However, this young literature has only just begun to identify a set of relevant procedural rules. It has not yet established which are the key ones or which package of budgetary rules should be recommended to a country which wishes to improve fiscal discipline and reduce the volatility of fiscal policies.

In conclusion, much remains to be done to understand the institutional underpinnings of stability and security of property rights. Future research should be directed at identifying in more detail the individual causes of instability; and determining which mechanisms enable successful countries to overcome these problems. We will only be in a position to make meaningful recommendations for institutional reform when we gain a better understanding of why countries such as Sweden and Malaysia are able to guarantee property rights credibly and deliver stable and predictable policies.

Notes

1. The views expressed are the author's and do not necessarily reflect those of the IMF.
2. See, for example, Brunetti (ch. 6 in this volume).
3. See Borner, Brunetti and Weder (1995).
4. See Brunetti (ch. 6 in this volume).
5. See Mauro (1995).
6. In Borner, Brunetti and Weder (1995) Thailand and Indonesia are given as examples of countries where corruption, although widespread, appears to act mainly by raising transaction costs.
7. If it is correct that what ultimately matters is the uncertainty of property rights that cannot be hedged, indicators which attempt to measure red tape are bound to fail. For instance, experiments of how long it takes in a specific country to obtain a business licence may not be very relevant because entrepreneurs may often be able to eliminate many steps and uncertainties by using specialized middlemen who negotiate the process for them.
8. See Borner, Brunetti, and Weder (1995) for a description of these surveys, and Brunetti (ch. 6 in this volume) for cross-country tests.
9. See Alesina and Perotti (1995) for a review of experiences with balanced budget rules.
10. See, for example, Alesina, Hausmann, Hommes and Stein (1995).

References

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Comment

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1 CONDITIONS FOR ECONOMIC GROWTH

For decades great faith was vested in the powers of macroeconomic policy to stimulate rapid growth in developing countries. Microeconomics was relegated largely to the design of public investment projects, and there was a belief shared by many development economists, by the OECD and by development agencies such as the World Bank, that good macroeconomic policies plus sound public investment projects were the key to development. Good macro policies implied getting prices right, and notably the most strategic prices – that of money (the interest rate) and that of foreign exchange (the exchange rate). The emphasis on macro policy was very understandable since so many developing countries had for so long had difficulty in getting these things right. With the onslaught of the debt crisis in the early 1980s (which was largely the result of inappropriate macro policies), it became painfully clear that a stable macroeconomic environment was a necessary condition for sustained economic growth. Unquestionably, for example, rates of inflation in excess of 30–40 per cent depressed economic growth and so did foreign exchange crises brought about by poor fiscal management. There was a tendency, however, to believe that good macro policies were a sufficient condition for sustained growth. It was somehow taken for granted by policy-makers and aid agencies that if a satisfactory standard of macroeconomic management was achieved, all other good things would follow.

Of course, this is an over-simplification. There were always those who believed that human capital formation was essential to development, and that proper health and education policies were crucial to economic growth. There were also those who pointed to the world's most successful developing economies – first Japan, then the East Asian Tigers. These countries, it was claimed, combined good macroeconomic policies with an intricate system of industrial policy in which governments encouraged some branches while discouraging others.

Leaving aside the East Asian so-called miracle economies, the question whether good macroeconomic policies are sufficient came to a head during the 1980s. These were the years of structural adjustment, a painful process whose objective was to put economies back on a sustainable growth path. Structural adjustment consisted largely of good macroeconomic policies, reduced public deficits, real devaluations, the elimination of price controls and subsidies, and so on. In a good number of countries it also included microeconomic elements, usually with a sectoral slant. Unfortunately the hoped-for resumption of growth often failed to materialize. People started getting very concerned about the lack of 'supply response'. In very simple terms, government spending had come down but private investment, domestic and foreign, remained sluggish.

The case of Ghana is emblematic, where the government pursued various facets of structural adjustment at the macroeconomic level as well as in various sectors of the economy from 1983 to 1991. The foreign exchange market was liberalized and, largely as a result, government revenues increased sharply. So did official aid flows. Yet private investment remained feeble, averaging only 3.8 per cent of GDP in 1980–9. It increased in 1990 and 1991, but was limited largely to the mining sector.

Clearly, it was not enough to fix things from the top down; one needed to find out what economic agents were thinking. In our world, where capital can be transferred almost instantly worldwide, even small investors have almost limitless options. This is true for foreign investors, of course, but also increasingly for local investors. Investing one's own savings is a very serious decision; building a productive facility is tantamount to an irreversible commitment. If things go wrong, the chances that the original saving can be recouped are virtually nil. This is the microeconomic reality that aid agencies and governments had been neglecting for decades.

There is also a tendency on the part of governments and aid agencies to think about specific developing countries in an absolute rather than a relative way, which is entirely different from the way investors think. Officials tend to focus on the progress that has been achieved ('Country X has really come a tremendous way'), and on the effort that was made to improve conditions. Investors, on the other hand, are quite indifferent to absolute performance and even more to effort: they ask how country X compares to other countries right now. To put it simplistically, the question they ask is: 'Would you want managers of your pension fund to invest in this country?' Policy-makers and aid officials would do well to look at 'their' countries from that point of

Table C.1 Private investment as a percentage of GDP, 1994

	%		%		%
Thailand	30	El Salvador	15	South Africa	11
Korea	26	Nepal	15	Egypt	10
Malaysia	25	India	14	Kenya	10
Chile[1]	21	Mali	14	Benin[1]	9
Panama	20	Guatemala	3	Pakistan[1]	9
Philippines	20	Iran	13	Uruguay	9
Sri Lanka	20	Mexico[1]	13	Bangladesh	8
Brazil[1]	19	Tunisia	13	Côte d'Ivoire	8
Indonesia[1]	19	Belize	12	Guinea	8
Mauritius	19	Dominican Republic	12	Madagascar	6
Turkey[1]	19	Ecuador	12	Venezuela	6
Argentina[1]	18	Morocco	12	Fiji	5
Costa Rica	18	Colombia	11	Ghana	4
Paraguay	17	Namibia	11	Bolivia	3
Peru	17	Papua New Guinea	11	Nigeria	3

Note: 1 = 1995 data.

Source: Trends in Private Investment in Developing Countries, 1970–94, Table A.2.2.

view and ask how the business environment compares to successful investment destinations – also bearing the risk/reward relationship in mind. The Table C.1 shows the ratio of private sector (risk) investment in GDP in 1994 and reflects what investors really think of various developing countries.

It is in explaining what causes supply responses that institutional economics is making such a very important contribution. The focus is on the different components of government credibility: whether the institutional environment in which businesses operate is reasonably predictable or whether considerable uncertainty prevailed about laws and their enforcement. This touches on fundamental aspects of doing business such as security of property rights, the degree of arbitrary taxation, and so on. From my experience working at the International Finance Corporation and reviewing several hundred developing country private investment projects each year, institutional economics seem to have the ring of truth.

Reasonably good macroeconomic policies and structural adjustment are not enough. In Ghana, for example, Aryeety (1995) notes that entrepreneurs voice considerable doubt as to whether government is unequivocally committed to private-sector development.[1] In order to

attract risk capital you must have what Keynes called a state of confidence, and that may take years to achieve. Unfortunately, it can be severely damaged in an instant, as happened recently, for example, when an African head of state was reported to have said publicly that all businessmen were crooks.

There are, however, instances of quite rapid credibility-building – for example, in Peru and Argentina. In both cases a new government was elected which introduced drastic economic changes. Besides macrostabilization, the most important policy was massive privatization, which attracted large foreign direct investment inflows. Indeed, so long as privatization is believed to be irreversible, it constitutes a most effective credibility anchor. Private investors willing to own infrastructure facilities are sending a particularly strong positive message about government credibility. In contrast, Ghana, as in most African countries, has been hesitant in selling state enterprises.

Incidentally, I believe that foreign investment inflows are an excellent gauge of a developing country's policy credibility, with the exception of investment in enclave extractive industries. So, for example, foreign investors returned *en masse* to Latin America in the 1990s as economic policies improved.[2] Peru, a former 'basket case', now receives large private investment inflows. Of course, the 'Tiger Cubs' (Malaysia, Thailand, Indonesia and so on) are major recipients of foreign direct investment, and their economic and business policies are held to have high credibility. It may be argued that China, which is attracting more foreign direct investment than any other country, is a major exception, as its legal and institutional environment lacks credibility by international standards. The answer is probably that most foreign investors are of overseas Chinese origin and seem to feel that family and traditional rules and enforcement mechanisms provide sufficient comfort. Western and Japanese investors are often attracted by China's large and expanding market. Indeed, surveys of multinational corporations show that the size of a market is an important determinant of their investment. However, their experience in China has been very chequered. The example of McDonald's losing their prime Beijing outlet overnight without compensation is symptomatic of low credibility.

2 WHERE DO WE GO FROM HERE?

More empirical work is needed with a view, especially, to identifying the most critical interfaces between business and government. These

are likely to differ, depending on the country and on the line of business. Such an approach might help not only in suggesting highly focused institutional improvements, but could also provide a basis for constructing a leading indicator of investment conditions.

Another, more speculative, line of investigation would consist of applying institutional economics to corporations as well as governments. Firms themselves can be more or less credible; they can be more or less predictable and reliable to their customers, suppliers, creditors and shareholders. The credibility of government and of economic agents reverberate on one another. Low-credibility governments, if they remain long enough in power, will spawn low-credibility firms. But, except in the very worst environment, some higher-credibility institutions will develop. The supposition here is that firms themselves, through upstream and downstream linkages, have an influence on the behaviour of other economic agents, and that positive or negative synergies will be at work which will reinforce or undermine changes in overall credibility. The prevalence of low-credibility agents may itself be a barrier to the emergence of credible agents. In successful countries the balance will shift over time to a preponderance of credible agents. As this occurs, the process can be reinforced by foreign investment. This can be direct investment, which enhances the credibility of local suppliers, distributors and other business partners. It can be portfolio investment. A small injection of foreign investment in local stock can have significant effects on credibility.

In conclusion, as is well known, development is an extraordinarily complex business. If we have learned anything over the past fifty years I think it is that there is no one solution to the development question. Periodically, economists rediscover some important ingredient of development which they tend to focus on to the detriment of other important and complex facets of development. I believe that effective approaches require a combination of strands, and not only economic strands at that, including reasonably sound macroeconomic policies, sufficient property right guarantees, a workable institutional framework and many more elements. In short, what is required is not a macroeconomic or a microeconomic approach but a holistic approach, and probably an inter-disciplinarily approach as well. The Costa Rica conference was extraordinarily stimulating in pushing further some very promising avenues which should help governments and aid agencies to foster sustained growth more effectively.

Notes

1. Aryeety (1995) is also quoted in *Ghana Country Assistance Review – a Study in Development Effectiveness*, World Bank (1995) p. 100; the page consists of a 'box' entitled: 'Is Credibility the binding Constraint to Private Investment?'
2. Anecdotal evidence and common sense suggest that inflows and outflows of capital owned by residents of a country often occur before strictly foreign flows, but the two cannot be separated out statistically.

Reference

Aryeety, E. (1995) 'Private Investment under uncertainty in Ghana', *World Development*, vol. 22, no. 8.

Comment

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Almost every contributor to this volume has addressed the impact of political arrangements, or of the institutions (rules) they produce, on economic performance, rather than *vice versa*. Following this apparently shared view, I want to comment on how participants responded to the following four questions and in some cases identify some gaps that I saw:

(i) How can we best characterize political arrangements as they relate to economic development?
(ii) How do these political and economic arrangements evolve?
(iii) How and how much do these arrangements affect economic performance? and
(iv) What are the policy implications?

1 CHARACTERIZING POLITICAL REGIMES

Olson and McGuire in Chapter 3, provide a theoretical model of conditions under which autocrats, redistributive democracies (those needing to buy off powerful groups), and ideal consensus democracies (homogeneous societies where citizens individually exercise power) affect economic growth. The chapter formalizes the insight that even autocrats have an interest in promoting economic growth so that they can continue to tax the economy over time. The model implies three useful questions to help analyse political regimes. First, *what is the distribution of political power and who gets to choose what government does?* The three regimes have different incentives for governments to consume taxes they collect, redistribute them to buy support, or use them to produce public goods. Second, *to what extent are citizens' interests encompassing – a shared view of what government should do – versus narrow (as represented by the existence of political factions or interest groups)?* The more encompassing the interests, the closer a

consensus democracy can be approached. Third, *what is the government's time perspective for enjoying power?* A short perspective will encourage the autocrat to plunder, rather than promote growth.

Wintrobe's more empirical–historical chapter (Chapter 2) contrasts autocracies ('dictatorships') and democracies to suggest some additional ideas. To maintain power in spite of his imperfect information, the dictator must allocate enough rents, without letting them become dissipated through rent-seeking, to buy political support. Unlike McGuire and Olson, Wintrobe begins to get at issues of where political power comes from by acknowledging different kinds of – strong and weak – dictatorship and concentrating on dictators' resources and strategies for maintaining power.

Both chapters also imply some quiet arguments that ideal democracy is good for growth. One can infer from McGuire and Olson that ideal democracy has neither to line the autocrat's pockets nor to pay the costs of redistribution. For Wintrobe, an ideal democracy may incur rent-seeking costs, but it has less incentive to create rents than dictatorships, while the rents lead to more efficient outcomes.

Both McGuire and Olson and Wintrobe concentrate on stylized political arrangements where governments, through force or mandate, monopolize the power to govern. They do little more than acknowledge those 'weak' states where power is more dispersed and interests less encompassing. In fact, there was no full treatment of the weak state that more closely characterizes the bulk of still underdeveloped countries. Several chapters provide partial characterizations. Mbaku, Alam and Klitgaard (in Chapters 10, 11 and 19, respectively) examine corruption and poorly functioning institutions. Kimenyi (Chapter 18) treats the problem of ethnic divisions in African countries. Borooah's chapter (Chapter 14) on Northern Ireland is the nearest to being a full case study of a polity with dispersed power.

2 HOW DO POLITICAL AND ECONOMIC REGIMES CHANGE?

Only one chapter is devoted to how and why political and economic regimes change. Bernholz (in Chapter 4) selects historical examples to depict a world where nation states are the actors (rather than groups within the state). Political and economic arrangements are driven by cycles within nation states and by competition between them. Well aware that he is generalizing, Bernholz (Chapter 4) describes a domestic

cycle in which democracy deteriorates from ideal consensus to distributive democracy; deterioration leads, through crises that spur new ideologies, to totalitarianism; totalitarianism collapses in favour of limited government, which is more economically efficient and which leads back to democracy. Totalitarianism often loses the battle through the force of international rivalry. The good news is that capitalism wins in a straight fight and that democracy follows on its heels. The bad news is that limited government deteriorates.

Dealing more or less with the same three regime variants as McGuire and Olson and Wintrobe, Bernholz similarly limits himself to established states with strong governments. He tells us little about what made a state and its government viable in the first place. Thus, once more, there is too little treatment of the weak state, and it may be that studying how strong states emerge would lead to a stress on different or additional features. My casual knowledge of Latin America suggests to me, for instance, that features such as political conditions of independence from the colonial power, patterns of immigration, ethnic make-up of populations and income distribution (and associated patterns of land holding and crop types, education, and so on) may be important in explaining why so few strong states have emerged.

3 POLITICAL AND ECONOMIC REGIMES AND ECONOMIC PERFORMANCE

Several chapters reflect a growing body of empirical evidence that good institutions – good property rights in a broad sense – improve growth. Aizenman's chapter (Chapter 8) uses a modern growth model to relate uncertainty, via investment, to low growth. Keefer and Knack, in Chapter 7, use the same basic model to demonstrate how poor property rights have reduced Latin American growth. Both Keefer and Knack (Chapter 7) and Corbo (Chapter 13) demonstrate that growth is also affected through the savings mechanism. Brunetti's chapter (Chapter 6) describes statistical tests showing that stable rules, rather than democracy or political stability, explain good economic performance, a finding that accords more with the views of Bernholz than with those of McGuire and Olson and Wintrobe.

But when we take one step back from good rules to the institutional arrangements that create them, the answers get more anecdotal. Between them Gavin and Hausmann (Chapter 5) and Corbo mention good budget rules and independent central banks, but these and other chapters mention

few other institutional arrangements (such as courts) even though these, surely, must be important.

4 POLICY PROPOSALS

There is evidently still much to do for a better understanding of the nexus of politics, institutions and economic performance, so it would be unrealistic to expect too much in the way of policy proposals. None the less, I perceived three very different families of proposal in the presentations and discussion.

First, several contributions adopted a 'public choice' approach, arguing that the state must set rules. Notably, Mbaku's chapter (Chapter 10) argues this as the principal approach to tackling corruption in Africa. Some participants took exception to this approach, expecting behaviour to change before rules did. Killick's Chapter (Chapter 15) argued a particular case of pre-commitment, through World Bank adjustment lending, which did not work.

A second, very different approach, in effect proposed a change in the political framework to promote more encompassing interests. Two chapters propose restructuring national political arrangements to improve governability, Frey's (Chapter 17) through a functional form of decentralization, Kimenyi's (Chapter 18) through redrawing African jurisdictions more along ethnic lines. At several points, the discussion also threw up the idea that more equal income distribution would make interests more encompassing.

A third approach was to propose partial solutions. Thus Aizenman in Chapter 8 explained investment subsidies as a second-best solution when governments cannot directly create stability and Klitgaard in Chapter 19 proposes ways of applying medicine to 'sick' institutions without changing the underlying political conditions that make the sickness endemic.