Is Discourse Relevant for Economic Development?

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"As much as it might like, the IMF, in its public rhetoric at least, could not be completely oblivious to the widespread demands for greater participation by the poor countries in the formulation of development strategies and for greater attention to be paid to poverty. . . . The idea that citizens in a borrowing country might also participate was simply too much! Stories of this kind would be amusing were they not so deeply worrying.

Even if, however, the participatory poverty assessments are not perfectly implemented, they are a step in the right direction. Even if there remains a gap between the rhetoric and the reality, the recognition that those in the developing country ought to have a major voice in their programs is important. But if the gap persists for too long or remains too great, there will be a sense of disillusionment. Already, in some quarters, doubts are being raised, and increasingly loudly. While the participatory poverty assessments have engendered far more public discussion, more participation, than had previously been the case, in many countries expectations of participation and openness have not been fully realized, and there is growing discontent."

Joseph Stiglitz, *Globalization and Its Discontents* (2002a)

Economists are discovering the limits of their knowledge regarding the institutional and cultural preconditions of economic development. Those working for the World Bank and International Monetary Fund (IMF) must have been humbled by William Easterly's (2001) depressing account of the failed attempts to reform Third

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World economies. Tracing through a fifty-year history of development failure, Easterly concludes: "the search for a magic formula to turn poverty into prosperity failed. Neither aid nor investment nor education nor population control nor adjustment lending nor debt forgiveness proved to be the panacea for growth" (2001, 143).

In a much different spirit, Joseph Stiglitz has offered his interpretation of the development problem. According to him, the IMF is to blame for the Third World's growth tragedy by taking a "one-size-fits-all" approach to development problems (2002a, 34). Assuming there is only one true model of how a country can develop, the IMF has failed to appreciate the complexity involved in economic development. Its role has expanded beyond its mandate, which is to assure global economic stability. The IMF managers do not belong in the business of promoting economic development, especially if their approach is going to be a "neocolonial" one in nature (2002a, 41).[1]

Frustrated with these neocolonial tendencies, Stiglitz has been one of the most ardent proponents of a new approach to development economics. He recommends a shift away from traditional economic impositions by major lending institutions toward a more "participatory approach" to economic development (2002a, 50).[2] The "traditional, narrowly economic approach" to development has failed because reformers have attempted to impose private-property rights, the rule of law, and free-market prices on populations unfamiliar with them (2002b, 164). Successful reform requires more than a change in the institutions:

> If a change in mindset is at the center of development, then it is clear that attention needs to be shifted to how to affect [*sic*] such changes in mindset. Such changes cannot be "ordered" or forced from the outside, however well-intentioned the outsiders may be. Change has to come from within. The kinds of open and extensive discussions that are central to participatory processes are, I suspect, the most effective way of ensuring that the change in mindset occurs not only within a small elite, but reaches deep down in society. (2002b, 165)

1. Stiglitz's "neocolonial" criticism is on the mark, but he refuses to apply it to the World Bank. Moreover, Kenneth Rogoff, the director of research at the IMF, writes, "I failed to detect a single instance where you, Joe Stiglitz, admit to having been even slightly wrong about a major real world problem. When the U.S. economy booms in the 1990s, you take some credit. But when anything goes wrong, it is because lesser mortals like Federal Reserve Chairman Greenspan or then–Treasury Secretary Rubin did not listen to your advice" (2002).

2. Unfortunately, Stiglitz does not offer a clear blueprint of the specific participatory approach he has in mind. Arguments for greater voice are peppered throughout his discussion in *Globalization and Its Discontents,* but he never provides any details of the kind of participatory process he desires. Elsewhere, Stiglitz (1999, 2001a, 2001b) does provide a more extensive discussion. In addition, he has founded the Initiative for Policy Dialogue at Columbia University. This center's explicit aim is to "promote an open dialogue on key economic policies" that ultimately "leaves the selection of policies to the political process" (http://www-1.gsb.columbia.edu/ipd/).

According to Stiglitz, the Washington consensus rush to "get the prices right" and to "get the institutions right," without any genuine concern for culture, ruined the reform process.

Economists clearly underestimated the importance of culture in economic development, as Stiglitz correctly points out, but what are we to make of Stiglitz's call for a decidedly participatory process in economic development? Outside of political philosophy, the value of participatory processes has not received much attention. Literally hundreds of papers have been written on the determinants of economic growth, yet the issue of what kind of relationship should exist between developing countries and lending institutions is seldom taken up.[3] Stiglitz is one of the first contemporary development economists to consider the relationship between discourse and development.[4] In this article, I explore the link between participation (in Stiglitz's sense) and development. Can Stiglitz's participatory process accommodate a developing country's culture and history? Can those participatory process lead to more rapid reform? Or will "reform with a more human face" prove to be nothing more than cheap talk?

The Concept of Participatory Processes in General

Arguments for more participation in collective decision making have a long and rich history. John Stuart Mill was one of the earliest defenders of a discursive society. To assure the proliferation of the best ideas, he argued, a society must be open and tolerant of dissent:

> If all mankind minus one were of one opinion, mankind would be no more justified in silencing that person than he, if he had the power, would be justified in silencing mankind. . . . [T]he peculiar evil of silencing the expression of an opinion is that it is robbing the human race, posterity as well as the existing generation—those who dissent from the opinion, still more than those who hold it. If the opinion is right, they are deprived of the opportunity of exchanging error for truth; if wrong, they lose, what is almost as great a benefit, given the clearer perception and livelier impression of truth produced by its collision with error. ([1859] 1974, 76)

3. For Stiglitz, participation involves much more than the presence (or absence) of democratic institutions. It involves "transparency, openness, and voice at the national level, and at local and provincial levels, at the workplace and in capital markets" (1999, 3). There is plenty of work examining the relationship between democracy and development (Przeworski and Limongi 1993; Barro 1997), yet the effect of democracy on economic development remains ambiguous. Przeworski and Limongi (1993) offer a nice review of the literature concerned with the relationship between economic progress and political progress.

4. Rodrik (2000) argues that participatory democracies enjoy high levels of economic growth because they do a better job of harnessing local knowledge in developing countries. By contrast, the essays in Diamond and Plattner 1993 reveal no clear correlation between participation and development.

F. A. Hayek also offered an epistemic defense of the open society:

> If there were omniscient men, if we could know not only all that affects the attainment of our present wishes but also our future wants and desires, there would be little case for liberty. And, in turn, liberty of the individual would, of course, make complete foresight impossible. Liberty is essential in order to leave room for the unforeseeable and unpredictable; we want it because we have learned to expect from it the opportunity of realizing many of our aims. It is because every individual knows so little and, in particular, because we rarely know which of us knows best that we trust the independent and competitive efforts of many to induce the emergence of what we shall want when we see it. (1960, 29)

Mill and Hayek make pragmatic arguments for open discourse and the toleration of dissent. An open society is one that grants individuals the freedom to experiment with ideas, inventions, and new ways of living. No individual knows in advance where the next major breakthrough is going to come from, nor does any individual enjoy an infallible corner on truth. Given the limits of reason, a society must be open to prevent absolutist problems and to weed out bad ideas. Moreover, societies tolerant of experimentation will tend to enjoy more rapid progress.[5]

Jurgen Habermas, a leading contemporary philosopher, offers a more complicated defense of an open society. He argues (1984, vii) for a discourse ethic, which he believes should serve as one of the foundational principles of a free society. For Habermas, the discourse ethic does more than serve the utilitarian values of diversity and discovery; the ethic is defensible on higher moral grounds because it is *right* to guarantee open discourse to individuals in a society. Open dialogue grants individuals the opportunity to debate deeply held values about the good life. By allowing individuals with unique interests to express their concerns and desires, the discourse ethic has the potential to produce a moral consensus. If moral consensus can somehow be attained, the likelihood of value impositions by economically or politically powerful groups is lessened.

A participatory process ideally is one in which all the interests of all parties affected by a decision are satisfied—unanimous consent is reached. Not everyone gets exactly what he wanted ex ante, but the dialogue allows individuals to continue trading off values until each person walks away from the discourse feeling satisfied. Since the publication of Buchanan and Tullock's *Calculus of Consent* (1962), political economists have regarded the unanimity rule as a useful construct in judging the outcomes

5. Not all agree on the merits of an open society. According to Gray (1999), societies tolerant of experimentation necessarily permit both desirable and undesirable experiments. The open society has clearly produced tremendous improvements in material well-being. Many of these advances are owing to the public-good nature of the imitation mechanism. As Gray sees it, this mechanism, which has been responsible for tremendous progress, can also lead to the rapid imitation and spread of technological "bads." The defense of an open society rests on an implicit faith in the spread of more technological goods than bads.

of collective-action disputes. Any policy change that enjoys unanimous support is necessarily Pareto improving. The policy is not making any one person in the collective decision-making body worse off. If an individual is being made worse off, he will not consent to the policy and no Pareto improvement occurs.

In practice, political economists are hard-pressed to find rules capable of meeting the unanimity standard. Buchanan ([1968] 1999b, 18) attempts to operationalize the unanimity rule by arguing for a "workable unanimity" standard. Under that criterion, the closer collective-action resolutions come to unanimity, the more defensible they are.

Buchanan's unanimity criterion and Habermas's discourse ethic are closely related. Both represent a search for a standard capable of legitimizing universals. Habermas asks whether we can come to agree on any universal moral values, Buchanan whether we can come to accept any universal rules. Unanimity is the ideal outcome of Habermas's discourse ethic, which maintains that "[o]nly those norms can claim to be valid that meet (or could meet) with the approval of all affected in their capacity as participants in a practical discourse" (1991, 66, 93).

Buchanan and Habermas do not want every possible issue in a society discussed and debated in a discursive manner. Buchanan argues for unanimity at the constitutional level, for supermajorities at the level of rules, and for simpler majorities when debating less-contentious issues. Habermas calls for a deliberative democracy at level of the general rules of the game, but he no longer claims that participatory processes should resolve every particular issue (1986, 174–75).[6] Habermas affirms, "Nothing makes [him] more nervous" (1986, 174) than the idea of applying his theory of communicative action to all specific walks of life. Concrete application of the discourse ethic to every possible issue would push us toward a "rationalistic utopian society" (1986, 174). It is unclear where exactly we draw the line regarding which questions are constitutional ones and which are not to be subjected to open discussion.

When we turn to Stiglitz, we find that he never articulates precisely what he means by participatory processes in economic development. His argument is a frustrating one to follow. It seems as though he is taking only selected ideas from thinkers such as John Dewey and Albert Hirschman. For example, he cites Hirschman (1970) favorably on issues of *voice* in economic development (see Stiglitz 2002b). Yet he never mentions the role of Hirschman's *exit* and *loyalty* in his discussion of participatory processes. For Hirschman, voice is a necessary condition for good relationships between citizens and the state, but an exit option must also exist; like consumers in the marketplace, citizens in a nation-state must have the freedom to "vote with their feet." Although this point is an extremely important one in political economy, Stiglitz wholly ignores it.

Despite Stiglitz's limited discussion of participatory processes, my analysis proceeds by giving him the benefit of the doubt on issues related to participatory

6. I thank an anonymous referee for making this point and for directing me to the relevant citation.

processes. Where his discussion comes up short, I use the writings of Buchanan and Habermas to help give us an idea of what Stiglitz *probably* has in mind.

Participatory Processes in Development

With regard to economic development, the ideal participatory result would be one in which the interests of officials from lending institutions, leaders in developing countries, and all other individuals in developing countries reached agreement. Suppose the World Bank wants to eliminate certain trade barriers in a developing country and that this country wants trade issues to be subjected to the participatory process. That process ideally would bring everyone with an interest to the table. The debate over changes in trade policy would continue until the leadership of the developing country, farmers (both in the developing country and in the West), manufacturers (again both in the developing country and in the West), consumers, and the lending institutions agreed with a particular policy.

Under majority rule, strong interest-group opposition to any change in the status quo is likely, particularly among Western farmers and manufacturers. Because majority rule tends to concentrate benefits and disperse costs (Buchanan and Tullock 1962; Olson 1965; Demsetz 1982; Becker 1983), reform attempts are likely to be dead on arrival: why would any leader dare do "the right thing" if it means the loss of a large number of political supporters? In the absence of a strong shift in ideology or a leader willing to commit political suicide, reformers will struggle to break the "transitional gains traps" (Tullock 1975) of entrenched interests.

In contrast, the ideal participatory approach brings these individuals—with their unique and diverse preferences—to the table to formulate policy. The suggested reform (in this case, trade liberalization) is introduced and discussed. All affected parties are represented and given voice in the discussion. Some strongly support the policy, others adamantly oppose it. Once the opposition groups are clearly recognized, the conversation shifts to a discussion of what compromise would be necessary for the opposition to support the policy. In the case of trade liberalization, buyouts of protected industries might be suggested as one way to remedy opposition groups. If, at some price, opposition groups accept buyouts, the compromise policy is then discussed with the original supporters. This process goes on until something close to unanimity results.

Under this approach, the reformer's role is to bring together all parties affected by a policy change. The reformer then must sort out the competing interests and find ways for policy opponents to become proponents. As Buchanan puts it, "the role of the reformer is to search for winning coalitions and find ways to crack the transitional gains traps" (2003). The kind of reform Buchanan suggests ideally will not go forward until all interested parties walk away with something they want. In the absence of this widespread participation and consensus, reform will get bogged down. More important, the reforms that do get through a nonparticipatory reform process will benefit some parties but harm others. A participatory approach—if successful—will both yield a more coherent social welfare function than a strict majority-rule mechanism would and give the resultant reforms greater legitimacy.

The discourse ethic, however, serves a more important function than constructing a better social welfare function. By guaranteeing all individuals voice, the ethic protects against potential infringements of rights.[7] All collective-choice mechanisms must recognize the different wants, interests, and power of different groups of people. Under majority rule, economic power often drives policy. Narrow, organized interest groups define in large part the policies adopted. The discourse ethic (conceptually) protects individuals from the economically powerful.

Furthermore, the discourse ethic is supposed to protect against value impositions and the tyranny of the majority. No group shall be poorly situated in the discourse just because its members are dissenting or different from others. As Habermas writes, "Someone who wishes to attain clarity about his life as a whole—to justify important value decisions and to gain assurance concerning his identity—cannot allow himself to be represented by someone else in ethical-existential discourse, whether in his capacity as the one involved or as the one who must weigh competing claims" (1993, 10).

Although Stiglitz never mentions the writings of Buchanan or Habermas when arguing for a participatory approach to development, his defense of participation clearly stems from concerns similar to those of Buchanan and Habermas.[8] Like Habermas, he understands the deeper morality of consensus building:

> for the programs to be implemented in an effective and sustainable manner, there must be a commitment of the country behind the program, based on a broad consensus. Such a consensus can only be arrived at through discussion—the kind of open discussion that, in the past, the IMF shunned.
>
> At the World Bank . . . there was an increasing conviction that participation mattered, that policies and programs could not be imposed on countries but to be successful had to be "owned" by them, that consensus building was essential, that policies and development strategies had to be adapted to the situation in the country, that there should be a shift from "conditionality" to "selectivity," rewarding countries that had proven track records for using funds well with more funds, trusting them to continue to make good use of their funds, and providing them with strong incentives. (2002a, 49)

7. As an anonymous referee pointed out, Habermas's concern is related not only to the marginalization of dissent. Habermas does not want a person's economic circumstances to provide obstacles to political power.

8. Stiglitz (2002b) does provide the reader with some insight into the kind of participatory process he has in mind when he offers favorable references to Hirschman 1958, 1970; Dewey 1927, 1939; and Lindblom 1990.

Policy consensus reduces many of the value impositions that are of central concern to Buchanan and Habermas. A participatory approach to economic development "puts countries in the driver's seat" (Stiglitz 2002a, 49). Rather than *telling* developing countries what they have to do to receive money, a participatory approach *asks* individuals living in the developing countries what reforms would be best for them. The lending institution can still express its desires in the discourse, but it is constrained from any value impositions.

General Causes for Concern

Defenders of the participatory approach believe it does a better job of converting individual preferences into public policy. Habermas believes that participatory processes lead to political rationality and individual self-realization.[9] For Stiglitz, in contrast, participatory processes will produce incentive-compatible policies that are in large part consistent with the desires of individuals in developing countries. Unfortunately, both Habermas and Stiglitz fail to appreciate the public-choice problem present in even the most open and vocal participatory forums.

Unless unanimity prevails among all those involved in the discourse, problems related to the tyranny of the majority remain. Furthermore, differences in subjective preference intensities prevent us from saying anything about agreements short of unanimity. For example, suppose that 95 percent of the members of a population agree that marijuana should be illegal. Suppose also that 55 percent of a population support seat belt laws. If the preference intensity of the 5 percent opposed to marijuana laws is stronger than that of the 45 percent opposed to wearing seatbelts, no value judgment can be made about the 95 percent level of consent relative to the 55 percent level. Buchanan's "workable unanimity" construct breaks down if small minorities have intense preferences. Thus, the difficulty in judging the merits of outcomes short of unanimity is the first major problem with the participatory approach.

Without unanimity in the participatory process, the political outcome will depend in large part on the procedural rules of the process, the agenda setter, and the participants' power positions. Advocates of the participatory approach argue for equal voice and representation of all affected parties. Although this condition might appear in theory to be highly desirable in collective decision making, serious operational difficulties attend it. Neither Habermas nor Stiglitz recognizes, in particular, the insurmountable challenges of "the chairman's problem" (de Jouvenel 1961).

Summarizing this problem, de Jouvenel writes,

> [Suppose you are] chairman of an assembly, and regard all participants as formally equal, which commits [you] to treating them equally. Feeling bound

9. Ingram claims Habermas's discourse ethic is an argument for "moral self-development" (1993, 294).

> by this principle, [you] decide as follows: the duration of the meeting is *m*, the number of participants *n*. [You] shall give the floor to each participant for *m/n;* thus the equal right of speech will receive practical application.
>
> [Suppose that] *m* [is set] at three hours, and *n* [is set] at 5,400 [participants]. Then, adhering to the same rule for the allocation of time [equal treatment for all], [you] shall give the floor to each participant for 2 seconds, which is absurd. (1961, 368)

De Jouvenel continues with a comparative political institutions exercise, which produces no satisfactory collective decision-making process for relatively small groups with a finite amount of time. Even Athens, the classic example of participatory democracy, did not come close to providing equal voice for all. This reality leads de Jouvenel to conclude:

> Individuals are told at every moment that they have an equal right of speech, and they find out in any concrete instance that the opportunity of expression is denied to them. This breeds the feeling that democratic principles are a lie. And indeed if the principle of right of speech is so formulated as to convey the impression "you shall have the opportunity of being heard by the congregation, equal to anyone else's" then it is a lie, because it is *impossible* to give such an opportunity. (1961, 371)

The chairman's problem raises a serious challenge to advocates of any kind of complicated discourse. Habermas (1998) has responded to pragmatic challenges concerning his system. He understands the problems at the level of implementation. To get any real results out of the discourse, the overall number of participants must be small. Yet a small number of participants creates problems of localism in the decision-making process. If Habermas wants a transcendental participatory process, he confronts the chairman's problem at the level of practicality; if he wants a practical process, he might have to abandon transcendentalism. There seems to be no easy way forward for Habermas's ideal when scarcity of time and an overabundance of voices are introduced into the participatory process.

Stiglitz does not consider issues of localism and transcendentalism in his discussion. If his ideal participatory process proceeds on a large scale, it necessarily runs into the chairman's problem: "Whose voice is to be heard?" If Stiglitz is not recommending one large participatory process, but rather a multitude of small, local meetings, his participatory process runs into a more severe aggregation problem. For example, in order to formulate a development policy for Botswana, officials would have to weight the local participatory consensus reached in the city of Gaborone against a different consensus reached in, say, the city of Mamuno. How do we avoid conflicts of value in this kind of environment?

We should consider also the participants' limited ex ante knowledge in the discourse. What if they lack the knowledge necessary to make a fully informed decision?

Suppose poor individuals come to a discourse advocating a higher minimum wage. Suppose a consensus is reached, and the poor get exactly what they want. How long should this policy remain binding ex post? What if some of the poor reach the ex post conclusion that the minimum wage laws cause their unemployment? Because the potential for such errors abounds, Habermas wants the discourse to be ongoing. Whenever the outcomes of the participatory process fail to reflect the affected parties' interests, those outcomes can be changed. If the poor want to alter a minimum-wage policy, they can return to the discourse and seek a revision of the policy.

If the discourse is ongoing, the entire balance can be upset whenever participants are unhappy with outcomes. Each time the poor come to the table seeking a change in the minimum-wage law, other parties will refuse to compromise. It is difficult enough to imagine that the participatory process will produce a consensus at one moment in time; it is inconceivable to think of how unanimity will persist over a longer time when participants can file grievances whenever they please.

The problems related to ex ante and ex post individual conduct in a discourse relate to strategic-bargaining concerns. How will we know that an individual's self-proclaimed interest genuinely represents his interest? Many public-choice economists have considered how strategic interests might be deterred.[10] This literature suggests that individuals often will overstate the actual value they place on different collective projects.[11] To protect against strategic behaviors, some additional collective mechanism—a Thompson insurance setup,[12] a "VCG mechanism,"[13] or a Lindahl tax scheme—is necessary. Yet the possibility of strategic behavior receives little attention from Habermas and no discussion by Stiglitz.

If individuals are given more voice, strategic behavior is not the only thing to worry about. If the ideology is not right, and if individuals are unwilling to compromise and make concessions, no amount of talking is going to improve matters. Indeed, there is no a priori reason to suppose that participatory processes will improve policies. We might reasonably expect policy to worsen when we allow for a more discursive approach to economic development. "Anything goes" when diverse individuals sit down and debate various reforms. If the average citizen is involved in the discourse, many more "free lunch" policies—lacking in economic insight—might result.[14]

The public does seem to have a bias in favor of "free lunch" policies (Caplan 2001, 2003). Caplan (2003) notes that the median voter tends to support high levels

10. Bailey 2001 provides an overview and discussion of this literature.

11. According to Margolis (1982), voters will tend to exaggerate their willingness to pay to obtain budget changes even when they are not colluding.

12. Originally described in Thompson 1966, this insurance is a scheme that aims to price different political outcomes at marginal cost.

13. Bailey (2001) coined the term *VCG mechanism*, recognizing the independent contributions of Vickrey 1961, Clarke 1971, and Groves 1973. Combined, the three developed a collective-choice mechanism that better reveals individuals' true preferences in the public space.

14. Mueller (1996), for example, argues for a *more* restrictive collective-choice mechanism.

of spending on defense, education, and social security, but, at the same time, to favor low taxes. The result of this high spending but low tax preference is a "free lunch" social welfare function, which cannot be maintained.

Besides these public-choice problems, many other troubling aspects attend participatory processes. Benhabib (1986, 272–74) claims that participatory processes presuppose a Western orientation.[15] All interested parties cannot engage in an open dialogue when, for example, the custom in some non-Western parts of the world is to keep women out of public affairs. Should developing countries adopt a "participatory" process that excludes certain groups? Or is the ideal participatory process to be imposed regardless of how it meshes with local custom?[16] Unfortunately, Stiglitz is silent on these important questions.

In addition, Thomas McCarthy (1993, 64–65) questions whether a dissenting group would be persuaded by a more valid argument from the opposition in an open dialogue. It is one thing for individuals in the scientific community—who are involved in their own discourse—to be persuaded by evidence; it is much more difficult to imagine individuals in the public arena changing their opinions through carefully reasoned argument. Perhaps some settings are more appropriate for open dialogue. Compared to scholarly discourse, open dialogue over political issues (à la Buchanan and Habermas) or over development policy (à la Stiglitz) seems likely to break down into irreconcilable discord, with many parties clinging to their deep-seated values no matter what evidence is brought before them.

Buchanan (1977) makes a similar point regarding the difference between scientific discourse and political discourse. Politics, he notes, is about compromise and exchange, whereas science is about truth statements. This difference creates a dilemma. Most economists would say that economics is a science based on truth statements. If economics is a science, then no amount of talk can render an unworkable policy effective: wishing for the implementation of Policy X and talking about how much we really, really want Policy X to succeed still will not cause Policy X to deliver the desired results. As Peter Boettke puts it, "Good politics does not always make for good economics" (1993, 75).

This conflict between economics as a science and politics as exchange creates a difficult problem for policymakers: Will developed nations help developing countries if the latter knowingly violate the principles of economics in pursuing their policies? The answer depends on how much faith developed nations put in the old wisdoms of economics. Stiglitz would probably offer an affirmative answer to this question. Remember, he wants modern economics to serve the market socialist ideals of an ear-

15. Buchanan claims that his project in constitutional political economy assumes "the social group is composed of reasonable men, capable of recognizing what they want, of acting on this recognition, and of being convinced of their own advantage after reasonable discussion" ([1959] 1999a, 204). The realism of this assumption is questionable. Buchanan tries to get around this pitfall by suggesting that "we proceed on an *as if* assumption" (204) regarding the reasonableness of people in the discourse.

16. Elsewhere, Benhabib (1996) endorses Habermas's discourse ethic. She claims there is no better alternative to serve as our guide.

lier time (Stiglitz 1994, 277). The market socialism of Lange and Lerner rested on Walrasian economics. Because Walrasian economics was flawed, however, the Lange-Lerner approach was destined to fail. Stiglitz believes that market socialism can be salvaged if it is based on the new and true wisdoms of economics (which, by the way, consist primarily of Stiglitz's new information economics). Economists sympathetic to his new information paradigm view market socialism as once again a viable option. In his conclusion to *Whither Socialism?* Stiglitz suggests that socialism might have been based on "wrong, or at least incomplete, economic theories" that are "quickly passing into history" (1994, 279). His criticisms of the Washington consensus stem from a similar line of reasoning: because the Washington consensus is not grounded in Stiglitz's information economics, its preferred policies cannot work. We must keep in mind the significant conclusion of the Greenwald-Stiglitz theorem: whenever we have missing markets, information costs, or positive transaction costs, the market is not *constrained* Pareto efficient. Government intervention potentially can lead to Pareto improvements.

Thus, the Greenwald-Stiglitz theorem serves to justify Stiglitz's call for participatory processes. Stiglitz might even be comfortable with the fact that participatory processes have the potential to generate more statist policies: policies that call for more government involvement in the economy have the potential to be Pareto improving if the First Fundamental Theorem of Welfare Economics no longer serves as our benchmark. Moreover, participatory processes are justifiable because they are consistent with the "eternal value" of egalitarianism (Stiglitz 1994, 279).

Many economists, however, are not persuaded by Stiglitz's new information economics or by his call for a "people's capitalism" (1994, 265). Though elegant in theory, his argument for more government involvement in economic development rests on shaky empirical ground: How will we keep the "helping hand" of the state from becoming a "grabbing hand" (Shleifer and Vishny 1998)? As Shleifer and Vishny suggest, when we examine real-world transitions, it is difficult to find examples in which the government has improved economic outcomes.

As the foregoing analysis suggests, Stiglitz also is walking a fine line when calling for participatory processes. When we respond to his proposal with a more robust approach to political economy, which grants neither omniscience nor benevolence to participants involved in the process, it becomes difficult to see how participatory processes will necessarily improve economic outcomes.[17]

For the time being, however, let us put aside these general causes for concern. Let us assume that Stiglitz's participatory processes can be implemented despite the problems just considered. How will we judge their results? More important, how do participatory processes relate to economic development in general? Answers to these questions suggest that the relationship between discourse and development is ambiguous.

17. For further discussion of "robust political economy," see Boettke and Leeson 2003 and Boettke and Lopez 2002.

Assessing the Results of Participation

Problems of Measurement

What should serve as our standard in judging the results of increased participation in economic development? At minimum, we should be able to find a positive and significant correlation between increased participation and economic growth. If we see developing countries in which individuals have greater involvement in reform decisions performing better, then we might conclude that Stiglitz's argument has some merit. Discerning this effect might be difficult, however, if we limit our analysis to standard econometric techniques.

The first problem pertains to causation. Which way do the arrows of causation point between participatory processes and economic development? Albert Hirschman (1994) is one of several economists who have suggested that participation in government is a consequence rather than a cause of economic development. Perhaps a growth variable exerts a causal effect with a lag, but this possibility suggests another problem: How should we go about measuring the quality and quantity of participatory processes?

To measure participation, we might use the number of times officials from lending institutions meet with leaders in developing countries; or, instead, the number of different interest groups involved in policy creation. Economists currently have no satisfactory measure of the *quality* of the relationship between officials from lending institutions and the poor.

Even if we can deal with measurement problems *and* can find a correlation between participation and economic development, reason for skepticism remains—an endogeneity problem that would be difficult to resolve. Suppose countries with "higher" or "better" levels of participation grow faster. Nevertheless, we might be misconstruing the causal mechanism. Perhaps the economic development is not being driven by participation per se, but instead by deeper, underlying factors. The country might be developing because of cultural factors, such as toleration for dissent, that also make the participatory approach more feasible. In this case, de jure participation itself is not driving economic development.

The General Relationship Between Discourse and Development

The preceding discussion offers reasons for skepticism about a correlation between participation and economic development. Such concerns apply to most econometric results: the data fall short of answering many of the questions we ask in economics, especially when we are not even sure what qualifies as suitable "data." Setting aside this general skepticism, however, what expectation should we have regarding the effect of discourse on economic development?

Economists have strong prior beliefs regarding economic phenomena. We doubt the reality of upward-sloping demand curves in the real world. Most economists are suspicious also of reports that a country lacking the institutions of private property and the rule of law is enjoying a high rate of economic growth. Can we develop a similar prior conviction in relation to participatory processes and economic development?

Unfortunately, Stiglitz gives us no answer. He seems not to be thinking like an economist when he claims that more participation is needed in economic development. Nowhere does he consider the crucial questions related to how much more voice is needed or the length to which we should be willing to go to get more voice. Like most issues in economics, the connection between participatory processes and economic development has to do with marginal changes in the quality and quantity of participation; yet Stiglitz never couches his case for participation in terms of trade-offs.[18]

Fortunately, a vast literature deals with the relationship between political reform and economic reform (Lipset 1959; Huntington 1968; Kaplan 2000; Chua 2003). According to this literature, democracy is not necessarily conducive to economic development, for various reasons. As Amy Chua observes, "democracy can pose a grave threat not only to minorities, but to markets themselves. Rather than reinforcing the market's liberalizing, wealth-producing effects, the sudden political empowerment of a poor, frustrated 'indigenous' majority often leads to powerful ethnonationalist, anti-market pressures" (2003, 261). Throughout her analysis, Chua argues that in societies where a market-dominant minority has disproportionate control of economic resources, political empowerment of the masses often leads to confiscation of property and ethnic hatred. The "reform experiences of Rwanda, Indonesia, and the former Yugoslavia show this vividly" (261).[19]

Moreover, democratic processes often preserve the status quo, although the politics of reform should break the status quo (Boettke [1994] 2001, 200). Democratic processes produce results slowly as competing interest groups become entrenched and resist change. Reform often requires radical, decisive policy; yet the democratic process tends to produce watered-down policies with a long lag between introduction and implementation.

The same logic applies to discourse. Perhaps in some fundamental sense the only way to get legitimate policy is by means of a participatory process. Yet the institutions, rules, and norms necessary to guarantee legitimacy might clash with those necessary for economic development. Because timing and decisiveness play crucial roles in economic reform, a given country sometimes needs a strong ruler.[20] The logic of "shock

18. David Prychitko reaches a similar conclusion in a discussion of Stiglitz 1994, arguing that Stiglitz "ignore[s] the grand constitutional questions." According to Prychitko, Stiglitz needs to consider the "post-communist socialist literature of Habermas" and the "constitutional economics" of Buchanan (2002, 165–66). Now that Stiglitz has begun to take up issues of participation in political economy, readers even more desperately need clarification on his constitutional vision.

19. Premature democratization is only part of Chua's explanation for the poor development record. Reform has failed, she says, also because the IMF and the World Bank insist that developing countries democratize and rapidly implement laissez-faire capitalism (Chua 2003, 14).

20. Boettke (1993, 79–80) discusses this paradox. We confront a similar puzzle when we shift our analysis to international lending organizations. What if one (or a few) strong official(s) suddenly controlled the IMF and the World Bank? Would development aid become more effective if decisions about how to allocate development dollars were left to one individual rather than to a large bureaucracy with many competing interests? The answer is not obvious.

therapy" dictates that because of issues related to sequencing and simultaneity, reform must be rapid. If too much emphasis is placed on legitimacy, the moment for economic reform might pass.[21]

Trade-offs exist whenever we move in the direction of more or less voice. If we insist on a greater reliance on discourse, we sacrifice speed in the reform process. One can imagine situations in which a gradual reform process is more desirable than one with wild fluctuations and uncertainty about the whims of a strong leader. Nevertheless, when we examine successful reforms in practice—whether in Chile, post–World War II Japan and Germany, or the Czech Republic—we find two common features: strong political leadership and a rapid pace of reform. Where has a gradual approach, with many affected parties involved in the creation of policy, been effective in producing rapid economic reform?[22]

One can come up with a handful of examples to the contrary. A slow participatory process might have served Russia better than the decisive leadership of Lenin and Stalin. But where has slow deliberation over *how* to grow actually driven economic growth? The story of economic development in colonial America, for example, is one in which political pragmatism and a "just do it" attitude drove their economic boom; no one worried about whether the right kind of development was occurring (Boorstin 1958). Owing to too much deliberation over policies, the necessary reforms may never take place. Waiting for legitimacy might ultimately produce neither economic nor political reform.

This position resembles the "markets first, democracy later" position that many political economists hold. In light of the many difficulties of getting economic reform off the ground, an argument can be made for market reform first and discourse later. If Stiglitz is going to continue to insist that participatory processes have the potential to be growth enhancing, he needs to explain how talking extensively about reform is going to lead to economic development. It is difficult to see how his call for a decidedly participatory approach makes for good economics. Again, perhaps the Greenwald-Stiglitz theorem justifies participatory processes, yet economic logic seems to contradict Stiglitz's argument.

Conclusion

Joseph Stiglitz's argument for a participatory approach to economic development prompts us to question just how participation will improve outcomes. At first glance, a discursive approach to development seems to be a principled and fresh alternative.

21. Klaus (1997) makes this point in his discussion of reform in the Czech Republic.

22. Development economists often point to China as an example of successful gradualism, yet China's reforms were more an experiment in shock therapy than in gradualism. Dwight Perkins, for example, notes that "if you look at what actually was done [in China], it wasn't so much that the reform was slow and gradual, the reforms were sector by sector: within they were quite rapid. For example, the agricultural reforms were quite rapid from 1979 to 1983 in moving the agricultural sector to the market system. The service sector also reformed quickly. The opening of foreign trade was very rapid" (qtd. in Du and Zhang 1998, 3).

Indeed, it *seems* to have a more human face than the impositionist policies that the IMF and the World Bank currently proffer. Unfortunately, however, Stiglitz's noble *vision* of a discursive political economy lacks *analytical* appeal.

Stiglitz's argument for a participatory process is, at best, embryonic. The case he makes is a haphazard one in which terms such as *voice* and *transparency* are used without any thick content to sustain them. By bringing Buchanan and Habermas into this discussion, I have tried to clarify what Stiglitz *might* have in mind in calling for participatory processes. Buchanan's analysis helps us to understand how rules might arise from participatory processes in politics. Habermas defends participatory processes because he believes they constitute morally correct *procedural rules* to guide our decisions about values. Both Buchanan and Habermas help to clarify what an ideal participatory process would involve, the limits of participatory processes in the real world, and the legitimacy of participation—areas in which Stiglitz comes up short.

We have many reasons for skepticism about participatory processes in practice. In the spirit of de Jouvenel, I have "laid stress upon feasibility problems" (1961, 372) inherent in participatory processes, including the "chairman's problem," the role of ideology in the discourse, and the cultural biases of participatory processes. Participatory processes and the discourse ethic invite criticism at even the most abstract levels of analysis, yet Stiglitz never deals with any of these issues while discussing participatory processes in economic development.

Besides these theoretical problems, the relationship between discourse and development raises difficult measurement issues. Problems of causation, endogeneity, and the quality of the "data" are bound to arise if attempts are ever made to assess the effect of voice on economic development through the use of standard econometric techniques.

Furthermore, at the theoretical level, the relationship between voice and economic development seems to be an inverse one. Increased voice hampers the speed and decisiveness of the reform process. If speed and decisiveness are crucial in the early reform process, participatory processes clearly hamper reform. Our maintained economic hypothesis on the relation of voice and development holds voice to be an impediment to economic reform. Yet Stiglitz champions participatory processes *on the grounds that participation will promote economic development.*

After examining the internal logic of Habermas's system, Prychitko points out, "Habermas believes he justifies a particular set of western constitutional principles that are morally legitimate, and universally valid" (2000, 29). Stiglitz similarly believes that he stands on solid ground in advocating his participatory approach. I maintain that the legitimacy of any new development approach or constitutional project rests squarely on its practicality; the legitimacy of a system and its practicality are inseparable—*ought* implies *can*.

Legitimacy is not separate from economic consequences, either. Stiglitz believes that more participation will lead to more economic development, but this expectation is nothing more than a hunch. Nowhere does he offer a clear argument to explain why or how participation will translate into development. He is quick to point out the benefits of increased participation in economic development (for example, poverty-stricken citizens will have more say in the policies they get; elites will be constrained; the knowledge problem will become manageable). Still, taking into consideration the real-world problems of implementation and recognizing that participation will slow the pace of reform, we are left wondering how Stiglitz's participatory process will promote economic development.

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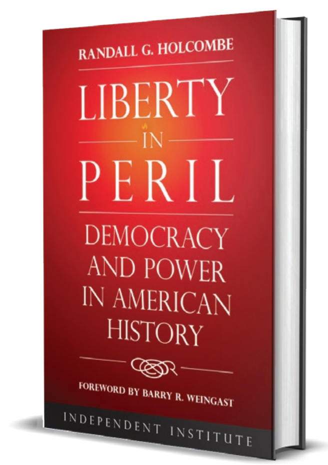

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