

II ROLES AND ACTORS IN THE PROVISION OF RURAL GOODS AND SERVICES

When I asked them about local issues they wished the new member of Parliament to resolve, they shook their heads: the best-dressed person among them... said that there was no problem at all... It was only when my exasperated driver introduced me as a journalist and urged them to tell me the truth that the old man began to speak.

The others prompted him, whisperingly at first, and then everyone spoke at once. The village was privileged in having a tube-well for drinking water, but, they said, the nearest hospital was nine miles away, and though the government has installed an electric line, there had never been any current. The biggest problem related to the government primary school: it had been around for several years, but the teacher came only once a week from Allahabad and even then only for a couple of hours. There was no way of knowing when he would come and so the boys and girls dressed each morning for school and spend most days waiting for the teacher outside locked doors. That wasn't all: the teacher swallowed all the rice the government sent for the students each year. He had also carved out for himself personal profits from the building of the new one-room school for girls...

– Pankaj Mishra (1999)

Chapter I provides the context of development thinking and experience in Asia during the past two decades. For most of that period, the very words “policies” and “policy making” were

associated with acts of the central Government. During the last decade, however, the automatic assumption that the central Government is the fount of all policies and policy making has been steadily undermined. More actors are making themselves heard and are more active in shaping the policies of Asian societies. This chapter examines these newly vocal actors.

But before these new actors are listed, it is important to define the various types of collective action required for rural development. Throughout this volume, “collective action” is essentially an antonym for private action. It is action that has to be undertaken either by the State or by a multiplicity of individuals. The reasons prompting such action are referred to as the demand side of collective action. Who undertakes the action, and, in the case of non-State actors, what form their association takes, constitutes the supply side. The types of collective action are the roles that the actors are expected to play. Choosing to describe the roles first reflects the thesis that these are the fundamental needs of any society, while the actors are merely instruments by which the needs are to be met. The means by which one or more of the actors and one or more of the roles become synthesized is discussed in the later sections of the chapter.

TYPES OF COLLECTIVE ACTION: DEMAND-SIDE ROLES

Goods and Services and their Characteristics

For a rural economy to function and develop there must be goods and services. Rural households require goods and services of various kinds. As a first step, they can be divided into three basic categories.

- **PUBLIC GOODS AND SERVICES.** Public goods partake of two major characteristics: *nonrivalry* (what one person

consumes does not subtract from what another person has available to consume) and *nonexcludability* (if the goods have been produced, it is impossible to prevent people from consuming them). The classic example of a pure public good is national defense.

- LOCAL PUBLIC GOODS. For rural areas, which are by definition spread out geographically, most public goods, i.e., those characterized by nonrivalry and nonexcludability, have an impact only over limited geographical distances and therefore over a much smaller subset of people than the whole nation. An example of local public goods is sanitation services that limit the spread of infectious diseases. These types of goods will feature importantly in the discussion below.
- PRIVATE GOODS AND SERVICES. These are the conventional goods and services, characterized by rivalry and excludability, that are normally bought and sold in various markets.

These categories can seldom be neatly and sharply distinguished. Many public goods have the characteristics of private goods and vice versa. Water, for example, would appear to be a pure private good: the consumption of water by the crop in a farmer's field would appear to preclude other individuals' using it. But because of the way irrigation systems are constructed in Asia, when a farmer irrigates his fields, he cannot prevent other farmers from obtaining some water as well. Similarly, when he sprays his crops with insecticides, normally considered a private good, the total number of insects may decline and neighboring farms may benefit. Such mutual interactions in the consumption of goods, which are not purely nonrivalrous or nonexcludable, will be termed *externalities*. Negative externalities may also occur; e.g., the insecticide may drive the insects from one farm to the next.

Apart from those three categories of goods and services, there are two more important groups of goods and services. These are (nonexhaustive) subcategories of private goods:

- **MERIT GOODS.** A household's consumption—its effective demand—of any good is limited by the size of its income. But society may consider that while some households do not have enough income to acquire adequate levels of certain significant goods, consumption of these goods is too important to be limited by purchasing power. Thus, society may deem that a household must have access to or is entitled to a minimum level of, say, food, health care, housing, or education, regardless of income. If a household's effective demand is inadequate for this minimum, then society may have to find other means to ensure that the household can acquire it.
- **GOODS AND SERVICES WHERE THE BUYERS AND SELLERS HAVE ASYMMETRIC INFORMATION.** In transactions involving these private goods, the buyer has an informational advantage over the seller about his demand, or the seller about his product or service. Such asymmetric information makes it difficult for a transaction, certainly an arm's-length transaction, to develop naturally. Even though both parties might gain from the transaction, something has to happen to force it to take place. A good example is health insurance. Most consumers would like to have health insurance. It is difficult for a private health-insurance market to develop, however, because if a policy is offered with specified payments, the provider will be flooded with buyers who are already prone to disease, while the healthier part of the population will stay out (a phenomenon known as adverse selection). Furthermore, once buyers have policies, they will not take sufficient care to limit their medical treatment, since they know that the insurer will pay for it (a situation called moral hazard). Without a forced pooling of risks, a competitive health insurance market is unlikely to emerge. The market for health insurance is discussed in Chapter VII. For now it should be noted that

several kinds of insurance would increase people's welfare, but asymmetric information makes it very difficult for suppliers of insurance to enter the market and be assured of a profit.

Quantitatively, more than three fifths of the resources of an economy are used to produce private goods and services. In most Asian countries this is taken care of by the market system. Important as they may be quantitatively, these goods and services will not be much discussed here, unless the State or the community becomes involved in their production or distribution, unless they are merit goods, or unless they involve some degree of asymmetric information.

Besides depending upon physical goods and services, rural Asia's development also has a number of more abstract foundations in which the State's role is, and will remain, paramount. These include macroeconomic stability, socioeconomic equity, and rules and property rights.

Macroeconomic Stability

Macroeconomic stability may appear at first to be removed from the problems of rural areas. However, since the agricultural sector produces mostly tradable goods, it is important that variations in the aggregate price level and real exchange rates be kept within bounds. Therefore there is a need for the macroeconomy to become and remain stabilized. While the efficacy with which the task is done is of the utmost importance to the rural population, there has been little question that the central Government and its various organs, including the central bank, should be performing this task. Discussion of the relative roles in macroeconomic management of various organs within the central Government is beyond the scope of the present volume.

Poverty Reduction and Social Justice

Most societies would like to prevent inequalities of income among their members from becoming too large and have built in mechanisms, both voluntary and involuntary, to transfer incomes to the disadvantaged. This again can be thought of as a form of public good, but for our purposes, it is best considered as a separate role to be filled. Intimately connected with the issue of poverty reduction is the provision of merit goods or the fulfillment of basic needs, for it is recognized that many households in rural Asia are unable to meet these basic needs because of poverty (Harberger 1984). The issue of basic needs will be returned to at various points in this volume, but not poverty reduction as a policy.

Poverty reduction is but one subcategory of broader concerns with “social justice” that provide the rationale for State intervention in otherwise private economic and social activities. Concerns with women’s roles, disadvantaged or neglected social groups, involuntary human resettlement, and the effects of natural disasters also fall under this category. In this volume, such social concerns are dealt with primarily in the context of rural human capital in Chapter VII.

Rules and Property Rights

For a society to function effectively and to produce desirable outcomes, there is a need for rules to limit people’s behavior in various ways. A country’s legal system is one set of limiting rules. Others include the rules adopted by local communities about access to forest products or allocation of water.

Property rights are yet another kind of rules, which assign the rights of control over or access to something to an individual or a community. This has particular relevance for rural Asia and will therefore be subject to somewhat more detailed treatment. Three questions can be posed with respect to property rights: To whom are they assigned? Over what resources do the rights assign control? And who undertakes the task of assigning?

- **TO WHOM ARE THE PROPERTY RIGHTS ASSIGNED?** The most common kind of property rights in market economies is private property rights, which are assigned to individuals. At the other extreme there are State property rights. In between there are communal property rights, which are assigned to a defined set of individuals. Communal property rights must be distinguished from what is sometimes called common property or, as it is called in this volume, open-access resources. With communal property, the asset is assigned to a community whose membership is clearly defined, together with rules of entry and exit, e.g., through the sort of kinship and/or marriage rules that are much beloved of anthropologists. Among members of the community, access to the resource whose rights are defined will be according to rules set by the community. Open access, on the other hand, is the absence of any property rights; no one is prevented from having access to the resource. In many Asian countries water remains an open-access resource. Historically, when the population density was lower, land and the forests on it were also open-access resources.

In most instances, private property holders have the freedom to alienate their property to someone else through sales or gifts. State property and communal property, on the other hand, cannot be alienated by individuals.

- **OVER WHAT KINDS OF RESOURCES DO PROPERTY RIGHTS ASSIGN CONTROL?** Most commonly, property rights are assigned to physical assets that can be made to yield income over an extended period. The assignments are rarely absolute but are hemmed in by restrictions or rules imposed by contract, custom, or law. Rules and regulations introduced by policies almost always restrict property rights in some respect. Outside these restrictions, the proprietor can do what he pleases. This power exerted by the owner of property is known

as residual control rights. It is a crucial element in the economic theory of property rights (Hart 1995) and clearly has important implications for the distribution of power. In the case of landed property, for instance, the landowner not only uses his rights to generate income for himself, but in many instances also acquires a great deal of power over the tenants or laborers who toil on his land, because his residual control rights allow him to eject them at will—unless of course there is a law that protects tenants' rights. Where the distribution of land is grossly unequal and the landowners have large estates, as is true particularly of the Philippines, this could be the basis of political power (Sidel 1994). Land tenure rights probably affect the lives of rural people more directly than any other form of property rights. In many parts of Asia, property rights in land that have legal clarity and are properly enforced are still rare, even in market economies (see Box II.1). Only in South Asia and the Philippines, and in the latter only in the older settled areas, are there clear legal bases of property rights in land, but even there colonial legacies have left structures of land ownership that are unequal. After a massive land reform under communist governments, transitional economies are now undergoing the process of reestablishing private property rights in land (see Box II.2).

Technically, property rights in land are among the easiest to establish. The problems of establishing clear property rights over water, however, are tougher by orders of magnitude than in the case of land. As the population increases, and with it the severity of conflicts over resources, there is the need for devolution of control over water from the State (see Chapter V). Asian governments will most likely have to grapple with the legal ramifications of this extremely difficult issue well into the 21st century; the discussion in Chapter V suggests merely the first few tentative steps that can be taken.

The extension of property rights to an intangible resource such as intellectual product is even more difficult, but here the problem goes beyond merely technical questions, although these are difficult enough. With property rights in land or water, the issue is driven by the national interest in having a good management system for these two crucial resources, which are almost always in one country's territory (although there are international problems with water in some river basins). With intellectual property rights, on the other hand, what a country does or does not provide in the way of protection has immediate international ramifications. The national interest in the provision of this form of protection can and does come into conflict with the demands of the international community—and within the international community, the developed countries are the noisiest advocates. Developing countries are being dragged into providing intellectual property rights protection in areas such as biotechnology, possibly well before it is in their national interest to do so and certainly before many of them have a good legal and social framework for making such protection useful (see Chapter IV).

- **WHO ASSIGNS THE PROPERTY RIGHTS?** Property rights, once assigned, must be followed by enforcement. Enforcement of property rights necessarily entails the exclusion of those not having the rights from having access to or using the property in question. Since the State has the monopoly of coercive power, and since coercive power is necessary for exclusion, the State ultimately has to be involved in the assignment of property rights. The growth of property rights thus has an intimate connection with the power and capability of the State. Thus, one author states flatly, “a theory of property rights cannot be complete without a theory of the state” (cited in Eggertsson 1990). True, the existence of the State is not necessary for some rudimentary

BOX II.1: The Ecology of Property Rights in Land in Thailand

For a perspective on the problem of property rights in land, it is necessary to look first at the peripheral part of Thailand, the hill country. There property rights in land are still designed for a land-extensive form of shifting agriculture known as slash-and-burn. This agricultural system is pervasive throughout the hills of Southeast Asia, stretching from Assam in India to parts of northern Viet Nam. In this system, property rights are vested in the community: an individual household can only choose a plot with the approval of the village council or headman; once it has cleared the land, it still possesses only temporary usufruct rights (Boserup 1965, Van Roy 1971, Keyes 1977). Among these communities the concept of "property rights" is somewhat loose; it survived as long as it was viable under the condition of low population density and as long as the central Government did not intrude into the arrangement---two not entirely unrelated events.

In the rice-growing wetlands, private property rights had become the norm by the end of World War II. In the colonized Asian countries, the imperial power superimposed the Western concept of property rights on a myriad of practices that existed in the precolonial states, but independent Thailand also adopted the system of private property. It is interesting to note that in traditional Thai law, all land belongs to the King, but households can occupy the land to farm. Note the similarity to the communal concept among the hill tribes, where the headman (or council) assigns the land that each household can farm. This concept of land ownership arose

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property rights to come into existence (Eggertsson 1990). In particular, the social arrangements concerning the use of land in areas with shifting cultivation preceded the arrival of the State (see Box II.1); these remain independent of, and sometimes even antagonistic to, the laws of the country. Similarly, rules concerning the allocation of water within an irrigation system are sometimes created and maintained by communities independent of the State.

Box II.1 (continued)

during a time when Thailand was an underpopulated country with surplus land.

With population increases accelerating after World War II, people began to move to upland areas and clear new land. Until about 1970, much of this pioneering occurred on good agricultural land that was under forest cover. Unfortunately for the farmers, the Thai Government never made up its mind as to what to do with these lands and began to issue various sorts of certificates of occupancy. By the mid-1980s, there were no fewer than ten different kinds of titles and certificates of occupancy issued by four separate government departments (Feder et al. 1988). Most of these titles cannot be used as collateral, as they do not permit the alienation of the property (a restriction designed to prevent moneylenders from taking over land). At that time, of the 24.7 million hectares of land occupied by private individuals, only 13.2 million had clear titles or certificates that could be used as collateral with banks. Of the remaining 11.5 million hectares, 6.2 million had some sort of certificate, but none that could be put up as collateral, while 5.3 million were held by squatters, who were occupying and no doubt farming "forest lands."

An analysis of the consequences of this messy situation done in the 1980s shows that, surprisingly, the main source of inefficiency was not insecurity of tenure. Rather, the main loss arose from the farmers' inability to put up land as collateral, thereby making it difficult for them to invest in land improvements (Feder et al. 1988).

Throughout this study ways and means are explored by which central governments can decentralize and privatize their activities. One way of evaluating the alternatives for reform is to look at them conventionally in terms of their impacts, the efficiencies of the various parties in performing the tasks currently done by governments, and the regulatory framework that is necessary to ensure the quality of the activities after the

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BOX II.2: Reestablishing Private Property Rights in Transitional Economies: the PRC and Viet Nam

The establishment of property rights in the People's Republic of China (PRC) and Viet Nam followed slightly different paths. In 1978 in the PRC, the first step in what turned out to be a series of far-reaching reforms was the introduction of the household responsibility system. This reform effectively restored the family farm as the basic production unit in the PRC. It began with the production teams' making contracts with their member households for specific tasks. There were many forms of contracts (see Perkins and Yusuf [1984], but the most common was used to distribute the team's resources, particularly land, among households. Each household was assigned a share of the output quota, taxes, and other obligations of the team, which it had to meet. Use of variable inputs, such as seeds, fertilizers, and labor, was at the discretion of the participating households.

At the beginning, the reform did not have the full official blessing of the Center. In 1978, a few local authorities agreed to let some production teams engage in such contracts. When spectacular yield increases ensued, the central Government came around to accepting this practice, finally giving it the official stamp of approval in 1981. By 1983, 98 percent of the production teams had adopted the household responsibility system. This also contributed to the collapse of the commune system, which had outlived its economic function: in 1983, the township government was restored to take over administrative work and some economic functions from the commune, while the village committee replaced the production brigade.

A reason for the central Government's reluctance at the beginning, and its acceptance in the end, is the ambivalent nature of land ownership under the new system. Transfer of outright land ownership to individual households would have been (and

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Box II.2 (continued)

still is) deemed incompatible with socialist principles. Under the new system, land is still owned social by the village; the production teams merely contract with the households to have the latter operate on the land and produce the requisite quota.

Viet Nam began to decollectivize its agriculture in 1981, when the cooperative land was allocated to individual households. In 1988, land belonging to the cooperative was divided up among households in proportion to the size of their labor force. Each farm household was given a long-term lease of up to 15 years, with the sole obligation to pay taxes, which were and remain quite high relative to Viet Nam's Asian neighbors (approximately 10 percent of the gross output).

The 1988 reform still requires land use to be in conformity with land-use classifications; in particular, paddy land must be used to grow paddy rice. More importantly, the 1988 reform prohibited "sale, purchase, seizure and lease of land for rent." This portion was lifted, however, by the enactment of a land law on 1993 that allowed transfers, exchanges, leases, and mortgages subject to the approval of the People's Committees at the village and district levels.

The one point where Viet Nam was even more radical than its neighbors was in the allocation of forest lands. The condition for receiving forest land is that the household reforest it by private means within two or three years after the allotment. Whether the household can meet the condition is assessed by the cooperative. Once the village and district People's Committees approve the cooperative's decision, the household receives a 50-year lease on that forest land. It will then have to provide the cooperative a share of the timber harvested. For the trees that the household plants, it must give the cooperative 20 percent of the harvest; for the trees that were there prior to the lease, it must give 50 percent. Field visits indicate that the arrangement has apparently proved successful and land has been reforested (Hayami 1993).

reform. Although this will be the main approach adopted in this volume, another approach that will be occasionally touched upon is to look at the reform as a change in the system of property rights and to ask how to impose restrictions on property rights of the various firms and individuals so as to yield efficient outputs of the desired quality.

ACTORS: THE SUPPLY SIDE OF COLLECTIVE ACTION

Fulfilling the needs of societies as listed above can be thought of as roles that must be filled by certain actors. This section lists the candidates—people and institutions—that might fill the various roles. In playing those roles, each set of actors faces its own structure of incentives devised by society. These incentives are embodied in formal constitutions, rules, and regulations, or have influence informally through various forms of social conventions. The performance of the various actors within the constraints set by the rules is the first theme of this section.

Other than the constraints set by rules and conventions, actors are also constrained by their resources and where they procure them. In addition to the description of the structure of incentives, it is necessary to consider the *budget constraints* that actors have to work under, which are specific to each set of actors. This will be the second theme of this section.

Central Government

Governments in Asia come in many different forms, shaped by the history of their countries. Thus, we have countries that have market economies and countries whose economies are transitional but whose political systems remain dominated by communist parties. Among countries with market economies, there are those that have electoral processes

with varying degrees of competitiveness. Some have a presidential system of government, with or without a prime minister, such as the Philippines, the Republic of Korea, and Taipei, China; others, like Thailand and Malaysia, have parliamentary systems. Analysis of these forms is complicated by the fact that for social reasons, there are governments of each type that are highly stable and others that are not. Some countries not only have unstable governments, they also change constitutions quite frequently.

It is not the intention of this chapter to present a compendium of the various forms of government. But all political systems have politicians and bureaucrats, who are clearly distinct from one another (except possibly in the transitional countries). Their relationships to each other and to those they rule significantly affect the policies and strategies that they formulate. It is worthwhile to examine the changes that have been taking place among these actors and relationships, despite the difficulties in covering a huge and highly amorphous mass of literature.

Politicians

Not only is Asia characterized by a diversity of political forms of government, but as pointed out above, the states also differ a great deal from one another in their informal structures. Furthermore, politics is intimately tied up with the question of leadership, so individual personalities also matter. Here again, Asian political leaders come in all shapes, sizes, and political orientations. It helps to divide Asian governments into two types, depending upon the degree of political competition. In the first, leadership is a function of an individual, a small group (junta), or a political elite; it suffers little or no constraint on the exercise of political power or the implementation of policies, either because of the outright authoritarian nature of the regime or because the main political party is so dominant that it wins every election. In the second type, there is strong electoral competition, so leaders are constrained by the need to win votes. This is not to say that in the first set of countries the leaders are free of constraints. They

merely have more flexibility to change policies. In addition, the two types of leadership overlap in some areas and undergo similar political experiences, although usually for different reasons and with different outcomes.

The approach to tackling the mass of very diverse literature on the subject of Asian politicians is first to consider the case of politicians in countries where there is little electoral restraint on the exercise of political power. The focus here is the PRC, although its experience will be compared with that of other countries that have also experienced periods of minimal political competition. This will be followed by an examination of India as an example of the second, electorally competitive type of leadership. India is unique in that upon achieving independence, its duly elected Government enjoyed overwhelming electoral support and experienced little competition, but its electoral politics have become fiercer over the decades. Thus, India provides a longitudinal look at the changes that take place as the leadership's freedom to maneuver becomes increasingly circumscribed. As the description of the Indian evolution approaches the present, the Indian experience is compared with that of other countries that have had more competitive politics, mostly in recent times.

In the PRC, the Maoist revolution (together with the previous half-century of chaos, conflict, and foreign invasion) had destroyed almost the entire web of relationships that permeated Chinese rural society before 1949. Mao Tsetung and his colleagues, on assuming power, erected an entirely new set of social units, such as mutual aid teams, collectives, and communes. Further, and more importantly, people could not move or socialize across these "cells" on account of various restrictions on movements of people and on commerce, leading to what has been called "social cellularization" (Shue 1994). In agriculture, the old elite—the landlords—was eliminated as a class. The farms were collectivized and units much larger than households carried out production. All produce not consumed by the farms was sold to the State, thus cutting off commercial relations with other areas of the country. This was also true of social relations. All prerevolutionary linkages, such

as lineage associations, temple associations, and traders, were swept away and replaced by mass organizations such as peasant associations, labor unions, and women's federations, all mediated by the party-State. In the terminology that is described a little further along, it can be said that the Communists erased the prerevolutionary social capital altogether.

Nonetheless, while formal civil organizations had little room to grow, rural people did have needs and demands. These were articulated, if not formally, then informally, giving rise to informal patron-client networks, an old social phenomenon reincarnated in the totally different social landscape created by communism. These networks became the essential interface that linked individuals to the State and party apparatus. (Huang 1998). A second informal phenomenon, much decried by the authorities but nonetheless pervasive throughout the PRC between 1949 and 1978, was the localism within the party and State apparatuses themselves. Local officials and local cadres had to interpret central policies and adapt them to local conditions. Given the PRC's vast size, these conditions were too diverse to be covered in detail by Beijing's directives. Consequently, the officials found room to yield more to the needs and particularities of the area in which they served, rather than to the literal dictates of the central authorities (Shue 1994; Huang 1998). Clearly, though, there were limits to what the local cadres could do, particularly while Mao held supreme power.

The extreme social cellularization of the Maoist period allowed the Communist Party (particularly its leader) to pursue its own agenda without the need to compromise with civil society. A key item in that agenda was the pursuit of national growth by means of forced-pace industrialization. The logic of that decision led ineluctably to a policy of keeping food prices low in order to accelerate the pace of industrialization, particularly in heavy industry. Food prices were kept low by two means, which had opposite effects on rural welfare. The first was by a policy of extracting the surplus from the agricultural sector by means of collectivization and forced procurement (Lin, Cai, and Li 1996). The second was by means of investments in rural infrastructure.

Unfortunately, however, most of the “financing” for these investments was forced from the rural population in the form of underpaid labor and artificially low levels of rural consumption. The rural population thus had inadequate incentives to increase agricultural production. When reforms were implemented that substantially reduced the penalty on higher productivity, the response was dramatic.

Every change in the policies of the Chinese Communist Party from 1949 onward, whether it was the land reform of the 1950s, the Great Leap Forward, or the Cultural Revolution, arose primarily as the result of struggles among its top leadership. Throughout the Maoist period, rural people paid a heavy price for these policies. (The Cultural Revolution of 1966–76, on the other hand, appeared to affect urban areas more severely than rural areas [Huang 1998].) However, the upheavals wrought by these twists and turns in policies undermined the capacity of the central party and government apparatuses, particularly in the area of economic planning (Shue 1994). Local and provincial officials were strengthened by the leadership struggles during the Cultural Revolution and thereafter, as different factions within the party tried to attract their support. Their strength was further reinforced as a result of the reforms introduced by Deng Xiaoping in the late 1970s, when regional officials became a major influence in the Central Committee (Shirk 1993). One consequence was that power began to be decentralized from the central Government in the late 1970s and early 1980s (see Chapter III).

While Deng’s reforms, as with every policy change since the revolution, were initiated from the top, they were enthusiastically received in the countryside, which had had enough of the frequent upheavals wrought by the various Party campaigns. The new regime appeared to the rural population to give individual households considerable autonomy and therefore provided them with some buffer space against drastic changes dictated from the top. To be sure, rural people in the PRC, like those everywhere else, remained wary of directives from above. Despite the dispersal of decision making—as in the introduction of the household responsibility system, the

key reform of the early Deng regime—the Center still retained through the Party apparatus considerable power to implement unpopular policies, e.g., the one-child policy (Huang 1998).

Forced-pace industrialization was not the monopoly of left-wing authoritarian regimes. The Republic of Korea under President Park Chung Hee, who ran the country between 1961 and 1979, started along a path that was to be phenomenally successful for the next three decades. During the first decade of his rule, he continued his predecessors' extractive policies toward agriculture, but began to reverse that policy in the early 1970s (Moon 1975). There was a similar switch in other authoritarian countries such as the Philippines under President Ferdinand Marcos (1966–1986) and Indonesia under President Suharto (1965–1998). The external factor that elicited these responses was the food crisis of 1972–74, during which the countries experienced both a drop in their domestic production and a sharp run-up in international cereal prices. Further, new technology in the form of the green revolution had become available and this opened up a new option for these regimes.

Aside from the need to provision the cities, which was a major factor leading to a turnaround in policies (see Chapter VI), there was a political side to this increased attention to the rural population. Though these regimes were thoroughly authoritarian, and though their support may have been based mainly on other sources such as the armed forces, such regimes had to garner support from the rural areas as well. This need arose because these regimes chose to organize elections at which voters were expected turn out and vote for the government's ticket.¹ Control over the countryside had to be exerted. State organs such as the police were by themselves inadequate for this purpose, since many of these countries, such as the Philippines and Thailand, were also subject to communist

¹ Why did these governments need the elections, since many of them could keep power easily enough without them? The need to have the "show" of elections was, and in many countries remains, useful to counter critics' accusations of dictatorship. Criticism came not only from domestic urban-based intellectuals and students, but also international public opinion, which found their repression abhorrent.

insurgency, which employed the Maoist technique of using the countryside to capture power.

A technique used by most of these regimes was to set about their own organization of the countryside. Thus, in the Republic of Korea President Park initiated the Semaui Undung, a self-help organization that was to serve as a vehicle for rural development programs. In the Philippines, President Marcos set up the Samahang Nayan, a pre-cooperative to which all would-be beneficiaries of land reform had to belong. The armed forces in Thailand organized the Village Scout Movement. A consistent theme in Indonesian President Suharto's rural policies was the support and attention lavished on the cooperatives.

All of these organizations and movements were supposed to subscribe to the ideology of self-help, but they were subverted by the need of the regimes to use them as vehicles of political support. And in their quest for this support, the regimes concentrated on the rural elite. Unlike the PRC Communists, who erased and then refashioned the preexisting social order to suit their purposes, these regimes accepted the existing social structure as the basis for these artificial organizations. The result of these exercises was the continued survival of vertical patron-client relationships, which were to prove an important tool during the succeeding democratic periods in these countries. This problem is discussed further below.

Interestingly, India, which along with Sri Lanka has enjoyed democratic politics longer than any other Asian nation, also underwent similar changes in its policies toward rural people. However, the political developments that led to the changes were far more complex than in the cases discussed above. The politics of India have several idiosyncrasies. The first results from its sheer size. The second is its diversity, but in this respect, India is certainly not unique: many smaller countries are blessed (or cursed) by as much diversity. The third aspect that merits mention is the presence of castes, an important influence on Indian politics: in this respect India is unique. Finally, post-independence India was dominated by two very strong personalities, namely Jawaharlal Nehru and Indira Gandhi.

India began its independence in 1947 with the dominance of Nehru as *the* unchallenged political leader. Note that this dominance was tempered by countervailing sources of power: in the Cabinet, in the party, in the parliament, and among the states. There was also the dominance of his Congress Party. The rural support that sustained Nehru's and his party's dominance was derived from the "vote banks," that is, voting blocs mobilized and delivered by the Congress Party machine. The Nehru period was an atypical interlude in Indian political history, during which the competition at the Center was essentially only among the elite at the head of the Congress party (Kohli 1994)—a situation very similar to that obtaining in authoritarian states like the PRC. The masses of the Indian population, particularly those in the rural areas, had little input into the process of policy setting required in Nehru's planned economy.

This allowed the Indian Government at the time to pioneer a series of economic policies that became the model for the rest of the developing world (however wrong-headed those policies may appear in retrospect, particularly with respect to agriculture). As a result, grand, well-thought-out plans were formulated away from the hurly-burly of electoral politics. They were indeed taken seriously and implemented and set India on a path of development that was to continue well into the 1980s, although by then most of the planning exercises had lost their potency. The most troublesome legacy that India has to grapple with to this day is the overgrown system of controls that was necessary in the planned economy devised by Nehru's Government.

While the economic system that Nehru and his advisors had put together lingered on, the political scene in India changed enormously after his death. The key event that led to the change was in 1969, when Indira Gandhi split the Congress party by going over the heads of the "Syndicate"—the grandees that ran the party after the departure of Nehru—and mobilizing the population for a radical program of reforms (Frankel 1978). These reforms had as their guiding theme the removal of poverty. This direct appeal to the population for a political program was something new in post-independence

India and was to leave an ineradicable imprint on the Indian body politic. Interestingly, despite the claimed goal of removing poverty, Mrs. Gandhi's radical platform concerned the nationalization of the banking and insurance industries and the taming of the corporate sector, yet was silent on what would have had far greater impact on rural poverty, namely land reform. Despite the presence of economic planning and its cadres of highly sophisticated analysts, there was very little linkage between the policies proposed and the claimed result in removing poverty.

Political scientists now argue that the legacy of Mrs. Gandhi lay in mobilizing India politically as it never had been before (Kohli 1994, Khilnani 1997). At the same time, precisely because of this mobilization, politics at the grass roots became highly fragmented. This political mobilization has had its costs. In a country riven by castes, religions, and language groups, the mobilized population was moved in different directions, destructive as often as constructive. The lower classes and castes no longer submitted to the preferences of their betters, as had been the case with the old Congress Party. The instability that has characterized the Indian polity of the 1980s and 1990s, not to mention its susceptibility to emotional (and dangerous) appeals by castes and religion, is the consequence.

The above history divides post-independence India into two distinct parts. Before 1969, there was a political system that was not highly mobilized, but thereafter it became so. Political mobilization *per se*, however, did not lead to a governmental system that was responsive to the desires of the people, nor did it imply the existence of the machinery to implement programs around which politicians mobilized their support, particularly for a radical economic platform.

The reason is in part that it is very difficult for any state to reach out into the nooks and crannies of a society and hope to restructure social relations in a manner that would benefit the weak at the expense of the socially powerful. Next to making war, redistributive reform is probably the most difficult task a state can undertake. If leaders use

standard operating procedures, such as pass laws, and hope the bureaucracy implements them, land reforms do not get implemented... If such reforms are to be implemented, what is needed instead is much more of a political intervention, one that can simultaneously strengthen the weak by organizing them, and utilize politicized implementing agents, usually party cadres, that more readily respond to the decisions of rulers than bureaucrats. (Kohli 1994).

Paradoxically, therefore, despite being (temporarily) immensely popular, the populist rhetoric of Mrs. Gandhi, and later her son Rajiv, did not translate into effective programs. By concentrating power into their own hands, they destroyed the old political machine and the second and third tiers of leadership and therefore made it impossible for their programs to find the support and resources necessary for implementation.

This political history of India does, in a way, illustrate the experience of other Asian countries. Thus, in most of Asia, the rural population still remains largely unmobilized, as was the case in India before 1969. Politicians with a rural base, or those campaigning on rural themes, seldom do so with clear economic platforms that propose decisive measures aimed at achieving predictable results. The sole exception in Asia in this respect is the ruling party in Malaysia, but this country's pro-rural policies carry a decisive ethnic bias.

By and large, rural politicians succeed better in the legislatures by using the power of the purse to bring back resources from the central Government. The pressure of electoral competition has led to an emphasis on bricks and mortar and, more generally, on construction projects. Since legislators do not control the bureaucracy itself, however, the problem of operations and maintenance (O&M) is not seriously addressed. A great deal of investment has indeed flowed into rural Asia from central governments through this process: thus road networks are now extensive, access to electricity is much more widespread than before, and irrigation structures are erected. But all too often, the roads are not maintained. Little is done to ensure that aggregate power supply is adequate to

meet demand (and when there is need to ration the supply, rural areas are inevitably pushed to the end of the line). And while sophisticated irrigation structures have entailed enormous investments, their use remains grossly inefficient (see Chapter V). The exceptions are found in countries whose economies have had a high growth rate and hence whose fiscal revenues are also ample.

Critical to this game of milking the center by rural politicians is again the role of the local, rural elite. The local leaders in the constituencies are able to control a sizable portion of the votes that can be delivered to themselves or the candidates of their choice—much like the “vote banks” in India. The job of these leaders and also of the candidates is not to present their policies and elicit the voters’ preference for one set over others. In fact, specific policies matter little in most Asian elections, with most political parties clustering themselves around anodyne promises. Rather, the local leaders’ or candidates’ job is to act as entrepreneurs, bet on whichever horse on the national ticket will win, and position themselves in the prospective winner’s party so as to achieve the coveted executive positions or to be able to significantly influence the executive branch.

Translated from the Indian experience, this voting pattern still shows an unmobilized voting bloc in the rural areas. A hypothesis may be ventured that mobilization in India was facilitated by the existence of castes, which provided an organizing principle for the rural population that is missing in other societies. The rural population outside India has seldom been politically mobilized, except by left-wing insurgency movements such as in Sri Lanka, Thailand, and the Philippines. In none of these countries did the rural movements succeed in overthrowing the governments, South Viet Nam being the last Asian country where a rurally-based insurgency prevailed. The political order has been overturned in many Asian countries—Thailand in 1973 and again in 1992, the Philippines in 1986, and Indonesia in 1998, but in all these cases, the cities were mobilized for the overthrow. In Thailand, in particular, military leaders would obtain legitimacy and democratic

credentials for their governments by organizing elections, during which their nominees would obtain overwhelming support from the rural areas. Commentators have remarked on this phenomenon (and the urban reaction) thus: "It is the countryside that makes governments, but it is Bangkok that unmakes them."

The rural electorate's fondness for patronage politics and its occasional association with antidemocratic tendencies have an important consequence. Policies that have actually helped the rural areas have depended on growth rather than redistribution. There is a dearth of policies that systematically redistribute income to the rural poor, whether through a redistribution of assets (such as land reform) or price policies that protect rather than tax agriculture (see Chapter VI). Malaysia; the Republic of Korea; and Taipei, China are the only Asian developing countries that have highly protective policies toward agriculture. Malaysia does so because of its peculiar ethnic mix; the Republic of Korea and Taipei, China began doing so in the early 1970s, when they were already well on their way to being urban and industrial societies.

Bureaucrats

Modern governments are organized into large bureaucracies. The departure of the colonial powers left a cadre of civil servants who were, in some cases, highly capable (although a subset of these might have belonged to the "wrong" ethnic grouping, from the point of the view of the incoming governments). Indonesia, the Lao People's Democratic Republic, and Cambodia were the only countries that were not so endowed at the time of independence, but within a few decades, Indonesia at least seemed to have made up some of the lost ground through heavy human-resource investments. With these exceptions, most Asian systems fit very well Max Weber's classical description of a bureaucracy: fixed jurisdictional areas ordered by rules, hierarchical ordering, and use of written documents; and of the bureaucrat: expert training, full-time work in the position, pursuit of a lifetime

career in the bureaucracy, appointment by superiors rather than by election, and enjoyment of social esteem from the governed (Weber [1920]1946). There are many areas, however, in which bureaucrats fall short of the ideal, as measured by the standards of the British or US civil service.

First of all, with very few exceptions, most Asian civil servants remain underpaid. In some countries, their real salaries have fallen relative to those prevailing in colonial times. In others, salaries have lagged well behind those paid in the private sector. Most Asian countries' personnel policies follow the mandarin style, where recruitment is at entry level; a person, once recruited into the Government, is expected to spend his or her lifetime gradually moving up in the civil service (World Bank 1997). Moreover, in adjusting bureaucrats' salaries, many governments have followed a policy of reducing the inequality of incomes by increasing those at the bottom end of the scale relatively more. Salary scales within the public sector are thus considerably narrower than in the private sector. Such a distorted salary structure would be harmless if the Government were the dominant employer in the modern sector's labor market, as it would have been in the early stages of development. In many countries, however, the Government has ceased to be a dominant employer. The distorted scale thus has made it difficult to retain people of high caliber. The public sector has become overstaffed in the lower ranks, but is inadequate, in quality if not always in quantity, at the top.

Two tendencies have emerged within Asian countries. In those where growth has been strong, and where private-sector wages and salaries have risen as a result while government salaries lagged considerably behind, the quality of the civil service has declined. Table II.1 gives the grades of those who passed the civil service entrance examinations in Thailand over the period 1986–1993. This was actually a period when civil service salaries were rapidly adjusted upward, but since they were so far behind private-sector salaries to begin with, the adjustments were insufficient. The figures clearly show that the quality of the entrants has declined noticeably, even though the period over which the comparison is being made is quite short.

Table II.1 Percent of Entrants to the Civil Service Scoring Less Than 2.5 in the Civil Service Entrance Examination in Thailand, 1986–1993

Year	Percent
1986	28.6
1987	25.7
1988	32.0
1990	42.5
1993	49.7

^a Passing grade is 2.0, and maximum grade is 4.0

Source: unpublished data, Office of the Civil Service Commission, Thailand.

In other countries that did not grow as rapidly economically and therefore have faced severe employment problems, the civil service has been allowed to balloon in size. Bangladesh, for example, increased public-sector employment from 450,000 in 1971 to almost one million in 1992, at a compound rate of 3.6 percent per year, or well in excess of the population growth rate of 2.5 percent. Within just four years (1991–1994), the number of departments and directorates grew from 109 to 221. Partly because of this expansion, the real base pay of the most senior civil service positions declined by as much as 87 percent (World Bank 1997). With such growth in numbers and decline in salaries, it is more than likely that the quality of the average recruit has also declined.

Weber stressed the importance of social esteem as a characteristic of the bureaucrat. In the past, this social esteem was taken for granted. Over the years, as salaries lagged behind, as the quality of the personnel in the civil service declined, and as corruption increased, the status of the civil servant began a decline that has continued unabated. Among the civil service systems that are modeled along British lines, the autonomy of the civil service in matters of recruitment and promotions has come under severe strain, as both the political systems and the bureaucracies have become highly personalized.

The civil service in nearly all countries (except those that became Communist) steadily became more patrimonial in character. Instead of neutral application of impersonal rules, which should normally characterize the bureaucratic ethos,

decisions became more and more personalistic, both in terms of the bureaucracy's dealings with its clients and in terms of individual bureaucrats dealing with either their superiors or subordinates. Instead of accountability, loyalty became a more important criterion by which bureaucrats were judged. Instead of using the information at their disposal to perform their tasks of designing rational (i.e., reality-based) measures to implement their political masters' policies, they have conformed to the latter's needs. The lines of division between policies, which are the minister's prerogative, and measures to implement the policies, which are the bureaucrats' business, have become increasingly blurred, as both politicians and bureaucrats are increasingly driven to feed the corrupt political machine.

It is little wonder that governments are becoming less capable of undertaking and implementing rational policies and that people have begun to recognize it. With better education and with longer experience of their own (as distinct from colonial) governments, their perception of government failure is now matching their awareness of market failure. While the Thatcher-Reagan critique of government as applied to the West may carry over to Asia to some extent, particularly through the multilateral lending agencies, what makes it really resonant is the clearly perceived facts of increasing corruption and the decline in the quality of government output. Consequently, various sectors have begun to organize themselves to tackle tasks that would in the past have been left to the central Government.

The Budget Constraint

The fiscal systems incorporated into the constitutions of Asian countries set out the rules to enforce a *pro forma* budget balance for the central Government. In a parliamentary system, the executive branch is in charge of ensuring this balance; the legislators' role is sharply limited by their inability to submit money bills without the express approval of the executive branch.

In a presidential system like that of the Philippines, problems may arise (as has been the case with the US) because

the legislature may mandate many expenditure programs without being willing to fund them adequately. But in the Philippines, when the executive branch submits the annual budget to Congress, individual items may be reduced by Congress, but cannot be increased. This ensures that the executive branch, which has a stronger interest in balancing the budget, does not have its objectives deflected by pork-barrel haggling in Congress. It is possible for Congress to mandate programs without budgeting for them. Examples of unfunded mandates will be discussed in Chapter III in connection with the Philippines' devolution program.

Asian governments have a reputation for levying modest taxes (World Bank 1993c). This observation is borne out by Table II.2, which gives data on the shares of central government revenues in GDP. The PRC has an unusually low revenue-to-GDP ratio of only 6.6 percent., but this figure does not include taxes collected and retained by provincial and local governments, which in the PRC are very important. The relatively low figures for Asia suggest that the budget constraint on the governments should not be so binding—they do have some room to expand their resources by levying new

Table II.2
Share of Central Government Current Revenues in GDP (%)

	Asian Countries	Rest of World
Low Income	8.6 (6)	18.9
Excluding PRC	14.3 (5)	
Lower Middle	18.1 (4)	21.3
Upper Middle	24.9 (1)	24.2
High	22.6 (13)	29.1
Total	14.5 (12)	28.2
Excluding PRC	19.1 (12)	

Notes: Figures in parentheses denote the number of countries in the sample. Data availability limits the Asian countries to the following: India, Indonesia, Republic of Korea, Malaysia, Mongolia, Nepal, Pakistan, Papua New Guinea, the Philippines, People's Republic of China, Singapore, Sri Lanka, and Thailand.
Source: World Bank (1998 and 1999)

or higher taxes. Many of the issues plaguing Asian governments, for example, poor O&M of infrastructure and the deteriorating quality of the civil service on account of its low pay levels, can be tackled by increasing the tax rates.

Within the constraints imposed by their somewhat modest revenues, most Asian governments (except those running the transitional economies) have had few problems with balancing the annual budget, unless there are special cases, for example, a very high level of military spending. That said, it must also be pointed out that Asian governments have yet to learn the art of multiyear and multicontingency budget balancing.

In the case of multiyear budget balancing, past experience has shown that when faced with resource constraint, governments are tempted to defer—through borrowing—the tax burden necessary to break that constraint. This of course can pyramid until it becomes unsustainable. A few countries went through this cycle in the aftermath of the oil crises of the 1970s. The debt crisis that hit the Philippines with full force in the late 1970s affected some other countries as well. As a consequence, many of these countries began to put in place a number of reforms that increased their capability for public-debt management.

Even a Government that borrows prudently may face a sudden fiscal crisis if it makes contingency commitments to various other actors in the economy. The most common claimants are State enterprises, whose borrowings are usually guaranteed by the central Government. The most spectacular example of such contingency commitments, of course, has been the recent burden placed on the governments of Indonesia, the Republic of Korea, and Thailand by the (sometimes-implicit) guarantee on bank deposits.

The fiscal balance problem is, first and foremost, a macroeconomic problem. This has two important consequences for rural policies. First of all, poor multiyear and multicontingency fiscal management means that the availability of public resources is inherently fitful and that the funding of rural programs is therefore unreliable. Second—and this is the more insidious consequence—fiscal imbalances tend to have an impact on the

real exchange rate. Without controls on capital movements, a fiscal deficit tends to produce a deficit in the current account and therefore an offsetting capital inflow. This leads to an increase in the price of nontradables and a real appreciation of the domestic currency. Since the agricultural sector produces mostly tradable goods, this appreciation in the real exchange rate affects it adversely. Besides, if there is little stability in fiscal management, the fluctuations in the real exchange rate add to the already high degree of price instability that characterizes agricultural commodity markets. One of the contributions of the study on agricultural pricing policies by Krueger, Schiff, and Valdes (1988) is to show that this effect is of considerable magnitude and in some cases overshadows the impact of direct taxes and subsidies in the agricultural sector.

Fiscal management problems still remain in the transitional economies. Recall that in the past, being centrally planned, with the means of production owned by the State, these countries did not separate what is known in market economies as the public sector from the productive sectors. Many countries, notably the PRC and Viet Nam, have now effectively separated the two, particularly with respect to the agricultural sector. The Central Asian transitional governments have now, to varying degrees, undergone this process, with Kazakhstan and the Kyrgyz Republic somewhat ahead of the others. In all these countries, however, large shares of the productive sectors outside agriculture still remain with the Government, so the Government is still exposed to their losses.

Local Governments

Rural development by definition has to be dispersed, as both the activities necessary to carry it out and the beneficiaries are dispersed. Yet, from the time when most Asian countries achieved independence, the main motive force and control of rural development have emanated from the central Government. This adds to the discrepancy between the theory and practice of the modern State alluded to already on pp. 37–50 above.

The first alternative candidate to undertake the tasks of rural development is the local government. By this is meant a duly constituted unit of government whose officers are ultimately accountable to the local electorate. This local government unit should not be confused with a local administrative unit of the central Government, whose officers answer to their superiors in the ministries of the central Government. There are many tiers of local government and it is best to start with the lowest level, namely the village.

Villages or Local Communities

Anthropologists consider the village community the most “natural” in a society, although the reader must be warned that the term village covers many sorts of entities. The key distinction for this level of government is that it must be small enough so that its members can have face-to-face interaction on a regular basis. Population sizes of individual villages can vary considerably: in mainland Southeast Asia, village population is typically less than 1,000 (Keyes 1977), while in the uplands of southern India it ranges from 1,000 to 4,000 (Wade 1988). Administrative villages, on the other and, are defined for the convenience of the bureaucracy and may not always correspond to the natural boundaries of rural communities.

Few governments in Asia have personnel other than schoolteachers in villages. In that sense, and in that sense alone, villages are said to be self-governing. In other respects, villages are given very few resources to undertake any serious collective task, despite rhetoric and even sometimes action to devolve power to them (Wade 1988 and Motooka 1976, among many others). Despite the small amount of power explicitly granted by the State to the village, as a community it has in many instances taken collective action upon itself. Wade (1988) and Ostrom (1996a) have given comparative accounts of the village community’s role in collective action. They call attention to the forces that work to elicit the community’s participation.

Wade, for instance, stresses the demand side of the problem. Examining collective action among various villages

along an irrigation system in South India, he suggests that villages with a less assured water supply (usually at the tail end of the system) undertake more collective action to increase that assurance than those whose water supply is naturally more abundant. They would hire more field guards and engage in measures upstream to get more water, including bribing the State's irrigation officers. They would also raise more funds to finance these activities. Similarly, Ostrom (1994) observes, from her examination of school systems in various parts of Nigeria (admittedly an example outside Asia, but suggestive nonetheless), that even though village schools are supposed to be run by the State, parents nonetheless take an active interest in them if they are convinced of the importance of education.

It has often been remarked that rural communities in the relatively small irrigation systems of East Asia tend to display a greater social cohesion than, say, communities in the large-scale, publicly-built and -managed irrigation systems in the great flood plains of South and Southeast Asia. This is because the need to engage in communal activities to build and maintain the irrigation facilities has forced individual farmers to interact with one another and to develop working and cost-sharing rules and other norms to make the systems work. Since irrigation is vital to their livelihoods, the communities have, over the years, been able to build up this system of cooperation, which has come to be known as "social capital" (See pp. 74–78 below). Once it has been accumulated, social capital can be put to effective use in other areas as well, for example in the setting up of cooperatives.

Against the demand-side views from Wade and Ostrom, who argue that the amount of social capital is a function of the amount of collective work that needs to be done, there is another set of arguments that proposes that villages and villagers are guided by some inner impulse. Scott (1976) argues that the precapitalist (and precolonial) peasant communities in Southeast Asia were guided by a subsistence ethic, which stressed a safety-first strategy in the face of risks. This affected not only private decisions on which crops to grow and how much to market, but also social

behavior, as people relied on their communities to provide them with insurance against all sorts of risks. Since membership in the villages implied reciprocity and sharing, individualistic behavior that facilitated integration into the market was shunned. Indeed market integration was considered highly risky and incompatible with the subsistence ethic. Scott then claims that the emergence of the market and the arrival of colonial government (the two came in tandem) led to the destruction of this subsistence ethic and of the sense of community that had existed prior to this point. The problem of why peasants turned to the market if it was so disadvantageous for them was obviated by arguing that the State forced them to do so by increasing the tax burden and by collecting taxes in money instead of, say, *corvée* labor.

Scott's work remains influential despite the strong attack launched on his thesis by Popkin (1979). Popkin's approach is essentially neoclassical, in his analysis of both the individual peasant's behavior and of peasants' collective behavior, which is why he calls his approach "political economy" as distinct from Scott's "moral economy." The reason why Scott's view finds resonance, particularly among the NGO community, is that it purports to explain the lack of social capital as a consequence of the commercialization of agriculture in particular and of rural life in general. It has thus provided a powerful platform for an attack on the market mechanism. The view of this volume is that the thesis of the causal relation between commercialization and the loss of social capital remains unproven. If community and market are not considered as alternatives or as antagonistic, as Scott theorizes, then attempts can be made to build up social capital within a framework of a market economy (Hayami 1989). After all, developed market economies do have social capital that helps communities to undertake collective action (see below).

It needs pointing out that the kind of social capital built up in traditional villages may be incompatible with certain fundamental human rights (admittedly an imported concept). Thus, Kerala used to have a very strong caste system, which was eventually destroyed by an organizational drive among the laborers under the aegis of the Communists. After this successful organizational drive, the Communists (as well as their

opponents, who had to imitate the Communists in order to survive politically) went on to implement a series of major reforms, both in the rural and urban areas of Kerala (Heller 1996).

Other Tiers of Local Government

Between the villages and the central Government, there are of course other tiers—district, region, and province. Whereas villages in some areas often possess social capital, the other tiers of government have very little of it to back up their activities. It is no wonder that this intermediate level of local government has played so small an independent role in rural development. It is only recently that the intermediate tiers have, in some countries, been asked to shoulder more of the burden. Since the issues related to this are quite large and complex, detailed discussion has been deferred to Chapter III.

The Budget Constraint on Local Governments

As rural development is by definition spatially dispersed, why do local institutions play such an insignificant role compared to that of the central Government? A large part of the answer can be seen quickly by examining even cursorily the problem of local government financing.²

Modern economies have to be integrated nationally, which means that rates of taxation of goods and services have to be uniform, or at least near uniform, across the nation. This implies that the national Government should normally be setting—and collecting—the taxes for the whole country. It is not surprising that the central Government has ended up with the lion's share of the country's resources. With such a command over resources and with such an emphasis on a national development strategy (Chapter I), it follows that the

² As mentioned in Chapter I and discussed in greater detail in Chapter IV, another part of the answer, at least during the past three decades, has been that the green revolution technology, consisting of a simple, uniform package of inputs and credit, lent itself extremely well to centralized, top-down dissemination.

central Government has used its financial clout to impose its own will through rural policies.

It is ironic that the countries that at present have much the strongest local governments (measured in terms of their financial strength *relative to that of the central Government*) are the PRC and Viet Nam. The reason is that in a centrally-planned economic system, much of the tax base is associated with production units. With the disappearance of central planning, the production units came to be increasingly controlled by local governments at various levels (see the discussion on the PRC in Chapter III). Further, unlike market economies, where the central governments provide grants to local governments either through annual appropriations or through legislation, central governments in the transitional economies have to bargain with the local governments to obtain the tax resources that they need.

One method commonly used throughout the developing countries, and currently being tried in the Philippines and Thailand, is the tax assignment system. In this system, fixed percentages of a number of specified nationally-collected taxes are earmarked for local authorities. In the Philippines, for example, legislation specifies that up to 40 percent of all tax revenues are to be granted to local governments at various levels. The PRC has an essentially similar arrangement; unlike in other countries, however, the solution was arrived at after hard bargaining between the provinces and the central Government. (For a general discussion of tax assignment, see Shah and Qureshi [1994]).

Tax assignment is a useful, almost necessary, first step toward financial devolution. Contentious issues begin to arise, however, particularly during the early stages, over the question of what expenditure items are to be the responsibility of the local governments and whether the expenditure assignment matches the tax assignment. Normally, expenditure items should be assigned first, and from their current levels, the percentages of the taxes to be assigned can then be calculated. In the Philippines and the PRC, this has not taken place with the requisite degree of precision, and arguments have arisen that the amount of taxes assigned has not matched the expenditures required.

In assigning these expenditure items, again the Philippines' situation (see Chapter III) gives a forewarning for others that there are a myriad of issues involved in devolution. Personnel problems are particularly explosive. This is because in transferring personnel from central to local governments, contingent liabilities are transferred regarding pensions, health insurance, and the like. If civil servants are not satisfied that their standard of living is being protected in such transfers, they are liable to put up stiff resistance.

One unfortunate outcome of the tax assignment system may well be that, with such grants from the Center, local governments become "lazy" in their attempts to collect their own taxes. Once specific expenditure items are assigned to the local governments, the *level* at which money is to be spent on each of these should be at the discretion of the locals as much as possible.³ This is probably best done if local governments can raise a sufficient portion of their own taxes; otherwise there is a temptation for each local government to free-ride on the rest of the country, by first underperforming on its assigned responsibilities and then claiming that its grants were insufficient.

What items can local governments efficiently tax? Clearly, these should be taxes that are residence-based, e.g., sales taxes on consumption goods and excise taxes on certain items (e.g., on liquor, but not on "big ticket" consumer durables such as automobiles, for which the relative size of the tax may justify traveling to other regions where taxes are lower). Above all, taxes on various forms of fixed property have traditionally been the backbone in countries with strong local governments. In this last respect, it is a pity that the land taxes that used to be collected during the colonial period have been almost entirely removed. Even though these taxes were and still are collected by the central Government, they provide an obvious—and often ignored—potential tax base for the local governments.

³ Expenditures about which caution is in order include merit goods like vaccinations, basic health care, and education, which may tend to be underfunded if left entirely to local discretion. See Chapters III and VII.

Finally, one issue that keeps recurring in policy discussions with respect to local governments is their ability to borrow. This is a problematic area. What is the collateral basis of a local government loan? In cases where most local revenues come through tax assignments, how strongly guaranteed is the cash flow from the central Government? In this respect, loans to local governments are similar to local-currency loans to the central Government, except that the central Government can always print the money to service the loan. If a comparison is to be made with central government borrowing, the similarity is with a *foreign-currency* loan.

To the extent that the final guarantor, whether de jure or de facto, is the central Government, the central Government therefore has a deep interest in controlling the local government's ability to service the loan. Hence, there is usually reluctance by ministries of finance all over the world to allow local governments to borrow.

Nongovernment Organizations

Types of NGOs and their Relationships with Government

Nongovernment organizations (NGOs) vary in the scope of their operations. Korten (1990, cited in Romero and Bautista 1995) describes four types:

- Voluntary organizations that pursue a social mission driven by a commitment to shared values;
- Public-service contractors that function as market-oriented nonprofit businesses serving public purposes;
- People's organizations that represent their members' interests, have member-accountable leadership, and are substantially self-reliant; and
- Government NGOs that are creations of the government and serve as instruments of government policy.

All four types have a history in Asia, including the last, which will not be covered further. Of the first three types, most began as charitable organizations, more often than not affiliated with various Christian churches, Buddhist temples, or Islamic orders. This pedigree is important in that it imparts certain biases in the way NGOs function, even though a large number of them no longer function as charitable organizations. In terms of their activities, NGOs now embark on action projects, organize communities, advocate policies, and conduct research and training. There is a second tier consisting of NGOs that raise funds for other NGOs or are networks of NGOs.

Despite the NGOs' long history and the diversity of their activities, there is a surprising uniformity (relative to, say, governments or political parties) in their ideological orientation, particularly among the first of the four types listed above, for whom ideals matter. With their roots as charitable organizations, they are naturally much closer to the poor than the other actors covered in this chapter, hence their proclivity for a relatively radical political stance. Moreover, while it is true that they have had a long history, their growth has been very rapid during the last two decades, fueled by funding from a rather small group of donors, almost entirely Western governments. We shall return to the implications of such funding later.

Because of their ideological orientation, relationships between NGOs and many Asian governments have been prickly. NGOs that advocate policies have a particularly hard time. The hostility does not always stem from the Government. Some NGOs feel that to cooperate with an authoritarian Government means "selling out" (Lewis 1993). With democratization, however, many countries, notably the Philippines, Bangladesh, and Indonesia, have eased restrictions on NGO activities. Some countries even have sections within the key ministries concerned with rural areas (e.g., agriculture or health) to deal specifically with NGO relations, because they perceive that cooperation with NGOs will ease their task in specific areas. For one thing, NGOs are very good at working "in the small." In agricultural research and extension, for example, they can tailor their

work to deal with localities much better than a bureaucratic extension system (see Chapter IV). Thus, the Indian Eighth Five-Year Plan envisaged turning over extension functions to NGOs in certain geographical areas.

How does NGO performance measure up against State performance? After surveying the literature on the subject, Edwards and Hulme (1996) conclude that “there is evidence that some large NGOs are able to provide some services more cost-effectively than governments,” but “NGOs are not automatically more cost-effective than other sectors.” In terms of their ability to target the poor, “there is certainly some evidence that NGOs commonly perform better than government or commercial institutions,” but the claim that they reach the poorest of the poor—those totally without assets or skills—is inaccurate (Edwards and Hulme 1996), although even with this latter group, NGOs can help, at least relative to what central governments can or are willing to do.⁴

Financing the NGOs

Very little clear documentation and analysis exists regarding NGO finances. The main source of aggregated information is the statistics collected by donor countries, which the Organisation for Economic Co-operation and Development (OECD) has compiled (cited in Edwards and Hulme [1996]). These data indicate that the proportion of total bilateral aid from OECD countries channeled through NGOs worldwide rose from 0.7 percent in 1975 to 3.6 percent in 1985, and at least 5 percent in 1993–94, when the dollar figure was \$2.3 billion. These figures include voluntary contributions as well as official aid, although the share of the latter is increasing. How does this compare with the NGOs’ domestic sources of finance? Only one set of data allows such comparison, and this is from India. Robinson,

⁴ A useful paper prepared recently by Liamzon (2000) summarizes several case studies of NGO efforts to promote land tenure security in Brazil, Cambodia, and India, plus the more standard roles of NGOs and other civil society organizations in mobilizing the poor.

Farrington and Satish (1993) say that Indian NGOs' annual revenue from abroad is 9 billion rupees (US\$520 million). The authors do not state to which year the data pertain. The Government of India itself provides a further 500–700 million rupees. When individual and corporate donations are added, annual NGO revenue would total almost 10 billion rupees, which means that foreign sources account for as much as 90 percent of the total revenue—this for a country which tends to be rather averse to foreign aid. It must be borne in mind that these figures tend to exaggerate the role of foreign donors: excluded from them is the value of the work put in by volunteers.

The dependence of advocacy NGOs on foreign funding is likely to be higher than for the other two types. Given the aggressive position that these NGOs have taken on many issues, this dependency can raise questions of authenticity. But raising voluntary contributions locally to lessen reliance on foreign sources is an extremely difficult task. While it is possible for a government to finance service-providing NGOs, it is problematic for it to finance the advocacy NGOs. For want of anything better, NGOs have to depend much more on voluntary contributions. The tradition of voluntary donations in Asia is not entirely absent, for how else can the continual building of temples, mosques and churches be explained? Moreover, some of these contributions also spill over into what can be subsumed under the terms of charitable organizations, such as hospitals and schools.

Donation, whether to religious institutions or to NGOs, does not fit comfortably with the basic assumptions of economics, as it is subject to a different sort of psychology and ideology than the ones that economists are used to. In his analysis of philanthropy in Thailand, Anan (1998) points out that the motivation for donations to temples in Thailand was enveloped in the Buddhist ideology of merit-making, which pushes the contributions in certain directions. NGOs, on the other hand, grew out of Western humanitarian concerns, which are somewhat alien to the version of Buddhism practiced by the Thais. Not surprisingly, the first NGOs in the country were formed by the Christian churches (Amara 1995), and concentrated on education and health facilities for the poor.

NGOs that try to define their role with explicit Thai roots (they are at the moment mostly of the advocacy kind) are having problems raising funds locally.

In general, service-providing NGOs have a broader set of financing options than the advocacy NGOs. Many of the services that they provide are really private goods. This is the case to some extent with health care and even more so with education (see Chapter VII). Thus, it is possible for them to sell their services at different prices and cross-subsidize the poorer beneficiaries, fulfilling their role of assisting the poor. This, in fact, has been the traditional method employed by Christian missionaries in their provision of health and education services. It is not surprising that the best schools for middle-class children in much of Asia are missionary schools. The problem with this approach is, of course, that a single-facility NGO can only operate in this way if it is located in areas with high purchasing power, and that would mean in the cities, not in the rural areas. Of course, a multiple-facility NGO can still engage in cross-subsidization, but the temptation within the NGO to go where the money is will remain strong and somewhat distort its delivery.

For-Profit Private Sector

Although the most important among the actors considered in this chapter, discussion of this sector need not be prolonged, as its motivation is straightforward. It is important to note, however, that the for-profit private sector can function properly only when the legal framework for its existence is firmly established. This has become obvious in recent years as the result of two developments: first, the mismanagement and massive economic collapse that occurred as many former centrally-planned economies privatized their major industries; and second, the “discovery” during the Asian economic crisis of the inadequacies of the laws and regulations governing business and the financial sector. Indeed the complacency of many Asian governments during the years when their economies were growing rapidly is now costing

them dearly. The themes that have emerged from this experience are covered below under the rubric of “governance.”

While the private sector, per se, and its profit-seeking motivation do not require detailed discussion, the process of privatization is of interest because almost all of Asia’s former centrally-planned economies—and even some of the market economies—are grappling with it. As alluded to above, there has been almost universal progress in the privatization of farming, but progress has been slower in industrial activities, including large rurally-based industries. In this regard, the experience of the PRC is noteworthy. As compared to the “crash” approach to privatization taken by the former Soviet Union and Eastern Europe, the PRC appears to have hit upon a transitional form of private-sector development. Although manufacturing units are not privately owned as in the market economies, their behavior nonetheless conforms to the role of a for-profit sector working in a competitive environment. These units were instrumental in rural industrialization, an area in which the PRC has been uniquely successful.

The PRC has a number of distinctive types of enterprise. These include central and local publicly-owned enterprises, as well as private firms, proprietorships or private cooperative firms started by groups of individuals. The share of private firms in the gross value of industrial output in 1986 was 21.3 percent. Their importance varies greatly from province to province, with a larger presence in the more developed and commercialized provinces such as Guangdong. They still lead a somewhat fugitive existence in the PRC, however, despite the extensive reforms and the greater presence of markets. In addition, their ability to expand employment has been limited by regulations and they therefore remain small.

The limitations on private enterprises have led to the spectacular growth of the township and village enterprises (TVEs), which were the successors of the erstwhile commune and brigade enterprises. Unlike publicly-owned enterprises in other countries, the TVEs are essentially for-profit organizations that function in a competitive environment. They have strengthened the position of local governments in relation to the central Government by

providing the former with additional tax resources for social investment and rural infrastructure projects. The TVEs provide a major tax base to local governments and extra budgetary funds for social services. They are unevenly distributed, however, tending to cluster in the coastal provinces and in rural areas near cities. Poorer inland provinces with few or no TVEs have generally smaller revenues. TVEs have also become a very important contributor to the increase in rural welfare: in the 1980s, TVEs played a major role in poverty alleviation programs (Wong 1997).

Prior to their post-reform growth, TVEs had a checkered history, which followed the swings in policy during Mao's rule. During the Great Leap Forward, their earlier incarnations expanded greatly, only to decline equally sharply when that effort collapsed. In the more recent period of the Cultural Revolution, the commune and brigade enterprises were again encouraged to expand, particularly into agriculture-related industries such as farm machinery and implements. But this time, they remained and continued to grow throughout the 1970s. Their growth until about 1983 was still based on agriculture, but thereafter became more overtly industrial. Indeed, after 1983 the TVEs in some provinces began to support agriculture rather than the other way round (Byrd and Lin 1990; Du 1990).

The reforms, by allowing households much more leeway in managing their time, had opened up opportunities for the growth of this particular form of enterprise. As noted above, the TVEs benefited from the restrictions on private firms that could have competed with them. In addition, local governments became very willing investors in TVEs. They preferred them to private enterprises, which did not possess clear private property rights over their productive assets (Che and Qian 1998). The TVEs also benefited from the active role played in their management by local officials and cadres, especially in the beginning. This was particularly important in a country without a private sector, as managerial abilities were scarce. In addition, the local officials had extensive networks of contacts at various levels of government.

While obtaining tax revenues from these TVEs, the central Government requires them to retain at least 60 percent of their

profits for future development. The local government can also levy various taxes and fees on a TVE under its control. However, the central Government also requires that funds thus acquired have to be spent on rural social programs and infrastructure. It appears that the nominal owners of the enterprises, the local citizens, get relatively few direct benefits in the form of dividends: Che and Qian (1998) report that in 1986, 46 percent of after-tax profits were reinvested and 49 percent used for local public expenditure. In 1992, the figures were 59 and 40 percent, respectively. Nonetheless, local people do benefit from the expansion of employment made possible by the reinvestment of the profits and from the expenditures of the local government.

Because of their many desirable features, the TVEs are often cited as models for other countries to emulate. However, their growth is associated with unique features that are not present elsewhere in Asia (with the possible exception of Viet Nam): the “binding” of individuals to their places of residence, with some limitations on movements into and out of these places, and the lack of a private sector with easy access to capital and managerial inputs.

The TVEs also have some less attractive features. Because they are under the control of the local governments, which still wield considerable regulatory power, there is a tendency for the TVEs to use that power against outside enterprises, in a form of local protectionism (Shirk 1993). In the grain trade in particular, the provincial enterprise can often get its local government to prevent outside traders from procuring grain until it has fulfilled its own needs.

Multilateral Lending Agencies

For most Asian developing countries, two multilateral lending agencies—the Asian Development Bank and the World Bank—are of considerable importance for two main reasons. First and most obviously, they are a source of development finance, but at the same time they are also a source of policy

thinking and advice and at times are influential in policy choices. The emphasis here will be on the second set of roles.

These two multilateral agencies are, first and foremost, politically-based institutions. The governing bodies of both agencies consist of representatives of both donor countries (i.e., the developed countries that have contributed major shares of the capital funds) and the developing countries that are the borrowers. In both banks, the developed countries tend to play a dominant role. Their representatives on the boards of directors are accountable to their governments and ultimately to the electorates in their home countries. The electorates in the larger countries (particularly the US) have generally been somewhat averse to the work undertaken by the lending agencies and have required their representatives to reflect their own vested interests and preferences: for example, the soybean lobby in the US has for a long time made it difficult for the World Bank to lend for palm-oil projects.

Aside from lobbying for vested interests, the developed-country board members have been guided by the current economic and development thinking of their capitals. It is certainly no coincidence that support by the two banks for market-oriented reforms and fewer State interventions at the macro and sector levels began to rise significantly during the era of Ronald Reagan and Margaret Thatcher. More recently, these banks have been steered by their boards away from projects that entail great environmental risks, are gender-biased, or involve biotechnology.

The original purpose of the World Bank, it will be recalled from Chapter I, was to finance the reconstruction of Western Europe after World War II. At that time, the belief was that capital accumulation was the key to raising income, a belief that was also widely held by economic planners in the developing countries. For the latter, this meant investments in infrastructure, such as roads, irrigation, and ports. Starting from the late 1970s, there was a perceptible shift among the donors toward programs and projects in which the impact on the poor was more direct. In the 1980s, market-oriented policies came to the fore, but these have been overtaken in recent years

by concerns about poverty reduction and a range of crosscutting considerations, including governance. These shifts have been faithfully reflected in the work that the banks' staff do, although in fairness it has to be pointed out that the staff itself has at times initiated these shifts. Throughout the post-World War II period, the World Bank, in particular, has been a fount of new ideas on development, while both banks have made great efforts to find new, innovative approaches in the design of development projects.

The resources that the two banks lend have made a significant difference to the Asian developing countries. As just a single example, even before the 1997 crash, the two banks provided as much as 10 percent of the total government budget of Indonesia. This figure exaggerates the resulting leverage that the banks have, for the Indonesian Government had alternative funding sources. A concern more serious than their leverage has been that the banks' capacity to lend has, at times, run ahead of the absorptive capacity of the borrowing countries. It has been acknowledged by both institutions that the ability of staff to "deliver" loans has mattered too greatly to their careers.

In this context, it is a sad fact that, by and large, agriculture-sector loans have not performed as well as loans to the "harder" sectors. It is recognized, of course, that agriculture projects are inherently more difficult because of the dispersed nature of the beneficiaries and the executing agencies, among many other reasons. Agricultural loans are dominated by irrigation projects, which have many serious problems—so many that it is deemed necessary in this volume to cover the subject in detail (Chapter V). The question also has to be raised whether agriculture is inherently less profitable than other sectors, for otherwise its share would not be shrinking with economic growth.

A final note with regard to this form of financing: if the two banks acted as hard-nosed lenders, strictly on the basis of returns to the loan and nothing else, then the relationship between the banks and the borrowing countries would be somewhat more arm's-length. But the banks sometimes wish

to project the preferences of their developed-country sponsors onto the borrowers (whether it is on behalf of the poor or for the private sector). Since the grant element of many loans has been minimal (except for loans from the International Development Association and the Asian Development Fund, the soft windows of the two banks), the taxpayers of the borrowing countries end up paying for these preferences.

INTERACTIONS BETWEEN ACTORS AND ROLES

The first section of this chapter examined the various types of collective action that are required by rural people and thus set out the roles for the actors discussed in the second section. The discussion of the actors showed their evolution without saying much about their roles. This was because the various actors and institutions have their own histories, whose course has run somewhat independently of the roles they have to play or that they are fitted to play. But in this part of the chapter, the actors and their roles are linked through consideration of a number of principles that may be applied in order to slot the actors into the various roles, starting with the principle of comparative advantage.

Comparative Advantage

The central governments of most Asian states have had a dominant role in rural development. This is quite paradoxical. Even a medium-sized country has a very diverse rural sector: its problems are myriad as well as subtle, and certainly of a kind that people who staff the central bureaucracies can barely comprehend. Bureaucrats have a predilection for general rules when it is location-specific measures that are needed. They tend to be insensitive and even antagonistic to the idea of community, when many (though not all) parts of Asia have vibrant local communities. In fact, looked at in the

cold light of day, central bureaucrats should not be in the business of rural development at all.

Central governments do, however, have an undeniable comparative advantage in three areas, all ultimately resting on their monopoly of coercive power: in raising resources, in assigning property rights, and in regulating or enforcing the quality of essential goods and services (whether these are provided publicly or privately, or centrally or locally). To the extent that many of the needs of rural societies cannot be met by voluntary action without running into free-rider problems, only central governments can raise the resources to meet these needs. It is this power to raise money that gives them the impetus in the end to take over almost the entire area of rural development. Even for those regimes that are democratic and not predatory or authoritarian, having raised the money coercively through taxation, they remain accountable to their electorate as to how the money is spent and must therefore control the expenditures almost all the way to the end. They have been loath to devolve power and send money to local governments.

Their reluctance can be explained by their assumptions about agency costs. Agency costs arise when a party (the principal), rather than undertaking a task itself, contracts with someone else (an agent) to do it. The principal will then have to supervise and monitor the agent; in case the agent's performance is not in accordance with the contract, the principal will have to enforce the contract or penalize the agent. Governments' reluctance to devolve arises from the assumption that the agency costs of supervision, monitoring, and enforcement that arise from devolution are too high and that it is better that central governments go ahead with what needs to be done. If they were to liberalize and allow the private sector to take over particular functions (say, grain marketing), then it might also be claimed that regulating those functions would be too complex and the regulatory costs too high.

But if central governments undertake the tasks themselves, they do not avoid the agency costs. After all, the individual bureaucrats who help design and implement the

policies with which the electorate has entrusted them may shirk just as much as the contractors. It therefore becomes an empirical matter whether devolution or privatization would economize on agency costs. The recent trend towards both is based essentially on the hunch (and at the moment, it is no more than that) that the agency costs associated with devolution or subcontracting are lower than the agency costs of supervising the employees of the central Government.

Given the comparative advantage of central governments in raising revenues and their frequent failure to spend them with optimal effectiveness as far as local rural development is concerned, a distinction has to be drawn between financing on the one hand and provision and delivery on the other. Most public goods and many merit goods cannot or will not be adequately paid for in the same way as private goods and services: voluntarily by the beneficiaries. Although central governments must necessarily be involved in financing these goods, other actors may do the actual provision and delivery (Ortiz and Moser 1996). Chapters IV through VII explore, first, how the provision and delivery of various services that are usually in the domain of central governments can be devolved or privatized and, second, what residual regulatory roles the State might or should retain.

Coproduction

The principle of comparative advantage may partly explain the assigning of roles to the different actors, but it rests on an assumption that the different actors are rival candidates for each role. In some instances, however, this view may prevent consideration of a possibly more attractive alternative: the different actors may cooperate, with better results.

Ostrom (1996b) points out that the provision of services (and most of what the government provides is services) is not like the provision of goods. In many cases, services involve the participation of both the provider and the recipient. The productivity of the former depends very

much on the activities of the latter. The modern approach to agricultural extension reflects this concept. Instead of viewing farmers as passive recipients of technological advice and input “packages” from the extension agents, as has been done in the past, it is more useful to bring in the farmers as partners in the exercise from the beginning. The methods of integrated pest management cannot be “disseminated” to farmers by means of traditional, top-down extension, nor can the resource management concepts that need to be applied in rainfed areas. These topics will be discussed further in Chapter IV.

Such interdependence exists in most other areas of service provision, such as irrigation, health care, and education. Ostrom coined the term “coproduction” for this phenomenon. Coproduction implies that the production function in most service industries is determined not only by the inputs under the provider’s control, but also by those under the recipients’ control. This specification is substantive and not just formal, in that the inputs from the provider and recipient cannot be substituted for each other. This is the basis for the synergy between the two. Consequently, for service provision to be truly effective, it is essential that the intended beneficiaries be brought into the picture from the very beginning, i.e., from the design stage. Beneficiaries here need not be individuals and indeed, in most cases it would be impractical for individuals to participate. It is more efficient if entire communities are brought on board.

Social Capital

The discussion of coproduction leads naturally to the concept of social capital, which is richly discussed but poorly defined in the literature. It was already considered extensively above in the discussion about the interaction and cooperation among individual villagers and villages that have evolved in order to carry out community tasks like the maintenance of irrigation systems. Another way to convey the concept is found

in the following description of Kerala, the most densely populated and still one of the poorer states in India:

Even the most casual observer of Kerala society would be quick to note the sheer density of civil organizations and the vigor of associational life. Keralites of all walks of life, it would seem, have an irresistible inclination to combine, associate and organize, and to do so without the outbreaks of violent disorder... Thus, despite extremely high levels of social mobilization, Kerala has largely been spared the sectarian and casteist violence that has recently been on the upswing throughout most of India.

Across both the formal and informal sectors of the economy, rates of unionization are high. The state boasts the most extensive network of cooperative societies, as well as numerous nongovernment organizations... Kerala's caste self-help and social upliftment societies have a long history of active civil engagement. Its 'library movement,' literary associations and film industry [have] earned it a reputation as a cultural center rivaled only by Bengal...

The vigor and dynamism of civil society [are] matched only by the size and activism of the state... Kerala has the most developed social welfare system in India, including the most extensive network of fair-price shops (public food distribution), and rates of social expenditure that continue to be significantly higher than the national average. Through the implementation of the land reforms of 1970, by far the most radical in the subcontinent... the state transformed the agrarian social-property structure, destroying the traditional landlord class and creating a new class of small proprietors. The government-run system of primary health care units has reduced infant mortality to near-First World rates. Moreover, even by Indian standards, the state has been very active in regulating the market, restricting labor-displacing technologies in traditional industries, legislating work conditions and hiring practices in industry as well as in agriculture and aggressively enforcing minimum wages (Heller 1996).

It is the quality of the civil society in Kerala—and the quality of its interactions with public institutions—that explains

the ability of the State to perform many tasks that would be considered too ambitious for countries with many times the per capita income of Kerala.⁵ That quality of civil society is also called “social capital.”

Still another perspective is offered by Putnam (1993), who constructed a theoretical framework based on his research on the comparative functioning of provincial governments in Italy. He points out that collective-action problems are normally shot through with all sorts of “prisoner’s dilemma” games. In such games, if individuals choose a selfish and uncooperative strategy, they will end up worse off than if they had cooperated with others. If the game is played only once, it is attractive for individuals to act selfishly and cheat on all the others, which makes noncooperation the expected outcome of the game. If, on the other hand, such games are played repeatedly, over time individuals will gradually learn the art of cooperation in their relationships with one another and also begin to trust one another (Axelrod 1984). If a network of individuals is involved in such transactions, they will also come to trust one another. It is this relationship of trust within the network that we call social capital and that will increase the productivity of a society just as much as physical capital.

Note that social capital is defined for a particular network of individuals. Heller’s work on Kerala is at the level of a province in a larger nation-state. Putnam’s work compares the provincial governments in Italy. Thus, these authors define social capital for the populations of Kerala and the Italian provinces. As social capital is defined for particular networks of individuals, it can be “large,” relative to Kerala, but “small” relative to India, however it is measured. This implies that the relative performance of the different tiers of government will vary depending on how far the networks of trust extend within a society. Clearly, this must be an important consideration in the design of any programs for devolution.

⁵ Dreze and Sen (1995) mention the role of civil society in their analysis of the uniqueness of Kerala, but stress the role of education as an explanatory factor for the quality of civil society.

In rural Asia, social capital is most developed at the village level. Until the coming of modern means of communications and transport (and with them the emergence of markets), the opportunity to interact with members of the broader society was small and there was no social capital to back up the performance of the larger geographical units. At the national level, on the other hand, much of the social capital that has emerged has been for urban, nonagricultural sectors, because the networks that arise from the functioning of the national economy are mostly concentrated in urban areas. Consequently, the political and cultural language used at the national level has been that of the urban middle class, into which rural-based representatives have to fit uncomfortably. This is one explanation for the dissonance between the political logic driving national governments and the needs of the rural societies that were discussed earlier in the section on central government politicians (pp. 45–47).

A cluster of social capital that is important for rural societies and for national economic performance is the relationship of trust that has developed among the traders and middlemen of agricultural commodities, for example among the Chinese in Southeast Asia, or among the trading castes in India.⁶ Interestingly, despite their economic importance as a group, these people are often the target of abuse from the dominant urban middle classes. Government policies are sometimes directed at the destruction of such social capital (see Chapter VI).

The use of the term “social capital” invites comparison with the concept of physical capital. Both are accumulated over time and both can be destroyed; in the case of social capital, the destruction may occur through disuse or deliberate acts of policy, as when the Chinese Communists erased the social capital that had been built up over centuries of Chinese history. But social and physical capital differ in that the accumulation of the former occurs in a relatively time-consuming and unpredictable process. For example, one of Putnam’s more depressing conclusions is that Italian provinces that are well governed have been well

⁶ An interesting parallel can be drawn with families and minorities (Jews and Huguenots) engaged in merchant banking in 19th-century Europe (Landes 1958).

governed for centuries and the same applies to those that are poorly run. In the language of game theory, once players in a society hit upon a noncooperative equilibrium, it may be difficult to pry them loose from that equilibrium.

There is one other important aspect in which social and physical capital differ. Normally, when one considers different subunits of physical capital, say the plant and machinery belonging to the Ford Motor Company and General Motors, one thinks of them as being additive: both sets add to the world's productive capacity. This is not necessarily so with social capital. As already noted, it enhances the productivity of the individuals belonging to a particular network (say, an ethnic group): it can therefore be said to belong to this network. However, in the interaction that any particular network may have with other networks in society, the high level of social capital that any one of them possesses could be detrimental to the proper functioning of society as a whole. For example, the group-specific social-capital embodied in patron-client networks often undermines the functioning of the economy and leads to nepotism and corruption in government. As one political scientist tersely put it, "In factional settings, solidarity is a problem and not a solution" (Holmes 1989).

The concept of social capital provides considerable insight, but applying the concept "in the field" requires the exercise of some skepticism, for social capital is a matter of long-term evolution. It cannot be easily created or manipulated as an instrument of policy. Even its destruction is fraught with difficulties. The social capital embodied in the rules of patron-client relations pervades much of rural Asia and at one time performed a useful function. However, in a democratic nation-state and in the modern globalized economy to which rural societies must adapt, this particular form of social capital is no longer appropriate, as it tends to undermine the new social institutions that are being set up in the name of the nation-state and a competitive global order. Despite the harm that results from their persistence, patron-client relationships have proven resistant to change and still play a very important role in social relationships in much of rural Asia.

Governance

One of the most important goals of collective action is to ensure that whoever undertakes it satisfies—quantitatively, qualitatively, and efficiently—the needs of the intended beneficiaries, as well as of those who finance the action. To attain this objective requires good governance. A good way to come to grips with this somewhat elusive concept is to examine the concepts that have been proposed to define the State's provision of good governance: accountability, transparency, predictability, and participation (ADB 1995).

- *Accountability* means that in all institutions of the State, there is a clear line of responsibility that ultimately ends up with the electorate, from which authority flows. This concept has been developed over the centuries in Western countries and culminated in the modern democratic State. But when the Western countries came to rule over their colonies in Asia, they took an authoritarian line vis-à-vis the people over whom they ruled. Colonial governments quite naturally saw themselves as being accountable to their home countries. When the colonies became independent states, they retained most of the laws, the regulations, and the authoritarian bent. Where social revolutions led to Communist states, there was no transition in their State structures to match that of their economies. Furthermore, the postcolonial societies were in many respects less accustomed to accountability than to loyalty, a concept that has quite different ramifications: loyalty is really a relationship between persons, whereas accountability is a (somewhat more abstract) relationship between offices or groups. Consequently many State systems have over time become quite personalistic.
- *Transparency* is a concept that makes it possible for governments (and other institutions) to be accountable. Because of nepotism and the tradition of patron-client

relationships, as well as the authoritarian bent and the mandarin tradition of the civil service that Asian governments inherited from the colonial powers, transparency in Asian governments is remarkable only for its rarity.

- *Predictability* is yet another concept tied to the more modern form of government and economy. When people decide on, say, investment, or any other activity that links them to the future, they must do so with the belief that there will be no change in the rules of the game that they could not have taken into account at the time of the decision. If there is any such change, then there must be some clear reasons for it.
- While accountability, transparency and predictability are principles of good governance, *participation* is both a principle and the means for achieving it. Clearly, if beneficiaries are brought into a public activity from the beginning, then there will be more transparency and predictability in the way it is carried out. Participation generally leads to increased efficiency as well (see Chapters V and VII). One of the major contributions that NGOs have made in Asia has been to increase people's participation in various aspects of government.

These four criteria carry with them an academic and rather technocratic flavor: the focus is on principles and abstract mechanisms rather than on the institutions and social framework (or what is called above the social capital) that make the principles meaningful. Accountability and transparency are meaningless in societies that have no free press or any other mechanisms whereby those who do not live up to their requirements can be effectively penalized. Moreover, the principles of good governance could, at the extreme, sometimes justify policies directed at the destruction of social capital, even though that capital may be highly productive for the economy as a whole (see Chapter VI).

CONCLUSIONS

The coming chapters will demonstrate that the types of collective action that a society needs to undertake have, if anything, shrunk in scope over time. All developing countries have moved away from the centralized strategic approach to development that received heavy emphasis in the 1950s and 1960s, entailing as it did a planned economy that directed resources into particular sectors. Good examples of the old approach can be found in the first few five-year plans in India. Certainly, the sectoral policies espoused in such plans have all but disappeared from Asia. There remains the dispute as to what role the State has in fostering specific lines of industry and in coordinating investments, but this dispute pertains mostly to the industrial sector and has little relevance for rural Asia.

In place of these broad sectoral policies, what is being demanded of the collective actors is a much more complex and sophisticated task, best summed up in the call for a “people-centered” approach, which implies a much more finely tuned sensitivity to the needs of the beneficiaries. A bureaucratically-run central Government is at a distinct disadvantage in this arena. Consequently, in many countries more actors are becoming involved. These new actors, however, far from relieving the central Government of its tasks, have made the tasks much more difficult, for the Government, in the end, must ride herd over them and provide coherence to the whole exercise. The new roles and actors also put a premium on the principles of good governance. Good governance is desirable in and of itself, but in the new circumstances facing Asian societies today, it is also a key to enhancing productive efficiency and social welfare. These complex tasks require a political and bureaucratic system—and a new generation of civil servants—that are at once sensitive and knowledgeable. Unfortunately, few Asian governments have been able to keep up with the pace of the change that is occurring around them. Indeed, there is evidence that in some countries, the quality of the bureaucracy has declined.

The main generalization that can be drawn from this discussion is that governments will, for better or worse, continue to play a lead role in efforts to promote rural development, but they must learn to be much more nuanced in their approach to policies. This generality precludes a presentation of policy specifics at this stage. With reference to the particular arenas of technology, irrigation, food pricing policies, rural social services, and even the broader issue of devolution to local governments, however, concrete recommendations can be made, and this will be the task of the following chapters.

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