

Participation and Development: Perspectives from the Comprehensive Development Paradigm¹

- Joseph E. Stiglitz

Participatory processes (like 'voice', openness and transparency) promote truly successful long-term development. These processes do not guarantee success. But an understanding of the centrality of open, transparent and participatory processes in sustainable development helps us to design policies – strategies and processes – that are more likely to lead to long-term economic growth, and that reinforce the strengths of the processes themselves.

Comprehensive development paradigm sees development as a transformative movement. Development represents a transformation of society – from 'traditional' to 'modern' ways, more importantly a change in the mindset from 'accepting the given' to 'acceptance of (and indeed a seeking out of productivity-enhancing) change'. Dominant paradigm in the past focussed narrowly on economic and allocative issues. (Hollis Chenery and Anne Krueger were advocates of the old paradigm.) It was argued that development would occur by increasing the supply of capital and the efficiency of resource allocation.

As a change in mindset is at the centre of development, the change has to come from within. The kinds of open and extensive discussions that are central to participatory processes are the most effective way of ensuring that the change in mindset occurs not only within a small elite, but reaches deep down in society.

Participation is more than simply voting. Participatory processes must entail open dialog and broadly active civic engagement. It requires that individuals have a voice in the decisions that affect them. Processes, not just outcomes, are key to this broader interpretation of participation. The stress on processes is a natural outgrowth of increasing emphasis on equity and greater recognition of *agency* problems. (Why equity?: An absence of rule of law and a lack of transparency both weaken the economy and undermine participatory processes. Rule of law tends to go hand in hand with a system of effective checks and balances; hence is associated with higher levels of investment and growth. The concentration of economic power and wealth will also, almost inevitably, be translated into attempts at political influence. Hence, equity is essential for democracy to flourish.) (Agency problems: Actions taken by a representative differ from the interests of those whom the representative is supposed to serve. The legitimacy of those in decision-making positions will depend not only on their actions being in accord with the 'democratic sentiments' but also on those positions being attained through open, electoral processes.)

To sustain the rule of law, the 'checks' on abuses of the power and influence have to be strengthened. There are three elements to achieve this: (i) strengthen civil society as a source of countervailing power (political parties, unions, consumer groups, think tanks and other NGOs.) (ii) increase transparency by protecting 'right to know' among the citizens (iii) extend citizens' rights to legal recourse, to sue the non-action by the government.

¹ Summary by M. Vijaybhasker Srinivas (2007), Akshara Gurukulam

(Ensuring participatory processes, and promoting the public good more broadly, is itself a public good. As with other public goods, there will be too little provision of such participatory processes in the absence of public support.)

Laws affecting governance (and their implementation) have implications for both equity and efficiency. If minority shareholders or bondholders cannot be ensured fair treatment, they will not be willing to invest in the corporation. The firm will have to turn to banks as a source of finance. But if leverage increases, the risk of bankruptcy increases. If many firms in the economy have high leverage, then the economy as a whole may be threatened with a financial crisis, the costs of which may be borne by taxpayers and workers, not just the firm and its lenders. Therefore, in the absence of a strong legal system ensuring participation by average citizens in decision making, the citizens will face adverse consequences that clearly are not of their own making.

Thus, transparency attracts investments required for growth. Public governance is a contributor to growth. (Jim Wolfensohn remarked, “free markets cannot work behind closed doors.”)

Development requires change. Change is threatening. Participatory processes ensure that these concerns are not only heard, but also addressed; as a result, these processes dissipate much of the resistance to change. Participation is thus essential to effect the systemic change in mindset associated with the development transformation, and to engender policies that make change more acceptable. And because individuals have had a voice in shaping the changes, in making them more acceptable, change is likely to be accepted or even embraced, rather than reversed at the first opportunity.

Participation also leads to project effectiveness, even at the grassroots level. It brings to the project relevant information that outside development agencies (or even governments) are not likely to have. In addition, participation also brings with it commitment, and commitment brings with it greater effort – the kind of effort that is required to make the project successful.

Knowledge economy and participation

Knowledge economy will lead to a change in the ways of organising production, changes which give rein to greater participation of individuals in decision-making. This is imperative as knowledge-based work organisation involves greater recognition of the autonomy and self-direction of the mind. Knowledge is best acquired by active involvement of the learner. To foster the active involvement of the learner, the motivation should ideally be intrinsic to the activity, not a superadded carrot or stick. External incentives can modify behaviour only in the short term and temporarily. When the extrinsic incentives are removed, the behaviour reverts to the previous motives. When reforms are imposed on a community through conditionality (“carrots and sticks”), they may fail to produce lasting change. Such reforms will tend to undermine people’s incentives to develop their own capacities and weaken their confidence in using their own intelligence. This will only short-circuit people’s learning activities and reinforce their feelings of impotence. The external incentives will probably not induce any lasting institutional reforms. Thus, broad participation in the vital activities of a developing society is necessary to foster a lasting transformation. Success in knowledge-based economy will also require a highly

educated citizenry and an effective, and decentralized, communications network, like the internet. Both of these enhance the possibilities of more effective participation, and make it more difficult to suppress it.

Participatory Processes and the Effectiveness of Decisions

While markets may work far more efficiently in the long run, there may be short-run circumstances – often entailing dramatic changes in the direction of resource allocation, such as when a country goes to war – in which market mechanisms are either too slow or too unreliable. Thus, open, participatory processes *may* result in delay. These shortcomings, disadvantages and costs of openness and participation are offset by the overwhelming advantages of participation. The literature has focussed on the advantages of decentralized decision-making, which – if done right – can lead to: giving more people a chance to participate in the decisions; the lower variability of decision quality that comes with decentralised decisions; the fact that rejected projects get a ‘second chance’, which implies that fewer good projects (ideas) are rejected; the opportunity for experimentation and learning that comes with decentralization. In addition, when the democratic processes work well, they entail a process of consensus building. This means that once a new policy has been adopted, it can better weather the vicissitudes of the political process. This provides continuation in the policies. (Stiglitz refers to such continuation as ‘political sustainability’.)

Economic and Social Development

‘Social development’ means the ability of a society to peacefully resolve conflicts and to address amicably sources of common concern when interest differ. Societies in which there is a high level of violence, either within the family or the community, are marked by a low level of social development. Similarly, societies where important issues cannot be addressed over long periods of time because conflicting positions cannot be resolved, also have low levels of social development. More broadly, social development entails a greater sense of trust and responsibility, a higher level of social capital and a greater ‘internalization’ of some of the important externalities (such as those associated with the environment).

Social development enhances economic development. Trust and shared civic norms are associated with better economic performance. The development of financial institutions is widely recognised as an essential ingredient in a development strategy. Therefore, a credit culture – that is, a socially developed culture that expects the repayment of debts, whether or not legal enforcement is imminent – is increasingly being recognised as contributing to financial depth. The business people will shy away from investing in an economy with a high level of crime, corruption, and violence, all symptoms of low levels of social development.

The problem is that in the process of economic development, countries often regress in terms of social development. Social sanctions that previously worked well to internalize externalities within a community lose their potency when labour becomes highly mobile and when communities themselves become fragile. Social capital may deteriorate, before the country is able to establish the kinds of less personalized social capital associated with more advanced industrialized countries. Poorly designed economic policies that fail to pay attention to the social dimension may make matters worse. One such element which the policy makers must bear in mind in the increase

in unemployment. The despair and blocked opportunity resulting from unemployment can tear at the social fabric and reduce willingness to abide by laws. This could increase the crime levels and reduce the economic gains of the policy.

Open, transparent, and participatory processes can play an important role in preserving or, if necessary, re-establishing social capital. Participation itself can help create a sense of community, a *sine qua non* for a high level of social capital. A minimal sense of community entails making sure those that are most disadvantaged – particularly those who face starvation or face severe medical problems – are taken care of, in at least a minimal way. Such communities are more likely to be trusted by a worker who faces potentially disruptive change because she will feel that her concerns are taken at least somewhat into account. Amartya Sen has stressed that democratic societies simply do not allow famines to occur. Open dialogue with a free and vigorous press is essential for the development of this sense of community. With secrecy, there will always be the suspicion that decisions were made not on the basis of ‘community’ interests, but on the basis of ‘special interest’. Individuals cannot tell from the outcomes alone whether their interests have received due attention.

However, economic development can promote social development. An essential ingredient of economic development is improved education and better communications. The latter enables individuals to be better informed about issues in a timely way, and the former puts individuals in a better position to use that information to form intelligent views concerning the merits of alternatives. Well-designed education systems, which can both contribute to and be financed by economic development, have also played an important role in building social cohesion.

Therefore, open, transparent, and participatory processes are important ingredients in the development transformation – important both for sustainable economic development and for social development that should be viewed as an end in itself and as a means to more rapid economic growth.

Such processes are more important in economic policy making, as there are real tradeoffs among policies: not only do some people gain more than others, but some actually lose. Unless these policies are decided by participatory processes, there is a real danger of the public perceiving such policies as serving the ‘special interests’ of ‘some persons’. Such perceptions decrease the commitment of the people to abide by the policy choices. Secrecy cannot be justified even on the grounds that secrecy is essential for market stability.

Comprehensive Development Paradigm

As the conditionalities imposed by the outside lenders, without ensuring that such policy changes emanate from a broad participatory discussion, have limited sustainability, President Wolfensohn of the World Bank in this annual speech in 1999 outlined the new approach of Comprehensive Development Paradigm. The paradigm not only emphasized the holistic nature of the development process, but also strove to create a new process, one that would entail a new set of relationships, not only between the Bank and the country, but within the country itself and between the country and all donor agencies. Central is the notion that the ‘country (not just the

government) must be in the driver's seat.' These principles necessitate a change in the way external assistance interacts with developing countries.

One of the important results emerging from recent research on aid is not only that conditionality is ineffective, but that aid is highly effective in good policy environments. Therefore, budgetary assistance needs to be complemented with 'knowledge' and 'technical assistance'.

Concluding remarks

There is an increasing stress on the importance of the processes by which decisions are made – how consensus-building, open dialogue, and the promotion of an active civil society are more likely to result in politically sustainable economic policies and to spur the development transformation.

The perspectives put forth reinforce arguments central to the development policy in the recent years: the importance of education, in particular, that of women; the need for better communications; the central role of 'good government' (including a lack of corruption); and the importance of rule of law and of reducing scope for discretionary actions in a strategy to reduce corruption.

The comprehensive approach to development also raises new concerns: the structure of education systems, for instance, may lead to or perpetuate social stratification, undermining social cohesion, or it can be a key ingredient in nation building. More than just 'efficiency in the delivery of services' is at stake. Given the importance of consensus formation, capacity building – creating the capacity of those within a country to force their own development strategies and to have an active debate about the central tenets – needs to move more towards the centre. Many countries have been slow to grant those basic rights that I believe to be so necessary for an effective participatory system – the right to a free press, free speech, the right to organise to pursue common objectives. Many governments continue not to recognise the people's fundamental 'right to know', pursuing secrecy well beyond the domain where national security requires it.

Thus, the comprehensive development strategies incorporate social as well as economic development, arrived at through open, transparent, and participatory processes, that extend the fruits of development in a sustainable way to all the citizens of the developing world.