

**Beyond “Institutional Monocropping”:  
Institutions, Capabilities, and Deliberative Development**

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## **Beyond “Institutional Monocropping”: Institutions, Capabilities, and Deliberative Development**

### **Summary:**

*Locating one set of development strategies – those which utilize institutionalized systems of popular deliberation to allocate collective goods – within the larger framework of contemporary development theory is the purpose of this article. The “new growth theory” and modern organizational analysis of economic growth have led development theory away from a single-minded focus on capital accumulation in the direction of more complex understanding of the institutions that make development possible. The most prominent policy consequence of this “institutional turn” has been the rise of “institutional monocropping” – the imposition of blueprints based idealized versions of Anglo-American institutions, whose applicability is presumed to transcend national cultures and circumstances. The disappointing results of institutional monocropping suggest taking the “institutional turn” in other directions. Amartya Sen’s “capability approach” argues strongly for a focus on institutions involving “public discussion and exchange.” The examples of Porto Alegre, Brazil and Kerala, India reinforce the idea that “deliberative development” is developmentally promising.*

Theoretical perspectives on development have trekked into a brave new world where “[d]evelopment is no longer seen primarily as a process of capital accumulation but rather as a process of organizational change” (Hoff and Stiglitz, 2001:389). The more sophisticated development theory that has emerged from this process leads in many directions. One of them is the idea of “deliberative development.” The aim of the discussion that follows here is to briefly recapitulate the theoretical trek leading in direction of strategies of deliberative development and then to explore arguments regarding the effects of such strategies.

Development theory began to move away from “capital fundamentalism”<sup>1</sup> almost 50 years ago, first emphasizing “technology,” then the role of ideas more generally and finally focusing on “institutions.” This movement has reinforced the conviction that the quality of basic governance institutions should be considered the key element in fostering growth. Unfortunately, the dominant implementation of this insight, which has been to try to impose uniform institutional blueprints on the countries of the South – what I call “institutional monocropping” – has produced disappointing results. Even for those who don’t subscribe to William Easterly’s pessimistic assessment<sup>2</sup> that “the trillion dollars spent on since the 1960's, with the efforts of advisors, foreign aid givers, the international monetary fund and the World Bank have all failed to attain the desired results,” it is clear that we need more imaginative responses to the institutional question.

Looking for new perspectives on the institutional question, I turn to Amartya Sen’s “capability approach.” The capability approach foregrounds the question of social choice and argues that deliberative institutions – public discussion and exchange – must be central to any

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<sup>1</sup> See King and Levine, 1994; Easterly, 2001a: chapt 3.

<sup>2</sup> *The Financial Times*, 7/4/01, p.13.

theoretical conceptualization of development, both as a valued end in themselves and as the only fully legitimate means of evaluating other ends. Elections and civil rights are the essential foundation for the construction of effective deliberative institutions, but the increasing tendency toward a “hollowed out” version of democracy in the South (Yusuf and Stiglitz, 2001:249) argues for a more substantial institutional response. “Deliberative democracy” offers a more substantial institutionalization of “public discussion and exchange.”

The potential developmental impact of deliberative democracy is explored by looking at two well-know examples – the state of Kerala, India and the city of Porto Alegre, Brazil. These cases suggest several interesting propositions. First, such institutions indeed appear to be effective in engaging the energies of ordinary citizens in the process of social choice, thus satisfying the “end-in-itself” criteria that Sen’s approach highlights. Second, deliberative institutions appear to increase the citizenry’s willingness to invest in public goods and to enhance the delivery of those goods. Since these collective goods (e.g., health and educational services, transportation infrastructure) are also means of enhancing productivity, a potential contribution to long-term growth is implied. Reducing violence and corruption in the governance process is another intrinsically valuable and potentially growth enhancing benefit. Two illustrations can’t test these propositions, but the potential developmental gains are intriguing nonetheless.

The argument is not that effective deliberative institutions can, by themselves, give poor countries the ability to make bricks without straw – to grow incomes without capital and technology. The argument is that deliberative institutions are essential complements to other inputs. They help provide the underlying governance conditions that make capital and technology efficacious. They increase the possibility that institutional borrowing will “take” in the local environment. They provide a sounder basis for evaluating development priorities. Equally

important, deliberative strategies expand what development delivers by giving citizens the opportunity to exercise the fundamental human capability of making choices.

The constraints on development strategies imposed by economic theories of growth can no longer be used as excuses for not exploring this avenue of development. To the contrary, what Hoff and Stiglitz (2001) call “modern economic theory” entails a general focus on institutions, while Amartya Sen’s theoretical formulation of the “capability approach” pushes us specifically in the direction of deliberative institutions. The two together thoroughly justify devoting more sympathetic attention to the institutionalization of deliberative development.

**Growth Driven by Ideas and Institutions:** “Capital fundamentalism” has strong intuitive appeal. The Harrod-Domar model and the policy prescriptions that went with it had an attractive elegance and simplicity. Any country could become rich if it could increase its domestic savings, which would then become investments, producing an increase in future incomes proportional to the increased share of investment. If domestic savings rates couldn’t be increased, external financing would fill the gap. Capital fundamentalism was especially optimistic from the point of view of poor countries. Capital should flow from where it is relatively abundant and therefore gets lower returns (rich countries) to where it is scarce and therefore receives higher returns (poor countries). Rich countries would also suffer more from diminishing returns. Catch-up is the clear prediction.

Unfortunately, capital fundamentalism did not work – either theoretically or empirically. Robert Solow (1957) pointed out that capital fundamentalism neither made theoretical sense nor accounted for the long term trajectory of American growth.<sup>3</sup> The supposed benefits to the South didn’t materialize in practice. Capital tended to flow among rich countries rather than from rich to

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<sup>3</sup> Even Evsey Domar agreed. See Domar, 1957:7-8; Easterly, 2001a:28.

poor. International institutions, trying to compensate with loans and grants, found to their frustration that more capital often did little good. King and Levine (1994:286) conclude,

. . . . there is little support for the view that capital fundamentalism should guide our research agenda and policy advice. . . . international differences in capital-per-person explain little of the differences in output per person across countries; and growth in capital stocks accounts for little of output growth across countries. Moreover while the ratio of investment to GDP is strongly and robustly associated with economic growth, there is little reason to believe that this constitutes evidence that increasing investment will cause faster growth. Indeed, recent results indicate the opposite: economic growth Granger-causes investment and savings, not the other way around.

While the role of investment remains a central issue in development theory,<sup>4</sup> the consensus has moved capital from its throne as “magic bullet” to being one factor in a complex mix.<sup>5</sup>

The “new growth theory,” with its emphasis on the increasing returns to ideas,<sup>6</sup> has now come to dominate theoretical discussions of growth, despite the complexities and uncertainties that it imposes on policy decisions. Once again, the basic premises make intuitive sense. The dismal logic of diminishing returns, which limits development strategies based on physical capital (and even more thoroughly those based on land and natural resources), does not apply to knowledge and ideas. Since ideas are “non-rival” goods, simultaneously useable by any number of

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<sup>4</sup> See Jorgenson *et.al.*, 1987, DeLong and Summers (1993), Kim and Lau, 1994,1995 and Young, 1995.

<sup>5</sup>See Blomstrom, Lipsey & Zejan (1996), Barro (1997), Lin and Lee, (1999), Easterly’s (2001a); Hoff and Stiglitz (2001: 428), Meier and Rauch (2000:chapt.3).

<sup>6</sup> See Romer (1986, 1990, 1993a, 1993b, 1994) and Lucas (1988). For recent summaries see Aghion and Howitt (1999) or Easterly, (2001a: chapt. 3,8,9).

different economic agents, their use is naturally subject to increasing returns (Romer, 1993a:63).

You and I can't both use the same wheelbarrow at the same time but, once someone gives us the idea, you and I and all our cousins can all build wheelbarrows. Once a useful idea or piece of knowledge has been created the cost of using it again is essentially zero, so returns from its use increase every time it is used.

For rich countries, the implications of the new growth theory are optimistic. There are no theoretically obvious limits on growth, or even on the rate of growth. Indeed, growth should accelerate over time as the stock of ideas accumulates. Shifting income from consumption to savings ceases to be the *sine qua non* of increased growth. For poor countries, however, the implications are more ambiguous. If poor countries were able to simply start using the stock of ideas that rich countries have already accumulated, their growth rates would, in theory, skyrocket. In practice, taking advantages of other people's ideas turns out to be anything but simple. To begin with, even though ideas are non-rival, their returns can still be turned into property, controlled and even monopolized (cf. Romer, 1993a:71-72). Current struggles between rich and poor countries over intellectual property rights are indicative of the tensions over how the returns from ideas will be distributed. Even more fundamentally, garnering returns from most ideas depends on being able to put them together with complementary inputs, such as capital, skilled labor and, most important, institutional frameworks that are effectively complementary.<sup>7</sup>

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<sup>7</sup> The effects of complementarities among skilled workers and between skilled workers and capital illustrate the problem. Skilled workers will want to move to places they can get higher returns by combining their skills with those of other skilled workers. Concentrations of skilled workers are likely to attract capital (see Kremer, 1993; Noorbakhsh and Paloni, 2001; Hoff and Stiglitz, 2001: appendix A and Easterly, 2001a: 150 -160). Poor countries will suffer triply: from having lower initial concentrations of skilled workers, from losing skilled workers to richer countries, and from the fact that their citizens will have less incentive to invest in training than workers in rich countries.

Figuring out how poor countries can best take advantage of increasing returns from ideas is a challenge.

The institutional implications of the new growth theory are even more challenging. Once growth is seen as centered around ideas, not as an exogenous factor, but as resulting from the actions of forward-looking economic agents responding to incentives, institutions come to the center of the development stage. Institutional arrangements shape the incentives to develop ideas and become central in determining the rate of growth. Examples of this kind of idea range from double-entry bookkeeping to MacDonalD's franchise operations manuals, but basic administrative norms or legal rules – are perhaps the most important of all. Proponents of the new institutionalism (e.g., North, 1981, 1986, 1990) argue compellingly that the quality of the ideas embodied in these kinds of institutions is essential to explaining differential rates of development. At the same time, North is also explicit in rejecting the idea that those institutional forms that are most economically efficient will emerge through some kind of automatic functionalism process, and his position on this point is equally compelling.

In the case of basic rules and the governance institutions that go with them, the possibility of ideas that are disadvantageous to long run development getting “locked-in” (Arthur, 1990, 1994) is all too plausible (Bardhan, 1989, 2001; Pierson, 1997). Institutions depend on mutually shared expectations, not just of people immediately involved in them but of others who deal with them (cf. Bardhan, 2001:276). Any set of shared expectations has a strong advantage over the uncertainty of not knowing how the institution works. This kind of “network externality” generates strong increasing returns to any institutional form that manages to take hold long enough or widely enough to become the basis of shared expectations. Once institutions take hold, they are likely to endure even if they have a long-run negative effect on development, crowding out the

possibility for the emergence of more efficacious institutions (cf. Grief, 1994).

Questions of power and distributive conflict further complicate the problem. Any set of institutions entails a distribution of gains and losses. The “institutional winners” are likely to gain political power along with economic benefits and, as Bardhan (2001:278-79) points out, they are likely to be unwilling to support institutional changes that worsen their gains relative to other participants, even if the change would result in greater productivity that would improve their position in absolute terms. Vested interests in the distributive results of “bad” institutions make them even harder to change and help keep poverty traps firmly in place.

The new growth theory’s focus on ideas and institutions makes the disadvantages facing poor countries appear more formidable than they did in the Harrod-Domar world. This is theoretically reassuring. It fits the ugly fact that the North-South divide has persisted despite a half century of “development” and substantial amounts of industrialization in the South (see Arrighi and Silver, 2001). For those interested in moving from theory to practice, however, it is discouraging. Only with a set of basic institutions specifically adapted to overcoming poverty traps are the cumulative disadvantages of being poor likely to be overcome, but our theories, perhaps even our intuitions, of how fundamental institutional change takes place are woefully inadequate (Hodgson, 1988; Chang and Evans, 2000). How can institutions favorable to development best be promoted where they do not already exist?

**Institutional Monocropping:** The “institutional turn” in development theory should be an occasion for imaginative new departures in development policy as well as theory. Instead, the standard policy response has been ever more intensive insistence on what looks like the institutional equivalent to old-fashioned strategies of agricultural monocropping – what I would call “institutional monocropping.” International organizations, local policy makers and private

consultants combine to enforce the presumption that the most advanced countries have already discovered the one best institutional blueprint for development and that its applicability transcends national cultures and circumstances. They do this with increasing aggressiveness across a range of institutions – from debt to equity ratios in private firms, to relation between central banks and presidents, to the organization of public hospitals or pension systems.

Institutional monocropping rests on both the general premise that institutional effectiveness does not depend on fit with the local socio-cultural environment and the more specific premise that idealized versions of Anglo-American institutions are optimal developmental instruments, regardless of level of development or position in the global economy. Institutional forms corresponding to an idealized version of supposed Anglo-American institutions are imposed in those organizational realms most easily subjected to external pressure (such as formal public sector organizations). Other less accessible arenas (such as informal networks of power) are ignored, as are questions of the match between the requirements of the modified institutions and the capacities of the organizations that surround them. In most arenas of public life, especially those concerned with the delivery of public services, institutional monocropping has offered the sterile proposition that the best response to bad governance is less governance. Its advocates are then surprised when their efforts result in the persistence of ineffectual governance, “angry atomization” among the citizenry, and political paralysis (cf. O’Donnell,1993).

The attraction of imposed monocropping as a model for institutional change is understandable. The basic institutions of rich countries are, by definition, associated with development, at least in those countries. Having institutions that rich country actors can understand and work should help poor countries join the global economy. Re-inventing the wheel is generally a bad idea. The flawed governance systems that prevail in most countries of

the South make imposition of universal forms seem like a superior alternative to local efforts at “muddling through.”

Despite its attractiveness, however, there are a number of reasons to doubt the efficacy of the monocropping strategy. In practice, efforts to mimick advanced country institutions are not necessarily the most effective way of making local environments more hospitable for investors from rich countries (see, for example, Pistor, 2000). Imposing new sets of formal rules without simultaneously reshaping the distribution of power that underlies prior institutional arrangements is a dubious strategy from a political economy perspective (cf. Hoff and Stiglitz, 2001:418-420). For Chang (forthcoming) institutional monocropping constitutes, in List’s phrase, “kicking away the ladder.” He argues the institutions currently being imposed on the South are not in fact those that characterized the now developed countries during the period of their ascension and that the imposition of these institutions will make development more difficult in the South, not easier. Yet another critique begins from the assumption that institutional diversity has an intrinsic adaptive value for the global political economy as a whole. If biologically diverse ecologies are more robust in the face of shifts in their environments and diversified investment portfolios are superior in the face of risk, then the eliminating diversity in the world’s “portfolio of institutions” seems likely to diminish adaptive capacity in the global political economy. Even if the nations of the South are willing to sign on to the idea that certain abstract institutional properties – such as transparency and accountability – are universally valuable, this is a far cry from the imposition of a uniform set of specific organizational structures and rules that is implied by institutional monocropping.

In fact, monocropping has not worked very well in practice. If it had, we would expect accelerating growth rates in the South during the past two decades of intensified efforts at

institutional mono cropping. Instead, the last twenty years have witnessed a decline in growth rates among the supposed beneficiaries of this process in the South, both absolutely and relative to the growth rates of the rich countries of the North. Easterly (2001a:211), for example, finds that, if you weigh the countries of the South equally, there has been a “slowdown in developing country per capita income growth from 2.5% in 1960 to 1979 to zero over 1980-1998.”

The most obvious concrete examples of monocropping’s lack of efficacy are the governance related conditionalities imposed by the International Financial Institutions (IFIs), which usually don’t “take” and often fail to produce the expected results even if adopted.<sup>8</sup> Argentina is the most recent and dramatic example of failure, while post-1989 institutional restructuring in Russia is perhaps the grandest. At the same time, the star performers in terms of sheer economic growth during the last 10 years – e.g. China, Vietnam and Malaysia – exhibit institutional patterns that are embarrassingly hybrid relative to the monocropping ideal.

Failure to deliver accelerated growth in real incomes is not monocropping’s only problem. Anglo-American models of public institutions tend to neglect the delivery of collective goods and emphasize the provision of individual incentives over distributional outcomes. If improving public health institutions or correcting biases against investments in primary schools within educational systems are the goals, then the superiority of Anglo-American institutional models is quite doubtful. Disappointing results even with respect to income growth, the measure on which monocropping should be the strongest, suggests that broader assessments of its results would be even more negative.

If monocropping is not a good solution for low equilibrium institutional traps, what

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<sup>8</sup> See, Kapur, 1997, Kapur, 2000; Kapur & Webb, 2000; Killick, 1995.

alternative or complementary strategies might be explored? Dani Rodrik suggests one alternative. He argues (1999a:19) that it may be “helpful to think of participatory political institutions as meta-institutions that elicit and aggregate local knowledge and thereby help build better institutions.” Amartya Sen’s “capability approach” begins from a different starting point from analysis and travels along a different analytical road but ends up reinforcing Rodrik’s proposition.

**Capabilities, Choice and Development Institutions:** Amartya Sen’s capability approach brings an elegant formal analysis of the basic foundational issues of utility and well-being together with practical analysis of the problems of poverty (particularly famine). Nested between the foundational and the practical are strong implications for processes of institutional change, implications that are almost the mirror image of those proffered by institutional monocroppers.

Sen argues that we should evaluate development in terms of “the expansion of the ‘capabilities’ of people to lead the kind of lives they value – and have reason to value,” which is his definition of freedom.<sup>9</sup> The range of capabilities is enormously variegated – from having dependable access to adequate nourishment to having the possibility of being a respected participant in community life. The expansion of people’s capabilities depends both on the elimination of oppression and on the provision of facilities like basic education, health care, and social safety nets, neither of which is necessarily reflected in real incomes. Growth of incomes is very likely to expand people’s capabilities, especially at lower levels of income, but it cannot

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<sup>9</sup> Among Sen’s massive bibliography, *Development as Freedom* (1999a), is perhaps the most accessible synthesis.

be considered, in itself, the ultimate yardstick of development or well-being.<sup>10</sup>

Sen's refusal to accept real incomes as the "one good thing" capable of providing a proxy for development brings the question of social choice to the heart of "what development is about." (Cf. Sen, 2001). First, he argues that real incomes are an analytically inadequate metric for making welfare comparisons (1999a:79-80) and that the utilitarian efforts to reduce well-being (and therefore the goals of development) to "one homogeneous good thing" (real incomes as a means of satisfying subjective preferences) are equally inadequate.<sup>11</sup> Then he goes on to argue that, "There is thus a strong methodological case for emphasizing the need to assign explicitly evaluative weights to different components of quality of life (or of well-being) and then to place the chosen weights for open public discussion and critical scrutiny" (1999a:81).<sup>12</sup> Therefore, "we cannot in general take preferences as given independently of public discussion" (1999a:153), that "a proper understanding of what economic needs are – their content and their force – requires discussion and exchange" (1999a:153).

Once preferences and utilities are seen as embedded in a process of social choice, the

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<sup>10</sup> It goes without saying that this point is not unique to the capability approach. See, for example, Streeten (1994). See also Stewart and Deneulin (forthcoming) for a comparison of the capability approach with various other efforts to "dethrone GNP"

<sup>11</sup> For a cogent statement of the opposing view, see Srinivasan, 1994.

<sup>12</sup> All of this is premised on Sen's (1995, 1999b) success in digging economics out from the aversion to thinking about social choice generated by Kenneth Arrow's (1951, 1963) elegant impossibility theorems. Sen argues (1999b:354) that "a full axiomatic determination of a particular method of making social choice must inescapably lie next door to an impossibility – indeed just short of it." Modest additions to the informational base on which social choices are made, for example, even partial interpersonal comparisons of utility, are sufficient to make social choice feasible. As Sen sums it up (1999a:279), "what is at issue is not the possibility of rational social choice, but the use of an adequate informational base for social judgements and decisions."

process of choice making must be “democratic,” not just in the “thin” sense of having leadership succession determined by a regular electoral process, but in the “thick” sense of continuous deliberative involvement of the citizenry in the setting of economic priorities. We have to worry about governance institutions, not just because better institutions improve our ability to achieve ends already given by economic theory, but because “thickly democratic” decision-making institutions provide the only way of adequately defining what the desired economic ends might be. “Thickly democratic” institutions also offer, in themselves, the opportunity to exercise one of the most important of all human capabilities, the capability of making choices.

As Sen puts it (1999a:291), “processes of participation have to be understood as constitutive parts of the *ends* of development in themselves.” The possibility of participation in “open public discussion and exchange” is not a useful adjunct to the capability of making choices; it is part of the definition.<sup>13</sup> Participating in public discussion and exchange is, in turn, by definition, not something that individuals can do by themselves. Like language, it is intrinsically a collective activity.<sup>14</sup> My ability to make choices depends on my sharing expectations with some set of fellow citizens about how open public discussion and interchange can and should proceed. Either we share this capability or none of us can exercise it. The construction of rules and organizational venues that generate and reward such shared expectations becomes the quintessential developmental task.

Sen does not pretend that constructing social choice institutions is easy, but he refuses

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<sup>13</sup> The parallels between Sen’s developmental prescriptions and the preoccupations of Jurgen Habermas with “communicative action” in advanced industrial societies are striking. See Habermas (1962, 1989,1991).

<sup>14</sup> See Taylor (1995) for an analogous discussion of “irreducibly social goods.”

to use the difficulties as an excuse to retreat back to a technocratic system of weighting. While noting (1999a:79) that “a democratic search for agreement or a consensus can be extremely messy and many technocrats are sufficiently disgusted by its messiness to pine for some wonderful formula that would simply give us ready-made weights that are ‘just right’,” he remains firm in his conviction that technocratic shortcuts must be rejected because “the issue of weighting is one of valuation and judgement, not one of some impersonal technology.”

Sen’s critique of the retreat to technocratic decisions also provides a way of thinking about why institutional “monocropping” might be ineffective. The “bad policies” and “bad government” that the international development community would like to “reform” in the South are symptomatic of the fact that an underlying capacity to make social choices is lacking. External imposition of uniform blueprints tries to circumvent the more fundamental job of developing institutions that allow effective social choice. By pre-empting social choices before mechanisms for making them have been developed, monocropping diminishes the incentives for states and citizens to devote attention to building choice-making institutions, and therefore diminishes the probability that such institutions will in fact emerge.

Despite putting deliberation at the center of development, Sen does not analyze how developmentally effective “public discussion and exchange” might be instantiated in robust institutions. He firmly endorses the value of elections plus civil rights (most specifically against those who argue that “Asian values” legitimate authoritarian rule), but he also admits that elections plus civil rights will only take the quest for enhanced capabilities so far.<sup>15</sup> He

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<sup>15</sup> On the one hand there is Sen’s famous proposition that no independent democracy has ever experienced famine (1999a:178-180). On the other hand, he points out (1999a:154), for example, that while electoral contests plus civil rights have been sufficient to protect India from famine, they have not provided the basis for dealing with blatant and pervasive denial of

leaves us then with a challenge. How might the institutions of “thick democracy” emerge? What they would look like if they did emerge? What would the consequences of moving governance in a deliberative direction be for the achievement of other developmental goals?

**Deliberation and Development:** The most interesting efforts to build “public discussion and exchange” directly into processes of governance can be loosely labeled as “deliberative democracy.”<sup>16</sup> The concept of “deliberative democracy” or, as Fung and Wright (forthcoming:20) call it, “empowered participatory governance,” envisions a process of “joint planning, problem-solving and strategizing” involving ordinary citizens, in which “strategies and solutions will be articulated and forged through *deliberation* and *planning* with other participants,” such that “participants will often form or transform their preferences in the light of that undertaking” thus allowing solutions that would have been impossible given initial preferences. If it were possible to implant this sort of deliberative process in political units large enough to have an impact on developmental trajectories – say the provincial or municipal level – we would have something that could be called “deliberative development.” Efforts to explore “deliberative development” build on existing experience with “thin” electoral democracy and small-scale experiments in “participation.”

The era in which electoral democracy might be touted as a developmental panacea is long gone, if it ever existed.<sup>17</sup> As electoral transfers of power have become the norm in a

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capabilities in the form of regular under-nutrition and persistent illiteracy.

<sup>16</sup> For discussions of how “deliberative democracy” might work see Benhabib, 1996; Bonham & Rehg, 1997; Elster, 1998; Gutman & Thompson, 1996; Mansbridge, 1990; Fung and Wright, forthcoming.

<sup>17</sup> The literature on democracy and development is, of course, far too vast to try to deal with here. Among many others, see, Rueschemeyer, Stephens and Stephens (1992) for an

widening set of countries, it has become increasingly clear that holding regular elections and maintaining at least nominal protection for civil rights is not sufficient to generate public discussion that has real bearing on the weighting of developmental goals or the allocation of collective resources. This is the problem of “hollowed out” democracy (Yusuf and Stiglitz, 2001:249) that was flagged at the beginning of the discussion. With participation in elections on the decline and costly television sound-bites becoming the major informational basis for electoral decisions, the electoral process comes closer to reflecting the thin informational base associated with Arrowian impossibility (see *fn*.12) than the kind of “social choice exercise” that Sen is advocating.

Despite all of this, the global spread of electoral norms is an encouraging trend from the point of view of deliberative development. Democratic elections and civil rights remain the foundational prerequisites for the flourishing of “thicker” deliberative processes. As “thin” democracy becomes more nearly universal, it becomes more plausible to think about trying to institutionalize something closer to full-blown social choice exercises.

Studies of participation at the level of projects and communities are also encouraging.<sup>18</sup> Since the connection between deliberative institutions and economic outcomes is extremely difficult to assess at larger levels of aggregation, positive evidence on a smaller scale is one way

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historical analysis of the social and economic conditions leading to democratization; Przeworski, *et.al.* (2000) for an analysis of the causes and effects of democracy in the post World War II world; and Landa and Kapstein (2001) for a recent review of the debate.

<sup>18</sup> E.g. Uphoff *et.al.* (1979); Uphoff, (1986, 1992); Ostrom, 1990, 1995. Also relevant here is work on secondary associations (e.g. Cohen and Rogers, 1995) and social capital (e.g. Evans, 1996; Putnam, 1993, 2000; Woolcock, 1997) and social mobilization (e.g. MacAdam, Tarrow and Tilly, 2001). The recent collection by Houtzager and Moore (forthcoming) on “the politics of inclusion” is particularly interesting.

of increasing confidence that broader experimentation is worthwhile. Recent work on the effects of participation on the effectiveness of World Bank projects is a good example.<sup>19</sup> There seems to be a growing consensus at the Bank that participation makes instrumental sense. According to Kanbur and Squire (2001:215) “Development practitioners have come to a consensus that participation by the intended beneficiaries improves project performance.” Even at the more aggregate level of loan performance “‘ownership’ has been shown to be a key factor in the success or failure of structural adjustment loans” (*Ibid.*).<sup>20</sup>

The implications of this shift should not be overstated. “Participation” in projects and “ownership” of loans involves limited possibilities for the exercise of choice, certainly not the sort of full-fledged social evaluation exercise that Sen is advocating. Participation at the level of communities, as opposed to projects, allows broader scope, but the question of how much real “empowerment” is generated remains (cf. Houtzager and Moore, forthcoming). Nor do even these mild-mannered versions of choice-making necessarily find receptivity among global policy makers. The rejection of the draft version of the 2000-2001 *World Development Report*, in part on the grounds that it excessively foregrounded the idea of empowerment, is a good case in point (Wade, 2001a, 2001b).

The uncontested global hegemony of electoral democracy and the growing body of evidence that other forms of participation are developmentally effective combine to create a political environment in which deliberative development does not seem like a completely fanciful proposition. Nonetheless, in order for deliberative democracy to be attractive as a development strategy, three things would have to be true. First, deliberative institutions must

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<sup>19</sup> Deepa Narayan’s (1994, 1997, 2000) work is some of the most compelling.

<sup>20</sup> See also Branson and Jayarajah (1995)

be “socially self-sustaining” in the sense that ordinary citizens are willing to invest their own time and energy in the decision-making opportunities that such institutions offer and to provide electoral support for the parties and political leaders that advocate them. Second, deliberative institutions must, under some set of empirically plausible conditions, be able to overcome the “political economy problem,” which is to say the opposition of the powerful, who have vested interests in existing decision-making structures. Finally, deliberative processes must not prejudice the exercise of capabilities that depend on material resources. More specifically, they should not be so economically inefficient or biased toward redistribution that they reduce real income growth to an extent that outweighs their intrinsic benefits.

If the answers to either the social sustainability question or the political economic problem are negative, then deliberative strategies are infeasible – pie in the sky. If the answer to the “growth problem” is negative, then deliberative institutions are unlikely to be attractive, even to those that value their intrinsic properties. None of these questions can be answered on an *a priori* basis, but the one that has been most thoroughly considered in the traditional development literature is, not surprisingly, the growth problem.

There is no clear theoretical logic for predicting the effects of broadly-based deliberative on growth. Open discussion and public interchange might promote growth by checking predatory rulers whose policies would otherwise subvert incentives to investment. Old arguments that redistributive strategies are hazardous because the rich save more and savings rates are the key to growth are less plausible than they were in the days of Harrod-Domar. A host of recent empirical work suggesting that redistributive strategies can have a positive effect on real income growth further undermine the idea that redistribution is detrimental to growth.

Stewart (2000:5) notes a wide range of recent empirical studies showing “that countries with more equal income distributions have higher growth.”<sup>21</sup> While the overall relation still remains contested (e.g. Fishlow, 1995; Li & Zou, 1998, Landa & Kapstein, 2001), the debate has produced support for arguments connecting egalitarian policies with growth that are quite consistent with the capability approach. Greater equality is associated with higher general levels of health, nutrition and education, which in turn make for a more productive population. Likewise, more egalitarian distribution of assets (land and credit being the archetypal examples<sup>22</sup>) makes productive contributors out of people previously unable to use their energy and ideas because they lacked complementary inputs.

The arguments that egalitarian strategies can enhance growth are at least as compelling as the arguments that they might detract from it. If we make the conservative assumption that deliberative regimes are “growth neutral,”<sup>23</sup> then extrapolation from work on the economic consequences of electoral democracy suggests that their conventional economic effects are likely to be positive overall. Rodrik (1999a, 1999b), for example, argues that democracy, while not increasing overall growth rates, does improve the quality of growth. He concludes (1999a:33), “More participatory regimes produce greater equality . . . . without cost to economic growth and while producing greater stability and resilience overall.”

Even if they are not detrimental to growth, deliberative institutions may still be

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<sup>21</sup> This recent studies build, of course, on a long tradition of work going back at least to Adelman and Morris (1973), Chenery, Ahluwalia, *et.al.* (1979), and Streeten *et. al.* (1981).

<sup>22</sup> On the specific case of land distribution see, for example, Lipton (1993), Deininger and Squire (1998), Ravallion (1998).

<sup>23</sup> The “overall neutrality” assumption is consistent with the assessments of Przeworski and Limongi (1993) and Przeworski *et.al.* (2000) that having a political regime with

unattainable. Functionalist versions of institutionalism that assume easy evolution in the direction of the “fittest” institutional forms are particularly unlikely to apply deliberative institutions.<sup>24</sup> Even if public deliberation works, and those with power or privilege benefit, along with the rest of the community, from improved governance in terms of greater political stability or lower costs of enforcing norms, diminished power is an almost definitional result for private elites and politicians. They are likely to respond accordingly. As Sen points out, technocrats may be equally threatened. Imposing blueprints enhances their power and prestige; giving greater weight to the deliberations of ordinary people is likely to be frustrating, if not demeaning.

The most plausible hypothesis is that deliberative institutions are likely to be desirable, both because of their intrinsic impact on capabilities and because of their overall economic effects. Political feasibility is more in doubt. What is most obvious is the need for more experimentation. Neither the returns from deliberative development nor its feasibility can be effectively evaluated in the abstract. Fortunately, there are a few relatively durable experiments. Looking at a couple of them is probably the best way to refine the abstract arguments.

**Deliberative Development in Practice – Two Illustrations:** To further explore the mechanisms and consequences of deliberative development, I will use the two examples that are analyzed in Fung and Wright (forthcoming). The process of “participatory budgeting” initiated by the city of Porto Alegre, Brazil has become a widely cited example of “deliberative democracy” at the municipal level. The even more well known case of Kerala, India provides

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regular electoral succession is neutral with respect to growth.

<sup>24</sup> Again, see Pierson, 1997 and especially Bardhan, 2001.

another example at the sub-national level, in this case a state of about 30 million people.

Together, they offer an opportunity to see how the abstract concepts of public discussion and exchange might be translated into concrete institutional realities.

Porto Alegre's process of "participatory budgeting" (OP) was designed by a new city administration in 1989 to improve on the corrupt, clientelistic system of allocation of public funds that had prevailed in Porto Alegre as in most Brazilian cities.<sup>25</sup> By engaging the citizenry, especially those most deprived of public services, in the allocation of investments in public infrastructure, it was hoped to produce a distribution of public investments that was both more efficient and more equitable. The system requires substantial investment of citizens' time in a yearly cycle of deliberations, starting with assemblies in each of the city's 16 regions, which discuss the prior year's results and elect delegates who then meet on a weekly or biweekly basis, preparing in turn for a second set of regional assemblies, which decide on the coming year's priorities and also elect a smaller number of delegates to serve on the "Municipal Council of the Budget," who in turn meet on a biweekly basis with representatives of the municipal administration to finalize the budget (Baiocchi, forthcoming: 52-54).

While definitely "messy," the system appears to work. Its success in achieving social sustainability is impressive. Far from falling off over time, participation in the budgetary process has expanded. Dramatic increases in the first few years of the program's operations have been followed by gradual further increases in later years. Baiocchi (forthcoming: 63) observes that as a result of their participation, ordinary citizens not only "acquire specific competencies related to budgeting but also acquire skills in debating and mobilizing resources

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<sup>25</sup> The discussion that follows is drawn primarily from Baiocchi (forthcoming). See also Abers (forthcoming), Baiocchi (2001), Baierle (2001), Pozzobon (1998), Santos (1998),

for collective goals.” In addition, the more engaging political environment appears to have led people to perceive other kinds of collective action as worthwhile. According to Baiocchi, the number of neighborhood associations has tripled since the program began and the number of housing cooperatives has increased fivefold. Participatory budgeting has also proved politically charismatic in electoral terms. Not only has the Worker’s Party, which initiated the reforms, won an unprecedented four terms in the municipal government, but the banner of “participatory budgeting” has been taken up by other municipalities and at the state level (Schneider and Goldfrank, 2001).

The Porto Alegre experiment also confirms some of the hoped-for economic effects of deliberative development. More effective popular control over the allocation of public expenditures does seem to lead to greater willingness of citizens to invest in collective goods. Under previous city administrations, personnel expenses absorbed almost the entire budget; only 2% was available for investment. After five years of the deliberative system, a small initial increase in taxes plus increased efficiency allowed the percentage to increase to 20% (Baiocchi, forthcoming:55-56). Consequently, essential public infrastructure has expanded dramatically. During the decade of the system’s operation, sewer coverage has doubled from less than half the homes to 98%, access to potable water has gone up from 75% to 98%, the number of schools has increased by 2\_ times. The city’s system of collective transportation has won prizes for its efficiency. While Porto Alegre cannot point to dramatically higher growth rates than the rest of Brazil, it does seem to have grown at a comparable rate, supporting the basic high-service, growth-neutral hypothesis.

The state of Kerala in India presents an analogous dynamic over a wider scale and a

longer period of time.<sup>26</sup> An epic history of popular mobilization to secure land reform from the 1930's through the 1970's, relentless competition among political parties, high levels of union organization and complementary civil society organizations lead contemporary observers to marvel at the “sheer density of civic organizations and the vigor of associational life” (Heller, 2000:497). Most recently, Kerala has initiated a “Campaign for Democratic Decentralization” that has shifted allocational control over 40% of the state’s public budget to village councils (Panchayats). This last accomplishment is all the more impressive because it was clearly not in the simply defined interests of either state bureaucrats or of the public sector unions which form the single most important base of the political party pushing the changes (Issac, 2000, Isaac and Heller, 2001). Democratic decentralization has deprived these core groups of important sources of power and patronage, suggesting that the “political economy problem” is not always insurmountable.

Kerala’s long tradition of intense popular engagement in political decision-making has also borne developmental fruit, resulting in a level of human development comparable to that of nation states with many times its level of per capita income. Literacy levels are over 90% in Kerala as opposed to 50% for the rest of India. In 1995, Kerala’s level of infant mortality was a fraction of those in other Indian states, more comparable to that of South Korea, which had thirty times its income level, and about a third those of Brazil, which had ten times the per capita income (Heller, 1999:8). Sen notes (1999a:22-23) that if we consider being alive as the most basic capability, then the citizens of Kerala are better off than African-Americans living in

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<sup>26</sup> There is a vast literature on the Kerala case, including among many other sources Franke and Chasin, 1989; Heller, 1999; Isaac, Thomas TM and Richard Franke, 2000; Isaac, Thomas TM and Patrick Heller. forthcoming.

the United States, since the Keralites' life expectancies are longer. All of these accomplishments depend on unusually effective delivery of public services like basic education and basic health services which in turn is rooted in the extraordinarily level of popular involvement in the process of governance.

Some critics (e.g. Tharamangalam, 1998) have argued that, despite these accomplishments, Kerala still demonstrates the anti-growth effects of intensive popular participation. It is indeed true that during the late 1970's and early 1980's Kerala's growth rates fell behind those of the rest of India (which were themselves hardly spectacular during this period). Kerala's growth performance post-1985, however, has kept pace nicely with the quite respectable overall Indian pace. In the period 1985-1993, for example, manufacturing output grew at 5.9% in Kerala and 5.5% in India as a whole (Heller, 1999:211). Likewise, overall investment levels in Kerala in the late 1990's were slightly higher than the Indian average (Heller, 1999:233). Thus, more recent results shift Kerala to the "growth neutral" category.

What are the implications of these cases for the three kinds of questions that were raised earlier as central to an overall evaluation of deliberative development? Their evidence is most clear-cut with regard to the social sustainability question, but they also shed interesting light on both the "political economy problem" and the "growth problem." At the same time, they help clarify the political and organizational character of deliberative institutions.

The answer to the question, "Will non-elites become sufficiently engaged to make deliberation work?" is clearly positive. These cases show that, despite the greater investment of citizen time and energy required, deliberative systems are not necessarily undermined by the same apathy that plagues thin democracy. When systems of deliberation are seen as actually shaping real outcomes, ordinary citizens tolerate their messiness and invest the time and energy

necessary to make them work. Rather than making the “rational” choice that their individual input will have little impact on the final outcome and therefore doesn’t warrant the cost of lost time, ordinary citizens appear to agree with Sen that the ability to make choices is an intrinsically valuable and rewarding mode of human functioning.<sup>27</sup>

While supplying positive evidence on the “social sustainability question,” these cases also make it clear that effective social participation requires a solid context of formal institutions. They confirm Houtzager and Moore’s (forthcoming) proposition that the “uncoordinated and decentralized actions of civil society” are insufficient for the emergence or sustenance of deliberative institutions. The formal organizational apparatuses of politics – state administrations and political parties – play central roles in both cases.

A public administrative apparatus with the capacity necessary to both provide informational inputs and implement the decisions that result from the process is a central element in making deliberation possible (see also Heller, 2001; Evans, 1995, 1996).<sup>28</sup> Conversely, one of the most important consequences of deliberative institutions is to “raise the bar” with respect to the transparency and accountability of the state apparatus. Given the extent to which corruption is proving itself an intractable problem in the South, this is a particularly valuable feature of deliberative processes.<sup>29</sup>

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<sup>27</sup> These experiments also support Hirschman’s (1981:85-91) optimistic proposition that the very exertions involved in public involvement may be satisfying in themselves.

<sup>28</sup> In Fung and Wright’s terms (forthcoming: 25) each of these cases “harnesses the power and resources of the state to deliberation and popular participation.”

<sup>29</sup> Just as they help deal with corruption, deliberative institutions may help channel conflict in ways that avoid the kind of politically and economically debilitating violence that plagues so much of the South. Party and union conflict in Kerala occasionally spills over into physical violence, but Kerala has escaped from the communal violence that chronically plagues

The effects of deliberative institutions on the efficiency of public administration are obviously related to their impact on the supply of collective goods. Deliberative processes give citizens access to an expanded set of information about the allocation of public resources. Participating in decisions about allocation also gives citizens a clearer stake in monitoring the implementations of those decisions. Increased ability to monitor the allocation and results of public expenditures is the other side of the coin of willingness to make larger investments in public goods. The two in combination mitigate the undersupply of collective goods that is an increasingly key obstacle to improved quality of life in the countries of the South.

The process of institutionalizing deliberative processes is also closely linked to the dynamics of party competition. In both Kerala and Porto Alegre, the push toward deliberative procedures was driven by combative leftwing parties with Marxist ideologies, who had been allowed (and forced) by the larger national context of electoral competition and civil rights to focus on mobilizing strategies. Engaging their base in a positive project of governance made sense to these parties as a political strategy. Without their impetus, it is unlikely that these deliberative experiments would ever have taken hold.

Looking at the relation between political dynamics and deliberative institutions helps shed light on the “political economy problem” created by the likelihood of elite opposition. These cases suggest that a selected set of political elites may have a strong positive stake in deliberative institutions. Elites whose “political capital” takes the form of mobilizational skills

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other parts of India, the kind of anarchic class violence that undercuts the possibility of effective governance in other Indian states like Bihar, and the armed struggle that has sprung up in still other states (Heller, 1999; 2000:500). Like Kerala, Porto Alegre is characterized by intense political conflict, but not the kind of the anarchic violence that is endemic in rural areas and has even spread to the urban southeast (e.g. the recent assassinations of municipal leaders in Campinas, Santo Andre).

and whose constituencies are poor and middle class may find the construction of deliberative institutions a very attractive project. Power lost because of diminished scope for use public works as clientelistic rewards is likely to be more than compensated for by power and legitimacy gained through increased ability to deliver public goods in general and the increased engagement of constituents in the political process. This logic underlines once again the importance of firmly enforced electoral rules and civil liberties to the construction of deliberative institutions. An “electoral playing field” that maximizes returns to peaceful mobilization offers strong incentives to political elites to explore deliberative options.

Administrative elites are also potential supporters. Better information on where real needs lie, and offer more effective monitoring of the allocation and delivery of public goods should improve administrative performance, legitimacy and eventually willingness to invest in the administrative apparatus itself. This, in turn, compensates competent administrators for the circumscription of their technocratic privilege. The problem of private elites and the parties that represent them remains,<sup>30</sup> but even here opposition should not be uniform. Those with a long-run view that values the developmental potential of good governance and investment in public goods may be won over. The central obstacle is countering conventional ideological presuppositions about the “economic irrationality” of deliberative outcomes.

All of this has implications for the “growth problem.” Expanded and more efficient delivery of vital basic services – education, health, public infrastructure – is good for growth over the long run. Reductions in corruption and violence should also help. Objectively, deliberative institutions produce many of the characteristics normally associated with a “good

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<sup>30</sup> Goldfrank’s (2001) comparative analysis of more and less successful cases of deliberation at the municipal level also suggests that leaders of parties not associated with

investment climate.” The question is whether the ideological hostility of private elites will reduce local productive investments to a degree that will counter-balance the positive effects of better governance and infrastructure.<sup>31</sup> Looking at these cases, the best hypothesis continues to be that deliberative development, like thin democracy, is “growth neutral.”

If the “growth neutral” hypothesis is correct, detractors of deliberative development will always be able to point to authoritarian regimes that grow faster than deliberative ones, and to argue that the increased capabilities made possible by the material success of these regimes may compensate for lost opportunities to exercise choice. Such analysis misses the basic point that it is up to the citizens of these countries to decide which capabilities they value most highly. It also misses another basic point. Neither thin democracies nor authoritarian regimes guarantee higher growth. Easterly’s (2001a:211) 1980-1998 data even suggest that the “rational expectation” for a random country in the South is zero growth. Under these circumstances the option of “growth neutral” deliberative institutions that create the possibility of exercising choice and offer more effective delivery of collective goods is an attractive one.

What the concrete examples of Kerala and Porto Alegre demonstrate is that deliberative development is not just a theoretical and philosophical imperative, as Sen’s work suggests, but also a real possibility.

**Beyond Institutional Monocropping:** Exploring the possibilities of deliberative development is one strand of the general effort to take advantage of the new theoretical ideas

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deliberative development can be among its most implacable and effective opponents.

<sup>31</sup> Heller (1999:234-35) notes that in 1997 a prominent Indian business magazine ranked Kerala in the top 15% of all Indian states in terms of “twenty-eight objective measures of physical and social infrastructure, labor, government, and fiscal incentives.” In the same survey, the subjective evaluation of potential investors ranked Kerala in the bottom quarter.

that have invaded development theory over the course of the last 25 years. The new growth theory, especially if read in conjunction with North's new institutionalism, provides good reasons for believing that basic governance institutions play an essential role in fostering development. Without more imaginative proposals for improving the quality of fundamental governance institutions, disappointment is likely to continue. Sen's capability approach pushes us toward the proposal of deliberative development. The capability approach's analytical expansion of the goals of development makes deliberative institutions both an inescapable means of orienting development efforts and a fundamental intrinsic good in themselves.

Some may worry that the search for a broader theory of development will undercut basic policies designed to sustain investments in productive assets, but there is little danger of this. Intellectual inertia and the persistent power of elites with a direct interest in policies that protect returns to capital will ensure continued attention to investment. Indeed, the intellectual difficulties of translating the complexities of institutional analysis into concrete suggestions for development policy and practice are sufficiently daunting to make retreat to simpler models a constant temptation.

Over-simplified institutional strategies are a more likely problem than neglect of the role of investment. "Institutional monocropping" is not only unlikely to solve local governance problems, it is also likely to make borrowing less effective. Even the IFI's have conceded that trying to impose imported blueprints without worrying about local "ownership" is quixotic. Embedding the process of institutional borrowing in an overall matrix of deliberative development should lead to a more carefully selected set of borrowings and fewer resources wasted on failed transplants. Privileging the development of local capabilities for making

choices makes the relation between local choices and global blueprints more complex, but also realizes gains from increased “local ownership,” better exploitation of local knowledge and better fit with existing local institutions.

Deliberative development is only one way of moving beyond institutional monocropping, but it is a promising one. Our two empirical cases reinforce other theoretical arguments by suggesting that deliberative strategies are intrinsically satisfying to the citizens that participate in them, while improving governance and increasing the supply of basic collective goods. Given its other benefits, deliberative development would have to be considered an attractive alternative as long as it didn’t produce real income growth significantly worse than that expected from conventional strategies. As the average levels of real income growth expected in the South decline, the hypothesis that deliberative development will be at least growth neutral in comparison with other strategies is ever more plausible and it becomes an increasingly attractive alternative.

None of this should tempt us to paint deliberative development as a panacea. It would be a deeply ironic mistake to fall into the monocropping trap and try to impose deliberative development as a blueprint. While careful examination of possibilities for borrowing ideas is a good idea in this domain, just as in others, but deliberative development is only likely to be successful when it emerges from local political dynamics. The arguments conveyed here might facilitate local consideration of deliberative strategies in two ways. First, local actors interested in pursuing deliberative development may be less likely to be derailed by assertions that economic theories of development argue for the anti-developmental consequences of deliberative institutions when, if anything, the reverse is true. Second, when the “development establishment” reflects on William Easterly’s (2001b) conclusion that “[t]he best the foreign aid

community can do is to support genuine change on those precious occasions on which it happens,” they may be more likely to consider instances of deliberative development as “precious occasions of genuine change.”

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