

UNDERSTANDING DEVELOPMENT FROM THE PERSPECTIVE OF POLITICAL ECONOMY

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“It is not the consciousness of men that determines their being, but, on the contrary, their social being that determines their consciousness”

Karl Marx (1859) A Contribution to the Critique of Political Economy

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INTRODUCTION

“Development, it is held, is a good thing. Why, then, might it not be supplied by the market?” This question, raised by Bates (1988, p.242), is at the core of the political economy approach. Its general answer lies in what is socially good and what is individually advantageous. People, might fail to contribute to create public goods, and instead they might prefer to wait and free ride on the contributions of others¹. And as such, economists by themselves cannot provide solid interpretations of this argument, neither political scientists. The re-emergence of political economy as a “supra” discipline, provides the framework for this paper, in the sense that development is composed of many things (markets, resources, infrastructure, organization, choices, investment, distribution, politics, institutions, and so on), which are related to one another in a coherent framework provided by this “new” political economy approach. Consequently, **the purpose of this paper is to provide an explanation on how to understand development from the political economy perspective**. Consequently, it proposes a normative model to comprehend how the theoretical insights of politics and economics are entangled when analyzing development issues².

¹ North clearly pointed out when explaining the difficulties of cooperation and public goods provision: “The so-called Prisoner’s Dilemma that has been the mainstay of game theory is closely allied to [the] free-rider dilemma. Both suggest a discouraging perspective on the problems of human cooperation and coordination” (1990, p. 13)

² Indeed, the model proposed in this paper, intends to offer an introduction in the methods and practice of political economy in the development literature, as well as to broaden the former level of analysis. Furthermore, even some readers may criticize any normative model, I may remember that “the political economy approach is not inconsistent with normative theory, since normative theory should incorporate the political behavior that invariably accompanies policy choice and implementation” (Baron, 1995, p. 11)

To do this, this paper to some extent consists of a review of literature on the concepts of politics and economics, but moreover, how they are intertwined in the explanation of development. The first section deals briefly with a definition of political economy, understood as the discipline that goes beyond traditional economics, and studies, the social and institutional processes that economic and political groups influence for the allocation of scarce resources. As well, it is considered as “an integrated social science of public choice” (Uphoff and Ilchman: 1972: p.1), regarding the exercise of authority and its competition within a society. In addition, the next section handles with a critical explanation of three main approaches in political economy (rationalism, culturalism and structuralism), as well as with their relationship with the state of development. These approaches are considered because they are fundamentally different in their conception of the relationships among societies, states and markets, and thus help us to illuminate the study of political economy, providing grounding framework through which evaluate the state of development. Moreover, this section suggests a normative model of political economy in order to understand development. Last but not least, the concluding remarks includes a critical evaluation of the state of development nowadays (mainly in third world societies), and intends to point out the importance of a political economy approach in the understanding of why despite the evolution of the development concept, still there is a state of “underdevelopment” in most countries around the world.

WHAT IS POLITICAL ECONOMY?

According to a development economist, political economy is an “attempt to merge economic analysis with practical politics – to view economic activity in its political context”. Hence, following with his argument, “much of classical economics was political economy, and today political economy is increasingly recognized as necessary of any realistic examination of development problems” (Todaro, 2000, p.758). In that sense, political economy, goes beyond traditional economics, and among other things, it studies how the social and institutional processes (economic and political groups) influence the allocation of scarce productive resources. It is the discipline about choices, regulations and rules, with special emphasis on the role of power and distribution in the economic decision-making. And in an international context, its underlying foundation is that no economic or political system can exist without some sort of social order³.

Furthermore, as Shepsle and Alt define it, “positive political economy is the *study of rational decisions in a context of political and economic institutions*” (1990, p.2). Thus, it emphasizes political behavior in the economic marketplace as well as economic behavior in the political process. Its nature is found in the mutual interaction of state and market in the modern world, where the argument is based on the assumption that “in a purely political world in which the market did not exist, the state would allocate available resources on the basis of its social and political objectives ... in a purely market world in which the state intervention did not occur, the market would allocate and operate on the basis of relative prices for goods and

³ A social or world order is “a coherent system of rules, accepted by the actors constituting the system. The market system of exchange is not in itself an order, but, rather, confined by a particular order and expressing its underlying value system, or normative content. Therefore, market systems differ to the extent their underlying social order exists” (Hetne, 1995, p. 149).

services” (Gilpin, 1987, p.9). In sum, political economy is the social science approach that incorporates the economic and political perspectives, and seeks to evaluate potential trade-offs. In this manner, the differences in perspective are illustrated in the table 1, which shows several policy choices, catalogued as optimal, acceptable and unacceptable, either politically or economically.

Table 1. The Political Economy Optimality

		POLITICALLY		
		Optimal	Acceptable	Unacceptable
ECONOMICALLY	Optimal	A	B	C
	Acceptable	D	E	F
	Unacceptable	G	H	I

Source: Adapted from Uphoff and Ilcham (1972). p.3

It can be noted from the above matrix, that the best choice for a political scientist would be D, meanwhile an economist would arrive at a choice closer to B. The argument here is that while political scientists may behave in irrational economic ways, they may behave in rational political terms, and vice-versa⁴; but contrary, a political economist, with its modes and methods of analysis, would arrive at a choice more closely to A. It is, the political economy aim, to arrive at an optimal choice for both perspectives, in a total benefit achievement than from either the two other options taken separately. Consequently, the point here is that, while advantageous in terms of scientific in depth development, the split among politics and economics disciplines, has biased the way economist and political scientists think about policy options, and has placed several constraints on the study of social and developmental issues. And as such the increase in research, among scholars, from the political economy perspective, has been oriented to the understanding of development issues, and the institutions that shape it.

THE POLITICAL ECONOMY OF DEVELOPMENT

A great debate among comparative scholars has been placed in the last years about the meaning, semantics and genesis of the word “development”. Since, such a discussion is beyond the scope of this paper, and in order to simplify the argument, we may consider development as a multi-dimensional process that involves, social, economic, political and cultural phenomena, which ultimate goal is to improve the living standard. Moreover, it comprises three objectives: (i) to increase the availability and widen the distribution of basic life-sustaining goods; (ii) to raise the levels of livings, including, in addition to higher incomes, the provision of shelter, food, education, jobs, among others; and (iii) to expand the range of economic and social choices available to individuals and nations. As such, development deals with “the *economic, social, political and institutional mechanisms*, both public and private, necessary to bring about *rapid* (at least by historical standards) and *large-scale improvements* in levels of living for the masses of poverty-stricken, malnourished, and illiterate peoples of Africa, Asian and Latin America” (Todaro, 2000, p.8). In addition, three spheres can be identified, one is economic, dealing with growth and

⁴ This line of reasoning has been developed extensively by Bates (1988) and Shepsle & Weingast (1984).

equity, the other is political (democracy and stability); while a third tries to gather both together, with the role of the state and the autonomy for developing societies (Huntington, 1987). Consequently, when analyzing and understanding development and its issues, the theoretical insights of economics and politics must be unified.

Moreover, some words about the theories of development are also in order. As explained, development is a multidimensional process that includes the organization of economic, political and social systems. As Todaro explained: “in addition to improvements in incomes and output, it typically involves radical changes in institutional, social, and administrative structures as well as in popular attitudes and, in many cases, even customs and beliefs” (2000, p.77). Hence, although development has been defined as merely a national characteristic, I may argue that it necessitates modifications from the international economic and political systems. In that sense, it may be recalled that since the 1950s five major theories on development have dominated scholarly thinking: (i) the linear-stages of growth model, (ii) theories and patterns of structural change; (iii) the international dependence revolution; (iv) the neoclassical or free-market counterrevolution, and (v) the new or endogenous growth theory of development⁵. Overall, what these theories talk about is that successful development requires both a skillful and judicious balancing of market forces, and intelligent and equity-oriented government intervention in areas where market forces would lead to undesirable economic and political outcomes.

Furthermore, real world transformations in the last years, which are driving to a more interdependent world, have made economics and politics more relevant to one another. Hence, globalization has forced the understanding of development to be unified by a political economy approach, because the interaction of economics and politics taken separately has led to inadequate, oversimplified and arbitrary analysis (Gilpin, 1987). As a result policies designed to increase the levels of development in several regions of the world have been very limited, and the gap between rich and poor, developed and underdeveloped, has been widening in the last years (see table 2), creating two different worlds. Thus, the need to bring the pieces together into a large combined framework, which may be given by a new political economy of development model, in order to understand the totality of the economic and political realities and constraints.

Table 2. *The Gap Between the Developed and the Underdeveloped Worlds*

	Low Income Countries		High Income Countries	
	1970-1980	1997-98	1970-1980	1997-98
Total Population	2.2 billion	3.5 billion	671 million	928 million
Annual average population growth	2.1 %	1.3 %	0.8 %	0.3 %
Average per capita gross national product	US\$260	US\$520	US\$10,320	US\$25,480
Average life expectancy at birth	50 years	52 years	74 years	78 years
Average adult literacy	50 %	51 %	99 %	99 %

Sources: World Bank. World Development Reports; UNDP. Human Development Reports.

⁵ For a detailed description and explanation of these five theories of development see Todaro, 2000 and Ray, 1998.

Before proceeding with the explanation of the proposed model for a new political economy of development approach, a word about the three main ideologies⁶ of the traditional political economy perspective is also in order. These ideologies by nature are contrasting, and as such, in the area of development, either, economic or political, they are entwined, in the sense that almost every scholar tend to fall into one of them, and they “identify the global development ideologies” (Hettne, 1995, p. 153). The three ideologies are: (i) liberalism, which assumes that politics and economics exist in separate spheres; (ii) nationalism, which assumes and advocates for the primacy of politics over economics; and (iii) Marxism, which holds that economics drives politics. In conjunction, they “define the conflicting perspectives that individuals have with regard to the implications of the market system” (Gilpin, 1987, p. 25). So to speak, these ideologies present the challenge of political economy, how to integrate them in a coherent and logic framework and thus assist decision-makers to a better allocation and distribution of resources that increase growth and development, is a question that yet needs to be cleared out.

According to the *liberal perspective*, development may be committed to free markets, and the price mechanism as the most efficient ways to allocate resources and individual welfare. Hence, it advocates for minimal state intervention, and when it does it should be to fix a market failure or to provide a public good⁷. The path to growth according to this view is by way of savings. The more savings in a society, the more capacity to invest, and thus it generates more income and economic growth. When the latter is achieved, then individuals can save again and the circle will be repeated. Moreover, the basic promise of this ideology lies in the assumption that “individuals behave rationally and attempt to maximize or satisfy certain values at the lowest possible cost to themselves” (Gilpin, 1987, p. 28). Notwithstanding, the major critic to this perspective is based in that its content lacks of a true political economy approach, which is its assumption that economic exchanges are made in a perfect information system and does not take into account the asymmetrical differences among individuals acting rationally or irrationally.

Having said that, the *nationalist perspective* claims for state and politics intervention, in defense of the state’s interests. In that regard, economic nationalism “arises in part from the tendency of markets to concentrate wealth and to establish dependency or power relations between the strong and the weak economies” (Gilpin, 1987, p.33). Hence, nationalists emphasize national self-sufficiency in contrast to economic interdependence, and as Hettne (1995) singled out, it is derived from the realist tradition in international relations theory. The limitation of this approach is that it assumes a zero-sum game, when in reality the gain of one economic actor may be the gain of another too, in which cooperation may play an important role in providing “development”.

⁶ Likewise Gilpin, the term ideology refers to “systems of thought and belief by which [individuals and groups] explain ... how their social system operates and what principles it exemplifies” (Heilbroner, 1985, p.107). The conflict among these three moral and intellectual positions has revolved around the role and significance of the market in the organization of society and economic affairs” (1987, p.25).

⁷ As can be seen, the only way public goods are provided, according to the liberal perspective is by the state, and only in rare occasions.

Last but not least, *Marxism* starting point is class struggle and the proletariat revolution; it is composed of four essential elements: (i) a dialectic approach to knowledge and society; (ii) a materialist approach to history; (iii) a general view of capitalist development; and (iv) a normative commitment to socialism. It is a theory focused on the problems of production, information and distribution, with the dependency and world system schools as its most recent approaches, and where the ultimate development goal is the socialist society, which is an “utopian” society among equals.

The model

Traditionally, the political economy approach has been related to the rational choice perspective. Consequently, traditional scholars considered political economy as merely a way of understanding choices and reasons, and how actors employ them to satisfy their interests, and as such they tend to generalize and point out on actions. Notwithstanding, with the advance in the study of aggregation and institutions other than markets, new perspectives have been pledge to the political economy one, in an effort to understand the development processes in third world societies. In that sense, the advances in the theory of collective action, and democratic theory, by recent scholars have broadened the political economy of development perspective (Bates, 1990). The former, enhanced by Olson (1965), and North (1990 and 1999), examines the conduct of individuals in markets in which actors possess incentives to engage in strategic behavior; while the latter, focuses centrally on the problems of aggregation.

In that sense, Bates (1990) explained the different approaches and characteristics of the political economy of development. According to his argument, there are four key postulates on each earlier approaches of political economy: (i) the individual actor is the basic unit of analysis; (ii) individuals, including politicians, are rational; (iii) politics is relatively autonomous and institutions create incentives for politicians; and (iv) individual rationality implies social rationality. Table 3 shows how each of these postulates comply with each of the distinctive approaches of political economy.

Table 3. Distinctive approaches of the political economy of development perspective

	Postulates			
	I Individual is basic unit of analysis	II Individuals, including politicians, are rational	III Politics is relatively autonomous	IV Individual rationality implies social rationality
Political culture approach	No	No	No	--^a
Radical Political Economy	No	Yes	No	No
Decision Theoretic Approaches	Yes	Yes	No	Yes
Market-oriented Approaches	Yes	Yes	No	Yes
Collective Action and related Approaches	Yes	Yes	No	No
Political economy perspective	Yes	Yes	Yes	No

^a *The approach takes no stand on this issue.*

Source: Bates (1990), p.50.

As can be seen from table 3, most of the traditional political economy perspectives are rational in their approach, except the political cultural approach (postulate II), which incorporates institutions, firms, markets and groups as units of

analysis too. Furthermore, Bates singled out the need to incorporate other approaches to the study of development from a political economy perspective, such as the notion of culture⁸; and North (1990) proposed the incorporation of institutions and institutional change, with its distinctive values, beliefs, rules (formal and informal), human exchange, and information, distribution, monitoring and enforcement levels. Hence, this is what this paper is all about; *traditional political economy has been limited in its analysis* because it has focused mainly in one approach, rationalism, and as such has let aside other important approaches in the understanding of development. Even efforts among scholars to unify economic and political concepts, variables and causal relations have been made in the last years, political and other non-economic factors are frequently kept aside. Therefore, still we are lacking of a systematically developed framework of political economy, especially in the issues of development. As a result, “a unified methodology or theory of political economy [of development] would require a general comprehension of the process of social change, including the ways in which the social, economic and political aspects of society interact” (Gilpin, 1987, p.8-9).

The problem to limit the study of political economy to the rationalist approach is that it is constrained on the reasons human beings have in order to satisfy their interests and activities. Thus, it may generalize and concentrate on actions and choices. Implicit in this approach is the idea on interests which are determined either materially or politically, and as a scholar defined “when faced with several courses of action, people usually do what they believe is likely to have the best overall outcome” (Elster, 1993, p.22). Consequently, the rational political economy approach studies how interests produce the dialect of reasons and irrationality in development processes, and focuses on micro units of analysis. The latter means that this single approach, concentrates on individuals, and as such misses the interactions among larger groups and structures and their influence on development achievements or constraints⁹. Moreover, even, when most of scholars do not like the idea of eclectic¹⁰ models and approaches, another look at table 2, and considering the broad range of approaches to explain this widening gap, it appears that it is the most reasonable path to walk, and hence, systematic efforts should point that direction, towards a comprehensive political economy of development.

Furthermore, if we add the culturalist approach to the political economy perspective, as Bates urges, then we get a broader picture of the state of development. In that sense, the cultural approach assist political economist in the endeavor to capture the ways of thinking, communication and action, which are, determine by a set of values and attitudes socially learned. It goes one step further from the rationalist approach, and provides the tools to understand why, how and when individuals act rationally. Culture is a concept determined by four elements: the ways of thinking,

⁸ Indeed, Bates call is made on his analysis that “pastoralists” do no resist development (or modernization) because of cultural constraints, they just simply choose to do so. Furthermore, he ends his article calling for a synthesis of traditions; where, because of their distinctive set of believes, values and institutions “students of developing areas may be among the best poised to take this important step” (Bates, 1990, p. 54).

⁹ Moreover, as North (1990) singled out while explaining behavioral assumptions that “many cases are ones not simply of wealth-maximizing behavior, but of altruism and of self-imposed constraints” (p.20), while related to a transaction cost theory of exchange he pointed that “according to a strictly wealth-maximizing behavioral assumption, a party to exchange will cheat, steal, or lie when the payoffs to such activity exceeds the value of the alternative opportunities available to the party” (p.30)

¹⁰ As Gilpin manifested: “Eclecticism may not be the route to theoretical precision, but sometimes it is the only route available” (1987, p.25).

communication and action (attitudes toward education, work, identification with others); values (norms or ideas of behavior); attitudes (forms by how individuals react); and social mechanisms and institutions (family, church, community, school, workplace). Thus, the level of study will be increased by the inclusion of the study of reasons and rules that constitute individual and groups identities, and as such, it may particularize, focusing on norms and actions.

The other missing approach in the traditional political economy perspective, is related to the incorporation of relations and conditions, which determine the state of development. In that regards, the structuralist approach as such has concentrated on the problems of underdevelopment, the interactions between the center and the peripheries, and the structural characteristics of developing countries that promote or obstruct economic, social, and political development. Consequently, with the integration of this third school of thought, the political economy perspective is enriched by the studies of historical dynamics of real social types, and incorporates the international factors to the study of development. It typologies and center on conditions (political affairs, trade, commerce, organizations, development assistance, aid), as well as relates structures with institutions, interactions and functions in a societal context.

At this point, the reader should be wondering, still, what is the relationship among this three schools of thought and the political economy perspective? And moreover, how they can be interrelated in order to understand the state of development? Well, the answer lies in the argument that the interconnectedness among these three approaches is instrumental in order to understand, theoretically, the state of development, in the sense that one or both the other perspectives can approach the lacunae of one school of thought. Consequently, and as North (1990) singled out, what has been missing in the development literature and the political economy perspective, is an understanding of the nature of human coordination and cooperation. Hence, with the introduction of these three schools of thought to the political economy of development, as can be noted in the game theoretic matrix of table 4, a broader picture is draw. The analysis is enriched since new dimensions are added to the comprehension of the state of development.

Table 4. The political economy of development level of analysis

		Economists ally with		
		<i>Rationalism</i>	<i>Culturalism</i>	<i>Structuralism</i>
Political Scientists ally with	<i>Rationalism</i>	<i>Reasons, interests and actions</i>	<i>Actions, norms, reasons, and rules.</i>	<i>Relations, conditions, reasons and rules.</i>
	<i>Culturalism</i>	<i>Reasons, rules, actions and norms</i>	<i>Rules, identities and norms.</i>	<i>Identities, conditions, rules and relations.</i>
	<i>Structuralism</i>	<i>Reasons, rules, relations and conditions</i>	<i>Rules, relations, identities and conditions</i>	<i>Relations, institutional context and conditions</i>

As can be seen, each approach is concerned with different aspects of development; rationalism is an individual lead theory that looks at the strategic interaction of individuals and firms, it tells us connections about the incentives that facilitate or inhibit rational action. Culturalism, on the other hand, assist in the understanding of what set of meanings, values, attitudes, symbols, are obstacles or promoters of development. And finally, structuralism analyses the set of relations that

certain less developed countries (LDCs) from complete violation in making developmental choices. Hence, this comprehensive model of analyzing the political economy of development perspective, targets in a multi-disciplinary framework to provide critical arguments on the understanding of development as merely either, economic or political. Thus, the importance of designing new ways and strategies to promote it. Moreover, it shed light into North's concern about what rules, institutions and transactions best explain institutional changes and development performance, as well as regarding the intriguing question of why some nations develop more than others, which in North's own words can be summarized as follows:

“the central puzzle of human history is to account for the widely divergent paths of historical change. How have societies diverged? What accounts for their widely disparate performance characteristics? ... we have evolved into radically different religious, ethnic, cultural, political and economic societies, and the gap between rich and poor nations, between developed and underdeveloped nations, is as wide today as it ever was and perhaps a great deal wider than ever before” (North, 1990, p.6).

Last but not least, an example of the interrelation among these three schools of thought can be found in the writing of the Economic Commission for Latin America (ECLA) and the dependency theory, which tried to explain the poor performance of the Latin American economies on the basis of the unequal exchange terms in the international arena. Such an explanation not only structuralized and rationalizes the Latin American economic development, but it also contains policy implications that would reinforce the existing institutional framework. Having said that, it is important to recall then that these developmental models reflect ideas, ideologies, beliefs and institutions that are at best, defined and improved by the feedback on the real consequences of the enacted policies, the consequences of specific policies. Because, as North argued, “long-run economic change [development] is the cumulative consequence of innumerable short-run decisions by political and economic entrepreneurs that both directly and indirectly shape performance” (1990, p.104). And more important, the results of these policies (either rationalists, structuralists or culturalists) are not similar, although the rules are the same, the enforcement mechanisms, the norms of behaviour, and the subjective models of the actors are not the same.

CONCLUDING REMARKS

In conclusion, the new political economy of development, and the model presented in this paper, show the importance to include other approaches to the understanding of development from a political economy perspective¹¹. This must be done in a multi-disciplinary fashion and comparative research style, in order to provide explanations on how economics and politics handle together as well as will allow to focus on specific problems of development, such as democratic performance, sources of extensive policy programmes, causes of average economic growth and so forth. In such, I may argue with Lane and Ersson, that “an empirical

¹¹ After all, political economy is comprised of a set of questions that must be examined by an eclectic mix of methods and which are generated by the interaction between the state and the market, the polity and the economy, as well as development.

data set constructed on explicit criteria is necessary if political economy theory is not to remain empty... extensive information ... about political and economic variables should be handled by means of explicit model building, or otherwise political economy will become blind as there is simply too much information about politics and economics around" (1990, p.260).

It is already known that institutions determine the performance of economies, but what creates efficient institutions and thus development? Effective traditions of hard work, honesty and integrity simply lower the cost of transacting and make possible complex, productive exchange, but again, where do these attitudes and ideologies come from and how do they change? These are all questions raised by North, but because of its nature, we have not been able yet to understand fully. In agreement with him, "the polity and the economy are inextricably linked in any understanding of the performance of an economy [level of development] and therefore we must develop a true political economy discipline" (North, 1990, p.112). Thus, the normative model presented in this paper, has shed light into where political economy should direct attention in the future; it is, to a comparative perspective on the nature of development itself and, from where and what conditions affect human behavior and rationality.

The model suggested in this paper brings incentives up front of the analysis, and hence, focuses attention on the performance of economies and its development. It calls for a deeply understanding of the cause of underdevelopment and the gap between rich and poor, from a yet not fully developed dimension, human behavior and cooperation. Furthermore, the model directs attention to the fact that the theoretical problems of cooperation lie in the missing understanding of human coordination and cooperation. In the traditional political economy, explained by game theory, in the Prisoner's Dilemma, cooperation and coordination are difficult to sustain, when the game is not repeated, for the lack of information and the large number of actors, hence non-cooperation or defection becomes the dominant strategy.

On the whole, the challenge ahead for political economists lies in the creation and development of new indicators and indexes to measure human behavior, cooperation and coordination. The construction of formulas and models, that identifies the role of culture (customs, traditions, codes of conducts) in explaining why some nations develop more than others. And devise new strategies that promote development from the roots of society, which takes into account rational, cultural and structural conditions of each economy. Douglass North has proven that institutions matter in the economic performance of societies, now the task is to explain empirically, how much institutional arrangements (rules, informal constraints) shape and determine the level of development in societies. A good starting point is a renewed, comprehensive, eclectic and multi-dimensional political economy of development approach. After all, as a distinguished political economist singled out:

"the future of the less developed countries is one of the most pressing issues of international political economy in our era, and the resolution of this issue will profoundly affect the future of the planet" (Gilpin, 1987, p.263)

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