The Pattern of Economic Policies in LDCs: A Public Choice Explanation

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There is method in their madness.
—Shakespeare

Introduction

One of the major characteristics of government economic policy in the less developed countries (LDCs) has been an unwillingness to accept the outcomes of unrestricted markets. The governments of LDCs have imposed a wide variety of price, quantity, and entry controls, along with subsidies and public ownership of large segments of industry, transport, and banking.

The imposition of wide-ranging restrictions on market outcomes in so many LDCs has been explained in three major ways (with many variations): (1) The economies of the LDCs are such that the restrictions are economically efficient or accelerate economic growth; (2) these policies, while inefficient, improve income distribution (that is, increase the relative income of the poor); (3) the governments or citizens of the LDCs ideologically reject unrestricted markets. This paper will suggest a public choice hypothesis: The restrictions on market outcomes are in the self-interest of the decisionmakers in LDC governments.

The public choice approach unifies the analysis of the economy and the political system by assuming that political action and politicians exhibit the same rational maximizing behavior as the "economic man" in the marketplace. Martin Staniland (1985) in his survey of the public choice and other political economic approaches calls

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the public choice approach "The New Political Economy." Perhaps the very best work in the new political economy is in Robert H. Bates's book on agricultural policies in sub-Saharan Africa, *Markets and States in Tropical Africa* (Bates 1981, which is also summarized in Bates 1988). Deepak Lal (1987) uses a new political economy approach to analyze economic liberalization in LDCs that have reached debt and similar crises. Lal (1987, p. 276) contrasts the public choice approach with the traditional analysis of economic policy in the LDCs:

> Most of the existing literature . . . is based on the economist's traditional picture of disembodied, altruistic policy makers maximizing some social utility function subject to the usual resource and technological constraints. This view of the State is highly misleading, . . . By contrast, it is more useful to follow the "new political economy" and view the State as composed of a group of self-regarding individuals and groups.

In concluding his study of Brazilian policymaking, Leff (1968, p. 184) draws a similar conclusion:

> The relatively meager influence that groups from the broader society have been able to exercise over the political elite and economic policy-making should not appear unusual. . . . [V]ery few countries have followed the "classic" experience of nineteenth-century Britain or the United States, in which emerging socioeconomic groups were able to take control of the state machinery. Rather, the Brazilian case seems closer to what has been in fact the modal pattern, in which the politicians and the bureaucracy dominate groups such as the industrialists, and through manipulation of the power and economic resources of the state deprive them of much of their political potential.

A Model of LDC Government Behavior

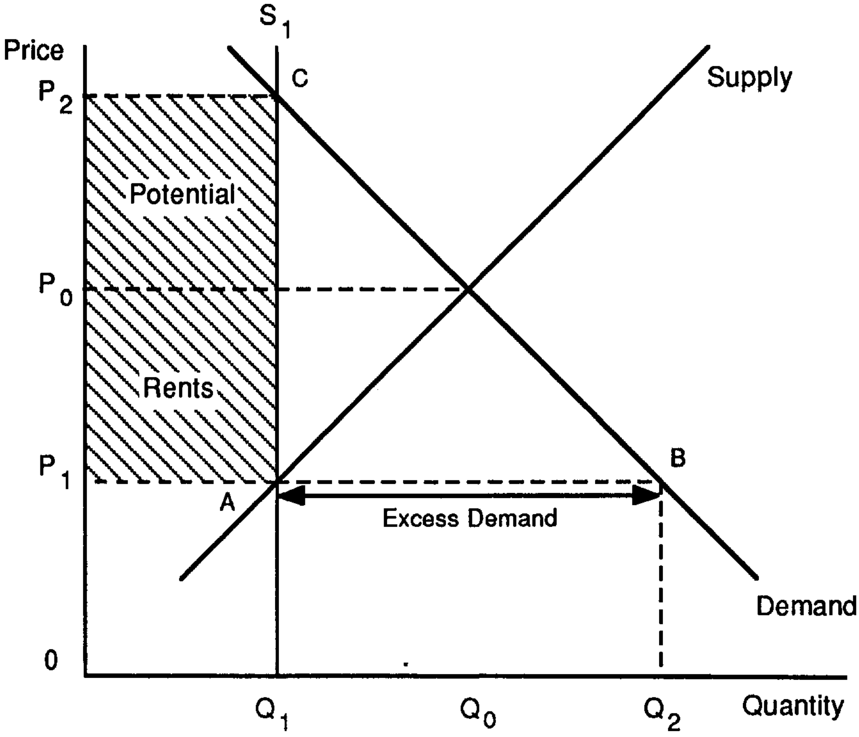
The economic policies of LDC governments cover a wide range: exchange rates, interest rates, inflation, farm prices, input prices for agriculture and other sectors, subsidies for consumer goods (such as electricity and food), licensing laws for domestic and foreign businesses, public ownership, and many more. All of these diverse policies have one common element, an unwillingness to let unrestricted markets determine prices and quantities. These are policies that restrict and modify market outcomes (RAMMO).[1]

[1] Mosley (1988, p. 52), in discussing the IMF and World Bank pressure on LDC governments to change these policies, refers to them as creating a "shield against market forces."

Numerous economic policies fall into the RAMMO category. Almost all of these policies are pushing the price and quantity away from the market equilibrium. The policies create either an excess demand or an excess supply. However, an excess supply in one market implies an excess demand in one or more other markets. We can analyze the common component of all the RAMMO policies in terms of the excess demand they create (Figure 1). The excess demand of *AB* can be thought of as caused by a price ceiling of P_1, which keeps the legal price below the equilibrium price of P_0. At P_1, the quantity demanded of Q_2 exceeds the quantity supplied of Q_1. The excess demand means that buyers are willing to pay more than the legal ceiling price of P_1. Given the limited quantity supplied of Q_1, there are unsatisfied buyers who value the good more than P_1; that is, the price ceiling has created rents, which are potentially equal to the rectangle P_1ACP_2.

FIGURE 1

EXCESS DEMAND AND POTENTIAL RENTS WITH A PRICE CEILING



Anyone who has control of some or all of the Q_1 units that are supplied at the legal ceiling price can sell them (on a black or parallel market) for a higher price (with a maximum of P_2). Thus, there are profits (rents) to be made above the opportunity cost for anyone controlling access to a significant share of Q_1. Since government officials control access, they stand to benefit from RAMMO policies. The good or service in excess demand can be sold for its opportunity cost *plus* the rents that accrue to the ruling elite in LDCs. These rents can take the form of direct payments, such as bribes, to government officials or indirect payments, such as political support. The government splits the created rent with the buyers of the artificially scarce good or service. It takes part of the rent and the "rent buyers" take the rest.

Running the government of an LDC can be extremely profitable. For instance, Hanson (1971, p. 126) describes Mexico during the 1960s:

> The average minister or director finishes his term with two or three houses, a good library, two or three automobiles, a ranch, and $100,000 cash; about 25 directors and ministers hold posts from which they can leave office with fifty times that amount in cash.

According to Diamond (1987, pp. 575–78), running the government has even been very enriching in much poorer Africa:

> But it is the salaries at the top of the civil-service scale that . . . are even more strikingly elevated above per capita GDP. As of 1963–64 the ratio of the former to the latter was 73:1 in Malawi, 82:1 in Kenya, 96:1 in Tanganyika, 118:1 in Nigeria, and 130:1 in Uganda. . . . These figures do not include the enviable perquisites (subsidized housing, transportation, medical care, pensions) that usually accompany these hefty salaries. . . . Despite the African state's enormous financial burden of remunerating its officials, this is everywhere supplemented and in many countries dwarfed by the political corruption.

Equally important, those people allowed to buy the good or service in restricted supply can be targeted fairly precisely. For example, if the price ceiling is a fixed exchange rate below the equilibrium price of foreign currency, this below-market price will encourage imports and discourage exports tending to use up reserves of foreign currency. The shortage of foreign currency that this policy creates can be used to justify controls on the access to foreign currency. The valuable licenses to get foreign currency can be distributed very precisely to key supporters of the government (or to preempt potential leaders of the opposition). Exchange rates that are set below equilibrium give the government discretion to help some and hurt others. The finance minister of Ghana opposed a suggested devaluation in 1971 because "it would remove the discretion of economic management from the government" (quoted in Nelson 1988, p. 93). The research by Wade (1985, p. 480) on state government in India led him to conclude:

> The essential business of a state Minister is not to make policy. It is to modify the application of rules and regulations on a particularistic basis, in return for money and/or loyalty. The telephone is his essential instrument, for his orders modifying the application of general rules are only rarely written.

In sum, RAMMO policies create rents by producing excess demand. The decisionmakers in the government split the rents with selected individuals or groups in return for political support or direct income.

We can contrast the RAMMO policies with policies that allow market outcomes (AMO), that is, those policies that permit free entry and allow prices and quantities to be determined by supply and demand. The sellers and buyers in markets where AMO policies are followed get no special benefits (beyond those that the whole population receives) from the government. Thus, the buyers and sellers have no special incentives to pay bribes or give political support to the government.

This paper will analyze the choices of LDC governments between RAMMO and AMO policies with a simple public choice model. The paper assumes that decisionmakers in government attempt to maximize their *private* benefits just as consumers and firms do. Imputing utility maximizing behavior to public sector decisionmakers does not automatically lead to the conclusion that they will not act in the general interest; whether they do or do not depends on the system of rewards and constraints that decisionmakers face. As Adam Smith demonstrated for firms, self-interested parties will act in the general interest if properly constrained and rewarded. However, the public choice approach does imply that public sector decisionmakers will act in the general interest *only if* the constraints and incentives on their behavior make serving the general interest also in their private interest.

The model of LDC government behavior will assume the government—or more accurately, powerful individuals in the government—has two major objectives: (1) staying in power and (2) securing the maximum possible income consistent with staying in power. Obviously, much of the analysis would also apply to governments of developed market economies. But the context of policymaking and the degree of RAMMO policies are generally believed to be sufficiently different in the LDCs to merit a separate treatment.

Staying in power involves getting and strengthening support from voters or the military, where the relative importance of voters and the military will vary between countries and over time. Potential supporters of the government can be divided into two groups: (1) the general public, including firms not benefiting from RAMMO-created rents and (2) beneficiaries from RAMMO-created rents, including private individuals, firms, elected government officials, and bureaucrats.

The making of economic policy involves a choice between RAMMO and AMO policies. The government decisionmakers will choose those policies that provide the maximum benefits to them in terms of general support, support from beneficiaries of RAMMO-created rents, and direct income. Presumably, governments first implement policies that are essential to minimal functioning of the economy. These policies include national defense, public health, basic education, enforcement of a basic legal framework including property rights, and building essential infrastructure. Failure to provide the basics would generate widespread opposition. The difficult choices come after the basic programs are in place.

If we consider the choice between RAMMO policies and AMO policies, AMO policies will gain general support to the extent that the public perceives them to be beneficial. RAMMO policies also can gain general support if the public perceives them to be beneficial. Moreover, those individuals and groups who stand to gain directly from splitting the rents with the government will strongly support RAMMO policies. Accordingly, the rational maximizing government will pursue RAMMO policies to the point where they provide fewer benefits to the public than AMO policies. In equilibrium, the AMO policies will generally benefit the public more than RAMMO policies. This equilibrium condition would include, as a special case, the view that RAMMO policies always cause net losses to the public. However, equilibrium is also consistent with a more general view, namely, that up to some point RAMMO policies benefit the public but then begin to reduce general welfare.

The government's ability to pursue RAMMO policies beyond the point where they benefit the general public as much as AMO policies will be constrained by the public's ability and willingness to punish the government for creating and dividing rents with various groups and individuals. If the government is not democratic (as in Zaire) or is weakly democratic (as in Mexico) or if the cost of information about what the government is doing is high (many illiterate voters), then the government will be able to pursue RAMMO policies well beyond the point where they benefit the public as much as AMO policies.

Nondemocratic and weakly democratic governments appear to be very widespread in the LDCs. For this paper, I ranked 102 non-Communist LDCs on a scale of 0 to 3, with 3 being democratic with contested multiparty elections, free press, and at least one change of the party in power, and with 0 being no period of democratic elections and a controlled press. Of the 102 countries, 54 ranked 0, 21 ranked 1, 18 ranked 2, and only 9 ranked 3.[2] The high cost of information resulting from illiteracy and the weak access to news media are also very widespread in the LDCs, especially in rural areas.[3]

Governments can, of course, use resources to reduce the flow of information about the effects of their policies. Government control of the media or censorship of privately owned media are very useful for this purpose. (A free press has existed since independence in only 33 of the 102 countries I surveyed; government ownership of radio and TV facilities is the rule.) Keeping large shares of government records secret (or keeping no government records) also limits public information about the effects of policies. The government can invest resources to persuade the public that rent-creating policies are in the general interest. Nationalism serves this function in many LDCs. If the government succeeds in limiting information about the rent-creating effects of RAMMO policies, it is freer to pursue such policies. Clearly, many LDC governments do extensively limit and manipulate the flow of information about the precise nature and effects of their policies.

In sum, the conditions appear to exist in a large number of LDCs that would make it rational for the government to pursue RAMMO policies up to the point where any benefits to the general public were considerably less than those from AMO policy alternatives.

In his study of Nigeria through the mid-1960s, Arthur Lewis (1966, p. 39) wrote the following:

> Excessive political intervention in the making of economic decisions, . . . This is a disease which Nigeria suffers with most other

[2] The rankings are based on the *Political Handbook of the World 1986*, edited by Robert Banks. Points were awarded on the following basis: 1 point was given for an uncontrolled press, and 2 points for democratic elections (contested multiparty with opposition winning at least once) since independence. The 2 points for democratic elections were reduced to 1 if democratic elections existed for a significant part of the period since independence, but not the whole period.

[3] T. W. Schultz, M. Lipton, R. Bates, and others have documented extensive government biases against the rural *majority* using RAMMO policies of price controls, subsidies, and so forth.

> newly independent countries where it is common for decisions involving millions of pounds to be made as a result of conversations between politicians, without documents or expert advice. . . . Nigerian government needs the following reforms: . . . Machinery similar to Tenders Boards to be created for all other instances of awarding government favours, such as import licensing, immigration quotas, pioneer status, allocation of land and houses. Corruption in these spheres has poisoned Nigeria's public life and turned politics into such a money making business that the politician in power will do anything to prevent himself from being displaced. . . . The idea of the public corporation—body of independent persons who will look after the public interest without political favour—is inappropriate to Nigeria.

RAMMO policies in the developed countries are usually analyzed under the heading of "rent seeking," that is, the process whereby the group splitting the rents with the government takes the initiative to push for RAMMO policies. The results of standard rent-seeking analysis would not differ much from the approach taken here, whereby "rent-creating" governments take the initiative for RAMMO policies. However, starting with government decisionmakers rather than groups or individuals splitting rents with the government seems preferable for analyzing the LDCs. First, because most of the LDC governments are not democratic, modeling the initiative from the government side seems more appropriate. Deepak Lal (1987, p. 282) describes the issue as follows:

> One could, following the "State as pressure group" school of political economy, seek to explain the move to liberalization as resulting from a new pressure group equilibrium. But this model of political economy relies on political institutions corresponding to those in Western democracies. Its applicability to the varied authoritarian regimes in the developing world would seem to be limited.

Second, the rent-seeking approach to LDCs does not *directly* challenge the usual assumption that decisionmakers in the government are disinterested public servants. It is equally consistent with the media view that LDC government decisionmakers "want to implement reforms, but the political pressures on them are too strong," the implication being that decisionmakers want to do what is in the public interest but exogenous pressures prevent it. The rent-creating formulation eliminates the loophole that gets LDC government officials off the hook for bad policies. Finally, the main rent-seeking groups may be parts of the public sector, such as civil servants, officials of public corporations, or army officers (Nelson 1988).

In many LDCs, elected governments control the political game for long periods. The Brazilian government, for example, was immune from pressure-group control before the military takeover in 1964. As Leff (1968, p. 117) noted:

> The state penetrated and took control of the interest groups rather than let them develop as an independent power center. . . . This phenomenon of peleguismo—the President's nomination of interest-group leaders—has been especially marked with the labor unions, but it has also occurred with the business associations. Finally reinforcing its dominance, the government has available policy instruments which give it decisive power over the fate of many industrial enterprises. . . . Apart from the government's sheer quantitative importance in the economy, it has the two strategic vantage points just cited—discretionary control over credits and imports.

Karl Jackson reached similar conclusions about Indonesia in the 1970s:

> My major thesis is that at least since 1957 . . . the basic form of government has not changed fundamentally. . . . Indonesia remains a bureaucratic polity—that is, a political system in which power and participation in national decisions are limited almost entirely to the employees of the state. . . . National policies are established by a small ruling circle whose members respond primarily, . . . to the values and interests of less than one thousand persons comprising the bureaucratic, technocratic, and military elite of the country. Although Sukarno's policies brought national economic ruin, adversely affecting the lives of tens of millions of Indonesians, the regime endured as long as a significant proportion of the Jakarta elite remained satisfied [in Jackson and Pye 1978, p. 3].

Policies that Restrict and Modify Market Outcomes (RAMMO)

Quantitative tests of the public choice hypothesis of this paper are virtually impossible for LDCs. As an alternative, this section applies the basic theoretical scheme from the previous section to a range of specific LDC government economic policies. This application demonstrates that the public choice hypothesis is consist with the broad outlines of economic policies in the LDCs. For the various areas of economic policy, the paper will argue that (1) while the general class of policies may have a certain economic logic, the specifics as implemented do not pass either efficiency or distributional tests; and (2) the specific policies, as implemented, provide very wide opportunities for rent creation and for targeting specific groups to split the rents with the government. In short, the argument is that many LDC policies are inconsistent with either efficiency or antipoverty goals, but they are quite consistent with self-interested behavior by government decisionmakers.

The RAMMO policies discussed in this section are typical for the LDCs in the sense that most LDCs have followed these types of policies for long periods. However, economic policies differ between LDCs and change over time so that not all LDCs have followed policies like those described here; some LDCs may have followed policies like these in the past, but no longer do so; and the whole set listed is only representative and is not the precise actual policies followed by any particular country.

Foreign Currency Markets and Import Substitution Policies

As was mentioned earlier, a frequent RAMMO policy is to overvalue the domestic currency, that is, to set the price of foreign currency below the free-market equilibrium. This policy reduces exports, increases imports, and produces a shortage of foreign currency. LDC governments typically respond to the shortage by instituting foreign currency controls. The shortage reflects the underpricing of the foreign currency and means a license to legally obtain foreign currency is valuable. A bureaucracy must establish rules to determine who gets the licenses, and in doing so can favor specific individuals in exchange for various sorts of benefits to the government.

The foreign currency controls amount to a system of import controls since only those who receive foreign currency licenses can legally import. The policy package usually also includes export promotion subsidies of various kinds. The supposed logic of the export promotion is that the shortage of foreign currency, caused by the overvalued domestic currency, makes it difficult to find the necessary foreign currency to pay for essential imports.

It should be noted that foreign currency licensing procedures or import restrictions can be used selectively to protect domestic producers in various sectors or subsectors of the economy from foreign competition. Many of the products protected from import competition by import restrictions have a small domestic market that can support a few or even only one producer. As a result, the protection from import competition produces oligopolistic or monopolistic domestic markets (Krueger 1988). Protection from foreign competition also produces "rents," which can be sold for political support or direct income.

In the administration of licenses for foreign currency, priority is usually given to capital goods imports. The overvaluation of domestic currency means that costs of imported capital goods are artificially reduced. Thus, there is an inefficient use of resources: The economy is moved away from using unskilled labor, which is relatively abundant, and toward the use of capital, which is relatively scarce (Krueger 1988).

The export promotion subsidies are valuable to domestic producers of goods or services targeted for export promotion. The official policy can be targeted in terms of specific sectors and subsectors of the economy in general; the administration of the policy can be targeted in terms of specific firms. The export subsidy may be available to all exporters of a specific good, but a government bureaucracy must officially determine that a firm, in fact, exported a sufficient percentage of its production and thus qualifies for the subsidy. Obtaining that official determination can require payment in political support or bribes.

From a purely economic perspective, the controlled exchange rate that overvalues domestic currency is difficult to justify given that it discourages exports and encourages imports. It is almost impossible to economically justify a policy of an overvalued currency combined with export subsidies. All economic rationale disappears when the policy package also produces noncompetitive markets and increases the capital to labor ratio. The rents from this policy complex do not accrue to the poor, and increasing the capital to labor ratio has a negative distributional impact.

However, from the standpoint of the maximizing government decisionmaker, the policy of an overvalued currency combined with export subsidies makes good sense. All pieces of the policy package provide political benefits or direct income. The alternatives of an equilibrium fixed exchange rate or a floating exchange rate would create no rents to be sold. In short, the economically inefficient policy is politically quite efficient.

Agricultural Price Controls

A great many LDC governments reduce to below the market equilibrium price the prices received by farmers for their products. This reduction is done in various ways including compulsory sales to government marketing boards, price controls, and so forth. The price reductions are imposed on various segments of the agricultural products market, export products, food sold in the cities, and industrial crops processed domestically. The various types of price reduction produce either direct revenue for the government (marketing boards buying at below the world price from farmers) or rents that can be split with urban consumers (food price controls) or with domestic processors of agricultural products (industrial or processed food crops).

The marketing boards are basically a form of taxation. However, it is frequently possible to buy the right to sell without the intermediary of the marketing board, so there is rent creation as well. The food price controls and the price controls of industrial crops sold domestically are directly rent creating for the beneficiary groups, and they are chosen instead of alternative policies that would produce fewer rents for the government to sell for political support.

For example, the food price controls presumably are a policy to help low-income people. The majority of low-income people in most LDCs are rural because most of the population is rural and because rural LDC incomes average considerably below urban incomes (Jain 1975). Most rural people in LDCs make their living from food production either as independent farmers or as hired laborers in agriculture whose income falls when the prices of agricultural products are reduced. Moreover, low-income urban people could be similarly helped with income supplements, food stamps, and the like. Studies of food price controls usually find that urban families with moderate or fairly high incomes receive a substantial share of the benefits from food price controls (World Bank 1986, p. 92). Giving income supplements to moderate or fairly high income urban families directly would be politically more difficult. However, hiding the subsidy in a general policy of lower food prices will reduce the cost in political support from the lower-income majority without losing the gains in support from subsidized moderate- or high-income urban families.

The lower prices received by farmers reduce the quantity they supply to the market. Frequently, the reduced supply by farmers causes problems including food shortages in the cities, lack of inputs for industry, or reduced exports. Accordingly, the government tries various means to induce higher agricultural production without allowing output prices to rise to market equlibrium levels. The most common means are the provision of subsidized inputs that, at various times in various countries, have included capital in the form of low-interest loans, fertilizer, fuel, irrigation water, and land. The various subsidies can be targeted to favored regions, tribes, or even, in some cases, individuals. The subsidized inputs create additional rents that the government can split. Robert Bates (1981, pp. 52–61) documents how the distribution of subsidized credit, fertilizer, and secure land tenure has been skewed to the wealthy, civil servants and to the politically connected in Ghana, Nigeria, Sudan, and Kenya.

One of the few detailed studies of the sums involved in subsidized inputs and the bribes paid to the relevant government officials is in Wade's studies during the late 1970s in India. During this period, per capita gross national product (GNP) was between 1,300 and 1,600 rupies in India. His main focus is on the sums moving up the ladder as lower-level water engineers pay for their positions, which allow them to collect bribes from villages. Wade (1985, pp. 478–79) wrote:

> So also with the sale of water and water protection; there is a fairly standard amount that vulnerable villages can expect to pay, and on top of that an additional amount that varies with weather conditions. . . . Using conservative estimates, I calculate that an Assistant Engineer in an O&M (operations & maintenance) post on an *upland* canal might expect to earn illicitly *at least* one to two times his annual official salary each year, net of what he has to pay upwards to the Executive Engineer. The corresponding figure for the Executive Engineer is probably more like three to five times. . . . In the late 1970s, Assistant Engineers had to pay anything from Rs. 10,000 to Rs. 50,000 for an O&M posting on the uplands; on the deltas, probably more. . . . The average Assistant Engineer's salary . . . with all allowances included, was about Rs. 23,000 a year. Executive Engineers had to pay anything from Rs. 50,000–100,000 . . . on the deltas, up to Rs. 300,000–400,000. The average Executive Engineer's salary was Rs. 29,000 a year. A few Superintendent Engineer's posts . . . were costing Rs. 1,200,000–1,500,000, or some 40 times the average salary for that rank. The normal duration of a posting is two years.

Thus, engineers were legally making 15 to 25 times per capita GNP and were netting bribes of another 15 to 125 times per capita GNP *after* paying a price of 6 to 1,000 times per capita GNP every two years for their positions.

Agricultural output price reductions, combined with input price subsidies, are parallel to the policy of an overvalued currency combined with export subsidies. The return to the producer is lowered by a government policy, and then another policy is added to mitigate the output reducing effects of lower output prices. If the secondary policy is input price subsidies, not all inputs are subsidized equally. As a result of the change in relative prices of inputs, the input mix changes to using more of the subsidized input and less of other inputs. All of the secondary policies with their problems could be avoided by not reducing output prices. Any economically valuable effects of output price controls could be achieved at a much lower cost by policies directed toward the beneficiary group directly, policies such as income supplements and lower taxes. Since those employed in agriculture are the majority of the poor, these policies also do not improve income distribution.

Arthur Lewis (1966, pp. 16–22) pointed out the very serious negative impact of lower prices received by farmers for export crops in Nigeria:

> *The growth of agricultural exports has been the main element carrying the economy.* . . . The producer price is substantially below the f.o.b. price, not only because the [Marketing] Board makes a profit, but also because the governments extract both export duties and a sales tax. Thus in 1964–65 the ratio of the producer price to the f.o.b. price was as follows: Cocoa 69%, Groundnuts 64%, Seed Cotton 54%, Palm kernels 51%, Palm oil 50%. *Clearly the governments have had their hands on the throat of the goose which is laying the golden eggs.* . . . The terms of trade have moved against the farmers, in favour of other classes. For example the minimum government wage in Lagos has risen from 9d. a day to 7s.5d, an index of 990. *The shift has been particularly marked since 1960,* with producer prices falling while urban wages are rising. This is one of the reasons why young people are deserting farming for the towns, to the point where there is severe unemployment in all major towns, coinciding with a shortage of labour in the countryside [emphasis added].

However, from a standpoint of the maximizing government decisionmaker, the policy of reduced output prices for agriculture, combined with input subsidies and other inducements for farmers to produce, is quite rational. All of the pieces of the policy package provide political benefits or direct income. The AMO policy of allowing output and input prices to be determined by unrestricted markets will create no rents to be sold. In short, the RAMMO policy, which is economically inefficient and distributionally negative, is politically quite efficient.

Industry

LDC government policies with respect to industry are more varied than with respect to agriculture, so any generalizations about industrial policies will have more exceptions than generalizations about agricultural policies. LDC government policies toward industry frequently include four major types of RAMMO policies: (1) protection from import competition; (2) minimum wage, unionization, social security, and similar policies that increase the cost of labor; (3) reduction of the prices of other inputs; and (4) wide-spread government ownership. From the perspective of rent creation, government ownership of industry is not significantly different from government ownership of transport, utilities, or other producers of nongovernment goods or services. Government ownership in general is discussed in the next subsection.

As mentioned above, protection from import competition will tend to produce a rent for domestic producers, a rent that the government can split with the producers. Policies that increase the returns to industrial labor can be traded for support by unions and various groups of industrial workers. Subsidized inputs to industry produce the same types of rents as subsidized inputs to other sectors.

There is a wealth of literature about the pros and cons of protection of industry from import competition. But most interesting from this paper's perspective is not the perceived, potential, or actual results of protecting domestic industry from import competition, but rather the motivation. How much of the marked preference of so many LDC governments for such policies is due to the belief that they work, and how much is due to the simple political benefits to be gained from the rents that protectionism creates? This issue is further explored in the final section of the paper.

The RAMMO input policies toward industry are clearly economically inefficient, and they do not help the poor. One of the main attractions of industry is to provide nonagricultural employment; if the cost of labor is pushed up, this reduces any benefits along these lines. Compensating for the higher cost of labor by subsidizing the cost of capital, of course, only makes the situation worse by inducing industry to substitute capital for labor. However, the political benefits from producing high-paying jobs for the faithful along with cheap loans for the loyal and generous are very real.

Government Ownership of Productive Enterprises

Government ownership of productive enterprises in industry or in other sectors of the economy is a very powerful producer of political support and of direct income to those running the government. Government-owned enterprises are not government agencies; the setting up of state-owned enterprises (SOEs) reduces the accountability of the government. Thus, SOEs make it easier to overpay employees, especially managers. Government enterprises can easily be used to provide large numbers of moderately well-paying, secure, low work jobs for lower-level government supporters. This policy is, of course, easily sold as "fighting unemployment." Which private firms supply inputs to government-owned enterprises can be decided on the basis of political support and bribes. Government enterprises can be directed to sell at a loss to favored privately owned firms.

The World Bank, in its *World Development Report* (1988, p. 173), puts the point as follows:

> The failure to view public finances comprehensively is not entirely caused by a lack of data. SOEs were often set up or enlarged pre-

> cisely because they were largely exempt from fiscal control. . . . SOEs have therefore been both a cause and a symptom of weak fiscal discipline and lack of transparency. Transparency—the ability to assess the financial implications of public sector activities in advance, to evaluate them after the fact, and to identify who bears the costs and who receives the benefits—is necessary if decision makers are to be accountable for their actions.

A good example is Pemex, the Mexican Government Oil monopoly. Roger Hanson (1971, p. 125) described the profits to government officials in the following terms:

> The nationalization of the oil industry in Mexico has proved highly profitable to many leading politicians. First of all, the products from the state-owned Pemex Company are generally transported by private trucking concerns, usually the property of politicians. Second, when Pemex decided that filling stations should remain in private hands, the best locations were acquired by a few revolutionary politicians, and an absence of competition converted a filling station into an absolute monopoly. Finally, in the case of the few petrochemical plants left to the private sector, politicians are conspicuous as owners.

Government-owned railroads, electric companies, water companies, and the like provide additional possibilities for favoring certain groups in exchange for support. They deliver services that depend on the building of an expensive, local-service, delivery network. Because of limited investment funds, items such as tracks and power lines cannot be built everywhere. Which regions, localities, or even neighborhoods get them first (or ever) can easily be made to depend on political support.

Some government enterprises are efficient, of course, but huge numbers have been found to be economically inefficient. According to the World Bank (1988, p. 180):

> Some SOEs in developing countries have been able to operate as successful commercial ventures without burdening public finances. . . . In most countries, however, many have drained budgetary resources, contributed to overall public sector deficits, weakened fiscal management, and *made negative contributions to value added* [emphasis added].

One can only wonder how much of the actual inefficiency is unavoidable and how much is due to the use of these enterprises for political purposes? In any case, the political benefits from state-owned enterprises are enormous.

Consumer Subsidies

Government agencies and enterprises provide a wide variety of products to certain groups of consumers at often highly subsidized prices—far below the opportunity cost and frequently below the variable cost of production. These subsidized consumer products include food, fuel, electricity, housing, water, transportation, and education. The rationale for most of these subsidies is to provide "basic needs" to "the poor."

Providing goods and services below cost, however, creates an excess demand no matter how basic the need for them. This raises the question, who will get the valuable access to the subsidized goodies? The officials in charge of rationing them can charge the public directly for their services. John Waterbury (1976, p. 429), using his research in Morocco and Egypt, described the situation as follows:

> Three types of government action must be singled out for attention in this respect: welfare services, regulatory measures, and basic documentation. Egypt and Morocco, . . . aspire to mass universal welfare services for all citizens. . . . Education, public health, public housing, agricultural and small business credit, social security, health insurance, electricity, running water, irrigation systems, cooperative markets, make-work projects, . . . In neither Egypt nor Morocco are government revenues sufficient to extend these services equally to all who claim them. Access to them may well entail abuse of public office for pecuniary or political advantage in the determination of who will get what, when. . . . It is common throughout the educational system, (Egypt) but above all at the secondary and university levels, for teachers and instructors to offer private tutoring to their students. . . . In addition, passing and failing critical examinations has come increasingly to hinge on whether or not one takes the instructor's private course.

Many of the subsidized services or goods are available only in urban areas where the poor are not as poor as the larger numbers of rural poor. For example, the World Bank (1988) reports there were partial social security systems in 76 low- and middle-income LDCs, but many of these systems apply only to urban workers in the formal sector. As a result,

> Only in industrial countries and several middle-income countries in Latin America . . . and a few other countries . . . are most of the labor force and population covered. In most other countries less than 10 percent of the population, primarily in urban areas, is covered. Coverage is highly correlated with income, work skills, and power of pressure groups. If social security is funded from general revenues, it can be a mechanism for a regressive redistribution [pp. 139–140].

The urban bias in government-subsidized services is one of the reasons for the constant net migration to the cities. Jackson described the situation in Indonesia in the 1970s as follows:

> The reason many Indonesians are moving to the cities is that most things in life worth having are located there, . . . Social services other than primary schooling are almost never available in the villages, for doctors, nurses, hospitals, mail service, electricity, telephones, high schools, universities, and government department offices are all located in the towns and cities. . . . The 4 percent of the national population residing in Jakarta . . . 35 percent of all private automobiles are registered there, and the citizens of Jakarta possess 55 percent of all the television sets, 10 to 15 percent of the radio receivers, and most of the newspapers in Indonesia [in Jackson and Pye 1978, pp. 32–33].

Furthermore, as was pointed out about food price controls, selling goods or services at subsidized prices makes it much easier for middle-income groups also to benefit. For example, of subsidies to higher education in eight Latin American and Asian countries, only 2–17 percent went to students from the lowest 40 percent of the income distribution, and 34–83 precent went to students from the highest 20 percent of the income distribution (World Bank 1988, p. 136). Similarly, subsidized electricity usually aids middle- and upper-income people. As the World Bank (1988, p. 143) reported,

> Subsidizing the unit cost of electricity encourages waste and fails to aid the small consumer, who has few appliances, let alone the majority of poor households, which lack access altogether.

The problem of subsidized government services not serving the urban poor—let alone the much larger mass of poor in the rural regions—is very widespread:

> Heavy subsidies in urban infrastructure often fail to reach the poor. The poorest members of urban society do not use the most expensive forms of urban transport. For example, the Caracas metro, due to be completed in 1990 [cost estimated at 1.44 billion 1983 dollars], will not directly serve the lowest income groups; they demand few of the longer trips that the metro will provide, and they neither live nor work on the main line. Middle-income groups are expected to benefit the most. As noted above, one-quarter of the developing world's urban population has no access to safe water. These are the city's poorest; many have to buy water from private vendors at rates from 4 to 100 times higher than those paid by the more fortunate, who have access to piped water [World Bank 1988, p. 145].

Clearly, subsidies that in a significant part go to middle-income people are not an efficient way to help the poor. However, the ability to disguise aid to the less-poor or even middle-income groups in the cities may be the real point of the procedure. In other words, the income transfer is brought about by price reductions (instead of income supplements) because the price reductions produce less information about the recipients of the transfers.

Interest Rates, Financial Intermediaries, and Capital–Labor Ratios

One of the most common and direct uses of price ceilings in "development policy" is the provision of subsidized credit to various sectors of the economy, such as agriculture, industry, and exporters. Fixing interest rates below the market-clearing level creates excess demands for loans and tends to reduce the supply of savings directly by reducing returns to savers and indirectly by weakening financial intermediaries. Dale Adams (1988, p. 366) wrote the following about rural credit programs:

> Debilitating policies, wrong headed evaluations, and a clutter of well-meaning, but damaging, credit projects force many rural financial intermediaries to their knees. Cheap rediscount facilities at central banks gut the incentives that banks and cooperatives have to mobilize rural savings deposits. This reorients the managers of these agencies away from rural clients to begging for additional funds from donors or governments. Political intrusions, loan targeting, and loan recovery problems are the offspring of this alliance. The multitude of credit projects imposed on financial intermediaries makes financial markets work less efficiently by increasing transactions costs. Repressed interest rates make it impossible to mobilize rural savings in substantial quantities and induce lenders to concentrate cheap loans in the hands of the wealthy. The rural poor are thus ultimately penalized on both their deposits and loans by low interest rate policies.

Dennis Anderson (1987, p. 890) reached similar conclusions with regard to the impact of artificially low interest rates on small-scale industry (SSI) that provides 40–95 percent of industrial employment in LDCs:

> The authors first discuss a now-familiar problem, alas, of the damage done to the development of financial intermediation in a developing country by the "artificially low interest rates" imposed on commercial finance. It is not only that such policies (i) raise the capital requirements of industrialization and (ii) reduce the demand for labor by raising capital/labor ratios, but that (iii) capital becomes less productive, and (iv) its overall supply is reduced as is, further, (v) the share of the reduced supply going to SSIs.

Artificially low interest rates are usually a central element in policies to encourage the growth of industry. However, by lowering the cost of capital relative to labor, below-market interest rates increase the capital-labor ratio, exactly the opposite from what is desired for

LDCs. Actually, low interest rates are only one of a set of policies used by many LDCs to push up the capital-labor ratio. I. M. D. Little (1987, p. 232) lists the following:

> Apart from their effect through the pattern of output, government policies may be argued to have promoted capital intensity directly. Capital has been made cheap in numerous ways. Real interest rates have been held very low and have often been negative. Exchange rates are widely overvalued while imported machinery is exempted from import duties. Other tax concessions, such as accelerated depreciation, favor the use of capital. Government investments often ignore prices, and the most modern, capital intensive methods are chosen. . . . At the same time the predilection of large enterprises to pay high wages has been reinforced by governments. In many countries and cases the shift in the relative prices of capital and labor has been enormous.

It is impossible to find economic logic in encouraging the use of capital instead of labor in capital-scarce, labor-abundant economies. But politically, each of the specific RAMMO policies that artificially decrease the cost of capital (or increase the cost of labor) can be exchanged for support or bribes from business (or labor) organizations.

Regulation and Corruption

Government regulation of business in the LDCs is very extensive with permits needed for an incredible number of normal business activities. The process of getting these permits is very time consuming and frequently can be completed in a reasonable length of time only by paying bribes. Thus, although the regulations are advertised as "in the public interest," they mostly serve as a sure source of income for government officials at all levels.

In a study of corruption for the World Bank, Gould and Amaro-Reyes (1983, p. 34) conclude:

> Corruption, as this paper shows, is perv asive in the countries of Asia, Africa, and Latin America. The government monopoly of economic activities in developing countries, when combined with conditions of political "softness," widespread poverty and socioeconomic inequalities, ambivalence towards the legitimacy of government and its organizations and systematic maladministration, provides fertile grounds for corruption, which, according to much of the data examined, has a deleterious effect on administrative performance and economic and political development.

In his research on corruption in India, Wade (1985) showed that the institutionalization of corruption with the buying of posts at prices determined by the amount of bribes available was true in most departments of state government. Attractive posts were not only those controlling subsidized goods—like irrigation water—but also those enforcing laws and regulations:

> Officers of relevant rank who wish to be put in charge of a certain police station will bid for it (there are normal prices for each station, around which the bidding takes place). . . . Any department that has the power to inflict costly fines can raise money in the same way. Officers of the Labor Welfare Department can profit from employers by agreeing not to enforce the legislation. . . . In the Forestry Department, the big money is to be earned by the sale of illicit "rights" to cut commercial timber; . . . At the superintendent level of the Public Health Department, the cost of a transfer to a big hospital in a commercial district of a big city is much higher than most other postings; . . . the Agricultural Department, . . . provides opportunities for profit all the way up the hierarchy. The principal sources are black market sales of subsidized inputs . . . ; and kickbacks from private dealers who depend on the officials to certify that their inputs (seeds, fertilizers, etc.) meet quality standards. . . . If the adulterated seed fails to germinate, it is always because the cultivator sowed too deep, or the weather was not right, . . . the changing importance of the legislation that the department is responsible for enforcing affects the transfer price. Much more can be earned in the Revenue Department during a land reform scare than when no one is worried about land reform laws [Wade 1985, pp. 477–78].

John Waterbury (1976, p. 430) describes the situation in Egypt and Morocco with regard to business regulation and individual documentation as follows:

> Tax assessment, market inspection, safety regulation, price control, zoning laws, criminal and commercial law application of any kind are all subject to discriminatory enforcement or non-enforcement. . . . This documentation ranges from birth and marriage certificates, proof of residence and payment of taxes, police records, and driver's licenses to ration cards, draft cards, certificates of indigence, work permits, building permits, commercial licenses, passports, etc. . . . A market price for documents becomes known. . . . [C]orruption is not, as some have argued, a way to cut through red-tape but rather the price of routine performance. The alternative is not red-tape but non-performance.

It is sometimes argued that corruption is mainly redistributive, changing real production only to the extent that significant resources are invested in securing the positions that will receive bribes (Trivedi 1988). In fact, corruption can be negatively redistributive, that is, taking from the poor. More fundamentally, the argument that corruption influences only the distribution of a given government budget or the enforcement of a given set of government regulations is flawed—at least with regard to many LDCs—because it assumes that only bureaucrats are corrupt and that, at the legislative level, corruption makes no impact. In discussing the legislative oversight of the bureaucracy in India, Wade (1985, p. 482) wrote:

> Legislative scrutiny of departments tends to be weak. . . . [W]hat matters from the legislators' point of view is whether they are getting a satisfactory share of what the officials collect, or whether the officials are being sufficiently favorable to contractors-suppliers on whom they depend for finance, or to groups of electors whom they wish to oblige.

If lawmakers and those in control of government budgets share in the income from corruption, it is in their interest to increase the supply of subsidized goods and services that individuals will buy a share of and to increase the regulations that producers or individuals will buy exceptions to. As such, the government has an incentive to create additional distortions in the economy.

In Indonesia, for example, regulation has been a major barrier to the expansion of manufactured exports. According to McCawley (1981, p. 81):

> [A]t least as important as . . . recorded transport costs are the indirect pecuniary and non-pecuniary costs of exporting which are directly attributable to corruption and bureaucracy on the part of government trade officials. It is no exaggeration to say that the paper-work and procedural difficulties involved in the whole export process, together with the requirements for so-called "invisible payments," have created an atmosphere of frustration and resentment that permeates the Indonesian business community. It is difficult to overestimate the importance of this factor as a barrier to exporting; this government-imposed restraint on trade is, in itself, a major cause for "export pessimism" on the part of domestic manufacturers in Indonesia.

Obviously, excessive or totally unnecessary regulation is economically expensive, especially if it discourages small business or new enterprises. This overregulation slows job creation, innovation, and economic growth. Of course, the fruits of corruption do not go to the poor, so corruption serves no legitimate redistributive goals. However, the income from bribes and the ability to reward friends or punish enemies, by granting or denying permits, are extremely valuable. Government officials have a vested interest in excessive regulation. Even if the regulation is, in principle, economically beneficial, it can be administered in such a way that it is economically harmful but quite beneficial to government officials and politicians.

Inflation and Management Problems

This subsection is not intended as a thorough discussion of the inflation problem in the LDCs or to supersede any existing analysis. The inflation tax will not be discussed here. What is of interest here is a different sort of benefit to government from inflation: the ability to exempt groups in the economy from the adjustments to nominal prices caused by inflation and thus to create transfers to them. The most important case is perhaps nominal interest rates set far below the inflation rate. This procedure has been used to transfer large sums to farmers—mostly wealthy farmers—in Brazil (Graham 1987). Obviously, with inflation at 50 percent and the interest rate fixed at 25 percent, there is a very large excess demand for such credit. Similarly, privileged groups can be exempted from the inflationary increase in the price of water, electricity, gasoline, and so forth. Again excess demand is created. Inflation allows a policy of overvalued currency to operate inside a very sophisticated crawling peg exchange rate; the exchange rate is merely adjusted slower than the excess of domestic inflation over world inflation.

One frequent element of serious inflation in the LDCs is a large government deficit or excess credit creation associated with loans to government enterprises (for example, Brazil). The deficit or excess lending by state banks is frequently seen as a lack of administrative control by the top government leaders over the bureaucracy in general or the parastatals in particular. However, this problem may not be due to an inability to set up adequate expenditure and lending controls, it may be due to the benefits to the top government leaders from weak fiscal controls. As Nelson (1988, p. 91) explained:

> Leaders may have adequate power but not be particularly eager to establish powerful, institutionalized procedures and staffs for advance coordination and on-going veting of expenditures. They prefer to keep most of that authority in their own hands. . . . Where top political leaders depend on their control over allocation of resources to maintain the loyalty of faction-ridden or personally ambitious lieutenants, they cannot lightly relinquish such control to an anonymous group of technical bureaucrats.

In the cases where excess government or state-owned enterprise spending is a major contributor to the inflation problem, the government, in addition to benefiting from the inflation tax, benefits politically from the mechanism (weak fiscal control or credit control) that is making the inflation problem more serious.

More generally, weak management controls are no accident in many LDC government and para-governmental organizations. Such weakness is necessary if managers are to use their power and budgets for political ends. In the case of Africa, Leonard (1987, p. 900) noted:

> Africans are unusual among the world's elites in the extent of their patronage obligations to poorer people and the strength of the moral pressures which they feel to fulfill them. For these reasons and for selfish ones that are far more universal, state organizations in Africa are extensively used to pursue informal, personal goals of their managers rather than the collective ones that are formally proclaimed.

It follows that the functioning of parastatal enterprises will not be insulated from political considerations by giving their managers more autonomy (see Leonard 1987, p. 906). Parastatals are set up to achieve political ends with the hope that they will also achieve economic goals. The political goals, however, are the higher priority; thus, any management reforms that would defeat the political ends will be unacceptable to the government. In short, managerial problems, including the politicizing of management decisions, are not solvable technocratically independent of the basic problem of pervasive use of government power for the benefit of those running the government.

Conclusion

There is room for theoretical argument about the economic benefits of a fixed exchange rate for the LDCs. However, it is difficult to justify an overvalued currency combined with export promotion subsidies. It may be hard to find the economic logic in price controls for agriculture, but it is impossible to find economic logic in price controls combined with input subsidies. There may be valid arguments for protecting "infant industries" from foreign competition, but there are no valid arguments for protection combined with policies that discriminate against small-scale industry. In short, while there may be some economic justification for individual RAMMO policies of LDCs, the policy *packages* implemented in practice make very little economic sense either in terms of efficiency and growth or in terms of income distribution to aid the poor.

However, as we move from individual RAMMO policies to the policy package, more rents are created. As a result, the ability increases for the government to profit in terms of political support or direct income. Adopting a package of RAMMO policies, therefore, makes very good sense from a public choice perspective of government decisionmakers who maximize their private benefits.

In discussions of LDC government policy, the following argument is frequently advanced: While the policies may not make good economic sense, those in government believe for ideological reasons (nationalism, socialism, anti-Western feelings, etc.) that they are the correct policies. For example, it is often argued that people in LDC governments do not believe that markets work in their countries, and this contention is frequently taken at face value by outside observers. Economic theory, however, offers a different explanation—one based on the assumption that self-interest is more important than beliefs. Ronald Findlay (1988, p. 87) put the point as follows:

> How is the "import-substitution syndrome" to be accounted for? One approach in line with Keynes's famous quote, is to stress the influence of ideas of some particular "defunct economist," from whose thoughts a "madman in authority . . . distills his frenzy." My own view is that ideas *per se* are not the exogenous force that Keynes makes them out to be. I prefer to proceed from "interests" with particular groups or leaders selecting those ideas that serve them best from the "menu" currently available.

The ideological belief in RAMMO policies may be totally sincere and still be irrelevant. In any line of endeavor, other things equal, people who believe in what they are doing are more likely to succeed. If success in LDC government is through RAMMO policies, then the person who believes in them and successfully implements them will gain power and wealth.

Empirically, countries like Peru, Nigeria, or Burma (where the leaders indicate serious reservations about the economic effectiveness of unrestricted markets) are all laissez faire compared to Stalin's Russia or Mao's China. Whatever their leaders' beliefs, the rejection of markets by LDC governments is really quite selective, and the areas selected for RAMMO policies tend to be ones where the policies pay high rents to those in government.

The public choice hypothesis of this paper has some important implications. First, the analysis of LDC government policies by economists has been missing the point in two key dimensions: One, the analysis of a particular policy is off the mark if it ignores the political and monetary benefits to people in government. These benefits are the real reason the policy is followed. As Bates (1988, p. 240) points out, it is not sufficient to know whether a particular policy helps or hurts economic growth and development; we also need to know, "Why do governments behave as they do? How are public policies chosen?" And two, we need to look at the actual implementation of the policy more directly. The opportunities for rent creation in the actual implementation may be the real point. Thus, it is inappropriate to separate the broad policy goal from the actual implementation and to assume that the stated broad policy goal was the real purpose of the policy even if implementation achieved something much different. LDC government leaders know just as well as government leaders in the developed countries how to distinguish between what a policy is sold as doing and what it actually does.

Second, there frequently are remarkable similarities between economic policies of left wing or right wing regimes, such as Indonesia under Suharto and Mexico, or Egypt and Morocco. The paper's analysis clarifies why these similarities would be the case: People in government are motivated by self-interest regardless of their philosophy.

Third, where governments have followed a more market-oriented approach—such as the Gang of Four in East Asia (or for that matter the governments of the developed countries)—we must look for constraints on the behavior of government officials that have pushed them to follow AMO rather than RAMMO policies.[4] In my view, exogenous resource constraints and foreign political pressures explain the choice of fundamental institutions and ideologies. For example, Ranis and Fei (1988) model the differences in policies between Taiwan and Latin America as effects of differences in natural resource constraints.

Fourth, the hypothesis of this paper puts a different "spin" on the problems of reform in LDCs. When LDC leaders discuss their negotiations with the World Bank or IMF about policy reforms to accompany rescheduling of debts, the leaders frequently state they are in favor of reform, but that the internal political opposition is too great. This contention, of course, could be true, but it is also true that the leaders have little or no interest in reform as long as they have any choice. As Krueger (quoted in Schwartz 1989, p. 8) put it:

> Policy reforms have been half-hearted, even to the point of being cosmetic in a number of instances. The typical scenario has involved strong resistance to policy reform on the part of key actors within the governments of the debtor countries. Advocacy of reforms has usually been by the international organizations. . . . These advocates have been resisted, and the outcome of negotiations has been a watered-down package. Even then, policies have often retrogressed in the weeks and months following announcement of a program.

Anna Schwartz (1989, p. 8) drew the following conclusion based on Krueger's statement:

[4] In spite of its generally effective policies, the government of South Korea saw fit to push through the introduction of a new rice variety against the will of agricultural researchers and of rice farmers, because the government expected net political gains from the policy package (Burmeister 1987).

> Politicians' ambivalence about sustaining an economic reform package is not hard to understand. The short-run consequences of restructuring economies are not in the self-interest of politicians. . . . Governments fear riots and political discontent as the short-run price of reform policies.

Although Schwartz blames the debt problems on the LDC governments, she does not link the self-interest of these governments with rent-creating policies. Rather, she implies that the LDCs' long-run interest would be economically more efficient policies and that officials fear only the transition. Yet, as the quotes from Hanson (1971), Diamond (1987), and Wade (1985) illustrated, it would be very hard for the leaders of a free-market LDC to live as well as current LDC leaders do by pursuing rent-creating RAMMO policies.

A better understanding of why LDC governments follow the policies they do is important for the practical efforts to improve those policies and accelerate LDC economic growth. It is also important for understanding the growth process in the LDCs. Since government policies have such a large impact on LDC economic growth, we will not fully understand their growth patterns until we understand the factors determining the major choices of government economic policy.

It is important to repeat the caveat from the third section of this paper: The public choice hypothesis and the discussion of particular RAMMO policies in the LDCs should be seen as representative; our analysis and discussion does not apply to all LDCs at all times. In particular, when the economy reaches a crisis point, those in government may be forced to change various RAMMO policies and switch to AMO policies—a transition that is now occuring in many socialist countries.

The public choice hypothesis presented here is a static one about the modal pattern of LDC government economic policies. It does not attempt to explain why policies differ between countries and how and why they change over time. In particular, it does not tackle the key issue: Under what circumstances will the economic damage from rent-creating RAMMO policies eventually cause very high political costs to those in government? From a public choice perspective, the differences between policy patterns of various LDCs and major changes over time in policy patterns can be explained by differences in, and changes in, the constraints on the governments' behavior. Whether the public choice paradigm is fruitful in explaining the problem of transition from RAMMO to AMO policies, however, awaits further research.

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