

# **SOCIAL DIVERSITY AND DEVELOPMENT POLICY: THE USE OF CONSTRAINTS AND INCENTIVES**

**Aruna Nayyar Michie**

*Department of Political Science, Kansas State University, Manhattan, Kansas, USA*

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## **Contents**

1. Introduction
  2. Goals and Requirements of Development
  3. Society and Polity
  4. State Intervention and Development
  5. A Proposal for Effective Decision making
  6. Conclusion
- Bibliography  
Biographical Sketch

## **Summary**

Given the social diversity of most LDC's, how can policies be devised which ensure desirable and uniform results? Often administrative and social boundaries do not coincide and perceived needs and goals of social groups may be antithetical to each other and those of the national government. The major proposition is that national policy, using both incentives and constraints of law and fiscal policy should set the parameters within which local decision making takes place.

## **1. Introduction**

Development literature has long acknowledged the interaction between political and social systems. The behavior, decisions and outcomes of any political system are mediated by social structures and norms. Public decisions and political institutions in turn affect and change social structures, behaviors and norms over time. Problematic for many of the less developed countries (LDCs) is how to devise and implement policies which ensure desirable and uniform results in what are often socially diverse systems, where political and social boundaries do not coincide and where the perceived needs and goals of social groups may not be in concert with national ones. That is, how can governments meet specific local needs *and* bring about desired changes in diverse situations without resorting to authoritarian methods, especially if development challenges or requires changes in existing norms?

This is especially critical today as an agreement of sorts has emerged on the desired outcomes of the development process if not the means to attain those. This does not mean disparate definitions of development do not exist; they do. The purpose of this paper is not to debate the “correctness” of various schools of thought, but to discuss the

inter-relationships between society and polity given the dominant paradigm today (outlined below) and the consequences of those for public policy.

The central issues are two: first, what is the appropriate role of the state, and second, what should be the content of policy? The basic premise of this paper is that a government's appropriate role (outside of macro monetary policy, defense and international affairs) is to construct parameters within which private or local community decisions are made, and to provide strong constraints and incentives within which those entities must operate if they make claims on public resources. Considerable emphasis is currently placed on providing *incentives* to individuals and communities to act in "appropriate" ways. Little consideration is given to *constraints* that make certain actions undesirable or illegal. In reality governments use both, and any development paradigm should include both explicitly.

Thus, the proposition here is that national policy should spell out goals, the possible parameters of action, and provide local units and citizens the initial assistance (technical, legal and monetary) to achieve those. Continued assistance, particularly financial, should be linked specifically to outcomes. The major tools available to define the parameters of action are law and fiscal policy.

This model of decision making does not argue either for or against state intervention. Intervention of some kind is taken for granted. The question then is what kinds of interventions work *for an entire country, regardless of diversity, to obtain desired results?* This paper argues specifically that strong reliance on "market" mechanisms will not bring about development. There is a strong and clear role for government.

## **2. Goals and Requirements of Development**

Development has been defined in various ways over the past five decades. A consensus of sorts has emerged, however, that economic growth is not a sufficient (although perhaps necessary) indicator of development. Today's paradigm includes the distribution of the benefits of growth, equity and a movement toward social, economic and political equality.

Dudley Seers operationalized these concepts succinctly: "The questions to ask about a country's development are therefore: What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels, then beyond doubt this has been a period of development...If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result 'development', even if per capita income doubled."

Today's paradigm also includes the broader notion of "quality of life", including basic needs such as health/nutrition, education and a sustainable environment, and perhaps most importantly, expanding people's capabilities. In fact, as discussed by Sen, the other development indicators can be seen as means to those expanded capabilities. The World Bank states that the development process should be based on "consensual, participatory and transparent processes...and should encompass partnerships among all elements of

civil society.” The process by which development takes place is as important as the results. “The ability of people to participate in making the decisions that affect them is a key ingredient in the process of improving living standards”.

The precise role of the state in development is still debated and varies by ideology. There is a consensus, however, that governments should at least provide a framework within which resources are used and basic services provided efficiently and effectively, participation by citizens enhanced, and the development objectives cited above are attained; i.e. states should provide “good governance”. Specifically, governments should provide a strong legal framework, ensure macroeconomic stability without distortions, invest in social services and infrastructure, and protect “vulnerable” sectors and the environment. Tools by which good governance occurs include at least mobilizing public opinion, flexibility in response to diverse situations, using self-regulatory mechanisms, and reliance on market-based mechanisms rather than regulation. “For human welfare to be advanced, the state’s capability—*defined as the ability to undertake and promote collective actions efficiently*—must be increased.” Thus, since the results of development depend on state capability, outcomes will vary depending on that capability.

The problem is that “civil society” in much of the LDCs should read “*civil societies*”. For within these states (often artificially created entities), are many sub-national groups and social systems, each of which holds differing norms, status and expectations within itself (such as different caste norms among Hindus in India) and from others (e.g. Hutus vs. Tutsis in Rwanda and Burundi). Those norms and expectations are the measures by which each group judges itself and others. Such diversity makes collective action for common goals difficult. Development, as conceptualized above, should result in fairly uniform *outcomes*, which can require changes in existing attitudes and behaviors that are not in concert with the accepted definition. The issue is how can states best ensure those outcomes given existing diversity?

Is there a contradiction in the dominant paradigm between meeting individual or group needs and enhancing the quality of life for all? There may be, if there is a divergence between individuals’ or a group’s perceived needs and the enhancement of the quality of life, participation and sustainability for all. If, however, individual and group needs are channeled by public policy initiatives in the directions indicated by Seers—i.e. poverty reduction, increased employment and equality—common ground can be found with today’s paradigm. One caution: uniform outcomes may mean initial unequal treatment of individuals and groups.

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### **Biographical Sketch**

**Aruna Nayyar Michie**, is an Associate Professor of Political Science at Kansas State University. She has been involved in teaching and research in comparative politics (primarily South Asia), development policy (particularly agriculture) and administration for over twenty years. She serves on the Board of Trustees of the American Institute of Indian Studies and has been director of the South Asian Studies program at Kansas State.

She has published in journals such as *Comparative Political Studies* and *Social Science Quarterly*, and written several book chapters and monographs.