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PROGRAM "OWNERSHIP"?**

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1. Introduction

IMF programs have a mixed record of success. Out of the 615 Fund programs approved between 1973 and 1997, only 70 percent achieved their originally-agreed “completion dates” (in many cases with modifications along the way), an additional 12 percent were extended beyond their original durations, another 11 percent were cancelled early but followed promptly by successor arrangements, and 7 percent were effectively suspended (Mussa and Savastano [2000]).¹

An often-cited reason that Fund programs get off track is a lack of “*ownership*” on the part of the program country, where ownership refers loosely to the extent to which a country is “committed” to the general reform process and the conditions specified by the program independently of the incentives provided by multilateral institutions. Genuine ownership on the part of a country, combined with sufficient lending from the Fund and good program design, is believed to yield program success (or at least a high probability of success). And indeed, when the Fund refers to ownership it defines the concept in a circular way, based implicitly on the vision of reaching program completion dates (International Monetary Fund [2001]): “Ownership is a willing assumption of responsibility for an agreed program of policies, by officials in a borrowing country who have the responsibility to formulate and carry out those policies, based on an understanding that the program is achievable and is in the country’s own interest.”

The main challenges that arise in wrestling with the concept of ownership do not stem from disagreement over the most appropriate definition, but rather reflect the difficulties of making the concept of ownership operational.² How can the Fund determine whether a country is likely to remain committed to the reform effort and comply with the conditions of its program through the completion date? And how can the Fund design programs to enhance the prospect that countries will remain committed and completion dates will be

¹ For readers unfamiliar with Fund jargon, the term “completion date” refers to the date at which the borrowing country becomes eligible for the last installment of the IMF loan, based on demonstrated compliance with, or agreed waivers or modifications of, the performance criteria and other conditions of the program.

² See, for example, Boughton and Mourmouras (2002).

reached? These questions identify and distinguish between two central issues: *demonstrating* ownership and *building* (or *creating*) ownership. The former issue is perhaps most relevant for countries that have failed to comply with the conditions of programs in the past and must demonstrate that, contrary to perceptions based on past performance, they are now truly interested in and committed to reform.³ The latter issue recognizes that ownership is endogenous, not an innate or exogenous characteristic. Ownership can be improved and fostered through various devices. Thus, part of the challenge that a government faces is building ownership—that is, creating support for the process of reform and for the specific measures embodied in a Fund program.

Among the general public and especially critics of the IMF (and the World Bank), the lack of ownership and the failures of Fund programs are often attributed to a lack of *public discussion* of the programs during their formulation stages. The process of formulating a program is often characterized as one of negotiations between the IMF (seen as having its own agenda) and a thin layer of high-level government officials, with little or no input from the public, from NGOs, or from other interested parties. The failure of programs to lead to a significant bettering of the economic condition of the general population is often seen as reflecting this lack of public input. Demonstrations (or riots) against the IMF and its programs are taken as evidence of the seriousness of the problem. Analogously, public discussion is considered to be an important vehicle for establishing ownership, and lack of public discussion is perceived as part of the reason that some programs are never adopted or fail to reach completion.

The need for public discussion is recognized within the IMF and World Bank. To date, however, the case for public discussion is not much more developed than the cases for other terms that sound unambiguously positive. In particular, the discussion of “public discussion” seems quite unfocussed and lacking in coherent analysis of what form it should take and how it can contribute to strengthening Fund programs and/or demonstrating or building ownership. Such lack of careful, analytic argument on the role of public discussion

³ It is not only to the IMF that ownership must be demonstrated. Demonstration of ownership may also have a “catalytic” effect in inducing both official bilateral lending and private capital flows that exceed or add substantially to official multilateral loans.

can leave the unfavorable impression that the IMF and World Bank simply view public discussion as “politically correct” rather than as a vehicle that can significantly improve program design—or that the institutions engage in public discussion primarily to make the public feel “more comfortable with” or “warm and fuzzy about” their programs. A more serious concern is that the lack of a clear understanding of how public discussion works can leave the impression that public discussion “strengthens” ownership only by leading counterproductively to the adoption of weaker programs. At worst, public discussion is seen as making strong program design very difficult or impossible by giving too much voice to groups that are either against real reform or hold views strongly at odds with generally accepted economic wisdom. It is not surprising that public discussion has a bad name in some circles, at least when it is not discussed publicly.

Both the association of public discussion with fuzzy thinking and the view that it detracts from successful program design are especially unfortunate. This is partly because careful public discussion of programs can increase necessary public support and in any case is often unavoidable. The tendency to relegate calls for public discussion to the soft side of program design is all the more unfortunate because economic theory and political science in fact suggest approaches for rigorously analyzing the role of public discussion in improving collective choice.

The purpose of this paper is to use the tools of economic theory and political science to begin to develop a better understanding of the role of public discussion in building and demonstrating ownership. The first task is to develop a better understanding of what ownership and public discussion are. In Section 2, we argue that ownership is more complex than many discussions of it would suggest. Ownership must include not only willingness but also technical capacity and political ability to carry out a program, especially the political ability to do so. In Section 3, we argue that public discussion can serve a number of purposes, each of which can be better understood by moving to a more formal treatment. What public discussion can or cannot achieve depends on what the ownership problem is, and the different purposes of public discussion may interact with one another. Here too, understanding the political constraints on a government may help understand what to expect from public discussion. In Section 4, we consider some of the drawbacks of public

discussion, especially as applied to Fund programs. After having developed a clearer sense of ownership and a more formal understanding of what public discussion can achieve in different types of circumstances, we focus in Section 5 on the design of IMF programs and the role that public discussion can play in enhancing program ownership. Section 6 provides a summary of our arguments and conclusions.

2. Defining Ownership

Ownership is a more complex concept than it may seem. As noted above, the degree to which a country owns a Fund program can be broadly defined as the extent to which the country is oriented toward meeting the conditions specified by the program independently of any incentives provided by multilateral lenders. Alternatively, and from the perspective of seeking to draw meaningful implications for the design of Fund programs and the role of public discussion, the degree of ownership can be defined as the probability that a Fund program will be adopted and reach completion without a significant weakening of the reform effort, given uncontrollable stochastic factors.

The latter definition points to a number of factors on which ownership depends. One is the willingness of the government to meet the conditions of the program. Without such willingness, the probability of reaching completion is unlikely to be high. Suppose, however, that there is willingness, but a lack of technical capacity to collect taxes or carry out other measures on which the program crucially depends. (“The spirit is willing, but the infrastructure is weak.”) It would not seem meaningful to suggest that a country owns a program that it has no hope of carrying out: ownership also depends on technical capacity. Conversely, ownership for its own sake is not a desirable objective. Just as it is not very meaningful to design diets that overweight individuals are willing and able to undertake because they require only minimal changes in eating habits, it would not be very desirable to design programs that countries are willing and technically able to carry out simply because they require only minimal changes in policy.

A third crucial factor for ownership is the political ability of the government to carry out a meaningful program. To illustrate the point, suppose policymakers in a country with continuing large fiscal deficits want to implement a program of fiscal austerity, but face

powerful special interest groups (SIGs), either inside or outside government, who can block fiscal reform. One could not argue that there is country ownership if the SIGs do not agree to the fiscal austerity program, even if the government is willing and technically able to carry out the program.⁴ The same argument suggests that ownership can be strengthened by weakening either the power or the incentives of SIGs to block the program. The nature of the political system can very much determine the power of SIGs, while both the design and public discussion of programs can affect their incentives. We return to the latter point in our analysis of how public discussion can affect ownership.

Willingness, technical capacity, and political ability are not independent of each other as determinants of program ownership. The distinction between the willingness of the government to carry out reforms and its political ability is often unclear, as is the distinction between its technical capacity and its political ability to collect taxes or discipline public spending. In some cases, distinguishing between technical and political capacity may be unimportant or irrelevant. One may want to think simply of “institutional capacity,” broadly defined to reflect the technical characteristics of fiscal processes as well as the nature of the political institutions that influence what comes out of fiscal processes.

The Fund is unlikely to find itself involved in a program in which country ownership is complete. Were ownership complete, that is if a country had the willingness, technical capacity, and political ability to pursue serious reforms, it would never (well, hardly ever) have to approach the Fund for support. In this sense, the challenge faced by the Fund in negotiating and designing programs—and in considering how to make effective use of public discussion—is not simply to try to determine the degree of ownership but also to try to increase, that is, to build and strengthen, ownership. This leads to the question of the role of public discussion in designing effective programs and especially in enhancing ownership.

3. Public Discussion

Public discussion has an image problem: calls for public discussion are often perceived to be based primarily on the desire to increase ownership by making the public feel

⁴ This distinction was central to the arguments on conditionality presented in Drazen (2002).

“more comfortable” about a program in some general way. Our aim in this paper is to move away from the “warm and fuzzy” and try to analyze public discussion more rigorously.

From a more analytical perspective, public discussion of a program may be seen as having a number of functions, which may be grouped into four categories:

- to *educate the public* about the nature of the program and, more generally, about macroeconomic realities, including the tradeoffs between short-run costs and medium-run benefits and the implications of the program for relevant interest groups. It can also provide a vehicle for the government (and/or the Fund) to make the public aware of information on which the program is based;

- to *learn public preferences and constraints*, and to convince the public that program design takes this information into account, which (along with educating the public) may enhance compliance and cooperation with the program;

- to *demonstrate unbiasedness*, that is, to convince the public that the program is designed for the general good, rather than to serve the interests of the authorities or the Fund;

- to *find common ground* among heterogeneous interests.

“Public discussion” might appear to be a topic not easily formalized and discussed with any rigor. However, there are two highly relevant strands of literature—one in economics, the other in political science—that are rigorous and, we believe, potentially quite useful in analyzing the effect of discussion on policy outcomes.

3.1 Cheap talk

Economic theory distinguishes between costly signaling mechanisms and “*cheap talk*,” latter defined as a signal an agent can send that is neither costly nor binding and that does not affect the payoffs associated with any given outcome.⁵ As an example of costly signaling, suppose that two jobs require different levels of ability, but that individual ability is unobserved. If innately high ability individuals find it less costly to become educated than low ability individuals, observable educational attainment may serve as a signal of

⁵ Farrell and Rabin (1996) present an excellent, easily accessible introduction to the subject.

unobserved ability. The signal works because it is differentially costly for different types of individuals to send it.

Suppose, however, that individuals simply announce to employers what their ability is, with it being costless for an individual to make any announcement he wants (hence, the term “cheap talk”). One might think that such costless signals are completely uninformative. However, under certain conditions cheap talk can in fact convey information about unobserved characteristics. Cheap public discussion may enable the government to convey information about its being a social welfare maximizer rather than having its own agenda; and cheap talk may enable the public to convey information about its preferences to those who design programs. We return below to this application of public discussion.

Cheap talk may also be a useful coordination mechanism, that is, a device for finding common ground. The challenge of program design presents the government not only with the difficulties of convincing the populace of its good intentions, but also with the need to forge an agreement among different special interest groups. We also consider how public discussion applies to the latter task.

Note that in considering the importance of “talking” we have *not* made any reference to bargaining or negotiations *per se*. The issue of how bargaining affects outcomes can, of course, be studied formally, but that is not our intention in studying public discussion.

3.2 Deliberative democracy

Political science has generated quite a bit of literature on communication between political leaders and the public and the role of such communication in shaping policy decisions and generating support for policies and political leaders. Much of this literature is empirical or illustrative, arguing the importance of communication but without providing a theoretical or formal way to understand why public discussion may be important.

There is, however, a rigorous strand of literature that focuses on why public discussion may be important in a democracy.⁶ This is the analysis of *deliberative*

⁶ From a formal point of view, political scientists have also used cheap talk models to study, for example, communication in legislatures.

democracy, which can be roughly defined as “decision making by discussion among free and equal citizens” (Elster, 1998, p. 1), with the stress on “discussion.” According to this literature, a crucial part of the democratic process is discussion and deliberation before a collective choice is made.

The central question in assessing discussion is put clearly by Fearon (1998):

What good reasons might a group of people have for discussing matters before making some collective decision, rather than simply voting on the issue or using some other decision rule that does not involve discussion? In other words, what is the point or value of *discussing things* before making political decisions? (p. 44, italics in original)

Advocates of deliberative democracy argue that decision making in a democracy is not simply the aggregation of (existing) policy preferences among heterogeneous agents in a society. That is, it is not simply a collective choice rule (such as majority voting) for reaching an aggregate policy decision when individual citizens do not agree on their most preferred policy. Instead, and perhaps more importantly, democratic decision-making involves the *transformation* of individual preferences through deliberation and discussion (Habermas, 1987).⁷ In common parlance, if two individuals have different opinions, the free and open discussion of issues that is part of the democratic process enables each side to attempt to convince the other of the correctness of its own position. Thus, discussion provides a mechanism for trying to narrow differences of opinion. In the limit, deliberation and discussion would bring about a consensus of opinion, so there would be no need to use voting or some other mechanism to aggregate preferences.

In applying this perspective to Fund programs, the relevant question is: how can public discussion lead to a consensus, or at least a narrowing of differences of opinion, on what policy should be followed? It is crucial to note that the focus here is on *policies* and not on *outcomes*. Two constituencies may differ in their desires for narrowing income inequality as an outcome. Or, they may agree on the desired degree of income inequality, but differ over the best way to achieve it. Hence, their disagreement is not about goals, but about

⁷ Some critics argue that this transformation may actually be a distortion of individual preferences. See section 4 below.

the best way to achieve them.⁸ That is, they disagree about the *connection* between policies and outcomes, or more generally, about how the world works. We term this an issue of “causal policy-to-outcome relations”, or simply *causal relations*.

We note this point since—in the context of Fund programs—the possibility of educating the public about the effects of policies is a key consideration. That is, public discussion can make the public aware of the payoff matrix they face and thus perhaps lead them to choose to comply with the proposed program (to choose “ownership”) as leading to better outcomes for all parties than the outcomes associated with noncompliance.

In addition to the positive question of whether deliberation can lead to ownership, there is a normative question of whether deliberation leads to better outcomes. As already mentioned in the introduction, some observers stress the possible negative implications, a point we consider in detail in section 4.

3.3 Voting versus program design

Many discussions of deliberative democracy focus on the role of public discussion prior to *voting* on policy. By contrast, we are interested in the value of public discussion of policy proposals before a government commits to a policy program with the IMF.

The fact that public discussion is followed by the government adopting a program, rather than voting, is a key distinction between our framework and most applications in the political theory literature. This difference may have implications for the functions of public discussion as well as for the pathologies (i.e., circumstances in which public discussion may be counterproductive). A second factor that distinguishes our framework, and that may influence the relative importance of various arguments, is that IMF programs—especially difficult ones that need the most public discussion—are typically designed when the economic outlook is particularly bad. As we shall see, these features of our framework introduce some considerations not present in a voting setup.

⁸ The reader will probably quickly point out that individuals may view income inequality not as itself the outcome, but rather in terms of its effect on other variables, such as growth. That is, individuals may both favor high growth (and the welfare gain that may bring), but differ on the connection between income inequality and growth. See the discussion in chapter 11 of Drazen (2000).

3.4 Functions of public discussion in program design

In analyzing the functions that public discussion may serve, it is useful to distinguish between three sets of issues. First, as a reference case, what are the functions of public discussion when the government is known to maximize social welfare (rather than being thought to have its own “agenda”) and the public is homogeneous (rather than having heterogeneous interests)? Second, how can public discussion help in convincing the public that the government is in fact a social maximizer (thus presumably increasing public support and compliance)? Third, what additional functions might public discussion have in addressing the conflicting interests of groups in society?

Case 1: Government is known to maximize social welfare of a homogeneous public

Consider first the case where it is common knowledge⁹ that the government is a social welfare maximizer and the public is homogeneous in its preferences and beliefs. These two assumptions are admittedly extreme and unrealistic, but this case is useful in understanding the importance of public uncertainty about the government’s objectives and of heterogeneity in agents’ objectives. (We further assume that the Fund’s objectives coincide with those of the government, an assumption that will be maintained throughout.¹⁰)

In this reference case we may ask: since the public knows that the government is maximizing its welfare, why isn’t it effective for the government simply to announce its program without any prior discussion? Our answer is that the achievement of the optimal outcome may depend on any of the following functions that public discussion can serve: *revealing the public’s preferences; convincing the public that the government is aware of what it values; educating the public about the state of the world; inducing greater compliance by educating the public about causal relationships; revealing information about available resources and/or efficient choices; and making the government’s commitment to a program more credible.*

⁹ “Common knowledge” means not only that something is known by all parties, but that everyone knows that everyone knows, everyone knows that everyone knows that everyone knows, etc.

¹⁰ Financial constraints on the IMF, for example, may lead its objectives to differ from those of the authorities, but we do not focus on this. See Drazen (2002) for a discussion of some of the issues involved.

When government has imperfect information about what the public wants, public discussion can serve the function of revealing information. This can be a serious problem when program negotiation involves only the Fund and a “thin layer” of high government officials. Since preferences are necessarily complex, it can be argued that the government and the Fund cannot possibly design a program that is socially optimal (or perceived as such) without consulting the public. In comparison with other ways of forming judgments about ownership, public discussion has the attraction of being a relatively quick and resource-efficient way to seek feedback.¹¹

We may illustrate our points in simple matrices of payoffs to the government and a homogeneous public. Consider Matrix 1. (In this case, the use of a formal model is perhaps trivial, but it sets the stage for later examples.) The Public prefers Left to Right, but the Government does not know this. (Formally, the game is *either* Left or Right, which the Public knows but the Government does not.) A program of Expand is optimal when the Public prefers Left and a program of Contract is optimal when the Public prefers Right. (Since the government is known to maximize social welfare, the payoffs are identical to the players in each cell.)

MATRIX 1

PUBLIC PREFERENCES

		PUBLIC PREFERENCES	
		Left	Right
GOVERNMENT PROGRAM	Expand	3,3	1,1
	Contract	1,1	3,3

The government must choose the optimal program, where it does not know what the Public’s preferences are. In the absence of communication, the government will need to choose on

¹¹ By contrast, the methods that Wimmer et al. (2002) suggest for assessing the feasibility and sustainability of reforms would appear to require considerable resources and time to implement.

the basis of its prior beliefs about public preferences (where we assume that once the government chooses a program it cannot change its policy). Suppose the government assigns probability of $\frac{1}{2}$ to each possibility (actually, any interior probabilities will suffice for this example), so that the expected payoff is (2, 2).

Here, the problem is solved if the public simply announces that it prefers Left, which it is optimal for it to do. Public discussion increases welfare since it allows the Public to credibly signal its preferences even though such discussion is cheap talk. (Formally, the public's preferences are *self-signaling*.)

A related role for public discussion is to convince the public that the government is really aware of what the public values. This is relevant when the public knows that the government is a social welfare maximizer but feels the government may not be aware of society's preferences. ("We know you are a social welfare maximizer, but you don't know what in fact maximizes social welfare!") This is clearly related to the previous argument, but it is not identical: the previous argument applies when the government does not have information on the public's preferences; the second role recognizes that even a perfectly informed government must sometimes convince people that it is informed. Formally, the public's preferences must not simply be known, but must also be common knowledge. This function of public discussion provides one way of making more rigorous the idea that "people want to be included"—in this situation, included enough to become convinced that the decision-maker really does know their preferences. In other words, it increases the *legitimacy* of policy.

Another function of public discussion is to address the possibility that the public knows the government's preferences (or at least knows that the government is a social welfare maximizer) but is uninformed about "how the world works", which we above termed *causal relations*.¹² Przeworski (1998) believes that transmitting knowledge about such causal relations is central to what deliberation is supposed to do (p.144):

¹² Since programs are economically complex, the public will never fully understand all the details. Hence, there must be a degree of "trust" in the government. This can be attained by generating a feeling of inclusion in the process.

The preferences on which people act are contingent on their beliefs about the consequences of their actions.

And, indeed, parties and candidates competing for office do not offer merely policies: they explain to the electorate how these policies will affect the outcomes, trying to persuade citizens that their policies, as distinct from those of their opponents, will lead to the outcomes they want.

This is what we termed above “educating” the public.

We may represent this case by making three changes in the above matrix. First, “Left” and “Right” now refer not to the Public’s preferences, but to the “state of the world.” Second, it is now the Government that has superior information – it knows how the state of the world and the associated optimal policy, while the Public does not. For purposes of the example we let the state be Right, calling for a contractionary policy. (That is, in the matrix above, the true “game” is only the right-hand column.) Third, we assume that the Public also doesn’t know the true payoffs connected with different policies. Though the true payoffs are as in Matrix 1, the Public believes that the payoffs associated with different policies are:

MATRIX 2

		STATE OF THE WORLD	
		Left	Right
GOVERNMENT PROGRAM	Expand	2,2	1,1
	Contract	-1,-1	-2,-2

In this case, the Public would favor expansion even if the government announced that the state was Right and that announcement was believed. The government may have superior information, but it must *convince* the public not only about the state of the economy, but also about what works. Once it does that (that is, once it convinces the public that the payoffs are

those in Matrix 1 rather than Matrix 2), then it need simply announce the state of the world and a contractionary program would be supported.

The “educational” function of public discussion may be especially important in countries where IMF programs have historically been viewed as “bitter pills prescribed by the malevolent international financial community,” as represented by the public belief in payoffs being described by Matrix 2. In these cases, public discussion has the potential to help identify the truth by sifting through whatever valid or invalid inferences have been drawn from historical experience.

Educating the public about causal relations is important not only to induce acceptance of a program, but also to ensure compliance. A program may only be successful if the public complies with it, which depends on their understanding why it is beneficial. (Consider lowering the speed limit on highways to 55 miles per hour.) To illustrate, suppose “Right” and “Left” now refer to *actions* the Public may take, where Government and Public are both fully observable. Suppose that the matrix of true payoffs is:

MATRIX 3

		PUBLIC'S BEHAVIOR	
		Left	Right
GOVERNMENT PROGRAM	Expand	1,1	1,1
	Contract	2,2	3,3

Hence, a contractionary policy is always socially optimal, no matter what the Public does. Such a policy is more effective however if the Public complies by choosing the “Right” action. A process of education to convince the Public of the true payoffs will lead people to comply and induce the best outcome.

The functions of public discussion in revealing information to the government and in eliciting optimal public responses interact when it enables the government to learn about the resources the public has. That is, public discussion can identify more efficient choices when there are a number of options. (We leave to the reader to combine the previous cases to demonstrate this formally.) This may be seen in the broad consultation that takes place among stakeholders and development partners during the process of preparing country strategy papers under the IMF and World Bank's poverty reduction initiative. By seeking inputs from civil society and private sector groups in the course of formulating their strategies and economic programs, governments not only can gain insights on alternative policies for reducing poverty in a village-specific or country-specific context, but can also identify resources that can be mobilized to pursue such objectives efficiently.¹³

Yet another function of public discussion is to induce the government to make a greater *commitment* to a program and hence make it more credible that it will be carried through. One way to think of this is in terms of solving a time consistency problem. By taking publicly announced positions, the government changes the payoff structure to following a given policy in order to commit itself to follow a specific course of action.

Case 2: Public uncertainty about government objectives

We now focus on the issue of uncertainty about the government's objectives in designing a program. That is, the government faces the problem of convincing the public it is acting in the public's best interests, rather than having its own "agenda". Though the imperfect information issues discussed in the previous case may still be present (that is, where the government does not know the public's preferences, etc.), we assume these away in order to focus on the problem of the government making it credible to the public that it is acting in its best interests. We also continue to assume that the public is homogeneous (though not necessarily informed about what policies would maximize their welfare).

If the public believes that the government's preferences are not correlated with its own, then cheap talk may fail to convey information. This may be illustrated as follows.

¹³ See, for example, IMF Country Report 03/209 (2003)

Suppose only the Government knows the economic situation, say Up or Down, where this cannot be observed by the Public, either *ex ante* or *ex post*. Let us interpret Left and Right as the Public's action, where Government and Public actions are taken simultaneously. Assume that the Public knows how the world works (that is, the true payoff matrix), but not the state of the economy. Public discussion ("cheap talk") precedes any actions, where the Government announces the state of the economy.

If the government were known to be a social welfare maximizer, so that Government and Public get the same payoffs (as in the matrices above), then the Government need only announce the state and the Public would choose appropriately. Suppose, however, government and private sector objectives could differ (which might reflect the weight the government puts on the reaction of global capital markets). Hence, suppose that instead of a payoff matrix such as Matrix 1, payoffs were described by Matrix 4 (where the government's payoff is listed first):

MATRIX 4

		PUBLIC BEHAVIOR	
		Left	Right
STATE OF ECONOMY			
Up	3,5	5,1	
Down	1,1	3,3	

In this case, the Government would like the Public to play Right, no matter what the economic situation is. Hence, the government would like the public to believe that the state of the economy is Down, no matter what the true state is. But the public, knowing the payoff matrix, knows the government has this incentive and so does not believe any government announcement. "Talk" doesn't reveal the government's information because it is believed not to be a social welfare maximizer, that is, to have different preferences than the public.

However, even if the preferences of the government and the public are not perfectly correlated, information can be conveyed, but the type of message sent will be crucial in determining whether it is. Suppose, more realistically, that the state of the economy is not discrete as in Matrix 4, but is continuous. Suppose the payoffs are such that the Government wants the Public to believe that state of the economy is somewhat worse than it really is (perhaps to give the incentive to accept a “tough” program). For simplicity, suppose that if the state of the economy were S , the Government would want the Public to believe that the state was $S - x$, where this incentive is known to the Public. One might think that cheap talk can convey no information here, since if the Public discounts the Government’s announcement by some amount y (that is, in response to an announcement of $S - x$, the Public believes the state is $S - x + y$), the government will simply announce $S - x - y$. A key result in the cheap talk literature (Crawford and Sobel, 1982) is that *imprecise* messages can convey information as long as the incentive to understate the state of the economy (that is, the amount x by which the Government wants to understate S) is not too large. That is, while a supposedly precise announcement of the state of the economy will not be believed, a “crude” announcement of the state of the economy, such as Up or Down even when the state is continuous, will convey information.

This result has a simple but clear implication for program design. Suppose the public believes that the government has its “own agenda”, but that the direction of its bias is known and is not too large. Trying to convince the public of the need for adjustments of various sorts in a program relative to what the public has indicated it will accept may not be credible. However, presenting a choice between two discretely different alternatives may allow the government to credibly convey its superior information to a skeptical public and thus gain acceptance of a program (roughly) tailored to the economic situation.

On the other hand, if the bias is too large, the result breaks down. When the public believes that the difference between the government’s objectives and its own is sufficiently large, that is, when the government is believed to have too strong an incentive to mislead the public, then cheap talk cannot convey information.

Hence if the “agenda” of a government is believed to be too far away from the public’s interest, then a social welfare-maximizing government faces the problem of making

credible that social welfare maximization is indeed its objective. In formal terms, this is the issue of unobserved type, where one can think of two types of governments: a “good” or social-welfare-maximizing government; and a “bad” or non-social-welfare-maximizing government.¹⁴ How can a government whose objective is social welfare maximization separate itself from one which has other objectives? For the “good” government to care (and for the “bad” government to have an incentive to try to masquerade as a “good” government), there must be a favorable response to the government, or its program, being perceived as in the public interest. Such a response is present when public support is required for programs to succeed and when the public only complies with programs that it perceives to be associated with good governments.

A standard *signaling* model approach would be to consider costly actions a social-welfare-maximizing government may take that, due to their differential cost, would not be mimicked by a government with other objectives. Can public discussion be used to reveal the government’s type, that is, to reveal whether the government’s payoffs are as in Matrix 1 (social welfare maximizer) or as in Matrix 4 (government with its own agenda)?

In the simple (but unrealistic) case in which the public is homogeneous and knows what its best interests are, the answer to this question is a simple “yes,” since the authorities can simply ask the public to reveal its preferences. A government could then easily make credible that it is acting in the public’s best interest by choosing policy accordingly. When the public consists of groups with conflicting interests, then public discussion meant to elicit information on preferred policy may not serve the same function, since groups have the incentive to reveal information strategically. We return to this problem in our analysis of case 3 below.

Suppose that the authorities believe that the public does not necessarily know what the best policy is. Our argument above that a key function of public discussion is to educate the public about economic realities presumes that this is often the case. Then use of public discussion in the manner suggested in the previous paragraph is self-defeating for a

¹⁴ One might argue that a government that does something other than what the public wants may in fact be maximizing social welfare if the public doesn’t really know what is in its best interests. We address this issue below.

government that cares about social welfare. Choosing the policy that the public says it prefers enables the government to demonstrate that it has the same ostensible objectives as the public, but at the cost of not maximizing the public's welfare! (This distinction is sometimes referred to as the difference between a government being *responsive* to citizens' expressed preferences and *representative* of public preferences. (See Manin, Przeworski, and Stokes [1999].) Our previous discussion suggests that the government (and/or the Fund) should use public discussion for "education", but must convince the public that it is informing them of what economic realities really are (hence, is a "good" government) and not distorting reality in "educating" the public about what it would like the public to believe (a "bad" government).

Genuine public discussion may serve a purpose here that cannot be achieved through simple announcement of policy or assertions about the economic realities on which policy is based.¹⁵ The reason is that the requirement that positions be argued and justified publicly will eliminate some arguments as convincing rationale for policy. Exposing the (supposed) rationale for policy to the cold light of open public debate and scrutiny can often reveal whether or not the rationale is really social welfare maximization. Public debate can thus serve the purpose of revealing government type. (Fearon [1998] provides a nice discussion of this point.)¹⁶

Case 3: The public is heterogeneous

In the third case, we focus on the role of public discussion when groups in society have conflicting interests. Conflict among members of a society is central to political economy in general (Drazen, 2000), and is a key problem in formulating reform and

¹⁵ In the cheap talk examples, there is no real discussion or deliberation – the informed party sends a single message to the uninformed party. This is not unique to these examples. As Aumann and Hart (2003, p. 1619) point out, "Most formal models in this area [strategic information transmission] allow for at most one message from each player." They consider multi-stage cheap talk ("long cheap talk"), but the application of their results to public discussion is an issue we still need to work out.

¹⁶ The willingness itself to engage in public discussion may signal that the government is a social welfare maximizer, independent of any information that public discussion reveals. However, the signal is less than perfect, both because some regimes seem adverse to public discussion *per se*, and because public discussion may have adverse effects, as discussed in the next section.

stabilization programs. Though the problem of the public having imperfect information about the government's preferences may be important here as well, we abstract from it to focus more exclusively on how public discussion might help hammer out an acceptable program when the public is heterogeneous. For the same reason, we also assume that the problem is *not* that the government must make credible that its objective is social welfare maximization. (Of course, there *are* interesting questions here—for example, the government must make credible it is not too closely aligned with one interest group, such as the financial sector.)

Suppose the public is divided into three groups. There are the “general” public and two special interest groups (SIGs) denoted “Green” and “Blue”, where the SIGs must agree to a program to have it adopted. The general public is unorganized and lacks the power that the SIGs have to block a Fund program. The government may be seen as maximizing the welfare of the general public.

One way to view the problem of getting the approval of SIGs is as a coordination problem when their preferences are not initially known or when there is initial disagreement about how the world works (what we termed causal policy-to-outcome relations). Let’s start with a simple reference case where the payoffs replicate Matrix 1 above. Each group must choose an action and each perceives that the payoffs depend as follows on the different combinations of actions.

MATRIX 5

		GREEN	
		Left	Right
BLUE	Up	3,3	1,1
	Down	1,1	3,3

Here, cheap talk works as a coordination device because there is no real conflict of interest. If Blue announces that his interest is Down, then Green will clearly want to say Right and we get to a better solution than we could expect without communication. In formal terms, Blue's message is both *self-signaling* and *self-committing*. It is self-signaling in that Blue wants to announce Down if and only if it is best. It is self-committing in that if Green believes Blue (which we just argued he should), the announcement creates the incentive for Blue to actually carry it out. Public discussion has the function of simply informing groups of where there may be common ground. If there is, then the program adopted will be superior to what would be adopted in its absence.

Of course, this example is too simple, because there is no conflict of interest, only a problem of coordination. Farrell and Rabin (1996) point out that when the interests of SIGs are not so potentially well aligned, cheap talk messages are less likely to be self-signaling or self-committing. A simple example is the well-known "prisoner's dilemma", where the payoffs are as follows:

MATRIX 6

		GREEN	
		Left	Right
BLUE	Up	7,7	4,8
	Down	8,4	5,5

Here, for Blue it is optimal to choose Down for any choice Green makes, while for Green it is optimal to choose Right for any choice Blue will make. Cheap talk will not allow them to coordinate.¹⁷ Messages are not self-committing. Though one may argue that repeated play of the game by the same players may lead to a cooperative solution and that is what is seen in

¹⁷ It is argued that "players" in situations like this often play "cooperatively" and that communication may have a coordinating effect. See footnote 14 in Farrell and Rabin (1996).

experimental studies (see the previous footnote), the basic message is clear: if SIGs see their interests as sufficiently in conflict in relation to a stabilization program, public discussion in the sense of simply exchanging information may have limited value.

The argument put forward at the end of the section on unknown government objectives is relevant here as well. Public discussion that requires interest groups to justify their demands may eliminate some claims because they are unjustifiable in a setting of genuine, open discussion. Forums to elicit public input and reaction to proposed programs may be effective in revealing useful information only to the extent that they are not too “warm and fuzzy”. More exactly, eliciting credible information about preferences of groups is not easy once the groups know they have strongly conflicting objectives.

A different case is where government and IMF actions (including actions other than public discussion) can actually influence the payoffs groups associate with different outcomes. The idea here is to modify the program in such a way to make the interaction of SIGs more like a coordination game than a prisoner’s dilemma. Ownership may in fact be identified with cases in which the cooperative outcome is made credible, as distinct from cases in which it is not.

3.5 Public discussion and democratic values

A very different, but important point is the value of public discussion in strengthening democratic values, independently of the outcome of specific discussion. That is, encouraging public discussion on one type of issue may increase the likelihood that public discussion is used in other contexts as well. If the political culture is such that government decisions are not generally subjected to public discussion, that is, if the paradigm of deliberative democracy is not well-developed, then there is a valuable learning effect of public discussion of economic policy. This may well be the case in new democracies.¹⁸ An outside body, such

¹⁸ Brender and Drazen (2004) find that political budget cycles are far stronger in new democracies and suggest that transparency of the fiscal process may lead to these observed differences. They also find that as a country gains experience with democracy the cycle disappears. See also Akhmedov and Zhuravskaya (2003).

as the Fund, may be effective in fostering such a discussion in countries where this tradition is weak or non-existent.

4. Drawbacks of Public Discussion

When public discussion is followed by voting, a number of authors (for example, Stokes (1998) or Przeworski (1998)) argue that voters may be misled by lobbyists and interest groups in the process of public discussion, such that their voting is actually *less* informed rather than more informed as a result of public discussion. The possibility that public discussion could lead people to be misled by SIGs is present when we are considering program design instead, but we don't think that this is the central problem of public discussion of Fund programs. In fact, the key drawbacks of public discussion may be quite different if it is a prelude to voting or to adoption of a Fund program.

In the case of public acceptance of a Fund program, one problem is that public discussion may essentially give interest groups more veto power over a proposed program. To the extent that public discussion simply informs governments about the public's *true* preferences, as in Case 1 (where the public as a whole is seen as homogeneous), public discussion improves program design. But, when the public includes strong SIGs whose interests are not those of the general public (Case 3), there is a danger that a policymaking process that gives them too large a voice will result in a program that does not serve the public good. Social welfare may thus be higher when the authorities make "take-it-or-leave-it" offers, rather than allowing public discussion to give too much influence to SIGs. This has been a criticism, for example, of giving NGOs a large say in program design, where the implicit assumption is that their interests are not necessarily the public interest.

Second, public discussion may obviously slow down the process of shaping a program. This is a potentially quite serious problem when the economy is in crisis and needs to put a program in place quickly. The problem of having exactly the "right amount" of discussion is obviously a very difficult one, with it unlikely that one will find any general rules. The right amount of public discussion will be very much situation specific.

Third, since programs may go through a lot of changes, making discussion public will entail groups (and the government) espousing positions that will subsequently be rejected and

may even be viewed as incorrect. The costs of being put in such a situation may induce groups not to put forward public positions at all or for such public positions not to represent what would be put forward in private. Hence, public discussion could actually greatly hinder information transmission relative to more confidential means of discussion.

Fourth, since the topic of discussion is essentially a country's bad economic situation, making information public may in itself make the situation even worse. Some types of information may "spook" financial markets and lead to major capital outflows, making it even harder to design a successful program. This is the main concern expressed in relevant IMF Board meetings by those Executive Directors who oppose full "transparency", that is, who oppose full revelation of the Fund's information and/or concerns about countries.

None of these concerns is easy to address, since they are all both genuine and situation specific (and hence hard to address in any generality). They should not be taken as arguments against public discussion *per se*, but only as cautions in considering how public discussion of a program should be structured.

5. The Design of IMF Programs

We now consider some of the lessons of the previous sections from a more operational perspective. In formulating a set of revised Guidelines on Conditionality in September 2002, the IMF's Executive Board specified that "Fund-supported programs should be directed primarily toward the following macroeconomic goals:

- (a) solving the member's balance of payments problem without recourse to measures destructive of national or international prosperity; and
- (b) achieving medium-term external viability while fostering sustainable economic growth."¹⁹

The Executive Board recognized that national ownership is crucial for successful implementation of IMF-supported policy programs. Consistently, the Guidelines indicate

¹⁹ IMF (2002), "Guidelines on Conditionality," (September 25), available at www.imf.org.

that national authorities have the lead role in shaping program documents²⁰ and that the Fund should encourage countries to build broad support for sound policies. In association with the Guidelines, the set of general operational instructions provided to Fund staff engaged in program design is based on five key principles: “national ownership of reform programs; (ii) parsimony in program conditions; (iii) tailoring of programs to a member’s circumstances; (iv) effective coordination with other multilateral institutions; and (v) clarity in the specification of conditions.”²¹

In moving from principles to procedures, the operational instructions emphasize that Fund staff should seek proposals from national authorities at an early stage of the policy dialogue and, in assisting governments to build broad support for policy programs, should be mindful of the authorities’ views on staff contact with domestic groups. The Operational Guidance note also stresses that documents prepared by the Fund staff in the course of briefing the Fund’s management and reporting formally to the Executive Board should assess the challenges to broad ownership, including key capacity weaknesses and issues relating to political structures. It also clarifies the principle of parsimony in program conditions: performance criteria, prior actions, and other program conditions must be limited to those that, if excluded, “would seriously threaten the achievement of program goals or the Fund’s ability to monitor implementation.”

Given these Guidelines and operational instructions, we now ask how the conditions specified in Fund programs and the process of formulating those conditions could better exploit the potential for public discussion to enhance program ownership, taking account of the variety of roles that public discussion can play. Recall from section 3.4 that, depending on the circumstances, public discussion can serve the following related but distinguishable functions:

- revealing information about what the public wants
- convincing the public that the government knows what it wants

²⁰ There is no requirement that country authorities draft program documents, but rather the directive that the Fund staff be responsive when the authorities desire a greater role in the drafting process.

²¹ IMF (2003), “Operational Guidance on the New Conditionality Guidelines,” (May 8), available at www.imf.org.

- educating the public about the state of the world
- inducing greater compliance by educating the public about causal relationships
- revealing information about available resources and/or efficient choices
- inducing the government to make a stronger commitment to policies
- revealing that the government is a “good type” that acts to maximize social welfare
- leading a heterogeneous public to a cooperative outcome

Many of the countries that seek to negotiate Fund programs require fiscal adjustment to restore and maintain macroeconomic stability. Because such adjustment necessarily leaves some interest groups worse off in the short run, ownership of the fiscal components of Fund programs is often difficult to achieve. Public discussion in this context—with sufficient efforts to keep it well-focused—can be particularly important for educating the public about the overall economy-wide benefits of fiscal adjustment in the short run, about prospects that the benefits will be widely shared over the medium-run, and about the gains from a cooperative solution that elicits financial support from the Fund and other sources. It can also help the Fund form judgments about the strength of the government’s commitment to sound policies and its political capacity to deliver and sustain the policies. Furthermore, it can help governments find the type of cooperative solution or policy mix that stands the best chance of sustaining political support—particularly so when the Fund gives policymakers broad freedom to design the specific details of the fiscal adjustment effort. In this context, it may be very important for the Fund to refrain from pressuring governments to adopt policies that are appealing on efficiency grounds but typically provoke strong public resentment, such as raising or eliminating ceilings on the price of bread or other necessities.

Despite these various ways that public discussion can enhance ownership of fiscal adjustment policies, it cannot overcome the fact that various interest groups may continue to have incentives to seek to benefit in the short run by undermining the fiscal adjustment effort. This is why the effectiveness of many Fund programs depends critically on appropriate prior conditions and fiscal performance criteria and cannot be achieved by public discussion alone. Public discussion on its own cannot achieve complete ownership of programs for countries in which the restoration of macroeconomic stability requires fiscal adjustment.

By contrast, public discussion—through its educational component—may well be able to achieve virtually complete ownership of certain other types of policies, at least in the context of a “good government” where there is little or no inherent incentive to oppose important growth-enhancing structural reforms such as clarifying property rights, strengthening tax collection mechanisms, introducing modern accounting standards, and so forth. For such policies, the case for conditionality is not as compelling as it is in the case of fiscal adjustment policies, although the prespecification of timetables can play a useful role in spurring governments to progress with desired reforms.

In short, public discussion can enhance ownership and the effectiveness of Fund programs in various ways. While it cannot achieve complete ownership of fiscal adjustment policies and other aspects of programs that impose unavoidable costs in the short run—and that must therefore be buttressed by conditions that provide financial incentives for countries to remain in compliance with their policy commitments—public discussion can play an important role in building ownership by identifying a mix of fiscal adjustment measures that is least likely to provoke strong political opposition and thus most likely to be sustainable.²² In addition, the Fund can make its programs more effective in promoting the goal of fostering sustainable economic growth by exploiting the educational potential of public discussion in a manner that encourages governments to pursue various growth-enhancing structural reforms that do not impose unavoidable costs in the short run and, hence, do not face inherent political opposition in the presence of “good governments.”

6. Conclusions

There has been growing recognition in recent years that the effectiveness of IMF-supported programs depends importantly on the degree of country ownership, and that ownership can be promoted by seeking to broaden and deepen the base of support for sound

²² The time dimension of Fund programs provides an interesting direction for further thought on the role of public discussion. In particular, given that the Fund is often criticized for being too willing to waive or modify performance criteria (not being a sufficiently “tough cop”), it is interesting to consider whether public discussion that starts at the time of the initial request for financing can strengthen compliance with program conditions by making it more credible that the Fund will say “no” on test dates for subsequent installments of financing when governments breach the conditions established at the outset of their programs.

policies among a country's domestic interest groups. These perceptions are reflected both in the September 2002 revision of the Fund's Guidelines for Conditionality and in the international community's decision to link debt-relief for highly-indebted poor countries (HIPC) to the formulation of poverty reduction strategies through processes that involve the broad participation of stakeholders.

This paper has focused on public discussion as one potentially-important vehicle for enhancing program ownership. The motivation comes from our sense that economists do not yet have a very clear understanding of the various channels through which public discussion can work, or of the types of circumstances in which public discussion can be effective. This lack of understanding has contributed to the view, held in some quarters, that public discussion strengthens ownership primarily by leading counterproductively to the adoption of weaker programs. More seriously, failure to appreciate and distinguish between the range of functions that public discussion can serve and the circumstances that determine its effectiveness or ineffectiveness in those functions implies that country governments and the Fund may not be exploiting the potential of public discussion in the most effective ways. A better understanding of public discussion can contribute to the effort to design strong programs that can command broad country ownership.

Drawing on two relevant strands of analytic literature—the theory of “cheap talk” that economists have developed and the analysis of “deliberative democracy” in the political science literature—we have identified seven different functions that public discussion can serve. We can describe these functions as: revealing information about what the public values; convincing the public that the government is aware of what it values; revealing whether the government is a “good type”—i.e., not only knows what the public values but seeks to maximize social welfare; educating the public about the state of the world; inducing greater compliance by educating the public about causal relationships; revealing information about available resources and/or identifying efficient choices when there are a number of options; inducing the government to make a greater commitment to a program; and leading a heterogeneous public to a cooperative outcome.

In considering these functions in the context of the design and ownership of IMF-supported programs, we have distinguished between two types of policies that programs tend

to include. The first type comprises policies that necessarily leave some groups of domestic residents worse off in the short run—in particular, the fiscal adjustment policies that tend to be crucial components of most macroeconomic stabilization programs. The second type includes growth-enhancing structural reforms—such as clarifying property rights, strengthening tax-collection mechanisms, and introducing modern accounting standards. The latter typically do not imply any significant short-run costs when the government is a “good type” that does not seek to benefit from limiting property rights or abusing the tax-collection or accounting processes.

With regard to fiscal adjustment measures and other types of policies that necessarily impose short-run costs on some groups of domestic residents, each of the seven listed functions of public discussion may be relevant for strengthening the design and broadening the ownership of programs. Well-focused public discussion can educate the public about the overall economy-wide benefits of fiscal adjustment in the short-run and the prospect that the benefits will be widely shared in the medium run, thereby promoting the public’s awareness of the gains from acting cooperatively and not seeking to undermine the adjustment effort. It can also enhance program design and ownership by eliciting better information about what the public values, by revealing that the government knows what the public values and how the world works, by identifying preferable policy mixes for achieving fiscal adjustment, by revealing whether the government is a “good type,” and by generating any gains in commitment that derive from the government’s announced support for policy measures. It would be wishful thinking, however, to suggest that public discussion alone can ever achieve complete ownership of a program that imposes significant costs in the short-run. Those interest groups that stand to incur the short-run costs pose significant risks to the adjustment effort in the absence of appropriately-structured conditionality that provides financial incentives for countries to remain in compliance with their policy commitments.

By contrast, public discussion may be able to achieve virtually complete ownership of growth-enhancing structural reforms that impose no significant costs in either the short run or the longer run. Here the important functions of public discussion include educating the public about how the world works and/or convincing the public that the government is a “good type” that is acting in the public interest, along with mobilizing resources and identifying

priorities or efficient choices. Accordingly, public discussion has the potential to contribute importantly to growth by inducing the public to want to pursue more growth-enhancing structural reforms as parts of their policy programs. In principle, program conditionality is not necessary for achieving compliance when there is complete ownership of reforms, although in practice it may be useful for spurring progress.

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