

**INSTITUTIONAL DEVELOPMENT AND  
ECONOMIC GROWTH**

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## INSTITUTIONAL DEVELOPMENT AND ECONOMIC GROWTH

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### ABSTRACT

This paper surveys the role of institutions in promoting economic growth in cross-cultural and historical perspective. It examines inter alia, whether institutional development can be incorporated in formal growth theory, the influence of politics on economic growth and the relationship of institutional development and income distribution.

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## INTRODUCTION

With the current worldwide move from the plan to the market, questions about governance and culture have come to the forefront of debates on development.<sup>1</sup> It is natural to think that the "habits of the heart" embodied in one's own institutions are worth emulating by others, particularly if these habits and institutions have been conjoined with the material success sought by others. As such the West has been promoting its political and economic institutions and values- democracy, the market, protecting human rights, egalitarianism- as the route to prosperity in the rest of the world. But while accepting the instrumental value of the market as a necessary economic institution to deliver prosperity, many in the rest of the world (particularly in E. Asia) are resisting any attempt to have Western 'habits of the heart' thrust on them. Instead, in a neat reversal of Max Weber's famous thesis, they are claiming that it is unique Asian values (and the institutions they embody eg. statist politics, and extended families) which are responsible for the East Asian economic miracles.<sup>2</sup> Who is right, and can we say anything useful about the institutions which promote economic growth? That is the central question I will seek to answer, but inter alia I will also discuss the four issues the organizers of this seminar have suggested : (a) incorporation of institutional development in economic growth theory (b) influence of political factors on economic growth (c) institutional development and income distribution and (d) policy implications.

## I. WHAT ARE INSTITUTIONS?

There is growing agreement that the evolution of institutions is likely to be the central explanation of differing growth performances, for the present decisions of economic agents which impinge on the process of economic development will in part be constrained by their past, through various cultural and ideological norms and organizational structures.<sup>3</sup> Institutions, broadly defined, consist of informal constraints like cultural norms or the more purposive formal ones embodied in particular organizational structures- including formal rules embodied in for instance the Common Law which forms a spontaneous order in Hayek's sense as having evolved without any conscious design<sup>4</sup>- which constrain human behavior.

But as soon as we talk about constraining human behavior we are implicitly acknowledging that there is some basic "human nature" to be constrained. While we take up this question in greater detail below, as a first cut we can accept the economists model of "Homo Economicus" which assumes that human beings are motivated purely by self interest: maximizing utility as consumers and profits as producers. So as a start, the function of the rules constraining human nature which comprise institutions must be to limit such self-seeking behavior.

This immediately points to another significant feature and reason for the existence of institutions. If Robinson Crusoe was alone on his island he would have no reason to constrain his basic human nature. It is only with the appearance of Man Friday that some constraints on both him and Crusoe might be necessary for them to co-operate and thereby increase their mutual gains- by specializing in tasks in which they have a comparative advantage- over what they could each have derived from their own efforts on two separate autarkic islands. This, then immediately leads us to the notion of "transactions costs"- a concept which is even more slippery than that of institutions.<sup>5</sup>

But some help is at hand. Robin Matthews in his presidential address to the Royal Economic Society in 1986 on a subject which is close to the one I am discussing noted that, the recent economics of institutions<sup>6</sup> had four approaches: institutions seen as systems of (i) property rights laid down by law, (ii) moral conventions or norms, (iii) types of contract and (iv) authority relations. The common feature of these approaches "is the concept of institutions as sets of rights and obligations affecting people in their economic lives".<sup>7</sup> The reason why there is a close relation between institutions and transactions costs is that, as Matthews puts it, "to a large extent transactions costs are costs of relations between people",<sup>8</sup> and institutions as we have seen are par excellence ways of controlling the interactions between people.

This, however, immediately suggests why there is no hope of incorporating institutional development in economic growth theory- at least as it is conventionally understood as variations on the themes of Solow and Swan! For in the Arrow-Debreu world of our theorists which also forms the foundations of the 'new' endogenous growth versions- institutions as defined above would be irrelevant, apart from the ghostly Walrasian auctioneer calling out the bids in some global chamber! Within this framework, on a more eclectic view, institutions could, however, indirectly effect the efficiency of investment and in the world of 'conditional convergence' determine the target steady state growth rate for a group of institutionally similar countries towards which each would be converging along its 'traverse'. Not surprisingly all that the recent flurry of interest in this area has produced is the conclusion that the level and efficiency of investment are important determinants of growth, and that the efficiency of investment is in turn governed by public policy.<sup>9</sup> For development economists this is old hat , and it does not need any fancy algebra or cross-country regressions to reach this conclusion.<sup>10</sup>

In a recent book (Lal-Myint (1996)) we tried through

comparative economic histories to peel the onion a bit further to see if there were any patterns we could discern as between different polities which could explain the different policy regimes which determine these proximate causes of growth. We found that rather than the type of polity, the initial resource endowment, in particular the availability or lack of natural resources, was a major determinant of policies which impinged on the efficiency of investment and thereby the rate of growth. This was basically due to the inevitability of the politicisation of the rents that natural resources yield, with concomitant damage to growth performance. In many cases natural resources proved a 'precious bane' which tended to kill the goose that laid the golden eggs. No more so than in Africa where the ethnic conflicts within artificial states created by the 19th century colonial scramble for the continent have made this process even more deadly.<sup>11</sup> Within the land abundant group, however, the polity did make a difference because of the differing extent of political dissipation of natural resource rents, with relatively autonomous polities performing better than factional ones.

In the land scarce economies, as the only source of revenue for the State - no matter what its form- was through the development of its only available resource- human beings- they had to follow the economically virtuous path of human resource development in open economies which build on their comparative advantage in labor intensive goods. Also, unlike their land abundant cousins, they had no conflict between the polity and the country's comparative advantage, as the latter dictated a path of factor prices over the course of development with smoothly rising wages. In the land abundant case, however, even on the efficient development path there was a danger of declining wages if the rate of capital accumulation was not rapid enough relative to the growth rate of labor. This political danger had often led them to disastrous 'big push' programs, or to cycles of populism followed by authoritarianism to mediate the conflict between the polity and

the country's comparative advantage. Thus by and large we found that factor endowments not the polity were more important in explaining growth. But this means that at the very least the issue (b) in the Introduction above is poorly formulated. Though I will have something to say on the issue of political factors and economic growth, the assumption that there is some tight connection -as some recent research suggests- is from my own work highly questionable.<sup>12</sup>

The last two issues- income distribution and policy implications - however remain and I will come to them, but I hope in a somewhat surprising way. Thus I do not think the sponsors will get exactly what I suspect they were looking for- some mechanical theory linking institutions (however defined) to economic growth. Because the burden of the above remarks is that when thinking about institutions the mechanical analogy doesn't work. History not mechanics is the proper discipline for understanding institutions and economic growth and that in a highly condensed manner is what I will be doing in the following sections. In this I will be relying on a recently completed book based on my 1995 Ohlin lectures<sup>13</sup> in which I sought to peel the onion explaining growth performance a bit further to see whether and in what way cultural influences might effect economic performance. I will be dealing in a cross-cultural and interdisciplinary manner with the evolution and role of three central institutions- the market, the family and the State- which are relevant for relative economic performance.

## II. CULTURE AND SOCIAL EQUILIBRIA

In thinking about institutions it is inevitable that one must think about culture. The two are closely intertwined as I hope to show. But if 'institutions' are a murky concept, 'culture' is even more so. I have found a definition adopted by ecologists particularly useful.<sup>14</sup> They emphasize that, unlike other animals, the human one is unique because its intelligence gives it the

ability to change its environment by learning. It does not have to mutate into a new species to adapt to the changed environment. It learns new ways of surviving in the new environment and then fixes them by social custom. These social customs form the culture of the relevant group, which are transmitted to new members of the group (mainly children) who do not then have to invent these 'new' ways de novo for themselves.

This definition of culture fits in well with the economists notion of equilibrium. Frank Hahn<sup>15</sup> describes an equilibrium state as one where self-seeking agents learn nothing new so that their behavior is routinized. It represents an adaptation by agents to the economic environment in which the economy "generates messages which do not cause agents to change the theories which they hold or the policies which they pursue." This routinized behavior is clearly close to the ecologists notion of social custom which fixes a particular human niche. On this view, the equilibrium will be disturbed if the environment changes, and so, in the subsequent process of adjustment, the human agents will have to abandon their past theories, which would now be systematically falsified. To survive, they must learn to adapt to their new environment through a process of trial and error. There will then be a new social equilibrium, which relates to a state of society and economy in which "agents have adapted themselves to their economic environment and where their expectations in the widest sense are in the proper meaning not falsified".

This equilibrium need not be unique nor optimal, given the environmental parameters. But once a particular socio-economic order is established, and proves to be an adequate adaptation to the new environment, it is likely to be stable, as there is no reason for the human agents to alter it in any fundamental manner, unless and until the environmental parameters are altered. Nor is this social order likely to be the result of a deliberate rationalist plan. We have known since Adam Smith that an unplanned



but coherent and seemingly planned social system can emerge from the independent actions of many individuals pursuing their different ends and in which the final outcomes can be very different from those intended.

it is useful to distinguish between two major sorts of beliefs relating to different aspects of the environment. These relate to what in my recent Ohlin lectures I labelled the material and cosmological beliefs of a particular culture.<sup>16</sup> The former relate to ways of making a living and concerns beliefs about the material world, in particular about the economy. The latter are related to understanding the world around us and mankind's place in it which determine how people view their lives-its purpose, meaning and relationship to others. There is considerable cross-cultural evidence that material beliefs are more malleable than cosmological ones.<sup>17</sup> Material beliefs can alter rapidly with changes in the material environment. There is greater hysteresis in cosmological beliefs, on how, in Plato's words, "one should live". Moreover the cross-cultural evidence shows that rather than the environment it is the language group which influences these world-views.<sup>18</sup>

This distinction between material and cosmological beliefs is important for economic performance because it translates into two distinct types of "transactions costs" I have noted elsewhere (Lal (1998)). Broadly speaking transactions costs can be distinguished usefully as those costs associated with the efficiency of exchange, and those which are associated with policing opportunistic behavior by economic agents.<sup>19</sup> The former relate to the costs of finding potential trading partners and determining their supply- demand offers, the latter to enforcing the execution of promises and agreements. These two aspects of transactions need to be kept distinct. The economic historian Douglass North<sup>20</sup> and the industrial organization and institutionalist theorist Oliver Williamson<sup>21</sup> have both evoked the notion of transactions costs and used them to explain various

institutional arrangements relevant for economic performance. They are primarily concerned with the cost of opportunistic behavior, which arises for North, with the more anonymous non-repeated transactions accompanying the widening of the market, and for Williamson, from the asymmetries in information facing principals and agents, where crucial characteristics of the agent relevant for measuring performance can be concealed from the principal. Both these are cases where it is the policing aspects of transactions costs which are at issue, not those concerning exchange.

To see the relevance of the distinction in beliefs and that in transactions costs (which as we saw earlier are seen by many as important reasons for the existence of institutions) for economic performance it will be useful to briefly delineate how broadly speaking material and cosmological beliefs have altered since the Stone Age in Eurasia.

### III. EXTENSIVE AND INTENSIVE GROWTH

But before that, there is another important distinction we need to bear in mind: between extensive and intensive growth. Humankind has experienced extensive growth with output rising *pari passu* with a growing population for millennia, but without any marked rise in per capita incomes.<sup>22</sup> Intensive growth which implies a sustained rise in per capita incomes has been rarer and been of two broad types. The first, I have labelled **Smithian growth, as it is due to the widening of the market and the increased specialization that entails.** This type of growth can occur even in the predominantly agrarian economy whose productivity is ultimately bounded by a fixed factor - land (See Wrigley). The second is Promethean growth, which involves transforming a land using agrarian economy into a mineral based energy economy. This was the essence of the Industrial Revolution as Wrigley has rightly noted, and for the first time, given the relatively unbounded supply of energy available from fossil fuels,

opened up the prospect for humankind of unbounded intensive growth. This in turn opens up the possibility of alleviating that mass structural poverty which has been the bane of mankind for millennia.

For the great Eurasian civilizations there is evidence for Smithian intensive growth during certain periods of their history. This was the result of the knitting together of areas of diverse resources into a larger common market. Thus there was Smithian intensive growth in India during the Pax Buddhism of the Mauryas and the Pax Hindu of the Guptas, in the Mediterranean world during the Pax Greco/Roman of the ancient world, in the areas under Pax Islam under the Abbasids, in Japan during the Pax Tokugawa and in China during the extension of the Pax Sung to the Yangtze valley. But in none of these civilizations with the possible exception of Sung China was there any likelihood of Promethean growth. That remains a unique event which has been called the European miracle (see Jones (1981)), whose origins still remain disputed.

The failure of the Sung to initiate Promethean growth even though they had all the resource and technological ingredients available is one of the great puzzles of history, often labelled the Needham problem. But it does give the lie to various technologist explanations for the European miracle.<sup>23</sup> Little (1981)<sup>24</sup> and Scott (1989)<sup>25</sup> have rightly argued that 'science and technology' are not an important dividing line between the West and the Rest.

Needham (1963) also argues that 'science and technology' cannot explain the rise of the West. As he writes:

"not to put too fine a point on the matter, whoever would explain the failure of Chinese society to develop modern science had better begin by explaining the failure of Chinese society to develop mercantile and then industrial capitalism. Whatever the individual prepossessions of Western historians of science, all are necessitated to admit that from the 15th century AD onwards a complex of changes occurred: the Renaissance cannot be thought of

without the Reformation, the Reformation cannot be thought of without the rise of modern science, and none of them can be thought of without the rise of modern capitalism..we seem to be in the presence of a kind of organic whole, a packet of change" (p.139)

An essential part of this packet, it has been claimed in different ways by both North and Thomas and Jones(1981) was the decentralization and competition among polities in the European states system which replaced the western Roman empire which was due to geography. This limited the natural predatoriness of the State by making it more contestable<sup>26</sup> This in turn allowed intensive growth which Jones (1988) believes is just waiting to bubble forth except for the restraints imposed by the predatory state. But India like medieval Europe has also had political disunity with cultural unity (provided by the Hindu caste system in India and Christianity in Europe) but it did not obtain Promethean growth.

The essential element missing in these various explanations for the rise of the West- though each forms part of Needham's 'packet' of explanation- is the role of cosmological beliefs. Uniquely for Eurasian agrarian civilizations whose common cosmological beliefs can be broadly categorised as 'communalist', medieval Europe departed from the pattern and became individualist (Dumont). This was due to the reinterpretation of Pauline Christianity by St. Augustine in the 5th century<sup>27</sup> in his "City of God" which converted the 'other-worldly' individualism of the Christian church (a trait which it shares with Hinduism) into an in-worldly one by demanding the Church be put above the State, (Dumont) a demand that Pope Gregory the Great fulfilled in the 11th century with his injunction "Let the terrestrial kingdom serve-or be the slave of the celestial" which led to the so-called Papal revolution. But why did this lead to individualism in the West and why did individualism promote Promethean growth? To understand these we provide a highly condensed survey of the

changing material and cosmological beliefs of the Eurasian civilizations in the next section.

### 3.CHANGING MATERIAL AND COSMOLOGICAL BELIEFS

#### (i) On Human Nature:

Evolutionary anthropologists and psychologists maintain that human nature was set during the period of evolution ending with the Stone Age.<sup>28</sup> Since then there has not been sufficient time for any further evolution. This human nature appears darker than Rousseau's and brighter than Hobbes' characterizations of it. It is closer to Hume's view that "there is some benevolence, however small...some particle of the dove kneaded into our frame, along with the elements of the wolf and serpent." For even in the hunter gatherer Stone age environment the supremely egotistical human animal would have found some form of what evolutionary biologists term "reciprocal altruism" useful. Co-operation with one's fellows in various hunter- gatherer tasks yields benefits for the selfish human which can be further increased if he can cheat and be a free rider. In the repeated interactions between the selfish humans comprising the tribe, such cheating could be mitigated by playing the game of "tit for tat". Evolutionary biologists claim that the resulting "reciprocal altruism" would be part of our basic Stone Age human nature.<sup>29</sup>

Archaeologists have also established that the instinct to "truck and barter", the trading instinct based on what Sir John Hicks used to call the "economic principle" - "people would act economically; when an opportunity of an advantage was presented to them they would take it"<sup>30</sup>- is also of Stone Age vintage.<sup>31</sup> It is also part of our basic human nature.

#### (ii) Agrarian Civilizations:

With the rise of settled agriculture and the civilizations that evolved around them, however, and the stratification this involved between three classes of men - those wielding the sword,

the pen and the plough-<sup>32</sup> most of the stone age basic instincts which comprise our human nature would be dysfunctional. Thus with the multiplication of interactions between human beings in agrarian civilizations many of the transactions would have been with anonymous strangers who one might never see again. The "reciprocal altruism" of the Stone Age which depended upon a repetition of transactions would not be sufficient to curtail opportunistic behavior.

Putting it differently, the 'tit for tat' strategy for the repeated Prisoners Dilemma (PD) game amongst a band of hunter-gatherers in the Stone Age would not suffice with the increased number of one-shot PD games that will arise with settled agriculture and its widening of the market.<sup>33</sup> To prevent the resulting dissipation of the mutual gains from co-operation, agrarian civilizations internalized restraints on such 'anti-social' action through moral codes which were part of their 'religion'.<sup>34</sup> But these 'religions' were more ways of life as they did not necessarily depend upon a belief in God.

The universal moral emotions of shame and guilt are the means by which these 'moral codes' embodied in cultural traditions are internalized in the socialization process during infancy.<sup>35</sup> Shame was the major instrument of this internalization in the great agrarian civilizations. Their resulting cosmological beliefs can be described as being 'communalist'.<sup>36</sup>

The basic human instinct to trade would also be disruptive for settled agriculture. For traders are motivated by instrumental rationality which maximizes economic advantage. This would threaten the communal bonds that all agrarian civilizations have tried to foster. Not surprisingly most of them have looked upon merchants and markets as a necessary evil, and sought to suppress them and the market which is their institutional embodiment. The material beliefs of the agrarian civilizations were thus not conducive to modern economic growth.

(iii) The Rise of the West:

The rise of the West was mediated by the Catholic Church in the 6th-11th centuries,<sup>37</sup> through its promotion of individualism, first in family affairs and later in material relationships which included the introduction of all the legal and institutional requirements of a market economy as a result of Gregory the Great's Papal revolution in the 11th century.<sup>38</sup> These twin Papal revolutions arose because of the unintended consequences of the Church's search for bequests- a trait that goes back to its earliest days. From its inception it had grown as a temporal power through gifts and donations -particularly from rich widows. So much so that, in July 370 the Emperor Valentinian had addressed a ruling to the Pope that male clerics and unmarried ascetics should not hang around the houses of women and widows and try to worm themselves and their churches into their bequests at the expense of the women's families and blood relations.<sup>39</sup> The Church was thus from its beginnings in the race for inheritances. The early Church's extolling of virginity and preventing second marriages helped it in creating more single women who would leave bequests to the Church.

This process of inhibiting a family from retaining its property and promoting its alienation accelerated with the answers that Pope Gregory I gave to some questions that the first Archbishop of Canterbury, Augustine, had sent in 597 AD concerning his new charges.<sup>40</sup> Four of these nine questions concerned sex and marriage. Gregory's answers overturned the traditional Mediterranean and Middle Eastern patterns of legal and customary practices in the domestic domain. The traditional system was concerned with the provision of a heir to inherit family property and allowed, marriage to close kin, marriages to close affines or widows of close kin, the transfer of children by adoption , and finally concubinage, which is a form of secondary union. Gregory amazingly banned all four practices. Thus for instance there was no adoption of children allowed in England till the 19th century. There was no basis for these injunctions in Scripture, Roman law

or the existing customs in the areas that were Christianised.

This Papal family revolution made the Church unbelievably rich. Demographers have estimated that the net effect of the prohibitions on traditional methods to deal with childlessness was to leave 40 per cent of families with no immediate male heirs. The Church became the chief beneficiary of the resulting bequests. Its accumulation was phenomenal. Thus for instance in France one third of productive land was in ecclesiastical hands by the end of the 7th century!

But this accumulation also drew predators from within and without to deprive the Church of its acquired property. It was to deal with this denudation that Pope Gregory VII instigated his Papal revolution in 1075, by putting the power of God - through the spiritual weapon of excommunication-above that of Caesar's. With the Church then coming into the world, the new Church-state also created all the administrative and legal infrastructure which we associate with a modern polity, and which provided the essential institutions for the Western dynamic that in time led to Promethean growth. Thus Pope Gregory the Great's Papal revolution lifted the lid on the basic human instinct to 'truck and barter', and in time to a change in the traditional Eurasian pattern of material beliefs with their suspicion of markets and merchants. This in time led to modern economic growth.

But the earlier Papal Revolution of Pope Gregory the First, which had precipitated that of Gregory VII, also led to a change in the traditional Eurasian family patterns which were based on various forms of 'joint families' and family values. In its quest to weaken the traditional Eurasian family bonds in its race for inheritances the Western Christian church came to support the independence of the young: in choosing marriage partners, in setting up their households and entering into contractual rather than affective relationships with the old. They promoted love marriages rather than the arranged marriages common in Eurasia. Friar Lawrence in "Romeo and Juliet" egging on the young lovers



against their families wishes is emblematic of this trend.

It has been thought that romantic love far from being a universal emotion was a Western social construct of the age of chivalry in the Middle Ages. Recent anthropological and psychological research however confirms that this is erroneous-romantic love is a universal emotion.<sup>41</sup> Moreover it has a biological basis. Neuro-psychologists have shown that it is associated with increased levels of phenylethylamine an amphetamine-related compound. Interestingly the same distinct biochemicals are also to be found in other animal species such as birds which also evince this emotion. However, it appears that this emotion is ephemeral. After a period of attachment the brain's receptor sites for the essential neuro-chemicals become desensitized or overloaded and the infatuation ends, setting up both the body and brain for separation- divorce. This period of infatuation has been shown to last for about 3 years. A cross-cultural study of divorce patterns in 62 societies between 1947-1989 found that divorces tend to occur around the fourth year of marriage!

A universal emotion with a biological basis calls for an explanation. Socio-biologists maintain that in the primordial environment it was vital for males and females to be attracted to each other to have sex and reproduce and also for the males to be attached enough to the females to look after their young until they were old enough to move into a peer group and be looked after by the hunting -gathering band. The traditional period between successive human births is four years- which is also the modal period for those marriages which end in divorce today . Darwin strikes again! The biochemistry of love it seems evolved as an 'inclusive fitness' strategy of our species.

The capacity to love maybe universal but its public expression is culturally controlled. For as everyone's personal experience will confirm it is an explosive emotion. Given its relatively rapid decay, with settled agriculture the evolved

instinct for mates to stay together for about four years and then move on to new partners to conceive and rear new young would have been dysfunctional. Settled agriculture requires settled households. If households are in permanent flux there could not be settled households on particular parcels of lands. Not surprisingly most agrarian civilizations sought to curb the explosive primordial emotion which would have destroyed their way of making a living. They have used cultural constraints to curb this dangerous hominid tendency by relying on arranged marriages, infant betrothal and the like, restricting romantic passion to relationships outside marriage. The West stands alone in using this dangerous biological universal as the bastion of its marriages as reflected in the popular song "love and marriage go together like a horse and carriage".

While this unleashing of Stone Age passions helped in its alienating the young from their families the Church also had to find a way to prevent the social chaos which would have ensued if the romantic passion its greed had unleashed as the basis for marriage had been allowed to run its course in what remained a settled agrarian civilization. First it separated love and sex, and then created a fierce guilt culture based on Original Sin. Its pervasive teaching against sex and the associated guilt it engendered provided the necessary antidote to the 'animal passions' that would otherwise have been unleashed by the Church's self-interested overthrowing of the traditional Eurasian system of marriage. But once the Christian God died with the Scientific and Darwinian revolutions, these restraints built on Original Sin were finally removed. The family as most civilizations have known it became sick in the West, as the Western humanoids reverted to the 'family' practices of their hunter-gatherer ancestors.

#### 4. THE FAMILY, THE MARKET AND THE STATE

The above account has I hope shown that at least two of the important institutional developments which influenced the

Rise of the West- the legal and commercial infrastructure of the market economy and the individualism of the Western family mode - were the result of greed and circumstance. There was nothing inevitable about them and while they have cast long shadows - a benign one concerning the market and a less benign one concerning the erosion of the 'family'- there is no theory of institutional development that can be derived from it. At best they represent 'the cunning of history'.

Something closer to materialist explanations can, however, I believe, be provided for the third of the triad of institutions which are relevant for economic performance- the State. Just confining our attention to historical Eurasia there is a wide variety of types of State that have existed since the rise of agrarian civilizations in the alluvial plains of Mesopotamia, Egypt, the Indus and the Yellow river. Though the most common form has been hereditary monarchy -but with important differences in its justifications- there have been democracies in ancient Greece and in the Himalayan foothills in ancient India where ecological conditions permitted.<sup>42</sup> But, besides these exceptions, the common form of State was determined by a common problem faced by the agrarian civilizations- these were labor scarce, land abundant areas, where as Domar has shown in a sadly neglected essay that in such an economy free labor, free land and a non-working upper class cannot co-exist. These great Eurasian agrarian civilizations were created by obtaining a surplus for use in the towns (civitas, being the emblem of civilization). This predatory purpose in effect ruled out a democratic state, and implied that the peasants in these land abundant areas would have to be tied down to the land to provide the necessary labor for the fairly labor intensive processes of plough agriculture that were feasible in these areas and which provided enough of a surplus above subsistence to support the wielders of the pen and the sword in the cities.

The wielders of the sword were also needed for another

reason. The great Eurasian civilizations were sandwiched between the two great areas of nomadic pastoralism- the grasslands of the great steppe regions to the North, and the semi-desert of the Arabian peninsula. The nomads of these regions had maintained many of the warlike organizations and violent habits of big game hunters of their hunter-gatherer ancestors. They constantly preyed on the more numerous but sedentary populations of the agrarian civilizations of Eurasia. In the subsequent collisions between farmers and pastoralists the inherent military advantages the latter enjoyed because of their habits made the wielder of the sword among the farmers essential in preventing the pastoralists from conquering and exploiting them like their animals. There were thus important external exigencies for obtaining a surplus to support specialists in wielding the sword, commanded by some form of monarch.

This then meant that to extract the surplus labor had to be tied down to the land. The means employed- the caste system in India, various forms of serfdom in Europe and China, slavery in many civilizations - were determined more by ecology than ideology.

But in many cases (like the Indian caste system) an ideology-or as I have called it a set of cosmological beliefs- became an essential instrument in maintaining the necessary social controls. Such cosmological beliefs are necessary because even the most savage predatory state ultimately has to face the question of political legitimacy.

For as Searle, has recently emphasized, above all institutions unlike brute facts like mountains are social facts. The distinguishing features of social as opposed to brute facts Searle identifies are first, they are 'observer-relative'- unlike mountains, money or the State could not exist without human beings. Second they are based on what he calls collective intentionality.<sup>43</sup> Third, institutions are based on what he calls constitutive rules which differ from rules that regulate some

activity which already exists.<sup>44</sup> Thus institutional facts are a subset of social facts. For both, unlike natural facts, the attitude we take constitutes the fact.

These features imply that any State no matter how tyrannical and predatory must be based on some general acceptance by the populace of its legitimacy. For, as is evident from the dramatic events of 1989, the role of the military or police in maintaining the institutional structures of the State is greatly exaggerated.

Ultimately, like other institutions, any State also depends upon general acceptance of its right to rule. As Searle notes, one cannot usually provide some rational basis for this acknowledgment. It is largely a matter of habit. But as a result it can collapse quite suddenly when people lose confidence. These conjectures have been formalized, most notably in a recent book by Timur Kuran called Private Truths, Public Lies, whose title gives a succinct description of its thesis. It provides a direct link between what I have called cosmological beliefs and the polity.

In my Ohlin lectures I provide cross-cultural evidence that these cosmological beliefs of differing Eurasian polities were determined by the ecological conditions in the areas when their ancestral States were set up. Given the hysteresis in cosmological beliefs the peoples of these areas still find political legitimacy in terms of these ancient cosmologies. A few illustrations might help to make the point.

In India as I argued in The Hindu Equilibrium,<sup>45</sup> Hindu civilization developed on the vast Indo-Gangetic plain. This geographical feature (together with the need to tie down the then scarce labor to land) accounts for the traditional Indian polity which was notable for its endemic political instability amongst numerous feuding monarchies because of the difficulties of any one establishing hegemony over the vast plain for any sustained period given the existing means of transportation and communication. It also explains why a decentralised system based on an internalized set of cosmological beliefs embodied in the caste system developed

as a way of tying labor down to land. This institution, moreover, by making war the trade of professionals saved the mass of the population from being inducted into the deadly disputes of its changing rulers. While the tradition of paying a certain customary share of village output as revenue to the current overlord, meant that the victor had little incentive to disturb the daily business of its newly acquired subjects. The democratic practices gradually introduced by the British in the late 19th century fit these ancient habits like a glove. The ballot box has replaced the battlefield for the hurly-burly of continuing 'aristocratic' conflict, while the populace accepts with ancient resignation that its rulers will, through various forms of 'rent-seeking', take a certain share of output to feather their own nests. These ancient cosmological beliefs in my view explain why unlike so many other developing countries democracy has thrived in such a vast, diverse and poor country, and taken deep root as was shown by Indira Gandhi's aborted attempt to stifle it during her Emergency.

By contrast the Chinese polity, in its origins in the relatively compact Yellow river valley, constantly threatened by the nomadic barbarians from the steppes to the north, developed a tightly controlled bureaucratic authoritarianism as its distinctive polity which has continued for millennia to our day. To give some idea of the extent of this authoritarianism and its resilience over the millennia note that from the reference manuals of a petty bureaucrat of the Chin regime in about 217 B.C. (which were discovered with his body in Dec. 1975 at Shuihudi in Yunmeng) it appears that the Chin regime "kept detailed, quantified central records of the state of the crops almost field by field in every county of the empire. Maintaining that sort of control would be a daunting task for a government equipped with computers and telecommunications. Doing it before the invention of paper, when all the data had to be gathered and stored on strips of wood or bamboo, would have been impossible without an enormous bureaucracy" (Jenner (1992)p.22). Little has changed in this

polity since. Thus Jenner notes the continuity between the attitudes and values of the imperial Chinese state and the contemporary Communist one.<sup>46</sup>

By contrast, democracy arose in the West on the foundations of feudal societies which had grown out of the weak states which succeeded the Roman Empire, in which medieval lords had succeeded in obtaining property rights in exchange for the material the princes needed to maintain their highly contestable natural monopolies-their states. With the consolidation of these fragmented polities into the absolutist nation states of Renaissance Europe, "the increase in the political sway of the royal state was accompanied, not by a decrease in the economic security of noble ownership, but by a corresponding increase in the general rights of private property" (Anderson, (1979), p.429). On this material base the Reformation provided the cosmological beliefs leading to the rise of Demos.

The Reformation in England was the logical conclusion of the problem that Gregory I's family revolution had set for Henry VIII. He took the step no other medieval king had thought of taking: "and that was to cast off the authority of Rome, to keep the Churches open on his own authority, and to accept papal excommunication as a permanent condition" (Southern (1970) p.21). Once that happened the church-state was dead and the nation-state was born. It also meant the end of the unity of Christendom and opened up the question of political legitimacy. Till then both rulers and ruled were bound by the common law of Christendom. But after the Reformation, who represented God's law- the Catholics or the Protestants- and whose law should you obey if you were a Catholic in a Protestant kingdom or vice versa? Equally momentous was the Protestant claim of the sinfulness of the Catholic church. If the traditional interpreters of God's will appointed by the Pope were sinful where were the true interpreters of his will to be found? "If not the Church, then only the congregations" (Minogue (1995) p.175). These became self-governing, choosing and

dismissing their pastors. But if the Church is to be governed by its members why not the State? Thus were the seeds for the rise of Demos sown in north western Europe.

This pluralist democratic political form took immediate root in the North America of the Pilgrim fathers, where ecology further helped in creating a unique egalitarian and democratic society. We cannot go into its genesis and development on this occasion,<sup>47</sup> but it provides a striking contrast to the outcome in the southern part of the hemisphere, where it was the southern Europeans of the Counter-Reformation who established their outposts. Spain after the reconquest from the Moors had developed a patrimonial state justified in terms of the neo-Thomist ideology which saw society as a hierarchical system in which every person and group "serves the purpose of a general and universal order that transcends them" (Morse, (1964) p.146). It was a centralizing state without the manorial system with its decentralization of rights that had developed in Northern Europe. The economic correlate of this set of cosmological beliefs and the polity they supported was corporatism.

This led to very different polities in the two parts of the New World, where even when after their Independence the Iberian colonies adopted US style formal constitutions, the real form was still governed by the patrimonial legacy of Philip and Isabella of Spain. The hierarchical polity justified by neo-thomism also permitted the accommodation of the unavoidable economic inequalities engendered by the land abundance and the demands of tropical agriculture given their climate which was only viable with some form of coerced labor.

But these inequalities arising from its ecological and political heritage create a dissonance between Latin America's social realities and its Christian cosmological beliefs emphasizing equality- which of course it shares with the North. There is no such Northern dissonance as both for ecological and political reasons a uniquely egalitarian social and political



society developed there.

In this context it is worth noting the important difference between the cosmological beliefs of what became the Christian West and the other ancient agrarian civilizations of Eurasia. Christianity has a number of distinctive features which it shares with its Semitic cousin Islam, but not entirely with its parent Judaism, and which are not to be found in any of the other great Eurasian religions. The most important is its universality. Neither the Jews, nor the Hindu or Sinic civilizations had religions claiming to be universal. You could not choose to be a Hindu, Chinese or Jew, you were born as one. This also meant that unlike Christianity and Islam these religions did not proselytise. Third, only the Semitic religions being monotheistic have also been egalitarian. Nearly all the other Eurasian religions believed in some form of hierarchical social order, which for instance in Hindu India - with its belief in reincarnation- was rationalized as resulting from the system of just deserts for one's deeds in the past life. By contrast alone among the Eurasian civilizations the Semitic ones (though least so the Jewish) emphasized the equality of men's souls in the eyes of their monotheistic Deities. Dumont has rightly characterized the resulting profound divide between the societies of Homo Aequalis which believe all men are born equal (as the philosophes, and the American constitution proclaim) and those of Homo Hierarchicus which believe no such thing. This matters for the polity. With the rise of Demos, those societies infected by egalitarianism have a greater propensity for the populism which damages economic performance than the hierarchical societies. If as in Europe the granting of democratic rights can be phased in with the growing economic and social equality that modern growth helps to promote, then the political effects of the dissonance between an unequal social reality and egalitarian cosmological beliefs can be avoided. In the colonial and 19th century patrimonial states of Latin America this dissonance was avoided by restricting the

polity- in effect to the property owning classes. But if as in this century, while still in the early stages of modern growth, the polity is expanded by incorporating the "dangerous classes" with an extension of democratic rights to the whole populace, then this dissonance can, as it has, lead to political cycles of democratic populism followed by authoritarian repression as the distributional consequences of the populist phase are found unacceptable by the Haves. By contrast hierarchical societies can more easily maintain majoritarian democracies, however corrupt and economically inefficient- as the notable example of India shows- despite continuing social and economic inequalities. Thus, as many Latin American commentators<sup>48</sup> have noted, the historic and continuing inequalities in Latin America make democracy there insecure, largely I would argue, because of the social and cosmological dissonance noted above.

Thus questions of income distribution I would argue are only of relevance in those societies and polities which have been infected by one or other Semitic religion- in particular Christianity.<sup>49</sup> Egalitarianism as so many of the other of its 'habits of the heart' being touted as universal values by so many in the West are no such thing- they are the culture specific outcomes of a particular trajectory of a particular Semitic religion!

But what of the other Western institutions- the nuclear family and the institutions of the market. Are they necessary for economic growth, and what of the role of Asian values in the development of East Asia? On the role of the market in promoting development we can be brief. The market with its universal worldwide victory over the plan remains the essential instrument for promoting intensive growth. The legal and commercial infrastructure was set in place by Pope Gregory VII, and that can be -as it has been- copied around the world. Because of the universal recognition of its instrumental value in generating that prosperity which all governments around the globe desire, there

Nietzsche proclaimed from the housetops at the end of the 19th century, God was dead, and the moral foundations of the West were thereafter in ruins. But the death of the Christian God did not end secular variations on the theme of Augustine's Heavenly City. Marxism, Freudianism and the recent bizarre Eco-fundamentalism are secular mutations of Augustine.<sup>52</sup> But none of them have succeeded in providing a moral anchor to the West. Such an anchor is of importance to the economy because the 'policing' type of transactions costs associated with running an economy are increased in its absence.<sup>53</sup>

There is also the growing collapse of the Western family. It was presaged by the overthrowing of the traditional family patterns of Eurasian civilizations by Gregory I's individualist family revolution<sup>54</sup>. This would have destroyed the Western family much earlier were it not for the subsequent fierce guilt culture the Church promoted in the Middle Ages<sup>55</sup>, which kept the traditional morality in place. But with the exorcising of both guilt and shame as illegitimate moral emotions in the West, there are fewer moral bulwarks left to shore up the family. This is not a problem that the other shame based cultures of Eurasia face.

Another consequence of Gregory I's family revolution was that the social safety nets provided by the family in most Eurasian societies were from an early date partly provided by the State in the West.<sup>56</sup> This nationalization of welfare accelerated in this century, leading to vast transfer states. The accompanying erosion of traditional morality in the West is manifest in various social pathologies- such as widespread family breakdown, high levels of illegitimacy and divorce, proliferation of single parent families, soaring crime rates and the perpetuation of an urban underclass.<sup>57</sup>

But the Rest (except possibly Islam) do not have to fear this outcome- at least as long as they are not forced to create their own welfare states at the urging of do-gooders and moralizers from the West. Their moralities are based on 'religions' which are more

will not be any resistance to its spread on grounds of its efficacy as part of the material beliefs of any culture, but to the extent it is seen from some cosmological viewpoints as conflicting with cosmological beliefs there maybe resistance if it is believed that the modernization it leads to will also entail Westernisation -the adoption of the cosmological beliefs of the West. But I will argue this fear is unfounded at least for the great Asian civilizations.

Nowhere does this fear impinge as strongly as in the domestic domain. The great fear of the Rest of the World is that their societies will also be infected with the virus that Pope Gregory I let loose- of individualism, love marriages, a non-caring attitude to the old etc. Some see this as the inevitable result of the Industrial Revolution. But just as the Western family can no longer be seen as the either the cause or consequence of the Industrial Revolution<sup>50</sup> there is no reason to believe that families elsewhere will be necessarily undermined by the modernization that the market will bring.

As we have seen, the medieval Christian church had attempted to put a lid on the family breakdown that would have occurred with the unleashing of romantic passion through the creation of a fierce guilt culture. This Western morality was underwritten by the belief in the Christian God. The classic statement of this Christian cosmology was St. Augustine's "City of God". His narrative of a Garden of Eden, a Fall leading to Original Sin and a Day of Judgment with Heaven for the Elect and Hell for the Damned has subsequently had a tenacious hold on Western minds. Thus the philosophes of the Enlightenment displaced the Garden of Eden by Classical Greece and Rome, and God became an abstract cause- the Divine Watchmaker. The Christian centuries were the Fall. The Enlightened were the Elect and the Christian Paradise was replaced by Posterity.<sup>51</sup> This seemed to salvage the traditional morality in a world ruled by the Divine Watchmaker. But once Darwin had shown him to be blind, as

'ways of life' which do not depend upon a belief in God. So that the death of God which could follow their modernization does not entail giving up traditional morality. This (as Hume had also commended for the West) is based neither upon Reason<sup>58</sup> nor a belief in God, but on the 'necessary habits' inculcated in the traditional socialization processes of the young through shame.

As long as their traditional families are not undermined the Rest will not have to create the vast transfer States required in the West to substitute public for private social safety nets to deal with the ubiquitous risks associated with living. Combined with the workings of a majoritarian democracy such public transfers have tended to corrupt the polity, with competing politicians showing their compassion by indiscriminately buying votes with other people's money. The different but indubitable corruption that currently also exists in the Rest will by contrast be increasingly controlled both by the restraints on 'dirigisme' that the spread of the market, and the globalization and increased 'openness' that the ongoing communications revolution are promoting.

Moreover the traditional family is likely to have a comparative advantage in the emerging international division of labor, whereby the West will increasingly have virtual factories which take orders for and design bespoke products tailored to the particular 'tastes' of individual consumers, and then 'produce' these by placing orders with the most efficient production facilities they can find around the globe.<sup>59</sup> The computer and Federal Express- at least for the least bulky goods- ensure that differentiated tastes can be catered for in a timely and efficient manner through global bespoke mass production.<sup>60</sup> As this brave new world of virtual factories in the West demands flexible production structures in the Rest to meet the needs of bespoke mass production, the family enterprise - as demonstrated spectacularly by the performance of the Chinese family enterprises in both mainland China and the lands of its diaspora- will come

into its own.<sup>61</sup>

This raises the question of Asian values. I cannot go into details but there is enough evidence <sup>62</sup> to support Jenner's assertion that the success of the purported neo-Confucian societies on the East Asian edge, has little to do with China's past but with "European economics, commercial law, science and technology" (p.172). Where 'values' may have helped is in the continuing strength of their traditional families which have allowed them to avoid both the economic and cultural costs of public welfare systems.

This raises the final question which this essay has been leading upto. Will the Rest be forced to change their cosmological beliefs as a result of the modernization that they all seek because of the prosperity it brings and which is being accelerated by the communications revolution? This is an old question in development studies. Will Westernisation follow modernization, and in fact can- as some claim- modernization occur without Westernisation? There has been an influential body of thought that has claimed this necessary connection.<sup>63</sup> It is also the basis of the current belief in the West, reflected in its global moral crusades concerning so called 'human rights', 'democracy ' and 'saving Spaceship Earth' , that with the success of the market its own values will also be adopted worldwide. But this is to assume that material beliefs determine cosmological beliefs.<sup>64</sup> There is little to support this assumption even though in the rise of the West the two sets of beliefs were conjoined. The important case of a modernized but non-Westernized Japan has shown this is not a necessary connection.<sup>65</sup>

The Rest do not have to make the Faustian compact of the West, where the instrumental rationality promoted by its individualism led to the Industrial Revolution but in the process destroyed its Christian soul<sup>66</sup>. Japan has been able to alter its material beliefs by adopting the institutions of the market. But it has kept its ancient hierarchical social structures- by basing them on acquired rather than ascribed status

through the fierce meritocratic competition based on educational attainment- rather than abandoning them for the social egalitarianism espoused by the West. It has also not had to give up its traditional forms of family nor its other cosmological beliefs based on shame. The same opportunity is open to the Rest to adopt the West's material but eschew its cosmological beliefs.

#### CONCLUSIONS

I have argued that institutions and culture are closely linked. Of the two aspects of culture I have identified cosmological beliefs have been as important as material beliefs in determining economic outcomes. Material beliefs can change rapidly as can the institutions based on them , eg. systems of property rights, with changing factor and commodity prices. <sup>67</sup>. Cosmological beliefs influence the polity. The initial resource endowments of the ancestral states of Eurasian civilizations governed the form of their polities and engendered cosmological beliefs which provided political legitimacy. There is great hysteresis in cosmological beliefs, and ipso facto in transferring one type of polity into a region with a differing cosmology. But, paradoxically, the multiplicity of political forms as long as they do not represent an 'enterprise association' in Oakeshott's sense in themselves do not hinder economic growth. Thus a particular political form such as democracy is not essential for development. After all it was hereditary monarchy not democracy which delivered the Industrial Revolution. What matters for intensive growth is that the market should be allowed to function. Here the sages of the Scottish Enlightenment were clearheaded about the link between the polity and the economy.

They recognized the importance of good governance, which for them was provided by a government which promoted opulence through promoting natural liberty by establishing laws of justice which guaranteed free exchange and peaceful competition. The improvement of morality being left to non-government institutions. But they

were quite undogmatic about the particular form to promote these characteristics of the State seen as (Oakeshott calls it) a 'civil association'. On this view of the State it is not seen as the custodian of laws which seek to impose a preferred pattern of ends (including abstractions such as the general (social) welfare, or fundamental rights), but which merely facilitates individuals to pursue their own ends.

But as Oakeshott emphasises, this classical liberal view which goes back to ancient Greece has been challenged in Western political thought and practice by a rival conception of the State, which has its roots in Judaeo-Christian tradition, and views the State as an enterprise association. The State on this view is seen as the manager of an enterprise seeking to use the law for its own substantive purposes, and in particular for the legislation of morality. Since the truce declared in the 18th century wars of religions, the major substantive purposes sought by States seen as enterprise associations are 'nation-building' and 'the promotion of some form of egalitarianism'. In our time Khomeini's Iran represents the religious version of an enterprise association of another Semitic religion.

In the Third world both nation-building and egalitarianism were the aims of the leaders who saw the State as an enterprise. As in the past this led to dirigisme and the control of the market. The 'nation-building' aim was particularly badly served as the dirigisme it entailed led as in 18th century Europe- where the mercantilist system of the post Renaissance absolutist states was established for similar motives- to national disorder. (see Hecksher). For dirigisme bred corruption, rent-seeking, tax evasion and illegal activities in underground economies. The most serious consequence for the State was an erosion of its fiscal base and the prospect of an unMarxian withering away of the State. In both cases economic liberalization was undertaken to restore the fiscal base, and thence government control over ungovernable economies. In some cases the changeover could only occur through



revolution- most notably France.<sup>68</sup>

Egalitarianism, as I have been at pains to emphasize is a value unique to Christendom. It was incorporated into the polities of the non Christian Eurasian civilizations by Westernized elites infected with its various variants (Fabian socialism in India and Marxist communism in China). But with the inevitable economic failure of the dirigisme it promoted these great Eurasian civilizations are eschewing these imported creeds and turning back to their traditional polities- which were concerned with maintaining some form of civil association and social order rather than promoting some enterprise. Though the political forms these take could diverge- for the reasons given earlier- they are more likely to be closer to the old classical notion of the State seen as a civil association than the various enterprises versions promoted by variations on the theme of St. Augustine's "City of God".

Given the uneasy tension in Western thought and action between these two rival conceptions of the State, it is those regions of the Third World (Latin America, Africa) which are outposts of Christianity where the problems of governance pace Smith and Hume are likely to be most acute. The problems in Africa being compounded by the artificiality of the States created, which has pitted tribe against tribe within and without the arbitrary boundaries resulting from the European scramble for Africa. Following the logic of my argument that traditional political forms have a legitimacy that imported ones do not as they are in consonance with the people's cosmological beliefs, and that in themselves political forms do not matter for economic performance, the best outcome for Africa would be to create states which coincide with tribal homogeneity with a polity ruled as in the past by some form of tribal chief.

This suggests that the 'institutional development' of the title of this paper set me by the sponsors is a misnomer, suggesting as it does that there is some technocratic template to

design institutions most likely to promote development. There is no such template except for the well worn legal and commercial infrastructure of Pope Gregory VII's Papal Revolution. Institutional development is a form of cultural evolution- not well understood. Thus I am led to conclude that the implication for policies towards the State in developing countries is by and large to let well alone. A conclusion which is even stronger for policies like the welfare state which impinge on the traditional family. The welfare state is a Western necessity because of the long shadow cast by Pope Gregory I's family revolution. It should not be wished upon or thrust upon the non-Christian Rest.

Which leaves the market. This is now spreading spontaneously throughout the world, because of its instrumental value. The greatest threats to its worldwide spread now come in fact from the West, where the traditional fear of pauper labor imports which have been used to justify protectionism in the past are being refurbished in the guise of human rights, environmental protection, and other aspects of so-called ethical trading.<sup>69</sup> This political moralism represents a continuing threat to the prosperity of the Third World. But as I have tried to show it is not something new, nor is the ethics being promoted universal. It is the culture-specific, prosletysing, universal and egalitarian ethic clothed in secular garb of what remains at heart Western Christendom. The Rest as I have argued have seen the utility of the market, and can adopt it and the prosperity it brings without the need to adopt the two other Western institutions- its family or its polity.

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#### ENDNOTES

1. Even the Chicago school which until recently ignored culture based on the Becker- Stigler (1977) manifesto "De Gustibus Non Est Disputandum" seems to be coming around to this view. Thus Becker (1996) now emphasises the notion of social capital first developed by the sociologist James Coleman (1990). Becker notes that culture is part of social capital and is only likely to change slowly (p.16), and that his and Stigler's 1977 view only applied to meta-preferences, and that his later work shows "that the past casts a long shadow on the present through its influence on the formation of present preferences and choices" (p.132). I have little quarrel with this 'new' Chicago viewpoint. Moreover for those who are only persuaded by cross-country regressions a recent study by Knack and Keefer (1997) provides some evidence that 'social capital' measured by indicators of trust and civic norms from the World Value Surveys for a 29 country sample does matter for measurable economic performance.

2. The controversy about the sources of East Asian success continues unabated. After Young (1994) (1995), had purportedly shown on the basis of careful growth accounting that this success could be largely explained by the growth of the primary factors of production (including human capital), with little contribution from productivity increases (a conclusion in consonance with the cross-country regressions based on the Summers-Heston data set by Mankiw, Romer and Weil (1992)), a recent study by Klenow and Rodriguez (1997) which has used a different human capital variable, and sought to explain differences in growth of output per worker, rather than just output find that productivity growth is at the center of explanations for the E.Asian miracle, as it is for the differing growth performance of the Summers- Heston set of 98 countries in the cross-section regressions which have become the norm. But like Young they find that neither for East Asia nor for the larger sample is the growth in human capital per worker important in explaining growth. This last conclusion is also in consonance with the evidence from the historical comparative studies of 25 developing countries synthesized in Lal-Myint (1996). The differences in productivity growth of course will reflect differences in institutions.

3. see North (1990)

4. For a game-theoretic account of how such a spontaneous order could have arisen see Sugden (1986).

5. see Lal (1998)

6. A useful survey of this literature as it relates to developing countries is provided by Nugent and Lin (1995). But as will be apparent I am taking a very different tack in this paper!

7. Matthews (1986), p. 905

8. *ibid*, p.906.

9. see Barro and Sala Martin (1995), and Sala-Martin (1994).

10. On these cross-country regressions which have recently proliferated I sympathize with Solow's view: "I do not find this a confidence-inspiring project. It seems altogether too vulnerable to bias from omitted variables, to reverse causation, and above all to the recurrent suspicion that the experiences of various national economies are not to be explained as if they represent different 'points' on some well-defined surface" (Solow (1994). Also see Bardhan (1995).

11. Statistical 'confirmation' within the cross-section regression framework for the role of ethnic diversity in Africa's growth disaster is provided in Easterly and Levine (1997).

12. The most sophisticated of the recent statistical studies which have sought a statistical link between democracy and growth is by Helliwell (1992). (Also see Barro (1997)). But the statistical proxies for the political variables used in these exercises do not inspire much confidence. Also see Deaton and Miller (1995) who rightly note that these exercises are plagued by the econometric problem of identification: "in the absence of some influence from outside the political and economic system of each country, these political economy models remain essentially unidentified, the best they can do is to demonstrate that it is possible to use the data to tell one story or another" (p.73). The Lal-Myint (1996) study based on the economic histories of 25 developing countries found no link between democracy and growth.

13. Lal (1998)

14. see Colvinvaux (1983). This was the definition adopted in Lal (1988) and in Lal (1998).

15. see F. Hahn (1973).

16.see Lal (1998).

17. see Hallpike (1986), Boyd and Richardson (1985).

18. see C.R.Hallpike (1986)

19. Demsetz (1964) has also used the same terms to describe what he calls the "exchange and enforcement of property rights" in the context of external effects and public goods. But I am using the distinction between 'exchange' and 'policing' costs in a slightly different way.

20.see North (1990)

21.see O.E.Williamson (1985)

22. The rise in human population since the stone age (See Mcveedy and Jones (1978) is evidence for the ubiquitousness of extensive growth, for this growing population could not have been supported at even subsistence if output growth had not kept pace.

23. Mokyr (1990) is the major proponent of the view that differences in technical creativity explain the different wealth of nations. But his evolutionary theory of technical creativity is not very persuasive. Furthermore, what he identifies as the West's technical creativity remains a 'black box' unless as in Lal (1998) it is identified with a unique trait which led to it, which I claim was individualism. Many of the historical puzzles Mokyr alludes to can then be more readily explained. Instead of trying to explain why something as nebulous as 'technological creativity' was sustained in the West, the question becomes as posed in Lal(1998) the old Weberian question : " why did individualism uniquely arise in the West. My answer is that Weber got his dates wrong but the role of the Western Christian church was crucial, but in surprising ways not noted by economic historians! In this context mention should also be made of White (1978) who is also a 'technologist', but whose linkage between the West's technological exceptionalism and the medieval Christian church has resonances with the story told in Lal (1998).

24.As Little notes, until the 18th century technological:

" improvements and dissemination seem to have been almost incredibly slow. The breastplate harness of horses, which tended to throttle them, reduced their efficiency, as compared with a padded collar, from 15 manpower to 4 manpower. It took 3000 years or more for a rudimentary padded collar to evolve, and another 1000 years for it to develop and become general. It similarly took thousands of years for fore and aft rigging and a swinging boom to appear. Yet such improvements did not have to wait upon new



materials, or concentrated power; nor did they require, by way of 'science', more than observation, wit, and ingenuity. Glancing through the 3000 odd pages of the "Oxford History of Technology", one finds dozens of statements like-'the general form of war galley had not changed very greatly 1500 years later (i.e. in AD 1500), or 'thus by c. 1500 B.C. three basic glass-making techniques were in use. It was not for another 1500 years or so that a new process was developed (glass blowing)" (p.66)

25. Scott (1989) provides a more radical departure in endogenizing the role of investment in growth by making three departures from the Solow-Swan framework. First, he argues that depreciation is essentially a transfer of income from capitalists to workers in a progressive economy. Were the 'appreciation' (in workers' income) which results not excluded, as it is in conventional national income accounting, then 'net' investment for society as a whole is (approximately) equal to gross investment as conventionally measured and not to gross investment minus depreciation. Second, he argues that there are no diminishing returns to cumulative gross investment, but there could be diminishing returns to the rate of investment. Third, he argues there is no need to invoke any independent or exogenous technical progress to explain growth. Defining investment as the cost (in terms of foregone consumption) means that all activities (including technical progress) associated with growth are covered by it. Hence in his model there is only change (growth) due to investment and population growth. He shows that the growth experience of developed countries conforms to his model, while Lal-Myint (1996) show this is also the case for the 25 developing countries in their sample.

26. see Lal(1988), and Lal-Myint (1996) for a model of the predatory state which uses the notion of contestability as a central analytical device.

27. This dating gets over the Max Weber problem, where as Hicks (1969) notes that one fatal objection to Weber's thesis about the Protestant origins of capitalism is that an essential element was "the appearance of banking, as a regular activity...This began to happen..long before the Reformation; in so far as the Protestant ethic had anything to do with it, it was practice that made the Ethic, not the other way round" (p.78-9). Also see Kurt Samuelson (1961)'s devastating critique of the Weberian thesis.

28. See Lal (1998) for references. Two popular surveys of the recent developments in evolutionary biology, psychology and anthropology are Ridley (1996) Wright (1994).

29. see R. Axelrod (1984), and Hirshleifer and Martinez-Coll (1988) for a discussion on the restrictive assumptions on which the

Axelrod results depend. For a lucid and accessible account of evolutionary game theory see Skyrms (1996). Also in a perceptive review of Ridley (1996), Hirshleifer (1997) points out that reciprocity cannot be sufficient to generate the virtues which are normally identified with unreciprocated generosity, and that social order requires more than just reciprocity. He writes reciprocity "cannot by itself explain the extent of co-operation among non-kin. A system of exchange based on property rights must rest on more than self-defense and tit for tat responses. In particular, disinterested third parties have to be willing to engage in what has been called 'moralistic aggression' to defend victims and punish defectors. If so, reciprocity is not the origin of virtue. Rather, true morality- pro-social propensities motivated by principle or compassion rather than by expected compensation - must be there already if a system of trade and exchange is to be viable" (p.58). On the origins of virtue Hirshleifer states : " morality might be a human cultural development [or the result of].. 'group selection', a concept currently scorned by most socio-biologists...but to my mind the evidence [for its] power..seems overwhelming" (ibid). These views are very much in consonance with those expressed in this article.

30.Hicks (1979), p. 43. But as Harold Demsetz has rightly pointed out to me, of course Adam Smith said this long before Hicks!

31.see Ridley, op.cit. for references

32.see E.Gellner (1988)

33. Also it should be noted that though there are some evolutionary biologists and anthropologists who seek to provide an account of cultural evolution (see Boyd and Richardson (1985)) the time scale over which evolutionary processes of 'inclusive fitness' work- about 10,000 years to produce a new species- means that the evolutionary process is unlikely to explain historical cultures. These are human creations.

34. It might also be asked why for the cheating human animal it doesn't also pay to feign belief in moral codes? But of course it does, as the ubiquity of Private Truths, Public Lies, documented by Timur Kuran in his important book of that name on preference falsification attests. However, as he shows that if there are enough believers in particular 'public lies' people will conceal their private truths, and follow the common norms. This is sufficient for the arguments that follow.

35.see Ekman and Davidson (1994). For economists who have discussed the role of emotions see Hirshleifer (1987), and Frank (1988).

36.see T.C.Triandis (1995). I have relabeled Triandis's collectivism as 'communalism' to avoid confusion with collectivism as a contemporary economic system.

37.see LaL (1998).

38.see H.J.Berman (1983).

39. see Robin Lane-Fox (1988)

40. see Goody (1983)

41.see Jankowiak (ed):Romantic Passion; and Fisher:Anatomy of Love.

42. see Lal(1988), (1998)

43. An example is two violinists playing in an orchestra versus two individuals playing their instruments in separate rooms who are by chance playing the same piece in a synchronized manner.

44. Thus the rules of chess do not regulate an activity which already exists, they create the possibility of playing chess.

45. Lal (1988)

46. As he notes:" The communist state is in many ways a reinvention of the bureaucratic monarchy...The founders of the Communist party were products of Qing China, educated in its schools and culture and soaked its values. To them it was only natural that the state should be absolute and that a bureaucratic monarchy was the natural form it should take...Attitude to state power remain heavily influenced by traditional values. The state's power remains absolute and sacrosanct. Though it can often be got around, it cannot be challenged. Politics at the top is played by the rules of palace struggles, which owe more to the political pundit of the third century BC Ha Fbi than to Marx" (pp.35-6).

47. see Lal (1998b)

48. see for instance Castaneda (1995)

49.In Lal-Myint (1996) one major finding was that 'equity' defined in terms of income equality between the richer and poorer sections of the population has not been a major concern, particularly in Asia. What has been of concern are distributional problems between groups that cut across the conventional notion of income equality. thus in Malaysia it is not income inequality per se but that between the Malays and Chinese which has been of concern, or in

Sri Lanka between the Sinhalese and Tamils.

50. see Goody (1996)

51.see C.L.Becker (1932).

52.For details see Lal (1998). Thus for instance in Marxism there is a Garden of Eden- before 'property relations' corrupted 'natural man'. then the Fall as 'commodification' leads to class societies and a continuing but impersonal conflict of material forces, which leads in turn to the day of Judgment with the Revolution and the millennial Paradise of Communism. Similarly the deep Christian roots of eco-fundamentalism are shown in Bramwell (1989) and Lal (1995). As regards Freudianism see Webster (1995) and Gellner (1993). Thus as Gellner argues Freud created a new faith with traditional Judaeo-Christian roots. The Unconscious becomes a new version of Original Sin. The analysts form a priesthood, offering personal salvation to the faithful through the confessional of the analysts couch; the priesthood is controlled by a guild of acolytes, who preach a doctrine which though cloaked in the mantle of science is like any religion a closed system. It is tailored to the fears of the modern West. With Nature quelled these fears concern personal relationships. "His fulfillment and contentment, and his self-respect, are at the mercy of other people: of his spouse, other close kin, and work colleagues and superiors". With God's death the Christian Hell had been dismantled. Now is Sartre's words: "Hell is other people", and the analyst now provides a bespoke morality to deal with each person's special circumstances as worked out between the patient and the 'analyst'.

53. Of course there are certain moralities for instance Robin Hood's of helping the poor which certainly increased policing costs for those traversing Sherwood forest.

54. See Jack Goody's brilliant book, Goody (1983).

55. see J. Delumeau (1990).

56. see A. Macfarlane (1979), (1986).

57. The most powerful statement of this position is provided by Magnet (1993) who argues persuasively that the growth of the underclass and associated social pathologies in the US is due more to cultural than purely economic factors. Also see Himmelfarb (1994). The strongest proponent of the economic case is Murray (1984). The econometric evidence on the effects of the US welfare state on incentives is summarized in Moffit (1992) who concludes "The literature has shown..unequivocal evidence of effects on

labor supply, participation in the welfare system and on some aspect of family structure...Yet the review has also shown that the importance of these effects is limited in many respects. The labor supply effects, whilst statistically significant, are not large enough to explain the high rates of poverty among female heads..In addition the econometric estimates of family structure effects are not large enough to explain long run declines in marriage rates and, in any case, are incapable of explaining recent upward trends in female headship because welfare benefits have been declining" (pp 56-7).

58. Attempts to found a morality based on reason are open to Nietzsche's fatal objection in his aphorism about utilitarianism : "moral sensibilities are nowadays at such cross purposes that to one man a morality is proved by its utility, while to another its utility refutes it" p.220). Kant's attempt to ground a rational morality on his principle of universalisability - which harks back to an ancient Biblical injunction- founders on Hegel's two objections: it is merely a principle of logical consistency without any specific moral content, and worse it is as a result powerless to prevent any immoral conduct that takes our fancy as long as we are willing to make it universalisable. The subsequent ink spilt by moral philosophers has merely clothed their particular prejudices in rational form.

59.see R.Rosecrance (1996)

60.see Gates, op.cit., p. 166

61. See M.K.Whyte (1996).

62. surveyed in Lal (1998)

63. This was identified with the work supported by the Committee on Comparative Politics of the Social Science Research Council in the US during the 1960's. The most important work in this genre remains G.A.Almond and J.S.Coleman (eds) (1960).

64.A belief shared equally by Marxists and Chicago school economists!

65.This is argued forcefully by A.Waswo (1996). Also see S. N. Eisenstadt (1996).

66. It is often argued that the evidence from Church attendance and the professions of religious belief in the US would contradict this. Thus Bellah et. al (1986) note "some 40% of Americans attend religious services at least once a week ( a much greater number than would be found in Western Europe or even Canada) and

religious membership is around 60% of the total population" (p.219). But if other aspects of current American behavior concerning Christian moral injunctions are taken into account- against adultery and divorce for instance- to an outsider, these figures for professed religious belief appear to be merely a sign of hypocrisy, or a manifestation of the fractured American self outlined by Macintyre discussed below. Of course, there maybe some, for instance President Clinton from recent reports in the US media, who might claim that they are still faithful Christians but that their purported forms of extra marital sex do not constitute adultery as defined by the Bible!

There are also those of a Polyannish tendency best represented by Lipset (1996) who claim (p.134) that even the signs of social decay such as the growth of the American underclass does not matter as it is statistically insignificant. The underclass he claims only amounts to about 1-2 per cent of the US population, which makes it about 2-3 million people. This is of course a larger number than the US armed forces. If the latter though about one per cent of the population were let loose in the inner cities as invading armies often were in the bad old days, even Lipset might view this prospect with some trepidation!

67. For examples see Demsetz, Feeny.

68. see Lal (1987), Lal-Myint (1996)

69. see Lal (1998c).