Institutions, Social Norms, and Economic Development

Jean-Philippe Platteau

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Volume 1 *Institutions, Social Norms, and Economic Development*
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To Stefan, Corentin, and Alexis

FOREWORD

Douglass C. North
Washington University, St. Louis, USA

How much do we know about economic development? The output, theoretical and empirical, on the subject over the five decades since World War II would fill a substantial library. But to say that the results have been unsatisfactory is an understatement. Much of that work, indeed, was a retrogression as compared to the insights on the subject of the classical economists (in particular David Hume and Adam Smith) writing more than two centuries ago. The reason is straightforward. The dominant paradigm in the field of economics, neo-classical theory, generated an inappropriate set of tools to deal with the subject. It was concerned with the functioning of markets, not how they evolved. It took for granted polities, demography, and institutions—the necessary building blocks for understanding the process of economic change.

All that is changing now. Not only are some economists widening their horizons in economics, equally essential, they are exploring the links with demography, political science, sociology, anthropology, law, and even cognitive science to attempt to come to grips with the complex issues that make up the subject matter. Understanding economic change entails understanding human beings in the totality of their physical and human environment. That is a tall order and, not surprisingly, we still have a long way to go.

Jean-Philippe Platteau's *Institutions, Social Norms, and Economic Development* is a major step in our progress. It combines the author's sound knowledge of the necessary economic theory with the essential theory of other social sciences enriched by his extensive work in the field. His lengthy bibliography attests to a thorough knowledge of the field work of others as well.

It is easy to state the fundamental dilemma confronting the author. We know a good deal about the sources of productivity growth, the essential underpinning of economic development; yet we do not know how to get economic development. Nor when it does occur are we successful at controlling the undesirable social side effects of economic development. Again, the reason is straightforward. Putting in place the formal institutions that have undergirded the spectacular growth of the developed world does not produce the desired results. That is because the formal rules must be complemented by informal norms of behavior (and enforcement characteristics) to get the desired results. And typically not only are they not forthcoming but we have a very imperfect understanding of their origins and evolution. Drawing inspiration from Ester Boserup's pioneering studies, Platteau makes a convincing case that population density relative to land abundance is the place to begin to understand the sources of norms. The evolution of the informal norms is shaped by a complex of physical and social conditions that he illumines from his extensive field work, particularly in Africa. This study, therefore, makes substantial progress by confronting the fundamental dilemma and providing important insights towards its resolution.

ACKNOWLEDGMENTS

This book is the outcome of a long reflection process based on my own research as well as on careful and intensive reading of the works of a considerable number of authors who are listed in the bibliography. My greatest debt is to two authors who have continuously inspired me while thinking about this book, Douglass North and Ester Boserup. The former because he provided me with a way of thinking about institutions and institutional evolution, and the latter because her work convinced me of the importance of population density as a clue to understand both institutional phenomena and economic performances. I must also thank my students at the University of Namur who have unconsciously or inadvertently stimulated my thinking while patiently listening to my development lectures and spontaneously raising clarifying questions and critical comments. Finally, I am grateful to all the scholars who have offered me comments and insights, or reacted to my thoughts in the course of private discussions or public seminars during which some chapters of this book were presented (in Stanford, Chicago, Ithaca, Madison, Tokyo, Trivandrum, London, Paris, Oslo, Wageningen, and other places). In particular, I would like to thank Kaushik Basu from Cornell University for the continuous encouragements which he gave to this enterprise; Jean-Marie Baland (who has participated in the writing of parts of Chapter 3) and Frederic Gaspart (for long discussions on Chapters 6 and 7) from the University of Namur; Yujiro Hayami from Aoyama Gakuin University of Tokyo (particularly in connection with Chapter 2); Masahiko Aoki, Kenneth Arrow, Marcel Fafchamps, and Avner Greif from Stanford University; Shem Migot-Adholla and Maurice Schiff from the World Bank; Pranab Bardhan from the University of California, Berkeley; Samuel Bowles from the University of Massachusetts (Amherst); Michael Carter from the University of Wisconsin; Partha Dasgupta from Cambridge University; Karl-Owe Moene from the University of Oslo; Douglass North from Washington University, St. Louis; Keijiro Otsuka from the International Food Policy Research Institute (IFPRI), Washington DC; and Dani Rodrick from Harvard University.

No one has a simple answer, and all proposals of panaceas are in a class with millenarian dreams .... A civilization like ours, with its drive to mastery, does not like to be thwarted. It disapproves of discouraging words ...

David Landes, *The Wealth and Poverty of Nations*

For David Landes, himself an economic historian, economists tend to assume that "every country is destined to develop sooner or later": economic growth "is natural and will occur wherever opportunity and security exist. Remove the obstacles, and growth will take care of itself" [Landes, 1998: 5, 31]. This kind of statement is probably a good reflection of the thinking that prevailed among many economists during the postwar decades, especially during the fifties and the sixties. In those times, indeed, the dominant opinion was that the main problem of many so-called underdeveloped countries lay in the fact that they lacked some essential production factors. If more advanced nations would agree to transfer the missing factors in quantities large enough to trigger off a 'big push' forward (so as to escape low-level equilibrium traps), the recipient laggard countries would be set on the path to self-sustaining growth.

Aggregate production function analyses conducted over a long period of time (in the United States, and in some countries of Europe and Latin America) revealed that the increase in inputs of labour and capital was typically small in comparison with the expansion of gross national product. In other words, the bulk improvements in production and levels of living was attributed to a 'residual factor': its contributory share accounted for as much as 90 per cent of the growth of American output between 1900 and 1960, and for two-thirds of the growth in Norway between 1900 and 1955. In the agricultural sector only, the share of increased output due to the residual factor was 83 per cent for the United States, 62 per cent for Argentina, 45 per cent for Brazil, and 50 per cent for Mexico, considering the period from 1910 (for the first two countries) or 1925 (for the latter two countries) to the middle of the twentieth century [Solow, 1957; Aukrust, 1959; Schultz, 1961—cited from Higgins, 1968: 425–430].

The nature of this residual factor which seems to play such a large role in modern economic growth was, of course, a crucial question. A common answer was that it consisted of "education in the broad sense, including all kinds of technical training, and including also the technological progress that comes from investment in education" [Higgins, 1968: 426; see also Vaizey, 1964]. In his well-known attempt to further break down the sources of American and European growth, Edward Denison (1962, 1967) distinguished the increase in the amount of education from the advance of knowledge as such. The estimates indicate that, even though increase in education, with a generous estimate of its effects, is included in factor inputs, 63 per cent of the increase in output per man-hour in the United States and 80 per cent in Europe are attributed to other factors. A debate ensued about the validity of Denison's estimates, yet the conclusion eventually remained that a significant part of the productivity growth recorded in developed countries cannot be traced back to increases in inputs [Hagen, 1975: 258–60].

The central lesson which was therefore drawn from such exercises is that laggard countries needed to have their technical skills and knowledge enhanced, hence the importance of education programs and technological transfers from rich to poor countries. Looked at from the end of the twentieth century, after the New Institutional Economics has entered the field of development studies, the interpretation of the residual factor advanced by postwar development economists appears as strangely narrow. The inclination today would be, indeed, to construe this factor as reflecting institutional as well as technical dimensions of growth, emphasizing that institutional or organizational features play a non-negligible role in promoting technical progress itself.

Recent, more sophisticated, econometric studies using a cross-sectional framework [Barro, 1991], possibly extended to a panel setup [Barro, 1997], and based on large samples of countries belonging to all the continents, conclude that, in addition to education (years of schooling at the secondary and higher level), birthrates,[1] initial levels of per capita incomes,[2] and some other variables (possibly including regional dummies),[3] institutional factors exert a significant impact on growth rates. This is particularly evident from the fact that better implementation of the rule of law—measuring quality of the bureaucracy, political corruption, likelihood of government repudiation of contracts, risk of government expropriation, and overall maintenance of the rule of law—does significantly and positively affect growth prospects.

Now, once the institutional dimension of development is brought into the picture, the problem of transferring the experience from rich to poor countries appears much more difficult. The fact of the matter is that rules or institutions are much more complicated than goods and services which people buy and sell on the market depending on tastes, technologies, and resource endowments. They are true 'cultural embodiments' in that they reflect the value systems and historical antecedents of the societies in which they prevail and not only the particular parameters of these societies' current economic environment. Hence the enormous difficulties of successfully transplanting institutions which have worked in advanced countries into the terrain of other countries which have different histories. Widely diverging economic performances that are sustained over long periods of time attest that such transplants, which have undoubtedly been tried in the past decades, do not usually fulfil their promise.

The stark truth is, as Paul Krugman put it, that "After all, relative to the hopes of the 1950s and even the 1960s, the performance of most developing countries has been dismal. (Indeed, the polite phrase 'developing country' itself has become an embarrassment, when it must be used in such sentences as 'Per capita income in the developing countries of SubSaharan Africa has declined steadily since the mid-1970s')". Growing disenchantment with aid follows decades of unimpressive results and, even if it would be unfair to blame economists "for more than a small fraction of this failure", the fact remains that "development economists were most often consulted or given positions of influence in connection with the disbursement of foreign aid" and that "the ideas of development economics were too often used as a justification for policies that in retrospect impeded growth rather than helping it along. Where rapid economic growth did occur, it occurred in ways that were not anticipated by the development theorists" [Krugman, 1997: 23–24].

In the concluding chapter of his most recent book *Development Economics—From the Poverty to the Wealth of Nations* (1997), Yujiro Hayami stresses the fact that each country must find its own institutional pattern of development, instead of simply relying on importation of foreign technology and ways of doing:

> Indeed, the traditional culture or value system is an important basis of economic modernization. However, it does not appear that the value system consistent with modernization is limited to a specific culture (such as the

> Protestant ethic)... The forms of organization of modernization are different for different cultural traditions and historical paths, as evident from the contrast between Japan and the West... The historical fact that Japan, Korea, Taiwan, and Thailand, among others, succeeded in getting on the track of sustained economic development, each based on their own unique system and tradition, strongly suggests the possibility that many low-income economies today will be able to achieve modern development in the future, not along a monolithic path, but along multiple paths according to their different traditions [Hayami, 1997: 280, 282].

Upon Hayami's reading, therefore, the predicament of low-income countries suffering from poverty and stagnation today is a temporary situation that will be remedied once these countries have found the way to fit the exigencies of economic modernization into their cultural and social traditions. Yet, Hayami hastens to add: "This is an extremely difficult but not impossible task". In point of fact, "The task required for such a system design is not simply to adapt borrowed technology and institutions to traditionally given culture and value systems. Major efforts should also be made to change people's perception so that economically efficient technology and institutions are acceptable to them" [*ibidem*: 282]. This conclusion is therefore close to the statement of David Landes quoted as an epigraph to this introduction: "No one has a simple answer, and all proposals of panaceas are in a class with millenarian dreams". Countries have to find their own manner of development and, since this may take a lot of time for some of them, one cannot rule out the possibility that those which do not easily find their way will lag behind considerably and for a long time to come. Those are perhaps "discouraging words" which are hard to hear for a civilization like ours, with "its drive to mastery" [Landes, 1998: 5].

The above perspective, which also underlies the present work, seems to be shared by a growing number of economists as attested by the recent contributions of Peyton Young (1998), Masahiko Aoki (forthcoming), and Avner Greif (forthcoming). It runs counter to an important current of development thought dominated by the idea that policy mistakes by ignorant, irresponsible, or corrupt governments are the main culprit for the economic backwardness of many poor countries. As Joseph Stiglitz put it, the underlying orthodoxy is that "countries, if left to themselves, would thus develop to the limit of their capacities and resources; lack of development can only be attributable to lack of resources or (harmful) governmental intervention. Since economic forces naturally lead to economic efficiency, the study of development becomes the study of the political barriers to development. "Lack of development is always and everywhere a political, not an economic, problem" [Stiglitz, 1989: 20].

Of course, misguided policy choices are plentiful in the real world. The problem is that they may not be easily remedied, as too many experts in development or high-level officials in donor agencies and international organizations often seem to assume they will. Such mistakes may actually affect conditions prevailing in a particular country for a long time to come if they are embedded in institutions and systems of beliefs that become self-reproducing. Also, what appear as mistakes by policy-makers may have to be construed as behaviours partaking of a logic of state formation and functioning that requires to be studied on its own. Rent-seeking theory can certainly shed instructive light on many wastes of scarce resources, yet the political processes and the political culture that have allowed rent-seekers to occupy a dominating position in some economies and not in others are still largely ill-understood, at least by economists.

The present book does not want to just argue that institutions are important for development and that they have been shaped by historical antecedents or the "accumulation of precedent" (Peyton Young) crystallized in sets of beliefs, mores and patterns of behaviour. Its originality lies in the adding of a geographical dimension to the institutional-cultural perspective on development. The role of population density as a crucial factor influencing institutional development and market expansion actually provides the clue leading to this peculiar combination of two strands of thought that have so far remained quite separate in the development literature. To give the reader an intuition of how such a combination of approaches can occur, it is useful to start from Adam Smith's essential proposition that economic growth largely depends on the extent of division of labour, and to highlight two different sorts of conditions on which this division hinges.

First, in order that economic specialization can develop, it is important that well-defined property rights are established and that suspicion and fear of fraud do not pervade transactions. Such conditions cannot be created *ex abrupto* by a sort of *deus ex machina* but must somehow evolve within the countries concerned. To be sure, what needs to evolve are not only the suitable practices and rules themselves, but also the public agencies (among which the centralized state is an essential yet not exclusive element) and morality without which generalized trust will be hard to come by. Generalized respect for property rights is an especially vexed issue since no informal network of more or less continuous relationships can easily guarantee it under all the circumstances where detection of violation is costly. The cultural endowment of societies as it has developed over their particular histories is therefore bound to play a major role in this regard. This is one of the central themes running through this book, particularly in Chapters 3 and 4 (devoted to property rights in land) and in Chapters 6, 7, and 8 (devoted to the question of honesty in exchanges).

Division of labour does not only require well-enforced property rights and trust in economic dealings. It is also critically conditioned by the thickness of economic space, itself dependent on population density. Here is the other major theme addressed in the book, which lends to it a definite Boserupean flavour. As a matter of fact, the point can be made that market development, including the development of private property rights, is not possible or will remain very incomplete if populations are thinly spread over large areas of land. This is partly the result of the fact that incentive problems are more difficult to overcome in such circumstances. The difficulties are, of course, compounded if geographical obstacles or wrong macro-economic policies have the effect of inhibiting rather than facilitating transport and communication. Furthermore, public provision of essential services as well as tax collection are impeded by population dispersal. Relatedly, strong states cannot easily thrive in such conditions since people tend to organize themselves into self-subsisting units based on lineage and since class differentiation and an urban–rural divide are prevented from developing. States living on surpluses extracted from rural dwellers are obviously bound to encounter many problems if these dwellers have many exit opportunities available to them thanks to their wide scattering. Chapters 2, 3, and 4 as well as part of Chapter 7 will pay a lot of attention to the role of population density as a crucial factor of growth and development.

In this book, special yet not exclusive reference is made to countries of SubSaharan Africa precisely because they have a long tradition of high land-man ratios and lineage-based systems of social organization (two obviously related features) which, according to the above explanatory scheme, must have a profound impact on their institutional trajectory. In other words, this region of the world, which is also the most disappointing in terms of growth performances, provides us with a unique opportunity to highlight the twin roles of path dependence and population density.

As the reader will be able to make out, specially upon reading Chapters 2 to 5, from the present difficulties of SubSaharan Africa it ought not to be inferred that African societies are stagnant. On the contrary, they do change in response to rising population pressure and to new economic opportunities born of their opening to the outside world. These changes are often so profound that they escape notice from experts or scholars used to looking only at the economic order of things, as reflected in standard economic indicators. On the historical scale, the transformations at work within the body of African societies are undoubtedly rapid. This is certainly apparent on the level of property rights and family structures where SubSaharan Africa has evinced an amazing ability to evolve since the beginning of this century, thus telescoping the long evolution stretching over many centuries that western Europe underwent before the nineteenth century. One may realistically entertain the hope that these changes will gradually prepare the ground for future economic growth at more satisfactory rates than those presently obtaining. Still, that dynamic elements are at work in African societies does not imply that changes are quick enough to enable them one day to match the performances of more advanced countries, including those in the Third World. Particularly worrying in this respect are the weakness of the state structures (see Chapter 7), and the prevalence of strong egalitarian norms that slow down entrepreneurship and capital accumulation (see Chapter 5).

One thing is sure: as suggested in the beginning of this introduction, Africa is in search of her own model of development. What this model will be is still hard to predict—but not much harder than foretelling how Russia or other countries born of the dissolution of the Soviet empire will manage to get out of their present mess (see Chapter 8). Yet, it can be taken for granted that, given the continuing weakness of African states, informal agencies and mechanisms will have a major role to play in the development of SubSaharan Africa. This means, in particular, that communities will remain key actors on the African scene and that, rather than being bypassed or emasculated, they should be considered as unavoidable partners to negotiate with. (This formula would be much more difficult to achieve in Russia where many communities have been destroyed under the communist regime and a tradition of the strong centralized state has prevailed over the country's entire history.) Chapter 4 will bring forward strong arguments to that effect while simultaneously underlining the necessity of mitigating the parochial, indeed even chauvinistic, tendencies present in rural communities or clanic groups.

Note incidentally that the essentials of the analysis proposed in the following pages seem to apply to other regions presenting the same two basic characteristics as SubSaharan Africa, whether they belong to Latin America or to Asia. As a matter of fact, one can only be struck by the economically backward state of many of the regions of the world where sizeable communities live which are thinly spread out over large areas and are socially organized along tribal lines (think of the states of Bihar, Orisse, and Madhya Pradesh in India, of the northern part of Thaïland or huge parts of Burma and Laos in East Asia; or of countries with large Indian communities in Central and South America). Of course, the fact that tribal communities of Asia and Latin America are typically embedded in national entities ruled and dominated by societies with opposite background characteristics is bound to affect their economic and other performances (in terms of health, education, etc.) in a different way from what would obtain in more homogenous tribal societies.

This book, as the title suggests, deals with institutions and social norms in their relation to development. Focus is on the rural sector to which the author's competence is limited. A novelty is that much more stress is laid on the role of social values and norms than is common in studies dealing with institutions that matter for economic growth. Three different kinds of values or social norms will actually retain our attention, namely norms of social identity underlying customary land tenure rights (Chapter 4, partly); norms of income-sharing (Chapter 5); and moral norms (Chapter 7 and 8). Chapters 2 to 4, as well as Chapter 6, address institutional issues, namely property rights in land and other natural resources, and trust-enforcement mechanisms. Chapter 1 serves as a background to the subsequent chapters.

The organization of the book is as follows. In Chapter 1, a brief survey is presented of various strands of thought regarding the role of institutions, norms, and values in economic development as well as of different methodological approaches to this question. After shortly describing the views of leading economists of the 1950s and 1960s, special emphasis is put on the contributions of both the