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# **High-level Round Table on Trade and Development: Directions for the Twenty-first Century**

**ORDER, THE RULE OF LAW  
AND MORAL NORMS**





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### **High-level Round Table on Trade and Development: Directions for the Twenty-first Century**

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### **ORDER, THE RULE OF LAW AND MORAL NORMS\***

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\* The views expressed in this paper are those of the author and do not necessarily reflect the views of the UNCTAD secretariat.



## **Executive Summary**

No market order can function satisfactorily – that is, at reasonably low transaction costs – if there is not a right combination of rule of law and norms of generalized morality. The former requirement implies that a viable state structure be established that is able to enforce in an impartial manner rules and laws regarding respect of property, contract fulfilment, bank regulation, bankruptcies, control of abusive exercise of market power, etc. This presupposes that the ruling elite, whether it has been democratically elected or not, has come to understand that its long-term interests depend on its being able to enlist the cooperation of dominated groups or classes on terms acceptable to them.

For a market to properly function, agents must also adopt an attitude of moralistic reciprocity based on initial trust, because mechanisms of multilateral reputation, although extremely useful, cannot be expected to solve the trust problem in all circumstances. On the other hand, anonymous interactions among agents driven by selfish motives and prone to opportunism cannot lead to honesty in exchanges. Unfortunately, even assuming that evolutionary processes are at work to produce the emergence of the required norms, nowadays they may prove too slow to meet the challenges confronting laggard countries. This is because the pressure of an external threat under the form of globalization creates a need to develop more quickly than what can be achieved through an endogenous evolution of moral norms.



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# MARKET ORDER, THE RULE OF LAW AND MORAL NORMS

*Jean-Philippe Platteau*

## INTRODUCTION

As we have learned from evolutionary game theory, anonymous pairwise interactions among agents are generally not conducive to the sustained presence of “nice traits” in the population. Biased pairing of individuals following some cultural or geographical segmentation could, of course, solve the problem by internalizing part of the externality associated with nice behaviour, yet at the price of giving up the kind of conceptual framework that most closely resembles market conditions. Retaining anonymity but at the same time assuming that probability is higher to meet someone with whom one had a nice encounter in the past leads to the conclusion that honest behaviour can be established, but that this is far from a certain result. The problem with this rather strange combination of assumptions, however, is that it is not easy to substantiate empirically: usually, we return to nice people because, in some way or other, we can recognize them, or be informed about them, which amounts to saying that a reputation effect is at work.

Now, regarding enforcement mechanisms based on reputation effects, there exist a wide variety of situations in which such mechanisms can prove useful to discourage cheating and thereby make market exchanges possible at reasonable transaction costs. For example, Chinese businessmen residing in South-East Asian towns tend to exchange among themselves credit information about indigenous customers, thereby reducing the frequency of their bad debts (Szanton, 1998: 256; see also Hayami and Kawagoe, 1993; Hayami, 1998). In the more complex situations in which the domain of exchange is so wide, agents are so mobile, or economic transactions are so discontinuous, that information cannot easily flow among potential traders, private third party mechanisms are needed to supplement communication networks. Yet, as has been shown by Milgrom, North, and Weingast (1990) in the specific case of a private judge system known as the Law Merchant system (observed in the Champagne fairs), there can be a number of rather stringent conditions to be fulfilled for a decentralized mechanism of information-pooling to be workable. In particular, if the benefits of honest behaviour are small compared with the one-time gain from cheating, or if would-be opportunists heavily discount future incomes, the decentralized punishment mechanism allowed by information-pooling may not be enough to discourage them from cheating. Moreover, agents’ mistakes are susceptible to jeopardizing the kind of self-enforcing equilibria that may be produced in repeated games.

More importantly, nothing ensures that the right market governance institutions will be established. In point of fact, repeated game theory only shows that, in various situations, outcomes corresponding to these institutions are a possible equilibrium: it does not say that they

will necessarily materialize. Evidently, if distrust is pervasive, nasty strategies (and these include cautious strategies that prescribe non-cooperation in the initial stages of the game) are likely to be followed by a significant number of agents, with the consequence that honesty-enforcing mechanisms are precluded (Gambetta, 1988b: 227–228; see also Binmore, 1992: 434).

There is undoubtedly a trust problem in the sense that a basic predisposition to trust must be present and be perceived for a cooperative equilibrium to prevail.<sup>1</sup> It is revealing that in Ghana, contrary to what was observed above in the case of Chinese businessmen, “there seems to be no mechanism whereby information about clients’ trustworthiness is shared among firms other than direct recommendation by common acquaintances”. Apparently, firms relish “the idea that their competitors have to deal with the same deadbeats by whom they had been burnt” (Fafchamps, 1996: 441).

Unfortunately, the trust problem is especially difficult to solve in modern economies because market-like situations involving competition among many anonymous buyers and sellers (and complete contracts) tend to induce self-regarding behaviour while more personalized exchange settings tend to yield choices consistent with other-regarding or relational preferences (Lane, 1991; Schotter et al., 1996; Bowles, 1998a: 87–90; 1998b; Ledeneva, 1998: 194–200). The evidence pointing to this tendency, whether from historical materials or from experimental psychology (see *infra*), should not be construed as meaning that the market makes people intrinsically selfish, but rather that it evokes the self-regarding behaviours in their preference repertoires: individuals tend to behave selfishly in the market, altruistically in the family, and reciprocally in the workplace (Bowles, 1998b: 89). I shall soon return to this important point.

## **I. THE RULE OF LAW AS A NECESSARY COMPLEMENT TO SPONTANEOUS ORDER**

### **A. The need for formal law and state enforcement**

The most obvious way to get out of the above problem is the emergence of the third party enforcement of legal provisions by the modern, centralized nation-state. Although recognizing that “quite complex exchange can be realized by creating third-party enforcement via voluntary institutions that lower information costs about the other party”, North has thus laid considerable stress on the fact that “historically the growth of economies has occurred within the institutional framework of well-developed coercive polities”; the state was thus “a major player” or a “crucial actor in the process of economic specialization” that took place in Europe during modern times (North, 1990: 14; 1991: 107). Ultimately, indeed, institutions that can enforce agreements by the threat of coercion are required to sustain complex exchange because the transaction costs of a

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<sup>1</sup> Adam Seligman defines trust as “some sort of belief in the goodwill of the other, given the opaqueness of other’s intentions and calculations” (Seligman, 1997: 43).

purely voluntary system of third-party enforcement would be prohibitive (North, 1990: 58; see also: 35, 47, 59, 109).<sup>2</sup>

The development of the rule of law is unmistakably a central characteristic of the modern growth process of all the pioneer countries, as attested by the rising importance of laws for contract enforcement and respect of property rights, notaries for the recording of agreements, state courts for the resolution of disputes, and so on. In the Italian city-states, it is as early as the twelfth to thirteenth centuries that covenants and contracts became central to all aspects of life, “and the ranks of notaries, lawyers, and judges burgeoned to record, interpret, and enforce these agreements”. In Bologna, for example, a town of roughly 50,000 inhabitants, as many as 2,000 professional notaries were estimated to operate. Furthermore, an itinerant, professionally trained jurist-administrator elected for a limited term (known as the *podestà*), came to play a key role in communal affairs (Putnam, 1993: 126; Greif, forthcoming, chap. 5).

It bears emphasis that for North as for Friedrich Hayek (1993), effective law-enforcing agencies cannot be created by *fiat* but rather tend to arise from prolonged experiences with informal decentralized mechanisms invented by the civil society. It is the gradual and unusually successful blending of the voluntarist structure of contract enforcement via merchant organizations with enforcement by the state, and the progressive encoding into formal laws of behavioural patterns determined by private order institutions (including village-level regulations recorded in England’s *costumals* or France’s *coutumiers*), that constituted the main factor behind the rise into prominence of the Western world during the last centuries (North, 1990: 41, 43; 1991: 107; Kriegel, 1995: 72–78; Landes, 1998: 44).

Recent experience with Russia amply testifies that legal provisions and state enforcement mechanisms that are not built upon locally evolved mores and practices, but have been abruptly transplanted from the West have few chances to take root. Reflecting upon the experience of transition economies over the last decades, Katharina Pistor reached the following conclusion:

It is now becoming apparent that the transplantation of formal law does not necessarily alter behaviour...Where formal and informal institutions evolve over time, they tend to complement each other. In the context of a political or economic regime change, however, new formal and preexisting informal institutions compete. Formal law may be rejected, or ignored and substituted with informal institutions that operate independently of and frequently in contradiction to the formal legal system. For formal law to be accepted and to affect behaviour, a constituency is needed, whose formation and strength in turn depend on consistent policy signals and effective mechanisms for the enforcement of new formal institutions (Pistor, 1999: 2).

As the last sentence suggests, rejection of the new formal law may not only arise from its incompatibility with existing norms and practices but also from determined opposition by

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<sup>2</sup> For instance, the way the (merchant) law provided protection of the *bona fide* purchaser (against the claims of the original owner of stolen or lost goods) from the beginning of the seventeenth century in England solved an important problem which confronted merchants and hindered trade for many centuries in Europe (North, 1990: 128–29; see also Rosenberg and Birdzell, 1986, chap. 2).

powerful groups whose interests would be hurt by the changes it is intended to bring about. For formal law does not always evolve in response to social demand but may be, and often is, designed to alter social behaviour or to reallocate political and economic rights (Pistor, 1999: 3). In the latter instance, one must expect affected groups to challenge the new measures by using existing informal network relations to negotiate exemptions or simply ignore the law and hold on to existing control rights backed by informal institutions (ibidem: 8).

In a recent paper, Berkowitz, Pistor, and Richard (1999) have shown, on the basis of an econometric study using data from 49 countries, that the way in which the modern formal legal order that evolved in some Western countries was transplanted into other countries is a much more important determinant of legality and economic development today than the supply of a particular legal code. Legality is measured along the five following dimensions: the effectiveness of the judiciary, rule of law, the absence of corruption, low risk of contract repudiation, and low risk of government expropriation observed during 1980–1995. The precise conclusion reached by the authors is that, other things being equal, legality is better established in countries that have developed a legal order internally or in those that have familiarity with the country or countries from which they have taken the legal order, or again in those that have transplanted the external formal legal order with significant adaptation so as to make it appropriate to prevailing conditions. Conversely, countries that have transplanted an external formal legal order in a rather passive manner do not have good legal performances and their economic development is thereby adversely affected.

## **B. Legal systems and business networks**

It has been recently argued that the commercial legal system that is found in advanced market economies may be considered as a substitute to business networks. When the former develops, possibly out of informal contract enforcement mechanisms as suggested above, the latter become less necessary. Kali (1998) has thus shown that business networks – understood as groups of people trading with each other and obeying the norm of expelling anyone of them who has cheated once – are endogenous to the reliability of the legal system. If this reliability is high, the anonymous market is likely to set itself at a low-dishonesty equilibrium because opportunists choose to behave honestly. In these conditions, a business network which functions as a self-selection device for individuals of different types,<sup>3</sup> is unenforceable. If, on the other hand, the legal system is largely unreliable, the opportunists behave dishonestly and a high-dishonesty regime comes to prevail. A business network becomes enforceable,<sup>4</sup> yet, in accordance with what has been said above about the existence of multiple equilibria, nothing

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<sup>3</sup> There are three types of agents in Kali's model: two types behave mechanistically with regard to cheating, either honestly or dishonestly, while the third type, the opportunists, behave strategically on the basis of cost-benefit considerations.

<sup>4</sup> "Business in present conditions is so complicated and corrupt that reliability and really good contacts are highly valued", said the president of a tourist company from Novosibirsk, the Russian Federation (Ledeneva, 1998: 157).

guarantees that individuals will actually succeed in organizing themselves into such a personalized network. Thus, if communities do not exist or are too big or too heterogeneous, informal community-based trust mechanisms may be unenforceable and, consequently, there may be no other way to the market order than a system of individual legal responsibility backed by the state.

It is precisely at this point that the possibility must be considered that the relationship brought into light by Kali actually works in the other way around: thus, if we follow Greif's analysis, we would expect legal codes to evolve more quickly in "individualistic" than in "collectivist" cultures because cultures based on "individualistic" beliefs cannot rely on effective multilateral reputation mechanisms and business networks. In other words, "collectivist" societies are more effective than "individualistic" societies when division of labour and trade opportunities are relatively limited. Yet, when division of labour becomes more developed and exchange more complex, "collectivist" beliefs become an obstacle to further development, while "individualistic" beliefs can then lead to an "integrated" society in which inter-economy agency relations are established. This is apparently because the need for legal and political enforcement organizations, without which such relations cannot be sustained at reasonable costs, is more clearly felt and acted upon in "individualistic" societies (Greif, 1994a).

Taiwan Province of China provides a good contemporary example of a developing country where the existence of pervasive business networks (known as *guanxi*), rooted in a deep tradition of personalized relations and reciprocal commitments, has given rise to a dense web of extremely dynamic small- and medium-scale enterprises that do not need to rely on formal legal contracts such as they are used in most advanced Western countries. In the words of Kao, "In order to obtain trust, persons have to demonstrate certain qualities according to inter-subjective rules. These rules are not objectified, but are usually well recognized by the people involved. Because such informal, rather than formal, rules are used predominantly to regulate business activities, Western contractual relationships do not prevail" (Kao, 1991: 269). Interestingly, *guanxi* relationships, which are not confined to the family circle, are built up through gift exchanges typical of traditional village societies. Thus, when a person meets a potential partner with whom he has the right "feeling", he does not use a contract to seal the deal; rather, he and his business partner reach an understanding that is sealed by reciprocating small gifts, drinks and banquets (Hamilton, 1998: 66).

In the afore-mentioned work of Kali, the implications of business networks for economic efficiency have been explored by comparing social welfare in two situations: when the anonymous market is the only exchange institution in the economy, and when business networks coexist with the anonymous market. He then demonstrates that the existence of a business network may produce a negative externality on the functioning of the anonymous market. This is because it absorbs honest agents, thereby increasing the density of dishonest individuals involved in anonymous market exchange. It is only when a business group is relatively large that

economic efficiency is achieved.<sup>5</sup> The lesson is that informal contract enforcement institutions may be inefficient in general equilibrium even though they enhance efficiency in partial equilibrium.<sup>6</sup> Moreover, as the behaviour of many mafias attests, personalized networks, once formed, may have a vested interest in preventing any improvement of the legal system of codes and courts, thereby precluding the achievement of efficiency gains in the economy. In other words, they may be dynamically inefficient.

We have started from the point that informal governance systems may be problematic because they succeed only very imperfectly in discouraging cheating, or because even when they have that potential ability the suitable self-enforcing mechanism may fail to be established. It must now be added that the partial equilibrium result that informal contract enforcement institutions enhance economic efficiency is not robust to a general equilibrium extension. In particular, the existence of personalized business networks (see, e.g. Woolsey-Biggart and Hamilton, 1992; Hayami and Kawagoe, 1993; Fukuyama, 1995; Hodder, 1996; Hefner, 1998; Hayami, 1998) does not constitute *prima facie* evidence that the market economy functions efficiently either in a static or in a dynamic sense. Hence the above-stressed need for the development of the rule of law.

That informal norms or mechanisms can play the role of substitutes for formal laws and institutions, and vice versa, is only one possibility that ought not to be overplayed. In many situations, indeed, it is more likely that social norms and laws are mutually supporting, (Axelrod, 1986: 61), thereby vindicating the coexistence of the market, the state and the community. There are actually two sets of reasons why the fundamental problem of the market order cannot be solved satisfactorily by creating highly evolved political and juridical institutions (Elster, 1989a: 276). First, for small transactions, legal costs are typically too high to justify having recourse to legal procedures and court action (Fafchamps, 1996: 428). While laws often function best to prevent rare but large defections because substantial resources are available for enforcement (and while legal codification is often useful to clarify rights and obligations as well as to avoid mistakes), social norms are usually best at preventing numerous small defections where the cost of enforcement is low (Axelrod, 1986: 61). Second, two incentive problems tend to plague legal institutions. For one thing, as underlined by Arrow: “It is not adequate to argue that there are enforcement mechanisms, such as police and the courts; these are themselves services bought and

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<sup>5</sup> As a matter of fact, an increase in network size has two different welfare effects depending on the sphere of the economy. When the network creams off “good” types (the honest agents and the opportunists who choose to behave honestly) and therefore worsens the pool of agents remaining in the anonymous market, the welfare of people involved in market exchange falls and honesty becomes easier to enforce within the network. The lump-sum entrance fee falls and, as a result, the welfare of the members of the business group is raised. Thus, as the size of the network increases, the welfare of its members rises at the expense of the people operating in the anonymous market. If the network is so large that the fraction of the population remaining in anonymous market exchange is small, it becomes an economically efficient institution. Otherwise, it is inefficient.

<sup>6</sup> Another illustration of this possibility is provided by Kranton (1996) who makes the point that personalized exchange can persist even when it is inefficient for the economy. Note that her model is based on the assumption that in reciprocal exchange agents can only obtain the commodity produced by their trading partner.

sold, and it has to be asked why they will in fact do what they have contracted to do” (Arrow, 1973: 24 – cited from Williamson, 1985: 405; see also Arrow, 1971: 22; Phelps, 1975). For another thing, it is not because the law exists, even at the request of the people themselves, that it will be abided by them. The fact of the matter is that they have an incentive unilaterally to violate rules which they otherwise support.

In situations where fraud and deceit are widespread, people may be led to demand strong sanction systems so as to prevent rule-breaking and thereby reassure everybody that the rules are followed by others. Under their active or passive support, an authoritarian state bent on establishing or restoring “law and order” may thus be called into being. As pointed out by Banfield (1958), it is in societies pervaded by distrust and “amoral familism” (such as those of southern Italy) that people believe most in the need for a strong state to control their untrustworthy fellow citizens (see also Putnam, 1993: 112; Fukuyama, 1995: 99). The obvious difficulty with this solution is that it involves high administrative costs, creates a repressive climate around economic dealings, and risks entailing a generalized loss of freedom that people may later regret.

True, in order to economize on the costs of policing “good behaviour”, the state can decide to shift part of these costs to the citizens themselves. The easiest way to do this is through denunciation of deviant behaviour by the people themselves (possibly against some attractive rewards, material or symbolic) when the authorities define what is deviant behaviour. In so far as not joining in this form of punishment is itself taken as an act of rebellion against the authorities, a metanorm (Axelrod) is involved. Such a metanorm, however, appears to be especially perverse, not least because the vesting of prosecutorial powers in the public tends to be self-defeating. As a matter of fact, it ultimately creates distrust rather than trust and is bound to unleash witch-hunts by playing upon the worst human proclivities, those born of envious feelings, jealousy and professional rivalry. In the end, one does not know whether accusations of speculative behaviour, high treason or sabotage are not just fabricated pretexts to get rid of a personal enemy or contender, who cannot be won over through a fair contest, be it in the private or the public arenas of life.

Moreover, as attested by the experience of Stalinist USSR or of the Cultural Revolution in China, distrust tends not to be confined to economic dealings but to spill over into all spheres of human interaction. As a result, fear and suspicion infiltrate the whole society and individuals tend to withdraw from as many social intercourses as possible, to shun away from all risky ventures, and to take refuge in private life (MacDonald, 1991: 123; see also Lane, 1991: 217).

Clearly, the “Russian way” does not constitute an attractive solution to the trust problem. It is actually the product of a long history of strong central rule and state patrimonialism to which we shall soon return (see, e.g. Anderson, 1974, chap. 6; Raeff, 1984; Platonov, 1985; Riasanovsky, 1993; Pipes, 1995, 1999; Hosking, 1997).

### **C. Good and bad states: some lessons from European history**

Before assessing the role of norms in the maintenance of the market order, it is useful to derive from the above discussion a number of important implications regarding the desired nature of the state in the perspective of a market-based development.

In so far as state enforcement and legal provisions cannot be effectively imposed from above, and in so far as large chunks of everyday life must be governed by informal norms and practices (e.g. private dispute settlement mechanisms), it is essential that central political power does not assume extreme forms of authoritarianism. This implies that it does not attempt to regulate all aspects of people's life, that it relies on representative institutions through which the main interest groups of the country can make their voice heard, and that it promulgates laws that can be interpreted and implemented in an impartial and predictable manner. As the experience of Western Europe shows, representative institutions such as parliaments and courts develop gradually in the course of a protracted struggle through which the most influent sections of the society assert themselves by confronting a strong state power naturally bent on further entrenching its supreme position. More precisely, as a growing number of historians recognize today, "the power to approve or reject grants of money for the support of the monarchy undoubtedly made some countries' representative institutions more powerful than others" (Bonney, 1991: 323). In other words, accountable government originated in political struggles between rulers and citizens about the linkage to be established between taxation and representation (Bates and Lien, 1985).

Just consider the case of England as told by Douglas North and Barry Weingast (1989) or Charles Tilly (1992: 153–159). Here, during the critical period covering the seventeenth century, a major institutional evolution occurred that was to create tremendous opportunities for economic growth during the subsequent centuries. As a matter of fact, following the Glorious Revolution of 1688, a series of constitutional changes transformed the political regime from a system where the Crown had considerable leeway for imposing arbitrary measures on its subjects whenever it deemed fit, to a system where checks and balances were introduced to contain royal prerogatives, increase the powers of the parliament, establish the preeminence of the common law, and better ensure the independence of the judiciary. In short, the Revolution initiated the era of parliamentary supremacy, implying that the Crown could no more claim to be above the law.

This supremacy thus "established a permanent role for Parliament in the on-going management of the government", as a result of which the Crown could no longer call or disband the parliament at its discretion alone. More particularly, the parliament gained a central role in financial matters that was no more to be constantly called into question by the Crown for reasons of expediency and opportunism. Since the exclusive authority of the parliament to raise new taxes was "firmly re-established" and since at the same time the Crown's independent sources of revenue were also limited, the latter had to maintain successful relations with the parliament to achieve its own goals (such as the launching of wars). Its margin of manoeuvre therefore became severely constrained, all the more so because the parliamentary veto over royal



expenditures was combined with the right to monitor how the funds they had voted were spent (North and Weingast, 1989: 816; McNally, 1988: 8–11).

If the above transformation of the English constitutional system was to prove so critical for long-run economic growth prospects, it is because “political rights were seen as a key element of protection against arbitrary violations of economic rights” (North and Weingast, 1989: 816). As stressed tirelessly by classical economists, most notably Adam Smith and John Stuart Mill, political rights are an inescapable way to secure property rights, protection of private wealth, and elimination of confiscatory government. Interestingly, access to these protections were bought at a price, namely that of providing the government with sufficient tax revenue. Historically, Tilly argues, the need for reasonably strong and stable governments to solve a fiscal crisis, usually in situations dominated by armed conflicts with neighbouring countries, has been highly conducive to the adoption of representative institutions (Tilly, 1985, 1992; see also Bates and Lien, 1985). On the other hand, it is not only the abuses of the Crown but also those of the parliament that were guarded against. Most notably, the political independence of the courts limited the possibilities for the parliament to introduce measures to regulate markets along the line of Colbert in France, since these would have clashed with the common law courts which predominate over economic affairs (North and Weingast, 1989: 819, 829).

It is interesting to note that the above institutional transformations could easily have been missed. Indeed, the Crown nearly won the struggle against the parliament and, had a standing army existed in England, it would have been used by the Crown to suppress the opposition with the result that England would have probably followed the same fate as France and Spain. Yet, this did not happen and while in 1690 France was the major European power, in 1765 it was “on the verge of bankruptcy while England was on the verge of the Industrial Revolution” (North and Weingast, 1989: 830–831; McNally, 1988).<sup>7</sup> In France, the Estates General, a national representative assembly composed of clergy, nobility and a third estate of primarily townsmen, was doomed by the nobility’s hopeless division over the spread of the Reformation, and the Estates’ consequent inability to prevent civil war in the sixteenth and seventeenth centuries. Revealingly, Henri IV won the war with the support of a rival (but non-representative) institution, the *Parlement* of Paris (Bonney, 1991: 322–323). As for Spain, its institutional evolution was deeply influenced by the centralized monarchy and bureaucracy prevailing in Castile where the role of the representative assembly (the Castilian *Cortes*) was minimized because, ultimately, it proved unable to force the Crown to summon it (North, 1990: 113–114; Bonney, 1991: 323–326).

Closest to England’s experience was probably that of Sweden which possessed “one of the most powerful and enduring representative institutions of Europe”, the *riksdag* which was composed not only of nobles, clergymen and townsmen but also, unusually for European

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<sup>7</sup> France suffered a humiliating defeat at the end of the Seven Years War since it lost its new World colonies to England where the Crown, thanks to the stabilization of its relations with the parliament, was in a much better position to obtain funds without jeopardizing the economy.

assemblies, of peasants (Bonney, 1991: 326). The Swedish Crown eventually recognized that the *riksdag*'s explicit consent to new taxes and to conscription was needed and the latter assembly insisted that financial grants were made only for strictly limited periods so as to force the Crown to summon it regularly. During the constitutional crisis of 1650, the *riksdag* made it clear that its grievances would have to be met before it would grant new taxes. A generation later, the other three estates succeeded in undermining noble privileges exercised through the aristocratic-dominated council known as the *riksrad* (ibidem: 326–327).

Russia offers the opposite picture of a country where authoritarianism has always reigned supreme with the dominant social classes strictly subordinated to central power. Control of populations highly dispersed over vast spaces lying under the constant threat of invasions by nomadic tribes may have determined this situation of extreme concentration of political power. In the terminology of Tilly, Russia was a “coercion-intensive” state that relied heavily on sheer physical coercion to obtain the resources it needed from its subjects and to ensure compliance. Revealingly, in the aftermath of the conquest of Novgorod by Moscow’s grand prince in the second half of the fifteenth century, the monarchy succeeded to eliminate allodial property on a large scale, replacing it with tenure conditional on service to the tsar (Martin, 1995: 271–273). As a result of this suppression of private property rights in land, the Russian equivalent of the nobility (truly speaking, a service class) held both its land and its control over the serfs on royal sufferance. This was a fundamental factor in the country’s historic evolution, since it meant that “the Russian state grew and took shape without having to contend with entrenched landed interests” (Pipes, 1995: 172)<sup>8</sup>. Marc Raeff goes as far as saying that “the subjection of Russian society by the tsarist government started at the top”, with “nobles” being “transformed into nothing less than the serfs or servants of the sovereign” (Raeff, 1984: 10). In the same vein, Pipes writes that, in some genuine sense, “all Russians lived in a servile condition”. Peasant serfdom in Russia “was not an exceptional condition, but an integral aspect of an all-embracing system binding the entire population to the state... (it) was only the most widespread and most visible form of bondage which pervaded every layer of Muscovite society creating an interlocking system without room for personal freedom” (Pipes, 1995: 105 and 1999, chap. 4; see also Blum, 1961, chap. 9; Worobec, 1995: 29; Riasanovsky, 1993: 183–195).

Especially noteworthy is the fact that, in order to get a complete grip on the localities, the rulers of Moscow prohibited their provincial administrators from holding office in any area where they had estates and rotated them at annual or biannual intervals. In this way, they prevented the establishment of any link between land property and administrative/political functions. Of course, hereditary office-holding was totally unknown and the stern rule of

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<sup>8</sup> The pedigreed families and clans (usually known as *boyars*) which originally owned *votchiny* (a *votchina* is a land estate which was the legal property of the *boyar*) were gradually uprooted, especially under Ivan IV, implying that their estates were transformed into so-called *pomest’e* lands which they and their descendants could retain only for as long as they continued to render satisfactory service to the tsar. Their status thus began to resemble that of the more humble *dvoriane*, who were initially employed as domestic servitors of the appanage princes (and most of whom were actually slaves) to be later transformed into nobles by the tsar to counterbalance the pedigreed families and clans (Pipes, 1995, chap. 4).

temporary assignment of offices was applied to the highest levels of the service class, particularly the *voevody* (principal provincial officers combining administrative, military, fiscal, and judiciary functions) (Pipes, 1995: 96, 173). In such circumstances, not only peasants and merchants, but also service nobles, could never know for certain in advance what obligations they would have to discharge from one year to the next (Hosking, 1997: 57), a predicament that left them at the complete mercy of the central rulers.<sup>9</sup> In the words of Richard Pipes:

Western royalty, too, would have preferred its nobility not to become entrenched in the provinces, but in most countries it was unable to prevent this from happening and so it concentrated on weakening the nobility's political influence at the centre and replacing it gradually with a bureaucracy. In Russia, ... a *dvorianstvo* enjoying local roots would have challenged the very principle of monocracy, a basic ingredient of tsarist authority as historically evolved, and as such could never have been tolerated (Pipes, 1995: 173).

Given their long experience of vulnerability and subservience to the imperial power, it is perhaps not surprising that, when the tsar's grip over them was somewhat relaxed – such as happened under Peter III and Catherine II – the Russian nobles chose to solidify their economic and social privileges instead of attempting to acquire political rights and increase their contribution to the country's political life. In a striking contrast to their Western European counterparts, they thus continued to form a politically impotent class, unable to withstand the autocratic rule. Whereas, in Western Europe in general and in England in particular, the aristocrats dominated the countryside in the double capacity of administrators and proprietors, the Russian *dvorianstvo* “enjoyed too little of either power to be able to stand up to the monarchy”. In other words, what Russia lacked was the meshing of landed wealth with administrative functions in the hands of a concentrated hereditary rural elite that enabled the latter, wherever it existed, to resist royal absolutism in its most extreme forms (Pipes, 1995: 172, 177; Anderson, 1974: 338; Dixon, 1999: 93–96).

According to the above account, Russia's failure to develop institutions of representative government can be traced back to a deep-rooted tradition of state patrimonialism that prevented the rise of any form (including feudalistic) of private property rights. As a consequence, no really independent class could form with which the state would have to learn to bargain for taxes. In a recent book, Pipes summarizes his main argument as follows:

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<sup>9</sup> According to Pipes, again, the imposition of service obligations on all holders of land (and owners of serfs) had profound implications for the future course of Russian history since it meant nothing less than the elimination of private property in land. “This occurred at the very time when Western Europe was moving in the opposite direction. With the decline of vassalage after 1300, Western fiefs passed into outright ownership, while the development of trade and manufacture produced an additional source of wealth in the form of capital. In the early modern west, the bulk of the wealth gradually accumulated in the hands of society, giving it powerful leverage against the crown; in Russia, it is the crown that, as it were, expropriated society. It was the combination of absolute political power with nearly complete control of the country's productive resources that made the Muscovite monarchy so formidable an institution” (Pipes, 1995: 93–94; see also Pipes, 1999, chap. 4).

... the critical factor in the failure of Russia to develop rights and liberties was the liquidation of landed property in the Grand Duchy of Moscow, the principality which in time conquered all Russia and imposed on her a regime under which the monarch not only ruled the realm and its inhabitants but literally owned them. The fusion of sovereignty and ownership, a type of government known as “patrimonial”, vested all titles to the land in the hands of the monarch and allowed him to claim unlimited services from his subjects, noble and commoner alike. In marked contrast to the rest of Western Europe, where the authority of kings stopped at the boundary of private property, in Russia (until the end of the eighteenth century, at any rate) such constraint on royal power was unknown and, indeed, unthinkable. And when, toward the close of the eighteenth century, tsarism belatedly acknowledged private property in land, it encountered ... a great deal of hostility from both the educated elite and the mass of peasantry. The absence of property in land deprived Russians of all those levers by means of which the English succeeded in limiting the power of their kings. Since they required no taxes because all the land paid them rents and rendered them services, the tsars had no need to convene parliaments. Legal institutions which everywhere accompany property were rudimentary and served mainly as instruments of administration. The notion of individual rights was totally submerged by the notion of duties to the monarch (Pipes, 1999: 160).

The luck of England was not only that, rather early, a parliament could fulfil a critical role in the country’s political life, but also that the interest groups represented in it were not limited to big landlords. In addition to powerful nobles, the English Parliament did indeed comprise representatives of a commercially minded gentry (whom kings tried, over many centuries, to opportunistically favour and promote as a bulwark against the power of these nobles) and, increasingly from the eighteenth century, representatives of merchants mainly based in London (Tilly, 1992, McNally, 1988). In countries where conservative landlord interests collude with a strong central power, a rigid regime is established which stifles independent private initiatives on the levels of investment, risk-taking, technical, organizational, and institutional innovations. The experience of Sicily, which curiously parallels that of Eastern Europe (see Brenner, 1985), springs to mind as an illustration of the above possibility. As a matter of fact, the conquest of Sicily by Arab and Norman invaders brought to an end a long period of economic prosperity which made this country a rich source of grain supply for all the Mediterranean. The problem came because the new rulers “clamped on the island a system of alliance with militarily-active landlords that left little scope for cities and capitalists” (Tilly, 1992: 142). King Frederick II who acceded to power in 1208 succeeded in subjecting cities and, according to Dennis Mack Smith, this policy helped to ensure that there was never any class of merchants or civic officials independent and vigorous enough to offset the landowning aristocracy; and this lack of challenge to the aristocracy was to be a fundamental factor in the political, cultural and economic decline of Sicily. Whenever strong government failed, it was the nobles and not the local cities which filled the vacuum of power. It was therefore foreign towns – Pisa, Genoa, Venice, Amalfi, Lucca – which dominated Sicilian commerce” (Mack Smith, 1968: 56 – cited from Tilly, 1992: 142).

The thriving cities of Northern Italy had a more lucky fate since Friedrich I von Hohenstaufen known as “Red Beard” lost his wars to bring them under his control, as a result of which these city-states remained independent. The consequences for Italy were dramatic. Indeed, while in the year 1000 southern Italy outstripped Northern Italy in agricultural productivity, population and urbanization, by 1500 after five centuries of absolutist rule in the

south, southern Italy had just become “a backwater next to the productive and urban north” (Bradford Delong, 1995: 10).

To take another striking example, the decision of Spanish King Felipe II Habsburg, called “the Prudent”, to send his lieutenant the Duke of Alva to impose royal power on, and suppress heresy, in the Low Countries proved to be a turning point in the differentiated evolution of this region. While Alva’s government, the ill-famed “Council of Blood”, eventually crushed the wide-scale revolts it triggered in the southern half of the Low Countries, its efforts were foiled in the northern half where it was confronted with pervasive water barriers and the navy of the embryonic Republic of the Netherlands led by Willem I, Nassau “the Silent”. As a consequence, the northern provinces that were to become the modern-day Netherlands prospered while the southern provinces that were to become modern-day Belgium stagnated for centuries in spite of impressive past economic performances of cities such as Ghent, Brugge, and Antwerpen (Bradford Delong, 1995: 10).

Another scenario arises when, instead of colluding with (proto-) central power, powerful nobles enter into conflict with it. When no decisive outcome is achieved, a lot of uncertainty is thus created which contributes to fragmented polities and law orders with predictably disastrous effects on economic growth. This happened typically in Poland and Hungary, where “warrior nobles retained great power, including the ability to install and depose kings” (Tilly, 1992: 143). In Hungary, the towns remained tightly subordinate to their noble lords until, during the later fifteenth century, the crown eventually succeeded in building a relatively centralized and effective war machine (ibidem: 44). Yet, as cities were sparse and international trade played a minor role, there was no effective opposition of local merchants or capitalists to state power. Coercion prevailed like in neighbouring Poland where outside of Gdansk, which prospered with the expansion of the Baltic trade, merchants “were unable to break the grip of great landlords” (ibidem: 130, 132; see also Blockmans, 1994: 240–241). In the sixteenth century, the magnates’ domination was so overwhelming that they were able to impose a refeudalization of the society without having to contend or bargain with state structures (Wyrobisz, 1994:).

Contrast this situation with the position of merchants of Amsterdam, Dubrovnik, Venice, and Genoa “who could dictate the terms on which any state would operate in their territories” (Tilly, 1992: 130). As a matter of fact, “until the sheer scale of war with nationally recruited armies and navies overwhelmed their efficient but compact military power, capital-intensive states prospered in a warlike world”. Whether city-states, city-empires (like Venice), or urban federations, they all created effective state structures and, without resorting to large bureaucracies, they built institutions representing their commercial oligarchies into the very organization of their states (ibidem: 150–151). Even though they were later (in the sixteenth and seventeenth centuries) to be absorbed into growing national sovereignties and their administrative, judicial, and economic powers were thereby severely curtailed, these city-states could never be handled carelessly by the ruling dynasties (such as the Burgundy and the Habsburg) or princes (Blockmans, 1994: 239–240). As pointed out by Wim Blockmans: “even though areas with high urban potential were subjugated by monarchical states via conquest,

internal war, or heritage, they did not become dependent towns like those in central Europe after 1450. Accumulated capital, existing social and political structures, and the increase in urban activity could not be annihilated by physical violence alone” (ibidem: 244).

According to one influential account (Bates and Lien, 1985; Tilly, 1992; Moore, 1998, 1999), it is because the landlords’ power was based on landed property which is a fixed asset that this class had an adverse impact on the development of representative government. Contrariwise, merchants held mobile capital in the form of financial and trading assets. The precise argument is that there was particularly wide scope for shared gains from cooperation between rulers and owners of mobile assets. The latter had a direct interest in being protected against arbitrary and exploitative taxation to which they were especially vulnerable since their wealth was easy to confiscate. As for the former, if they were enlightened, they tried their best to retain within their jurisdiction existing capital owners and their business as well as to attract new capital owners from other political jurisdictions. Such inter-state competition, so the story goes, did not operate in the case of owners of real estate. In poor agriculture-based economies where there was little mobile capital and little prospect of attracting any, “rulers” objectives were more likely to be achieved through coercive taxation (and appropriation) and an (often unstable) alliance with landowners who were permitted wide discretionary power over the populations under their control” (Moore, 1999: 184).

#### **D. The growth-impeding logic of the African State**

State formation processes in developing countries are significantly different from what they were in Western Europe where a Darwinian process of inter-state military competition coupled with an intra-state process of resource mobilization for war-making purposes led to a “civilianization of government and domestic politics” (Tilly, 1992: 206). As aptly remarked by Tilly, many developing countries “have acquired their military organization from outside, without the same internal forging of mutual constraints between rulers and ruled”. As a result, “the new states harbour powerful, unconstrained organizations that easily overshadow all other organizations within their territories... the advantages of military power become enormous, the incentives to seize power over the state as a whole by means of that advantage very strong. Despite the great place that war making occupied in the making of European states, the old national states of Europe almost never experienced the great disproportion between military organization and all other forms of organization that seems the fate of client states throughout the contemporary world... In our own time, the analogy between war making and state making, on the one hand, and organized crime, on the other, is becoming tragically apt” (Tilly, 1985: 186).

Exploitation of great power rivalries during the Cold War period thus enabled many non-representative governments to obtain valuable support from abroad, including substantial aid flows that have had the effect of reducing the need to bargain with domestic groups for revenue and to mobilize their cooperation for the purposes of internal stability and effective rule

(Luckham, 1996; Moore, 1998).<sup>10</sup> Thanks to their ability to thus bypass bargaining with their subject populations, “large state edifices have grown up in the absence of significant consent or support from citizens”. And precisely because of a lack of strong ties between particular state institutions and major social classes within the population, new states have become “more vulnerable to forcible seizures of power and abrupt changes in the form of government” (Tilly, 1992: 207–208).

In many countries of sub-Saharan Africa, the problem is compounded by several, interdependent factors that are worth delving into here. To begin with, many African economies have an essentially agrarian base which implies that taxes are harder to collect, especially where population density is low and the population remains subsistence-oriented. Revenue collection in these economies has therefore often relied on coercion, or has targeted export commodities where trade flows rather than scattered production activities could be taxed (Mokoli and Binswanger, 1999).

In addition, a significant number of countries in Africa possess considerable mineral resources that provide an alternative tax base to capitalistic production or mercantile wealth and should allow them to avoid coercive taxation of peasants and taxation of agricultural exports. Unfortunately, however, the presence of rich mineral sites is likely to induce private interests or groups to challenge the state’s monopoly of coercive means with a view to arrogating to themselves the power to tax mineral wealth or to licence the rights to exploit it (Moore, 1999: 186; Mokoli and Binswanger, 1999). That a natural resource advantage may easily turn against a country by causing chaos is tragically illustrated by the protracted state of civil war in Sierra Leone where, thanks to their control of rich diamond deposits, the rebels led by Foday Sankoh could obtain sufficient weaponry to extend their brutal rule over the major portion of the national territory. It is revealing that many of Africa’s conflicts (in countries like Angola, the Democratic Republic of the Congo, Liberia, Mozambique, Nigeria and Sierra Leone) can be linked directly to contests for the control of natural resources such as diamonds, copper and oil, the extraction of which can continue even when it is subject to severe predation and the economic environment is disrupted (Binswanger and Collier, 1999).

Now, if the state can manage to appropriate a significant proportion of the resource rent, a predatory and authoritarian political regime can come into being simply because, like in the afore-mentioned case of international aid transfers, access to such ample revenues dispenses the political authority with the need to bargain with the population for tax proceeds, and thus enables it to resist popular demands for representative institutions and political accountability. Ample availability of natural resources and the resulting possibility of substantial “rentier incomes” thus seems to provide a significant categorical divide among African states, between the mineral-based states where patrimonial, personal rule flourishes and other states where political authority is less authoritarian and less arbitrary (Moore, 1999: 181).

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<sup>10</sup> It is estimated that, during the early 1990s, aid accounted for almost half the income of the typical government of those (mainly African) countries that the World Bank classifies as least developed (Moore, 1998).

There are still other important reasons that explain why African countries have not been able to produce a growth-inducing political regime. To understand them, it is useful to take a retrospective look at their colonial and pre-colonial legacies. Two points are worth emphasizing here. First, African kingdoms ruled over some parts of sub-Saharan Africa during pre-colonial times. One can thus think of the forest kingdoms of West Africa (including the Ashanti and Abomey kingdoms in present-day Ghana and Benin, respectively), the Fulani emirates of (what was to become) Northern Nigeria or Northern Cameroon, the Tutsi kingdom of Rwanda-Urundi, the Sokoto Caliphate in Sudan, or the highly centralized kingdoms of Buganda (in what is now Southern Uganda) and Barotseland (in present-day Zambia). They were often grounded in a sharp division between chiefly strata (of which there could be several layers superimposed on each other, as in the Ashanti kingdom in what is now a part of Ghana) and popular strata comprising farmers, artisans, and traders.<sup>11</sup> Yet, with the notable exception of Ethiopia, their form of administration was essentially patrimonial, implying that there was no genuine professional bureaucracy. This is not surprising since illiteracy prevented the use of written codes and regulations. In addition, some of these states exercised only a loose control over distant provinces or turned out to be rather short-lived structures: thus, in East and West Africa, slave-raiding gave rise to a number of temporary, small-scale, centralized polities which later collapsed (Goody, 1988: 19–20; see also Coquery-Vidrovitch, 1985: 98–100; Austen, 1987).

Whatever the level of political development achieved by these ancient African kingdoms, the fact remains that their boundaries were not coterminous with those of the independent states that Africans inherited at the end of the colonial period. This lack of correspondence not only prevented the consolidation of these ancient structures into modern states, but also gave rise to severe political and social conflicts at the time of independence. In the Gold Coast (Ghana), for example, a strong Ashanti sub-nationalism clashed with Gold Coast nationalism, as represented by the CPP led by Nkrumah. A rival party (the NLM) was founded with the backing of the great majority of Ashanti chiefs and the Asantehene to defend the interest of the Ashantis. Though it failed to gain power in the 1956 elections and to have its demand for a federation accepted, it left behind a legacy of bitterness, and probably inclined Nkrumah to adopt after independence emergency measures of an authoritarian kind, and to largely exclude the Akan ethnic group from the ruling circles (Chazan, 1988; Frimpong-Ansah, 1991: 98–99; Tordoff, 1997: 86). The traditional kingdom of Buganda posed an even more serious threat to the integrity of Uganda. The problem was eventually solved in 1966 when the Kabaka, the traditional ruler of Buganda, was forcibly removed and his kingdom was dismembered as a unit of government. In Zambia, the government used “a mixture of persuasion, threats and legal enactment to bring to an end the privileged position accorded to Barotseland under the agreement reached at independence in 1964” (*ibidem*).

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<sup>11</sup> For example, the medieval kingdoms of the Niger bend, such as the kingdom of Abomey, were built on the trade of salt, cloth, and beads which were brought south from the Sahara across to West Africa, on the one hand, and gold, ivory and slaves which were taken back to the Barbary coast and from there into medieval Europe, on the other hand (Goody, 1988: 23; see also Coquery-Vidrovitch, 1985: 99).



Returning to the case of the Gold Coast, it is important to add that “British administrators contradicted and undermined their own efforts to bolster the traditional rulers’ authority” (Firmin-Sellers, 1996: 29). The intent of the colonial officials was to build upon the institutions of the erstwhile Akan state by delegating authority to traditional rulers and, in this way, to promote stability and minimize the costs of governing. Yet, at the same time, the British stripped the chiefs of any independent coercive authority (e.g. by allowing a chief’s subjects to appeal decisions made in the chief’s tribunal to a British court, thus effectively turning the British courts “into a crucial legitimating force for the chief’s decisions” – *ibidem*: 29). Moreover, the British administrators refused to give the chiefs any direct influence over policy making (*ibidem*: 30–31).

Note that these centrifugal tendencies were an inescapable legacy to the new independent states since, after 1945 in particular, effective control of territory and populations ceased to be the *de facto* condition for recognition by other states. In the words of Mick Moore, “To be the legitimate successor of colonial rule was itself adequate to guarantee the recognition and the more substantial material resources, including international aid, that accrue to those holding governmental power. And in most of the ex-colonial world, but most strikingly in sub-Saharan Africa, Darwinian processes of inter-state competition were not only discouraged, but positively ruled out by the new international and regional systems. Governments that lost effective control of the populations and territories over which they nominally ruled did not as a matter of course fear wholesale predation on the part of their neighbours. There was conflict plenty, but almost all internal” (Moore, 1999: 178; see also Tilly, 1992, chap. 7).

Centrifugal tendencies were all the more important as the efforts of colonial rulers were generally aimed at increasing the power of local-level authorities over communities at the expense of preexisting centralized political institutions such as kingship. This is illustrated, for example, by the deliberate attempts of the French colonial state to sap the authority of the Mogho Naba in Upper Volta (today’s Burkina Faso) in order to foster division among lower-level authorities (the princes) within the ancient Mossi kingdom; or by its successful move to break up old political units in the highly centralized political system of Guinea’s Fouta Djallon (Boone, 1994: 114; Tordoff, 1997: 32). Reinforcement of the power of local authorities was problematic not only because they were charged with maintaining law and order (including the power to fine, conscript, imprison, and banish) by the colonial state to which they became directly accountable, but also because they were expected to advance the colonial economic agenda. The latter mission indeed implied that local chiefs, “strongmen”, or so-called “warrant chiefs” (who were sometimes “straw chiefs” directly appointed by colonial authorities when indigenous chiefs did not exist or when they were not deemed to be compliant enough) were vested with discretionary powers in allocating resources distributed by the colonial state (e.g. through agricultural cooperatives or mutual aid societies created at the behest of the colonial administration) as well as in mobilizing labour resources and collecting taxes on its behalf (Coquery-Vidrovitch, 1985: 115–127, 1999: 171–172; Bayart, 1989: 99–101; Boone, 1994: 115–119; see also Bates, 1976; Jackson and Rosberg, 1982; Berman, 1984; Skinner, 1989).

The pervasive role of localized and personalized modes of political control is a critical feature of colonial policy that was to have a profound and long-lasting impact on the social and political system of independent African states. Through marketing boards and other forms of state trading monopolies that took over positions held by European merchant houses in the colonial period, but also through agricultural cooperatives and a host of rural development projects including settlement schemes, post-colonial states pursued the earlier policy aimed at concentrating control of rural surpluses in the hands of bureaucrats, politicians, and other influential persons linked to new regimes (Boone, 1994: 122–123; Bates, 1981; Bayart, 1989). Thus, for example, rural cooperatives distributing cheap credit and subsidized inputs are typically formed by local units of the governing party so that access to such advantages is contingent upon political loyalty. And where the institution of chieftaincy was abolished in response to popular discontent, the rural strongmen of the colonial period were replaced by rural administrators, party men, and local notables or merchants tightly linked to the new state apparatus. Of course, the ability of local strongmen, whether urban or local, to secure access to state resources is a direct function of their ability to mobilize constituencies, followers, and communities (Boone, 1994: 123–124, 128).

When governments preempt important channels of potentially lucrative activities in the economy (e.g. export crop purchasing, transport, real estate, mineral extraction), and when dynamic individuals eager to enrich themselves or to exercise their entrepreneurial talents are absorbed into the regime's rent-generating and collecting patronage networks, what obtains is a logic of "politicized accumulation" that is narrowly linked to the inclusionary and co-optive strategies of regime consolidation described by Jean-François Bayart (1989) and Catherine Boone (1992), among others. Successful people are political rather than economic entrepreneurs (Janos, 1982), and such diversion of their creative energies into the political sphere obviously carries a high social cost. This is so not only because rent-seeking activities and monopolistic behaviour entail considerable efficiency losses, but also because the gradual emergence of an independent African bourgeoisie is thereby retarded and discouraged. As our analysis of the European experience has shown, by stifling the development of a genuine social class that will in due time have accumulated enough autonomous economic leverage to erect limits to state power, politicized accumulation actually prevents the long-term constitution of a growth-promoting state.

There is another disastrous long-term consequence of the above system in which accumulation of wealth is largely conditioned upon access to political power,<sup>12</sup> namely the political instability that is thereby generated. Unlike what obtained during the colonial era when supreme power stood indisputably in the hands of a single agent, the colonial state, power in post-independence Africa has been continuously contested because "decolonization opened new struggles between and within loosely integrated, heterogeneous, and often multiple coalitions for

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<sup>12</sup> Revealingly, the 1976 Nigerian constitutional draft held that politics opened up the possibility of "acquiring wealth and prestige, of being in a position to distribute jobs, contracts, grants or gifts to one's kin and political allies" (Bayart, 1986: 123).

control over the state apparatus itself” (Boone, 1994: 121). Contest takes place at the upper echelons of the hierarchical networks of patronage ties through which state resources continuously flow. It is true that African elites which succeeded in capturing power have tried their best to revamp and extend the system of parochial political control that had worked to fragment and isolate social forces during colonial times. Yet, the very nature of the emerging state was bound to cause fierce struggles over the spoils of power that would increase rather than mitigate antagonisms between the disparate groups contained within post-colonial regimes (Sklar, 1979; Hyden, 1983; Young, 1986; Joseph, 1988; Staniland, 1986; Ravenhill, 1986; Bienen, 1987; Boone, 1994: 126–127; Bayart, 1986, 1989; Kennedy, 1988; Herbst, 1990).

In particular, people compete for a share of the spoils by enlisting in factions defined with reference to their region of origin. Leaders of such factions conceived as “a technique of elite competition” can thus invoke traditional sentiments to reinforce their appeal and win solid popular backing. Note that they are not necessarily coterminous with ethnics: patron-client networks may well cut across ethnic identities or comprise groups of people among whom ethnic and/or religious ties are not particularly salient. Also worth emphasizing is that, contrary to a common representation, “ethnic groups are heterogeneous units and the individuals who belong to them have more than one cultural identity; which has relevance depends on the situational context” (Torndoff, 1997: 92, 95, 106, 111).

The African political scene is thus the stage of cut-throat competition between rival networks of patronage articulated around regional factions, cliques, or religious, ethnic, linguistic and economic groups. The merciless struggles for access to power and the wealth it secures to the winners make for weak states, despite appearances to the contrary created by the authoritarian modes of conduct followed by many African rulers, and by the concentration of coercive means in their hands. The problem comes from the fact that there is no well-established institutionalized mechanism for acceding to, and maintaining oneself in power. All tricks are permitted so that democratic procedures, when they formally exist, are just debased versions of the models imported from the West. As a consequence, political regimes are chronically unstable even when there is no change of leader, and the rulers’ time horizon is very short. In the desperate hope of clinging to power as long as possible, rulers spend most of their resources and energy in bribing their opponents into their personal clique and, if they fail, they do not hesitate to have recourse to graduated forms of intimidation that ultimately carry the threat of sheer physical elimination (Bayart, 1989).

Weakness of African rulers does not stem only from this climate of constant fear of being removed from power by rival factions, but also from their vulnerability towards their own supporters who need to be continuously rewarded to remain loyal (Booth, 1987).<sup>13</sup> In this fluid political set-up dominated by unregulated factional competition as well as by the instability of

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<sup>13</sup> Hence the observation that, if African governments are primarily concerned with maintenance of political power and distribution of wealth to themselves and their supporters, “the reason lies not in their special greed or malevolence but rather in the fact that rulers of new states cannot afford the luxury of disinterested public service because their position as rulers is fundamentally unstable” (Fieldhouse, 1986: 94).

ruling coalitions composed of disparate elements recruited through co-opting and cajoling, it is not surprising that many countries of sub-Saharan Africa appear as deeply fragmented polities. To say that in these polities local magnates hold fragmented sovereignty in their hands does not necessarily point to civil war situations such as those found in Somalia, Sierra Leone, or the Congo. As attested by the leverage of the *marabouts* in Senegal, even in formally democratic and pacified countries, political fragmentation may run deep into the political fabric.

It is actually difficult to think of a political environment more uncongenial to long-term economic growth and development. At the bottom of the problem lies the explicit link between political power and wealth as well as the zero-sum game concept implicit in African politics: every group striving for power views other contending groups just as rival claimants in a purely distributive struggle, so that no arrangement or compromise with them is deemed desirable or possible. Since there are no perceived complementarities between the contending political factions, the situation is that of a zero-sum game akin to a state of political war.

#### **E. The relationship between formal law and moral norms**

Thanks to their having been placed on a virtuous institutional trajectory, Western European countries were able to evolve cost-effective solutions to allow for the expansion of trade relationships and the rise of economic specialization. Two characteristics of these countries's experience deserve attention. First, the domain of public power is restricted, implying that many aspects of social intercourse which create opportunities for conflict could be organized by the individuals themselves, according to certain informal standards or fundamental rules for mutual tolerance. This is an essential feature because "life in society, as we know it, would probably be intolerable if formal rules should be required for each and every area where interpersonal conflict might arise" (Buchanan, 1975: 118–119). And, second, to the extent that formal rules are needed to resolve conflicts, the costs of operating law-enforcing agencies is not too high (*ibidem*, and Shott, 1979: 1329).

These two achievements – the thriving of civil society and dynamic associative movements, on the one hand, and a good measure of law abidingness, on the other hand – would not have been possible without the continuous operation of moral norms conducive to the building up of trust. In fact, moral norms act as a substitute for, or a reinforcement of, state-engineered rules or control mechanisms, with the result that enforcement and punishment institutions become of secondary importance. The first effect (substitution) derives from the fact that individuals internalize public good considerations while the second one (reinforcement) arises from their conviction that the law represents the public good. In this perspective, civic consciousness appears as this attitude of respect for the law which tends to prevail among citizens who have such a conviction. When individuals thus place a high value on obedience to law, the announcement and enactment of the rules that constrain behaviour suffice to cause compliance. As reminded by Hausman and McPherson (1996: 57), Adam Smith did not fail to see that no

legal system “could rely purely on criminal sanctions for its enforcement. A widespread conviction that people ought to obey the law is essential to the maintenance of social order”.

From recent empirical studies conducted mainly in the United States, there is evidence that normative concerns, rather than purely instrumental considerations based on cost-benefit calculus, are an important determinant of law-abiding behaviour. In fact, voluntary compliance with the law depends on the extent to which people assess its legitimacy, and assessment of the law’s legitimacy is strongly influenced by their assessment of the fairness of procedures used by the police and the courts. Procedural fairness, rather than distributive fairness (fairness of the outcomes themselves) or other aspects of procedures unrelated to fairness, such as expediency and predictability, seems to be the key to personal judgments of legitimacy understood as the perceived right of public authority to dictate people’s behaviour (Tyler, 1990, chaps. 5–6).

Clearly, the fact that laws provide external validation of underlying social norms appears to be an important factor of effective implementation of the former. It also testifies that, in most situations, the law can only work as a supplement (and not a replacement) of informal enforcement of norms (Axelrod, 1986: 61).

## **II. THE ROLE OF MORAL NORMS**

### **A. The function of moral norms and the motivations of norm-following**

Recently, a group of economic theorists interested in this topic have shown a predilection for viewing social norms as behavioural patterns which agents want to follow given their expectations regarding others’ behaviours, including the punishments meted out to players guilty of non-cooperative moves. Such an approach enables them to treat social norms as equilibrium outcomes of strategic interactions among actors rather than as social givens that are left unexplained. In more technical terms, norms are interpreted as Nash equilibria of particular games, defined as situations where agents’ preferences or payoffs as well as the information structure of their interactions have been specified. In short, a social norm corresponds to a certain profile of strategies that are self-enforceable and sustainable once established (Kandori, 1992; Aoki, forthcoming, chap. 1; Greif, forthcoming).

Moral norms as they are understood in the remainder of this paper are a different concept. They are not endogenous outcomes of interactions among individuals acting strategically within a given framework. After all, the behaviour of most people who refrain from running away, without paying their bill, from an oil station or a restaurant which they do not expect to visit again, or from taking free taxi rides, can obviously not be conceptualized as a game equilibrium. Neither does such type of conceptualization square with the results from designed experiments that show relatively high rates of cooperation in PD-structured games that are played only once

or where defection cannot be detected, or that show significant levels of generosity even towards strangers.<sup>14</sup>

Rather than self-enforcing equilibria on which people coordinate, moral norms are viewed here as cultural beliefs that have the effect of truncating the players' strategy space or of modifying their preferences or payoffs.

Let us first consider the truncating function of norms. What is meant here is that by ruling out some strategies because there are things that "are not done", norms favour the selection of the cooperation equilibrium. Moral norms then provide the kind of "friction" required to make the "good" equilibrium more likely (Dasgupta, 1988: 70–71). For example, in the initial stages of a repeated game, it is not considered ethical to cheat partners who belong to one's community because trust ought to be tried when one deals with people sharing common identity feelings. Subsequently, if partners have behaved honestly in the initial rounds, honest behaviour should be pursued. In other words, the tit-for-tat strategy is a sort of focal strategy suggested by the moral code inherent in community ties and, as we know, if everyone adheres to this strategy, the honesty equilibrium will be established.

On the other hand, a change of payoffs induced by the inculcation of moral norms makes the honesty equilibrium more likely. Here, one can think of the transformation of a Prisoner's Dilemma into an Assurance Game that may occur if such norms penalize any behaviour that exploits the benevolence or goodwill of a partner. A moral norm therefore appears as a social norm that forces or leads people to take others' interests into account.<sup>15</sup>

What is it that motivates people to follow a moral norm? One possibility is that "people's desire to act on principles that no rational agent could reasonably reject, or their desire not to free-ride, but to do their part in practices of which they approve, can motivate them to follow norms, even when doing so will not benefit them materially" (Hausman and McPherson, 1996: 58). Thus, the Kantian generalization principle, according to which an action is morally possible only if it can be universalized without self-contradiction, provides a good ground for moral behaviour: "one ought to abstain from any action that would threaten to disrupt social order were everybody to undertake it or that one would not be prepared to see everyone else adopt". The idea is therefore that the good consequences of a moral norm can motivate people to abide by it. Yet, such an explanation suffers from the functionalist bias and remains incomplete as long as a proper account is not offered of the mechanisms by which the favourable consequences help produce or sustain the moral practice (Elster, 1989a, 1989b).

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<sup>14</sup> Just to give one striking example, in their field experiments in New York city (during the spring of 1968), Hornstein and his colleagues found that, in what is typically a one-shot game, an astonishingly high 45 percent of "lost" wallets were returned completely intact to their owner by passers-by who came across them (cited from Frank, 1988: 216; for a recent survey, see Ledyard, 1995).

<sup>15</sup> In other words, moral norms differ from social norms (e.g. a norm of etiquette) in the sense that they constrain the full-blown pursuit of self-interest in PD-structured situations.

Because people are always somehow sensitive to the costs of honesty, morality does not usually mean unconditional commitment – “each individual behaves the way he would wish others to behave, regardless of which way they actually behave”. This ethical principle indeed appears as too strong a tenet to form the basis of practical morality: honesty is too costly when people who behave honestly are constantly cheated. A more realistic code of moral behaviour is the principle of reciprocity or “reciprocal fairness”: according to this code, “you behave the way which you would like the others to behave, but only if they actually meet this expectation” (Sugden, 1984: 774–775; Elster, 1989a: 214). In other words, people want to be kind to those who have been kind to them (the positive reciprocity aspect) and to hurt those who hurt them (the negative reciprocity aspect) (Fehr and Tyran, 1996: 134; see also Rabin, 1993).<sup>16</sup> If we believe in experimental evidence, reciprocity appears as an empirically important motivational drive (see, e.g. Eiser, 1978; Roth, 1988, 1995; Roth et al., 1991; Dawes and Thaler, 1988; Frank, 1988: 213–216; Camerer and Thaler, 1995; Fehr and Tyran, 1996; Fehr et al., 1997, 1998, forthcoming; Rabin, 1998: 21–24), a finding confirmed by questionnaire studies (see, e.g. Kahnemann, Knetsch, and Thaler, 1986; Agell and Lundberg, 1995) and by some anthropological works as well (e.g. Bromley and Chapagain, 1984; Bagchi, 1992; Boehm, 1993).

Reciprocity is more likely in long-term relationships, not a surprising result since there are more opportunities for reciprocation of both the positive and negative kinds when parties interact longer. In addition, people seem to “determine their dispositions towards others according to motives attributed to these others, not solely according to actions taken”. In particular, volition is central to the propensity to retaliate against negative actions (Rabin, 1998: 22–23).

Another crucial finding is that, as already pointed out earlier in this paper, the institutional context seems to affect human behaviour. Thus, the impact of reciprocity is negligible if contracts are completely specified. In other words, competitive markets with completely specified contracts quickly converge to the competitive equilibrium, even if the resulting allocation is unfair by almost any conceivable definition of fairness (except, of course, the notion of fairness based on market-clearing as a means to prevent waste). By contrast, reciprocity plays an important role when contracts are incompletely specified, even in the cases where incomplete contract situations are embedded in a competitive market. In other words, “the existence of opportunities for reciprocation may significantly alter market outcomes” (Fehr et al., 1998: 19). For example, wages offered by firms in conditions of a large excess supply of workers never come close to the market clearing level when firms do not know the effort they would get from the workers who accept their contract. Again, this is because firms try to induce workers’ positive reciprocity.<sup>17</sup>

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<sup>16</sup> Note that reciprocal fairness is neither purely egoistic behaviour (since reciprocators incur some personal cost in responding to other people’s actions) nor purely altruistic behaviour (since “gifts are exclusively presented to people who gave something before, or are supposed to give something back later”) (Fehr and Tyran, 1996: 134).

<sup>17</sup> Contract choices can obviously be affected by reciprocal behaviour. Firms may thus favour simple, non incentive-compatible labour contracts that induce workers to provide effort beyond the level that is enforceable by incentive compatible devices (Fehr et al., 1997; forthcoming).

## **B. The role of emotions**

When transactions are one-shot deals that take place between strangers, the principle of reciprocal fairness can be taken to mean that the utility from abiding by a norm, or the disutility from violating it, rises with the level of adherence in the general population (Lindbeck et al., 1996). Or, in the former kind of situations more specifically, someone who benefitted from a favour becomes the others' benefactor, whereas a harmed person becomes non-cooperative (Fehr and Tyran, 1996: 134). However, as soon as we posit the presence of a certain proportion of inveterate opportunists in the population, it is only under special conditions that honest behaviour may be expected to become established and survive under the influence of reciprocal fairness motivations (without being able to eliminate fraudulent behaviour altogether). The sustainability of honesty becomes a more realistic prospect if, instead of simply following the principle of negative reciprocity which implies the giving up of honest behaviour as a result of bad experiences, agents are prone to punish dishonest people in a more straightforward manner, that is, if they adopt what Trivers (1971) has called "moralistic reciprocity".

The second-order public good problem of the nature of the incentives to punish non-cooperators then immediately arises. As a matter of fact, if punishment is costly while the benefits of honesty accrue to the population as a whole, why should selfish individuals chose to punish? This problem may be solved if a metanorm suggests the treatment of non-punishment as if it were another form of defection (Axelrod, 1986), that is, if moralistic reciprocators punish not only people who behave dishonestly but also those who fail to punish dishonest agents or who fail to punish non-punishers. When such strategies are common, it can pay to punish, even though the resulting spreading of honesty is not sufficient to compensate some individual punishers for the cost of punishing. If moralistic reciprocators are sufficiently numerous, the cost of punishing dishonest behaviour may be small, and the cost of being punished large (Fehr and Tyran, 1996: 142–143).

Another possibility exists that has not escaped the attention of Axelrod (1986: 57–58): a cooperation norm can be promoted and sustained if, instead of incurring a cost for the punishment of defectors, agents are rewarded for such an act, implying that they feel some sort of a gain from punishing (what he calls the "internalization" mechanism). Honest people can thus be motivated to sanction fraudulent practices because they feel morally shocked or outraged by the behaviour of transactors who cynically exploit the benevolence of other honest agents. To relieve their feelings of indignation and anger (or what Axelrod calls their vengefulness), they are then apparently willing to incur personal costs: emotions drive these moral or self-righteous individuals to behave "irrationally" (i.e. in a reciprocally fair manner), but in a way that is ultimately beneficial to society. Or, to put it in another way, when a person is motivated by indignation, his act of punishment (e.g. his rejection of a bad offer in an ultimatum game) will give him the "pleasure of revenge" (Elster, 1998: 69), so that the cost of punishment is only apparent or is compensated for by a pleasurable emotion. Moralistic reciprocity here appears as



a propensity to behave honestly with other people sharing the same disposition, and a willingness to punish those who violate the ethical code of honesty, even at a personal cost.

The fact of the matter is that internal rewards and sanctions are often operating in individuals which are manifested in the form of self-satisfaction feelings aroused by abidance by the honesty code<sup>18</sup> and in the form of guilt feelings aroused by violation of this code. The other side of the guilt-feeling process is precisely the afore-mentioned reaction of indignation and moral outrage sparked by observations of cheating on the part of other individuals. Internal rewards and sanctions are generated by moral norms which have been internalized by the individuals (in Freudian terms, they form their superego), and provide society with a self-policing mechanism that exempts its members (or the state authorities) from the need to resort to external monitoring and punishment devices.

Internalization of standards may be said to arise when an individual actually conforms because of a personal attitude about the act itself, that is, when conformity becomes a motive of its own because it is intrinsically rewarding or because deviation is intrinsically costly (Weber, 1971: 22–23; Opp, 1979: 777, 792; 1982: 146; Jones, 1984: 89; Taylor, 1987: 13). Hence “internalization refers to the aspect of the process of socialization through which attitudes, values, and behaviour patterns come to be maintained even in the absence of external rewards or punishments” (Jones, 1984: 89–90; see also Aronfreed, 1968, 1969, 1970: 104; Bergsten, 1985: 115; Coleman, 1990: 245, 293). As a result, moral norms are followed even when violation would be undetected, and therefore unsanctioned, because the moral act, which appears to be in conflict with the immediate or direct interests of the actor himself, is valued for its own sake (Griffith and Goldfarb, 1991; Elster, 1989a: 131, 1989b: 104).

To sum up, the effect of moral upbringing is (i) to inculcate in people preferences of the reciprocity type by leading them to adopt the others’ viewpoint in situations where their own acts are susceptible to causing harm to others; (ii) to instill an optimistic rather than a cynical perception of other individuals, thereby contributing to establishing trust in the others’ predisposition to abide by the same ethical code; (iii) to make external monitoring and punishment of dishonest behaviour less necessary owing to the desire to avoid guilt feelings and enjoy the pleasure of self-satisfaction; (iv) to drive people to resist the temptation to give in too easily to dishonest behaviour after they had unpleasant experiences in which they were the victims of fraud and malpractices; and (v) to arouse feelings of moral outrage so that they are willing to detect and punish dishonest behaviour, even at a personal cost, and when they have not been themselves harmed by this behaviour.

Through these five effects, the inculcation of moral norms helps to establish an equilibrium dominated by honest behaviour. The first effect modifies individual preferences in such a way

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<sup>18</sup> Thus, the dean of a Faculty at the university of Akademgorodok (Russia) expressed his motivation to help by saying that “If I am asked, I drop everything and help the other person, because I can imagine myself in his place. Indifference or refusal is a psychological trauma” (Ledeneva, 1998: 163).

that the Prisoner's Dilemma game, where universal cheating is the only (Nash) equilibrium, becomes transformed into an Assurance Game where honesty becomes a possible equilibrium outcome. By establishing trust, the second effect increases the likelihood that honest behaviour will be actually chosen by individuals with a reciprocity-type payoff structure. As for the last three effects, they help to establish the dynamic sustainability of the honesty equilibrium (for more details, see Platteau, 2000, chaps. 6–7).

Finally, it should be emphasized that market economies cannot function effectively if property rights (whether private or public) are not respected by a considerable majority of citizens. A situation in which individuals have the possibility to steal goods or assets belonging to other agents (or to the state), without incurring too high a risk of being detected, is not akin to a game (there is no strategic interaction) but to a single-person choice problem. It is straightforward that in such situations inculcation of moral norms helps prevent thefts. Yet, since moral beings are reciprocators, they are not ready to refrain endlessly from stealing if they somehow come to learn that many other individuals violate property rights. In other words, a game-like situation is created by the fact that individuals are sensitive to how other people behave, and the game actually resembles the one used to study anonymous exchange between strategic transactors. Through the five above effects, moral norms thus increase the chances that an equilibrium comes into being where respect of property rights is pervasive.

### **C. Generalized morality and the market order**

From the above discussion, it is evident that inculcation of moral norms involves much more than purely cognitive learning. This is particularly true of primary socialization which an individual undergoes in childhood, since it takes place under circumstances that are highly charged emotionally (Berger and Luckmann, 1967: 149–157). What needs to be emphasized now is that primary socialization creates in the child's consciousness a progressive abstraction from the roles and attitudes of concrete significant others (usually the parents) to roles and attitudes in general, implying that the child becomes able to identify "with a generality of others, that is, with a society" (ibidem: 152–153; Lane, 1991: 82). This is an important aspect, since any moral rule includes an element of conceptual generality that involves the capacity to recognize the claims of others, and to impose such rules both on oneself and on others similarly situated (Griffith and Goldfarb, 1991).

If generalized morality is to be capable of sustaining order in a wide market domain, it is essential that concern for others or ability to see things from another's viewpoint be based on identity or loyalty feelings towards a large reference group. This is precisely the condition which Mark Granovetter finds problematic. He contends that norms of limited-group rather than generalized morality can tame fraud and deceit: in his own words, networks of relations, rather than institutional arrangements or generalized morality, "are the structure that fulfils the function of sustaining order" (Granovetter, 1985: 491). Nonetheless, the ability to recognize the claim of a large generality of others is clearly present in the Christian ethical principle, according to which

we ought not to do to other people what we would not like them to do to us. And Max Weber, as is well-known, has contrasted the achievement of generalized morality (what he called “universally binding morality”) in Western Europe in modern times with the limited domain of trust in traditional societies.

Weber’s point is that the universal diffusion of unscrupulousness in the pursuit of self-interest was far more common in precapitalist societies than in their more competitive capitalist counterparts (Weber, 1970 – quoted from Gambetta, 1988b: 215–216). While normative behaviour based on the principle of reciprocity (“I cannot expect others to deal honestly with me unless I am honest with them”) was restricted to real kith and kin in the former societies, security of expectation or assurance has been provided by the pervasive influence of a code of generalized morality in the latter. Such a code can be considered as “the great achievement of the ethical religions” which succeeded in destroying “the fetters of the kin”, an outcome which could not materialize in China where “the fetters of the kinship group were never shattered” owing to the absence of a similar ideology (Weber, 1951: 237 – quoted from Pagden, 1988: 139). Note that reference to the case of China is probably unfortunate since, if this country had no established faith (it was indeed characterized by an extraordinary religious tolerance), it could rely on an effective lay morality (Confucianism) which the mandarin and imperial court helped maintain and enforce over the centuries (Landes, 1998: 38).

In a similar line to that of Weber, Adam Seligman has recently emphasized the crucial role of Protestantism in “privatizing morality”, that is, in placing an ever-increasing stress “on the individual, the individual conscience, and the realm of the private as the arena of religious activity”. This revolution implied the rejection of the authority of ecclesiastical institutions and the grounding of religious life in the individual believer’s inner ability to know religious truth. Most relevant to the present discussion, it led to the construction of new social identities stretching beyond the confines of traditional ties of the neighbourhood, the village, or the parish (Seligman, 1997: 138–141). Seligman thus points to a decisive shift from limited to generalized morality, when he speaks about the recasting of the bonds of “community” as a shared tradition into new bonds of “communality”: “Integrating all communal members in one collective definition, the boundaries between insider and outsider no longer ran through the community, but rather through each individual member”, as a result of which “the crossing of a boundary in the move from profane to sacred and from outsider to insider...became less a public ceremony and more a private rite” (ibidem: 136, 141).

The historian Lawrence Stone similarly argues that in the period from 1560 to 1640 English society underwent “a fundamental shift in human values and in the social arrangements that went with them”. This shift can be described as a change from a “lineage society”, characterized by bounded horizons and particularized modes of thought, to the more universalistic standard of values of a “civil society”. The causes of this fundamental change are interdependent: “the Reformation with its powerful drive for the Christianisation of society and its claim to overriding moral allegiance through the preaching of the Word; grammar school and university education in the rhetoric of Humanism with its stress on loyalty to the prince; Inns of Court education in

respect for an abstraction, the common law, as superior to any private or local loyalties to individuals; ..." (Stone, 1990: 100). In the context of the rise of the powers and claims of the state, encouraged by the Protestant Reformers, kin and client loyalties were thus increasingly subordinated to the higher obligations of patriotism and obedience to the sovereign (ibidem: 93).

Other authors have highlighted the role of political doctrines in the diffusion of generalized morality. The ability to put others on a similar footing with oneself would thus lie at the heart of classical republicanism, a political doctrine (initially formulated by Nicolo Machiavelli and several of his contemporaries and later taken over by Alexis de Tocqueville) centred around the notions of a well-ordered republic and public-spirited commitment to the common good. The emphasis on virtues of civic humanism or consciousness, and on the need to withstand the dictates of private interest whenever they undermine the public good, were expected to enable men from different kin groups to trust each other, thus making possible the operation of a "commercial society" (Pagden, 1988: 139; McNally, 1988: 40–43). The communal republics of Northern Italy during late medieval times served as a reference case for many founders of this political doctrine: thanks to a first and fervent allegiance to their own city-state, members of these mini-republics are supposed to have shown an unparalleled degree of civic engagement, as a result of which trust could be extended beyond the limits of kinship further than anywhere else in Europe in this era (Putnam, 1993: 127–131; Fukuyama, 1995: 108). According to Skinner, the social ethos of Calvinism can actually be seen to constitute a special case of classical republicanism (Skinner, 1974). In other words, "it was not a specifically Calvinist or Puritan work ethic which encouraged economic take-off in the Protestant cities of the seventeenth century, or Christianity itself in the medieval cities of north and central Italy, but the secular ethic of classical republicanism" (Pagden, 1988: 139).

A major lesson to draw from the above discussion is that it is inappropriate to account for "the rise of the Western world" in modern times only in terms of a powerful "cult of individuality". Equally important is the fact that in Western Europe since the middle ages the emancipation of the individual (within the framework of national spaces) from feudal interference and from erstwhile networks of social and political allegiance went hand in hand with the development of generalized morality, in which abstract principles or rules of conduct are considered equally applicable to a vast range of social relations beyond the narrow circle of personal acquaintances. Thus, if attention is turned to the Protestant Reformation, it is essential to enlarge the conventional wisdom according to which it gave a big boost to personal autonomy, education, scientific inquiry, entrepreneurship, and the thrifty use of money and time – all of which values foster capital accumulation and growth (see, for example, Landes, 1998: 175–181) – to underline the transformation of social bonds that went with it, in particular, the "privatization" of religion, and a moral allegiance that goes beyond the confines of kith and kin.

Countries that have a generalized morality but where individual emancipation is held under severe control by the custodians of the ruling doctrine, whether religious (like in Islamic countries where holy men govern society and religion reigns supreme) or lay (like in Ancient China where the mandarin and imperial court, in their capacity to define the official doctrine,

could judge individual thought and behaviour), are not in ideal conditions to develop: private initiative, innovation and dissent are strongly repressed as the whim takes the ruler.<sup>19</sup> The “political secularization of faith”, as Kriegel has called it, is also the trap that, unlike its Western counterpart, nineteenth-century Eastern Europe was not able to escape. The same pitfall drove into prolonged economic decadence inquisitorial Spain and the regions which were unfortunate enough to fall under its rule. This applies not only to the southern part of the Low Countries (see *supra*), but also to neighbouring Portugal, where a period of remarkable advance in sciences and techniques was brought to a close when pressure from the Roman Church and Spain led the Portuguese crown to abandon its policy of religious tolerance at the turn of the sixteenth century, soon to fall under more direct Spanish influence.<sup>20</sup>

On the other hand, countries whose citizens have a large margin of freedom but where no public morality exists to place restraint on the harm which individuals can inflict upon each other – in particular, where there is no ethics preaching the respect of private property rights – are not in a good position to seize growth opportunities, as the example of present-day Russia or countries of the Caucasus attests.

A final word of caution: it must be reckoned that the borderline between limited-group and generalized morality is somewhat blurred because morality is rarely applied indiscriminately to all human beings. It is thus obvious that Western societies have typically ceased to apply their moral-ethical principles once they came into contact with non-European peoples on the periphery of “their” world. The history of slavery and of colonial exploitation is there to remind us of this basic fact: for example, it was considered morally legitimate by Europeans to cheat American Indians on the grounds that they were lazy, irrational, and unwilling to repay their debts (Ortiz, 1967: 203). This being said, if limited-group morality is understood as morality restricted to concrete people with whom one shares common identity feelings while generalized morality is morals applicable to abstract people (to whom one is not necessarily tied through personal, family, or ethnic links), one is on better grounds to argue that the Western world has a somewhat unique history rooted in a culture of individualism pervaded by norms of generalized morality.

#### **D. Reinforcement processes**

The church (both Catholic and Protestant) obviously played a central role in the process of moral norm generation and maintenance throughout modern Western history. Its impact was all

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<sup>19</sup> The interruption of Islamic and Chinese intellectual and technological advance at critical times of their history (e.g., the abandonment of the programme of great voyages in China during the early sixteenth century, or the fact that the Confucian doctrine supported and diffused by Chinese rulers abhorred mercantilistic practices) was decided at the highest level in an abrupt and irrevocable fashion and institutionalized in the minutest details (Landes, 1998: 52-55, 96-97, 200; Jones, 1981: 168-169).

<sup>20</sup> *Stricto sensu*, the Inquisition was installed in Portugal only in the 1540s and it did not become “grimly unrelenting” until the 1580s, after the union of the Portuguese and Spanish crowns in the person of Philip II (Landes, 1998: 133).

the more significant as (i) it promised a considerable reward (an eternal life of absolute happiness) for all those who were ready to incur personal sacrifices by behaving in other-regarding ways; and (ii) monitoring costs could be brought to a minimum insofar as God was thought to act as an impartial and free monitoring agent. Regarding the first aspect, the following must be noted: unpleasant experiences of dishonest dealings do not easily discourage believers if they are persuaded that, by continuing to behave morally, they will deserve special attention from God. There is an obvious analogy between this argument and the point made by Kant that ingratitude can stimulate giving, because the benefactor “may well be convinced that the very disdain of any such reward as gratitude only adds to the moral worth of his benefaction” (Schoeck, 1987: 204 – quoted from Elster, 1989a: 259). As far as the second aspect is concerned, the main effect is that the availability of a free monitoring device allows honesty to be sustained even in the presence of high costs of fraud detection. In the words of Frank:

Teaching moral values was once the nearly exclusive province of organized religion. The church was uniquely well equipped to perform this task because it had a ready answer to the question. “Why shouldn’t I cheat when no one is looking?” Indeed, for the religious person, this question does not even arise, for God is *always* looking (Frank, 1988: 250).

Two remarks are in order. First, all (external) manifestations of religiosity and clericalism are not necessarily correlated with cooperative (honest) behaviour or civicness. In certain historical or social settings, engagement in catholic groups and adherence to catholic rituals, for example, has been purely formal and even hypocritical, with the result that no genuine commitment towards taking the others’ viewpoint into account was implied. Robert Putnam has thus recently argued that in Italy, at least, “the most devout church-goers are the least civic-minded” (Putnam, 1993: 175–176; see also 107, 130). In fact, such hypocrisy has sometimes sparked off reactions by non-clerical movements which acted as more genuine defenders of moral tenets. Second, as has been already illustrated above, norms of generalized morality are not the exclusive province of organized religions. They have also been produced by non-clerical organizations, such as freemasonry. In addition, moral norm reinforcement may come from state agents or political leaders acting as norm reactivators.

### **III. LIMITED MORALITY AT WORK**

#### **A. Limited morality and the private sector**

Rural communities in areas with a long tradition of low population densities have a considerable ability to regulate many aspects of social and economic life, including all matters relating to land access. This remains true even when pressure on land resources increases. Unfortunately, there is a counterpart to this ability of rural communities to address successfully governance problems not easily amenable to market or state solution, namely their parochial character (see, for example, Bowles and Gintis, 1998: 23). This parochial character may lead them to adopt protective attitudes, and even to give in to chauvinistic tendencies if they feel too

much threatened by outsiders or outside forces. Such attitudes and tendencies may take on the form of sheer malpractices and deceit (e.g. double deals directed against strangers, sales of land parcels without informing the [stranger] buyer of the charges weighing on them [mortgage, in particular], etc.) In other words, traditional values according to which rural lands ought to remain in the hands of the “sons of the village”, since they are ancestral property, give rise to double standards reflected in norms of limited morality. And such norms are the cause of pervasive inefficiencies that result from transaction costs and serious imperfections in land markets but also in other rural factor markets (see Platteau, 2000, chap. 4).

In tribal societies, morals typically differ according to whether one deals with kinspeople or with strangers. This double standard in ethical codes of behaviour is vividly manifested in the following concomitant facts: on the one hand, bargaining or haggling is considered to be aimed at exploiting and cheating the partners and, on the other hand, sheer commercial practices are permitted only with strangers. A merchant always steals, as has been noted with respect to Kapauka Papuans of New Guinea, and that is why trade inside one’s tribe is badly looked at while trade conducted with non-kin brings social prestige as well as profit to the successful merchant (Pospisil, 1958: 127). The fact of the matter is that, in tribal ideology, to cheat one’s clan is equivalent to cheating oneself whereas cheating outsiders gives strength to the cheater’s clan and weakens the clan of the cheated partner (Massoz, 1982: 87–88). On the basis of his field observations in Kabylia province, Algeria, Pierre Bourdieu wrote in the same vein:

Amicable transactions between relatives and allied people contrast with market transactions...and “the foodstuff or cattle of the fellah” are traditionally opposed to “the foodstuff or the cattle of the market”; old informants can talk for ever about the guile and deceit commonly observed on the “big markets”, that is, in dealings with strangers. These are stories about mules that run away as soon as they have reached the new purchaser’s destination; about oxen that are rubbed with a special plant so as to make them swell up and thereby appear as fatter as what they actually are; about related purchasers who collude to propose very low prices... (Bourdieu, 1980: 196 [my translation]; see also Evans-Pritchard, 1940; Sahlin, 1963, 1968; Polanyi, 1977: 59).

Limited morality is bound to affect the business sector by segmenting the domain of relationships within which business is viable. In the case of sub-Saharan Africa (SSA), Kennedy has thus observed that there exists “a marked reluctance” to establish capital-pooling arrangements or business partnerships among non-kinsmen. This reluctance is to be mainly ascribed to “the widespread fear that partners will cheat in some way or fail to pull their weight”, which contributes to create an “atmosphere of suspicion and pessimism concerning the motivations of others” (Kennedy, 1988: 166). Such a climate of distrust is highly detrimental to African capitalism in so far as, by preventing the establishment of genuinely corporate forms of business associations, “it closes one of the most important potential avenues to firm expansion and reduces the likelihood that indigenous companies can become sufficiently competitive to mount an effective challenge to foreign companies” (ibidem).

The latter argument, however, is not entirely convincing. As a matter of fact, intense familism combined with distrust of non-kin in traditional China anticipated the business culture

of contemporary Taiwan Province of China and Hong Kong (China) (Fukuyama, 1995: 89). Nonetheless, the fact that many Taiwanese firms are small- and medium-sized – largely as a result of their being based on family ties – did not prevent them from providing a major impetus to national economic growth, particularly in the export manufacturing sector (Hamilton, 1998). Something more subtle than sheer size probably accounts for the poor organizational performance of many African firms. Contrary to Chinese enterprises which are controlled by a restricted number of close relatives or members of the lineage, African businesses are generally opened to a large number of kin belonging to the extended family and the tribe of the owner(s). Problems arise because relations with kin entail multiple social obligations that may easily cause the ruin of such businesses. Indeed, if tribal ideology, through diffusion of values of limited morality, tends to make kinspeople more trustworthy than strangers, it also tends to discourage accumulation efforts through diffusion of strongly egalitarian social norms (Platteau, 2000, chap. 5). Close monitoring of the successful efforts of a kinsman gives rise to continuous harassment and to serious strains and tensions if the latter is not considered to be generous and fair enough with his subordinates.

Another crucial difference between SSA and Taiwan Province of China lies in the fact that, unlike the former region, the latter benefits from a host of institutions and informal mechanisms (such as the pervasive business networks mentioned earlier) that have enabled it to establish trust between separate economic entities, e.g. between small-scale family businesses or between them and large-scale upstream or subcontracting firms (Hamilton, Zeile, and Kim, 1990; Hayami and Kawagoe, 1993; Hayami, 1998; Hamilton, 1998). The unwillingness to share information with other enterprises and the absence of multilateral punishment mechanisms to discourage cheaters, which Marcel Fafchamps (1996) and Abigail Barr (1999) noted for Ghanaian firms, are perhaps indicative of the lack of trust and cooperativeness beyond circles of acquaintances in sub-Saharan Africa. The only exception, notes Fafchamps in a revealing manner, concerns Accra's women fishmongers whose situation is somewhat peculiar: "they all belong to a closely knit neighbourhood, they share the same ethnic background, their husbands go to sea together, and they all sell in the same market" (Fafchamps, 1996: 441).

A more general lesson from the same study is that the lack of contractual discipline in Ghana is real and is reflected, *ex post*, in numerous delivery and payment delays. *Ex ante*, it is evident from the fact that firms often resort to unwieldy manners of doing business because they do not want to take the chance of a problem happening. Typically, they fall back on a "flea market" mode of transacting: "inspect the good on the spot, pay cash and walk away with it". In other words, they avoid all transactions that involve delayed obligations that make breach of contract possible (Fafchamps, 1996: 441–444). A still more recent study using a larger set of survey data collected in several African countries (Burundi, Cameroon, Ghana, Ivory Coast, Kenya, Zambia, and Zimbabwe) has as one of its conclusions that African managed firms face more problems with individuals than other firms, in particular firms run by Asian entrepreneurs, such as Indians in Kenya (Bigsten et al., 1998). Moreover, firms that buy from family and friends encounter more late delivery problems, suggesting that relations based on family, friendship, or



ethnicity/kinship tend to raise the incidence of contract non-performance. At the same time, however, such relations make it easier for firms to solve disputes (through informal channels).

## **B. Limited morality and the public sphere**

Norms of limited morality are bound to affect not only the private but also the public sector. Nepotism and favouritism are often found to be major obstacles on the way to effective functioning of the bureaucracy and public enterprises. Codes of conduct emphasize the strength of ties to close social relations; procedural norms, when they exist, are particularistic; professional standards are low; reward and sanction mechanisms (including litigation) as well as taxation and subsidies are meted out in a specific way so as to make patronage effective instead of promoting economic efficiency and shared growth.

It is revealing that an important consequence of the declining role of kinship that was observed in England during the sixteenth and seventeenth centuries was the beginning of a gradual erosion of the moral legitimacy accorded to nepotism as a factor in recruitment to state and private offices. According to Lawrence Stone, it became increasingly difficult for younger and illegitimate sons of the landed society to find “comfortable berths in the public service, either at home or in the colonies”. Each time “there had to be a struggle, and each time there was competition to the ties of blood or marriage from the alternative principles of money and merit”. Moreover, “the influence was primarily exercised by fathers for sons, or sometimes uncles for nephews, and only rarely for more distant members of the kin. It was thus a product of the bonding of the nuclear family rather than of the lineage” (ibidem: 97).

Large parts of the world have not yet completed the long evolution that causes a fundamental shift from particularistic to universalistic standards of values. Sub-Saharan Africa is a region well-known for the widespread prevalence of nepotistic practices. This is a logical outcome in a system dominated by patronage politics. Once established in key positions of the political power structure (at the level of the presidency, the politico-military hierarchy, the top civil servants, the ruling party officials, etc.), it is the duty of the dominant faction, group or clique to remunerate a vast array of supporters, including the “small men” who draw their livelihood from participating at the lowest level of this structure (Bayart, 1989: 291–293). The methods used involve clear favouritism in the distribution of public jobs and subsidies (Bates, 1981, 1983; Teranishi, 1997), or a free run for fraudulent acquisition of riches through trafficking, racketeering, plundering, and looting (Bayart, 1989).

The problem of favouritism is far from being the monopoly of sub-Saharan Africa. Many Asian countries, especially in South Asia, are fraught with this problem. Even though they have inherited the norms of the Western legal tradition due to more or less prolonged existence of a

colonial state,<sup>21</sup> South Asian societies still remain under the strong influence of traditional patterns of social relations, in particular the principle of the primacy of family and caste relationships. Under these circumstances, it is not surprising that rights and obligations associated with these patterns still tend to predominate over the rules and norms rooted in the abstract individual (as opposed to the concrete person) which are the typical products of Western history. In one of his books, the Indian psychoanalyst Kakar has aptly described the essential nature of social relations in contemporary India. In particular, he has emphasized the persisting lack of a common code of generalized morality in Indian society. I cannot resist the temptation to quote him at some length given the great pertinence of his analysis in the context of this chapter:

Among those Indians closely identified with the process of modernization, the well-educated urban elite who hold positions of power in modern institutions, the psycho-historical fact of the primacy of relationships, of family loyalties, of *jati* connections, is often a source of considerable emotional stress. For although intellectually the Indian professional or bureaucrat may agree with his Western counterpart that, for example, the criterion for appointment or promotion to a particular job must be objective, decisions based solely on the demands of the task and “merits of the case”, he cannot root out the cultural conviction that his relationship to the individual under consideration is the single most important factor in his decision. This conflict between the rational criteria of specific tasks and institutional goals rooted in Western societal values, and his own deeply held belief (however ambivalent) in the importance of honouring family and *jati* bonds is typical among highly educated and prominently employed Indians. And among the vast majority of tradition-minded countrymen – whether it be a *bania* bending the law to facilitate the business transaction of a fellow *jati* member, or a *marwari* industrialist employing an insufficiently qualified but distantly related job applicant as a manager, or the clerk accepting bribes in order to put an orphaned niece through school – dishonesty, nepotism and corruption as they are understood in the West are merely abstract concepts. These negative constructions are irrelevant to Indian psycho-social experience, which, from childhood on, nurtures one standard of responsible adult action, and one only, namely, an individual’s lifelong obligation to his kith and kin. Allegiance to impersonal institutions and abstract moral concepts is without precedent in individual developmental experience, an adventitious growth in the Indian inner world. Guilt and its attendant inner anxiety are aroused only when individual actions go against the principle of the primacy of relationships, not when foreign ethical standards of justice and efficiency are breached (Kakar, 1978: 125–126; my emphasis).

In Pakistan, reciprocal favours and limited morality are an essential ingredient of bureaucratic practice and they are formalized enough to have a name: *vartan bhanji*. In Baluchistan and the North-West Frontier Province, the two most tribal areas of the country, webs of traditional relationships are still pervasive and run through regional official agencies and municipalities. Thus, in a town like Peshawar, Pathan bureaucrats run their offices like the tribal *jirgas* they have been brought up with (Duncan, 1989: 242–244).

The main contrast here is with East Asia, and North-East Asia in particular, where the bureaucracy appears remarkably autonomous. There, bureaucrats “were able to treat the

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<sup>21</sup> One may thus think of British India in which the Indian Civil Service and Western education have been solidly implanted by the colonial power, a significant event given the profound imprint that these two institutions have left on the elites of the post-colonial societies born of the old British Empire.

government of their country as if it were the management of a household”. In the Republic of Korea and Taiwan Province of China, for example, political leaders, who ascended from a military background, regarded the building up of their country’s industrial power “as the first order of business”, in a context dominated by geopolitical considerations – the strong determination to repossess mainland China for Taiwan Province of China, and the need to defend itself in the context of the cold war for the Republic of Korea (Aoki et al., 1997: 26; see also Luedde-Neurath, 1988; White and Wade, 1988; Wade, 1990) – and influenced by a tradition of centralized governance (Hayami, 1997: 281). Recent research reveals that the absence of a politically powerful, dominant economic class was an important historical condition that favoured the emergence of effective and dedicated administrations in this part of the world (Woo-Cumings, 1997). They have been effective in the sense of being relatively little prone to rent-seeking behaviour, and they have been dedicated in the sense of having legitimized their control “by the equal payment of growth dividends to all economic classes”. Interestingly, this model of “shared growth” in Northeast Asia “seems to be a profoundly path-dependent phenomenon that evolved from the unique historical conditions prevailing immediately after the Pacific War” (Aoki et al., 1997: 26–27; Aoki, 1997).

#### **IV. CONCLUSION**

What the above analysis shows is that there is definitely nothing automatic about the rise of the market order. Such order rests on delicate conditions that are not easily forthcoming. The crux of the matter is that it needs to be embedded in a suitable socio-political fabric. The fabric required is certainly not unique and there are several configurations that are no doubt suitable for the purpose of sustaining a market order, as witnessed by the noticeable differences between East Asian, North American and Western European capitalist systems, for example. The fact remains, however, that the market can be perverted and deeply distorted if tried in a hostile environment as evidenced most dramatically by the present-day experiences of ex-socialist countries lying on the east of Poland and Hungary, countries from sub-Saharan Africa, and some countries in Asia and Latin America.

No market order can function satisfactorily – that is, at reasonably low transaction costs – if there is not a right combination of rule of law and norms of generalized morality. The former requirement implies that a viable state structure is established that is able to enforce in an impartial manner rules and laws regarding respect of property, contract fulfilment, bank regulation, bankruptcies, control of abusive exercise of market power, etc. This presupposes that the ruling elite, whether it has been democratically elected or not, has come to understand that its long-term interest depends on its being able to enlist the cooperation of dominated groups or classes on terms acceptable to them. If that objective is missed, the whole socio-political fabric will be threatened with the risk of political turmoil and popular uprisings, which is liable to lead to continuous changes of regime (think of the disturbed history of Chile) or, worse, to civil war situations ending in chaos, or in takeovers by extremist groupings acting in the name of the exploited masses. The last possibility is especially worrying in countries where the border

between morality of laws and morality of faith remains tenuous. In such countries, indeed, as the recent experiences of Iran and Afghanistan testify, clerics may rise to power, driven by radical anti-market ideologies predicated on the need to protect the poor against corrupted feudal-capitalist elites. Whichever the political trajectory that eventually obtains, the result is always chronic instability and an environment deeply adverse to investment and growth.

As for the second requirement, it means that exchanges can take place on a large enough scale only if people have come to adopt an attitude of moralistic reciprocity based on initial trust. This is because mechanisms of multilateral reputation, although extremely useful, cannot be expected to solve the trust problem in all circumstances. To admit that moral norms have a role to play in economic development is an embarrassing statement because nobody really knows how to make the right kind of norms emerge. Also, it is important to stress again that there is no unique trajectory in this regard: for example, it would be absurd to contend that Africa needs to evolve the same norms as Western Europe or Asia. The crucial lesson from the European experience is that, in some way or other, societies that want to develop market-based specialization of economic activities require a shift from limited to generalized morality or, in Weberian language, from *Gemeinschaft* to *Gesellschaft*.

If we adhere to an evolutionary view of the Hayekian kind, one can make the point that norms of the required sort will eventually emerge in societies where the state is intent on long-term development. After all, the argument made in this paper does not say that growth is arrested, but only slowed down in the absence of norms of generalized reciprocity. It could therefore be contended that, whatever the initial market imperfections resulting from uncontrolled opportunistic tendencies, the important fact is that markets somehow develop since they are bound to generate social norms that will have the effect of eventually mitigating incentive problems. True, such norms are likely to differ among societies and determine in them different growth trajectories, some more satisfactory than others. Yet, the crucial point is that growth occurs and is sustainable.

Unfortunately, even assuming that they are effectively at work, evolutionary processes may prove too slow to meet the challenges now confronting laggard countries. This is because the pressure of an external threat under the form of globalization creates a need to develop more quickly than can be achieved through an endogenous evolution of moral norms. History has nevertheless taught us that strong states relying on nationalistic ideologies can substitute for missing norms of fair behaviour. In fact, such norms might develop as a result of nationalistic fervour. For many countries of sub-Saharan Africa, however, this is not an easy path to tread. They are young nations that gather varied groups of population that are not used to living under the same rule. Political evolutions during both the colonial and post-colonial periods have generally failed to consolidate them as one would have wished.

The question therefore remains as to what support could be given to these young and fragile nations fraught with fragmented loyalties to help them to establish the right kinds of norms and political institutions. In particular, are present decentralization and liberalization efforts promoted

by official and private donor agencies a step in the right direction? To the extent that they encourage the emergence of a sizeable middle class with a growing measure of autonomy, they may be expected to lead to a situation where the state will be forced to adopt policies more congenial to long-term economic development. They could help to also create generalized trust by building up local entities that hopefully cut across kinship and ethnic boundaries. Whether these expectations are warranted and a genuine civil society can arise from institutional decentralization remains an open question. The answer will probably depend on the robustness of existing patronage networks, and the factional segmentation of the African polity in the face of such decentralization efforts.

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