Hierarchies, Memberships, Inclusion: Institutions in an Evolutionary Perspective

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Context

Over the last two decades, a wide use of the concept of ‘institutions’ in development economics, development studies, political economy of development.

In order to explain macroeconomic variables (e.g., growth, welfare) at the country level.

or microeconomic variables (e.g., income, etc), at the household or individual levels.

Reinforced by failures of previous growth theories, based on purely economic variables (e.g., investment) to explain differences in growth profiles and levels of income.

Milestones: Nobel prize given to D North and R Fogel (1993), to E Ostrom and O Williamson (2009)

=> the ‘institutional turn’ in economics (Evans, 2006). ‘Institutions rule’ (Rodrik et al. 2002).

Integration of the concept of institution within economics: mostly through the neoclassical framework

Or integration of the concept of institution within political economy, within the rational choice framework: typically, the studies of D Acemoglu and J Robinson (e.g., 2006): key concepts: ‘elites’, oligarchies’, markets, power...

Neo-institutional economics and its legacy: analysing institutions and their evolution via, in particular, the concepts of costs, incentives and functions.

Many critiques: e.g., difficulty to explain specific features and design of given institutions.
1. Institutions: what they are not; what they are…

- **What they are not:**

- In contrast with the assumptions of most studies in economics flourishing via the production of indicators and cross-country regressions (excepted studies inspired by ‘old institutionalism’),

- **institutions are not concrete entities,** which would be separable and stable in space and time, and elements of simple causations:

- E.g., “if p, then q”: e.g. “if ‘secured property rights’, then ‘increase in income’”; “if ‘democracy’, then ‘growth’”, etc.

- Also, in studies based on institutional indicators and databases: **confusion between the concept (of institution) and its various attributes:**

- E.g. confusion between the concept of democracy and its attributes such as political parties, or elections; e.g., the concept of the ‘rule of law’ and the written (‘formal’) legal documents associated with it.

- Yet, these conceptions are pervasive in most studies in development and institutional economics.
Institutions: what they are:

- Institutions are outcomes of cognitive processes: they are **mental representations**, context (time and space)-dependent, and **domain-specific** (Tooby and Cosmides, 1992)
- and in particular they are **deontic representations** (Searle, 2005): they are sets of **rules, norms** – “one should, one must, etc….”: they are **meta-representations** (Sperber, 1996).
- They are supported by **beliefs, and by physical objects** that facilitate their dissemination.
- Their rules are inserted in **hierarchical, power relationships between individuals**: notably, **within family** (parents-children, Boyer, 1986), and **within social groups**.
- Hence there are many different devices actualising, enforcing, disseminating, institutions: **relevance, credibility, punishment, coercion,**...

- There are **different types of rules and institutions, depending on the domains** they organise: among them:
  - Those governing the **reproduction of society** – ‘core’-, notably individuals’ life-cycle, which institute **memberships and statuses** (confirmed by experimental economics: Bowles and Gintis, 2011: behaviour conditioned on group membership).
  - Those regulating **interactions, exchanges** (e.g., codes of conduct), in **various domains** (e.g., political, economic, social).
Different levels and causalities: the problem of aggregation

Distinction between:

- **rules** (e.g., of a game, rules of behaviour);
- **social norms** (regularities in beliefs and behaviour that are shared and disseminated among more than one individual);
- **institutions** (macro level, autonomisation from individual idiosyncratic representations and beliefs, e.g. via writing).

These 3 levels involve different causalities, which cannot always be aggregated and are domain-specific.

=> Key issue: assessing causalities, overlooked by simplistic modelling, cross-country regressions.

As institutions are deontic mental representations conveyed by individuals, how to assess the transition from the micro to (meso) macro level?

Aggregation: no guarantee that a causality is maintained.

E.g. a local social norm has an causal impact on income (e.g., a given discrimination vis-à-vis a group has an impact on the income of its members): can the causal effect of these norms (already ambiguous, Rauch and Casella, 1997), be aggregated? (e.g., to ‘fractionalisation’ has an impact on growth? ).

Local norms are not identical to their aggregate: no additivity, no ‘representative norm’ (similar to a ‘representative agent’): causalities are heterogeneous and are not conserved across levels (Schelling, 1978).
Argument:

- ‘Core’ institutions, as they institute memberships, hierarchies and statuses, inherently generate inequality, divisions, exclusion.
- No intrinsic ‘progress’ in the evolution of institutions: possibility of self-reinforcing processes, and the direction of evolution can be observed/assessed only ex post.
- The transformation of institutions is not just a matter of right incentives or reducing costs, in the presence of self-reinforcing processes, and as sets of beliefs related to statuses and memberships are strong ‘attractors’: hence the crucial role of a third party, i.e. the state: indeed, differences in the nature, role and impacts of the state are key elements of the contrast between Sub-Saharan Africa and Asia.
- Also, ‘core’ institutions, memberships and hierarchies, coexist with norms regulating social interactions: i.e. optimising individual interests, but also reciprocity and altruism.

Hence: rules and institutions either amplify differences, hierarchies, inequality and exclusion, via the concept of membership

Or reduce hierarchies, differences, and are inclusionary:

A third party, an extraneous entity, i.e. a state, is more likely to have the capacity to do this:

As the state is an institutional entity that has the properties of being impersonal, autonomous, but simultaneously object of individual adherence via the citizen-state social contract.
2. Institutions: where they come from

- Understanding the resilience and transformative capacity of some institutions.
- Assessing their evolution: ex post, and as an outcome of endogenous and exogenous factors (although ‘initial conditions’ also result from endogenous processes).
- A key substratum of institutions: differences and hierarchies.

a) Exogenous factors:

- Beside the environment, available resources, factors stemming from the evolution of human species:
  
  i) **hierarchies**, a key feature of social groups, present in social animals (where they are associated with Darwinian mechanisms, selection, competition, not only for individuals but kin groups): ‘dominant’/‘dominated’ individuals with constant challenges: hierarchies as a form persist, individuals occupying specific ranks change.
  
  Linked to the notion of power: reproduction of society=> control of women, younger individuals, and resources.
  
  Linked to the notion of status, and hence inequality: hierarchies=repartitions of statuses. Equality or identity are incorporated within hierarchies.
  
  ii) **membership**: ‘us’ vs ‘them’: non-members are by definition excluded.

Hierarchies and memberships are countered by exchange as a basis of survival (with other groups, Seabright, 2004; Levi-Strauss, 1969), cooperation and pro-social behaviour (Henrich et al., 2005), fairness, reciprocity, altruism (Bowles, 2004; Fehr et al. 2006), empathy (De Waal, 2009; see also ‘mirror neurons’).
Universal inclusionary, ‘ethical’, devices demonstrated by analytical philosophy, linguistics (Grice, 1975, ‘cooperation maxims’; Rubinstein, 2000, for economics): but their scope varies: for kin only, or to all human beings (citizenry of modern welfare states).

b) **Endogenous factors:**

i) **Interactions between environments and existing institutions**

*Positive feedbacks* generating **multiple equilibria**, functional or dysfunctional (virtuous/vicious circles) – i.e., **traps** (Barrett and Swallow, 2006; Diamond, 2005; Clark, 2007; De la Croix, 2008: ex.: tragedies of the commons, prisoner dilemmas, demographic Malthusian traps (Galor, 2011), endogeneity of resources and institutions (David and Wright, 1997)).

These interactions lead to **various outcomes**: disappearance of institutions, or irrelevance, or adaptation, or borrowing of institutions from other groups...

**Continuous transformation**, vs **thresholds** or phase transitions (‘punctuated’ equilibria).

ii) **Consolidation via various mechanisms:** repeated games, increasing returns and self-reinforcing mechanisms, irreversibilities, bifurcations, routines (Arthur, 1994; David, 2001), spillovers (Rosenstein-Rodan, 1943), linkages (Hirschman, 1958), complementarities (Matsuyama, 1995), trapping processes (Azariadis and Stachurski, 2005), increasing gaps and inequalities, institutional traps (Bowles et al., 2006), rewards, coercion and punishment of defectors (Kurzban and Neuberg, 2005), power...

When environment=scarce resources, **tensions competition/cooperation**: pro-social norms apply to a reduced number of individuals; institutions regulating the ‘us’/‘them’ may become increasingly exclusionary. Or the opposite: scarce resources may induce more cooperation or reciprocity (Bowles and Gintis, 2011).
c) Hierarchies and memberships as foundations of social institutions and rules: evolution and variations

i) Non-state, non-market social norms: hierarchies and memberships by birth: exogenous, non-negotiable, non-transformable: typically exclusionary (Sindzingre, 2007a).

‘Traditional’

‘Complementary hierarchies’: kinship rules organise filiation and lineages memberships. Internal hierarchies (men-women, elder/younger) and external hierarchies (organising access to land, occupation, etc).

Birth as a criterion of membership.

Exclusionary devices: ‘us’ vs. ‘them’ (‘us’: self-naming in many societies)

Distributive devices: reciprocity, circuits of rights/obligations organised by kinship rules

Rights on resources’ use, rights on individuals (‘rights in man’, Feeny, 1989).

‘Feudal’ (‘oligarchies’ in state/market contexts)

‘Unequal hierarchies’, e.g., castes, aristocracies: the concept of ‘orders’ (e.g., indo-European, medieval trifunctional ‘orders’: ‘priests’/sovereignty; ‘warriors’/aristocracy; ‘producers’) (‘arborescent’, ‘equivocal’ hierarchies, Sindzingre and Tricou, 2012).

Birth as a criterion of membership.

Distributive devices: intra-group reciprocal rules (enforcement via, e.g., ‘honour’) and extra-group allegiances

Property rights: e.g., rights on land. ‘Transitional’ regime: taxation (Olson, 1993, often more predatory than developmental)
ii) Markets, and state institutions: hierarchies not determined by birth, but by capital and individual characteristics: individual room for manoeuvre, contractual relationships: more inclusive hierarchies: inclusiveness not only refers to equity or equality, but to dynamic prospects for mobility (impossible when individual prospects depend on exogenous factors such as birth).

‘Commercial revolution’ (Greif 1994 on individualist vs collectivist societies; Milgrom, North, Weingast, 1990 on merchants’ behaviour enforcement via reputational mechanisms): the basis for efficient and progressive taxation (Slivinski and Sussman, 2009).

Rather than ‘castes’ and ascription, classes. Hierarchies determined by capital (wealth, education), individual ‘merit’: exogenous, but also endogenous memberships, endogenous exclusionary mechanisms: inequality of opportunities created by, e.g., neighbourhoods, access to public services (e.g., schools). Contrast with membership by birth (Alesina and Glaeser, 2004; Alesina and La Ferrara, 2005, on opportunities of social climbing in the US, hence perceived as more ‘equal’ vs EU countries).

The state as ‘third party’: getting out of ‘traditional’, ‘feudal’ low equilibria, institutional innovations: they can be instituted only by a state (‘social contract’ with equal citizens, superseding existing birth memberships), provision of public goods, taxation/redistribution and social protection. Constitutions as key institutions: equity as political commitment. Emergence of ‘Weberian’ impersonal institutions, autonomous from political regimes, particular rulers and local norms.

Possibility of markets of ideas, hence of questioning existing rules (‘tradition’): reflections on egalitarianism (Bowles and Gintis, 1998), on common interest. E.g., the French Revolution: end of the three ‘orders’, and of discrimination against specific groups: building of citizenry.
d) From memberships groups to states? No linear evolution from one ‘regime’ to the other

In Asia and SSA, coexistence of elements of each regimes

Multidirectional causations institutions-growth: e.g., coordination failures, inequality=> slow growth?; collective action, coordination=> growth?; growth => institutions?; micro=>macro?


No ex ante predictability of the impacts of endogenous and exogenous factors: e.g., ‘globalisation’, exposure to different norms has not implied the disappearance of birth-based hierarchies (e.g., ‘castes’ in India), and may even have strengthened them.

Also, no ex ante predictability of which particular institutions cause growth: particular contents are context-specific (Sindzingre, 2007b): what is observable is the form of an institution, not the mental representation of it by an individual. Hence highly unequal institutions may coexist with growth: e.g. regarding gender.
e) The state is not enough:

- **Membership is both a non-market and market mechanism** (Durlauf, 2000: in rich economies too, individual economic prospects are strongly influenced by her group affiliations).

- **States and public policies may suffer lack of credibility**, of ability to commit and redistribute: vicious circle low taxation-redistribution. No meta-institution providing credibility (Acemoglu, 2003).

- Also, the **‘content’ of states** and public institutions differ across countries: e.g., ‘coordinated’, consensus-based, low-inequality European welfare states vs competitive, inegalitarian, safety-net states (such as the ‘Asian path’) (Iversen and Soskice, 2011).

In some developing countries, e.g., in SSA, the state may sometimes be just an institutional form ‘filled’ by various ‘contents’ that differ from ‘Weberian’ ones, i.e. by particular membership groups and interest groups: e.g. ‘neopatrimonial’, clientelism/patronage states.
3. Asia and Sub-Saharan Africa: stylised facts

Their lessons regarding institutions and the causalities institutions-growth?

Sources of growth? Several conceptual frameworks:

- E.g., ‘developmental state’, Hirschmanian linkages, Rosenstein-Rodan’ spillover effects, complementarities between sectors, state as the only entity able to correct market failures, reallocate factors across sectors (Adelman, 2000), to provide public goods (education, health, social protection)….

Asia vs SSA

- Obviously, there is no such a thing such as ‘Asia’ or ‘Africa’. Impossible to compare huge regions with different histories; risk of over-generalisations. Within Asia, very important differences, e.g. India and Japan…and within SSA, same differences.
- However, regarding the question of institutional foundations and development, a few stylised points may be possible.

Commonalities Asia -SSA

- Colonisation (with some exceptions) (yet, controversy on ‘developmental colonisation’ in Asia, vs. predatory one in SSA)
- Highly unequal countries in both regions. Increasing in China (Gustafsson et al., 2008).
- East Asian states are not welfare states: selective social protection (families, firms): risk of exclusion. Change towards more inclusion: e.g., Korea, Taiwan, Thailand (Kwon, 2009).
Contrasts between Asia and SSA

Key studies: ‘developmental states’ literature (Wade, 1990; Amsden, 1989): industrial targeted policies based on incentives, education, autonomous bureaucracies, export-led growth, inputs in capital (Young, 1994, Krugman, 1994/Rodrik 1997 debate on capital accumulation/productivity), political coalitions – business groups, politicians -, viewing growth as instrumental to their interests (Kang, 2002) (examples in SSA? e.g. Botswana?).


Institutional foundations? Further contrasts

History: Asia vs SSA regarding the key role of writing and literacy in state formation: writing=>storage of information, taxation and hence redistribution (Goody, 1986), wider and homogenous diffusion of norms and education.

History: time matter for institutions: ancienity of institutions determine the scope of their evolution, and also their resilience: century-old states in Asia, vs recent states in SSA (and weakening precolonial states, Englebert, 2000) confronted with century-old and resilient kinship institutions.

Geography, demography: demographic density as a factor of state formation, taxation, diffusion of common norms; Asia’s historically high densities vs until recently low densities in SSA (Iliffe, 1987; Herbst, 2000) – low densities fostering social fragmentation, and also specific property rights: collective land rights, use rights on land and rights on individuals (e.g., kin).
**Resources and exports structure**: overwhelmingly commodities in SSA (fuels being the main export: 37% of SSA total exports in 2009, WDI, 2011): resilience of the ‘small open economy model’ (Hopkins, 1973) based on exchange of commodities for manufactures from the colonising country. Commodity dependence as a key cause of slower growth due to price volatility and its detrimental impact on investment (Nissanke, 2011): pervasive instabilities (‘no condition is permanent’, Berry, 1993); in contrast with Asia (including South East Asia, Henley, 2012), in SSA neglect of rural development (Grabowski, 2010).

In Asia, **strong states**, encompassing weaker memberships groups (sometimes gathered in feudal-type ‘orders’) (sometimes multiple, see India ethnic/castes), vs SSA **multiple levels of memberships, with their own internal hierarchies**, and hence demultiplying factors of divisions. Multiple memberships, allegiances and statuses foster **non-cooperative behaviour**, and combine with other factors towards decentralised, high transaction costs, locking-in low equilibria (Shleifer and Vishny, 1993).

Fragmentation of SSA societies: less favourable conditions for state consolidation, and in turn, **more relevance for lower, local, levels to be the levels of the sharing of common social norms**. Vectors of linkages across memberships levels: e.g., rather traders than state legal rules.

Patronage, allegiances to circuits of rights and obligations (Mahieu, 1989) (in time, goods), local memberships are **optimal responses** in the contexts of no ‘meta-’ public entity, of weakly effective and weakly credible public policies.

For individuals, **incentives** to rely on local affiliations providing social protection, and **costs** of the exit option: hence **endogenous processes generating positive feedbacks that further weaken the state** (Glaeser, 2005): high aggregate welfare cost in terms of inclusive growth and wider memberships such as citizenry.
Political economy: ‘developmental’ rulers in Asia (role of ‘agency’), incentives to use growth, impersonal institution-building and social protection as tools for political legitimacy, vs low equilibria of predatory political economies in SSA and states not superseding memberships, but made of juxtaposition of allegiances: hence exclusionary norms remain relevant representations for individuals => risks of traps. Of course, exceptions: Ghana, Botswana ....

Provision of infrastructure (roads, electricity, water) crucial for state effectiveness and credibility, in Asia, vs SSA. Even the so-called ‘high-growth’ SSA countries (for the IMF), e.g. Angola, Congo, Equatorial Guinea, etc, exhibit very low levels of infrastructure (Foster and Briceno-Garmendia, 2010) (excepted telecoms): typically commodity-dependent/oil-countries with a political economy of resource-predatory, not redistributive, oligarchies.

In fine, tipping points, self-reinforcing processes, increasing returns, irreversibilities, with exogenous and endogenous factors: these processes are amplified, or reduced, by institutions:

- Developmental processes in some Asian countries: strong states, long-term time frame of public policies, education, industrial policies, with incentives towards growth (instrumental to political interests).
- Risks of low equilibria and self-reinforcing traps in some SSA countries, resulting from combinations of commodity dependence (earnings instability, low incentives for education and skills associated with industry), predatory regimes, captured by membership/interests groups, => hence short-term horizon of both rulers and citizens, => no incentive for building legitimacy, developmental institutions and taxation, and citizenry, => hence low state redistributive capacities, => hence little credibility of public policies and promises, => hence poverty and reliance on local social norms and hierarchies, => hence further social fragmentation and weakening of meta-levels and third parties, such as the state.........
4. Which policies?

Hence, in terms of policies, no simple recipe....

i) **From the perspective of donors: aid is exogenous**: it may reinforce pre-existing memberships and hence inegalitarian and exclusionary processes; it may be used by existing hierarchies, it may reduce state and institutions credibility, accountability and the social contract (Moss et al., 2006). Bypassing the state, relying on local groups entail risks of consolidating divisive norms: e.g., aid to ‘democracy’: in the absence of inclusionary state institutions, in fine possible exclusionary unexpected effects. External financial flows may consolidate institutional ‘low equilibria’ and traps. When stabilisation in low equilibria, getting out is a difficult and costly process.

ii) **No ex ante type of institution** can be a guarantee of efficient public policies, or should ex ante be reinforced, as institutional forms can be ‘filled’ by unexpected ‘contents’.

E.g., judicial, social protection, health, educational institutions may be filled by mental representations and rules of behaviour stemming from particular memberships and hierarchies, e.g., kin, patronage relationships, etc.

iii) The building of a Weberian state, impersonal, focused on welfare, universal social protection, egalitarian, able to reduce social fragmentation, providing incentives for inclusion, **is an outcome of context-specific exogenous and endogenous processes.**

Asia/SSA contrasts: a few lessons: the importance of **the building of credible public institutions and public goods, that foster citizenry, equality of opportunities and social mobility.**
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