

**Reversing Poverty:
The Role of Institutions, State Capacity and Human
Empowerment**

By

Sansia Blackmore

86541821

Submitted in fulfilment of the requirements for the degree

PhD: Tax Policy

in the

FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES

at the

UNIVERSITY OF PRETORIA

SUPERVISOR: Prof. Sally Wallace

CO-SUPERVISORS: Prof. Riël Franzsen and Prof. Reneé van Eyden

April 2020

“If the misery of the poor be caused not by the laws of nature,
but by our institutions, great is our sin.”

– *Charles Darwin*

Acknowledgements¹

This study has absorbed, in an intense way, much of the past five years. It required much sacrifice and understanding from my family. I will forever be grateful to my husband Frank for being a patient sounding board, his thought-through perspectives when I need them most, along with his kindness and sense of humour. I also sincerely thank Marisa and Christian for their love and support; they remain a bottomless well of pure joy.

I owe a large debt of gratitude to Professor Riël Franzsen who mentors and facilitates academic development in a way that makes the impossible possible. As my co-supervisor, his patient rereading of long texts invaluabley corralled the study into a manageable format when volume threatened to escalate out of control.

Professor Reneé van Eyden has, as always, been an astounding well of knowledge and assistance with the empirical sections. Working with Reneé as my second co-supervisor was exhilarating: a fast swirling of ideas, reduced to what is theoretically accountable and empirically achievable, to meet her high bar of thoroughness and ethical research.

My sincere gratitude to my supervisor, Professor Sally Wallace who, with her acute insight and vast experience, penetrates to the core of the difficult questions. Her encouragement to remain precise and neutral was immensely helpful in a profoundly humanitarian investigation like this one, where a sense of urgency easily blurs the line between evidence-based recommendations and appeals for action.

A final word of thanks to colleagues at the African Tax Institute and Economics Department, notably Dr. Marius van Oordt, for original ideas and useful discussions.

¹ The financial assistance of the National Research Foundation (NRF) towards this research is hereby acknowledged. Opinions expressed and conclusions arrived at, are those of the author and are not necessarily attributable to the NRF.

Abstract

Poverty persistence remains a central challenge of the modern world. Poverty is a complex, path-dependent and context-specific phenomenon in open societal systems. Mono-causal explanations fail to capture this complexity, yet a better understanding of poverty's deep causes is material for efforts to reverse it. Efforts to liberate societies from poverty in non-democracies often take the form of democratisation. Universal suffrage theoretically rebalances political power and empowers societies to enforce the prioritisation of broad societal interests over elite interests. In theory then, rising political participation automatically checks state predation and cultivates development-enabling state capacity. Not only did this sequence not materialise in post-colonial sub-Saharan Africa, its theoretical foundation is brought into question also by the development achievements of strong, capable states in non-democracies like Singapore and Hong Kong.

This interdisciplinary study approaches the deep causes of poverty from an institutional perspective, relying on the literature that broadens the institutional universe beyond single classes of institutions. This approach recognises that three classes of institutions matter: formal institutions, informal institutions and rule-enforcement characteristics. How they interact to reinforce or dilute each other also matters; *that* is what shapes the actual institutional environment that incentivises economic behaviour.

The study integrates broad institutionalism with a human empowerment and emancipation sequence. It relies on state capacity to interrupt cycles of state predation and poverty. State capacity juxtaposes state predation; it represents a technically capable but rule-bound state that prioritises broad over elite interest and produces quality governance outcomes. The hypothesised sequence relies on poverty reversal to activate the socially transformative effects of a heightening sense of existential security. Mass value orientations shift as societies modernise, undergoing a humanised sequence of development propelled by the empowering influence of individual agency along with emancipative mindsets. Although probabilistic rather than deterministic, the sequence charts a path from poverty to prosperity, raising the likelihood of (but not guaranteeing) effective, liberal democracy.

The results support the theoretically founded hypothesis that state capacity constitutes the enabling institutional threshold that must be crossed to interrupt cycles of poverty persistence. Causation is assumed from the theoretical analysis, not proven, but the correlation analysis confirms that state capacity is twice as strongly (negatively) correlated with poverty in lower-middle and low-income countries, than in upper-middle and high-income countries. Also, in sub-Saharan Africa, which is viewed as the centre of modern-day poverty, as well as in the East Asian and South Asian regions

that have recently emerged from poverty, the negative correlation between state capacity and poverty is approximately tenfold the strength of the correlation in low-poverty regions.

Following poverty reversal, the regression results further suggest that poor countries' progression towards prosperity is hindered largely by their substantial deficit in human empowerment (688 per cent), represented by mind-broadening education interacted with emancipatively mindedness. The rich-poor deficit in human empowerment dwarfs the rich-poor gaps in state capacity (54 per cent), in export performance (96 per cent) and in investment (1.1 per cent). The regression results further confirm that democracy does not drive prosperity and that geographic disadvantages do not sentence nations to poverty.

The stylised conclusions from both the theoretical and empirical analyses are as follow. Democracy is an outcome and not an instrument of poverty reversal. Poverty results from human agency, not geographic determinism, although geographic disadvantages have a role in societal outcomes. These disadvantages are diminished through human resourcefulness and hence continue to matter only where they are not surmounted by innovation and technological advance. The role of states in relation to poverty pivots on the degree of predation rather than the degree of political participation. Poverty reversal is strongly associated with state capacity, while the progression beyond that towards prosperity is largely associated with the evolving process of human empowerment. It cannot be manufactured through formal reform – whether democratisation or otherwise. It emerges as societies modernise, as knowledge and individual agency culminate in a middleclass that counterbalances a strong capable state. A synergistic state-society partnership characterised by strength on both sides is what makes liberty and prosperity possible.

List of Contents

Chapter 1	Introduction	
1.1	Background	1
1.2	Research Problem and Hypothesis	4
1.2.1	The research objectives	5
1.2.2	Hypothesis	5
1.2.3	Limitations	6
1.2.4	Structure of the Study	6
1.3	Theoretical and Empirical Contribution of the Research	7
1.3.1	Key Contribution	8
1.3.2	An Interdisciplinary Approach to Poverty and Institutions	8
1.3.3	A Broad Institutional Approach	9
1.3.4	The Hypothesised Development Sequence and Structural Panel Data Model	10
Chapter 2	A Disparate World	
2.1	Introduction	11
2.2	Extreme Poverty and Democracy	11
2.3	Quality of Democracy Matters	17
2.4	The “Paradox of Democracy” and Emancipative Values	19
2.5	Democracy, Economic Development and Questions of Causation	20
2.6	Institutions and Other Deep Determinants of Economic Development	21
2.7	Modern Economic Growth and the Rich-Poor Divide	24
2.8	The Industrial Revolution and Westernisation	25
2.9	Why Britain?	27
2.10	Diffusion of Britain’s Industrial Expansion	30
2.11	Westernisation versus Modernisation	32
2.12	Free to Choose, but Choosing to Fail?	34
2.13	In Conclusion – The Demise of Economic Imperialism	38
Chapter 3	Complexities of Poverty and Inadequacies of Growth Theory	
3.1	Introduction	40
3.2	Humanly Devised and Deliberate	40
3.3	From Economic Imperialism to Pluralism, Culture and Narrativeness	43
3.4	Poverty as Wicked Social Problem	47
3.5	Rationality in the Complex, Man-made World	52
3.6	Economic Growth – Crucial yet Elusive	53
3.7	Early Views on the Prosperity of Nations	54
3.8	Classical Growth Theory	56
3.8.1	Linear Stages of Growth	56
3.8.2	Models of Structural Change	57
3.8.3	Models of International Dependence	59
3.9	Neo-classical Growth Theory: The Counter Approach and the Traditional Approach	59
3.10	New Growth Theory and the Convergence Debate	61
3.11	Correlates and Causes of Growth	64

3.12	Conclusion	69
Chapter 4 Institutionalism and Poverty		
4.1	Introduction	71
4.2	Poverty and Institutions	72
4.3	Old Institutionalism and the Reconstituted Human	73
4.4	Douglass North's New Institutional Economics	76
4.5	What Changed after New Institutional Economics?	83
4.6	Other Scholarly Views on Institutionalism	84
4.6.1	The Institutionalism of Acemoglu <i>et al.</i>	84
4.6.2	Hall and Jones's Pioneering Work on Diversion and Incentives	91
4.7	The Empirical Emphasis on Formal Institutions	92
4.8	Conclusion	102
Chapter 5 Formal Institutions, Rule Enforcement and State Capacity		
5.1	Introduction	105
5.2	Which Formal Rules Matter for Prosperity?	106
5.3	The Three Crucial Categories of Institutions in the Twenty-first Century	109
5.4	Making Liberal Democracy	111
5.5	Modern States and Liberal Democracy: The Importance of Sequencing	113
5.5.1	Non-emergence of Modern States in Sub-Saharan Africa: Colonialism and Geography	115
5.5.2	State Building in East Asia: An Alternative Historical Path	116
5.5.3	State Building in Latin-America	117
5.5.4	Effective Constraints Matter More Than Democracy	117
5.6	The Special Case of Sub-Saharan Africa and its Institutional Legacy	120
5.7	Origins of Africa's State Weakness: History, Geography and Human Agency	124
5.7.1	Causes and Consequences of Africa's Colonial Legacy	125
5.7.2	State Legitimacy and Social Contracts in Post-Independence Africa	127
5.7.3	Scrutinising the Role of Geography in Poverty – Destiny, or No Match for Human Agency?	130
5.8	Democracy a Surrogate Marker for Growth-and-Development Institutions?	137
5.8.1	Presidential versus Parliamentary Democracy	141
5.8.2	Where Does the Literature Stand on Growth and Democracy?	142
5.8.3	Growth and Development under Autocracy	144
5.9	Bureaucracies that Get Things Done – The Importance of State Capacity and Governance	146
5.9.1	Scholarly Work on Governance	146
5.9.2	All Manner of Corruption – Clientelism, Patronage and Prebendalism	149
5.10.3	A Deliberate Political Strategy of Weak Governance	151
5.11	Conclusion	153
Chapter 6 Informal Institutions and Human Empowerment		

6.1	Introduction	156
6.2	Informal Institutions and Culture	157
6.3	Sociologists, Anthropologists and Economists on Culture	159
6.4	Religion, Cultural Entrepreneurs and Progress	163
6.5	A Culture for Growth and Development	169
6.6	Culture and Modernisation	173
6.6.1	Landes and Mokyr: Institutions Deep-causing Modernisation and Prosperity	179
6.6.2	Lipset, Inglehart and Welzel: Economic Development Deep-causing Cultural Transformation and Democracy	181
6.6.3	Human Empowerment and Emancipation – Humanising Development	185
6.7	Do Informal Institutions Rule in Africa’s Neopatrimonial Democracies?	192
6.8	Conclusion	196
Chapter 7	A Humanised Development Sequence – A Synthesis of Institutionalism, Modernisation Theory and Human Empowerment	
7.1	Introduction	199
7.2	Synopsis of the Relevant Literature	200
7.3	Defending the Entry Point to Interrupt Poverty – State Capacity before Democracy	205
7.3.1	State Predation, State Capacity and Economic Development	205
7.3.2	Democracy and Constraining State Predation	207
7.4	A Hypothesised Development Sequence Synthesised from Institutional Economics, Modernisation and Human Emancipation	209
7.4.1	The Three-Phased Hypothesised Sequence	210
7.4.2	A Probabilistic Sequence	212
7.5	Conclusion	213
Chapter 8	Empirical Evidence of the Hypothesised Development Sequence	
8.1	Introduction	215
8.2	The Theoretical Model	215
8.3	Substantial Limitations	217
8.4	The Data	219
8.4.1	Country Selection	219
8.4.2	The Selection of Variables and Sources of Data Series	222
8.5	Associations and Correlations: Some Stylised Facts	229
8.5.1	Formal Institutions, Rule Enforcement and Economic Outcomes	229
8.5.2	Poverty Reversal, Existential Security and Human Empowerment	235
8.5.3	Human Empowerment, Liberty and Prosperity	239
8.5.4	Geographic Disadvantage and Economic Outcomes	240
8.6	Empirical Model: What Then Matters Most for Prosperity?	242
8.6.1	Model Specification	242
8.6.2	Descriptive Statistics	246
8.6.3	Correlation Analysis	247
8.6.4	Estimation Results	248
8.7	Interpreting the Marginal Effects	259
8.8	Conclusion	263

Chapter 9 Conclusion

9.1	The Research Problem, Objectives and Hypothesis Again	265
9.2	Empirical Evidence of the Development Sequence: Institutional Prominence Confirmed	266
9.3	Some Stylised Conclusions from the Literature and Empirical Analysis	268
	9.3.1 Stylised Facts from the Interdisciplinary Literature Review	269
	9.3.2 Empirical Confirmation of Stylised Facts	270
9.4	Future Research	271

List of Tables

Table 2.1	Democracy Rankings and other Performance Indices Compared	15
Table 6.1	Sequencing of Modernisation	178
Table 7.1	Institutional Approaches to Economic Development: Deep Causes, Transmission Channels and Outcomes	200
Table 7.2	Modernisation: Human Empowerment and Emancipation	203
Table 7.3	A Three-Phased, Humanised Development Sequence	210
Table 8.1	Deep Causes of Prosperity (Equation 1), or of Liberty and Prosperity (Equation 2)	216
Table 8.2	The WVS Countries according to the ten Cultural Zones; World Bank Income Categories indicated in Brackets	220
Table 8.3	Formal Rules that may be Enforced to Interrupt the Extractive Cycle and Reverse Poverty through Executive Constraint	223
Table 8.4	Education, and Emancipative and Secular Values in Human Development	225
Table 8.5	Variables Denoting Liberal Democracy and Geography	228
Table 8.6	Summary of Descriptive Statistics, All Countries, 1981 to 2015	247
Table 8.7	Pairwise Correlation Results for Variables of Interest	248
Table 8.8	Fixed Effects Estimation Results for Full Sample of Countries, 1981 to 2015 (Dependent variable: <i>lgdppc</i>)	250
Table 8.9	Hausman Test Results	251
Table 8.10	Two-step System GMM Estimation Results for Full Sample of Countries, 1981 to 2015 (Dependent variable: <i>lgdppc</i>)	254
Table 8.11	Fixed Effects Estimation Results for Full Sample of Countries, 1981 to 2015 (Dependent variable: <i>lgdppc_polity2</i>)	256
Table 8.12	Two-step System GMM Estimation Results for Full Sample of Countries, 1981 to 2015 (Dependent variable: <i>lgdppc_polity2</i>)	258
Table 8.13	Two-step System GMM Estimation Results for Full Sample of Countries, 1981 to 2015 (<i>lgdppc</i> and <i>zee_lgdppc</i>)	259
Table 8.14	Marginal Effects of Improvements in State Capacity, Human Empowerment, Investment and Exports on Prosperity in Sub-Saharan Africa	262

List of Figures

Figure 4.1	The Role of De Jure and De Facto Political Power to Establish
------------	---

	Extractive Institutions that Perpetuate Poverty	86
Figure 6.1	The WVS Cultural Map of Countries' Positioning on the Two Value Dimensions, 2010 – 2014	183
Figure 8.1	Relationship between culture (zoned according to SVI and EVI scores) and median GDP per Capita	221
Figure 8.2	Poverty and the Summary Index of Citizens' Freedom to Participate in the Economy in WVS Countries, Grouped According to World Bank Income Categories and WVS Cultural Zones	229
Figure 8.3	Poverty and the Rule of Law in WVS Countries, Grouped According to World Bank Income Categories and WVS Cultural Zones	231
Figure 8.4	Poverty and State Control over Citizens' Ability to Trade with Foreigners in WVS Countries, Grouped According to World Bank Income Categories and WVS Cultural Zones	232
Figure 8.5	Poverty and Monetary Stability in WVS Countries, Grouped According to World Bank Income Categories and WVS Cultural Zones	232
Figure 8.6	Poverty and Government Regulation in WVS Countries Grouped According to World Bank Income Categories and WVS Cultural Zones	233
Figure 8.7	Poverty and Emancipative Values in WVS Countries, Grouped According to World Bank Income Categorisations and WVS Cultural Zones	236
Figure 8.8	GDP Per Capita in Constant PPP Dollar (2011) and Emancipative Values Grouped According to World Bank Income Categorisations and WVS Cultural Zones	237
Figure 8.9	Human Capital and Emancipative Values in WVS Countries, Grouped According to World Bank Income Categories and WVS Cultural Zones	238
Figure 8.10	Polity2 and Emancipative Values in WVS Countries, Grouped According to World Bank Income Categories and WVS Cultural Zones	240
Figure 8.11	The Association between Poverty and the Cool Water Index in WVS Countries, Grouped according to Income Categories and WVS Cultural Zones	241
Figure 8.12	The Association between GDP Per Capita and the Cool Water Index in WVS Countries, Grouped according to Income Categories and WVS Cultural Zones	241

Appendices

Appendix A (to Chapter 5)	273
Appendix B (to Chapter 6)	289
Appendix C (to Chapter 8)	295

Bibliography	304
---------------------	------------

Chapter 1

Introduction

1.1 Background

This study is motivated by the realisation that democratisation in 1994 failed to relieve the burden of poverty borne by the black majority in South Africa, despite ostensible policy efforts to empower the previously disenfranchised. In fact, it may have worsened. What then will reverse the trajectory for the better? The widening of the world's rich-poor divide, and the prevalence and rising trend of extreme poverty in sub-Saharan Africa despite the relatively universal desire for democracy and huge advances in political participation, makes this a burning question for all poor nations; one that this study hopes to help answer. Although the focus of the study is on modern-day poverty where it persists, and not on South Africa's attempt to alleviate wide-spread poverty through universal suffrage, this is precisely the kind of experience that raises questions that are pertinent for this study.

Poverty persistence remains a central challenge of the modern world. Although extreme poverty has declined globally from nearly 100 per cent in 1820, a global *thrust* out of poverty since 1990 has coincided with a 40 per cent surge in sub-Saharan African poverty – now by far the world region with the largest number of extremely poor inhabitants (Atkinson 2016; Our World in Data 2017).

Poverty is a complex, path-dependent and context-specific phenomenon in open societal systems. In an era where the persistence of poverty has defeated conventional economics, there is a need to broaden the scope and reach of possible approaches to the problem to address its deep complexity. Mono-causal explanations fail to capture this complexity, yet a better understanding of poverty's deep² causes is material for efforts to reverse it. Efforts to liberate societies from poverty in non-democracies often take the form of democratisation. Universal suffrage theoretically rebalances political power and empowers societies to enforce the prioritisation of broad societal interests over elite interests. In theory then, rising political participation automatically checks state predation and cultivates development-enabling state capacity. Not only did this sequence not materialise in post-colonial sub-Saharan Africa, its theoretical foundation is brought into question also by the

² The notion of “deep” causes of economic outcomes follows the definition of Acemoglu *et al.* (2005: 297) of *fundamental* causes; that is, the causes of the *proximate* causes.

development achievements of strong, capable states in non-democracies like Singapore and Hong Kong.³

Governments exist to serve the common good through the supply of essential public goods. In poor nations, the social contract may well require that basic human needs be met. This level of service provision asks much of governments in poor countries; honouring the social contract requires, in addition to resources, *quality governance* by a *capable, rule-constrained state*. The vast societal costs of a government that disregards broad interests and uses its confiscatory powers exploitatively are documented in the predatory-state literature (for instance Robinson 2001; Boettke and Candela 2019; Murtazashvili and Murtazashvili 2019). On a large-enough scale, over a long-enough period, t ruinous cycles of predatory governance cause *and* sustain poverty.

Prosperity and liberty, it seems, are possible only where the state is strong and capable to deliver what it must, but where its powers are also constrained effectively. Without a vigilant society that assesses the quality of democracy critically and enforces accountability, constitutions may remain mere parchment rules. The road to liberty and prosperity entails a perpetual countering of both despotic states that rule through repression and fear, and the violent anarchy that weak states produce. (Acemoglu and Robinson 2019).

For states, gaining legitimacy and gaining control over violence and anarchy is a process; for laws to be written is one too, so is creating a culture of enforcing them. States and political elites must accept that they are rule bound, just as previously fractured societies must learn and accept that their collective wellbeing depends on social cooperation despite historical and cultural differences (Fukuyama 2014; Acemoglu and Robinson 2019). The path to liberty and prosperity is fraught with complexity; it represents a state-society balance characterised by strength and constraints on both sides, cooperating and competing in a synergistic partnership. Weakness on either side would make this unachievable.

It would seem that this balance is forged from within societies, arduously and over time. It cannot be manufactured, especially not from outside or through rapid changes in societies' parchment rules. Democratisation for instance constitutes an effort to rebalance the power of state versus society; universal suffrage does not do that automatically, however. Delineating clear boundaries of what states cannot do is not enough to curtail creeping executive overreach; it produces at best half of the tension that should balance state versus society. The other essential half emanates from the

³ South Korea has similarly achieved an extraordinary economic transformation since 1960, while sustained democracy was only achieved much later, in 1987, when the the Sixth Republic was established.

transformative power of societal empowerment and mobilisation. Shackling the Leviathan does not accomplish liberty and prosperity if society is not *empowered* to enforce democratic accountability assertively.

Poor countries need growth. They need to reverse the delegitimising, development-paralysing ramifications of predatory states before the chokehold of existential insecurity and poverty on its citizens will ease. Growth remains a distant prospect however, for as long as vicious cycles of elite extraction (Acemoglu, Johnson and Robinson 2005; Acemoglu and Robinson 2013; Boettke and Candela 2019) remain operative; first because of its efficiency losses and waste of the productive resources that should have funded the social wage, but more importantly, because of its disincentivising effects on citizens.

Sub-Saharan Africa, the world region with by far the largest number of impoverished citizens, and the only region where extreme poverty is on the rise whilst declining in all other parts of the globe, faces the same dilemma.⁴ Paul Collier (2008: 11 – 12) proposes that “the central problem of the bottom billion is that they have not grown... (t)he failure of the growth process in these societies simply has to be our core concern, and curing it the core challenge of development”; he reiterates that “catching up is about radically raising growth in the countries now at the bottom”. Jeffrey Sachs (2005: 30) is similarly outspoken that the woes of the poor regions of the world stem from their stagnation in comparison to the prosperous parts that managed to achieve consistent growth.

Stating that poor countries lag behind prosperous countries because of their inability to grow consistently would, in *neo-classical* terms, be tantamount to stating that poverty is rooted in poor countries’ inadequate resource endowments⁵, productivity and technology.

⁴ See Our World in Data at <https://ourworldindata.org/extreme-poverty>. Extreme poverty – also referred to as absolute or abject poverty – is defined as living below the International Poverty Line, that is, on less than US\$1.90 per day, measured in 2011 purchasing power parity dollars. In practice, this poverty line signifies what is required to access what is minimally needed for survival. Poverty is however more pervasive than in its most extreme form, hence the World Bank also reports a lower middle-income International Poverty Line, set at \$3.20/day; and an upper middle-income International Poverty Line, set at \$5.50/day in addition to the \$1.90 International Poverty Line, which remains the headline poverty threshold and defines the Sustainable Development Goal to end global extreme poverty by 2030.

⁵ The precise role of poor-country resource endowment is multi-dimensional. The lucrative potential of the extractives industry has rendered it vulnerable to rentseeking and elite capture where formal institutional safeguards against such practices are not in place, resulting in the poverty-perpetuating resource curse in well-endowed countries; per illustration, the impact of Nigeria’s oil riches on its development maybe compared with similar riches in Norway. Alternatively, geography and natural resource endowment may be viewed as a possible deep cause of poverty (Engerman and Sokoloff 2002; Haber 2012; Welzel 2014). According to this reasoning, there is an element of determinism in persistent poverty, arising from exogenous climatic conditions and resource endowments that are unfavourable to independent, small-scale subsistence farming while favourable to large-scale plantation type farming or mining. Vertical and authoritarian power dynamics

This explanation hardly penetrates the heart of the matter; the real question is, *why* would some countries have these inadequacies, condemning them to poverty, while prosperous countries overcome such obstacles? What are the *deep* causes of economic outcomes? The deep-determinants approach constitutes an effort to explain why the neo-classical or *proximate* determinants of economic outcomes of nations vary dramatically, giving rise to the global chasm between rich and poor. Three deep determinants feature prominently in the literature: institutions (North 1971, 1974, 1978, 1981, 1990a, 1990b, 1991, 1992, 2003; Acemoglu and Robinson 2005, 2012, 2013; Acemoglu, Johnson and Robinson 2001, 2002, 2005; Ferguson 2011, 2012; Rodrik 2002), trade integration (Sachs and Warner 1995; Frankel and Romer 1999; Rodríguez 2006) and a country's geographical traits (Diamond 1997; Easterly and Levine 2003; Landes 1997; Sachs 2003, 2005; Fukuyama 2014; Welzel 2014).

Of interest for this study, is the notion that man-made *institutions* are viewed as a deep cause of economic outcomes. It gives credence to human agency and resourcefulness as a self-efficacious, resourceful source of progression and advancement. The role of geographical traits cannot be denied, as much as contingency, history and particularity also steer countries' development trajectories in profound ways, all of which add immensely to the complexity of poverty. Accepting geographic determinism over human agency in a world where humankind has long harnessed the forces of nature has failed to gain broad traction in the literature, even where a role for geography is conceded (Welzel 2014). It would seem that nature, unchanging as it is, has afforded humans millennia to surmount its disadvantages through resourcefulness and technological advance. Where geography therefore continues to dictate destiny, it may in fact point to an *institutional* environment that does not support innovation. Paradoxically then, institutions may be the deep cause of geographic determinism.

1.2 Research Problem and Hypothesis

Douglass North (1990a) proposes that poverty is rooted in institutions that incentivise predatory political and economic activity instead of productive economic exchange. The question of *why nations fail* has intrigued many other scholars too (Landes 1990, 1998; Acemoglu and Robinson 2005, 2012, 2013 and 2019; Acemoglu, Johnson and Robinson 2001, 2002, 2005; Ferguson 2011, 2012). It is also the primary focus of this study.

are thus established early on, resulting in the owners of land and minerals dominating and exploiting a disempowered and subservient work force without agency or autonomy. In both cases however, the impact of geography and resource endowment is filtered through nations' institutional regimes.

1.2.1 *The research objectives*

The research objectives of this interdisciplinary study entail, first, finding the *deep causes* of persistent modern-day poverty; second, understanding how *poverty reversal* may be approached and third, identifying the driver(s) behind *advancement towards prosperity* once the poverty cycle is interrupted. These objectives are pursued through a review of scholarly work from the relevant disciplines, which are integrated to develop a hypothesised development sequence. This deep-cause development sequence is then tested empirically in a structural model specified as a reduced form dynamic panel data model.

Three deep causes of poverty feature in the literature: disadvantageous geographic traits, inadequate trade integration and development-inhibiting institutions (see for instance Rodrik 2002; Rodrik, Subramanian and Trebbi 2002). This study draws on scholarly literature from political science, institutional and development economics, and sociology to explore the relative importance of all three potential deep causes, but focuses on institutions, adopting a broader view of *institutions* than is found in much of the literature on the causative power of institutions (Sachs 2003; Glaeser *et al.* 2004; Chang 2011; Kangur 2016).

A broad institutional approach includes three classes of institutions proposed by North (2003): formal institutions, informal institutions and rule enforcement. Viewing the institutional impact on development less myopically than merely the domain of *ex ante* parchment rules, or regime type, but as the *actual* institutional environment that is very much an outcome of also *rule enforcement* affords a better understanding of how a *bouquet of sequenced* institutional forces shape societies' incentives to participate (or not) in growth-and-development activity. *Informal* institutions have an equally material role in driving the human behaviour that culminates in societal outcomes like poverty perpetuation or development. *Humanising* the development sequence by this broad inclusion of institutional drivers of human behaviour makes for a much more fundamental understanding of the man-made environment within which the development sequence must evolve and progress.

1.2.2 *Hypothesis*

This study hypothesises that poverty reversal requires a three-phased development sequence. The first phase is triggered when the vicious downward spiral of predatory governance is arrested and reversed through targeted formal institutional reform and development-enabling state capacity emerges. State capacity defined as a capable, rule-constrained state is viewed as the essential condition for the first phase. During the next phase, rising existential security acts as a transformative force in society. It cultivates human development and empowerment in this second development

phase, culminating in agency, autonomy and emancipative value orientations. In the third phase, the empowered and emancipated middle class mobilises to drive the emergence of liberal, effective democracy from within, forging the path to sustained liberty and prosperity.

This hypothesised sequence should be understood as probabilistic rather than deterministic or mechanistic. It would be impossible to predict exactly how the sequence may progress in any given society, given context specificities as well as the sequence's high reliance on human agency. It may be temporarily halted or reversed even in affluent knowledge societies if a sense of insecurity resurges following a dramatic event like a severe recession or natural disaster.⁶

1.2.3 Limitations

The limitations of the study pertain primarily to its reliance on the World Values Survey data to model mass cultural orientations. This consideration decides both the country selection and period under observation for the regression analysis. Similarly, the period under observation thus determined also influences the choice of governance indicators. In addition, endogeneity and reverse causality are complicating factors to be expected in a study focusing on inherently cyclical phenomena, for instance poor institutions that produce poverty, which in turn simply consolidates low-quality governance and, again, further misery. In the final instance, a study of this nature produces suggestive rather than conclusive evidence of causation; some assumptions regarding directionality are unavoidable, but they remain rooted in the preceding theoretical analysis.⁷

1.2.4 Structure of the Study

Following this introduction, the study is set out as follows. Chapter 2 describes the extent and the historical beginnings of modern-day poverty, emphasising that it affects sub-Saharan Africa more acutely than any other world region, as well as the roles of the Industrial Revolution and modern growth to produce a dichotomous modern world of rich and poor. Chapter 3 explores the complexities and many dimensions of poverty, also its intractability and perhaps “non-economics”, which continue to defy conventional economics and cause it to be viewed as a wicked problem. Chapter 4 presents the theory and evidence on institutionalism, explaining that the broad approach includes all of Douglass North's three classes of institutions, which Chapters 5 and 6 then study more closely. Chapter 7 presents the synthesis of the theoretical literature, which also serves as the foundation on which the empirical model is built. In Chapter 8, a hypothesised development

⁶ See Chapter 7 for a comprehensive explanation of the development and the phases of the hypothesised sequence.

⁷ See section 8.4 in Chapter 8 for a discussion of the limitations.

sequence founded in the theoretical literature is formulated and tested using a structural, panel-data model. Chapter 9 reports the findings and the conclusions of the study.

1.3 Theoretical and Empirical Contribution of the Research

As witnessed in sub-Saharan Africa (Burchard 2014) and Latin America (Smith 2005), the narrow association between economic hardship and political oppression has led to reform proposals that comprise political liberalisation, or *democratisation* specifically (Lipset 1959, Burkart and Lewis-Black 1995, Feng 1997; Przeworski *et al.* 2000; Fukuyama 2014). These reforms have brought citizens in poor nations more rights, but hardly any tangible benefit (Gerring *et al.* 2005; Ross 2006). Curiously, great strides towards prosperity elsewhere, in Singapore, Hong Kong and of course China for instance, were not preceded by democratisation.

These observations raise fundamental questions about not only the relationship between liberty and prosperity, but also between *democracy*, liberty and prosperity. It would seem from the literature (for instance Acemoglu and Robinson 2019) that prosperity and liberty are conceptualised almost interchangeably, as a human existence characterised by freedom of choice, where cognitive and material resources aid the agency and autonomy of individuals to exercise their choices.

Prosperity implies more than adequate material resources. It also means that individuals are empowered, that they have autonomy and agency to participate freely in economic exchange in an advantageous way. Prosperous but non-democratic Singapore and Hong Kong rank as the two *freest* economies globally, outscoring well-established *democracies* in Scandinavia, North America and Europe on *freedom*.⁸ Prosperity therefore *implies* a high degree of individual liberty, with or without democracy.

Liberty entails, in addition to coercive constraints being absent, also freedom from economic servitude (Acemoglu and Robinson 2019). Liberty and *poverty* are then mutually exclusive concepts and by extension, democratisation amidst poverty perpetuation does not constitute liberty. So, liberty also *implies* prosperity; democracy however, does not seem to imply either liberty or prosperity.

What then is the role of *democracy*? Is it instrumental in the making of liberty, or of prosperity *through* liberty, or of prosperity *directly*? Or is democracy an outcome made likely and sustainable when the goals of liberty and prosperity have been achieved, with no instrumental qualities, and perhaps less relevant for the quality of human existence than previously believed? Much as we

⁸ According to the 2020 *Index of Economic Freedom* of the Heritage Foundation.

would like to associate democracy with both liberty and prosperity, why does this association seem unfounded? More importantly, what does end poverty and cause prosperity?

1.3.1 Key Contribution

This study approaches these fundamental questions from a wide angle; its contribution to the literature on poverty reversal and the subsequent drivers of the progression towards prosperity is in its *comprehensiveness*, its *novel integration of existing theories*⁹ and its *subsequent formulation and empirical testing of a development sequence*¹⁰ that accounts for the insights gained from the preceding broad, interdisciplinary investigation.

1.3.2 An Interdisciplinary Approach to Poverty and Institutions

The study's interdisciplinary approach allows an attempt to integrate useful if fragmented insights from the diverse fields of political science, institutional economics and sociology into a reconceptualisation of poverty as vastly more complex than an economic phenomenon. The contradictions and complementarities in the diverse literature are pointed out where they emerge, as are *seeming* contradictions that upon reinterpretation may reinforce rather than refute existing theory.

A long-standing notion that has been defended in the literature (Welzel 2014), is that modernisation theory and an institutional deep-cause theory are mutually exclusive. In this study, I find that they are in fact *complementary* phases in a development sequence with institutional beginnings. Similarly, integrating sociologists' human-modernisation theory and scholarly work on informal institutions aided the understanding that human empowerment embodies much of what is meant by informal institutions – or societies' unwritten rules.

Reconciling political-science theory on state capacity with institutionalists' understanding of formal institutions and rule enforcement, and human empowerment theory with the role of *informal* institutions in economic development, sheds light on the fundamental questions posed above. It explains why suffrage does not reverse poverty; it explains that quality governance can do that, but that democracy fails as a surrogate for good governance. Also, *formal* institutional reform cannot *manufacture* human empowerment and therefore also not liberty and prosperity. Formal institutional reform can however catalyse the powerful transformative force of *existential security*, cultivating a substrate from which human empowerment may emerge.

⁹ Chapters 4, 5 and 6 explore the diverse, relevant scholarly literature.

¹⁰ The development sequence is developed in Chapter 7 and tested empirically in Chapter 8 using a structural panel data model specification derived from the theoretical analysis.

1.3.3 A Broad Institutional Approach

The interdisciplinary integration was made possible by a similarly broad approach to deep-cause institutionalism, which is uncommon in the institutional literature, which generally investigates the incentivising effects of just formal rules or, dragging the boundaries even narrower, of only regime types like democracies. This over-narrow approach to institutional analysis precludes meaningful interdisciplinary comparison. It is precisely the narrowing down of a universe of potential institutions to formal regime type alone that creates the misleading standoff between modernisation and institutionalism. *Broad* institutionalism, by contrast, takes cognisance of the interaction between all three of Douglass North's (2003) institutional classes, for instance between the first two classes of institutions, *formal rules* and *rule enforcement*, which interaction may steer the *actual* institutional environment away from the *ex ante* parchment rules.

A central theme in the formal institutional literature revolves around effective constraints on state predation. Whether *enforcement* of these constraints materialise would inevitably be prominent in this context; yet, the literature often overlooks that recognising *rule enforcement* characteristics as a class of institutions shifts the institutional focus away from parchment rules, to institutional outcomes. Hence progress and development seem more narrowly associated with a quality bureaucracy that *gets the job done* and produces quality governance than with universal suffrage that would *in theory* establish the rules of good governance.

The third class of institutions, *informal* institutions, broadly referred to as “culture” but encompassing belief systems, mental models, world views, norms and values, are also powerful incentives for human behaviour, which in turn shapes societal outcomes (North 2003). These unwritten, unobserved rules of societies add layers of complexity to understanding the drivers of human behaviour and economic outcomes in particular societal contexts. Aspects of national cultures or value orientations, like the prevalence of social capital or generalised trust, have been explored in the literature, but rarely in a comprehensive institutional context where not only all classes of institutions are represented, but where the specification of informal institutions represents national culture more comprehensively than social capital or trust.

This broad institutional approach, augmented by insights from political science and sociology, gives a new perspective on the roles of the different institutional classes, making clear that an understanding of how institutions shape economic outcomes would have to account for:

- 1) the relevant predation-limiting formal institutions of which regime type may be one but not necessarily the most important;

2) how the impact of these formal rules on incentives and behaviour may be twisted by the way in which enforcement materialises, confronting the reality that institutional failure may result from non-enforcement rather than non-existence of rules, and

3) societies' unwritten, informal rules that may dictate a range of context-specific behaviours, from obedience to traditional or religious authorities to rational, knowledge-driven decision making, from survivalism driven by existential fears to behaviour motivated by the desire to express emancipative mindsets.

The literature may benefit from this study's comprehensive institutional model that integrates and specifies these relationships, accounting for all three institutional *classes* (and regime type independently) to inform efforts to reverse poverty and catalyse the progression towards prosperity.

1.3.4 The Hypothesised Development Sequence and Structural Panel Data Model

The study proposes a hypothesised development sequence based on the broad approaches to the literature and institutional classification, merging the interdisciplinary theories into a phased approach representative of all three classes of institutions. It is a novel approach as much for its broad theoretical foundation as its comprehensive institutional representativity and, supported by the evidence from a structural panel data model, offers some answers to the fundamental questions regarding poverty, prosperity, liberty and democracy.

Attempting to understand and integrate the politics, the sociology, the economics and also the geography of poverty is an encompassing endeavour. More comprehensive and improved conceptualisations and understanding of poverty will no doubt continue to evolve and rework the questions asked in this study. Challenging as this degree of broadness is, also to manage empirically, narrowing the scope runs the risk of leaving questions unanswered.

Chapter 2

A Disparate World

2.1 Introduction

This chapter commences with some relevant observations of modern-day trends and disparities that raise questions about causation and paradoxical development outcomes that have led to the chasm between rich and poor. For instance, does *democracy* cause development, or perhaps more pertinent, why does it *not* cause progress? Does *freedom* contribute to development more productively, and if so, what is freedom if it is not democracy, and what is the connection between freedom and democracy if they produce divergent outcomes? The role of states, of their capabilities and constraints as well as the role of societies – meek versus empowered, and traditional versus emancipated – are prominent themes in these topics. These themes are recurrent in the second half of this chapter, which explores the historical evolution that produced a disparate modern world order.

2.2 Extreme Poverty and Democracy

Failure, in this study, is viewed as a nation's inability to lift the majority of its citizens out of poverty. We know it is possible to escape poverty; many countries¹¹ have succeeded (Collier 2008; Deaton 2013; Atkinson 2016 and Our World in Data 2017). Extreme poverty (defined as household consumption below 1.90 international dollars per day in 2011 PPP prices) has declined globally from nearly 100 per cent in 1820 (more than 1 billion out of a world population of 1.1 billion), to a global headcount of 746 million in 2013 (or 10.7 per cent), more than half of which live on the African continent (Atkinson 2016). Perhaps more remarkable is that, as recently as 1990, some two billion of the world's population still faced an existence of extreme poverty and a mere two and a half decades later, in 2015, the global number has shrunk to 705.5 million out of a global population of 7.35 billion. This global thrust out of poverty translates into 137 000 people managing to escape extreme poverty daily for those 25 years (Our World in Data 2017). The same period witnessed a 40 per cent surge in sub-Saharan poverty from a headcount of 276 million to 388 million – by far the world

¹¹ After World War II, the so-called Newly Industrialised Economies in Asia – South Korea, Taiwan, Hong Kong and Singapore – caught up with the high-income nations. Several East Asian economies later followed; they were China, Malaysia, Vietnam and Thailand.

region with the largest number of extremely poor inhabitants (Atkinson 2016 and Our World in Data 2017).¹²

The narrow association between economic hardship and political oppression has led to reform proposals that comprise political liberalisation or democratisation specifically as the road to economic liberalisation, both of which are considered *sine qua non* for economic development and growth (Lipset 1959, Burkart and Lewis-Black 1995, Przeworski *et al.* 2000 and Feng 1997). Poverty is at the root of political discontent as much as political oppression is seen as the fundamental cause of economic hardship; political liberation is viewed as the gateway to greater prosperity (Acemoglu and Robinson 2013).

Several theories propose mechanisms through which democracy may raise living standards for the poor. Amartya Sen's (1981, 1999) work on the causes of famine is often broadened to apply to poverty (Ross 2006), proposing that while nondemocratic rulers are immune to the consequences of a famine unlike their impoverished citizens, the electoral process of democracy penalises rulers for allowing famines to occur. Democracy thus presents a political incentive to rulers to lessen the hardships of their citizenry.

An alternative theory suggests that democracy is beneficial for the poor since the electoral process forces democratic governments to spend their revenue on public goods and services (Ross 2006). Meltzer and Richard (1981) developed a model that influenced many subsequent studies of the distributional impact of democratisation (see for instance Boix 2013; Acemoglu and Robinson 2005). They propose that, as suffrage extends from a wealthy, narrow elite to the poorer, broad citizenry, the median voter with a deciding influence on government policy shifts downward on the income scale. The median voter earns the median income and, under income inequality, the median income of the policy-deciding voter is below the mean income. The median voter is likely to prefer a higher tax rate that is progressive and redistributive. Democracy thus brings the collective preferences of the poor to bear on policy, forcing income redistribution (Ross 2006).

In *Freedom Rising*, Welzel (2014) writes about a time when states were organised to oppress human freedom and exploit their subjects, when civilisation was defined by the abolition of original freedoms. The liberal revolutions of the English, the Dutch, the Americans and the French during the

¹² The surge in sub-Saharan poverty, although coinciding with rapid urbanisation, was caused primarily by its “growth tragedy” (Kessides 2005: xxii). Therefore, although “urbanisation without growth” does not strictly apply since whatever growth did materialise stemmed from urban-based sectors, cities failed to live up to their productive potential due to institutional failures that perpetuate the social and economic exclusion of the urban poor (Kessides 2005: xxiii).

seventeenth and eighteenth centuries saw the common man resist oppression and insist on freedom, sending tyranny into retreat if not complete eradication (Grayling 2007). Although the reversal of authoritarianism and enforcement of freedom originated in the West, other parts of the world followed suit, with mass pressure for freedom driving waves of democratisation (Huntington 1991; Markoff 1996; McFaul 2002 and Weijnert 2005). Authoritarianism is proving resilient, but Clark (2009) asserts that the human desire for freedom from domination is more powerful and visible than at any time before, both inside and outside of democracies (see also Carter 2012). Welzel (2014: 2) proposes that humans, “as self-aware beings with the gift of imagination”, universally desire to live free from domination and external constraints. Democratisation is therefore more than an expression of aspirations to lay claim to resources through the distributive mechanism; it is the institutional embodiment of the human drive towards emancipation and empowerment.

We have, however, witnessed how reform towards democratic institutions of broad inclusion, executive constraint and accountability has brought citizens in poor nations more rights, but hardly any tangible benefit (Gerring *et al.* 2005; Ross 2006). In 2014, Acemoglu *et al.* constructed a consolidated, dichotomous democracy index for the seven geographic regions defined by the World Bank¹³ using the Freedom House¹⁴ and Polity IV¹⁵ indices as the two main sources, supplemented by two dichotomous measures, the Cheibub, Ghandi and Vreeland (2010) and the Boix, Miller and Rosato (2012) democracy codes. For the African region, all the democracy measures used in the Acemoglu *et al.* study show a significant upward trend from 1990 to the end of the sample in 2010.

¹³ The World Bank defines the following seven geographic regions across the globe: Africa, East Asia and the Pacific, Eastern Europe and Central Asia, Western Europe and Offshoots, Latin America and the Caribbean, the Middle East and North Africa, and South Asia.

¹⁴ *Freedom in the World* is an annual global report on political rights and civil liberties published by Freedom House. The 2018 edition covers 195 countries and 14 territories. A country or territory is assigned two ratings from one to seven, one for political rights and one for civil liberties, based on its total scores for survey questions on political rights and civil liberties. Countries’ Freedom Rating is calculated as the average of its political rights and civil liberties ratings, and this is the rating that determines the country status as Free (1.0 to 2.5), Partly Free (3.0 to 5.0), or Not Free (5.5 to 7.0).

¹⁵ The *Polity IV Project* is managed by the Centre for Systemic Peace and covers all major, independent states with a total population exceeding 500,000 in the most recent year. Currently 167 countries meet the qualification. Polity IV constantly monitors regime changes in all major countries and publishes annual assessments of regime authority characteristics and changes. It uniquely measures concomitant qualities of democratic *and* autocratic authority in governing institutions, rather than discreet and mutually exclusive forms of governance. This approach captures a spectrum of governing authority, ranging from fully institutionalised autocracies through mixed, or incoherent, authority regimes (“anocracies”) to fully institutionalised democracies. The Polity scores can also be converted into three regime categories, with autocracies ranging from -10 to -6), anocracies from -5 to +5 and three special values (-66, -77 and -88), and “democracies” (+6 to +10).

This surge in African democratisation measured by Acemoglu *et al.* coincides with a rapid rise in extreme poverty in sub-Saharan Africa whilst declining elsewhere (Our World in Data 2017). Democratic reform in post-independence African nations has not transformed these poor nations towards the prosperity associated with older, Western democracies.

Keefer (2005) finds that younger democracies are governed badly; they are less likely to abide by the rule of law, display poorer bureaucratic quality, are more corrupt and spend more on a burgeoning public sector. Keefer and Vlaicu (2004) ascribe the underperformance of young democracies to the inability of political competitors to commit to credible pre-election promises to voters. Instead of establishing direct credibility with voters, politicians rely on patrons with influence and resources, leading them to underprovide public goods while narrow groups of voters benefit from transfers and rent seeking.

Curiously, great strides towards prosperity elsewhere, in Singapore and Hong Kong for instance, were not preceded by democratisation. Table 2.1 below shows that they both rank relatively low on democracy, yet they rank first (Hong Kong) and second (Singapore) on economic freedom. Singapore also ranks second on global competitiveness, with Hong Kong in seventh place, but most telling perhaps is the high scores of these nondemocratic countries on human development as the broadest measure of human wellbeing, with Singapore ranking fifth globally and Hong Kong twelfth. Democratisation clearly does *not* pave the way towards prosperity; or at least, although it may safeguard political rights and civil liberties, it offers no *guarantee* of economic growth as much as non-democracy does not automatically relegate nations to oppression and poverty. Among the legacies of dictatorships and autocracies are appalling gross human rights violations and brutal repression (see Rotberg 2003b for an account of sub-Saharan African experiences), but also enviable social wellbeing and prosperity, as Table 2.1 below shows.

Columns two to five in Table 2.1 list democracy scores and rankings as measured by the Economist Intelligence Unit (EIU) Democracy Index for a few African nations, from the more democratic Mauritius and Botswana to the highly nondemocratic Zimbabwe and recently democratised South Africa, in comparison with the scores and rankings of Hong Kong and Singapore, which are included to illustrate the seeming unrelatedness of electoralism and pluralism on one hand, and governance and development outcomes on the other. South Africa is included specifically as a recent sub-Saharan nation to yield to the poor majority's pressure to democratise (in April 1994) and

aggressively pursue redistribution.¹⁶ It is therefore curious to assess both its democratic and economic outcomes in 2018, just short of a quarter of a century later.

Table 2.1 Democracy Rankings and other Performance Indices Compared

Country	Selected country scores and rankings						
	Democracy (EIU 2018)				Economic Freedom Score and Ranking (Fraser Institute 2017)	Competitiveness Score and Global Ranking (WEF 2019)	Human Development Score and Ranking (UNDP 2018)
	Overall Score and Ranking	Electoral Process and Pluralism	Functioning of Government	Civil Liberties			
Mauritius	8.22 (17)	9.17	8.21	9.41	8.07 (9)	64.3 (52)	0.790 (65)
Botswana	7.81 (28)	9.17	7.14	9.12	7.37 (49)	55.5 (91)	0.717 (101)
South Africa	7.24 (40)	7.42	7.50	7.94	6.61 (101)	62.4 (60)	0.699 (113)
Hong Kong	6.15 (73)	3.08	6.07	8.53	8.91 (1)	83.1 (3)	0.933 (7)
Singapore	6.38 (66)	4.33	7.86	7.35	8.71 (2)	84.8 (1)	0.932 (9)
Zimbabwe	3.16 (134)	0.50	2.00	3.24	5.69 (145)	44.2 (127)	0.535 (156)

Source: The Economist Intelligence Unit (2018); The Fraser Institute (2017); UNDP 2018; World Economic Forum 2019.

The EIU's Democracy Index ranks 167 nations on a scale of zero to ten on 60 indicators grouped into the following five categories: Electoral Process and Pluralism, the Functioning of Government, Political Participation, Civil Liberties and Political Culture. Hong Kong and Singapore both rank relatively low on Overall Democracy (67th and 74th) primarily because of their low scores on Electoral Process and Pluralism. Yet, they perform markedly better on the other sub-indices that are indicative of the quality of government and government's restraint to infringe on civil freedom, even in the absence of electoralism and pluralism.

Although not included in Table 2.1, Freedom House's *Freedom in the World 2018* designates the six nations based on their democracy scores (the average of their Political Rights and Civil Liberties scores) as follows: Botswana as Free, Mauritius as Free, South Africa as Free, Singapore as Partly Free, Hong Kong as Partly Free and Zimbabwe as Not Free. It is also worthwhile to note that Polity IV's *Global Report 2017* ranks Mauritius, Botswana and South Africa as institutionalised democracies. South Africa however has a markedly higher *fragility* score than Mauritius and Botswana. Hong Kong is not included in the dataset, but although Singapore is ranked as an

¹⁶ In *The Commitment To Reducing Inequality Index* published by Development Finance International and Oxfam in July 2017, ranks South Africa first out of their 152 participant countries on Progressive Structure and Incidence of Tax.

uninstitutionalised autocracy, it has the same low fragility rating as institutionalised democracies like Norway and New Zealand. Zimbabwe is an uninstitutionalised or weak democracy, with a very high fragility score, failing on economic effectiveness in particular. Interestingly, China as an institutionalised *autocracy* outperforms some institutionalised democracies on both overall (low) fragility and economic effectiveness.

Given the argument that oppression and lack of freedoms are associated with poverty and hardship, it stands to reason that liberation and greater freedom for economic participation should reverse the decline, allowing an escape from poverty; freer nations should therefore be more prosperous. Singapore and Hong Kong dramatically outperform even the most democratic nations on the African continent on outcome measures generally associated with democracies, like Economic Freedom, Competitiveness and Human Development. The Fraser Institute's Economic Freedom Index ranks 159 nations according to scores out of ten on five main indicators: Size of Government, Legal System and Property Rights, Sound Money, Freedom to Trade Internationally and Regulation. Overlapping slightly with the Competitive Index, nations' governance outcomes and the degree to which economic participation is incentivised are measured irrespective of formal regime type. Column six of Table 2.1 shows that Hong Kong and Singapore rank as most and second most free globally, *despite* their low democracy rankings.

Column seven of Table 2.1 shows The World Economic Forum's (WEF) global competitiveness rankings for 2017 to 2018. The WEF *Global Competitiveness Index (GCI) 2017 – 2018* defines competitiveness as a nation's institutions, policies and other factors that determine its productivity and ability to grow, and hence its prosperity. Scores out of seven are awarded for the 140 nations included in the index. The GCI comprises weighted averages of many components of competitiveness, grouped into twelve categories or pillars: Institutions, Infrastructure, Macroeconomic Environment, Health and Primary Education, Higher Education and Training, Goods Market Efficiency, Labour Market Efficiency, Financial Market Development, Technological Readiness, Market Size, Business Sophistication and Innovation. High-ranking nations likely have good governance and policy, an enabling social environment and incentives that foster skills development, and high levels of investment, economic activity and innovation – all of which are associated with advanced, prosperous nations. The poor nations are among the low-ranking nations that underperform on these measures.

Notably, the index is constructed without cognisance of countries' degree of democratisation; all formal regime types, also benevolent autocratic regimes with sound policy and good governance that foster competitive, prosperous economies, are scored on purely outcome. Again, low democracy

rankings do not restrain Singapore from ranking second most competitive on the global index, whereas Hong Kong ranks seventh globally.

National income, or economic growth, or growth per capita are common measures of economic outcomes. The United Nations' 2016 Human Development Report measures development more broadly, including quality aspects like Life Expectancy at Birth, Expected Years of Schooling, Mean Years of Schooling in addition to Gross National Income per Capita as measures of human development. The approach focuses on the richness of human life, on people and their opportunities and choices, rather than the material prosperity of the economy in which human beings live. Countries are scored out of one and ranked out of 188 participant countries. Column eight of Table 2.1 lists the scores for my selection of countries. Singapore is 5th globally and Hong Kong 12th, substantially outperforming even sub-Saharan Africa's freest democracies.

Table 2.1 illustrates that the assumption that democratisation promises an escape from poverty cannot be taken at face value. An overarching observation that requires explanation is that poverty in sub-Saharan Africa was on the rise during an era of apparent democratisation, and vast progress in Hong Kong and Singapore was accomplished without democratisation.

2.3 Quality of Democracy Matters

The broad notion of “democracy” seems simple enough; yet there is little consensus on the precise definition (Schmitter and Karl 1991; Newberg and Carothers 1996; Munck 2014), hence the variation in country scores among the various democracy indices available. It is often used as catchall term denoting regimes that hold elections and protect human rights, while in essence, democracy means rule by the people (Burchard 2014; Munck 2014).¹⁷ It describes a system of governance and decision-making by assent by those who govern and are governed, in contrast to an autocracy where decision-making power vests in an individual or single entity, or an oligarchy where a small group makes decisions on behalf of the governed, or anarchy where an overarching decision-making authority is absent (Burchard 2014).

In an oligarchy, political rule is established according to formal selection criteria based on class or ethnicity (Burchard 2014). A hybrid form of governance, an anocracy, combines autocratic and democratic elements. A further distinction among these forms of rule is found in the numbers

¹⁷ In the 1780 state constitution of Massachusetts, however, John Adams enshrined the democratic principle as a “government of laws, not of men”.

participating in governance, ranging from none in anarchy, to all in a pure democracy (Burchard 2014). Assent and pluralism are therefore two distinct democratic principles.

Electoralism is an essential element of democracies, although it is not an exclusive democratic domain. Non-democracies also hold elections, but often restrict partisan organisation and electoral participation, as witnessed in several African countries in the 1970s and 1980s (Burchard 2014). Therefore, if democracy is narrowly defined as essentially electoralism, it requires the caveat that elections should be open for all citizens to contest and to participate freely as voters. Even so, a narrow, election-centred definition identifies *procedural* democracy – that is, whether the democratic apparatus has been called into existence (Munck 2014). It is mute on a multitude of criteria that decide whether the democratic institutions function as envisaged (Newberg and Carothers 1996; Munck 2014).

A more comprehensive definition of democracy – the *substantive* definition – measures democratic outcomes, or the quality of democracy (Newberg and Carothers 1996; Munck 2014). With reference to the popular democracy indices used in scholarly analyses, Hogstrom (2013) finds that the Polity IV democracy index, a popular global time-series dataset collected from 1800 to the present day, measures procedural democracy whereas the Freedom House Index sets the democracy bar much higher and measures substantive democracy. He concludes that although these two indices are imperfectly correlated, their distinctions may influence research findings.

The evolution of sub-Saharan democracy since 1990 speaks of both advance and decline, depending on whether procedural or substantive democracy trends are analysed (Burchard 2014). Procedural democratic gains across the continent are impressive, with nations transitioning from autocracy to anocracy and democracy, assessed on Polity IV scores (Hogstrom 2013). These scores do not capture substantive democracy gains or democratic quality; they reflect only a transitioning to multiparty electoralism where formal restrictions on participation are minimal (Scott and Taylor 2012; Burchard 2014). Electoral competition in Africa is however plagued by various forms of malfeasance, ranging from violence against opposition voters to vote rigging and significant fraud (Collier and Vicente 2012).

Unlike procedural democracy and in tension with Acemoglu *et al.*'s (2014) findings of rising democracy, substantive measures of democracy in Africa point to stagnation and even decline since 2000, reflecting that political elites are more likely to adopt democratic procedure – elections specifically – than profound political liberalisation (Burchard 2014). Incomplete democratisation followed tactical and superficial reform instituted by a political elite keen to avoid full reform

(Lynch and Crawford 2011). Democratic institutions lacked capacity and were compromised, leaving executive powers intact (Burchard 2014; Lynch and Crawford 2011). In a study of 30 sub-Saharan African countries, Van Cranenburgh (2008) reports that all countries experience hyperpresidentialism, awarding exorbitant power to the executive while political parties remain at the behest of individual power aspirations. Michael Bratton (2007: 98) labels Africa's democratic desire wide but shallow, hampered by three dimensions of neopatrimonial rule: clientelism, corruption and big-man presidentialism. Yet, despite the democratic backslide and the reluctance of the political elite to commit to substantive democracy, Bratton (2007) reports findings of a 2005 study, that 62 percent of Africans in the study's sample group prefer democracy to other forms of government. Welzel (2014) similarly refers to the universalised *desire* for democracy.

2.4 The “Paradox of Democracy” and Emancipative Values

Welzel (2014: 307) refers to the coexistence of deficient or absent democracy with the widespread desire for democracy as the “paradox of democracy”, explaining that the percentage of a population expressing a strong desire for democracy predicts less than 30 per cent of the actual quality or degree of democracy that materialises. The universality of the expressed desire for democracy obfuscates profound differences in people's understanding of democracy and also in their preparedness to act on that desire and enforce it (Schedler and Sarsfield 2006). Welzel (2014: 308) however sheds much light on the paradox of democracy through his finding that the self-fulfilling power of people's desire for democracy lurches from 30 to 70 per cent once this desire is grounded in a set of values he refers to as “emancipative values”. He explains that emancipative values amplify the realisation of democratic desires dramatically because they not only emphasise the democratic ideals of freedom and equality, but also generate an intrinsic drive to take action in pursuit of these freedoms.

Where democratic desire is decoupled from emancipative values, democracy means something different than democratic freedom and equality. Without emancipative values, people are not yet ready to pursue democratic freedoms actively (Welzel 2014). The political elite may then satisfy “democratic desires” through superficial reforms propagated as democratisation (Burchard 2014). Emancipative values do not affect the *prevalence* of democratic desire as much as its *nature*; they target the desire towards intrinsically liberal democracy, not superficial reform propagated as democracy (Welzel 2014).

The democratic paradox of strong democratic desires coexisting with democratic deficiency or absence dissolves once the desire becomes rooted in critical-liberal emancipative values. Qi and Shin (2011) confirm Welzel's (2014) theory that a nation's democratic desire becomes a much more

powerful predictor of its degree of democratisation once the desire is coupled with the ability to critically assess democratic institutions. In addition to the liberal orientation associated with emancipative values, these values internalise high standards of evaluation of a society's democratic quality; emancipative values produce critical citizens (Welzel 2014).

A society characterised by critical-liberal emancipative values, is also a society with a critical-liberal desire for democracy that will be intolerant of superficial or deficient democratic quality. Norris (2011) affirms Welzel's posit that emancipative values do not *amplify* democratic desire.¹⁸ They shape democratic desire; these values set an irrepressible and focused critical-liberal desire for democracy apart from an amorphous urge for a betterment of life in general emanating from impoverished, oppressed societies. Welzel (2014) predicts that, divorced from these values, democratic desire is inconsequential. He also argues that the emancipative values that should forge a society's progress towards universal freedom are suppressed by existential constraints; societies confronted by extreme poverty are consumed by fears of survival and do not prioritise self-expressionist values like autonomy. It stands to reason then that amidst rising poverty in sub-Saharan Africa, there may hardly be room to foster the critical-liberal emancipative values that should translate democratic desire into deeply liberal, substantive democracy.

2.5 Democracy, Economic Development and Questions of Causation

Welzel's (2014) premise¹⁹ that existential constraints should be overcome to activate human empowerment as emancipative values become internalised in a society seems to validate Lipset's (1959, 1960) empirical confirmation of a correlation between a nation's level of development and its probability of being democratic. The Lipset studies have established a conventional wisdom that more prosperous nations have a greater chance of sustaining democracy (Wucherpfennig and Deutsch 2009). Lipset referred to aspects of economic development, like urbanisation, industrialisation, wealth creation and education, as "some requisites"²⁰ of democracy. He considers these factors as conditions that are conducive to democracy rather than causes of democracy; put

¹⁸ Norris (2011) actually commented on Inglehart and Welzel's (2005) self-expression set of values, which was similar to Welzel's (2014) emancipative values, with a similar conclusion that these values do not drive the democratic desire as much as they decide its nature and whether the desire will paradoxically co-exist with democratic absence or deficiency. Norris assumed that the lack of correlation found between strength of democratic desire and self-expression values disproved the Inglehart-Welzel proposition; however it confirms the intensity-versus-nature hypothesis.

¹⁹ This premise is also proposed in Inglehart and Welzel (2005 and 2010).

²⁰ Refer to the title of his 1959 article: "Some Social Requisites of Democracy Revisited" in the *American Sociological Review* 59: 1.

differently, he considers the association between economic development as probabilistic and correlational more than causal and deterministic.

Przeworski *et al.* (2000) formulated two versions of the relation between economic development and democracy. The first, the endogenous version, tested whether economic development is causal for democracy; the second exogenous version explored whether development was merely favourable for sustained democracy. He claimed to find support for the exogenous version, that economic development makes democracy endure, but not emerge (Przeworski *et al.* 2000). While these studies confirm an association between prosperity and democracy, the causal mechanisms remain essentially opaque (Wucherpfennig and Deutsch 2009).

2.6 Institutions and Other Deep Determinants of Economic Development

The institutional theory of economic development also espouses the notion of a nexus between the rules or institutions that organise a society (formal political regime type is a subset of these rules) and economic outcomes. Whereas Welzel's (2014) emancipation theory posits economic development as a causative variable of first emancipative societal values and then liberal democracy, institutionalism predicts the opposite. Institutional theory views a nation's institutions, which are defined broadly to include formal rules like regime type, informal rules like social norms and values, as well as rule-enforcement characteristics, as the deep determinant of its economic outcomes. Aggregate economic outcomes may be measured broadly as development (Acemoglu, Johnson and Robinson 2001), or more narrowly as its economic growth (Acemoglu, Johnson and Robinson 2005) or per-capita income (Hall and Jones 1999).

Institutionalism therefore seems to contradict the modernisation sequence proposed by Lipset (1959) and Welzel (2014). They view liberal, effective democracy as an outcome of economic development processes, or, specifically of the emancipative values associated with human empowerment that flows from economic development. Welzel (2014; also Inglehart and Welzel 2005, 2010) emphasises that without resources that render democratic freedoms actionable and utilitarian, such freedoms remain meaningless. Resources are not only financial and physical; *intellect* proves to be a valuable resource in human empowerment and relies on quality education. In this regard Welzel (2014: 108) states:

“Education improves people's skills to digest information and to think for themselves. Also, education makes people more knowledgeable about options and possibilities. Thus, people with a higher level of education can usually take more advantage of freedoms. Furthermore, because education raises awareness, educated people get a sense of their advantage.

Accordingly, education increases both the actual and perceived utility of freedoms. For this reason, education strengthens people's preference for emancipative values.”

From this reasoning, one might conclude that an impoverished society overwhelmed by the necessities and stresses of survival needs resources more than freedoms, or at least as much as freedoms and civic entitlements, to advance along the scale of human empowerment and emancipation towards a view on autonomy that will not settle for less than liberal democracy. This reasoning establishes a direction of causation flowing from economic development, to produce the resources that society needs to transform freedoms into action, towards liberal democracy.

In the failing-nation context, where the possible causes of and escapes from persistent poverty are probed, it is crucial to understand the direction of causation. Following Welzel (2014) may point to the futility of attempts to incentivise previously oppressed societies to engage in creative and productive activities through democratic freedoms, if the grip of existential stress and poverty has not first been released.

Neo-classical economics uses production functions to determine aggregate economic outcomes, with stocks of human and physical capital, and productivity as explanatory variables (Cobb and Douglas 1928, Solow 1956, 1957). The failings of a poor nation must then reflect and be rectified in these explanatory variables; either the factors of production are inadequate, or factor productivity falls short of the standards of prosperous nations, or both. In the persistent-poverty context, more questions than answers arise from the neo-classical production-function approach to economic outcomes. Why do these inadequacies prevail in some nations, crippling their economies and impoverishing their societies, while others overcome constraints to achieve prosperous thriving societies? Why, for instance, does the population of some nations evolve into a highly skilled, productive workforce, while the population of others remains unskilled, unemployed and poor?

The layer of conventional explanatory variables – the so-called *proximate* determinants of aggregate economic outcomes – is rooted in a deeper layer of determinants. It would seem that the deep determinants of nations' economic outcomes, not the proximate ones, define the fault line separating rich and poor nations (see for instance North 1991, 1992, 2003; Hall and Jones 1999; Acemoglu, Johnson and Robinson 2002, 2005; Rodrik 2002). The deep determinants explain why poor nations underperform on the proximate determinants, that is, why they lag behind prosperous nations in their stocks of human and physical capital and their productivity, leading to poverty and failure.

The institutional theory of economic development that links a nation's rules and organisation to its aggregate outcomes is part of the deep-determinants literature (see North 1991, 1992, 2003; Hall and

Jones 1999; Acemoglu, Johnson and Robinson 2002, 2005; Rodrik 2002). *Three* deep determinants are prominent in the literature, however; in addition to institutions, there are also geographical traits (Diamond 1997; Easterly and Levine 2003; Sachs 2003 and 2005) and trade openness (Sachs and Warner 1995; Barro 1997; Frankel and Romer 1999; Hall and Jones 1999; Rodrik 2002).

Kangur (2016) describes the deep-determinants literature as a race among the determinants to establish which one rules in terms of causative power over economic outcomes. Unlike Kangur (2016) however, who limits institutions to formal parchment rules, this study focuses on the role of institutions defined broadly. Douglass North (1991, 1992 and 2003) proposes broad classes of institutions: formal institutions, informal institutions as well as rule-enforcement characteristics. He argues that it is the *actual* institutional environment – the *outcome* of the formal-informal-enforcement interaction – that shapes a nation’s economic organisation and associated incentives.

The transmission mechanism runs from the institutional impact to economic organisation, the associated web of incentives and economic behaviour, to economic outcomes, in tension with Lipset’s (1959) notion that prosperous nations are more likely to be democratic. Inglehart and Welzel (2005 and 2010) and Welzel (2014) similarly position liberal democracy at the outcome end of the causal chain, as the result of economic development, modernisation and human empowerment, not the catalyst. Sub-Saharan Africa’s experience with heightening poverty in the wake of democratisation also seemingly contradicts the notion that development starts with enabling institutions.

Yet, much has been made of the importance of democratisation in efforts to reverse the fortunes of failing, politically oppressed nations, due to the appealing values of freedom, equality and autonomy that democratic rule espouses. These values are formalised in Western democratic regimes, through democratic traits like constraints on the executive, accountability, protection of property rights, freedom of speech, equality before the law and autonomous decision making for citizens. These nations are not only democratic, however, they are also prosperous.

Hence questions of causation abound; are these nations prosperous simply because they *have* formal democratic rules? That seems unlikely, given both the disappointing sub-Saharan experience with formal democratisation and successes elsewhere that required no prior democratisation. Also, Inglehart and Welzel (2005 and 2010) and Welzel (2014) draw a clear distinction between the critical-liberal emancipative values that precede a liberal democracy, and liberal democracy itself. North (2003: 3) similarly distinguishes between formal rules and informal rules, defining the latter as societies’ “ways of doing things and self-imposed codes of conduct” that are more influential in

guiding behaviour than formal rules. Hence, a formal democratic overhaul of a poor-nation regime without cognisance of where society ranks on the emancipative-value dimension, or of society's "ways of doing things", may not pave the way towards advanced-democracy prosperity.

2.7 Modern Economic Growth and the Rich-Poor Divide

The next few sections explore how global modern-day disparities arose. Prior to 1800, the yawning gap between the rich and poor of today did not exist; poverty was widespread across all regions of the world (Maddison 1995; 2001). At the time Europe discovered the sea routes to Asia, Africa and the Americas, Europe, Japan, India and China had comparable levels of income (Sachs 2005). For thousands of years, there was hardly any sustained economic growth, while the world population rose gradually and living standards even more modestly. The dynamics of world development changed from 1820 onwards, with the dawn of an unprecedented era in economic history, the "period of modern economic growth" (Kuznets 1966; 1973).

Just short of two centuries later, by the turn of the millennium, the human population had soared more than six-fold but was still outstripped by the nine-times rise in average global per-capita income (Sachs 2005; Maddison 2001). The rich-country spike in per-capita income was even more pronounced: fifteen-fold for the United Kingdom and twenty-five-fold for the United States (Sachs 2005; Maddison 2001). Global food production rose faster than the world population (although chronic hunger remained the fate of many) and gross world production mushroomed by a factor of forty-nine (Sachs 2005; Maddison 2001). Just before the turn of the millennium, by 1998, the divide between per-capita income in the United States (the wealthiest nation by then) and Africa – the world's poorest region – had broadened to twenty-fold (Sachs 2005; Maddison 2001).

The disparity of the modern world was caused by two centuries of uneven growth patterns, prying rich and poor further and further apart. In the United States, living standards multiplied twenty-five-fold over the period from 1820 to 1998. It became the richest nation through sustained modest growth of average 1.7 per cent annually. The key was *sustained*, consistent though modest, growth over nearly two hundred years (Sachs 2005), not impressively fast growth. Africa, in comparison, grew at an average annual rate of 0.7 per cent and the compounding effect of the one percentage point differential was sufficient to lead to gaping global inequality.

Jeffrey Sachs (2005) is emphatic about the fallaciousness of notions that the rich became rich because the poor were made poor; that dominant nations extracted riches from the poorer ones through their political domination and military capability. There is no evidence of such massive-scale transference of a relatively constant global product. As it were, world income was anything but

stagnant. It grew in overall as well as per-capita terms, with all regions experiencing *some* progress. The advance of some regions, compounded by consistency over two centuries, simply outstripped that of others. In *The Bottom Billion*, Paul Collier (2008: 11) states that this growth failure of societies where the bottom billion live is their “central problem”; that growth “in these societies simply has to be our core concern, and curing it is the core challenge of development”.

2.8 The Industrial Revolution and Westernisation

Until the mid-1700s, the world was a miserable place by modern standards (Ferguson 2011). Life expectancy was low. Although child mortality especially was high, large numbers of *all* societies regularly succumbed to disease and epidemics like measles and smallpox, and the infamous Black Death that ravaged Europe in the middle of the fourteenth century. Extreme climatic conditions and famine could signal the ruin of societies seemingly in the throes progress. Spurts of advancement were succeeded by inevitable declines and *sustained* economic progress was unknown (Jones 1987, 1988; Sachs 2005; Deaton 2013).

Late in the fifteenth century, a civilisation that eventually managed to conquer the great Oriental Empires and subjugate entire continents – Africa, both Americas and Australasia – emerged from the Western European States (Ferguson 2011). The Western expansion proceeded to convert peoples across the globe to the way Western societies lived.

Ferguson (2011 and 2013) proclaims that such dominance as was achieved by the West over the Rest from the 1500s onwards, has never been accomplished by any civilisation previously. He bases his assertion on the following: The future European imperial nations occupied no more than ten per cent of the global land surface in 1500 and constituted perhaps sixteen per cent of the global population. Four centuries later, eleven Western empires were in command of some sixty per cent of global territory and populations, and just short of eighty per cent of global output. Western living standards also outstripped the living standards elsewhere as was reflected in much higher life expectancies, proper diets and prosperous cities. The decline of the European empires did not halt Western dominance; the rising United States continued to broaden the divide between the West and the East until, in 1990, American citizens were on average seventy-three times better off than Chinese citizens (Ferguson 2011; Ferguson 2013; Sachs 2005). Acemoglu, Johnson and Robinson (2005) brand this “reversal of fortune” a large-scale natural experiment offering proof of the causative effect of institutions on nations’ prosperity.

Japan led Eastern societies in adopting several Western institutions and aspired to organise itself according to the Western template (Kemp 1969; Ferguson 2011). Although the recent financial crisis

motivated much discussion about alternative economic models, the debates between free-marketeters and interventionists remain rooted in Western schools of thought (Ferguson 2011). The economic system integrating the modern world is a Western one, where markets play the role envisaged by Adam Smith to establish prices, trade flows and division of labour (Kemp 2014).

Non-economic institutions also converged on Western norms, including universities, medical science, marketing, consumption patterns and lifestyle itself. “Western” has come to imply a set of behaviours, norms and institutions consistent with the formal and social norms associated with democracy, like accountability, constraints on the executive, and autonomy and freedom, rather than a geographical region (Ferguson 2011).²¹

Ferguson (2011: 18) describes the rise of the West as “quite simply, the pre-eminent historical phenomenon of the second half of the second millennium after Christ. It is the story at the very heart of modern history. It is perhaps the most challenging riddle historians have to solve.” It has given rise to a world order of, in Ferguson’s terminology, Westerners and Resterners; one rich and prosperous, the other grappling with poverty and all the limiting ramifications of existential insecurity.

The catalyst for the reversal of fortune in the West was the Industrial Revolution of the eighteenth and nineteenth centuries (Hudson 1992; Daunton 1995; King and Timmin, 2001; Sachs 2005; Allen 2010; Ferguson 2011; Acemoglu and Robinson 2013). It started in Britain around 1750, when the mobilisation of a new, vast store of modern energy fuelled an unprecedented industrial take-off (Sachs 2005). Britain’s nascent industry achieved mass production on a scale unimaginable in preindustrial times. Food production thus soared alongside all the sectors of modern manufacturing (Sachs 2005).

Britain’s industrial prowess and financial advantage brought political and military power that in turn fuelled its territorial expansion to establish the British Empire as the global, political face of the Industrial Revolution (Sachs 2005; Ferguson 2011; Acemoglu and Robinson 2013).

²¹ Inglehart and Welzel (2010) challenge Ferguson’s assertion that societies’ progression towards social values of accountability, freedom and autonomy is *Westernisation*, implying that these are inherently Western values and societal progression entails converging on the West. They propose that “modernization is not Westernization, contrary to early ethnocentric concepts. The process of industrialization began in the West, but during the past few decades East Asia has had the world’s highest economic growth rates and Japan leads the world in life expectancy” (Inglehart and Welzel 2010: 2).

2.9 Why Britain?

Economic historians continue to debate the reasons why the Industrial Revolution found fertile soil in Britain specifically, and not for instance in China, who was the early global leader in technology (Rostow 1975; Crafts 1977; King and Timmin 2001; Allen 2010; Kemp 2014). It would seem that Britain benefited from a non-engineered and advantageous confluence of geographical, social and political factors.

First, British society was relatively free and open. The rigid social hierarchy imposed by the feudal era had lost its grip in Britain while serfdom still ruled elsewhere in Europe, offering scope for social mobility and individual initiative (Sachs 2005; Ferguson 2011; Acemoglu and Robinson 2013; Kemp 2014). Second, Britain was politically stable and its institutions of political freedom were strong (Ferguson 2011; Acemoglu and Robinson 2013). Innovation thrived in a tradition of open debate and free speech, and was also encouraged by vigorous protection of property rights (Allen 2010). The political openness proved conducive to speculative scientific endeavour and turned Britain into a leading centre of scientific discovery (Sachs 2005; Ferguson 2011).

Newton's *Principia Mathematica* (1687) paved the way for centuries of scientific and technological advance, and eventually also set the stage for the Industrial Revolution (Crafts 1995; Sachs 2005; Ferguson 2011; Allen 2010). Mokyr (2005, 2009, 2013, 2017) formulates an idealist version of what drove the Industrial Revolution. He credits the *cultural* entrepreneurship of individuals like Francis Bacon for instance, for revolutionising British society's relationship with useful knowledge, science and intellectual prowess to raise productivity and establish sustained economic growth.²² He notes that "economic change in all periods depends, more than most economists think, on what people *believe*" (Mokyr 2009: 1). McCloskey (2006, 2010, 2016) similarly attributes the rapid changing British society to significant shifts in culture and societal values, cultivating specifically an appreciation for *bourgeois* virtue and dignity that would permit industrious endeavour. The Industrial Revolution endowed British society with the capabilities to create wealth on an unprecedented scale, which could however only be employed productively once engaging in productive wealth creation was no longer deemed undignified.

Third, geography favoured Britain too. Plenty of navigable waterways facilitated inland trade while agricultural production benefited from fertile soil, plentiful rain and a generous growing season

²² This so-called intellectual revolution of the seventeenth century that made scientific knowledge central in solving technical problems of production preceded the eighteenth-century Age of Enlightenment, which in turn precipitated the Industrial Revolution (Mokyr 2005, 2009). Conducive institutional advances facilitated the broad dissemination and accessibility of the vastly expanded body of useful knowledge.

(Gallup and Sachs 2000). Its proximity to continental Europe aided its low-cost sea trade with Europe, while it was also close enough to the new territories of North America to benefit from their food and cotton production (Sachs 2005; Acemoglu and Robinson 2013). Amidst burgeoning agricultural production in Britain, North American territories absorbed millions of the British landless and impoverished (Sachs 2005). The insular geography of Britain also shielded it from invasion and protected its sovereignty.

Fourth, coal freed economic production in Britain from the previous energy constraints posed by food and timber production, allowing society to produce at a scale unheard of in prior human history (Allen 2010; Kemp 2014). Economies could now grow without the historic energy bounds, and they did. Jeffrey Sachs (2005: 41) however pronounces that:

“(T)he single most important reason why prosperity spread, and why it continues to spread, is the transmission of technologies and the ideas underlying them. Even more important than having specific resources in the ground, such as coal, was the modern, science-based ideas to organize production. ... The essence of the first Industrial Revolution was not the coal; *it was how to use the coal.*” (My emphasis.)

Acemoglu and Robinson (2013) contest Jeffrey Sachs’s contention that it was historical coincidence – “a confluence of favourable factors” (Sachs 2005: 35) – that chose Britain as the well from which massive, path-changing progress would emerge. (The emphasis in the extract above suggests however that Sachs also believed that human agency – as opposed to deterministic, coincidental occurrences – was key, despite his assertions to the contrary.) Acemoglu and Robinson (2013: 103) are emphatic: “It is not a coincidence that the Industrial Revolution started ... a few decades following the Glorious Revolution”. England’s bloodless Glorious Revolution of 1688 during which Kings James II was deposed fundamentally shifted the balance of power; it is credited as establishing the foundation for the “world’s first set of inclusive political institutions” (Acemoglu and Robinson 2013: 102).

British society was indeed free and open, as Jeffrey Sachs concluded, but not in an arbitrary way. The economic restrictions of arbitrary taxation, monopoly dominance, a manipulated judicial system and archaic property rights were swapped for inclusive economic institutions that incentivised investment, innovation and trade (Ferguson 2011). A centralised state presided over a pluralistic society and vigorously promoted mercantile and innovative endeavour, supported by high levels of education (Acemoglu and Robinson 2013).

Acemoglu and Robinson's view that the Industrial Revolution took off in Britain because it was the first society to transition from extractive to inclusive political and economic institutions after the Glorious Revolution, finds support in the literature. Ferguson (2013: 24) for instance believes that "the best answers to the question of what caused the great divergence focus on the role of institutions". North, Wallis and Weingast (2009) offered a similar account of the rise of the West European states, with Britain in the lead. They described the Glorious Revolution as a transitioning from a *limited-access* institutional pattern – which they termed natural states due to its prevalence – to an *open-access* system. Open-access systems are characterised by a rapid-growth economy, a vibrant and well-organised civil society, larger and decentralised government, and social relationships that are organised justly by laws and rights that protect all equally (North, Wallis and Weingast 2009; Ménard and Shirley 2011; Ferguson 2013).

Natural states with limited-access patterns that were the order of the day (North, Wallis and Weingast 2009) had small, centralised governments governing without assent of the governed; they also had sluggish growth, weak civic organisation and societies organised according to personal and dynastic privilege (Ferguson 2013; North, Wallis and Weingast 2009; Ménard, and Shirley 2011). Transforming these personal privileges into impersonal rights also transforms the natural state into an open-access state. A system of rent erosion through free entry for broad society replaces the logic of rent creation through personal privilege for a narrow elite (Ferguson 2013; North, Wallis and Weingast 2009).

In *Origins of Political Order*, Francis Fukuyama (2011) also weighs in on the institutional explanation of Britain as the industrial trailblazer for Western Europe. In Chapter 3, he writes about the overly tightly knit early human societies trapped in the "tyranny of cousins". These societies comprised kinship groups that would go to any length for loyalists against outsiders, trapping them in the grip of perpetual conflict, with the occasional outbreak of overt violence.

Fukuyama (2011) considered modern states – or centralised political authorities – as the way to free societies from the limiting hold of the kinships trap. Fukuyama's political order that would achieve free and open societies relies on three pillars. First, it needs a *strong and capable state*. A powerful state it is not enough, however, powerful rulers may abuse their authority to favour loyalists; hence the second pillar, that state power has to be limited by the *rule of law*. The third pillar requires *state accountability to all citizens*, allowing them to change rulers who abuse their power. These three pillars came into existence in England simultaneously, effectively breaking the constraints of the kinship trap. Fukuyama (2011) credits the idiosyncratic tenets of Western Christendom for undoing the grip of clan alliances and liberating societies from their limitations.

The argument that religion – Protestantism specifically – was somehow instrumental in the emancipation of British society and the onset of the Industrial Revolution has a distinguished lineage, dating back to *The Protestant Ethic and the Spirit of Capitalism* by German sociologist Max Weber (1930). Modern scholars (Acemoglu and Robinson 2013; Ferguson 2013) discount the notion of a unique relationship between Protestant *work ethic* and economic progress. The advances of Catholic France and Confucian East Asia also dispel that myth (Acemoglu and Robinson 2013). Perhaps Fukuyama was nearer to the truth in his surmise that Protestantism contributed to the Industrial Revolution in the way that it helped liberate early British society from the yoke of the “tyranny of cousins”, paving the way for pluralism.

2.10 Diffusion of Britain’s Industrial Expansion

The power of rapid industrial expansion spread from Great Britain to its offshoots in North America, Australia and New Zealand, then to Northern and Western Europe, and finally to Latin America, Asia and Africa (Clark 2007; Ferguson 2011; Acemoglu and Robinson 2013). As modern growth took hold and living standards were raised significantly, societies began to change fundamentally and tumultuously, as different economies, social organisations and cultures clashed (Jones 1987, 1988, 2006; Sachs 2005; Clark 2007; Kemp 2014).

The Industrial Revolution and ensuing modern growth wholly altered the way in which people lived (Sachs 2005; Ferguson 2011; Kemp 2014). Jeffrey Sachs (2005) explains some of these tumultuous social ramifications. First, a mass migration from agrarian to industrial activity meant large-scale urbanisation and an upheaval in established social hierarchies as technological innovation and modern growth revolutionised social mobility. Traditional gender roles also evolved, as the dynamics of modern growth liberated women from manual agrarian labour and child rearing to become socially and politically empowered. Family structures changed as urban families desired fewer children. The demographic transition that followed was a further crucial social change brought on by modern economic growth. Finally, inefficient, jack-of-all-trade agrarian labour was replaced by the division and specialisation of labour, with workers gaining specialist mastery of a single productive activity trading their output for those of other specialists.

Modern economic growth raised global production and living standards to historic levels and may thus appear to have improved the world unambiguously (Clark 2007). That was not the case; it was a change-intensive transition fraught with social and cultural upheaval (Sachs 2005; Kemp 2014). North-western Europe was receptive to the diffusion of modern growth due to conducive social, political and geographic traits of these nations that were not unlike the conditions in Britain

(Ferguson 2011; Acemoglu and Robinson 2013). Developmental obstacles like serfdom in Eastern and Southern Europe also eventually crumbled, until the benefits of industrialisation were visible throughout Europe (Sachs 2005).

The diffusion of modern growth from Britain and Europe to Latin America, Africa and Asia involved a tumultuous confrontation between wealthy, powerful Europe and predominantly rural, militarily vulnerable societies (Sachs 2005; Clark 2007). Turmoil ensued as fundamental social change came to ancient civilisations like Japan or China with dignified traditions, and to tropical Africa with its sparse populations (Kemp 2014). The wealth divide was reiterated in a power gap, positioning Europe to exploit its superior power to benefit the overlords, to the detriment of weaker societies (Sachs 2005).

The wave of progress that swept through Europe and North America lifted millions out of deprivation (Jones 2006; Kemp 2014). Sustained growth in these parts of the world, while the rest remained stagnant, gave rise to a gulf between them. Gaping international income inequality was ushered in; the literature refers to this widening chasm between the world's rich and poor as *The Great Divergence* (Deaton 2013).

Inequality was an unintended consequence of the Industrial Revolution – as unintended (or non-engineered if not coincidental) as the Revolution itself – and, one may argue, as much the result of the failure to keep up with progress as of progress itself. Inequality is the unfortunate handmaiden of progress (Deaton 2013); the story of material progress is one of *both* advance and inequality.

Jeffrey Sachs (2005: 47) describes the *Third World*, which in modern terminology is simply interpreted as *the poor countries* (Collier 2008: 7), as truly “third-way countries”.²³ Having emerged from imperial domination, these nations rejected the capitalist ideologies of the *first* world as well as the socialism of the *second* world. They particularly opted for non-alignment with the first world, which, as their former colonial oppressors, they did not trust (Sachs 2005). They also opted for autarkic economic self-sufficiency. By isolating themselves and jealously guarding their sovereignty even when it was not under threat, the Third World forfeited the opportunity to share in global technological advance and progress (Sachs 2005 and Deaton 2013).

²³ “Third-way” in this context implies that these countries were not aligned with the ideology of either the capitalist Western model of the United States, Western Europe and their allies, or with the pure Soviet socialism of the so-called Second World or Communist Bloc of countries (the Soviet Union, China and Cuba) (Collier 2008).

2.11 Westernisation versus Modernisation

Inglehart and Welzel (2005, 2010) and Welzel (2014) add a different slant to the imputed domination – or superiority – of Westernisation. They explain that it is societies' *modernisation* (a universal and not uniquely Western evolutionary process), and associated human development, that shift mass attitudinal values towards human autonomy, freedom and self-expression, until society's demands for democracy and accountability become irrepressible. Westernisation describes the modernisation experience of primarily protestant Western European societies after the Industrial Revolution. During recent decades however, East Asia has also modernised and produced growth rates that surpassed their Western predecessors; their Confucian philosophy is credited with the same growth-enhancing social impact as Protestantism in the West (Inglehart and Welzel 2011).

The emancipatory ideal of an unconstrained human existence is often viewed as uniquely Western. Dumont (1986) suggests that notions of existence free from external constraints are found in *all* cultures. What does appear to be particularly Western, is the *secular* notion of freedom, the conception that emancipation may be achieved in this life. The major religions offer freedom as salvation and thereby defer a free existence to the afterlife (Dumont 1986; Welzel 2014).

Welzel (2014) proposes that societal differences in the coherence of emancipative values do not arise from a pro-emancipation Western cultural bias, but from variations in the cognitive mobilisation of societies, or the *mentality* that emerges with human empowerment. Considering that Welzel's human empowerment theory has action resources as the source, followed by emancipative values and civic entitlements, we can explain the entire human empowerment process if we can explain how action resources accumulate. Welzel identifies three kinds of action resources – material means, connective opportunities and intellectual skills, all of which expand through large-scale technological advance. Hence, the question of what causes action resources to expand is tantamount to asking what causes technology to advance.

If one limits the investigation to undisputably exogenous causes of technological advancement to eliminate potential endogeneity, environmental conditions would be an obvious consideration (Diamond 1997; Landes 1998; Welzel 2014). Gallup and Sachs (2000) for instance, report a strong correlation between a society's navigable waterways and its per-capita gross domestic product (GDP). Deschenes and Greenstone (2007), and Graff Zivin and Neidell (2010) show that geographies with lower mean temperatures and consistent rainfall over all seasons have been associated positively with higher productivity and prosperity.

It would seem that particular geographical regions benefited substantially if the beneficial combination of cool temperatures and consistent seasonal rain – the so-called Cool-Water (CW) condition (Welzel 2014) – was prevalent. The CW condition offers two forms of security and autonomy that directed their evolutionary path wholly differently from non-CW societies; CW nations had both water autonomy and disease security. Freedoms thus had higher initial utility in CW regions; existentially autonomous societies are not at the behest of authoritarian rulers. They have time and freedom for the innovation that precipitate technological advance. The CW explanation of human empowerment therefore posits a link between the existential security and autonomy these climatic conditions afforded, and the massive technological advancements in the CW regions that led to modernisation, to human empowerment, prosperity and democracy (Welzel 2014).

In his CW explanation of the divergence between the poor and prosperous worlds of our time, Welzel refers to North, Wallis, and Weingast's (2009) characterisation of modernised societies as “open access”, and Acemoglu and Robinson's (2013) explanation in terms of “inclusive institutions”. Fukuyama's (2011) argument that “adaptive institutions” are the key characteristic of the new configuration also gets a mention. Welzel (2014: 366) however maintains that institutions are *not* the crux of the great “redirection of civilisations”. He offers that:

“(T)he best characterization of the new configuration lies in its spirit, which is inherently emancipatory: it is the idea of liberating people from external domination over their lives... The emancipatory spirit originates in a natural environment, manifest in the CW condition, that bestows existential autonomies on people. These autonomies enabled and encouraged people to mobilize resistance against oppression. From this resistance emerged a contractual order with consensual institutions. Consensual institutions (or open, inclusive, and adaptive institutions whatever terms we use) evolve as consequences, not causes, of *existential* autonomies...”

Welzel's explanation is at once appealing and not entirely plausible. The notion that human spirit should characterise the escape from misery towards the betterment of entire societies is an attractive one. The determinism implied by the explanation that the CW condition was the source of the emancipatory drive through the autonomy and freedom to innovate it allowed, raises questions. First, the CW condition falls short as an unflinching predictor of prosperity. It sheds no light on why the Industrial Revolution started in one particular CW region, Britain, above all others, or for that matter why the progress diffused (and occasionally reversed) as it did.

More importantly, Welzel's definition of institutions is narrow, confined to formal institutions alone. One may argue that a society's mass attitudinal norms and values – its *spirit* – form at least as much part of its institutional realm as its formal institutions. Douglass North (2003: 2) specified that (my italicisation):

“The kinds of formal rules that we have in fact occupy a very small proportion of the guides to everyday behaviour and actions. In many ways norms are *more important* than the formal rules.”

The value of Welzel's contribution is perhaps his formulation of the key role of societal values and norms, or informal institutions in North's terms, in the modernisation societies must undergo to sustainably escape poverty.

2.12 Free to Choose, but Choosing to Fail?

The *persistence* of global disparity is what gives rise to the voluminous literature on poor nations' failure to catch up. The global mix of rich and poor is hardly a static given, however. In addition to previously poor nations managing to cross the divide and joining the ranks of the rich, some cracks are also appearing in prosperous Western nations in the guise of rising inequality and outsize public debt (Ferguson 2013). These signals of distress are less scrutinised. As Ferguson (2013: 20) puts it, “much more attention has been paid to the question of why nations stay poor, as opposed to the question of why rich nations revert to poverty, a somewhat less common phenomenon.” Ferguson concludes that *institutional degeneration* is causing the decline of the Western World in our time. Acemoglu and Robinson (2013) concur that institutions explain both the failure and success of nations. They are about the economics of poverty *and* prosperity, and since institutions are an outcome of politics, they are about the *politics* of poverty and prosperity.

Economists generally prefer to tread lightly over political matters (Mankiw 2013). Not so in the case of Joseph Stiglitz; referring to outsize inequality in the United States, Stiglitz (2015) describes economic failure as something we do to ourselves. He writes about imperfect democracy where *de jure* political rules allow elections to legitimise *de facto* authoritarian regimes. The majority of the citizenry are deprived of basic human rights despite their right to vote. The rules that govern their economies do not represent their interests and governments are not accountable to them.

Governments manage economies according to the rules and policies serving the interests of the wealthy elite. Stiglitz (2015: 86) speaks of “*ersatz* capitalism” that privatises gains but socialises losses results from these rules. The ones that rise to the top are not the rule-compliant hard workers; that would be the politically connected.

Stiglitz assigns the high incomes at the top to rent seeking rather than the reward for valued contributions to society. He pronounces that “markets are shaped by politics and... politics are shaped by money” (2012: 2), and more directly, that “money trumps democracy” (2012: 3).

Stiglitz’s pronouncements on signals of decline in the United States mirror the views of Niall Ferguson (2013: 34) in *The Great Degeneration: How Institutions Decay and Economies Die* that “the West is experiencing a relative decline unlike anything we have seen in half a millennium”. Deaton (2013) also cautions that the historical reversal of fortune in the 1800s and subsequent prosperity in the modern world should not be taken for granted. Rent seeking and internecine conflict may have relatively small individual consequence for the broad population initially; the *cumulative* effect of the slow pillaging eventually devours an economy from within however and suffocates progress (Deaton 2013). Broad-based economic growth is extinguished if the powerful elite is allowed to undermine the institutional rules that growth relies on.

Critically, Stiglitz (2015: 99) states: “People are not machines. They have to be motivated to work hard.” Recognising the role of societal values and norms, he also emphasises *fairness* and *trust* in economic life. Fairness affects the motivation and therefore the productivity, effort and loyalty of workers in an economy. Fairness extends beyond income and wealth. If society has a generalised perception that they have no stake in the direction it is headed, motivation could decline on a scale that resonates in all aspects of life (Stiglitz 2015). The role of trust to make an economy function is also often underestimated. Widening inequality corrodes trust and social cohesion disintegrates. Stiglitz (2015) also observes that it is no coincidence that economies where a handshake seals a deal have flourished historically. Trust is essential in politics especially; disillusionment, disengagement and revolt follow where trust between a government and its citizens fails.

While the Stiglitz (2015) account offers a description of institutional decline in the wealthy West referred to by Ferguson (2012), Acemoglu and Robinson (2013) focus on nations’ perpetual inability to escape poverty, attributing that also to their institutions that are tailored to benefit the politically connected elite. In *Why Nations Fail, The Origins of Power, Prosperity and Poverty* (2013) they detail how failed states eventually collapse under the weight of extractive economic institutions that destroy the incentives and opportunities for broad economic participation (see also Acemoglu, Johnson and Robinson 2001, 2002, 2005; Acemoglu and Robinson 2012). Innovation goes unrewarded or is deliberately discouraged, wasting the talent of the majority of society. Acemoglu and Robinson (2013) propose that *political* rules shape economic incentives, which determine whether a society deems it worthwhile to invest in human and physical capital, to behave

innovatively and entrepreneurially, and to work hard. *Incentives* therefore serve as the transmission mechanism from institutional design to economic outcomes.

Acemoglu and Robinson (2013) insist that an extractive institutional regime is not coincidental; it is designed deliberately by elites who stand to benefit from the extraction. Irrespective of the form of the benefit or rent, it comes at the expense of the broad citizenry and condemns society at large to poverty, wasting its potential for growth and progress. Extractive regimes constitute failure by design, awarding human agency a crucial role unlike the determinism implied by Welzel's CW condition.

Robert Rotberg's (2003a) political-science perspective on the under-researched phenomenon of state failure observes patterns and similarities that distinguish distressed and fragile nations from failing and collapsed ones. Strong nations are separated from fragile and failing ones by the high degree of effectiveness with which they deliver essential political goods to their citizenry (Rotberg 2003a). The particular hierarchy of any nation's political goods reflects its political culture and the social contract between a government and its citizens (Rotberg 2003a).

Rotberg (2003a) proposes that *fragile* states are either *intrinsically* weak, or *situationally* weakened by governance flaws, despotism and rent seeking. Collier (2008) insists though that there is no *intrinsic* poverty trap; otherwise the entire globe would have remained poor.²⁴ Crime is prevalent in weak or fragile states, the provision of other political goods is compromised and deterioration is apparent in the physical infrastructure (Rotberg 2003a). Despotic rule is common in these states, even among democratically elected and constitutionally sanctioned leaders (Rotberg 2003b). The rule of law is breached with impunity and civil society is at the mercy of a state Rotberg refers to as the "harasser" (2003a: 4). Critical economic indicators are poor or deteriorating, signalling either the perpetuation of poverty or economic decline.

A *failed* state has forfeited legitimacy; it is unable to meet the expectations of its disenfranchised citizens amidst broad perceptions that rulers are serving their personal interests (Rotberg 2003a; 2003b). The social contract frays and trust ceases, invoking the scenario of social and economic disintegration sketched by Stiglitz (2015). *Failed* states are conflicted and dangerous. Armed revolt

²⁴ Without reducing complex social phenomena like poverty to oversimplifying single-factor explanations, Rotberg (2003a, 2003b) like Acemoglu and Robinson (2013) and North, Wallis and Weingast (2009), emphasises the role of political power and leadership in failing nations. The argument does not detract from an understanding that geographic factors influence nations' development paths directly (Sachs 2001, 2003, 2005); it however does not subscribe to the notions of "geographic determinism" (Diamond 1997) or that "geography is destiny" (Rodrik 2002; Landes 2005, 2010). Hence not even geography, influential as it may be, *traps* nations intrinsically and insurmountably in a state of poverty and failure.

and civil discontent are directed at the state. Rotberg (2003a) characterises a state as failed not by the intensity of violence, but by its enduring nature and by the fact that it is directed at the ruling power. Failed nations frequently suffer from disharmony among diverse groups; in fact, the state may deliberately stoke and exploit inter-communal antagonism to perpetuate a patronage-based, extractive system, breeding resentment and revolt that may tip a weak state into collapse (Rotberg 2003a). Failed states resort to violent oppression of its citizens and as lawlessness becomes more salient, anomic conduct becomes the norm (Rotberg 2003b).

Rotberg (2003a; 2003b) agrees with Acemoglu and Robinson (2012; 2013), Acemoglu, Johnson and Robinson (2001; 2002; 2005) and Ferguson (2011; 2012) that failed states are *institutionally* flawed. He (Rotberg 2003a) details widespread institutional failings associated with state failure. The legislature, for instance, merely endorses the wishes of the executive. Also, citizens have little prospect of finding legal recourse through the court system, particularly not if they oppose the state. The professional integrity of bureaucrats is compromised since they simply obey the executive. Funds are siphoned from state coffers, capital resources dwindle and physical infrastructure deteriorates. Public health services and education suffer similarly; eventually, life expectancy and literacy rates drop, diminishing the wellbeing of broad society directly.

Amidst widespread deterioration, the privileged few connected to the ruling elite acquire immense wealth. Rotberg (2003a: 9; 2003b: 29) observes that failed states suffer from corruption on an exceptionally destructive scale; the ruling elite may fund lavish lifestyles from state coffers and when money printing ensues to finance exorbitant expenditure, inflation soars. Diminishing GDP per capita signals failure; it is however an outcome of failure, not the cause.

Deaton (2013) insists that change in failing societies must come from within. No amount of advanced-nation aid funding will achieve that turnabout; nor will global growth. Nations cannot be developed from outside nor can progress be imposed on them. Collier (2008) is equally emphatic that poor nations *cannot* be rescued from outside; at best, poor societies' pioneers for change that face internal defeat by powerful vested interests may be strengthened.

Transitioning to democracy from oppressive, poverty-perpetuating regimes is difficult; autocrats do not relinquish power willingly. The creative destruction associated with progress is redistributive and threatens powerful interests vested in the *status quo* (Acemoglu and Robinson 2013). Progress may then be slowed down deliberately or even outlawed. A lopsided democracy without the political restraint and checks and balances associated with modern, developed democracies may misuse its power to choke off progress and development (Collier 2008).

Rotberg (2003a; 2003b) concurs with Stiglitz (2015) and Deaton (2013) that state failure leading to poverty is avoidable. It is not pre-ordained or inevitable; it is the deliberate choice and strategy of rule of the political rule makers. Nor, according to Acemoglu and Robinson (2013: 68), is it about benign ignorance:

“(P)oor countries are poor because those who have power make choices that create poverty. They get it wrong not by mistake or ignorance but on purpose. To understand this, you have to go beyond economics and ... study how decisions actually get made, who gets to make them, and why those people decide to do what they do. This is the study of politics and political processes. ... It is precisely because economics has assumed that political problems are solved that it has not been able to come up with a convincing explanation for world inequality.”

Collier (2008) further points to an alarming asymmetry between good and bad political leadership; excellent governance and policy may feasibly achieve ten per cent growth, but not much faster than that due to a ceiling imposed by economic constraints. The downward spiral is however not similarly constrained. Terrible governments are capable of destroying economies rapidly.

2.13 In Conclusion – The Demise of Economic Imperialism

The conservative notion that the task of economists is narrow and limited from crossing over into the arena of political science is on the fray. Shying away from politics carries a more substantial risk than merely being wrong; economic-policy recommendations may become impotent or irrelevant. The importance of policy accuracy and matching real-world outcomes outweighs academic puritanism. Hence the role of politics (and the polity) in perpetuating poverty – in sub-Saharan Africa in particular – cannot escape scrutiny in this study.

The economics of a complex social problem may not be its most important aspect, nor its root cause. Hence, in addition to spilling over into political science, questions regarding deep causes of poverty and poverty reversal also raise question about the drivers of human behaviour that produces these suboptimal outcomes. Social theory also adds clarity about channels of transmission. It explains the role of human behaviour motivated by culture and values rather than by neo-classical rationality to either drive or reverse progress in a humanised development sequence.

The persistence of poverty in defiance of international efforts to redirect the development trajectories in poor countries further confirms its complexity. The literature labels it as one of the wicked problems (Rittel and Weber 1973) that arise in complex, open societal systems, which are not

solvable through mathematisation and sets of equations premised on rationality. Path dependency, context-specificity, culture and geography all matter. Chapter 3 delves into the immense complexity of poverty as a social outcome of our modern *man-made* world that we remain unable to solve, while paradoxically, science has allowed us to conquer our *natural* world. It also explains the shortcomings of traditional economic theory, neo-classical growth theory specifically, to answer to these complexities and to explain poverty in its political and social context.

Chapter 3

Complexities of Poverty and Inadequacies of Growth Theory

3.1 Introduction

Chapter 2 follows the literature in attributing the widening global disparity characterising the post-war years to *sustained* rather than rapid growth in prosperous nations. The ability to avoid growth reversals and maintain moderate, consistent growth over time paved the way to prosperity. Poor nations have grown too, even in rapid spurts at times, but are prone to reversals when adversity strikes, wiping out the hard-earned growth benefits and reversing the exponential potential of compounding that comes with consistency. The road out of poverty has thus become synonymous with achieving *consistent* growth; hence, asking how to end poverty is tantamount to asking how to grow sustainably.

Put differently, understanding the deep causes of poverty requires that we understand what *causes* growth, or at least what causes poor nations *not* to grow while others accomplish it so well. Even if growth and poverty are considered antitheses of the same question – countries either grow sustainably or they remain poor – the concept of growth strikes one more readily as a purely economic concept than its counterpart, poverty. *Poverty* invokes more complex, intensely human associations with, for instance, suffering and loss of dignity, exploitation and vulnerability and hence also ethics, social injustice and moral indignation. Hence this chapter investigates both the complexities of poverty and conventional theories of growth to understand why these theories do not answer the deep questions regarding poverty persistence and reversals, despite the dire need for growth to escape poverty.

3.2 Humanly Devised and Deliberate

Douglass North (2003: 4) explains the curious result that, while human intellect and endeavour have devised ways to tame the natural world, it is the *humanly devised* part of our existence that continues to defy our comprehension:

“So we have changed the world; essentially we have conquered the physical environment. We have made possible a world of plenty. But in conquering the physical environment we have created a human environment that is immensely complicated and over which we have very imperfect understanding. And so, on the one hand, we have made possible a world of plenty, ...but we have also created a whole new set of problems in a human, political,

economic and social structure that we are only able to use very imperfectly...”

Poverty is one such product of North’s “human, political, economic and social structure”. Stiglitz (2015: xii) concurs that economic failure is man-made; it is a product of deliberate choice and “not inevitable; it is not the result of inexorable laws of economics. It is a matter of policies and politics.” He ascribes economic deterioration to the deleterious role of the *polity*, to a vicious cycle of unbridled economic power being translated into political power that, in turn, reinforces economic deterioration.

In addition to his damning account of a *polity* steering nations towards decline, Stiglitz (2015) emphasises the role of *human behaviour* in societal outcomes, adding that fairness and trust are key in economic life. *Fairness* affects motivation; should citizens internalise a perception that their decisions and efforts have no bearing on their future, despondency sets in. *Trust* is key for an economy to function and essential in politics. Disillusionment, disengagement and revolt step in where trust between a government and its citizens fails (Stiglitz 2015).

The notion of powerful rule makers deliberately organising an economy to bolster their portfolios and cement their power base with deleterious implications for the broad majority, is a central tenet of much scholarly work probing the question of why nations fail (Acemoglu, Johnson and Robinson 2001, 2002, 2005; Acemoglu and Robinson 2005; North, Wallis and Weingast 2009, Acemoglu and Robinson 2009, 2012, 2013). Transitioning from oppressive, extractive and poverty-perpetuating regimes towards political and economic liberalisation is difficult; autocrats do not relinquish power willingly.

The “creative destruction”²⁵ associated with progress is redistributive and threatens powerful interests vested in the *status quo* (Schumpeter 1942; Acemoglu and Robinson 2013). Progress may then be slowed down deliberately or even outlawed. A fragile democracy without the robust political restraint and checks and balances associated with critical, liberal democracy may misuse its power to choke progress and development (Collier 2008: 51; Welzel 2014). The sub-Saharan African experience also shows that hard-won democratic rule, if accomplished, seems inadequate to trigger or sustain progress; *democratisation* offers no warranty that poverty will be reversed.

²⁵ In *Capitalism, Socialism and Democracy* (1942), Austrian economist Joseph Schumpeter introduced the seemingly paradoxical notion of “creative destruction” to describe the way in which progress evolves.

Still, Deaton (2013) insists that change in failing societies *must* come from within. No amount of advanced-nation aid funding will achieve that turnabout; nor will global growth. Nations cannot be developed from outside nor can progress be imposed on them.

Perhaps the strongest theme that emerges from the economic-development literature on persistent poverty and its behavioural context is the damning role of the polity and the way they govern (North 1991, 1992 and 2003; North, Wallis and Weingast 2009; Acemoglu and Robinson 2013). Political science therefore matters crucially for an understanding of poverty. The conservative notion that the task of economists is narrow and limited from crossing over into the arena of political science is on the fray. Shying away from politics carries a more substantial risk than merely being wrong; economic-policy recommendations may become irrelevant. Apolitical impartiality does not insulate economists' models from political pressure; the importance of matching real-world outcomes outweighs academic puritanism.

The synapse connecting politics and economics in the context of persistent poverty is bi-directional; that much is apparent from Robert Rotberg's (2003a) political-science perspective on the under-researched phenomenon of state failure. Stiglitz (2015) and Deaton (2013) concur with Rotberg (2003a and 2003b) that state failure leading to poverty is avoidable. It is not pre-ordained or inevitable; it is the consequence of deliberate strategy of rule of the political rule makers. He does not probe the deep causes of the governance patterns and also does not expressly endorse institutional theory as the root cause of the governance failures that cause immense economic hardship for many (Rotberg 2003a and 2003b), although institutional weakness has a prominent role in his cast. The leading role, however, appears to be reserved for leader agency – also in constitutional democracies – as the deep cause of nations' decline towards poverty.

The common thread therefore remains, much as Arthur W. Lewis predicted in 1956, that *human behaviour* drives variances in economic outcomes. Poverty is not deterministic. It is not the inevitable consequence of geography and historical contingency although these factors matter, and they matter materially; it is just that the human response matters more. Mainstream economic theory populates the world with rational *econs*²⁶ that, theoretically, respond to obstacles and challenges atomistically. Econs overcome or succumb to challenges in a universal, rational fashion across the globe and are unlikely to display the variance in behaviour that accounts for global disparity.

²⁶ In *Misbehaving: The Making of Behavioral Economics* (2015), Richard H. Thaler uses the term “econ” to describe humans whose behaviour corresponds with the rationality assumption of traditional economics. New York: W.W. Norton & Company, 2015,

Behavioural economists offer proof that humans behave irrationally at times. They thus challenge the core assumption of standard rational-choice models and claim to do better at humanising mainstream economics. Behavioural economics drives the point that there is a distinction between how humans *should* behave (like econs) and real-life human behaviour, although behavioural economists also fall short of explaining the latter and in that sense perpetuate their own primary criticism of rational choice theory. Recognising the distinction between ideal human behaviour and empirical behaviour is useful, since mainstream economics assumes there is none. Rationality supposes that economic agents act in their own best interest and would not knowingly deviate from self-interest. Behavioural economics allows for deviation from rationality, but only through *cognitive error* that is recognisable. Irrationality then becomes as predictable as rationality, and may be corrected if people understood their biases and were educated to correct the irrationalities to which they are prone.

Alternatively, policy makers may use choice architecture to nudge humans to behave more like econs (Thaler and Sunstein 2009; Thaler 2015). The crux is that behavioural economists humanise econs only through their concession for “intelligible, predictable, and corrigible” irrationalities stemming from cognitive confusion (Morson and Schapiro 2017: 265). Less systematic and predictable human irrationality driven by emotion or culture for instance is as unaccounted for as in mainstream economics.

Behavioural economists have assimilated the mainstream notion of “cultural nullity”, considering cultures so marginal to economic outcomes “that they may be safely ignored... (T)he professional culture of economists prevents most of them from seeing that culture matters at all” (Jones 2006: 5). An understanding of the *variances* in human behaviour that may explain the global rich-poor divide is not aided by mainstream economists’ assumption of universally rational econs, nor by universal, predictable biases. What remains as a driver of behavioural variance seems to be culture; it is through cultural differences that variance seeps into human behaviour.

3.3 From Economic Imperialism to Pluralism, Culture and Narrativeness

It is simply exasperating that the collective human intellect is unable to devise ways to eradicate basic human suffering and starvation in an age when it has accomplished space travel, artificial intelligence and self-driving cars. In *Cents and Sensibility*, Morson and Schapiro (2017: 167) echo the broadly held scholarly view (see for instance Sachs 2005; Acemoglu *et al.* 2005; Collier 2008) that the persistence of global disparity, of poverty amidst plenty, remains the ultimate *economic* question. Trouble is, the *economic* aspect of the problem may not be the most important one. Economists perhaps ask the wrong questions, or search for answers in the wrong places (Morson and

Schapiro 2017: 2):

“(W)hen economists pretend to solve problems in ethics, culture, and social values in purely economic terms, they are spoofing other disciplines, although in this case the people most readily deceived are the economists themselves... Too often the economic approach to interdisciplinary work is that other fields have the questions and economics has the answers.”

If the shortcomings of a traditional economic approach to global disparity are understood, it may also become clearer why economists have not been able to solve “the ultimate question”, to find the cause(s) of poverty and to end it. A better understanding of human behaviour would be a good starting point. That the mathematically useful neoclassical assumption of rationality explains little of actual human behaviour is now readily accepted, hence irrational choice theory or behavioural economics that identifies recognisable biases in human behaviour (Thaler and Sunstein 2009; Kahneman 2011; Halpern 2015). According to Morson and Schapiro (2017), however, introducing behavioural economics rooted in the cognitive sciences to economic models does nothing to *humanise* these models; it still supposes mechanical if less efficient human behaviour. Most strikingly absent from both mainstream and behavioural economic models, is *cultural* human beings (Morson and Schapiro 2017: 5):

“(P)eople are not organisms that are made and then dipped in some culture, like Achilles in the river Styx. They are cultural from the outset. A person before culture is not a person at all. This idea of a person before culture resembles a Zen koan, like the sound of one hand clapping... (W)hether we are speaking of mainstream economics or ... behavioral economics, the temptation of claims aspiring to universality, and of models reducible to equations, makes the idea of acultural humanness especially appealing.”

Morson and Schapiro (2017: 9) caution that *deductive logic* cannot explain human behaviour:

“Human lives do not just unfold in a purely predictable fashion the way Mars orbits the sun. Contingency, idiosyncrasy, and choices— play an indispensable role.” The particularity, nuance and complexity of human life cannot be universalised or mathematised; it requires a narrative.

Economic laws of efficiency have other shortcomings too; ethical questions arise within economic domains, questions that beg sensitivity and sound moral judgement that cannot be formalised in sets of theoretical rules and mathematical equations (Tetlock 2005; Wight 2015). Sound moral judgment comprises practical – as opposed to theoretical – reasoning, which Janik and Toulmin (1973: 161) claim comes from “sensitive reflection on a great deal of experience and close attention to the unforeseeable and unrepeatable particularities of many individual cases”.

Its reductionist approach to some crucial noneconomics of economic problems – such as culture, ethics, moral judgement, historical contingency and particularity as opposed to single-theory universality – invites the critique that economic science is by nature narrow and imperialistic (Morson and Schapiro 2017). This critique does not negate the power in the rigour of economics, or in its interest in human wellbeing; it questions the usefulness of narrow economics in solving complex social problems entailing an understanding of human behaviour (Morson 2003), and moral and ethical questions.

Humanistic capabilities add a deep appreciation of particularity, of humans as inherently cultural beings, of ethical and moral questions too complex to reduce to single theories, and of narratives that explain what sets of mathematical equations cannot. The larger the role of culture in an explanation, or of human psychology or unpredictable contingent events, the more useful narratives – or the higher the “narrativeness” – become to understand a problem (Morson 2003). The challenge for economic scholars therefore is to recognise when explaining and solving economic problems require more than economics.

Uncommon as consensus among economists is, “the majority agree about culture only in the sense that they no longer give it much thought” (Jones 2006: 3). A deviation from mainstream economic theory and an appreciation that culture matters developed among economic historians trying to understand the evolution of the divergent world we live in: what drove the divergent paths?

Douglass North’s new institutionalism forged one such non-standard route through economic history. He is credited for his understanding of the key role of institutions and that the rules organising society also shape the web of incentives that decide economic outcomes, although subsequent institutional analysis has favoured North’s *formal* rules (see for instance Acemoglu 2009; Acemoglu, Johnson and Robinson 2001, 2002, 2005; Acemoglu and Robinson 2005, 2012, 2013; Acemoglu *et al.* 2013, 2014; Rodrik 2002, 2004; Kangur 2016). North’s emphasis on culture – he uses the term *informal institutions* – in his institutional account of economic history does attain similar prominence in the literature. North states (2003: 4):

“What we are concerned with is the cultural heritage of humans. By that I mean something very specific; I mean a set of institutions and beliefs that has been carried forward over the generations that constitutes the basic way we perceive the world. We have a very limited ability to change it; it is path dependent in the sense that the inheritance we have of rules, norms, beliefs – those that have survived – is deeply embedded. Sometimes the embeddedness is deeper than at other times but it poses a genuine problem because that

cultural heritage produces a mix of good and bad that shapes the way in which we make choices and the ways in which societies and institutions evolve.”

Avner Greif (2006) proposes an institutional approach that *combines* economics with cultural and social factors to explain how economic development evolves. Joel Mokyr similarly develops a “carefully reasoned approach to culture’s role (and) offers a rigorous consideration of something inherently fluid” (Morson and Schapiro 2017: 267, 268). Mokyr (2017: 12) writes: “If economists admit that economic history cannot do without institutions, it cannot do without a better understanding of culture. They like things, however, clear-cut, precise, and if possible formally modeled and testable. This is a daunting task.”

Mokyr however then attempts the equally daunting task of explaining the relationships between beliefs and institutions, and between culture and societal beliefs, values and preferences. He investigates the complex role of religion and of cultural entrepreneurs like Martin Luther, Adam Smith, Karl Marx, Francis Bacon and Isaac Newton. Morson and Schapiro (2017: 268), with reference to Mokyr (2017), stress also inherent contingency in the unfolding of events, as well as choice and human agency: “Nothing is inevitable, but much is understandable. Where there is contingency, there is choice, and where there is choice, there are alternative possible paths. It is this insistence on genuine alternatives that shows Mokyr taking culture, and with it human agency, seriously”.

Greif’s (2006) pluralist approach combines sociologists’ structural, cultural view of institutions with economists’ agency or functionalist institutional perspective. Institutions then constitute the structure that influences human behaviour and the behavioural responses reproduce the institutional structure. This structuralist-agency view combining economic and sociological models may be an advance on each in isolation, but Morson and Schapiro (2017: 269) argue that culture begins precisely where the models end and that “what we need is not only a model but also a sense of where models fail. Indeed, even a combination of models falls short: we need as well a sense of individuality and particularity beyond the reach of models.” Models have particular difficulty modelling (humanising) individual behavior and assume individual particularity away (Morson and Schapiro 2017). Mokyr’s (2005, 2013 and 2017) inclusion of individual cultural entrepreneurs confirms the usefulness of individuality in addition to simplifying models. Similarly, his model of cultural evolution combined with a role for sheer contingency is consistent with a reality with multiple possibilities, none of which is inevitable no wholly arbitrary.

While economic historians are receptive to this approach, economists purporting to explain human

behaviour may benefit especially from plurality and understanding where the explanatory power of models ends. That culture may drive human behaviour is entirely neglected by both mainstream and behavioural and economics; Morson and Schapiro (2017) suggest that economists circumvent culture due to their aspirations to achieve scientific status. Scientific status implies mathematisation and, because culture cannot be mathematicised, it impedes the scientific pursuit. Viewed differently, economists' scientific pursuit through mathematisation estranges them increasingly from understanding human behaviour – a key determinant in economic outcomes – injecting a fatal shortcoming into mathematical models.

3.4 Poverty as Wicked Social Problem

In 1973, Rittel and Webber argued that a scientific approach to social challenges in a pluralistic society is bound to fail, because science solves “tame” problems, not deeply complex, “wicked” (and man-made) social problems (Rittel and Webber 1973: 155). Rittel and Webber explain that social policy problems, like poverty, defy definitive description. In a diverse society for instance, equity cannot be defined objectively and to solve social problems objectively requires severe caveats and qualifications. Solutions are not definitive, nor objectively right or wrong (Rittel and Webber 1973; Ackoff 1974; Rein 1976 and Webber 1978).

Right at the inception of social policies, *diagnosing* the underlying problem is already problematic, as the probe for the deep causes of poverty has also proven (Rittel and Webber 1973: 159):

“By now we are all beginning to realize that one of the most intractable problems is that of defining problems (of knowing what distinguishes an observed condition from a desired condition) and of locating problems (finding where in the complex causal networks the trouble really lies). In turn, and equally intractable, is the problem of identifying the actions that might effectively narrow the gap between what-is and what-ought-to-be.”

Rittel and Webber cite several barriers to solving societal problems, notably “the plurality of objectives held by pluralities of politics makes it impossible to pursue unitary aims”, but also the classical paradigm and cognitive style of science underlying modern professionalism does not apply to the complex problems of open societal systems (Rittel and Webber 1973: 160). They assert that the social professions may have been misled into assuming that they are applied scientists that could solve societal problems in the ways scientists solve *tame* problems. Societal problems are however *wicked* and inherently different from tame scientific problems, which are definable and separable. They also have findable solutions, whereas wicked problems are resolved – not solved – repeatedly through fallible political judgement (Rittel and Webber 1973; Weber and Khademian 2008 and

Onyango 2009).

Rittel and Webber (1973) describe tame problems as benign, with clarifying traits, like solving a mathematical equation or beating a chess opponent. The mission is clear and so is the outcome.

Wicked problems defy such clarity; Rittel and Webber (1973) propose that it is morally objectionable for social policymakers to approach wicked problems as if they were tame, or to deny the wickedness of complex social problems.

Wicked problems display ten distinguishing characteristics (Rittel and Webber 1973; Onyango 2009).

First, wicked problems cannot be formulated definitively. Tame problems may be formulated exhaustively, with all the information needed to understand and solve them, whereas the information required to understand a wicked problem depends on the planner or policymaker's notion of its resolution. Rittel and Webber (1973: 161) propose that:

“To find the problem is thus the same thing as finding the solution; the problem can't be defined until the solution has been found. The formulation of a wicked problem is the problem! The process of formulating the problem and of conceiving a solution (or resolution) are identical, since every specification of the problem is a specification of the direction in which a treatment is considered.”

They cite poverty as a wicked problem where finding the root causes of the distance between *what is* and *what should be*, in other words finding the source or “locus of difficulty”, defines not only the problem but also the resolution. Classical systems engineering progresses along chronological phases; for instance, the problem must first be understood and defined, following which data are gathered, analysed and synthesised before a creative leap leads to a solution. This scheme falters with wicked problems, which cannot be understood *ex ante* to be solved subsequently. Planning or policymaking is an “argumentative process” and an understanding of the problem and its resolution emerges from “incessant judgement” and “critical argument” (Rittel and Webber 1973: 162).

Second, wicked problems do not have stopping rules. Understanding and resolving wicked problems are the same process in open systems linked by any number of interacting causal chains. Policy makers may always strive towards a better understanding and resolution subject to funding and time constraints, but the inherent logic of the problem offers no objective solution or stopping rule that terminates the task of the policy maker (Rittel and Webber 1973; Weber and Khademian 2008 and Onyango 2009).

Third, wicked problems have no unambiguously right or wrong solutions that may be checked independently according to conventionalised criteria (Rittel and Webber 1973). Qualified specialists may judge wicked problems very differently depending on “their group or personal interests, their special value-sets, and their ideological predilections” (Rittel and Webber 1973: 163). Their proposed resolutions may therefore be better or worse, rather than objectively right or wrong.

Fourth, wicked-problem resolutions have no immediate nor an ultimate test. The implementation of any proposed solution generates waves of repercussions affecting countless lives over an unbounded time period. The immediate consequences may already be unforeseen and undesirable, outweighing the intended benefits, in which case the net impact of the policy was detrimental and society would have been better off without it. The full policy impact can only be assessed if all waves of consequences have run out – an impossible task to perform *ex ante* (Rittel and Webber 1973; Weber and Khademian 2008 and Onyango 2009).

Fifth, every trial counts significantly. Rittel and Webber (1973: 163) describe social policy as a “one-shot-operation”, with no margin for learning through trial and error. Every implemented policy leaves and irreversible social traces and efforts to undo unintended consequences face a new set of wicked-problem dilemmas.

Sixth, wicked problems do not have a finite set of possible solutions that permit exhaustive description. There are also no criteria to test whether all potential solutions have been identified. A host of potential solutions may arise, or none, and judgement dictates which ones are pursued; the tool chest of social policy is not explicit: “Which strategies-or-moves are permissible ... have been enumerated nowhere. ‘Anything goes,’ or at least, any new idea for a planning measure may become a serious candidate for a re-solution...” (Rittel and Webber 1973: 164). The host of feasible strategies is a product of sound judgement, of the capability of social planners to evaluate novel ideas, and also of the credibility of social planners and the trust between them and society.

Seventh, each wicked problem “is essentially unique”; Rittel and Webber (1973: 164) explain this term as indicative of a distinguishing property of overriding importance that separates wicked problems despite many other similarities they may share. This high degree of particularity rules out *classes* of wicked problems with standardised principles of solutions that apply to an entire class; the particularities may always outweigh the commonalities. In complex open societies, problems are bound to be “one-of-a-kind” and, though they may seem familiar to policy makers, they may be incompatible with standardised solutions (Rittel and Webber 1973: 165).

Eighth, wicked problems are symptoms of other wicked problems. Resolving a discrepancy between *what is* and *what should be* entails an understanding of the cause of the discrepancy, which may prove to be the symptom of a deeper wicked problem. Rittel and Webber (1973: 164) conclude that there is no natural level for any wicked problem. Although social policy should not address mere symptoms, objective logic does not decide the level at which a wicked problem should be approached.

Ninth, there are numerous explanations for the discrepancies that constitute wicked problems and the particular selection of an explanatory source decides the resolution, with no *rule* to identify the right selection, deal with conflicting evidence or refute hypotheses. The modes of argumentation permissible in addressing wicked problems are richer than natural sciences would permit, allowing arbitrary selections of explanations. Rittel and Webber (1973: 168) propose that the particular selection is guided by attitudinal criteria:

“People choose those explanations which are most plausible to them. ... (Y)ou might say that everybody picks that explanation of a discrepancy which fits his intentions best and which conforms to the action-prospects that are available to him. The analyst's "world view" is the strongest determining factor in explaining a discrepancy and, therefore, in resolving a wicked problem.”

Tenth, social planners are liable if they get it wrong while scientists are immune from blame when their hypotheses are refuted. Social planners however affect many lives and are held accountable for the waves of repercussions caused by their actions.

Poverty is a wicked problem; it arises in complex, open societal systems with ambiguous causal webs (Weber and Khademian 2008; Onyango 2009). Its context-specificity defies universal definition and understanding of the root causes. Potential resolutions run into further discrepancies that in themselves pose wicked problems, so that delineation of the boundaries is blurred. Also, social planners face the burgeoning pluralism of contemporary societies and not only are proposed resolutions a function the value judgements of the policy maker, they are adjudicated according to diverse societies' contradicting value scales (Rittel and Webber 1973).

Onyango (2009) emphasises that the wicked problem of poverty should be understood in its composite ecological, social and institutional – and also highly particular – context and is not reducible to a single deep source. Morson and Schapiro (2017: 167, 168) drive this latter point strongly, condemning a “hedgehog” approach to poverty, which insists that “what looks like irreducible complexity actually reduces to a single factor, along with (its) dismissal of explanations

in terms of all other disciplines as either pseudoexplanations or derivable from the single factor that matters.”

Understanding poverty requires a broadened understanding of how social values, cultural dynamism, life experiences and exposure to social influences shape societies' view of life and drive their behaviour (Onyango 2009). An all-inclusive approach that exceeds the explanatory boundaries of impartial mathematical models and data analysis may lead to such improved understanding.

Classifying poverty as a wicked problem raises questions about its governability. Onyango (2009) follows Kooiman and Chuenpagdee (2005) to suggest an interactive governance approach taking into account the properties (for instance the complexity, the diversity, the dynamics and also the scale) of the governing system, the systems-to-be-governed and the governing interactions. Durand and Legge (2006) argue that a flexible, multi-disciplinary approach based on collaboration and resource sharing has the best chance of success, while Cudworth *et al.* (2013) propose that poverty cycles be interrupted from several angles through a collaborative and participatory approach.

Wondolleck and Yaffee (2000) similarly advocate the benefits of collaborative and participatory governance, not least because society's voicing of their needs is a crucial driver of democracy. Carlson (2007) cautions that collaboration may fail where participants are disinterested or unwilling to collaborate, or their interests are too polarised. Collaborative and participatory governance may also be muddied through human relationships and human behaviour; mistrust and hostile attitudes about one another will, for instance, hamper collaboration.

Carlson's misgivings about collaborative and participative governance carry particular weight in the context of poverty as a humanly-devised outcome of deliberate political rule engineered to perpetuate a vicious extractive cycle to cement the political and economic power of the elite while impoverishing society at large (Acemoglu, Johnson and Robinson 2001, 2002, 2005; Acemoglu and Robinson 2005; North, Wallis and Weingast 2009, Acemoglu and Robinson 2009, 2012, 2013; Stiglitz 2012, 2015; Rotberg 2003a, 2003b). Also, considering that wicked problems arise in complex, heterogeneous and fragmented societies, with divergent and often contradictory ideologies and objectives where collaboration may be conspicuously absent, effecting such collaboration to resolve the fragmentation seems an obvious pathway.

Rittel and Webber (1973: 167) emphasise however that besides driving global disparity in material terms, the industrial age has also “greatly expanded cultural diversity. Post-industrial society is likely to be far more differentiated than any in all of past history.” This increased societal fragmentation in large populations implies that even minorities may wield political sway. The plurality of fragmented

societies with diverse and conflicting values and political goals complicates the goal setting and task of social planners exponentially; there is no overarching social ethic to guide them. There are no value-free, one-best solutions to wicked problems. Whether the resolutions are sought through professional experts, or through political process, there is no escaping that “the expert (social planner or policy maker) is also the player in a political game, seeking to promote his private vision of goodness over (the views of) others. Planning is a component of politics” (Rittel and Webber 1973: 169).

Rittel and Webber (1973: 169) conclude their seminal paper summarising the kind of complexity and difficulty that also confronts this study:

“We have neither a theory that can locate societal goodness, nor one that might dispel wickedness, nor one that might resolve the problems of equity that rising pluralism is provoking. We are inclined to think that these theoretic dilemmas may be the most wicked conditions that confront us.”

3.5 Rationality in the Complex, Man-made World

The irony that poverty and human misery should persist in a world of plenty made possible by *human* conquest over the forces of *nature* was not wasted on Douglass North (2003). It is the challenges of our *man-made* world that continue to defy us. Scholars like Rotberg (2003a, 2003b), Stiglitz (2012, 2015), and Acemoglu and Robinson (2013) describe poverty not just as deliberate, but as a *choice* – not of the impoverished, but of the polity subsumed in a vicious extractive cycle aimed singly at solidifying the economic and political power of the connected elite. Poverty comes from within then. It is driven by human behaviour. It is not *imposed* externally, deterministically and irrevocably by history or geography, although it may be significantly influenced by it.

If poverty (and prosperity) is man-made, and the product of human behaviour and agency, a search for the deep source of the large cross-country disparities leads one to question the drivers of cross-country variances in behaviour. It is human behavior that we need to grasp. That neoclassically assumed rational econs drive all of society’s decisionmaking, has been disproven by behaviouralists like Kahneman and Tversky (2011), Thaler and Sunstein (2009), Thaler (2015) and Halpern (2015). The deviations from rationality explained by behavioural economics are limited to predictable, cognitive biases however. It leaves irrationalities driven by culture and emotion unexplained. Economic models may be humanised through an allowance for biased, less efficient humans, but not for *cultural* human beings. Mathematisation of universal human behaviour precludes that. Narratives

may explain culture, history, contingency and particularity when single-theory universality and mathematical equations cannot.

In short, social and economic outcomes across the globe are vastly discrepant. If these outcomes are *shaped* by human agency – albeit *influenced* by geography and historical contingency – understanding the cross-country variance in human behaviour is key to understanding the prosperity or poverty of nations. Nations’ reversals of fortune through the course of history defy geographic determinism; human endeavour had to overcome adverse geography and historical contingency to achieve that.

The neo-classical postulate of rationality is assumed to inform human decision-making *universally*, as are the cognitive biases of behaviouralists. The assumed universality in human behaviour renders both neoclassical and behavioural economics unlikely to explain cross-country *variance* in the human behaviour that may, in turn, explain disparate social and economic outcomes. Unlike the predictable and universally similar decisions and behaviour of rational and cognitively biased human beings, however, *cultural* human beings may display very different behaviour under otherwise similar conditions.

3.6 Economic Growth – Crucial yet Elusive

Adam Smith’s *An Inquiry into the Nature and Causes of the Wealth of Nations* raised a question in 1776 that economists remain unable to answer after almost two-and-a-half centuries: “The most trite yet crucial question in the field of economic growth and development is: Why are some countries much poorer than others?” (Acemoglu *et al.* 2005: 388). In *The End of Poverty*, Jeffrey Sachs (2005: 30) is explicit that it was the divergent *growth* experiences of rich and poor that wedged them apart. Paul Collier (2008: 11, 12) echoes the view that the *central* development challenge is to make poor societies grow: “Catching up is about radically raising growth in the countries ... at the bottom.” Thus, at the peril of radical oversimplification, any prospect of an end to global poverty exists only if poor, failing nations can be made to grow.

Poverty has many more dimensions than just the material one; for instance, it has far-reaching sociological, psychological and biological impacts too (Collier 2008; Acemoglu 2009; Deaton 2013). Economic growth does not offer a panacea to every dimension of poverty; it does however generate the essential *resources* without which no societal transformation – material, social or any other – will be afforded (Collier 2008). The mere persistence of poverty in an otherwise modern, prosperous world however proves that *consistent growth* as the single sustained escape from poverty still eludes poor nations. Understanding why this is so confronts social science with perhaps its most important

challenge, the key to which is an understanding of modern economic growth, of how nations organise themselves, how they function, or fail to function (Acemoglu 2009).

3.7 Early Views on the Prosperity of Nations

The eighteenth and nineteenth-century writings of the classical economists offered some considerations on the sources of income, wealth and economic growth. Adam Smith (1776), for instance, did not formulate a long-run growth theory; his probe into the causes of nations' wealth did however yield some conclusions that are relevant for economic growth.

The classical theorists rely on the notion of a capitalist surplus that arises when the existing labour force produces beyond subsistence requirements, stimulating the demand for labour. Wages similarly rise above subsistence level and, following the Malthusian Theory of Population²⁷, trigger an expansion in the population. As the supply of labour expands, wages are depressed back to subsistence level. The law of diminishing returns sets in until wages eventually cover subsistence production only, leaving no room for surplus accumulation by capitalists, at which stage the growth dynamic peters out. The classical theorists refer to the end of growth when the surplus is depleted by population growth, as a stationary state. Technical progress may shift the stationary state forward, but cannot avoid it altogether should the population expansion not abate.

Adam Smith (1776) recognised the potential of technical advance to raise aggregate output and postpone the stationary state but considered it less important than the role of labour specialisation to enhance the productivity of labour. He theorised that nations may achieve prosperity through labour specialisation and productive exchange. He argued that the optimal mechanism to maximise national production and public interest is through the invisible hand of a market economy that encourages participants to pursue self-interest. Competition, free trade and secure property rights are some of the institutional foundations of a market economy (or capitalism) that Adam Smith proposed would benefit a society both materially and socially (Skousen 2007). Unbridled capitalism has since been discredited with claims that it drives inequality; that the poor get poorer while wealth becomes increasingly concentrated among the rich. Like Thomas Malthus who in 1789 sombrely predicted misery precipitated by overpopulation, the crux of Adam Smith's growth predictions centred on *population growth* however, and whether it could be contained.

²⁷ Thomas Robert Malthus published his Theory of Population in *An Essay on the Principle of Population* (1798), predicting exponential (geometric) population growth outstripping arithmetic food supply growth, leading to starvation and disaster.

In 1821, David Ricardo published *On the Principles of Political Economy and Taxation* amidst the rapidly unfolding Industrial Revolution. Like his peers, Ricardo conceded that technological progress augmented labour productivity, but he could not possibly have anticipated the path-altering, longer-run impact of industrial growth. He foresaw a scenario where the invested profits of productive capital owners led to capital accumulation and higher aggregate output. The accompanying population growth then put pressure on an agricultural sector characterised by diminishing marginal returns until any surplus is exhausted along with the opportunities for growth in employment and productivity. The stationary state is ushered in as the steam for further growth runs out, but not before the rising land scarcity and prices have redistributed a sizeable portion of income and production to landowners.

Fifty years after Ricardo wrote about the threat of starvation posed by ballooning populations and the social ramifications of rocketing land prices, industrial capitalism was progressing at full tilt. Economies were growing and agricultural productivity rose rapidly. So did urbanisation and a new industrial proletariat, who spent long days in factories in exchange for low wages. In 1867, Karl Marx wrote in *Das Kapital* about the stagnation in wages while burgeoning industrial profit enlarged capitalists' share of national income considerably. Marx viewed the exploitation and poverty of millions of factory workers that create surplus value for wealthy capitalists as the outcome of market economies and private ownership. Hence he proposed that private ownership be abolished in favour of public ownership to serve public interest (Skousen 2007; Piketty 2014). Marx predicted that the exploitative dynamic of industrial capitalism – the so-called “principle of infinite accumulation” – would continue to breed social instability until a revolution inevitably collapses capitalism.

Marx's apocalyptic predictions did not materialise in Europe's advanced nations, where wages eventually rose on the back of sustained progress in technology and rising labour productivity. Also, these countries pursued democratic solutions to the social inequalities that arose from their rapid-growth, industrial-capitalist economies unlike Russia, the “most backward” and least industrialised European country at the time (Piketty 2014: 10). History made it clear that the central planning paradigm offers no end to poverty and inequality (Sachs and Woo 1994; Meier 2001; Li and Yang 2005; Sachs 2005; Acemoglu and Robinson 2013).

In *Progress and Poverty*, Henry George (1879) observed the paradoxical result of industrial growth that poverty persisted amidst rapidly expanding wealth from the vast proceeds of industrialisation. In fact, he argued that wealth and progress *intensified* inequality and poverty. Like Ricardo, he attributed this phenomenon – in George's words a “great enigma” – to steeply ascending land rent where dense concentrations of economic activity occurred in an early version of contemporary

urbanisation economics. He disagreed with Malthus's assertion that overpopulation would eventually be the death knell of progress, leading to poverty and starvation (George 1879, in Drake 2006).

In George's view, poverty was perpetuated by the injustice that arose from the exorbitant land rents passively collected by landowners as an increasingly productive economy competed for good locations. Poverty therefore persisted in productive and creative industrial societies due to the inequality between sharply escalating land rents and comparatively stagnant returns to the other two productive resources, labour and capital (George 1879, in Drake 2006).

This conclusion sets George firmly apart from Marxists; he sympathised with capitalists and labour alike. The remedy he proposed was a single tax on land values while taxes on wages and interest are abolished to assure that labour and capital productivity is not discouraged. George did not advocate that land be expropriated. Ownership per se did not pose a problem. Much rather, it was that landowners were allowed to benefit in perpetuity from a resource they did not create and from the exertions of the owners of capital and labour. A land value tax therefore does not target ownership, but land rent in its effort to remedy poverty coexisting with industrial growth (George 1879, in Drake 2006).

The growth theories of the eighteenth and nineteenth centuries have some obvious shortcomings; for instance, it relies on the redundant labour theory of value and undervalues the role of technical progress. Also, the exposition of wage determination as the purely supply-determined outcome of the Malthusian Law of Population is deficient, as is the assumption that subsistence-exceeding wages will trigger a population expansion rather than a heightened living standard.

Early growth theory is simplistic and could not account for the determinants of complex, modern growth. The aim of this study is not to critically assess and discredit growth theorists, though, but to plot the evolution of thought on what makes countries grow towards prosperity, or stagnate in misery.

3.8 Classical Growth Theory

3.8.1 *Linear Stages of Growth*

In the 1950s and 1960s, in the aftermath of World War II, theorists developed awareness that large-scale capital injections proved invaluable to accelerate economic growth. The first-generation development models, focusing on raising GDP per capita amidst rapidly expanding populations, searched for the requirements to achieve a commensurate expansion in real GDP. Many of these models viewed capital accumulation as the vehicle that would raise GDP beyond the rate of

population growth.

Emulating the historical development sequence of the then advanced nations, the *growth-stage* theorists proposed the notion that poor nations may progress to prosperity through a linear sequence of growth stages (Dang and Sui Pheng 2015). An early growth-stage model associated with Rostow (1960) theorised that nations may transition from poor and underdeveloped, to prosperous and developed through five sequential stages: starting from a *traditional* society, the *pre-conditions* for take-off must be met, followed by the *take-off*, the drive towards *maturity* and the final phase, which is *mass consumption* (Ingham 1995; Todaro and Smith 2009). The take-off phase is considered decisive; large-scale investment is crucial during this stage to raise per-capita income and to allow a transitioning from underdeveloped to developed.

Before Rostow, Harrod (1947) and Domar (1948) also viewed investment as the primary propeller of growth and development in an economy. The Harrod-Domar model combined their theorising in an equation that, although initially formulated for full-employment conditions in industrial economies, was used to estimate developing-country capital requirements (Harrod 1946; Domar 1948; Meier 2001). According to the Harrod-Domar formulation, developing countries principally needed to acquire capital for investment, either from domestic savings, or should that prove inadequate to satisfy the capital needs, foreign savings should be accessed (Ghatak 2003).

The obvious weakness of the linear growth-stage theories is found in their oversimplification. The emphasis on investment and its correlation with economic progress may be accurate but is also an insufficient condition for the complexities of economic development (Dang and Sui Pheng 2015). These theories unrealistically assume a similar production function for all economies, and also a single linear growth path with similar stages to match the historic development experience of advanced economies. Morris and Adelman (1988) and Adelman (2000) describe countries' development paths as highly nonlinear and unique; nations may skip some stages, become trapped in a particular stage, or even regress to an earlier stage should complementary conditions like managerial capabilities and a skilled labour force remain unmet (Todaro and Smith 2009).

3.8.2 *Models of Structural Change*

The subsequent era of growth models, emerging during the 1960s and 1970s, is characterised by the requirement of structural change. These models view the reassignment of labour from the low-skilled, low-productivity agricultural sector to the higher-skilled and high-productivity industrial sector as the primary source of growth (Dang and Sui Pheng 2015).

Lewis (1954) formulated the well-known *two-sector model*, also referred to as the *theory of surplus labour*. In the Lewis model, labour is transferred at an increasing rate from the traditional (agricultural) to the modern (industrial) sector. Due to the unlimited supply of labour, the industrial wage rate remains at subsistence level, allowing sizeable industrial profits. The Lewis model postulates that all profits are reinvested, facilitating industrial expansion, further labour transfer from the traditional to the modern sector, and economic growth. As in the Harrod-Domar model, the role of investment is considered the crucial driver of self-sustaining industrial growth and the structural transition from a poor, traditional economy to a modern, industrial economy (Todaro and Smith 2009; Dang and Sui Pheng 2015). The assumptions of unlimited surplus labour being transferred from the agricultural sector and also of perpetual reinvestment of all industrial profits to facilitate sustained industrial expansion, growth and structural transformation are, however, not realistic.

Chenery's (1960) *structural change and patterns of development analysis* maintains the key role for savings and investment, but emphasises that economic growth requires the sustained accumulation of both human and physical capital as well. Chenery recognises that the complex structural transformation from a poor and underdeveloped economy to a modern industrial economy requires more profound change than the two-sector transformation proposed by Lewis. Consumer preference for instance has to shift from agricultural produce to the diverse goods and services produced by the modern industrial sector. Society has to be receptive to the international mobility of goods, services and resources, and socioeconomic adjustments like urbanisation (Dang and Sui Pheng 2015).

Through its emphasis on the *pattern* of development, the structural-change approach to growth and development led policymakers to believe that development-promoting efforts should focus on the industrial sector as the engine of growth, to the detriment of the agricultural sector responsible for vital foodstuffs. Also, policy efforts aimed at structural transformation through investment in human capital focused much attention on education and health policies (Meier 2001; Dang and Sui Pheng 2015).

Yet, history has proven that sizeable education and health budgets do not transform poor countries into prosperous ones; dramatic improvements in life expectancy and school enrolment in sub-Saharan Africa between 1970 and 2000 could not raise economic growth in the region above very slow and even negative rates (World Bank 2000; Dang and Sui Pheng 2015). Also, Chenery's assumption that a similar, identifiable pattern of development exists for all countries irrespective of unique country traits like size, resource endowment, domestic policies, openness and access to capital and technology is not compatible with real-world complexities (Todaro and Smith 2009).

3.8.3 *Models of International Dependence*

Dependency theory gained traction in the 1970s and 1980s based on the notion that underdevelopment is perpetuated by poor countries' dependence on the capital and export markets of dominant, developed countries (Todaro and Smith 2009). The weak terms of trade of poor, resource-exporting countries exposed them to exploitation however, and free trade amounted to unequal exchange with limited benefit for poor countries. This led to a policy conviction that trade openness and dependence on the capitalist nations did not offer sustained growth opportunities to poor countries, and that autarky might serve them better (Ferraro 2008).

The economic prowess of newly industrialised countries²⁸ that traded intensively with the advanced, industrialised Western countries contrasted markedly with the stagnancy of autarkic nations, however (Ghatak 2003). Hence the notion that autarky serves poor countries' national interests better than international participation fell out of favour in the 1980s (Ferraro 2008; Todaro and Smith 2009; Dang and Sui Pheng 2015).

3.9 Neo-classical Growth Theory: The Counter Approach and the Traditional Approach

During the 1980s, neo-classical theorists countered the autarky-minded international dependence model that attributed stagnation and poverty in underdeveloped countries to predatory exchange practised by advanced nations. The counter approach of the neo-classical theorists is described as a free-market, market-friendly or new political-economy approach, and argued that stagnation in poor countries is perpetuated by domestic constraints predominantly caused by distortive state intervention (Little 1982; Lal 1983 and Bauer 1984). They raised governance matters like inefficiency and corruption in the public sector, policy-induced distortions like protectionism, subsidies and public ownership. Excessive state intervention leading to resource misallocation is noted as the cause of poverty and stagnation, not exploitation by advanced, capitalist nations (Meier 2001).

A more traditional neo-classical approach than the counter-approach above is associated with Robert Solow (1956, 1957), Swan (1956), Cass (1965) and Koopmans (1965). Solow used a Cobb-Douglas production function²⁹ to expand the Harrod-Domar model, identifying three sources of economic

²⁸ For instance, the East Asian countries of Singapore, South Korea, Taiwan and Hong Kong.

²⁹ In 1927, Paul Douglas presented a paper entitled *A Theory of Production* at a meeting of the American Economic Association. Co-authored by Charles Cobb, the paper proposed a mathematical formulation of the relationship between output, and capital and labor inputs. The formulation became known as the Cobb-Douglas production function and was written as $Q(L, K) = AL^\beta K^\alpha$, with Q denoting aggregate production, L the quantity of labor, K the quantity of capital, A a positive constant, and β and α constants between 0 and 1.

growth: first, the quantity and quality of labour may rise following population growth; second, there may be more capital if saving and investment rise, and third, technology may improve. Solow viewed technological advance as exogenous. Neo-classical theorists placed stock in market forces to achieve balanced growth in developing countries, prioritising privatisation, liberalisation and stabilisation on national policy agendas to attract foreign trade and investment (Azariadis and Drazen 1990). Trade liberalisation in the newly industrialised East-Asian economies achieved these neo-classical growth predictions; in African nations however the growth outcomes of similar policies were curtailed by various historical, institutional and cultural constraints (World Bank 2000).³⁰

In 1966, Simon Kuznets published fifteen characteristics – albeit not a theory – of *modern economic growth* that he had derived inductively from quantitative historical evidence available at the time. He refined the list to six characteristics in 1971 and categorised them as follows.

Under *Aggregate Growth*, he listed (1) high rates of increase in per capita product, accompanied by substantial rates of population growth and (2) high rates of increase in output per unit of all inputs. Under *Structural Transformation*, he entered the following two conditions or characteristics: (3) a high degree of structural transformation, encompassing a shift from agriculture to industry and services and (4) changes in the structure of society and its ideology, including urbanisation and secularisation. The third category, *International Spread*, reported (5) the opening up of international communication and (6) a growing gap between developed and under-developed nations (Kuznets 1971; Broadberry 2016).

Recent advances in quantitative historical evidence (Maddison 2001, 2010) offer a clearer understanding of the conditions preceding and precipitating the Industrial Revolution as well as the progression towards modern economic growth (Broadberry 2016). Regarding Kuznets's first characteristic of rapid growth, it would seem that *consistent* growth is more important; that is, that growth reversals during downturns are avoided (Maddison 2001, 2010; Broadberry 2016). The stop-start growth experiences of poor nations show how growth reversals may wipe out the growth

The Cobb-Douglas production function was not primarily innovative because of the proposed link between inputs and output; Knut Wicksell had proposed that in 1896 (Biddle 2012). The Cobb-Douglas production function was original in its statistical estimation of the relationship between inputs and output, and the understanding that economic theory (and policy) may benefit should statistical analysis reveal a stable relationship between empirical measures of inputs and outputs. The Cobb-Douglas production function remains a ubiquitous specification in theoretical and empirical growth analysis (Felipe and Adams 2005).

³⁰ These domestic constraints include for instance distortive state intervention (Little 1982; Lal 1983 and Bauer 1984) as well as governance matters like leadership deficits (Rotberg 2003a, 2003b), inefficiency and corruption in the public sector, and policy-induced distortions like protectionism, subsidies and public ownership. The literature also mentions excessive state intervention resulting in resource misallocation and a large dead-weight loss as contributing to stagnation and poverty (Meier 2001).

benefits of upswings (Sachs 2005; Acemoglu and Robinson 2013). Also, considering the second Kuznets condition of high growth amidst rapid population expansion, it would seem that such expansion has become associated with persistent *poverty* in developing countries. Per-capita growth following a *decline* in population is not desirable either (Broadberry 2016).

Understanding the characteristics of structural transformation also benefits from the advances in quantitative historical evidence. The shift from agriculture to industrialisation is emphasised with perhaps insufficient focus on the shift towards a *service* economy (Broadberry 2016). Also, such transformation appears to happen more gradually than Kuznets envisaged. Although Kuznets recognised that societal change and shifts in ideology must occur as part of the structural transformation, theoretical advance – new institutional economics specifically – points to the importance of *institutional* evolution (North 1971, 1981, 1990a, 1991, 2003; Acemoglu 2009; Acemoglu and Robinson 2013). Institutional economics for instance highlights a balanced role for governments, that they should be accountable, and sufficiently centralised and efficient to raise revenue and deliver social services, but not so overpowering so as to squelch economic endeavour (Rotberg 2003a, 2003b; Robinson 2006; Broadberry 2016).

The fifth Kuznets characteristic, the opening up of international communication, is replaced by an understanding that what is required is in fact access to a large enough market to fully exploit the returns to modern technology. Globalisation may achieve that, as in the case of the NIEs in East Asia, but the United States has accomplished market size behind protective barriers in the 1800s, and the British Empire has done the same through mercantilist restrictions prior to the 1830s (Broadberry 2016).

Concerning the final characteristic of modern growth, one of a growing gap between developed and developing nations, the so-called Great Divergence between the living standards on the European and Asian continents became quantitatively significant since the early 1700s (Maddison 2001, 2010; Sachs 2005; Acemoglu 2009 and Broadberry 2016). Its origin is traced to a much earlier stage though, during the late medieval period, when North Sea countries like England, Belgium and the Netherlands achieved a dampening of growth reversals (Pomeranz 2000; Broadberry 2016).

3.10 New Growth Theory and the Convergence Debate

The persistence of poverty and poor growth outcomes in developing countries – even those that implemented neo-classical trade liberalisation – precipitated the endogenous growth theories of the 1990s (Dang and Sui Pheng 2015). Proponents of new growth theory discard the Solow hypothesis that technological progress is exogenous. Nations have been highly dissimilar in their technological

advance and it has also not been transmitted exogenously from source countries to developing trading partners (World Bank 2000).

Romer (1986) and Lucas (1988) were among the early new-growth theorists linking the higher returns associated with technological advance with the *knowledge* used to produce it. New growth theory proposes that the returns predicted by the Solow model fail to materialise because the links between *exogenous* technological progress, augmented capital and labour productivity, and eventually economic growth are more tenuous than the link between a nation's *endogenous* knowledge creation and its economic advance (Romer 1986; Lucas 1988; Aghion and Howitt 1992 and Dang and Sui Pheng 2015). Knowledge is a unique resource in that it is non-rival in its use and has boundless growth potential as well as positive spill over effects (Dang and Sui Pheng 2015). In this sense knowledge is similar to a public good; markets fail to produce enough of it because innovators cannot capture all of the gains they create through their investments.

Policy intervention is considered necessary to promote complementary investments in human capital formation, research and development, and knowledge-intensive industries (Meier 2001). Barro (1996) suggests that long-term growth therefore depends on whether governmental actions support such investment through, for instance, taxing and regulating economic activity appropriately, maintaining law and order, providing infrastructure and protecting intellectual property rights. He proposes that: "Government therefore has great potential for good or ill through its influence on the long-term rate of growth" (Barro 1996: 8).

A shortcoming of the new growth theory is its failure to incorporate social and institutional factors (Dang and Sui Pheng 2015). It does, however, contribute to the convergence-divergence debate. A distinct feature of neoclassical growth theory is the convergence it implies (Solow 1956, Swan 1956, Cass 1965, Koopmans 1965 and Barro 1996). It predicts that countries with lower initial levels of real per-capita production will have higher growth rates than per-capita rich ones, and if countries were identical except for their initial capital intensities, absolute convergence will occur (Barro 1996). Per-capita poor countries will grow faster than and catch up with prosperous countries.

Under the more realistic assumption that countries are all but identical in many respects, convergence applies conditionally only. A per-capita poor country with harmful public policy, low work effort and low propensity to save will have a low long-run or steady-state per-capita target. It will then only grow fast if its initial per-capita position is far below its own steady-state position (Barro 1996; Acemoglu 2009).

The convergence implied by the neo-classical models stems from an assumption of diminishing returns to capital. Low-capital intensity countries therefore grow faster because of their higher returns to capital; their steady-state capital-labour ratio and factor productivity depend on country traits like population growth, their rate of saving and public policy. The cross-country variations in these traits explain *conditional* as opposed to absolute convergence.

The neo-classical notion of capital may be broadened to include human capital, accounting for cross-country variations in the experience, level of education and skill, and also the health of the workforce (Lucas 1988; Mulligan and Sala-i-Martin 1993; Barro and Sala-i-Martin 1995, Barro 1996).

Countries tend towards a steady-state human-physical capital ratio and the extent of the initial deviation from the steady-state ratio affects the rate at which the gap between the initial per-capita level of production and steady-state production is narrowed (Barro 1996). Barro cites the example of a war-ravaged country with most of its physical capital destroyed and hence a high human-physical capital ratio. Unlike human capital, physical capital can be supplemented rapidly to reach the steady-state human-physical capital ratio, implying that the greater the initial endowment of *human* capital, the more elastic the growth rate will be vis-à-vis the initial deviation of the per-capita level of production from the steady-state position (Barro 1996; Nelson and Phelps 1966; Benhabib and Spiegel 1994).

A large initial endowment of human capital also facilitates the internalisation of foreign technology, adding to the argument that the initial endowment of *human* rather than physical capital of a per-capita poor country will decide whether it achieves rapid convergence (Barro 1996).

The neoclassical assumption of diminishing returns to both human and physical capital implies that per-capita growth should cease once the steady state has been obtained. Country data however indicate that positive per-capita growth may persist in the long run (Barro 1996; Acemoglu 2009). Growth theorists attributed this observation to sustained but *exogenous* technological progress, which allowed them to retain the neoclassical property of conditional convergence in the presence of positive and consistent long-run growth, but also unsatisfactorily implied that a country's long-run growth is determined exogenously (Barro 1996).

Endogenous growth theory aimed to augment this shortcoming through the addition of a theory of technical advance through the role of innovation in various permutations (Cass 1965; Koopmans 1965; Arrow 1962; Sheshinski 1967; Lucas 1988; Rebelo 1991; Aghion and Hewitt 1992; Barro and Sala-i-Martin 1995; Barro 1996), although the early versions violated the empirical regularity of conditional convergence.

The early endogenous models were later augmented to reintroduce conditional convergence through the diffusion and imitation of technology; the role of public policy to either foster or discourage innovation and thus long-run growth also came under scrutiny. Although endogenous growth theory through its emphasis on new knowledge adds to an understanding of how, *globally* speaking, long-term per-capita growth may continue indefinitely; it sheds less light on the dramatic variation in *cross-country* growth experiences.

Barro's 1996 empirical findings on cross-country growth experiences for 100 countries from 1960 to 1990 support the neo-classical notion of conditional convergence. He finds that, for a given initial level of per-capita production, a country's growth will be more rapid under the following conditions: a higher initial level of human capital, higher life expectancy and lower fertility, lower inflation, lower government consumption, the better law and order is maintained, and the larger the improvement in the terms of trade (Barro 1996: 70). Also, the lower initial real per-capita production for given levels of these variables, the more rapid the growth rate.

Barro (1996: 53) finds growth weakly and nonlinearly related to political freedom; an initial liberalisation from oppression stimulates growth, after which further expansion of political rights inhibits growth, presumably due to heightened redistribution. He finds a much stronger positive "influence" of a country's living standard on its likelihood to be democratic, confirming that societies' rules and organisation matter for growth, and raising the question of causation: does democracy cause growth and prosperity (North 1970, 1990a, 1991, 1992, 2003; Acemoglu, Johnson and Robinson 2005; Acemoglu *et al.* 2014), or do growth and high standards of living cause democracy (Lipset 1959)?

Acemoglu (2009) concurs that there is no evidence of absolute convergence globally; in fact, observed income differences across nations rather support divergence. There is however conditional convergence among relatively homogeneous countries where the traits that may affect growth, like institutions and policies, are similar.

3.11 Correlates and Causes of Growth

The empirical confirmation of conditional convergence (Barro 1996; Acemoglu 2009) emphasises the nexus between country traits and economic growth. To understand growth on a causal level however, one would need to know which specific country traits *cause* economic growth – an endeavour complicated substantially by endogeneity concerns. A more modest approach identifies some *correlates* of economic growth. Countries that invest more in physical capital and with greater human capital grow more rapidly – a positive association that economic theory predicts – but

investment in physical and human capital may simply be correlates of economic growth, with all of them driven by omitted factors (Acemoglu 2009).

In addition to cross-country variations in physical and human capital, societies are also hugely divergent in their use of technology, which broadly describes the efficiency with which they use their physical and human capital.

It is quite obvious from the broad role of technology in production efficiency that accounting for cross-country income variation would have to include an investigation of the role of technology in economic growth. Attributing dramatic cross-country variations in growth and income to country differences in the correlates of growth – the correlates being technology, and physical and human capital – is however less than satisfactory. It does not do justice to the complexities that poor countries experience in achieving modern economic growth.

Poor countries indisputably lag behind richer, rapid-growing counterparts in their technologies and accumulation of physical and human capital, and this has most certainly contributed to the disparate growth outcomes and living standards. Yet, if poverty could be overcome by enhancing technology and by accumulating physical and human capital, why would nations persistently fail to do so? The answer seems to lie in the distinction between the correlates or *proximate determinants* of economic growth – which are crucial for the mechanics of both enduring growth failures and growth miracles – and the fundamental causes or *deep determinants* of economic growth. Already in *The Theory of Economic Growth*, Arthur Lewis (1956: 11) referred to the proximate determinants of growth as “the causes of growth”, and to the deep determinants as “the causes of the causes of growth”, while North and Thomas (1973: 2) claim that “innovation, economies of scale, education, capital accumulation etc. are not causes of growth; *they are growth*” (italicised as in the original text).

The fundamental, deep determinants on the other hand, explain why poor countries end up with sub-optimal technology and capital accumulation choices, why they do not achieve sustained growth and why, ultimately, they are poor. They raise non-economic complex causes of growth that establish a nexus with the social sciences. Potential deep determinants include, for instance, the role of *luck* or multiple equilibria, that may set societies that are identical in all respects – like preferences and market structure – on divergent paths with disparate outcomes (Acemoglu 2009). Nations’ *geography* is a potential deep determinant too, accounting for living environments’ effect on human behaviour and attitudes, variations in natural resource availability and the environmental impact on agricultural productivity (Diamond 1997; Easterly and Levine 2003; Landes 1997; Sachs 2003, 2005; Acemoglu 2009; Acemoglu and Robinson 2013).

A third potential deep determinant ascribes global divergence to nations' varying degrees of participation in international trade – or *trade openness* (Sachs and Warner 1995; Frankel and Romer 1999; Rodríguez 2006). Trade integration offers a number of intuitive advantages like an enlarged market, opportunities to specialise and achieve scale benefits as well as the transfer of technology and knowledge. Frankel and Romer (1999) report a positive correlation between trade and income, but no conclusive evidence on the direction of causation. A country's trade share may well be endogenous. Studies using measures of trade policy instead (Sachs and Warner 1995) also do not overcome the endogeneity hurdle. Frankel and Romer (1995) use a gravity model of trade to address the endogeneity of trade. They focus on the component of trade that is due to geographic factors, like proximity to well-populated trading partners, and find that the exogenous, geography-related component of trade not only raises income for any given level of capital, it also causes capital accumulation. In other words, it fits the description of a deep determinant, but with the complicating realisation that the deep determinant in question may be *geography* instead of trade openness. Rodríguez *et al.* (2006) remain skeptical of evidence of causality between trade volumes and economic growth.

Then there are the formal rules or institutional regime embodied in the laws and regulations of society that shape the system of incentives within which crucial decisions about economic activity are made; hence different *institutions* may have very different economic outcomes and are also cited as a deep determinant of cross-country growth variation (North 1971, 1974, 1978, 1981, 1990a, 1990b, 1991, 1992, 2000, 2003; Knack and Keefer 1995; Hall and Jones 1999; Rodrik 2002, 2004; Rodrik, Subramanian and Trebbi 2002; Glaeser *et al.* 2004; Acemoglu, Johnson and Robinson 2005; Acemoglu and Robinson 2013; Kangur 2016). *Cultural variation* comprising differences in societies' values, belief systems and attitudes is a further potential fundamental or deep cause of variation in countries' economic outcomes (Putnam 1993a, 1993b; Putnam and Helliwell 1995; Knack and Keefer 1997; Helmke and Levitsky 2003; Fafchamps 2005; Knowles 2005; Knowles and Weatherston 2006; Tabellini 2010; Lopez-Claros and Perotti 2014).

The literature deals with the role of *culture* in its many guises in a variety of ways (Landes 1998; Mokyr 2013; World Bank 2015, and Morson and Schapiro 2017). Acemoglu *et al.* (2005), Acemoglu (2009) and Acemoglu and Robinson (2013) view culture as a stand-alone *potential* deep cause and are dismissive about its causative power. They cite growth disparities between for instance North and South Korea, East and West Germany prior to 1989, North Nogales in Arizona and South Nogales in Mexico, and also pre-growth Singapore with post-growth Singapore, arguing that cultural similarities between these poor and rich examples eliminate *culture* as a deep cause.

Inglehart and Welzel (2005, 2010) and Welzel (2014) demonstrate that societies' mass attitudes and beliefs have a crucial role in economic development and growth. Mass attitudes shift – *modernise* – during and post-industrialisation and as they adopt emancipative values that support autonomy and freedom of domination and, therefore, liberal democracy and good government, societies flourish. They do not report evidence of cultural differences disappearing but raise the possibility that the emancipating attitudinal shift or human development coinciding with modernisation and economic growth may be the nexus transmitting cultural influence onto economic outcomes. Despite the literature on cultural stickiness (Boettke 2008), it is therefore hard to defend an argument that societal values, norms and attitudes in North and South Korea are similar, or in pre- and post-growth Singapore for that matter.

Douglass North (1971, 1974, 1978, 1981, 1990a, 1990b, 1991, 1992, 2000 and 2003) argues in favour of institutions as the fundamental deep determinant of a nation's economic outcomes, but defines institutions much more broadly than for instance Hall and Jones (1999), Rodrik (2002, 2004), Glaeser (2004) Acemoglu *et al.* (2005), Acemoglu (2009), Acemoglu and Robinson (2013) and Kangur (2016). North distinguishes between formal institutions, which are the laws, regulations and rules that organise societies, and informal institutions that include norms of behaviour, attitudes and belief systems. In other words, North includes cultural factors under the institutional umbrella; moreover, he describes the informal institutions that guide human behaviour in societies as not only terribly important, but perhaps more important than the formal rules. Therefore, in his surmise that institutions are the fundamental cause of the global rich-poor divergence, North (1990a, 1990b, 1992, 2003) appears to concur with Acemoglu *et al.* (2005), Acemoglu (2009) and Acemoglu and Robinson (2013), but the definitional differentiation may obscure a crucial difference in their views about the role of culture. Albeit simplistic, it may be useful to consider the view of W. Arthur Lewis (1956:11, 12) that understanding economic outcomes boils down to understanding what drives *human behaviour*:

“The growth of output per head depends on the one hand on the natural resources available, and on the other hand on human behaviour. ... (It is clear that there are great differences in development between countries which seem to have roughly equal resources, so it is necessary to enquire into the differences in human behaviour which influence economic growth.”

Lewis then proceeds to also divide growth analysis into two levels: the first, the level of proximate causes, comprises efforts to economise, enhanced knowledge and its application, and the amount of capital, *all* of which seem to be present simultaneously in the case of growth economies, or absent in

scenarios where growth fails to materialise. The second level – Lewis’s “causes of the causes” – goes beyond proximate causes to find what operates strongly in growth economies but not in poor ones, or in a growth economy that was absent during prior, poorer phases of its history.

Questions about which kind of institutional environment fosters growth arises, but more important is Lewis’s explanation that *beyond* a society’s institutional environment, is “the realm of beliefs... that cause a nation to create institutions which are favourable rather than those that are inimical to growth” (Lewis 1956: 11), implying that *beliefs* are perhaps at the bottom of it all – the deepest of the deep determinants. But if so, how then do the all-important beliefs and values take shape *originally* to steer human behaviour either towards growth or the perpetuation of poverty?

Lewis’s (1956) proposal that it is human behaviour grounded in belief systems that decides whether society benefits from or is crippled by its geographical traits is intuitively plausible. Prosperous nations have diverse geographies and the commonality may be only that their societies have managed to overcome geographic drawbacks or to utilise geographic advantages to their benefit. Before one may draw the conclusion that human behaviour driven by belief systems trumps geography and in fact all else as deep determinant, Lewis’s own explanation of what underlies beliefs muddies the water. He attributes a crucial societal value, namely *attitude to work*, to geographical environment and climatic conditions, and also adds a role for education and nutrition, all of which reflect prior economic outcomes. Hence, issues of endogeneity and circularity dog the causation argument in Lewis’s theory, despite the intuitive plausibility of a deciding role for human behaviour in economic outcomes.

In the deep-determinant context, asking what causes the cross-country rich-poor divergence amounts to many more questions: Can one attribute the rapid growth in Hong Kong, Singapore or South Korea to luck or favourable contingency, while poverty-stricken nations like Zimbabwe or Nigeria have had less luck? Can one defend an argument that these nations’ geographies were and, as we approach the Fourth Industrial Revolution, indeed *remain* the deep cause of their disparate long-run growth performances? Can one find a plausible role for their policies and institutions? Or for divergent mass attitudes, belief systems and values? A coherent explanation hinges on how deep causes correspond with historical facts and growth empirics, which may range from military coups, natural disasters, civil war, extreme corruption and state capture to secure property rights and pro-growth policy.

The *transmission* from deep cause to economic outcomes runs through the system of incentives it establishes, whether it leads to investment in human and physical, and technological upgrade (Lewis

1956; North 1971, 1974, 1978, 1981, 1990a, 1990b, 1991, 1992, 2000 and 2003; Acemoglu 2009 Acemoglu *et al.* 2005; Acemoglu and Robinson 2013). The growth impact of the fundamental causes has to run through a first-order influence on physical and human capital, and on technology. Understanding the mechanics of economic growth is therefore essential to assess whether potential deep or fundamental causes of economic growth could indeed have the causative power they are ascribed (Acemoglu 2009).

3.12 Conclusion

The development literature is unambiguous about the connection between economic growth and modern-world poverty. The divergence between the by now widely apart trajectories of the rich and poor worlds emerged from their disparate growth experiences: from the compounding, escalating impact of modest but consistent growth versus growth spurts obliterated by reversals. If consistent growth is key, so is theory predicting how growth is achieved. Growth theory emphasises investment and physical capital, education and human capital, also knowledge and technology, and of course the productivity with which these resources are dedicated to the production process. That productive, educated nations with abundant capital and technology should grow essentially confirms an economic identity; in fact, North states that all of these rich-country traits *are* growth, not its causes.

Growth theory is not helpful to a poor nation hamstrung by low investment, poor educational attainment and low penetration of technology. The questions of why they have hitherto not grown sustainably, out of poverty, and how that may be achieved, are tantamount to asking why they lag behind the prosperous world in investment and education, hence in physical capital and human capital, and also in productivity, innovation and technology. These questions are the domain of the *deep* causes of growth, of poverty and prosperity.

Lateness has been viewed as advantageous to countries that were not part of the eighteenth-century Industrial Revolution. The path to convergence has been paved and could be emulated in a much shorter time, as Japan and the Newly Industrialised Economies have done. Why then does poverty persist elsewhere? What prevents the emulation and convergence that could end poverty? Landes (1990) argues that nations accomplish the leap across the chasm when they can; if they do not, it means they are not yet ready, and cannot be made so from outside.

Lateness, it seems, is no hidden blessing to the poor. The rich-poor divide is widening rapidly and will require an ever-increasing effort to bridge. Understanding the deep causes of poverty, the complexity of open societal systems, context-specificity, history and the role of culture in driving the human behaviour that shape social and economic outcomes may contribute to this effort. Chapter 4

explains why poverty is seemingly insurmountable in some contexts and also the role of humanly devised rules, written and unwritten, in deciding societal outcomes.

Chapter 4

Institutionalism and Poverty

4.1 Introduction

Previous chapters explain that economic hardship drives societal insistence on democratisation. Either such societies believe that there is a causal link between democracy and economic outcomes, or, in their appeal for democratisation, they are actually expressing a desire for better *living conditions* rather than critical democratic freedoms and autonomy. In that case, it may not be democracy *per se* that they crave; any regime change that improves their lives might be acceptable, also a benign dictatorship. After all, the sub-Saharan African experience with political liberalisation shows that it offers no guarantees of improved lives. There is no denying that democracy and its associated set of formal rules organise political life in some of the globe's most prosperous nations, but some impoverished nations are also – on the face of it, at least – democracies while Singapore and Hong Kong have achieved highly in material and human development terms without resorting to the freedoms democracy allows. Regime type is a highly visible manifestation of the formal rules that regulate societal life; given the *prima facie* evidence cited in Chapter 2, its impact on economic outcomes is all but unambiguous. Why is that? Are some nations condemned to poverty irrespective of whether they are ruled democratically with freedoms, or autocratically with very few liberties, while others thrive, also irrespectively? Clearly, something deeper than formal regime type is at play. So far, it has been explained that the modern-day rich and poor countries were wedged apart by the compounding effect of sustained if moderate growth in some parts of the world, while reversals erased the benefits of growth spurts elsewhere. If long-term consistent growth offers the only escape from poverty, growth theory is naturally of great interest to economists and social planners alike. It has however proven unconvincing to explain – and reverse – poverty in terms of conventional economic growth fundamentals like stocks of human and physical capital, technological innovation and factor productivity. The poverty dilemma is locked up in understanding *why* poor nations have inadequate investment in human and physical capital, do not innovate and are unproductive; hence the probe for *deeper*, non-economic causes of growth, or non-growth.

Prominent among the deeper causes is the way in which societies organise themselves. It includes their worldview, their norms, belief and value systems, and mass attitudes. It is the social context of what they perceive as right or wrong and the realisation that economic life may be socially and culturally driven with wholly divergent outcomes in different societal contexts. One may also

question the impact of belief systems that shape mass societal attitudes towards principles like autonomy and freedom on political outcomes, irrespective of formal regime type. If a society is culturally tolerant of, for instance, patriarchy with autocratic decision-making, what effect will the superimposition of formal rules with a high degree of autonomy have? In short, socially driven human behaviour is crucial in societal outcomes, economically and politically speaking, elevating the degree of complexity of the poverty problem well beyond the reach of neo-classical economics. The previous chapter elaborates on the complexity of poverty, and also the role of deliberate choice in the making of poverty. It raises questions about the drivers of human behaviour that does not conform to either the rationality of neo-classical *econs*, or the predictable cognitive biases proposed by behavioural economists, opening the door to cultural explanations. Adding the context specificity of culturally driven human behaviour, historical contingency and the seeming determinism of geographical traits to the confluence that steers a nation's economic outcomes hampers the explanatory and predictive power of mathematical models. Narrative accounts, previously relegated to the scientifically inferior rank of subjective anecdote, regain respectability for their inclusion of matters that defy mathematisation, particularly the humanising element of culture, contingencies that matter crucially and context specificity. Adding to the complexity is the social-planning view of poverty as a wicked problem in an open societal system, with no objective solution. The wicked-problem approach does shed light on the disparaging persistence of poverty despite dedicated efforts to uplift stricken societies.

4.2 Poverty and Institutions

The notion that institutions decide – are indeed the *cause* of – nations' prosperity, dates back to Adam Smith³¹ (1776) and later John Stuart Mill³² (1848). At the core of institutionalism is the

³¹ Adam Smith's *The Theory of Moral Sentiments* (1759) offers useful thoughts on institutional theory (Coase 1984; Hutchison 1984; Elser 1989). He incorporates imperfect knowledge and uncertainty in a "historical-genetic" rather than a "contract-theoretic" approach to explain how social institutions emerge spontaneously in a society.

³² From his seminal work *Principles of Political Economy with some of their Applications to Social Philosophy* (1848), Mill is considered a proponent of Institutional Individualism (Zouboulakis 2002). Individualism views individuals and institutions as given and explains social phenomena as outcomes of the pursuit of individual aims, whereas Institutionalism claims that a social and institutional context always shapes individual beliefs and goals, and thus directs individual behaviour. Institutional Individualism allows the institutional environment to shape individual decisions and behaviour, but also for individual behaviour to influence the institutional context.

hypothesis that the way in which humans organise their societies determines their social outcomes, that is, also whether they prosper or falter. Individual pursuit of self-interest does not operate in a vacuum. An assumption that a given (neo-classically) rational individual, driven by self-interest and equipped with a particular set of skills, may accomplish a given, predictable outcome irrespective of dramatically disparate social and institutional contexts is not tenable. Given the deep complexity of poverty, an institutional approach that recognises both the specificity of the social contexts within which economic outcomes materialise and the humanising impact of culture on behavioural assumptions may go much further to understand the tenacity of poverty. Institutionalism outperforms the limitations of conventional economics also in its interdisciplinarity; it borrows liberally from social theory and political science.

The literature broadly acknowledges that institutional variation is a crucial source of disparity in economic outcomes (see for instance Jones and Romer 2010, Acemoglu, Johnson and Robinson 2001, Acemoglu, Johnson and Robinson 2002, Acemoglu, Johnson and Robinson 2005, and Rodrik, Subramanian and Trebbi 2002). It is, however, not the only source put forward in the literature (see Diamond 1997, Sachs 2003 and Easterly and Levine 2003 for the proposition of a direct, causal role for geography), even if some scholars maintain that institutions “rule” (Rodrik, Subramanian and Trebbi 2002) or constitute the “fundamental cause of long-run growth” (Acemoglu, Johnson and Robinson 2005).

4.3 Old Institutionalism and the Reconstituted Human

In the century since Walton Hamilton (1919) pioneered the term *institutional economics*, the role of a nation’s institutions in deciding economic outcomes has piqued much interest among scholars. Although there is relative unanimity that institutions matter, opinion on *how much* and *why exactly* diverges.

Hamilton’s (1919: 318) view was that institutional economics *unifies* economic science by explaining how components of an economic system integrate to operate as a whole, whereas neo-classical economics neglects the behavioural implications of an institutional regime:

“The proper subject-matter of economic theory is institutions. ... Economic theory must be based upon an acceptable theory of human behaviour. (I)t must discern in the variety of institutional situations impinging upon individuals the chief source of differences in the content of their behaviour.”

To develop an understanding of institutions and human behaviour, institutionalists adopted an interdisciplinary approach, relying on the work of sociologists, psychologists, political scientists and also anthropologists (Hodgson 2000).

In keeping with the wicked-problem view of social planning (Rittel and Weber 1973), Hamilton's early (1918) description of institutionalism viewed economies as open, evolving systems. Hamilton recognised that these systems, although altered by technological advance, were embedded in a natural-environment setting (conceding a role for geography) but, more importantly, also in "a broader set of social, cultural, political, and power relationships" (Hodgson 2000: 318).

The old institutionalists propose that individuals are not given as neo-classical economics assumes; they are configured by culture and by institutions through "reconstitutive downward causation" (Hodgson 2000: 318). In 1899, Veblen wrote that "(t)he situation of today shapes the institutions of tomorrow through a selective, coercive process, by acting upon men's habitual view of things, and so altering or fortifying a point of view or a mental attitude handed down from the past" (Veblen 1899: 190). Veblen elaborated, proposing that the aspects of human behaviour – "(t)he wants and desires, the end and the aim, the ways and the means, the amplitude and drift of the individual's conduct" – are all a function of an unstable and complex institutional variable (Veblen 1899: 89).

The notion that institutions exert causal power on behaviour over individual utility-maximising agency emerges strongly from the work of Hamilton. In 1932, he wrote that "(i)nstitutions and human actions... are forever remaking each other in the endless drama of the social process" (1932: 89). Commons (1965: 3) similarly referred to "the institutionalised mind" to explain human behaviour induced by habit and the pressure of custom.

Mitchell (1910: 203) pointed to social institutions as prevailing habits of thought that have gained acceptance as the norms governing human conduct. Social rules thus attain prescriptive authority over individuals. Daily use and repetition cement these into common patterns. In 1944, Clarence Ayres explained human wants as social habits rather than autonomous, innate physical mechanisms. Galbraith also proposed that human wants may be shaped "by the discreet manipulations of the persuaders"; that is, by the rule makers (Galbraith 1969: 152).

The suggestion that social circumstance moulds individual preferences and the cultural determinism it implies led to the criticism that institutionalists view individuals as puppets of circumstance. Some of the old institutionalists, like Ayres (1944), were convinced of a top-down social order where individuals are configured by institutions with scant regard for individual agency and autonomy. Then again, Commons (1965) and Veblen (1919) argued for an interactive process in which

individual behaviour and social habits shape institutions, which in turn direct behaviour. Veblen (1919: 243) wrote that “the growth and mutations of the institutional fabric are an outcome of the conduct” of individuals. He continued that “the aims and end of conduct” are defined and directed by those institutions.

Commons (1965: 6) agreed that the institutional framework in which an individual finds himself is “both the cause and effect of his beliefs”. He believed that “common beliefs and desires are the vitalising, active force” driving institutions (1965: 8). Veblen and Commons both proposed upward as well as downward causation, a dynamic where individual behaviour shapes and adapts institutions and is in turn directed and constrained by those same institutions. Their view contrasted with Clarence Ayres’s top-down cultural and institutional determinism inaccurately associated with old institutionalism (Hodgson 2000: 326).

Institutionalism introduced a novel notion of power into economic analysis. Power is not only coercion; it may be exercised subtly by directing individuals’ beliefs and behaviour. The preference functions of mainstream economics make no provision for the subtle reconstitution of individual behaviour through downward causation. The neo-classically given individual with a given individual preference function does not permit an evolution of individual behaviour. Hodgson (2000: 327) proposed that *learning* is the process that reconstitutes individuals as they adapt to an evolving environment and can only be integrated into social theory if reconstitutive downward causation is accepted.

Incorporating individuals as socially and institutionally constituted in economic analysis has profound implications. Notions of social power are addressed, and also questions of structural change, transformation and long-term economic development of poor nations. The analysis becomes substantially more complex, however, and less suited to formal modelling. Normatively speaking, individuals are no longer considered the best judge of personal welfare, introducing the moral minefield of policymakers’ subjective discernment and evaluation of individual needs (Hodgson 2000: 328). This is similar to the libertarian paternalist dilemma that behavioural economist Richard Thaler referred to much later when he proposed that social planners serve as choice architects whose task it is to nudge individuals to overcome cognitive bias (Thaler and Sunstein 2009: 6).

An essential conclusion from the old institutional literature – notwithstanding the empirical difficulties that come with it – is that human behaviour is deeply entrenched in social norms, values and belief systems that are persistent and sticky (Boettke, Coyne and Leeson 2008). These social rules structure human behaviour and hence all forms of exchange, and are in turn also a function of

the way in which societies and behaviour evolve over time. The old institutionalists' understanding of the substantial impact of social circumstance and values on human behaviour paved the way for Douglass North's exposition of *informal* institutions in his formulation of New Institutional Economics, discussed below.

4.4 Douglass North's New Institutional Economics

The 1960s writings of economic historian Douglass North are credited as the intellectual origin of the branch of New Institutional Economics (NIE) focusing on broad institutional environments, the role of the state and the persistent disparity in economic performance among nations (Ménard and Shirley 2011).³³ In the early sixties, North's relatively conventional understanding of growth was that it was primarily caused by technological change, aided by efficient economic organisation and human capital (North 1961, 1966). He departed from mainstream economics upon the growing realisation that neoclassical economics shed no light on the fundamental transformation in European societies since medieval times (North and Thomas 1973, North 1993).

In his oft-quoted 1968 paper, North put forward a revolutionary perspective on productivity gains, offering that technological advance is not the pre-eminent source of economic growth. While studying the productivity gains in ocean shipping since the early seventeenth century, North found that the ships displayed no remarkable technological improvement. They did however carry fewer armaments; it was the decline in privateering and piracy that freed up manpower for productive endeavour. Also, bigger markets developed and goods became aggregated in fewer ports allowing ships two-directional freighting and reduced turn-around time in ports (North 1986; Ménard and Shirley 2011).

An unorthodox theory of institutional change emerged to explain growth. In 1973, North and Thomas put forward a view that efficient economic organisation is the key to growth following their conclusion that Europe's economic development is attributable to institutional developments like written contracts that are court enforced. Institutional progress encouraged economies of scale and innovation while reducing uncertainty and market imperfections. Productive exchange flows from an economic organisation and associated system of incentives that shield private returns from predation (North and Thomas 1973; Ménard and Shirley 2010, 2011).

³³ More precisely, Ménard and Shirley (2010, 2011) suggest that *The Nature of the Firm* (Coase 1937), *The Problem of Social Cost* (Coase 1960), *Institutional Change and American Economic Growth* (North and Davis 1970), *The Rise of the Western World* (North and Thomas 1973) and *Markets and Hierarchies* (Williamson 1975) transformed predecessors' intuitions into an analytically useful framework. Coase and Williamson however focused on the way economic activity was organised on *firm* level.

North increasingly questioned the efficiency assumption inherited from neoclassic thought and in 1981, in *Structure and Change in Economic History*, he abolished the assumption that institutions are efficient. It was simply at odds with history; many countries endure persistent economic hardship for centuries, suffering under inefficient institutions. He sought a realistic understanding of why nations would persist with a particular institutional regime, even one with dismal economic outcomes, and what it would take to change such a regime. North (1981) also questioned how ideology may hinder or foster change, as a precursor to his later work on belief systems and informal institutions.

Intrigued by the persistence of poverty in Third World nations, North (see for instance 1968, 1981, 1990 and 2009) claimed that they are poor because their institutional constraints produce a system of political and economic incentives that do not encourage productive activity (North 1990: 110). Also, institutional reforms depend crucially on the point of departure and are therefore path dependent, constrained by the existing regime of institutions and incentives.

Path dependency is not the only constraint on institutional reform. Nations governed by inherited belief systems and institutions that fail to address societal complexities remain unable to achieve reform and remain stuck in poverty (North 1994, Ménard and Shirley 2011). Beliefs and institutions are sticky and resistant to change (Boettke, Coyne and Leeson 2008; North 1994, 2005), perpetuating underdevelopment and rendering efforts to impose constitutions, laws and rules from outside futile.

In 2009, Douglass North, John Wallis and Barry Weingast undertook an analysis of all recorded human history. They report that, through history, small factions of influential elites formed coalitions with military specialists both for protection and also to limit the access of non-elite to valuable resources and privileged activities. Elites thus gained exclusive control over the activities and resources that generated rents and wealth. Elites shared power only to maintain a stable order of limited access allowing them maximum benefits from trade, production and rent (North, Wallis and Weingast 2009; Ménard and Shirley 2011).

Limited-access societies dominated by small factions of elites have been so prevalent in human history that North, Wallis and Weingast refer to them as the *natural* states. Some of these nations are fragile, with the threats of anarchy and civil war omnipresent. Others are mature with conspicuous open-access traits like elections, secure property rights and open trade. All natural states, including the mature states, have institutions designed to limit non-elite access through laws and norms either disallowing access explicitly or through prohibitively high transaction costs (North, Wallis and Weingast 2009).

Once the institutions enforcing elite dominance and exclusion of the majority of society in a natural state have been established, they seldom change. The specific group of elites monopolising power and wealth changes through revolutions, coups or elections, but when non-elites usurp power, they rely on the existing regime of exclusionary institutions to limit access to all outside of their circle.

North, Wallis and Weingast (2009) conclude that open-access economies are still the exception in a world dominated by natural states. Having developed in Western Europe after the Industrial Revolution and spread to the developed world, open-access states function very differently from limited-access states. Their shared belief system distinctly emphasises broad inclusion. Institutions in open-access societies ensure that all of society has access to political and economic participation at relatively low risk and transaction costs. Also, the gains of market participation are shared through public service delivery, broad infrastructure, social insurance and education.

The North-Wallis-Weingast (2009) framework sheds new light on what economic development entails. In addition to the conventional requirement of capital accumulation, economic development comprises sophisticated and efficient economic organisation, and credibly enforcing rules that prohibit predation. It also requires being politically developed to abide by the rule of law and a constitutional environment where changes of power are accepted, organisational rights recognised legally and organised violence restricted to state control, irrespective of who occupies the seats of power.

Some version of Douglass North's definition of institutions is quoted and relied upon in almost all of the deep-determinants literature. He describes institutions as "formal rules, informal constraints and their enforcement characteristics" (North 2003: 2). Formal rules are specific and well defined; constitutions, laws and regulations are straightforward examples of rules. Informal constraints are norms of behaviour – ways of doing things and self-imposed codes of conduct – and although more influential in guiding behaviour than formal rules, norms are vague and less easily observed (North 2003: 3). The economic outcomes of an institutional regime comprising rules and norms crucially depend on whether society lives up to those formal and informal standards of behaviour, or whether they evade them and get away with it. The enforcement characteristics decide whether delinquency pays off. At the same time, enforcement could never be perfect because it is costly and, at the margin, the incremental enforcement obtained may not justify the incremental resources it will require. Imperfect enforcement is a given, therefore, but the degree of imperfection is critical in shaping behaviour (North 1992: 3).

North's inclusion of enforcement characteristics as an institutional component may shed some light on the relationship between formal and informal rules, which in turn may explain why the same set of formal rules has hugely disparate outcomes in different societies. It may be reasonable to assume that enforcement becomes an issue when there is a misalignment between formal and informal institutions; when behaviour in society is driven by informal rules that deviate from the formal set of rules. In a society where formal arrangements have emerged spontaneously to reflect underlying informal values and belief systems, enforcement amounts to formally keeping society to behavioural codes that are already socially and culturally internalised; compliance would likely then require minimal enforcement.

If a formal set of rules is misaligned with society's long-standing beliefs and ways of living life as may happen when formal institutions are imported from elsewhere, enforcement will decide which set of rules dominates with a profound impact on a nation's development outcomes. North's proposed formal-informal interaction and the efficacy of enforcement of potentially conflicting sets of institutional rules become crucial in the deep-determinant context. Understanding the deep complexity of a society's institutional context reaches far beyond whether the objective set of formal rules in the rulebook meets the requirements for constitutionality and democracy.

Western democracy, the formal institutional rule system that emerged in prosperous Western nations, is broadly perceived as a *sine qua non* for progress and development (Siegle, Weinstein and Halperin 2004 and Acemoglu *et al.* 2013) because of its checks on executive overreach and civic autonomy to actualise economic achievement. This much may be deduced from the near-universal appeal for democratisation in countries politically destabilised by enduring hardship (Bratton 2007; Acemoglu and Robinson 2013; Welzel 2014).

That a particular set of formal rules has emerged spontaneously from a substrate of informal rules in a society matters, however. A formal regime characterised by executive constraints and accountability as well as broad participation and inclusivity emerged organically in societies where the informal institutional substrate reflected similar and compatible values and beliefs (Boettke, Coyne and Leeson 2008; Welzel 2014). It may be naïve to expect similar outcomes from a given set of formal rules in societal contexts where it has emerged spontaneously with a high degree of convergence between formal and informal institutions, and a societal context where it has been superimposed on a set of embedded informal institutions at odds with the imported formal rules. Individuals in a formal institutional regime with plenty of civil liberties may not be as free to choose as the formal rules imply if divergent *societal* values and beliefs constrain their behaviour and freedom (Boettke, Coyne and Leeson 2008).

The slow-changing nature of informal institutions and its dominance in driving human behaviour introduces a degree of behavioural determinism in any time horizon shorter than however long it will take for informal institutions to adapt and modernise (North 2003; Inglehart and Welzel 2005, 2010; Bratton 2007; Boettke, Coyne and Leeson 2008; Welzel 2014). North (2003: 7) pronounces that a fundamental difficulty in addressing poverty is

“when you go to a third world country and try to improve performance, there is only one of the three elements of institutions that you can alter and that is the formal rules of the game. But, of course, performance is the result of all three: The formal rules, informal norms and their enforcement characteristics.”

Much of Douglass North’s work elaborated on human decision-making in an imperfect, complex environment (see for instance North 1991, 1992 and 2003). A world with perfect information, no uncertainty and only rational choices, in other words a frictionless world, has no need for institutions. That is the kind of world implied by the neo-classical rationality assumption: an institution-free world (North 2003). Ideas and ideologies therefore do not matter, and efficient markets govern economies. In reality, information is incomplete, asymmetrically held and costly to acquire. The real world is one of huge uncertainty and transaction costs may be prohibitively high. The need for institutions arises from uncertainty (North 2003; Ménard and Shirley 2011).

Institutions structure human interaction in an uncertain world through incentives and disincentives for types of behaviour. They diminish risk and add predictability, structuring not only economic exchange, but also political and social activity (North 1991, 1992, 2003; Ménard and Shirley 2011; Acemoglu and Robinson 2013). Economic theorising alone contributes little to solving complex problems comprising a blend of economics, politics and sociology (Hodgson 2000; North 2003; Morson and Schapiro 2017). Institutional theory integrates these disciplines with the parts of neo-classical theory that do not rely on the rationality assumption to develop a body of theory that represents decision making in our uncertain, complex world more accurately (Ménard and Shirley 2011).

The main preoccupation of Douglass North’s branch of NIE remains the persistent failure of mainstream economics to explain why some nations fail while others prosper; an important part of the explanation concerns the nature of the state and the way in which political markets function (North 1991, 1992, 2003; Ménard and Shirley 2011; Acemoglu and Robinson 2013). Specifically, it would be useful to understand why states without political competition and with unchallenged power

to subjugate their citizenry and expropriate property, would opt to abstain from predation and protect property rights (North 2003; Ménard and Shirley 2011).

The New Institutionalists approach these questions first through a departure from the neo-classical behavioural assumptions and second, through three key concepts referred to as NIE's golden triangle, namely transaction costs, property rights and contracts (Hodgson 2000; North 2003; Ménard and Shirley 2011).

Ronald Coase raised the concept of transactions costs in 1937 when he challenged the notion of markets as the automatic equilibration of demand and supply through the price mechanism. Coase's later work (1992) is of more relevance, though, where he argued that transaction costs could influence the size of an entire economy. Douglass North (1990) applied the notion of transaction costs to explain why political markets are more inefficient than economic markets. In political markets, agreements are more costly to measure and enforce; put differently, transaction costs are higher. Promises are exchanged for votes in political markets – both of which are difficult to measure. Voters may be uninformed about the effects of policy choices on their interests and unable to judge whether their elected representatives are furthering their interests. Also, voters' ability to assess what they receive in exchange for their vote may be clouded by their own ideological beliefs, preferences and prejudices (North 1991, 1992, 2003). It stands to reason that voters may be less likely to exert democratic pressure at the poll to switch ruling parties, even if it would serve their interests, if deeply entrenched societal values dictate unquestioning obedience to rulers. An unquestioning, uncritical citizenry may also be more tolerant of an extractive regime's defiance of accountability.

The second pillar of the NIE's golden triangle is property rights. NIE posits that property rights embodied in contracts are in fact “vulnerable to opportunistic predation” (North 2003: 8) and legal enforcement is prohibitively more costly than social ordering. Douglass North emphasises how property rights and the enforcement of these rights determine societies' divergent development paths. In limited-access states³⁴ the vulnerable rights of the broad masses offer them scant legal or political remedy, in stark contrast to the robust property rights of the powerful elite.

The concept of contracts, the third NIE pillar, has been used by Williamson (1996) to demonstrate how opportunism is a human trait ignored by neoclassical behavioural assumptions. Douglass North (1981, 2003) emphasises how crucial the enforcement of contracts was to curtail opportunism, or

³⁴ North, Wallis and Weingast (2009) referred to the limited-access states as natural states, due to their prevalence over open-access orders.

predation, and also how important institutions and the polity in particular are in this regard. The trade-off between costly private protection of property rights and state protection that reduces costs but heightens the exposure to state predation, has raised the question about ways in which the protection of property rights could be entrusted to the state without the risk of the state encroaching on these rights (Hall and Jones 1999; North 2003).

NIE's golden triangle confirms the institutionalist assertion that the transmission channel from a nation's institutional regime to its economic outcomes courses through *incentives*. Incentives are the mechanism that rewards productive behaviour and economic participation if diversion of productive resources is disallowed. Put simply, the incentive may be expressed as the alignment between private and social returns. This nexus is straightforward; it will be hard to convince a society to labour productively in a confiscatory institutional environment forcing its members to forfeit the fruit of their labour. Similarly, if the institutional environment fosters wealth accumulation through political loyalty instead of productive participation, it will be political connections that are pursued, not innovative and entrepreneurial endeavour (Hall and Jones 1999; Rotberg 2003a, 2003b; Acemogly and Robinson 2013).

All forms of predation or diversion, both state-enforced and private, drive a wedge between private and social returns, causing the system of incentives to disintegrate. Arthur Lewis (1956: 57) states: "Men will not make effort unless the fruit of that effort is assured to themselves or those whose claims they recognize... Much of the effort of social reformers is directed towards changing institutions so that they accord protection to effort."

Stiglitz (2015: 99) is equally clear about the deleterious effect for an economy if gains are privatised while losses are socialised and rent seeking is allowing private and social returns to become "badly out of whack". Gregory Mankiw (2013) emphasises that the ones striking it rich in an economy should do so in reward for being socially productive. Hall and Jones (1999: 95) caution about the risks of predation on private returns and diversion of productive resources, asserting that "social institutions to protect the output of individual productive units from diversion are an essential component of a social infrastructure favourable to high levels of output per worker".

North's own view was that markets only function well when the rules and norms align private and social returns, ensuring that "people pursuing their self-interest also improve the wellbeing of society" (2003: 7).

4.5 What Changed after New Institutional Economics?

NIE shifted the focus of new political economy to the role of politics and institutions in transitional and developing economies. Development economics benefited from North's persuasive reasoning around the crucial fault line separating rich and poor nations. He also influenced the critique of development assistance and foreign aid, citing the inability of outside assistance to dismantle institutional barriers to development and growth – an argument reinforced by Angus Deaton's (2013) conclusion that no nation can be developed from outside.

Applied institutional analysis initially focused on formal institutions, ignoring North's institutional combination of not just formal rules, but also informal rules reflecting societal norms and inherited belief systems, and societies' rule enforcement characteristics. Later, institutionalists like Avner Greif (2006) recognised that institutions are forceful motivators exactly because they *encompass* the beliefs and internalised norms of individuals, incorporating also expectations about how others will behave or expect them to behave. The formal institutional model based on democratic principles of inclusivity and broad political and economic participation for the masses while the power of the rule-making, accountable executive is checked, brought progress and prosperity to the West. The Western model of formal institutions formalised a set of rules reflecting Western societal values. For instance, civic liberty and participation reflected the premium that societies placed on autonomy. Political accountability, equality before the law and property rights were already part of Western social norms and belief systems. The formal institutional regime therefore reflected existing underlying informal institutions. A high degree of formal-informal alignment implies rule-compliant human behaviour and reduces the burden and costs of enforcement; institutional and economic outcomes will predictably reflect the formal rules that society generally upholds freely.

Should there be a high degree of formal-informal divergence, however, enforcement may prove futile; both political and economic outcomes will reflect society's widely held belief systems – in other words the informal institutions – and not the formal regime. It stands to reason that the degree of formal-informal divergence in poor nations and the inability of the enforcement mechanisms to overcome sticky, long-held belief systems that may be irreconcilable with formal institutional notions of executive accountability, broad inclusion and autonomy for instance, allow the informal regime to prevail (North 2003; Boettke, Coyne and Leeson 2008).

Inglehart and Welzel (2005, 2010) and Welzel (2014) point out that ethnocentric conceptualisations of economic development or *modernisation* misconstrue the process, which began in the West, as Westernisation. East Asian countries like Japan, Taiwan, Hong Kong, Singapore and South Korea

have since modernised (as opposed to Westernised) to achieve phenomenal growth rates and development. The authors acknowledge that, although modernisation shifts mass attitudes and societies' worldviews, the socio-cultural shift is path dependent. A society's cultural, religious and historic heritage has a lasting imprint and, unlike the predictions of classic modernization theorists, ethnic and religious traditions do not become extinct. The authors also advise that although modernisation does not guarantee democracy, democratisation is made more *probable* by the socio-cultural changes in post-industrial society. Knowledge societies are populated by highly educated workers, who are articulate and think independently, who insist on self-expression, autonomous decision-making and accountability of the executive. The core of modernisation theory is that progress and economic development induce also *human* development, changing societal values and attitudes, which should be observable in discrepancies between the beliefs and values of rich and poor societies.

The argument that societies' informal institutions steering human behaviour are deeply rooted and change very gradually introduces a degree of determinism over the short term at least (Landes 1990; North 2003; Boettke, Coyne and Leeson 2008; Inglehart and Welzel 2005, 2010; Welzel 2014). Formal institutional arrangements may change more rapidly though, through deliberate policy adjustments (North 2003).

According to the North, Wallis and Weingast (2009) framework, however, institutional reform is a slow process of incremental adjustments that first bring society to some doorstep conditions and eventually to a tipping point to achieve the transformation from limited, elite-only access to open access. This raises the bar for economic development through institutional transformation considerably. A mere rewrite of laws and constitutions will not achieve this goal; *human behaviour* is key to advance from an institutionally limited, access-restricted nation to a society where prosperity is an equal prospect for elites and non-elites.

4.6 Other Scholarly Views on Institutionalism

4.6.1 *The Institutionalism of Acemoglu et al.*

Daron Acemoglu³⁵ has authored and co-authored a significant number of scholarly works on the role of institutionalism in the rise of the prevailing unequal world order, much of it similar to the writings

³⁵ See for instance Acemoglu (2009); Acemoglu, Johnson and Robinson (2001, 2002 and 2005); Acemoglu and Robinson (2005a, 2005b, 2006, 2012, 2013 and 2019); Acemoglu, Naidu, Restrepo and Robinson (2013, 2014), and Acemoglu and Jackson (2015).

of Douglass North on *formal* institutions specifically, and also the North, Wallis and Weinstein (2009) work on limited-access economies. In *Why Nations Fail*, Daron Acemoglu and James Robinson (2013: 399) explain in depth the thesis that nations fail because institutions are tailored to benefit the politically connected elite:

“Nations fail economically because of extractive institutions. These institutions keep poor countries poor and prevent them from embarking on a path of economic growth. This is true... in Africa, ...in South America..., in Asia... and in the Middle East. There are notable differences among these countries. Some are tropical, some are in temperate latitudes. Some were colonies of Britain; others, of Japan, Spain, and Russia. They have very different histories, language, and cultures. What they all share is extractive institutions.”

Acemoglu, Johnson and Robinson (2005) and Acemoglu and Robinson (2013) propose that institutional variation among countries is the *fundamental* cause of global disparities in economic outcomes. These outcomes are a consequence of the level of productive exchange by economic participants in a society, and productive exchange depends directly on whether it is considered worthwhile within a particular web of economic institutions that either constrain or incentivise such exchange.

Economic exchange is inherently competitive; it decides the distribution of resources and is therefore of huge social consequence, as are the economic institutions that steer it. It is to be expected that there will be social conflict about for whose benefit economic institutions should be designed, which is resolved to serve the interests of politically powerful groups. Political power is assigned by political institutions, but also arises from economic influence. Acemoglu, Johnson and Robinson (2005: 387) state:

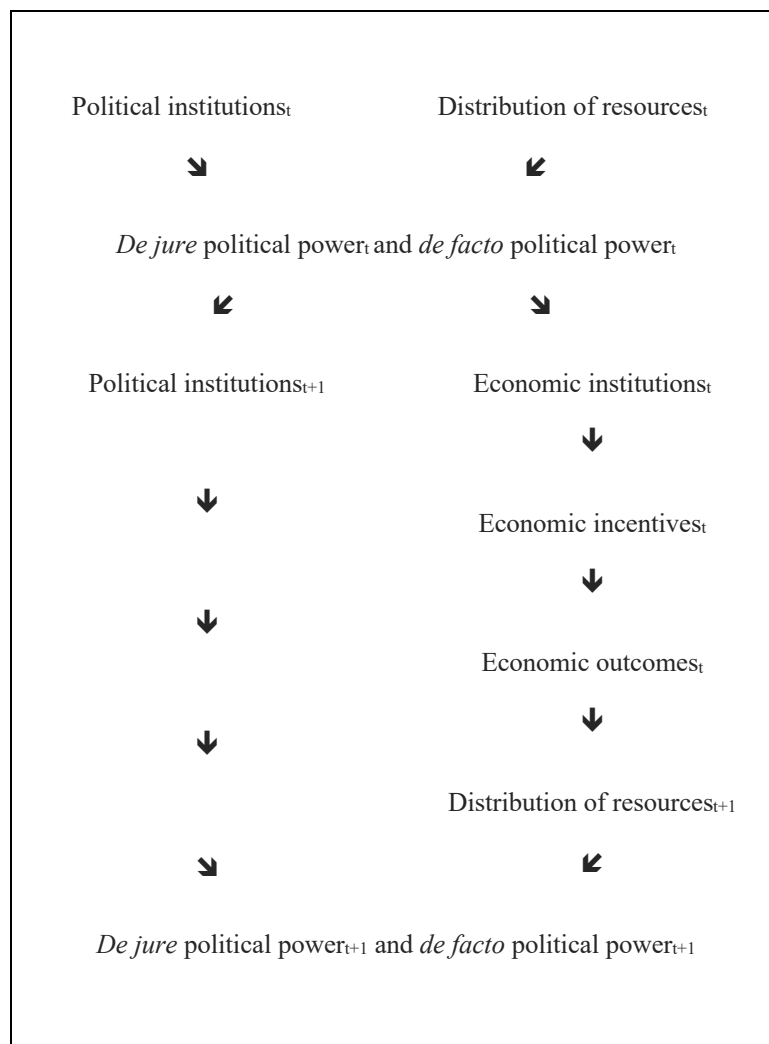
“Political institutions allocate *de jure* political power, while groups with greater economic might typically possess greater *de facto* political power. We therefore view the appropriate theoretical framework as a dynamic one with political institutions and the distribution of resources as the state variables. These variables themselves change over time because prevailing economic institutions affect the distribution of resources, and because groups with *de facto* political power today strive to change political institutions in order to increase their *de jure* political power in the future.”

Political power shapes economic institutions and incentives, which through broad protection of property rights and executive constraint, may encourage society to invest in human and physical capital, to behave innovatively and entrepreneurially, and to work hard. Alternatively, it may harden

a vicious cycle of extraction that feeds a spiral of political and economic power of the rule-making elite while the masses impoverish. Incentives are the conduit of transmission between institutional design and economic outcomes; they are the linking mechanism between human behaviour that culminates in a particular aggregate outcome, and the rule sets steering that behaviour.

Figure 4.1 below shows Acemoglu, Johnson and Robinson’s vicious cycle of extractive institutions that perpetuates wealth and power for the elite and poverty for the broad citizenry:

Figure 4.1 The Role of *De Jure* and *De Facto* Political Power to Establish Extractive Institutions that Perpetuate Poverty



Source: Adapted from Acemoglu, Johnson and Robinson 2005: 392.

Acemoglu and his co-authors (for instance Acemoglu 2009; Acemoglu, Johnson and Robinson 2001, 2002, 2005; Acemoglu and Robinson 2005a, 2005b, 2006, 2012, 2013) are of the scholarly view³⁶

³⁶ This is also the view of Rotberg (2003a and 2003b), Van Cranenburgh 2008, Van de Walle (2001, 2003a and 2003b), Pritchett, Woolcock and Andrews (2010) and Stiglitz (2015). Also relevant is the literature on

that an extractive institutional regime does not come about by benevolent accident; it is designed deliberately by elites who stand to benefit from the extraction at the expense of the broad citizenry. Some nations erupt in violence or civil war; others simply condemn society at large to poverty, wasting its potential for growth and progress. Acemoglu and Robinson (2013: 44) refer to it as failure by design; it is as much about the *politics* of poverty as it is about the *economics* of poverty.

The Acemoglu literature on failing nations assigns prominence to the role of colonial powers that established extractive regimes in these nations and plundered the resources of the colonies (Acemoglu, Johnson and Robinson 2001). They theorise that settler mortality was decisive for the institutional regime that materialised in colonised nations; high settler mortality due to disease environments signalled extractive settler intentions. Where disease environments rendered permanent settlement unfeasible, extractive institutions in colonial destinies were designed to enrich a ruling colonial elite, not to foster long-term growth and progress. Incentives for the broad citizenry to behave innovatively and entrepreneurially were absent in a regime that offered no institutional protection against predation. Resource-rich, populous nations were targeted and conquered by erstwhile poor European powers in a reversal of fortune, enriching the previously poor countries and impoverishing those that once prospered.

Deaton (2013: 217) extrapolates this historical reversal of fortune in cautioning that prosperity and growth in the modern world should not be taken for granted. Rent seeking may replace growth with internecine conflict and the narrow elite may feather their nests at the expense of the poor masses with relatively small individual consequence initially. The cumulative effect of the slow pillaging eventually devours an economy from within however and suffocates progress. Broad-based economic growth may be reversed and extinguished if a powerful elite is allowed to undermine the institutional rules that growth relies on.

Once established, extractive regimes are hard to dismantle; they also have lucrative potential for post-independence rule-makers.³⁷ Post-colonial rule in most of sub-Saharan Africa became “an opportunity missed, accompanied by the same type of extractive institutions that existed during the colonial period” (Acemoglu and Robinson 2013: 410). The same patronage networks remained in place, as did the large-scale extraction and appropriation of resources. Independence in many cases was a “farce”; a tragedy of dashed hopes as lives deteriorated post political liberation. The iron fist

predatory and wealth-destroying states by Boettke and Candela (2019), and Murtazashvili and Murtazashvili (2019).

³⁷ The lucrative potential of extractive regimes also renders them unstable, with the next usurper waiting in the wings to overthrow and replace the incumbent regime.

of oligarchy repeats extractive histories in a distorted form as usurpers assume power with promises of radical change but then fail to deliver the political and economic emancipation of the broad majority that should have brought prosperity; in fact, heightened suppression of political opposition often ensues. The result however is that underdevelopment, poverty and misery for the masses persist beyond emancipation from colonial rule.

The settler-mortality premise entails that nations' early institutions stick. They powerfully predict nations' modern-day institutions and economic outcomes, even when controlling for latitude, climate, the current disease environment, religion, natural resources, soil quality, ethnolinguistic fragmentation and current racial composition.

The multi-disciplinarity of Acemoglu *et al.*'s institutional approach to poverty and the prominence of political-power dynamics as explanatory process for economic phenomena³⁸ recognise poverty's deep complexities (Rittel and Webber 1973). Context-specificity enters the Acemoglu *et al.* theory through the inclusion of critical junctures that may jolt institutional development from its path in unforeseen and unengineered directions. Their propositions that small country differences may matter importantly over time, that institutional evolution is path dependent and that the full weight of history shapes the present support an understanding that almost *everything* matters for economic outcomes. Universal, single-factor explanations cannot possibly do justice to the complexity of poverty in open societies (Morton and Schapiro 2017).

The Acemoglu branch of institutionalism emphasises the role of *extractive economic institutions* and the associated web of incentives that discourage productive economic exchange while rent seeking, political influence and predation are rewarded. At the pinnacle of the vicious cycle however, is the distribution of political power and influence that design the *political* institutions, which determine whether economic institutions are in fact extractive and pernicious, or plural and virtuous. So what then, in Acemoglu's institutionalism, constitutes the *deep* cause of poverty: the perverse system of incentives, or the extractive economic institutions that generate them? Is it the political institutions that spawn the economic institutions, or society's distribution and assignation of political power? Despite the integral role of incentives as the linking mechanism between institutions and outcomes, as the driver of *human behaviour* either towards or from growth-enhancing activity, Acemoglu's institutionalism denies a role for *culture* in the institutional mix.

³⁸ See for instance Acemoglu (2009); Acemoglu, Johnson and Robinson (2001, 2002 and 2005); Acemoglu and Robinson (2005a, 2005b, 2006, 2012, 2013 and 2019); Acemoglu, Naidu, Restrepo and Robinson (2013 and 2014), and Acemoglu and Jackson (2015)

Douglass North was careful to define institutions as a trinity: formal institutions, informal institutions and enforcement rules. In essence, North's definition of a nation's institutions is a cauldron of *all* three. North's "terribly important" informal institutions are the deeply embedded social rules, inherited belief systems and codes of conduct. Culture is an integral component of informal institutions and thus of North's institutional mix. Acemoglu's institutionalism splits institutions between (presumably formal) political and economic institutions, and views culture as distinct from and an outcome of institutions. Acemoglu and Robinson (2013: 63) state: "the culture hypothesis is... unhelpful for explaining the lay of the land around us today. There are of course differences in beliefs, cultural attitudes, and values, ... but these differences are a *consequence* of... different institutions and institutional histories" (my emphasis).

The view that institutional rules predate culture fails to convince; it leaves the spontaneous emergence of disparate institutions in societies unexplained. In defence of the argument that culture has no causal power over economic outcomes, Acemoglu and Robinson (2013) refer to twin-type evidence from North and South Korea, with wildly divergent outcomes and of course dramatically diverse formal (political and economic) institutions; they also refer to West German institutions and outcomes in comparison with the erstwhile East Germany. Presumably culture in North and South Korea is similar – or at least was similar prior to the onset of the institutional divergence. The same argument is made for East and West Germany; similar culture but divergent outcomes due to institutional differences. Acemoglu and Robinson then use the turnaround in East Germany following the integration with West Germany's inclusive institutional regime to extend the argument that culture does not cause economic outcomes. Formal institutional regimes do, however, starting with a political (not a cultural) transformation to inclusive political institutions, through economic institutions that incentivise productive exchange to eventual prosperity.

In response to the grounds upon which the Acemoglu literature rejects culture as causal for economic outcomes, North's institutional trinity comes to mind; enforcement in particular, as the crucial third pillar after formal and informal institutions. A formal institutional regime brutally enforced, as in East Germany and North Korea, leaves no room for culture to manifest through informal rules of human behaviour. The radical regime shift in East Germany also encompassed a shift in enforcement characteristics, allowing the freedom in human behaviour to express cultural values and inherited belief systems. One may extrapolate the enforcement explanation for the dismal North Korean and East German outcomes under oppressive regimes to propose that the opposite is also true. Where there is no enforcement of formal rules, for instance in a constitutional democracy where rules like

executive accountability are flouted with impunity, *informal* institutions³⁹ will dominate behaviour and outcomes.

Conventional growth theory falls short of a satisfactory explanation of poverty because it cannot clarify why poor nations are less innovative, have less human and physical capital and are less productive than rich countries while institutional theory can clarify these gaps in innovation, capital and productivity. They exist because rich nations have plural, inclusive institutions while poor nations have extractive institutions.

The obvious next question that institutional theory should be able to answer to avoid falling in the same sword as conventional growth theory, is why countries would have these institutional disparities? How do extractive formal institutions that perpetuate poverty emerge? Douglass North mentions differences in informal institutions, inherited belief systems and culture; a view endorsed by many scholars (Smith 1759; Landes 1998; Jones 2006; Mokyr 2009, 2017; Easterly 2014; Morton and Schapiro 2017) whereas the Acemoglu institutionalists emphasise colonial heritage and the dynamics of political power with no explicit role for culture in shaping institutions (Acemoglu 2009; Acemoglu, Johnson and Robinson 2001, 2002, 2005; Acemoglu and Robinson 2005a, 2005b, 2006, 2012, 2013). However, even if culture is not directly causal in economic outcomes, humans are cultural from the outset and it is hard to imagine that culture will not reflect in their behaviour, in the way they organise society and the rules they formulate to live by. In this regard Geertz (1973: 49) states:⁴⁰ “Without men, no culture, certainly; but equally, and more significantly, without culture, no men. We are, in sum, incomplete or unfinished animals who complete or finish ourselves through culture – and not through culture in general but through highly particular forms of it”.

The Acemoglu literature proposes that, since extractive economic regimes perpetuating poverty is rooted in a highly concentrated distribution of political power, a reversal requires a political transformation that fundamentally redistributes political power (Acemoglu and Robinson 2013: 4-5):

“(T)he reason that Britain is richer than Egypt (for instance) is because in 1688, Britain had a revolution that transformed the politics and thus the economics of the nation. People fought for and won more political rights, and they used them to expand their economic opportunities. The result was a fundamentally different political and economic trajectory.”

³⁹ In other words, society’s deeply embedded culture, inherited belief systems and codes of conduct.

⁴⁰ See also Myrdal (1957), Jones (2006), Easterly (2014), (Mokyr 2017), and Morton and Schapiro (2017) in defence of the argument that human behaviour cannot be separated from culture.

The sub-Saharan experience with democratisation offers scant support for this resolution. If society's cultural substrate, for instance, instils unquestioning obedience to authority and acquiescence with autocratic decision-making about important aspects of life, is it more readily pacified with superficial reforms while remaining fundamentally vulnerable to successive extractive regimes and predation? It is difficult to imagine that a poor nation's transformation to a *formal* pluralistic regime with plenty of civil liberties and autonomy in decision-making will automatically be as growth inducing as Acemoglu *et al.* (2014) predict irrespective of different contexts, of which culture is a strong component. Societal pressure for political transformation may not express a deep desire for the autonomy and pluralism that would allow the freedom to innovate and be entrepreneurial. It may simply express dissatisfaction with life under a particular extractive ruler, hoping that a successor may signal improvement while a heavy dependence on the state and a lack of autonomy are maintained.

Fundamental political transformation that *replaces* an extractive regime with deep democracy sets the bar for societal change much higher. *Human behaviour* must also change to achieve the form of active, critically democratic-minded citizenry whose life views and values align with modern democratic values like, for instance, pluralism, autonomy, accountability and executive constraint. The Acemoglu literature is mute on the slow changing and deeply embedded cultural driver of human behaviour that cannot be severed from the way societies function and the outcomes they achieve, irrespective of the formal rules that may be superimposed on them.

4.6.2 *Hall and Jones's Pioneering Work on Diversion and Incentives*

An early, path breaking study by Hall and Jones (1999) is clear on the core impact of incentives in any system of rules. Their approach reminds of Arthur Lewis's (1956: 57) pronouncement above, that "men will not make effort unless the fruit of that effort is assured to themselves or to those whose claims they recognize... Much of the effort of social reformers is directed towards changing institutions so that they accord protection to effort."

Hall and Jones (1999) investigate how much of the variation in output per worker between rich and poor nations may be attributed to the proximate causes⁴¹ of growth, and relate the variation in proximate causes to country differences in social infrastructure. They define social infrastructure as

⁴¹ Hall and Jones (1999) use a Cobb-Douglas production function allowing them to decompose the country variations in output per worker into differences in capital-output ratios, countries' varying levels of educational attainment and productivity variations. They find productivity variations particularly large. In 1988, an average worker in the United States could produce in ten days what it took an average worker in Niger a year to produce, with US productivity 35 times that of Niger.

“the institutions and government policies that determine the economic environment within which individuals accumulate skills, and firms accumulate capital and produce output” (Hall and Jones 1999: 84).

A high-output social infrastructure supports the accumulation of skills and capital, innovation and capital transfer, and productive exchange in general. The essence of a high-output social infrastructure is that output is protected from diversion, predation or confiscation. Diversion may take many forms; it may be private, like thievery, squatting and Mafia-type protection. Or, paradoxically, governments that are “potentially the most efficient provider of social infrastructure that protects against diversion” (Hall and Jones 1999: 84) may use laws and regulations to become the primary perpetrators of diversion through state capture, rent-seeking and other forms of corruption, and also through confiscatory taxation and expropriation.

All forms of diversion wedge private and social returns to productive activity apart and choke off the incentives to participate in such activity.⁴² A central function of a favourable social infrastructure therefore is to disallow diversion because of its disincentivising impact on productive activity. Hall and Jones (1999) therefore use, as proxies for the “wedges between private and social returns”, a GADP (Government Anti-diversion Policies) index from data in the *International Country Risk Guide of Political Risk Services*. The anti-diversion variables in the index relate to protection against private diversion (law and order, and bureaucratic quality), and restraints on government as agent of diversion (corruption, risk of expropriation and government’s repudiation of contracts). The study finds that country variations in social infrastructure (that is, in anti-diversion institutions and policies) indeed cause huge income disparities among nations.

4.7 The Empirical Emphasis on Formal Institutions

Much of the contemporaneous literature on the deep causes of poverty relies on some notion of institutions and their larger or lesser role in deciding nations’ fate; often institutions find their way into the empirical literature in such reduced form however, that they bear little resemblance to the original reasoning of Douglass North’s New Institutional Economics. The severe reductionism certainly does not do justice to the deep complexity of open societies where outcomes are inextricably wound up with human behaviour in a context-specific confluence of historical contingency, culture and humanly devised rules.

⁴² Stiglitz (2015: 86) similarly cautions that “socializing losses while we privatize gains” will produce disappointing economic outcomes.

Political and judicial – hence *formal* – institutions feature prominently in this body of literature. Protection of property rights is viewed as the primary shield against diversion and predation, and therefore the most basic institutional requirement for economic performance (Dobler 2009); hence institutional analysis becomes diluted not just to *formal* institutions, but to a *single* formal institution as deep cause of economic outcomes. Morson and Schapiro (2017: 44) refer to such reductionism as “the seductive fallacies of all-embracing systems” and caution against the universalising of single-factor explanations for complex problems.

Knack and Keefer (1995) perform a cross-country test of institutions and economic performance. They rely on North’s (1990: 54) emphasis on security of property rights and contract enforcement, the former in particular, to define countries’ “institutional environment” (Knack and Keefer 1995: 2).⁴³ The study refers to the limitations of the political instability measures of Barro (1991) and Gastil (1983, 1986, 1987) that have been used as proxies for institutional environment due to the risk of expropriation posed by political violence. Knack and Keefer (1995) use the more direct institutional indicators associated with security of property rights published by the International Country Risk Guide (ICRG) and Business Environmental Risk Intelligence (BERI). They construct an ICRG index by adding five ICRG variables: Expropriation Risk, Rule of Law, Repudiation of Contracts by Government, Corruption in Government and Quality of Bureaucracy. Four BERI variables are similarly added to obtain a BERI index: Contract Enforceability, Infrastructure Quality, Nationalisation Potential and Bureaucratic Delays. They conclude that the ICRG and BERI institutional measures confirm that the *security of property rights* is crucial for investment and economic growth.

One may follow the reasoning of Hall and Jones (1999) to argue that security of property rights and contractual enforcement are less institutional aims in themselves than measures of potential diversion or predation; they feed into economic agents’ loss aversion (Lewis 1956) and therefore either incentivise or disincentivise economic exchange.

In a subsequent study, Knack and Keefer (1997) use measures of *institutional quality* to explain the rich-poor divergence that took place in violation of early neoclassical predictions of convergence due to technological uptake in poor countries and diminishing returns to capital in wealthy ones. They propose that “(i)deally, measures of institutional quality would consist of objective evaluations, comparable across countries and over time, of the institutions that protect property and contractual

⁴³ Despite their reliance on two of the three pillars of the formal rules in Douglass North’s NIE, Knack and Keefer’s formulation constitutes a diluted form of North’s institutional environment, which consists of formal rules, informal rules and rule enforcement characteristics, in other words, institutional *outcomes*.

rights” (Knack and Keefer 1997: 592). Institutional quality hence is tantamount to, again, the *formal* rules that shield economics agents from diversion.⁴⁴

In this study, Knack and Keefer again use the ICRG and BERI indices as measures of institutional quality. They conclude that in addition to the direct inhibiting impact of institutional weakness on investment and growth due to the disincentive effects of potential diversion, technological uptake in poor countries also fails to materialise due to institutional deficiencies (Knack and Keefer 1997: 601): “Human capital acquisition, machinery and foreign investments, and foreign trade are all suggested as vehicles for the international transmission and absorption of technology. Insufficient levels of any of these, however, may have as one explanation poor institutions.”

Rodrik (2002) considers three potential deep causes of growth: institutions, trade integration and geography. He states at the outset that “(t)here is little reason to believe that primary causal channels are invariant to time period, initial conditions, or other aspects of a country’s circumstances. There may not be universal rules about what makes countries grow” (Rodrik 2002: 9). Having acknowledged non-universality and context specificity, he then delves into select country narratives; four growth successes specifically – Australia, China and the two sub-Saharan cases of Mauritius and Botswana. He concludes that institutional quality is key; in particular, institutions that “align economic incentives with social costs and benefits are the foundation of long-term growth” (Rodrik 2002:10). Stopping short from including culture in his explanations of growth, he mentions that “social arrangements” (Rodrik 2002: 11) may influence growth, referring to mutual-shirking equilibria that arise from the nature of employment relationships in less productive nations. Workers in productive economies exert more work effort than can be explained by supervision or financial incentives, because they expect that everyone behaves that way. Identical technology may therefore be used much less productively and profitably in low productivity, if there is a mutual acceptance of shirking behaviour (Wolcott and Clark 1999).

Rodrik (2002) finds that trade policies aimed at either larger or lesser trade international integration are not well correlated with economic performance. Also, geographical constraints in the histories of successful countries pose no hindrance to growth if they have quality institutions. What exactly constitutes “quality institutions” varies dramatically among Rodrik’s four success stories, reinforcing the need to understand context specificity (Rodrik 2002: 15):

⁴⁴ Studies by Clague, Keefer, Knack and Olson (1995 and 1996) also isolate protection of property rights and contractual rights as the two institutions that are crucial for economic performance.

“An approach to institutional reform that ignores the role of local variation and institutional innovation is at best inadequate, and at worst harmful. China, Mauritius, Botswana... have done very well over extended periods of time with a heterodox mix of institutional arrangements. (T)hese countries have often combined orthodox elements with local heresies. ... (P)roperty rights, sound money, and open trade in themselves do not always do the trick.”

Rodrik concludes that achieving institutional quality of the sort that produces growth amounts to endogenising good governance – that is, institutional outcomes – given the most pressing local constraints. Rodrik’s nuanced approach seems much more sympathetic to the complexity of nations’ persistent underperformance that perpetuates poverty. Also, Rodrik disagrees with Acemoglu’s proposal of radical institutional transformation that fundamentally shifts the dynamics of political power to break the vicious cycle of extractive institutions. He maintains, from the diverse country narratives, that an extensive institutional overhaul is not required to trigger growth. With reference to China and India, he proposes that “modest changes in institutional arrangements and in official attitudes towards the economy can produce huge payoffs. Deep and extensive institutional reform is not a prerequisite for growth take-offs” (Rodrik 2002: 20).

He qualifies the modest-changes proposal with the caveat that there is no universal, determinate set of desired policies; they should centre on the very specific binding constraints in local contexts.⁴⁵

In *Do Institutions Cause Growth*, Glaeser *et al.* (2004) reopen the causation standoff between the institutionalists who posit that the right institutions are a deep cause of sustainable growth, and the Lipset⁴⁶ camp that emphasises human and physical capital accumulation as the most basic source of growth. Glaeser *et al.* state that the global development objective is a dual one: to ignite growth in poor nations, but also to establish democracy as an end goal rather than a means to an end. They describe institutionalism as starting with “democracy and other checks on government as the mechanisms for securing property rights” (Glaeser *et al.* 2004: 271). The emphasis is therefore on

⁴⁵ See also subsequent studies *Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development* (Rodrik, Subramanian and Trebbi 2002) and *Getting Institutions Right* (Rodrik 2004) that confirm the view that property rights reductionism may lead to irrelevant and even misleading policy proposals. The emphasis in these two papers, as in Rodrik’s 2002 study, is on *institutional outcomes* as opposed to one or two formal rules, with a nuanced understanding of context and complexity, as envisaged by Douglass North.

⁴⁶ The notion that investment in human capital and the subsequent economic growth cause better institutions – democracy specifically – is associated with Lipset (1959, 1960). Lipset believed that educated societies are more likely to resort to democratic dispute resolution; they use negotiation and voting mechanisms rather than violence. Literacy empowers citizens, allows the judicial system to function and facilitates interaction with public institutions. Following Lipset, education-dependent stocks of human and social capital are the drivers of growth. Such stocks may be acquired under non-democracies like dictatorships too, leading to growth and better institutions, and perhaps eventually to democratisation.

limited government, or democracy, as the formal regime type associated with the “right” institutions. Put differently, Glaeser *et al.* interpret North’s definition of institutions as humanly devised constraints on behaviour that structure political, economic and social life, not only as restricted to the formal rules, but as synonymous with a single formal regime type – democracy.

According to Glaeser *et al.*, institutionalism and the Lipset approach share an important commonality; both view the formal institution of secure property rights⁴⁷ as essential for investment in both human and physical capital. The distinction between the two views, is then simply this: “(T)he institutional view sees the pro-investment policies as a consequence of political constraints on government, whereas the development view sees these policies in poor countries largely as choices of their – a typically unconstrained – leaders” (Glaeser *et al.* 2004: 272). This distinction also reduces institutionalism to an advocacy for *democracy* as the deep source of (the right institutions and) growth; similar formal rules – or institutions – implemented by other regime types, that lead to investment and growth are then viewed as affirmative of Lipset’s theory instead.

Glaeser *et al.* emphasise the “constraint” characteristic of Douglass North’s definition of institutions, and define institutional rules as objective, durable, *ex ante* rules as opposed to the *ex post* outcomes of rules.⁴⁸ Constitutions and other durable rules that bind politically constrained governments *ex ante* therefore make the institutional cut whereas similar rules adopted voluntarily by autocratic or dictatorial leaders do not. Glaeser *et al.* also view several measures of institutions that frequently appear in the deep-determinants literature, such as risk of expropriation or quality of government, as measures of *ex post* institutional outcomes rather than *ex ante* durable constraints. They may, for instance, be the outcome of a benign dictatorship that respects property rights voluntarily, or they may exist because a democratically elected political leader is constrained to abide by the rules. These measures therefore do not qualify as proxies for institutions in the Glaeser *et al.* study.

The Glaeser *et al.* study finds that the chain of causation runs from human capital to growth and only then to institutional quality, with institutional quality defined as the permanent (or at least durable) constraints on government. Human capital seemingly emerges as the primary deep cause of growth, supporting the Lipset proposition and in contradiction of the theory that institutions cause growth. Alternatively, one may venture that the devil is in the detail: the Glaeser *et al.* study may confirm

⁴⁷ In other words, both approaches recognise the incentive value inherent in formal rules disallowing diversion, and also that this formal rule precedes the investment in human and physical capital that leads to growth.

⁴⁸ Douglass North’s definition, on the other hand, explicitly included not only both the formal and informal (that is, cultural and social) rules, but also society’s rule enforcement characteristics. Rule enforcement specifically points to *ex post* institutional outcomes as opposed to *ex ante* parchment rules (North 2003: 2).

that education leads to human capital formation, then to growth and then to *democracy* specifically, in a process very similar to Welzel's⁴⁹ description of modernisation and human development. However, what underlies the education that accumulates human capital? The cursory acknowledgement that the “right” formal rules, which shield citizens from diversion and predation, and incentivise education and investment, must pre-exist is key (Glaser et al. 2004: 272). *These* may be the crucial formal rules or institutions that cause education, human capital formation, growth and, eventually, democracy.

Perhaps this is what Rodrik (2002, 2004) has in mind when, in defence of institutionalism, he proposes that “getting the institutions right” for growth means diagnosing the most binding constraints on growth in a specific context and implementing modest changes. The Acemoglu literature⁵⁰ proposes large-scale transformation of political institutions to break vicious cycles of extraction, but also narrates many accounts of progress, during the Industrial Revolution and in East Asia for instance, where modest institutional improvements created conducive sets of incentives that led to growth, long predated democratisation.

The Glaeser *et al.* study also tests the conclusion of Acemoglu, Johnson and Robinson (2001) that settler mortality and population density in European colonies in the 1500s predict nations' current institutional quality and levels of development. Glaeser *et al.* contest the conclusion of Acemoglu, Johnson and Robinson that the settlers brought *growth-enhancing institutions* to colonies with low settler mortality where they intended to stay. The Glaeser *et al.* study proposes that the settlers may in fact have brought their *human capital* as the ruling deep determinant, dethroning institutions as the cause of growth and development and supporting Lipset's (1959, 1960) theory of human-capital prevalence that leads first to growth, then to democracy.

The pivotal role that Lipset⁵¹ (1959: 79, 80) assigns to education is not new and the channels of transmission from education to growth and democracy are documented (Lipset 1959: 79, 80):

“Education presumably broadens men's outlooks, enables them to understand the need for norms of tolerance, restrains them from adhering to extremist and monistic doctrines, and

⁴⁹ See *Freedom Rising* by Christian Welzel (2014).

⁵⁰ Acemoglu 2009; Acemoglu, Johnson and Robinson 2001, 2002, 2005; Acemoglu and Robinson 2005a, 2005b, 2006, 2012, 2013; Acemoglu, Naidu, Restrepo and Robinson 2013, 2014; Acemoglu and Jackson 2015.

⁵¹ In his work on the importance of education, Lipset (1959, 1960) credited Aristotle; see also *Why does democracy need education?* (Glaeser, Ponzetto and Shleifer 2007).

increases their capacity to make rational electoral choices... If we cannot say that a ‘high’ level of education is a sufficient condition for democracy, the available evidence does suggest that it comes close to being a necessary condition.”

It would seem from Glaeser *et al.*’s findings in support of Lipset’s human-capital prevalence theory, that the deep cause of global income and growth disparities among nations is, in fact, variations in human capital. Institutional quality is viewed as the outcome rather than a deep source of the stock of human capital. South Korea, Taiwan and China – and perhaps especially Singapore – are good fits to this line of reasoning. One-party dictatorships with unconstrained policy choices that pursue pro-education policies and protect ownership voluntarily are capable of impressive growth prior to political reform towards democratisation. This explanation is however propped up by a specific definitional detail; institutions are synonymous with democracy.

Any more nuanced definition of institutions as the complex, context-specific web of formal *and* social rules incentivising behaviour in societies raises more questions than the Glaeser *et al.* study answers. This is also the finding of Acemoglu *et al.* (2005) in their paper *From Education to Democracy?* following their repeat of the Glaeser *et al.* test of the contradictory causation flows of institutionalism and Lipset’s human-capital prevalence theory. Acemoglu *et al.* find Glaeser *et al.*’s evidence in support of the Lipset theory non-robust when fixed effects are included, which suggests that “the cross-sectional relationship between education and democracy is driven by omitted factors influencing both education and democracy rather than a causal relationship” (Acemoglu *et al.* 2005: 48). This raises the important question: Which omitted factors, captured by the country fixed effects, drive both education and democracy? The importance of education is universally recognised, but the Acemoglu *et al.* finding confirms the doubtfulness of viewing human capital as a *deep* determinant; something still *deeper* drives global disparities in educational attainment and stocks of human capital.

In *What Rules in the Deep Determinants of Comparative Development?*, Alvar Kangur (2016: 68) refers to what he terms a “race” in the deep-determinants literature, “to determine if a particular hypothesized deep determinant of relative income levels rules over another”; the lack of consensus and comparability extends to a “battle” among the instruments for a given determinant. As Rodrik (2002, 2004), he lists the deep determinants as institutions, trade openness and geography. Whereas North and Thomas (1973), Rodrik, Subramanian and Trebbi (2002), North (2003), Rodrik (2002, 2004) and Acemoglu, Johnson and Robinson (2005) are *ad idem* that stocks of human and physical capital are *proximate* determinants, the levels of which are caused by the deep determinants, Kangur

follows Glaeser *et al.* (2004) and Lipset (1959, 1960) to add human capital as a fourth deep determinant.

Kangur (2016) attributes the divergent and often contradictory findings of deep-determinant studies to the choice of *instruments* and a tendency to grossly oversimplify empirical specifications. Kangur quotes Rodrik, Subramanian and Trebbi (2002: 18) that “an instrument does not a theory make”, and Jeffrey Sachs (2003: 9) that “there is good theoretical and empirical reason to believe that the development process reflects a complex interaction of institutions, policies and geography”. The choice of institutional instruments in the scholarly work supportive of institutional primacy is then scrutinised. Several institutional measures primarily indicate Western European influence, for instance linguistic variables such as the share of the population speaking Western European languages used by Hall and Jones (1999),⁵² and also origin of the legal system, which may be either an English-origin common law system, or a French-origin civil law system. Index metrics⁵³ measuring risk of expropriation and security of property rights, the risk of repudiation of contracts, bureaucratic and institutional quality, corruption and constraints on the executive have also been used as institutional variables, as has Acemoglu and Robinson’s (2001) settler mortality variable as predictor of institutional quality (Rodrik, Subramanian and Trebbi 2002).

Geography variables are similarly wide ranging; latitude, distance from the equator, the share of population living in a temperate zone, the risk of malaria transmission, resource endowment, distance from major markets and climatic variables (Diamond 1997, Bloom and Sachs 1998, Sachs 2001, 2003, Kangur 2016).

The Kangur study reports, most notably, that all of its results are only valid for their instruments of choice. Now, broadly, they find in favour of Lipset’s human-capital prevalence and Jeffrey Sachs’s (2003) direct geographical effects, primarily through malaria incidence, but also through variations in resource endowments and other factors of continent heterogeneity. Kangur remarks that his

⁵² Kangur (2016: 10) erroneously reports that Hall and Jones (1999) define their broad institutional measure as “social capital”. The Hall and Jones study actually refers to “social infrastructure”, which they define as the government institutions and policies that should prevent diversion and predation of resources. The social-theory notion of social capital is used in the context of social rules and informal institutions in the institutional literature and should not be confused with social infrastructure as defined by Hall and Jones.

⁵³ For instance, the categories for Law and Order, Bureaucratic Quality, Corruption, Risk of Expropriation and Government Repudiation of Contracts of the *International Country Risk Guide* used by Hall and Jones (1999) and Knack and Keefer (1995, 1997); similar measures in *Business Environmental Risk Intelligence* used by Knack and Keefer (1995, 1997); measures for Constraints on the Executive in the *Polity IV* dataset used by Glaeser *et al.* (2004) and Dobler (2009).

findings on the primacy of direct geographic effects come quite close to refuting Rodrik *et al.*'s (2002) pronouncement that geography is not destiny; it would, in fact, seem rather deterministic.

Two aspects from the Kangur study stand out. First, as Glaeser *et al.* (2004), the Kangur study relies on a very reduced specification of institutional quality as specifically *not* outcome variables, but the most durable, *ex ante*, objective constraint on executive overreach that any dataset may offer. Both studies use the Polity IV variables as the closest if imperfect measure of *ex ante* objective political rules, even though Glaeser *et al.* concede that “‘rules on the books’ are very different from what actually takes place in a country” (2004: 276).

In both these studies, a test of a nation's institutions is tantamount to testing whether they are democratic, premised on the democratic principle that leaders are institutionally constrained from subverting the greater good and pursuing their personal interest instead. A democratic government is – at least in theory – a government of laws and not of men, implying minimal individual leader agency and maximum safeguards for political and economic participation for the broad majority. Mass participation in economic life should translate into economic growth, or at least not persistent poverty among the majority of a nation's citizens.

Hence, the approach of Glaeser *et al.* and Kangur to define institutions narrowly as *only* the durable, objective, *ex ante* formal rules is tantamount to a study of the correlation between formal democratic rules in the rulebook – or any other regime type – irrespective of whether or how they are applied, and growth.

In considering a suitable instrument for institutions, Kangur – like Glaeser *et al.* – revisits Acemoglu, Johnson and Robinson's (2001) theory of settler mortality as predictor of institutional quality. He poses the fundamental question: “It is not clear what exactly was the ‘contribution’ of Europeans to their colonies: Was the first and fundamental impact in shaping institutions, or shifting the balance of human capital endowments?” (Kangur 2016: 71). Kangur concludes that Acemoglu, Johnson and Robinson's theory of settler mortality does not instrument institutional quality, but that their theory of colonial origin in fact predicts human-capital prevalence, in support of Lipset's hypothesis. Put differently, the Western settlers brought with them their human capital – not their institutions. The Glaeser *et al.* study is more specific about the relevance of the settler mortality variable, proposing that the settlers “brought with them their know-how rather than constraints on the executive” (2004: 290).

It should be noted that the Glaeser *et al.* study interprets the settlers' “know how” and ways of doing things as both their human *and* social capital, without clarification for the quite random inclusion of

social capital, seemingly classed as part of or the same as human capital. Both are then viewed as deep determinants of later institutional and productive capacity (Glaeser *et al.* 2004: 298). It is, in fact, quite important to distinguish between human capital and social capital in the deep-determinants analysis. If the settlers brought an educated population to their colonies, human capital that is, which has steered a nation's development path, human-capital prevalence as a deep determinant is indeed supported. It does however imply that *education* is an embedded societal trait, transferable from generation to generation. It is intuitively more plausible to imagine that settlers imported their *social* capital – that is, their *informal* institutions. They brought their belief systems and values, their high premium on education, ways of doing things and the generalised trust associated with the Protestant communities they came from, the lasting cultural values that each generation instils in the next, implying that they brought their institutions after all, just not the *formal* ones. If the colonial heritage of nations therefore has a causal influence on modern-day economic outcomes through social-capital prevalence, *institutions* as deep determinant of development is confirmed; more specifically, it implies that informal rather than formal institutions are the deep determinant.

Landes (1990: 10) writes that “nations would leap the gap between backwardness and development *when they were ready.*” He writes about the growing gap between the global rich and poor, where the late escapees from poverty, like Japan, South Korea and Taiwan, had an advantage over the early Western European pioneers because the road map now existed; they could in a few decades achieve what took the pioneers a few centuries. They realised that sustained progress is impossible without modern knowledge, technological advance, organisational improvement and yes, also transformation within society, which transformation cannot be forced from outside (Landes 1990, 1998). Such transformations are difficult and often resisted. Landes (1990: 11) writes that they may require:

“the absorption and adoption of new ways, but also, for many societies, the creation and acceptance of a new ethic of personal behaviour. New ways demand and make new people. Time consciousness must become time discipline; the organization and character of work, the very relation of person to person are transformed.”

Culture and embedded values may be especially thorny for prospective developers; first, because they are strongest in poor societies where they impede growth the most. Second, poverty and economic failure reinforce them, as hardship ironically pushes those most in need of growth to find solace in what is familiar and comforting to them.

4.8 Conclusion

In an era where the persistence of poverty has defeated conventional economics, there is a need to broaden the scope and reach of possible approaches to the problem to address its deep complexity. Also, to ask the right questions; among them would be an understanding of economic outcomes as produced by human behaviour that is likely not driven primarily by neo-classical rationality, but in addition to the cognitive biases predicted by behavioural economists, also by deeply complex and society-specific cultural factors.

Universalisation of diagnoses and policy prescriptions becomes less credible, and single-factor explanations are simply too general to do justice to the complexity of poverty as a complex, open societal problem. The very limited – if any – success of decades of repeated international aid and policy efforts to address especially sub-Saharan poverty, bears evidence to the realisation that the transformation needed cannot be engineered by outsiders.

Institutionalism seems like a more plausible approach due to its multi-disciplinarity, predicting that if societies organise political and economic life in a way that incentivises broad political and economic participation, the outcomes should reflect that. It primarily requires that society should not fear diversion or predation of hard-earned resources; private and social returns should be aligned. All sorts of formal rules may support a pro-growth system of incentives, the most important of which are the protection of property rights, the enforcement of contracts and maintaining law and order.

Given the deleterious predatory impact that states have been known to wreak on their citizenries, constraints on executive overreach like corruption and rent-seeking, independence of the judiciary, and government enforcement of contracts are similarly traits of a formal environment fostering growth. This has been taken as synonymous with democracy, not only in the literature, but by the disenfranchised and impoverished millions in the poor nations mounting democratic revolutions to end their hardship. As the literature and also the post-independence history of sub-Saharan Africa show, democracy does not bring prosperity. This result may appear to put paid to the reasoning that prosperity will follow if poor nations get their *institutions* right.

This reduced specification of institutionalism commits the same sin as neo-classical economics; it circumvents the most complex drivers of human behaviour. Society-variant cultural traits, inherited belief systems, values, codes of conduct and different ways of doing things and viewing life have a more profound impact on how people behave than the formal rules; this is what is familiar and comforting to them and what they resort to, even when they are in conflict with the formal rules. Societies where the cultural values strongly support critical democratic principles of autonomous

decision-making will, for instance, be intolerant of autocracy. In the same way, societies where traditional cultural values are accepting of autocratic decision-making may not enforce executive accountability, resulting in democratic dictatorships. One may add the outstanding achievements of centralised decision-making in Hong Kong and Singapore to strengthen the argument that a nation's formal regime type does not constitute its institutions.

Douglass North, widely credited as the intellectual architect of New Institutional Economics (NIE) was emphatic that a nation's institutions are a trinity: formal institutions, informal institutions – which he describes as the deeply embedded cultural traits and inherited belief systems that are a stronger driver than formal rules – and the rule enforcement characteristics. In other words, a nation's institutions are an environment that is an outcome of the *ex ante*, durable, objective formal rules, the informal rules as they materialise from the specific cultural substrate in a society, and how society enforces its rules. All three institutional variables conspire to shape an environment that may or may not incentivise economic exchange. Heaping the entire causal expectation on the *ex ante* formal rules, as much of the empirical literature does, is too reductionist to qualify as a test of institutionalism, but understandable given the analytical difficulty of including cultural variables. The presence of reverse causality and endogeneity further heighten the complexity of institutional analysis. If one adds context specificity and historical contingencies, universal explanations and policy desiderata become near impossible; hence the emphasis on case-by-case narratives to account for country specifics and historical contingencies.

The writings of Daron Acemoglu and several co-authors argue that nations fail when a narrow, politically connected elite garners political influence to shape first the political institutions and then the economic institutions in a manner favourable to their interests. The vicious cycle of extractive institutions results from the distribution of political power; Acemoglu *et al.* therefore view a fundamental shift in the dynamics of such power as essential to end the extraction. They emphasise formal institutions, specifically denying a role for culture.

Hall and Jones (1999) formulated an institutional variable that they termed *social infrastructure*, consisting of government institutions and policies that serve as barriers to diversion and predation. They usefully formulate their research in terms of the *incentive* content of institutions, coming closer to humanising institutional theory. Dani Rodrik (2002, 2004) and Rodrik *et al.* (2002) use a nuanced specification of institutions, acknowledging that formal rules preventing diversion and predation are not unique traits of democracies; benign dictators implementing them produce similarly favourable growth results. Also, they emphasise the importance of context and locality, and caution that specific growth constraints must be identified and dismantled in a modest-change approach.

In the Glaeser *et al.* (2004) and Kangur (2016) studies, two seemingly opposing views of institutional causation are tested: institutionalism, which posits that the right institutions cause growth, versus Lipset's human-capital prevalence theory. Lipset (1959, 1960) predicts that democratic outcomes are more likely in a modernised society, with high levels of educated human capital; education is therefore key. Both studies find in favour of human-capital prevalence, but rely on a materially reduced specification of formal institutional rules. In essence, the entire institutional realm is reduced to a few *ex ante*, objective durable rules that theoretically define a democracy.

The deep-determinants debate on what causes poverty is not aided much by these findings. So democracy does not cause prosperity; but again, that is not what institutionalism proposes. One may ask, if education and human capital are key, as these studies find – which they indisputably are in the development process – what *causes* education (and human capital) in rich nations, while in poor countries the crucial education that could change the nation's trajectory simply does not materialise? To explain the global rich-poor divergence in terms of differences in education and human capital is not satisfactory. As before in the proximate-determinants discussion, it begs the question: what is the deep cause of these differences? At least part of the answer, it would seem, may be in the most intractable and avoided institutional trait of them all – culture.

Chapter 5 takes a closer look at two of Douglass North's three classes of institutions: specifically, the formal rules and rule-enforcement characteristics. *Ex ante* parchment rules affect the incentives that drive economic decision making only through the degree that they are enforced. It is the *actual* economic environment that economic behaviour responds to.

Chapter 5

Formal Institutions, Rule Enforcement and State Capacity

5.1 Introduction

The deep-determinants literature on economic growth and development relies overwhelmingly on aspects of Douglass North's definition of institutions (see for instance Knack and Keefer 1995; Hall and Jones 1999; Acemoglu, Johnson and Robinson 2001, 2002 and 2005; Rodrik, Subramanian and Trebbi 2002; Glaeser *et al.* 2004; Przeworski 2004a, 2004b; Kangur 2016). As Chapter 4 explains, North (2003: 3) defines institutions broadly, as all of *three classes* of institutions: "formal rules, informal constraints and their enforcement characteristics". He defines *formal* rules as constitutions, laws and regulations that are specific and defined precisely, adding that they guide everyday life in a very limited way. *Informal* norms are less observable and therefore more problematic. They are a society's norms, values, culture and inherited belief systems, its way of doing things and how it perceives the world around it. Not only are they terribly important, they are *more* important than the formal rules.

Enforcement of both formal and informal rules is the third leg of the tripod and while perfect enforcement is a theoretical ideal, the degree of imperfection with which rules and societal norms are enforced matters a great deal. It determines whether delinquency pays. It also implies that it is the institutional *mix* of *all* three components that determines the institutional environment within which the resultant system of incentives drives human behaviour, organises economic exchange and produces outcomes. When Douglass North proposes that *institutions* are a deep determinant of growth and development, this is what he refers to: the mix, or the *outcome of the three institutional components*. The institutional literature rarely reflects this broad approach to institutions. Instead, studies often focus on the relationship between societal outcomes and *select* institutional aspects, for instance property rights, regime type (democracy), *ex ante* parchment rules only, or trust and social capital.

My study opts for the broad approach, to rather explore the role of North's institutional *outcomes*, that is, the combined effect of all three classes of institutions. This chapter explores the complex links between economic, social and political outcomes, and the underlying *formal* rules steering nations towards these outcomes. The impact of these rules can only be apparent through the degree that they are enforced, however. Rule enforcement must therefore be part of this discussion.

5.2 Which Formal Rules Matter for Prosperity?

In the literature, several formal rules are associated with high-performance economies. Overridingly, the emphasis is on a code of law enforcing property rights (Knack and Keefer 1995; Acemoglu and Robinson 2008) and contracts (Dobler 2009; Fukuyama 2014). Other prominent formal rules are ones that counter corruption (Mauro 1995) and eliminate barriers to market entry (Djankov *et al.* 2002). Growth-and-development formal rules incentivise economic exchange while constraining executive overreach and predation (or outright kleptocratic confiscation known as *prebendalism*). The essential incentive value seems to be in the alignment of social and private gains to preserve efficiency in the use of productive resources and prevent the impoverishing social burden of amassing dead weight losses (Hall and Jones 1991; North 1990; Stiglitz 2015).

These rules are associated with prosperous, modern western democracies where civic freedoms and rights as well as executive constraint are constitutionalised, or at least legislated. Where they are not, however, exchange-incentivising rules may also be implemented and adhered to, albeit voluntarily and perhaps then with less certainty, with similar positive outcomes. Alternatively, even constitutional democracies may simply not *enforce* the parchment rules, wedging social and private gains apart through extractive practices with impunity and with deleterious results for societal wellbeing.

Democracy has proven not to be the failsafe gatekeeper against the extractive executive overreach witnessed in many poor countries. It really seems to be about political commitment to the actual exchange-incentivising rules that align social and private gains, irrespective of whether they are propped up by a democratic formal environment, or a benevolent non-democracy.

It would appear then that democratisation of poor nations may not address *poverty* in any meaningful way although it may enhance social life in other non-material ways, for instance through freedom from persecution and civic liberties. Chapter 6 however, raises the reservation (Welzel 2014) that increased civic freedoms and entitlements have no utility in the absence of material resources to make them actionable. Already in 1809, Johann Wolfgang Von Goethe cautioned against the chimera of freedom used to pacify the downtrodden, pronouncing that “none are more hopelessly enslaved than those falsely believing that they are free”. Almost two centuries later, in 1998, David Landes quotes Basil Davidson “Africanist of unquestioned sympathy and bona fides, (who) writes sadly of the moment of disillusion — that point when the Africans of one or another place realized that freedom was not an automatic gateway to happiness and prosperity” (Landes 1998: 500). There is no freedom where economic servitude persists.

Yet, freedom matters. According to the 22nd edition of the Freedom of the World Index published by the Fraser Institute, countries' freedom ranking matters for several measures of human wellbeing, like inequality and extreme poverty. Hong Kong ranks most free (and has taken top position since 1980), followed by Singapore who has been in the second position since 2005. The remaining top-ten positions are filled by New Zealand, Switzerland, Ireland, the United States, Georgia, Mauritius, the United Kingdom, and by Australia and Canada tying in the tenth place. Argentina, Libya and Venezuela rank the least free among the 162 participant countries. The freest quartile of nations earns 7.1 times the income of the least free quartile and, following the World Bank metric of extreme poverty as an income below \$1.90 per day shows that it hardly exists in the freest quartile. Contrastingly, nearly a third of the inhabitants in the least free quartile are extremely poor.

What then ties democracy to freedom, and freedom to prosperity? The preoccupation with democracy as the starting point – the trigger – to escape poverty seems questionable; democracy is not a reliable surrogate marker for institutional quality. Life in the liberal, prosperous democracies of the globe is undoubtedly enviable in comparison with the misery in poverty-stricken regions, but if *democracy* is not the deep cause of their success, does that torpedo North's institutional propositions?

I would argue that it does not. Formal, exchange-incentivising rules may well precipitate growth and development. They are just not the exclusive traits of democratic regimes; all regimes implementing these rules will benefit. Put differently, broad political participation and democratic accountability appear not to be the critical constituents of an institutional bouquet to ward off the growth-undermining predation that chokes economic growth and development. While democracy delivers on *social* outcomes like human dignity and individual freedom, the institutional deficit associated with *economic* underachievement and poverty is of a different nature (Fukuyama 2014).

The aim of my reasoning by no means constitutes an assault on democracy. Rather, it attempts to explain that democracy may have become sufficiently narrowly associated with the freedoms and formal rules that encourage growth and development to be mistaken for the actual rules (or at least be viewed as synonymous with these rules). In substantive (Burchard 2014) or fully consolidated, liberal democracies (Welzel 2014), formal rules conducive to growth and development have the best chance of being upheld. Electoralism or procedural democracy (Burchard 2014; Fukuyama 2014), however, does not suffice (Pritchett, Woolcock and Andrews 2010; Welzel 2014). Democracy's contribution it would seem, is through its rule-enforcement capabilities, which are only operationalised in highly specific contexts.

The formal institutions associated with growth and development are therefore not democracy, or regime type, itself. They are the rules aligning private and social returns, safeguarding the returns on individual endeavour from predation and thus incentivising such endeavour. Protecting property rights, also intellectual property rights, and enforcing contract rights through an impartial judiciary would do that, for instance (Aceoglu and Robinson 2013; Fukuyama 2014). Should a country achieve sustained growth and development following targeted formal institutional reforms, liberal democracy may materialise as an *outcome*, but is not guaranteed. Sequencing, context and particularity are of deciding importance; the outcome depends on a confluence of history, contingency and informal institutions as well.

An interesting conclusion from this causation sequence is that Lipset's (1959, 1960) modernisation sequence and North's new institutional-economics path to prosperity are perhaps not contradictory after all.⁵⁴ This result becomes apparent as soon as the preoccupation with regime type and specifically democracy of any sort, with no distinction even between procedural and substantive democracy, as the *formal* institution or in fact the *only* institution of importance is discarded in favour of a broader understanding of the formal institutions that drive economic as opposed to socio-political outcomes.

This distinction may seem artificial; as the expression "getting to Denmark" (Fukuyama 2014) reveals, achieving societies' wellbeing through some modernisation sequence is viewed as the pursuit of "all good things *together*" (Huntington 1965, 1966, 1968). That is, prosperity (economic outcomes) and human freedom, dignity and actualisation (social outcomes) slot into position in a single utopian (Danish) equilibrium. As it were, reversing poverty through an understanding of the deep roots of nations' persistent economic performance over time, whether they are nations' institutions or their geography, may be divorced from the desirable social outcomes of liberal democracies of which Denmark is perceived as the pinnacle. Whereas all good things indeed coincide for the Danes, the reality is that the citizens of Hong Kong, Singapore and China are also privy to favourable economic outcomes if not democratic rights, while Zimbabweans with electoral rights in a constitutional democracy face starvation.

⁵⁴ Whereas North proposes that the formal and informal institutions according to which a society is organised shape its incentives to participate productively in its economy and ultimately decide its economic outcomes, Lipset argues that democracy is more likely in a growth economy with an educated workforce. Lipset's finding of growth-then-democracy has been taken as a refutation of North's proposal that a growth-incentivising formal institutional environment *precedes* growth. Lipset does not explain how growth starts, however; if one assumes that it has been *triggered* by formal institutional reform other than democratisation, Lipset's and North's sequences of causation appear reconcilable rather than contradictory.

The classic work of Samuel Huntington, *Political Order in Changing Societies* (1968, 2006), was instrumental to establish an understanding among political scientists that a nation's political development is separate from its economic development. Specifically, a polity has to deliver *basic political order* before it could achieve liberal democracy. Despite the plethora of particularities, historical events, geographical traits, personalities and so on that culminate in the divergent contemporary contexts and problems of nations, political life is universally shaped by nations' webs of institutions from which the political order essential for democracy may either emerge or not (Huntington 1968, 2006; Fukuyama 2014).⁵⁵

Fukuyama (2014: 18) reduces the formal rules essential for *political order* to “three critical sets of institutions: the state, the rule of law, and procedures promoting accountability”. He explains how nations' economic and political fate is tied to how and whether these institutions emerge; whether they emerge separately or in combination, and how the *sequence* in which they emerge (if at all) matters crucially for both economic and socio-political outcomes. Appendix A, section A.1, gives a historical account of the origins and evolution of these institutions.

5.3 The Three Crucial Categories of Institutions in the Twenty-first Century

Contemporary political scientists describe a modern *state* – the first of the three crucial institutions – as a “hierarchical, centralized organization that holds a monopoly on legitimate force over a defined territory” (Fukuyama 2014: 44). In contrast to early patrimonial states, modern and well-developed states distinguish between public interest of society and rulers' private interest. Officials are recruited on merit and citizens are treated impersonally. Laws are applied without favouritism, as are the formulation and implementation of policy (Fukuyama 2014).

Rule of law may be understood narrowly, as maintaining law and order, and enforcing contracts and property rights. The broader, modern and perhaps Western understanding includes human rights, specifically including the principle of equal rights for women and ethnic minorities (Kleinfeld 2006). It may be defined quite generally, as a

“set of rules of behaviour, reflecting a broad consensus within the society, that is binding on even the most powerful political actors in the society... If rulers can change the law to suit themselves, the rule of law does not exist, even if those laws are applied uniformly to the rest of society” (Fukuyama 2014: 45).

⁵⁵ Huntington (1968: 12) describes institutions as “stable, valued, recurring patterns of behavior that persist beyond the tenure of individual leaders”.

To give effect to the requirement that all – also the powerful rule makers – are equal before the law, usually entails that the rule of law is embodied in an autonomous judicial institution that functions independently from the executive (Kleinfeld 2006). Rule of law by this definition *constrains* political power and is distinct from rule *by* law, where law embodies the commands of the ruler but does not bind the ruler himself (Morris 2010). If rule by law is practiced in a regular, transparent and predictable manner, it may become sufficiently institutionalised to diminish the discretionary authority of a ruler, in which case it may resemble the constraining function of rule of law (Fukuyama 2014).

The third of the three sets of crucial institutions – *accountability of the executive* – entails that governments should be responsive to the interests of society as a whole, or the common good, as opposed to narrow self-interest. Accountability is frequently interpreted in a procedural sense; that is, that free and fair elections are held periodically, allowing citizens to choose their rulers, and presenting an avenue to discipline non-performing rulers (Burchard 2014). Accountability can however also be substantive, when rulers respond to societal interests in the *absence* of procedural accountability, or elections (Burchard 2014; Welzel 2014). The responsiveness of unelected governments to the common good varies greatly, hence the distinction between monarchies and tyrannies, but even benevolent but unconstrained rulers that respond to societal interests voluntarily cannot be trusted to remain that way. Procedural and substantive accountability are therefore strongly correlated (Fukuyama 2014).

The notion of accountability in modern democracy is associated with mechanisms that make governments respond to public needs, but even good mechanisms do not guarantee good substantive outcomes (Ferguson 2013; Fukuyama 2014). State institutions are the centralised, concentrated power of society that allow it to deploy the power capably, in a manner beneficial to society, ranging from military protection and law enforcement to social security and delivery of an array of public goods and services (Rotberg 2003a, 2003b; Fukuyama 2014). By contrast, the mechanisms of accountability and the rule of law rein that power in, checking that it is used only in accordance with the rules and in a consensual manner (Fukuyama 2014). Fukuyama (2014: 48) declares this tightrope act of modern politics a “miracle”, “that we can have political orders that are simultaneously strong and capable and yet constrained to act only within the parameters established by law and democratic choice”. This tightrope reflects Buchanan’s (1975 [2000]) paradox, which is the notion that capable states *are* in fact effectively constrained. Boettke and Candela (2019) also observe that prosperous societies characterised by high-capability states are also the ones that have well-developed, effective mechanisms of executive constraint.

In politics across the globe, the three crucial categories of institutions have emerged from widely diverse circumstances, with equally diverse timing and sequencing. They may exist independently, or in various combinations, with varying outcomes. The People’s Republic of China for instance, has a strong and technocratic state, but the rule of law is weak and democratic accountability absent (Acemoglu and Robinson 2013; Ferguson 2013). Singapore on the other hand does have rule of law in addition to a capable, modern state, but very limited democracy (Ferguson 2013). Russia holds democratic elections; its state suppresses dissidence more capably than it delivers public goods and services, and the rule of law is weak (Fukuyama 2011, 2014).

Many of the states classified as “failed” in the twenty-first century, like the Democratic Republic of the Congo, Haiti and Somalia, are characterised by both weak states *and* weak or nonexistent rule of law (Fukuyama 2014). Liberal democracy requires that all three crucial institutions are present, *and* that they are balanced; that an autonomous capable state operates within the confines of the law and that the common good is prioritised over narrow elite interests through democratic accountability (Ferguson 2013; Fukuyama 2011, 2014).

5.4 Making Liberal Democracy

Fukuyama (2014) summarises the problem that poor countries face as “getting to Denmark.” Put differently, the development challenge entails turning Haiti, Somalia and Libya for instance, into idealised societies where everything good coincides – uncorrupted good governance, prosperity and also freedom (Huntington 1965, 1966, 1968, 2006). The three crucial institutions are present, and in balance: a capable state, a strong rule of law and democratic accountability. The *persistence* of poverty in sub-Saharan Africa particularly underscores how profoundly complex and unlikely monumental transformations of this nature are. Exactly how Denmark became Denmark is not known because it was not engineered; also, emulating the Danish model is complicated by not knowing how to account for Danish particularity and historical contingencies.

Having said that, Fukuyama (2014) notes that of all Denmark’s outstanding traits, the most poorly understood is how it accomplished the transition from a patrimonial state run by kin networks rewarded for their political loyalty, to a modern state serving the common good and legally prohibited from abusing office for personal gain. The Danish bureaucracy is especially notable for its unwavering subordination to the public interest, its functional division of labour and technical skill, and merit-based recruitment of public officials.

In obfuscation of realities but ostensibly in keeping with the spirit of modernity, corrupt dictators of the twenty-first century would publicly express their commitment to the common good. Superficial

outward reforms are undertaken; elections may even be held, while they continue to rule for personal gain (Pritchett, Woolcock and Andrews 2010; Acemoglu and Robinson 2013; Burchard 2014; Fukuyama 2014; Welzel 2014; Boettke and Candela 2019).⁵⁶ Old-school patrimonialism has evolved into neopatrimonialism, where politicians running for office may invoke the public good during election campaigns, but the state remains firmly patrimonial – not impersonal: favours and benefits are doled out to political supporters in exchange for political loyalty and votes (Eisenstadt 1973; Van Cranenburgh 2008; Van de Walle 2003a, 2003b).

As human history evolved, all governments were, at some stage patrimonial (Fukuyama 2014). Patrimonialism has a modern peer, neopatrimonialism, but they describe the same phenomenon, of predatory states where society's rent-seeking elites exploit their political power to stifle political and economic participation by the broad citizenry (Acemoglu and Robinson 2008, 2012, 2013; Acemoglu, Johnson and Robinson 2005; North, Wallis and Weingast 2009).

If the persistence of poverty is causatively connected to the persistence of neopatrimonialist political orders, one would ask how such orders could be transformed into modern impersonal states that do not facilitate state predation on citizens' resources. (Appendix A, section A.2 explains that the converse remains possible too, that patrimonialism may seep back into erstwhile modern states.) Scholarly literature holds many accounts of historical transitions from patrimonial to modern states, with the United States as a notable example (Eisenstadt 1973; North, Wallis and Weingast 2009; Fukuyama 2011, 2014), a dynamic theory of change is hard to find. One such theory, that state modernisation is sometimes forged by military competition hardly informs contemporary development policy; apart from the obvious reservation that wars are costly and not wished upon poor nations in need of reform, there are many accounts of devastating drawn-out military involvement that offered no state-building spinoffs (Fukuyama 2014).

Social mobilisation is a second possible driver of state modernisation (Lipset 1959; Welzel 2014). A social groundswell that is collectively organised to seek participation in decisions affecting their

⁵⁶ In their paper titled *Capability Traps? The Mechanisms of Persistent Implementation Failure*, Pritchett, Woolcock and Andrews (2010) use the term *isomorphic mimicry* to describe developing countries' outward emulation of developed-country governance without the ability to produce developed-country outcomes. Pritchett, Woolcock and Andrews (2010: 1) focus on "how countries manage to engage in the domestic and international logics of development and yet consistently fail to acquire capability. ...'(B)ig development' encourages progress through importing standard responses to predetermined problems. This encourages isomorphic mimicry as a technique of failure: the adoption of the forms of other functional states and organizations which camouflages a persistent lack of function."

wellbeing is most likely among an economically empowered, rising middle class (Fukuyama 2014; Welzel 2014; McCloskey 2006, 2010, 2016). Relying on the rising bourgeoisie to drive modernisation is problematic on at least two counts. Apart from the reality that the newly empowered middle class may simply be co-opted into the patronage network of elites and become incentivised to maintain the *status quo* rather than push for reform, economic growth is needed for the middle class to evolve. A politically aware, economically empowered middle class is unlikely to evolve in an impoverished society where the daily schema of citizens is dominated by subsistence considerations. If there is no growth, just mass misery, relying on a non-existent middle class to push for reform is conspicuously futile.

An impasse thus arises from the deep-determinants-of-growth perspective: a modern, impersonal state that precludes patronage and extractive practices by the state, is viewed as an institutional source of growth, through the broad participation in an economy it incentivises. Growth-limiting patrimonial states are transformed into such modern, growth-incentivising states through social mobilisation of a middle class, which could, in turn, only arise from growth. Economic growth needs a non-predatory state, while the social mobilisation that should drive state modernisation from a patrimonial to a modern, impersonal state is itself a product of growth.

Several scholars however advocate that *education* accomplishes a similarly modernised worldview; an educated society is more likely to drive political reform and modernisation than societies with low levels of education (Acemoglu *et al.* 2005; Glaeser, Ponzetto and Shleifer 2007; Welzel 2014; Morson and Schapiro 2017).

5.5 Modern States and Liberal Democracy: The Importance of Sequencing

The emergence of Fukuyama's crucial triad of institutions through the American and French Revolutions may seem to imply historical determinism. Any notion that societies' historical pasts trap them on a set path with limited choices is however belied by the path-altering Industrial Revolution and several subsequent reversals of fortune.

Vast economic progress of the nature brought about by the Industrial Revolution transforms society fundamentally. In the twenty-first century, as the Fourth Industrial Revolution unfolds, the rapidity of societal change has not abated. Given the effectiveness of a modern, uncorrupt state in curtailing executive overreach as demonstrated by the modern German bureaucracy, it becomes key to understand why, in the twenty-first century, and even in the democratic Western world, countries like Italy and Greece remain characterised by clientelistic politics and corruption (Beyers, Eising and Maloney 2010; Morris 2011; Ferguson 2011; Acemoglu and Robinson 2013; Fukuyama 2014). Also,

how did Britain and the United States manage to reform their early, patronage-riddled bureaucracies into modern-day impersonal, merit-based states (Morris 2011; Ferguson 2011; Acemoglu and Robinson 2013)?

Fukuyama (2014) contends that the answer to these questions is disparaging from a democracy perspective. History indicates that modern meritocratic bureaucracies were often forged when national security was under threat, under *authoritarian* rule. This was the case in Ancient China, but also in Prussia, which became the unifier of Germany. Prussia compensated for its compromised geopolitical position by building a highly efficient public bureaucracy. Early democratisation – that is, before a modern, impersonal state has been established – led to clientelistic states (Keefer and Vlaicu 2004; Keefer 2005). Fukuyama (2014) cites the United States to justify this assertion. There are also Italy and Greece, all of which through various historical paths enfranchised select portions of their citizenry *before* they built efficient modern states (Beyers, Eising and Maloney 2010).

Sequencing is therefore of enormous consequence. It is much harder to accomplish quality governance in countries where democracy *preceded* modern, impersonal states than in countries where an efficient modern state was the legacy of erstwhile absolutist rule (Fukuyama 2014). Building a modern state *post* democratisation is however possible, if difficult. It requires social mobilisation and political leadership however to overcome entrenched patterns of patronage and clientelism (Keefer and Vlaicu 2004; Keefer 2005; Welzel 2014; Morson and Schapiro 2017).

Tension between democracy and a modern capable state may also arise on a different front. State building is founded on *nation* building; state building relies on a shared national identity in which loyalty vests over natural social attachments to kin, tribe or ethnic group (Brubaker 2004; Böss 2011). Shared nationalism may emerge organically in a bottom-up way but may be forged forcefully by power politics – even through violence (Brubaker 1996). As with modern, centralised public administrations, authoritarian conditions are, paradoxically, often the most effective in fostering a strong national identity (Brubaker 1996; Böss 2011).

Democratic societies that lack a strong, shared identity may find that the absence of consensus on an overarching national narrative materially impedes progress (Keefer and Vlaicu 2004; Keefer 2005, 2007). Fukuyama (2014: 59) stresses that “(m)any peaceful contemporary liberal democracies are in fact the beneficiaries of prolonged violence and authoritarian rule in generations past, which they have conveniently forgotten”. At some point, a degree of historical amnesia sets in to build a shared national identity with a common national narrative. In the twenty-first century, however, national unity can be centred on the expansive and inclusive ideology of democracy itself instead of being

autocratically coerced.

5.5.1 Non-emergence of Modern States in Sub-Saharan Africa: Colonialism and Geography

Of perhaps more relevance for this study is the non-emergence of modern states in the non-Western world – in sub-Saharan Africa especially – with its history of being subjected to imperialist European ideals. Indigenous patterns of both social and political organisation had evolved and existed in societies in Asia, the Middle East and Latin America prior to their contact with the West (Morris 2010; Ferguson 2011; Fukuyama 2014). Colonisation confronted these societies with systems radically foreign to their own; the Western model of government uprooted the legitimacy of traditional institutions. The uneasy hybrid that emerged was not successfully Westernised; it was also no longer authentically traditional (Landes 1998; Fukuyama 2014). The institutional history of the non-Western world can therefore only be properly understood in the context of the influence of imported, foreign institutions.

Still, one may ask why the indigenous institutions in the non-Western world evolved so radically different from the Western model, which also emerged organically, if piecemeal, from revolutions in different centuries and on different continents to converge on a coherent set that culminates in liberal democracy. Over the years, several theories have been forwarded to explain the disparate institutional evolution in different regions of the world (Diamond 1997; Sachs 2005; Acemoglu, Johnson and Robinson 2001. North, Wallis and Weingast 2009). Theories relying on material variations in geography and climate are prominent among them (Diamond 1997; Sachs 2005).

Section 5.7.3 below is therefore dedicated to a more complete exploration of geography as a direct deep cause of countries' poverty or prosperity, or as the indirect deep cause through the way in which geographies have shaped nations' institutional paths. For now, suffice to say that the argument goes as follows: certain geographies favoured different modes of production. Resource endowment that was favourable for large-scale tropical agriculture and mining, for instance, encouraged exploitative labour practices and the use of servile labour. These modes of production spawned power and wealth imbalances in society, which were precursors of authoritarian systems (Landes 1998; Welzel 2014).

In climatic regions that supported self-sufficient family farming, wealth and power were more equally distributed, establishing a social order conducive to political democracy (Landes 1998; Fukuyama 2014; Welzel 2014). And, the argument goes, once institutions are embedded, they remain locked in and resistant to reform even when the underlying geographic traits that spawned the institutional path cease to be relevant (Fukuyama 2014; Welzel 2014).

The effect of geography on postcolonial institutions and political outcomes has also been diluted by the policies that colonial powers implemented, by the duration of their colonial reign, and also by the forms and magnitude of their investments in colonies. Landes (1990) and Fukuyama (2014) emphasise that every generalisation about the possible determinism of climate and geography is belied by notable exceptions. Fukuyama (2014) points out that contemporary Costa Rica, for instance, is democratic, relatively well governed, and has both flourishing export industries and a thriving ecotourism sector. Argentina, on the other hand, has land and a climate not unlike that of North America, but achieves nothing more than volatile economic performance and developing-country status. It is also prone to political instability, alternating between military dictatorship and populist misrule (Fukuyama 2014).

In the final instance, geographical determinism projects humans as victims of circumstance. It denies the many ways in which colonised peoples exercised *agency*. Despite domination from outside, they shaped their own institutions in material ways. Indeed, the highest-achieving non-Western countries of the twenty-first century are “precisely those that had the most developed indigenous institutions prior to their contact with the West” (Fukuyama 2014: 61).

At the root of the contrast between the development paths of the worst-performing (sub-Saharan Africa) and the best-performing (East Asia) developing regions in the world, is their divergent institutional histories (Rodrik 2002, 2004; Acemoglu and Robinson 2013; North 1981, 1990a, 1991, 1992 and 2003). In sub-Saharan Africa, an indigenous version of strong, state-level institutions never evolved pre-colonisation (Ayittey 2006; Gennaioli and Rainer 2007). During the scramble for Africa in the late 1800s, colonial powers discovered that the new colonies barely covered the cost of their own administration, which in the case of Britain prompted a policy of *indirect rule* and hence minimal investment in the establishment of state institutions (Ayittey 1989, 2006).

Fukuyama (2014) therefore describes the colonial legacy as hurtful more through omission than commission. Colonial rule did not translate into the establishment of strong state institutions, but it did undermine the weak indigenous state traditions and left the post-independence institutional vacuum that caused the post-independence economic fallout in the region (Ayittey 2006, Gennaioli and Rainer 2007).

5.5.2 *State Building in East Asia: An Alternative Historical Path*

The post-independence outcomes in East Asia contrast sharply with those in sub-Saharan Africa. China invented the centralised, modern state and has the oldest tradition globally of a meritocratic, efficient bureaucracy (Shambaugh 2010). China’s neighbouring states, Japan, Korea and Vietnam

assimilated this tradition. Fukuyama (2014: 64) asserts that:

“(i)n East Asian societies, effective public institutions have been the basis of economic success. Asian states were built around well-trained technocratic bureaucracies, which have been given enough autonomy to guide economic development, while avoiding the forms of gross corruption and predatory behavior that have characterized governments in other parts of the world.”

Relying on the history of Chinese warlordism in China, Olson (1993: 568) explains how “bandit rationality” may produce production-fostering social contracts characterised by tax extraction in exchange for essential public goods – a peaceful order in particular – under autocracy, when autocrats have an “encompassing interest” in the economic wellbeing of their subjects.⁵⁷

5.5.3 *State Building in Latin-America*

Latin America’s institutional legacy is somewhere between sub-Saharan Africa and East Asia, having never achieved East-Asian type of centralised state-level institutions (Haber 1997). Disease and conquest destroyed their indigenous political structures, and Spanish and Portuguese settlers imposed authoritarian and mercantilist institutions on local communities that were also fragmented along racial and ethnic lines (Collier 1999). These institutional traditions have then proven highly persistent.

Fukuyama (2014) concludes that contemporary development outcomes are strongly influenced by the nature of countries’ indigenous state institutions *before* they came into contact with Western institutions. He contends that the divergent pre-colonisation institutional quality among East Asia, sub-Saharan Africa and Latin America predicts the contemporary development disparity among the three regions. Regions with a strong institutional tradition reverted to them following periods of disruption. The poorest world regions today are countries that lacked strong *indigenous* state institutions and where strong settler-based institutions of centralised, modern and efficient states have not transplanted successfully (Fukuyama 2014).

5.5.4 *Effective Constraints Matter More Than Democracy*

Scholarly literature has paid much attention to the third crucial institution, democratic accountability, over the past three or four decades (Linz and Stephan 1978; O’Donnell, Schmitter and Whitehead, 1986; Diamond, Linz and Lipset 1988; Huntington 1991; Diamond 2008). The interest in transitions to democracy, breakdowns of democracy and democratic quality is to be expected given that

⁵⁷ See section 5.8.3 below for a discussion of Olson’s (1993, 2000) approach.

between the 1970s and 2013, during the third wave of global democratisation, *electoral* democracies have nearly quadrupled in number, from 35 to 120 (Huntington 1991; Fukuyama 2014).

This expansion masks how fraught with obstacles the road to democracy is. One must bear in mind that in 1815, when the Napoleonic Wars ended long after the first wave of democratic expansion, which took place in the United States and Europe following the American and the French Revolutions, no European country qualified as even a procedural or electoral democracy (Huntington 1966; 1991). Whatever democratic gains had been made were reversed by the 1848 revolutions in continental Europe, which witnessed the sweeping return of authoritarian rule within a year (Morris 2010). It took many decades for the franchise to gradually unfold; it was 1929 before Britain, the country with the longest-standing parliamentary tradition, instituted full adult suffrage (Fukuyama 2014).

The pace at which democracy spreads depends on how rapidly societies internalise the legitimacy of the expansive and inclusive democratic ideals; it is the *idea* of democracy that must gain wide acceptance.⁵⁸ Broad assimilation of the notion of human equality gauges the democratic expansion; during the 1800s for instance, many well-intended and educated citizens were convinced that entrusting the franchise to the broad, uneducated masses would be irresponsible (Fukuyama 2014). The explosive growth set off by the Industrial Revolution however mobilised a *bourgeoisie* or middle class who, having become conscious of their common interests, organised themselves politically and demanded the right to political participation (Mann 1981; McCloskey 2006, 2010). The frequently violent mobilisation of newly empowered, emerging classes often precipitates a broadening of the franchise. Established elites may advocate democratic expansion too however, if it is aligned with their political interests. Countries' democratic deepening is therefore often linked to shifts in the relative positions of classes in society (Mann 1981; McCloskey 2006, 2010). Fukuyama (2014: 67) contends that, almost without exception, "the rise and growth of middle-class groups was critical to the spread of democracy. Democracy in the developed world became secure and stable as industrialization produced middle-class societies, that is, societies in which a significant majority of the population thought of themselves as middle class."

In addition to growth and subsequent social mobilisation, globalisation also facilitated the universalisation of democracy (Welzel 2014). Dismantling the barriers to the flow of not just capital, goods and services, but also of people and ideas, means that institutional progress that evolved

⁵⁸ Internalising the *idea* of democracy hints at the emancipative value orientations that must emerge from within empowered societies where citizens have autonomy and agency (Welzel 2014; Inglehart and Welzel 2005, 2009). This societal transformation is referred to as the *human* modernisation sequence.

through trial and error over centuries in some parts of the world, may be accelerated considerably where these institutions are not yet established (Landes 1990; Fukuyama 2014). Hence, through the benefits proffered by the demonstration effect, *lateness* in development is sometimes viewed as advantageous (Landes 1990). Drawn-out lateness however also means that an ever widening of the divide that poor countries must bridge in order to catch up. It may also spawn hasty, ineffectual superficial reforms (Landes 1990; Acemoglu and Robinson 2013; Welzel 2014), or so-called isomorphic mimicry (Pritchett, Woolcock and Andrews 2010).

An institutional regime balanced on a modern, impersonal state, the rule of law and a functional mechanism of executive accountability is *practically* necessary in *all* societies. It safeguards society at large against predation and exploitation by political powers and incentivises productive exchange and economic performance (Hall and Jones 1999; Acemoglu and Robinson 2013; Fukuyama 2014)). It is also a universal, *moral* necessity in *all* societies; they do not serve only Western cultural preferences (Welzel 2014; Fukuyama 2014).

There is no known alternative for a modern, impersonal and meritocratic bureaucracy as guarantor of order and safety, and an efficient source of quality public goods (Evan 1999). Rule of law is equally critical for economic development. To foster generalised (as opposed to narrow) trust and broad, large-scale productive exchange, property rights and contracts must be enforced impersonally and objectively (Hall and Jones 1999; Fukuyama 2014). Also, laws that enshrine unalienable human rights serve the social ideal of human dignity and therefore have *intrinsic* in addition to its instrumental value (Jensen and Heller 2003; Welzel 2014).

The third institution of democratic accountability through broad political participation offers society a mechanism to curtail tyrannical, exploitative rule. More useful though than citizens' democratic check on abuse of power is the political agency it embodies (Fukuyama 2014). Human freedom and dignity enrich and fulfill the lives of individuals and are legitimate ends in themselves (Welzel 2014).

A liberal democracy is the culmination of these three sets of institutions. If a central theme does emerge from global development histories through the course of time, it is of a political deficit of a particular order: modern, capable *states* that are efficient, impersonal and autonomous are a rarity (Mann 1984, 1993). Fukuyama (2014: 74) declares that;

“(m)any of the problems of developing countries are by-products of the fact that they have weak and ineffective states. Many appear to be strong in ... despotic power, the ability to suppress journalists, opposition politicians, or rival ethnic groups. But they are not strong in their ability

to exercise infrastructural power, the ability to legitimately make and enforce rules, or to deliver necessary public goods like safety, health, and education.”⁵⁹

Institutional deficits that perpetuate development failures and poverty are often interpreted as *democratic* shortfalls. They are in fact *state failures* – state administrations incapable of making good on election promises of democratic politicians to an electorate in pressing need of good governance. The twentieth-century experience with “maniacal totalitarian regimes”⁶⁰ (Fukuyama 2014: 73) has sharpened the focus on guarding against overweening rule, fertilising distrust in state power and governments. Hence, the scholarly emphasis was on *democratisation*, on liberating society and curtailing the excesses of political power through democratic franchise specifically, rather than on harnessing and sharpening state power effectively to facilitate development (Fukuyama 2014).

Identifying the absence of state capacity as the *primary* institutional deficit hamstringing development in countries where the poor masses are conspicuously also disenfranchised does not reflect a preference for authoritarian rule. Rather, it reflects the imbalance between state power and power-constraining institutions that characterises *electoral* democracy. A poor democracy that is incompetently governed gains nothing by becoming an equally poorly administrated autocracy however. For these countries, turning into Singapore is as unfeasible as “getting to Denmark”. Emphasising *effective governance* by a capable state as the institutional priority for development is also not tantamount to advocating for large welfare states. *Quality* of governments matters, not size.

5.6 The Special Case of Sub-Saharan Africa and its Institutional Legacy

In *The Prosperity and Poverty of Nations*, Landes (1998: 500) summarises the post-independence development experience of sub-Saharan Africa as follows:⁶¹

“Of all the so-called developing regions, Africa has done worst...; many countries with lower income today than before independence. Much of the gap between expectation and realization came from unpreparedness. The postcolonial Africans had no experience of selfgovernment, and their rulers enjoyed a legitimacy bounded by kinship networks and clientelist loyalties. Abruptly, these new nations were pressed into the corset of representative

⁵⁹ Several scholars submit similar arguments. See for instance Mann (1984, 1993, 2003), Rotberg (2003a, 2003b), Acemoglu and Robinson (2013) and North, Weingast and Wallis (2009).

⁶⁰ These regimes refer to Russia under Stalin (1924 – 1953), Germany under Hitler (1933 – 1945) and China under Mao Zedong (1949 – 1959).

⁶¹ The longish excerpt has been inserted in its entirety because it is an accurate, succinct summary of what follows in this section.

government, a form alien to their own traditions and unprepared by colonial paternalism. In some instances, this transition had been preceded by a war of liberation, which mobilized passion and identity. But the legacy was rule by a strongman, autocratic embodiment of the popular will, hence slayer of democracy. Stability depended on one man's vigor, and when he weakened or died (or was helped to die), the anarchy of the short-lived military coup followed. The governments produced by this strong-man rule have proved uniformly inept, with a partial exception for pillage. In Africa, the richest people are heads of state and their ministers. Bureaucracy has been inflated to provide jobs for henchmen; the economy, squeezed for its surplus. Much (most?) foreign aid ends in numbered account abroad.”

Sub-Saharan Africa constitutes the worst-performing developing region globally (Collier 2008; Deaton 2013; Fukuyama 2014) and hence warrants specific attention. States in the region are hardly homogenous, ranging from stable democracies like Botswana and Mauritius to kleptocratic and authoritarian failed states like South Sudan, Libya and Somalia, yet some generalisations can be made (Mo Ibrahim Foundation 2018). Many states on the African continent are characterised by a mode of governance that is distinct from those in East Asia and Latin America (Bratton and Van der Walle 1997; Bratton 2006; Pritchett, Woolcock and Andrews 2010; Burchard 2014). African states lean towards neopatrimonialism, defined as an “outward form of a modern state, with a constitution, presidents and prime ministers, a legal system, and pretensions of impersonality, but the actual operation of the government remains at core a matter of sharing state resources with friends and family”(Fukuyama 2014: 548).

Neopatrimonial rule in Africa is founded on personalism (Fukuyama 2014). Virtually all postcolonial political systems were presidential – not parliamentary – and centred narrowly on the presidential individual, or *big man*, who cared much about loyalty of subordinates (Rotberg 2003a, 2003b; Van Cranenburgh 2008). Political leaders did establish political parties, but they were less important and organised than their European and Asian counterparts, where the organising principle was a shared ideology (Fukuyama 2014). Presidents had pervasive powers that the legislatures, ministers and courts did not share irrespective of constitutional prescriptions (Van de Walle 2001, 2003; Rotberg 2003a, 2003b).

Until recently, African presidents did not observe term limits or relinquish power peacefully to successors. Kenneth Kaunda for instance ruled Zambia for twenty-seven years, Mobutu Sese Seko retained power in the Democratic Republic of the Congo (erstwhile Zaire until 1997) for thirty-two years, and Robert Mugabe clung to ruinous power in Zimbabwe for thirty-seven years before being deposed in 2017. Equatorial Guinea's sitting President Teodoro Obiang Nguema Mbasogo has been

in power for more than four decades. South Africa's Nelson Mandela is quite unique among revolutionary leaders in Africa for vacating the presidency voluntarily after serving a single five-year term.

African neopatrimonialism is also characterised by its extensive use of state resources to amass political loyalty, resulting in pervasive clientelism as “presidents distributed offices and favors to their supporters in a particularly blatant way, which resulted in the immense expansion of executive branches” (Fukuyama 2014: 550). Rising commodity prices during the booming 1960s and 1970s supported the ballooning state sectors in resource-dependent African states, but almost the entire continent was faced by a massive debt crisis in the 1980s as commodity prices collapsed and the over-swollen public payrolls became unaffordable (Van de Walle 2001, 2003; Fukuyama 2014).

Despite the magnitude and symbols of authority that typify the postcolonial neopatrimonies of Africa, scholars identify their underlying weakness as their most outstanding characteristic (Herbst 2000; Rotberg 2003a and 2003b; Fukuyama 2014). Relying on the Weberian approach,⁶² state strength is measured by its *legitimate authority* to make rules and enforce them in a territory, which gauges trust and voluntary compliance in a society more than physical coercion through a state's monopoly on violence (Herbst 2000; Pritchett, Woolcock and Andrews 2010).

African rulers suppress political dissent effectively, but often lack the basic state capacity to provide essential public services like education and health (in rural regions especially), to maintain order and stability, to enforce the law impersonally, or to implement and manage appropriate macroeconomic policy (Herbst 2000; Rotberg 2003a and 2003b; Fukuyama 2014).

The inherent weakness of sub-Saharan states also reflects in its inability to extract taxes; at seven to fifteen percent of GDP, the tax revenue raised by the poorest sub-Saharan countries is not just a fraction of the develop-world ratio, it is radically inadequate to meet development needs (Van de Walle 2001; Fukuyama 2014; Black, Calitz and Steenekamp 2015). In many of the poor African

⁶² The Weberian approach may be summarised as: “The development of the modern form of organisation concurs in all sectors with the development and continuous expansion of bureaucratic administration ... Because the bureaucratic administration is always observed under equal conditions and from a formal and technical perspective, the most rational type ... The main source of the superiority of bureaucratic administration lies in the role of technical knowledge, which, through the development of modern technology and economic methods in goods' production, has become absolutely indispensable ... Bureaucratic administration fundamentally means the exercise of domination based on knowledge. This is the trait that makes it specifically rational. It consists, on the one hand, of technical knowledge, which is, *per se*, sufficient to ensure a position of extraordinary power for bureaucracy. On the other hand, it should be considered that bureaucratic organisations, or those in power who use it, tend to become even more powerful by the knowledge that comes from the practice that they attain in the function” (Weber, quoted in Serpa and Ferreira 2019: 13). For an in-depth analysis of Weber's seminal work on bureaucracy, see Serpa and Ferreira (2019).

countries that do manage to extract a higher percentage of taxes, natural resource wealth is the enabler, not administrative capability (Van de Walle 2001; Fukuyama 2014). State funding therefore often comes from other sources; during the 1990s for instance, foreign donor aid financed the bulk of many African state budgets (Van de Walle 2001 and 2004; Fukuyama 2014).

State capacity may also be gauged by the degree to which governments have monopolised violence in its territory. Post-colonial Africa has been plagued by “civil wars, separatist movements, rebellions, coups, and other internal conflicts, many of which are ongoing” (Fukuyama 2014: 553). During the 1990s, the states of Liberia, Somalia and Sierra Leone collapsed into warlordism, while the Democratic Republic of the Congo had an impressively sizeable military that surrendered instantly upon the invasion in 1996 by the Alliance of Democratic Forces for the Liberation of Congo-Zaire. The fleeing army harmed Congolese civilians more than the invading forces, stealing whatever assets they could as they fled (Fukuyama 2014). The endemic failure of Africa’s weak states to control violence and conflict in their territories is costly and wasteful on an unsustainable scale, and has been explored extensively by scholars (Clapham 1997; Reno 1998; Chabal and Daloz 1999; Williams 2016).

In *War and Conflict in Africa*, Williams (2016: 5) writes that the dynamics of the armed conflicts in Africa, the bloodiest continent in the post-Cold War world, often have to do with the politics of regime survival:

“Particularly, when a regime’s legitimacy was challenged, the strategies frequently involved instrumentalizing disorder and violence to assert authority. It is in this sense that most of Africa’s state-based wars owe a great deal to the combustible mix of state institutions which struggled to maintain legitimacy among the domestic population and the political strategies of regimes seeking to preserve their privileged status within this context.”

Another measure of state weakness in postcolonial Africa was how under-resourced these governments were in terms of human capital. Africa could not – like East Asia – draw on a long-standing tradition of impersonal bureaucracy, nor on a cadre of capable bureaucrats who could continue operating the administrative systems inherited from departing colonial governments (Fukuyama 2014). Post-independence governments that governed without expertise in state administration committed material, consequential policy errors (Bratton and Van de Walle 1997; Wrong 2002; Bates 2005).

The institutional deficit that sets sub-Saharan Africa apart from other developing regions, and especially from rapidly developing East Asia, is not democracy. Fukuyama (2014) states that the

African region was in fact more democratic than East Asia between 1960 and 2000.⁶³ The deficit was also not in the rule of law; some high-performing Asian countries, like Taiwan, South Korea, Singapore and China were not only under authoritarian rule, their judicial systems were weak and unbinding on their rulers (Fukuyama 2014).

East Asia's institutional strength however was where Africa was most notably lacking: East Asia had competent, strong states that were capable of controlling violence and executing rational, beneficial public policies.

5.7 Origins of Africa's State Weakness: History, Geography and Human Agency

The origin of Africa's deficit in state capacity courses back to the institutional legacy of colonialism, and further than that, to the nature of African societies before they were changed by Western rule.

Africa was only colonised in 1882, during the culmination of the so-called third wave of European colonisation, also referred to as the *Scramble for Africa* (Fieldhouse 1965; Abernethy 2000). This expansion differed from earlier colonial conquests in important respects: Europe's technological advance over the rest of the world was greater than during earlier expansions; Europe was also industrialising and innovating rapidly, making historic strides in naval capabilities, in medicine and weapon technology – all of which facilitated Europe's conquests of new worlds (Abernethy 2000; Fukuyama 2014).

During the third wave of expansion, European countries intended to accomplish the earlier feats of the Spanish conquistadors in Peru and Mexico, but the colonies – particularly in tropical Africa – proved less lucrative. They did not offer new markets that could absorb Europe's surplus capital or globalise capitalism (Fieldhouse 1965). Yet, by 1914, Europe controlled an astounding 84.4 per cent of the land surface of the earth (Fieldhouse 1965). European interest in Africa was driven more by imperialist rivalry than profitable resource extraction however; hence the interest to colonise Africa waned following the demise of the slave trade, along with the triangular trade of slaves, resources and manufactured goods (Fieldhouse 1965; Fukuyama 2014).⁶⁴

⁶³ See also Bratton and van der Walle (1997), Bratton (2007) and Burchard (2014) for accounts of the evolution of democracy in Africa.

⁶⁴ Several scholars propose that the slave trade has had a deciding influence on the modern-day fabric of African societies. Nunn (2008, 2010) presents evidence that its effects are visible not only in economic outcomes, but also in cultural and social traits of contemporaneous Africa. Key societal outcomes, like prosperity (Nunn and Puga 2012) and institutional quality, ethnic diversity (Green 2013) and conflict prevalence (Fenske and Kala 2016), gender politics and polygyny (Dalton and Leung 2014), as well as trust levels (Nunn and Wantchekon 2011) have been shaped by the legacy of the slave raids and trades.

The third wave of European expansion coincided with the emergence of a Darwinian doctrine of scientific racism that paradoxically seemed to legitimise the use of force against indigenous populations in an era when the idea of democracy and participatory government was gaining hold in North America and Europe (Fukuyama 2014). The political landscape in colonies became completely dichotomised as a result; settler populations were granted expansive political rights while local African populations received none (Mamdani 1996; Abernethy 2000; Fukuyama 2014). South African was perhaps the most extreme manifestation of this dichotomous standard (Munro 1966).

5.7.1 *Causes and Consequences of Africa's Colonial Legacy*

Herbst (2000) and Fukuyama (2014) offer explanations for the extraordinary rapidity with which Africa was colonised. They claim that the foremost characteristic of many indigenous societies on the African continent, that made them distinct from East Asian societies and vulnerable to being overpowered by European forces, was the absence of strong, centralised state institutions. At least half of the continent was inhabited by kin-based tribal societies with no individual leader, despite the fact that the origin of the human species was on the African continent.⁶⁵

Herbst (2000) points out that the population density in Africa was among the lowest in the world in the 1800s; hence the demand pressure, that would generally incentivise technological innovation in dense populations to raise agricultural output through greater productivity and labour specialization, did not materialise (Boserup 1976; Herbst 2000). Fukuyama (2014: 561) declares that:

“(t)he level of technological backwardness of precolonial Africa was striking: the plow had not been adopted in agriculture, which everywhere remained rain fed rather than irrigation based, and sophisticated metalworking was not developed. The latter had huge political consequences: in contrast to the Japanese, who had a long-standing metalworking tradition and could manufacture their own guns shortly after coming into contact with Europeans, the Africans remained dependent on imported firearms until well into the nineteenth century.”

Africa's physical geography may also have precluded state formation (Herbst 2000). In Europe and China, for instance, powerful states emerged where relatively flat stretches of land naturally bounded by mountain ranges and large rivers facilitated political consolidation in territories where rulers could exert military power and monopolise force (Fukuyama 2014). In Africa by contrast, the Sahara Desert and the savanna belt below it are the only open flat regions that can be traversed on horses and camels. These are also the regions on the continent where societies with state-level structures

⁶⁵ Fukuyama (2014: 560) describes these early tribal societies as “acephalous”, or “headless”, from the literal Greek translation.

tended to cluster (Fukuyama 2014). South of the savanna belt, tropical forests that were hard to penetrate made state formation virtually impossible, although relatively large political units like the Zulu kingdom existed further south (Fieldhouse 1965; Herbst 2000).

With the exception of the Nile, that did facilitate the strong state-level Egyptian civilization, Africa's large rivers are for the most part not navigable. European settlements that were established on the African coasts as entrepôts thus remained isolated from the hinterlands (Herbst 2000, Fukuyama 2014). Maps of the interior did not exist; nor did the skill of road construction, which created the essential connecting road webs in the ancient Roman and Inca empires.

From anthropologist Robert Carneiro's (1970) theory that circumscription is a precondition to transition from tribal societies to state-level political orders, follows that in uncaged geographies, tribal societies unwilling to submit to the coercive strategies of a centralising political authority may simply move away (Herbst 2000). In much of tropical Africa, land was abundant and a forest escape always possible. The difficulty in exerting territorial control meant led to a view of political authority as the authority over persons, not territory (Herbst 2000). African rulers had no mapped geographical domains; they ruled over networks of "tribute-paying clients" (Fukuyama 2014: 563).

These were societies at the threshold of the transition from tribal to state organisation that did not transition but remained organised along segmentary lineages (Herbst 2000; Fukuyama 2014). These societies may merge into larger units to ward off attacks but will fracture into much smaller lineage groups again if circumstances allow. Occasionally, power centralises into chiefdoms that may appear state like; unlike states however, they have no territorial authority and cannot prevent subunits from splintering off and departing (Herbst 2000).

Fukuyama (2014) cautions that the meaning of the term "tribal" to denote political organisation in precolonial Africa is specific, and to be distinguished from its misuse in contemporary ethnic politics. Anthropologically speaking, a tribe or segmentary lineage is "a group that traces common ancestry to a progenitor who may be two, three, or more generations distant (Evans-Pritchard 1940; Herbst 2000). The system is held together by a very specific set of beliefs about the power of dead ancestors and unborn descendants to affect the fortunes of the living" (Fukuyama 2014: 565). Given that the common ancestry may be traced through any number of generations, the lineages or tribes are scalable. Mostly, a proximate progenitor anchors the lineage and therefore the tribe – or kin group – is quite small (Evans-Pritchard 1940; Herbst 2000; Fukuyama 2014).

The scramble for Africa, it seems, was more strategic than economic. European powers were primarily interested in creating protectorates where they had influence, not in spending state

resources to rule their African colonies directly (Fieldhouse 1965; Young 1994). Where settler authority was extended in colonies, it was often driven by local agents rather than national governments: settlers demanding more land, self-interested traders vying for commercial opportunity, missionaries aspiring to convert Africa (Young 1994; Fukuyama 2014).

The tension between European settlers eager to expand imperial rule and deepen investment in colonies, and European governments' skepticism over the value of their investments in Africa nevertheless did not prevent the onset of so-called *mission creep* (Fieldhouse 1965; Young 1994). This occurs when foreign intervention designed to be of a limited nature feeds local settler interests, which require a deepening of colonial investment and involvement to justify or even salvage the mission. The mission-creep dynamic in Africa produced “colonialism on the cheap” in an effort to preserve imperialist standing and influence with minimal investment and minimal administration, falling well short of committing to build sustainable political institutions (Fukuyama 2014: 569). The stage for post-independence state weakness and failure was thus set.

5.7.2 *State Legitimacy and Social Contracts in Post-Independence Africa*

Much of the literature on modern-day states in sub-Saharan Africa probes why “they have proved to be such weak Leviathans or, phrased in more normative terms, why they have failed to generate meaningful public goods” (Nugent 2010: 38). Most of the scholarly explanations for the evolutionary path of African states are rooted in the historical architecture of post-independence states, emphasising how the damaging legacy of the slave trade (Nunn 2008, 2010) and colonialism in particular continues to weigh on post-liberation neo-patrimonial dynamics.

State-society engagement was fundamentally affected by these developments, shaping social contracts in states emerging from colonial rule in distinct ways.

Legitimacy of post-independence states in Africa was fundamentally compromised from the outset (Nugent 2010). Vertical legitimacy was forfeited as a result of states being divorced from historically embedded, indigenous institutions governing societal relationships of power and subordination, while horizontal legitimacy was undermined by arbitrary colonial borders,⁶⁶ dividing or grouping

⁶⁶ A study by Michalopoulos and Papaioannou (2016) finds that the largely accidental political boundaries drawn by colonial powers, which partitioned ethnicities across post-independence African states, have lasting consequences. The study finds that political violence and civil conflict are prevalent in partitioned homelands over protracted periods. Moreover, the conflict is often state-driven or state-backed, occurring between rebels and national governments. It is also associated with political discrimination and ethnic-based civil wars, particularly when ethnic groups are excluded from representation in central governments. The arbitrary colonial partitioning of ethnicities thus continues to impact the economic outcomes of erstwhile colonies.

African societies in ways that did not support social and political cohesion.⁶⁷ While colonially inherited institutions lacked legitimacy, they maintained the coercive and violent enforcement habits of colonial regimes. Also, remnants of indigenous institutions that persisted did not retain their traditional mechanisms of accountability (Gennaioli and Rainer 2007; Nugent 2010).⁶⁸ Neo-patrimonialism followed as the ruling elites attempted to cultivate political support (Fukuyama 2014; Keefer and Vlaicu 2004; Keefer 2005, 2007).

A substantial body of literature ascribes state failure to the neo-patrimonial strategies of post-independence rule (Chabal and Daloz 2005; Nugent 2010). African states' adherence to norms of good governance is compromised by their commitment to be of service to social networks that "are seen as deeply embedded in the state, to the extent that the latter effectively becomes captive to criminality" (Nugent 2010: 41). In addition, globalisation gave rise to unprecedented opportunities to extract illicit wealth, escalating the scale and depth of neopatrimonialism in weakening African states.

The illegitimacy of post-independence states having to resort to neo-patrimonialism to garner political loyalty (Fukuyama 2014; Keefer and Vlaicu 2004; Keefer 2005, 2007), and to violence and coercion to suppress dissent, inevitably affects the ways in which they engage with their populations. Boone (2003) explains that state-society negotiation of the social contract may be encouraged where extractive imperatives of states compel them to engage with society, or where powerful societal coalitions force such engagement. The central role of revenue extraction to incentivise bargaining and shape state-society relations is explored extensively in the literature (Brautigam *et al.* 2008).

Nugent (2010) identifies three distinct kinds of social contracts that have emerged in Africa, shaped by key elements of the post-colonial political economy: administrative capacity, revenue extraction and state control of the citizenry and land. The first, a *coercive* social contract, awards the right to rule on the basis of the capacity to make life intolerable; political loyalty buys citizens protection against acts of predation. Revenue extraction takes the form of personalised rather than routinised

⁶⁷ Englebert (2000) proposes that modern-day African states like Lesotho, Botswana and Eswatini built on pre-colonial foundations of kingdoms or chiefdoms, generally perform better in terms of legitimacy. It is problematic though that the pre-colonial states were rooted in kinship ties rather than impersonal bureaucracy (Chabal and Daloz 2005).

⁶⁸ Palagashvili (2018) explains how colonialism contributed to a weakening of the social contract between chiefs and their people by severing the alignment of their incentives. British indirect rule reduced political competition among chiefs and ameliorated their budget constraints. Chiefs became less accountable to their people, perpetrating widespread corruption, extortion and abuses of power. An earlier paper by Acemoglu *et al.* (2014) confirms that British colonialism's undermining of the accountability of chiefs is associated with poor contemporaneous development outcomes.

tributes. The second, a *productive* social contract, is one in which states and their citizens negotiate the rights of access to productive resources and the payment of taxes to establish a mode of rule that enhances societal wellbeing. The third kind, referred to as *permissive* contracts, is characterised by a state that, although claiming its sovereign rights, trades not enforcing them in exchange for a degree of *de facto* compliance. The understanding that the ruling authority may renege on non-enforcement at will implies that its sovereign power is not undermined (Nugent 2010). The “permissiveness” benefits society who is subjected to minimal state harassment in exchange for reduced accountability for rulers.

African countries having emerged from colonial rule needed to forge new forms of legitimacy through compromise and social contracts that were renewed at the time independence and later renegotiated, calling into existence different combinations of the three kinds of social contracts. The mid-seventies signalled a discontinuity in Africa’s post-independence experience; brought on by drought and the oil shocks (Nugent 2010). The near-universal uptake of Structural Adjustment Programmes in the eighties and nineties impacted state-society relations significantly, through strict conditionalities that rendered states less accountable to the citizenry. Sharp declines in state revenue jeopardised state-led development efforts. Many incumbent regimes encountered legitimacy and leadership crises as they failed to manage the crisis of material hardship (Nugent 2010).

The end of the Cold War changed the external environment of weak African regimes significantly. It became clear that electoralism *per se* does not produce either political stability or greater accountability (Nugent 2010). It would seem that democracy has been associated with better outcomes in instances where social contracts were renegotiated to reflect changing circumstances. Nugent (2010) proposes how that may be accomplished. First, international aid weakens social contracts; it reduces the revenue extractive imperative and renders states beholden to aid donors through their conditionalities rather than to the citizenry. It is therefore proposed that African states build their capacity to raise revenue, not just to meet the funding requirements for crucial public services, but because it encourages state-society engagement (Brautigam *et al.* 2008).

Also, following the neo-liberal agendas since the 1980s, African bureaucracies came to be viewed as inherently incapable of performing their tasks and were encouraged to defer to private capital. What has often emerged, is an “effectively privatized delivery system that exists side by side with a hollowed out public system that continues to receive public resources (albeit inadequate ones) whether or not it actually produces services” (Van de Walle 2003c:19, in Nugent 2010: 64). Van de Walle (2003c) advocates that bureaucratic capacity be rebuilt and states reinserted in governance in ways that encourage their engagement with their citizens and strengthen the social contract.

5.7.3 *Scrutinising the Role of Geography in Poverty – Destiny, or No Match for Human Agency?*

The argument that climate and geography are the primary deep sources of economic growth – either directly or indirectly through their impact on contemporary institutions – resurges often. The case for geographic determinism is forwarded most strongly by economists who remain convinced by the traditional materialistic explanations of human behavior. One such proponent, Jeffrey Sachs, emphasises that contemporary development patterns remain highly correlated with geography; poor countries are concentrated in the tropics, while modern, prosperous countries are located mostly in temperate climates.

Sachs argues that geographical traits are transmitted to economic performance through two channels: the first is whether countries have access to navigable waterways and how feasible transport is to facilitate commerce (Sachs 2001, 2003, 2005). Countries that are landlocked in the interiors of Africa and Asia without access to harbours find it much harder to penetrate international markets. The second direct channel of transmission runs through the wide variety of debilitating tropical diseases like malaria in warm southern climates. Sachs estimates that malaria directly reduces the per-capita growth potential of tropical countries by 1.3 percentage points (Sachs 2001; Gallup and Sachs 2000, 2001).

In *Guns, Germs, and Steel*, Jared Diamond (1997) similarly emphasises the direct, *material* obstacles to growth and development posed by countries' climates and geographies. He attributes the ability of European powers to achieve domination over vast regions in the world to geographical factors like the ease of east-west communication across the Eurasian continent. In comparison, exchanges of goods, technology and ideas along the north-south axis of the globe are complicated by the large variations in climatic zones. Appropriate technologies and other mechanisms of modernisation therefore diffused laterally across the northern hemisphere with relative ease while climatic disparities prevented similar north-south diffusion (Diamond 1997).

Diamond (1997) further reports that the Europeans successfully cultivated cash crops of rye and wheat, and domesticated the horse. Being able to travel on horseback enhanced mobility, which led to greater genetic diversity and therefore improved immunity against a greater variety of diseases. Diamond (1997) explains that the vulnerability of populations in the New World to disease, from outside especially, was heightened by their relatively homogenous genotypes.

An empirical study by Olsson and Hibbs (2005) supports Diamond's thesis. A subsequent study by Spolaore and Wacziarg (2013) using the Olsson-Hibbs dataset, produces similar positive results, but unlike Diamond (1997), finds that the *transmission channel* through which geography is influential

for comparative development patterns cannot be separated from human traits, supporting the views of Landes (1998), Glaeser *et al.* (2004), and Easterly and Levine (2012). Modern-day populations and societies inherit ancestral traits through a complex web of biological and cultural interaction; geography is influential, albeit indirectly, through its essential role in these interactions.

Institutions do not feature in Sachs's or Diamond's explanations of development outcomes. Douglass North (various; see for instance 1990a, 1991, 1992 and 2003) attributes poor development performance to institutional differences particularly regarding the rule of law and protection of property rights and rule of law, which often depended on what the settlers brought and hence on the identity of the coloniser. England, for instance, seeded the institutions of parliamentary government and Common Law in North America,⁶⁹ while absolutist and mercantilist Spain and Portugal colonised South America, bequeathing a very different institutional legacy (North and Thomas, 1973; Fukuyama 2014).

Engerman and Sokoloff (2002, 2003, 2005 and 2012) agree that institutions are pivotal in development outcomes, but consider them as an outcome of the climates and geographies that the colonisers encountered upon their arrival in the New World. Engerman and Sokoloff (see *inter alia* 1994 and 2002) trace the institutional differences between North and South America, for instance, to differences in factor endowments⁷⁰ and not to the identity of the coloniser. They explain that Barbados and Cuba were once British colonies too, made prosperous by large-scale plantation agriculture relying on slave labour. What emerged however, was a narrow elite of plantation owners ruling over a sizable slave population in a highly exploitative social order. The extraction of gold and silver was the mainstay in the Spanish colonies of Mexico and Peru. They used involuntary labour too, sourced from the large indigenous populations. Mining concentrated economic power in a similar unequal pattern as large-scale agriculture, which then spilled into vast inequalities in land ownership and political franchise.

Engerman and Sokoloff consider these initial climatic and geographic conditions as the deep source of countries' disparate political institutions: on the one end of the scale are the extractive, authoritarian and oligarchic institutions where agriculture and mining fostered unequal relationships; on the other end are inclusive, democratic and egalitarian institutions where geography and climate

⁶⁹ As explained in the section above though, indirect rule and "colonialism on the cheap" however saw other English colonies cave post-independence; the identity of the coloniser appears then to matter less than colony-specific traits.

⁷⁰ Natural endowments are the geographic and climatic possibilities for crop production and mineral extraction.

favoured family farming.

Similar arguments are forwarded by Haber (2012) and Welzel (2014). Haber (2012) proposes that countries' average rainfall predicts its likelihood to produce democratic political institutions. Moderate-rainfall climates encourage smallholder agriculture and hence equality in land ownership and also in both economic and political power relationships. In *Freedom Rising*, Christian Welzel (2014) links the emergence of a free and democratic society to its ability to produce an agricultural surplus, which in turn depends on the existence of a cool-water climate. Welzel (2014: 124) states that:

“Civilization ... requires the existence of surplus agriculture to feed urban populations. This is where climatic conditions matter: they influence (a) whether surplus agriculture is possible in the first place, (b) what type of surplus agriculture is suitable, and (c) how large a surplus is achievable on a given level of technology.”

Welzel (2014) explains that extreme cold and heat matter, rendering agriculture and in fact any form of life-sustaining vegetation unfeasible. In addition to temperature, agrarian potential depends on aridity; sustainable fresh water sources are critical to produce the agrarian surplus that must sustain modern, urban populations (Weischet and Cavides 1993). Aridity has crippled agricultural endeavour in large regions of sub-Saharan Africa and Central Asia (Weischet and Cavides 1993; Midlarsky and Midlarsky 1999; Welzel 2014). The soil conditions in the humid tropics are equally unsuited for the mass production of staples; this appears paradoxical given the diversity and density of vegetation in tropical forests. Deforested land however is soon baked hard by tropical-sun exposure, or washed away by heavy seasonal rain (Weischet and Cavides 1993; Landes 1998; Gallup and Sachs 2000). Further limiting the agrarian potential of the tropics, is the soil-depleting impact of the accelerated life cycles of plants in warm, humid conditions.

In the subtropics, where centrally managed irrigation yielded material agrarian surpluses, rigidly regimented “allotment cultivation” became prevalent (Mann 1986). The labour organisation in such rigidly regulated agriculture is described as *coercive feudalism* (Powelson 1997; Welzel 2014). This is in stark contrast with the autonomous family farming that produced the agrarian surplus in Northwestern Europe, where moderately cold temperatures coincided with sustained, seasonal rainfall. These conditions gave rise to a system of labour organisation referred to as *contractual feudalism*, which was less oppressive, and where the relative autonomy of individual farmers positioned them to lobby for their rights (Powelson 1997; Landes 1998; Welzel 2014). Welzel (2014: 124) argues that “(i)t appears inherently plausible ... that the emancipatory spirit of Western

civilization originates in Northwestern Europe's contractual type of family farming, which in turn is favored by an ecological specialty: the combination of moderately cold temperatures with continuous rainfall and permanently navigable waterways."

The "ecological specialty" that favoured Northwestern Europe referred to by Welzel is the so-called *cool-water condition* (CW condition) that awarded farming households more autonomy than farmers would have in a rigidly regulated, irrigation-managed agrarian system. Welzel (2014: 124) concludes that it was Northwestern Europe's natural endowments – the region's CW condition – that seeded "Western civilization's affinity to emancipatory ideals".

In their widely cited paper *The Colonial Origins of Comparative Development*, Acemoglu, Johnson and Robinson (2001) formulate an alternative version of this argument. They propose that the deep source of development is indeed *institutional*, but that institutional variation in erstwhile colonies that became the poor sub-Saharan region stems not from factor endowment, but from early settler mortality due to the disease environment in tropical colonies. In colonies where the disease environment made long-term settlement unfeasible, colonial authorities established extractive economic institutions, which they then enforced through absolutist political institutions (Acemoglu, Johnson and Robinson 2001: 1369). These early, access-limiting institutional regimes became embedded, allowing incumbent rulers to restrict both economic and political participation of the broad citizenry for the subsequent centuries.

A simple premise of geographic determinism as proposed by Sachs or Diamond linking prosperity to temperate climates in the north, and poverty to tropical southern climates is dismantled by the reversals of fortune since the 1500s (Landes 1990; Acemoglu and Robinson 2013; Fukuyama 2014). Early human history tells us that the most prosperous and productive regions of the time were southern; in Europe, the Roman Empire arose in the Mediterranean, while Denmark's Scandinavia and Britain were populated by impoverished tribal barbarians (Fukuyama 2014). The Chinese Empire had northerly origins in the valley of the Yellow River valley, but its expansion proceeded south and southwest, not north, while other colder Asian regions like Korea and Japan, were far less developed (Acemoglu and Robinson 2013; Fukuyama 2014). The Incas (from about the 1200s) and the Aztecs (from 1325 onwards) built the most prosperous of the ancient civilisations in tropical or subtropical Peru and Mexico at a time when the more temperate regions in South and North America were impoverished and sparsely populated by pastoral and hunter-gatherer societies (Ferguson 2011; Acemoglu and Robinson 2013; Fukuyama 2014).

This pattern persisted after European powers conquered the western hemisphere (Fukuyama 2014).

The Spanish empire usurped the seats of power in the erstwhile indigenous civilizations while the Caribbean and subtropical Brazil built burgeoning slave-dependent planter economies (Williams 1994; Acemoglu, Johnson and Robinson 2002; Eltis, Lewis and Sokoloff 2004; Fukuyama 2014). It is estimated that per-capita wealth in Barbados in the early 1600s exceeded the combined thirteen North American colonies' wealth by two thirds (Williams 1994; Acemoglu, Johnson and Robinson 2002; Eltis, Lewis and Sokoloff 2004). Similarly, Cuba was more prosperous than Massachusetts when the American Revolution broke out (Williams 1994; Eltis, Lewis and Sokoloff 2004; Fukuyama 2014)

A development pattern that locates the prosperous regions of the world in temperate northern climates is therefore a modern one that only emerged in the reversal of fortune brought about by the Industrial Revolution. Conventional economic theory would predict that climatic regions capable of producing the ancient wealthy agrarian communities – in tropical and subtropical regions – have large stocks of capital and labour and therefore an advantage to industrialise. The reason why this did not materialise was, once again, institutional, according to Acemoglu, Johnson and Robinson (2001). They maintain that the wealthy, densely populated regions were the ones that attracted colonisers, who then enslaved the indigenous populations and established enduring extractive institutions. According to this line of reasoning, poor regions that invited sparse settlement escaped the legacy of limiting institutions, allowing more inclusive ones to emerge (Acemoglu, Johnson and Robinson 2001).

These arguments share the conviction that climate and geography⁷¹ are the deep source of enduring institutional regimes. Acemoglu, Robinson and Johnson (various) do not subscribe to *direct* geographic determinism of the Sachs and Diamond type and maintain that growth-and-development institutions *are* the deep cause of development. Yet, they by implication support *indirect* geographic determinism coursing through institutions when they concede that the types of institutional regimes that countries have – inclusive versus extractive – are decided by their climatic and geographic conditions. The institutions then persist, even after the role of geography, climate and factor endowments has been diminished significantly through technological advances.

A further commonality among the proponents of geographic determinism is the belief that nonmaterial factors like values, like belief systems, norms, values, ideas, culture and traditions do not explain contemporary political and economic development outcomes (Fukuyama 2014). Direct

⁷¹ Climate and geography include a range of material factors like disease environment; the availability of natural resources like precious metals and the feasibility of mining; rainfall, water autonomy and aridity; temperature, and the feasibility of large-scale labour-exploitative plantation agriculture.

and indirect geographic determinism however projects that *unalterable* country traits like a tropical climate condemn some regions to poverty.

This notion is belied by Singapore and Malaysia who have tropical climates and histories of extractive institutions, yet accomplished admirable development and economic success (Fukuyama 2014). Human beings are not hapless victims of circumstance; they possess the agency to gain control over the conditions of their existence. Geography and history may favour some regions more than others but no world region has been privileged by unimpeded development paths; prosperity follows when agency trumps obstacles, not because there are none (Landes 1990, 1998; Fukuyama 2014).

Rejecting geographic determinism does not imply that there is no role for climate and geography. Geographic traits were critical for the early formation of centralised states as explained above. State formation was aided by high soil fertility in alluvial valleys, for instance, which produced agrarian surpluses to sustain dense populations (Fukuyama 2011; Welzel 2014). If these valleys were too small, they could not support the required economies of scale and if too large, circumscription (Carneiro 1970) was precluded, making it impossible to achieve coercion and compliance of subordinates.

A small number of contemporary tribal societies have survived, resisting state formation only because of very specific geographies that made it difficult for states to enforce military authority in those regions. The mountains in Afghanistan, the Sahara Desert, the jungles in India or extreme arctic conditions for instance have proven very limiting to state formation (Fukuyama 2011; 2014). Morris (2010) notes that civilisations have risen in regions that were spatially separated but shared some environmental similarities; he refers to the *lucky latitudes*, where both Europe and China are located on the world map.

Geographic traits not only affected state formation. They also influenced whether absolutism or democracy was more likely to emerge, but not through the mechanisms generally proposed by economists. Economists favour the notion “that political power derives from economic power and serves economic interests” (Fukuyama 2014: 454). Fukuyama further points out that political power often derives from “superior military organization which, in turn, is the product of leadership, morale, motivation, strategy, logistics and, of course, technology... there is no simple translation of economic power into military power.” The tribally organised Mongols, for instance, conquered far wealthier and more complexly organised agrarian civilizations in the 1200s, including Song China, northern India, Persia, Hungary, and present-day Russia and Ukraine (Fukuyama 2014). Their

conquests were not testimony to superior economic power, but were aided by two material factors: they were mounted, while horses were domesticated only much later in the New World (Diamond 1997), and the flat, open plains of Eurasia allowed them to take advantage of their extraordinary mobility (Fukuyama 2014).

Geography eventually also limited the military prowess of the Mongols and other tribal horsemen. Mountain ranges and dense forests halted the rapid advancement of the Mongols into Europe, while the heat and humidity in India delaminated their bows (Fukuyama 2014).

The geographical traits that facilitated military conquests had a lasting impact on the subsequent political development in invaded countries. In Russia, the Mongols set up an extractive, predatory state. Under subsequent tsars, political power was centralised and huge territorial expansion followed, facilitated by the geography of the steppe that advantaged the mobile. Geography thus had a role in the consolidation of a powerful, absolutist Russian state that exceeded the authority of any of the Western European experiences with absolutism. In Europe, natural barriers promoted the formation of many strong states where political competition fostered good laws and quality governance and eventually political freedom (Montesquieu 1750; Fukuyama 2014). Because of Europe's mountains, rivers and forests, no conqueror was able to achieve regional dominance and subject the whole of Europe to a single, central authoritarian power comparable to the Russian tsars or Chinese emperors (Fukuyama 2011; 2014).

Nunn and Puga (2012) explains how the ruggedness of terrain as a geographical dimension has influenced African income uniquely. While ruggedness is negatively related to income globally, it afforded protection from raids during the slave trades that affected only the African continent during the fifteenth to nineteenth centuries. Ruggedness allowed regions to escape the detrimental impact of the slave trades on economic development, translating into a unique, positive association between terrain ruggedness and income in Africa, which is fully accounted for by the slave trades.

Geography is however not destiny (Henderson, Shalizi and Venables 2000; Rodrik, Subramanian and Trebbi 2002; Morson and Schapiro 2017), nor is history. In each development region, for each set of geographic traits and for every version of colonial history – all of which in some way had steered the development path – there are cases of countries that managed a reversal of fortune, an escape from poverty, through ideologies, policies and individual leaders that redirected societies onto new development paths.

5.8 Democracy a Surrogate Marker for Growth-and-Development Institutions?

In *Freedom Rising*, Welzel (2014: 250) explains the nexus between democracy and growth-and-development formal institutions that let the interchangeable use of these two notions seep into the deep-cause literature:

“In its literal meaning, (democracy is) “government by the people”, the ideal that ultimately inspires democracy is empowering ordinary people to govern their lives... Democracy’s specific contribution to this purpose is of an institutional nature. Consequently, democracy’s functionality is limited to what can be achieved by crafting legal norms. These legal norms include, first and foremost, the entitlements that establish ‘democratic citizenship’ ... I call them civic entitlements. They base a society on the rights of its constituents. Rights are guarantees. They empower people in that they permit them to practice freedoms in their private and public lives.”

Democracy has many meanings (Dahl 2000; Held 2006); however, evidence from the Global Barometers Surveys and the World Values Surveys (WVS) that the broad understanding of democracy foremost constitutes (Welzel 2014: 251):

“(T)he rights that entitle people to self-govern their private lives and to cogovern public life. ... The survey evidence unequivocally shows that, when one confronts people with the word ‘democracy’ – be it in Africa, Asia, Latin America, the Middle East, or Europe– they emphasize, before anything else, the civic entitlements that empower them. Throughout the world, people power is the prime meaning of democracy for most people.”

Democracy therefore bestows *agency* on the citizenry in organising the societies they live in. In theory, their interests are represented and their vulnerability to exploitation prohibited by checks and balances like an independent judiciary and equality before the law. The formal rules would disallow that diversion of hard-earned private gains materialises. Fukuyama (2014) makes clear however that democratic accountability does not guarantee effective executive constraint and an end to extractive practices of society’s elite, especially in young democracies. Also, strong, impersonal states and rule of law may exist independently of democratic accountability.

Much of the Acemoglu literature (Acemoglu, Johnson and Robinson 2005; Acemoglu and Robinson 2006a, 2006b, 2008, 2013) explores the complex relationship between regime type – or political power more broadly – and formal institutions. This literature refers to the formal institutions that

organise and incentivise society's economic life as *economic* institutions⁷² and distinguish them from formal regime type⁷³.

Also important in the Acemoglu explanation of persistent economic underperformance, is the *distribution* of political power (Acemoglu, Johnson and Robinson 2005; Acemoglu and Robinson 2006a, 2006b, 2008, 2013). Despite the mixed evidence in the literature reported above, they propose that no predictable nexus between regime type and growth-and-development institutions exists. The societal forces that allocate political power also influence the institutional regime (Acemoglu and Robinson 2008: 10):

“(I)t is important to understand the political forces and institutions that maintain ... dysfunctional economic institutions ... and are often mutually self-reinforcing (complementary) with these economic institutions. (A)t present we do not have a satisfactory understanding of the circumstances under which dysfunctional political equilibria arise and sustain themselves. A natural idea would be to focus on specific political institutions such as democracy. Yet we know that democracy per se is not necessarily associated with better development outcomes and we all know the famous examples of “developmental dictatorships” such as in the Republic of Korea or Taiwan, China. However, as yet, we do not understand why some dictatorships are developmental and others not or why, for instance, there has never been a developmental dictatorship in sub-Saharan Africa or Latin America.”

It follows then that reforming the dysfunctional economic institutions of an underperforming economy where the incentives are not conducive to growth and development (as in a kleptocracy for instance where property rights are threatened), may not accomplish the desired economic reversal. The distribution of *de jure* – and also *de facto* – political power may thwart such efforts as illustrated by Ghana's agricultural policy after 1960 (Fukuyama 2014). Without challenging the property rights of agricultural producers, successive Ghanaian governments used monopsony marketing boards to enforce minimal crop prices in aid of redistributive policies, with similar deleterious economic effect as Zimbabwe's mass expropriation of agricultural land following 2000 (Acemoglu, Johnson and Robinson 2005; Acemoglu and Robinson 2006a, 2006b, 2008, 2013).

The multitude of dissimilar instruments, some salient and some less salient, that can be used to the same effect confirm that direct institutional reform may be futile without understanding the

⁷² Acemoglu and Robinson (2008: 2) describe formal rules like “security of property rights, entry barriers, (and) the set of contracts available to businessmen” as *economic* institutions.

⁷³ Regime type resorts under “formal methods of collective decision making” and “*political* institutions” (Acemoglu and Robinson 2018: 2).

complexity of the political forces in a society, and their influence in tailoring society's formal rules to serve their interests. Inevitably, these rules allocate society's resources and unless the politically powerful rule makers are committed – or forced – to *not* pursue their own interests to the detriment of society at large, instruments to perpetuate their economic and political power will be found regardless of regime type and the formal parchment rules (Acemoglu and Robinson 2008).

Understanding poverty then means understanding a society's complex relationship with political power and the forces that decide its distribution. It may trap them in dysfunctional political equilibria, democratic or otherwise, which in turn sustain economic institutions that do not support growth and development. Democratisation does not automatically shift the political equilibrium and may soon witness a continuation of “politics as usual”, or “isomorphic mimicry”, still benefitting the elite even though the parchment rules may now ostensibly favour growth and development (Pritchett, Woolcock and Andrews 2010; Welzel 2014). Alternative confiscatory instruments then serve the interests of the political elite. If the political equilibrium does get uprooted however, and the identity of the powerful elite changes, it also does not necessarily signal improvement for society at large. Path dependence and institutional conservatism may introduce a succession of bad leaders and usurpers, as strikingly happened in post-colonial Africa (Acemoglu and Robinson 2008).

It is evident from the Acemoglu literature, that a nation's poverty or prosperity is decided by the *intent* of the politically connected that are influential in shaping society's rules and system of incentives. If kleptocratic and extractive, the elite prospers while society at large is condemned to hardship under *any* formal regime type and formal rules. Through subterfuge and less salient confiscatory instruments, this outcome materialises also in democracies with ostensible growth-and-development parchment rules (Pritchett, Woolcock and Andrews 2010; Welzel 2014). If inclusive and leaning towards open access, again under any regime type and system of formal rules, growth and development will be incentivised.

What remains unanswered, is how society allocates political power and particularly how it tolerates enduring dysfunctional political equilibria⁷⁴ that perpetuate widespread poverty. Put differently, the dynamics of political power is at the root of poverty and formal democratisation is *not* adequate to sway the balance of power decisively in favour of the electorate towards a benign political equilibrium.

⁷⁴ Understanding the persistence of dysfunctional political equilibria resulting in widespread, lasting poverty is especially challenging in democratic societies where the electorate seemingly has the agency to drive changes in political leadership to better their lot and yet they refrain from doing that either because they do not actually possess democratic agency, or they voluntarily tolerate the *status quo* to their own detriment.

Fukuyama's (2014) emphasis on the rule of law, an autonomous, impersonal and strong state, and finally democratic accountability as the three crucial sets of formal institutions constituting modern democracy also cautions that sequencing matters importantly. In his account, democratisation – or holding the executive accountable through democratic mechanisms – implies crossing the final threshold to “get to Denmark” or achieve “all good things together” as posited in modernisation theory (Huntington 1965, 1968, 1991; Lipset 1959; Welzel 2014). This last threshold enters the world of human actualisation, where individuals gain agency in deciding their future, have broad political and economic rights, freedoms and participation, and basic human dignity is recognised. For all its existential attributes, democratic accountability is not the foremost institution for growth and development. It is not the most effective mechanism to impose the executive constraint that must prevent the resource predation, extraction and diversion by the elite that have proven deeply harmful for economic development. Executive accountability is accomplished more effectively through a rule of law that binds all equally and is enforced by an independent judiciary, and by modern non-patrimonial states that govern well and simply get the job done.

Only after growth and the emergence of a middle class will sustainable modern democracy become likely, albeit not guaranteed. Premature democratisation is procedural, or mere electoralism, rather than substantive; poor, newly democratic societies may experience no significant change in living standards (Pritchett, Woolcock and Andrews 2010; Welzel 2014, Burchard 2014). Without actionable resources, they remain trapped in poverty and civic liberties are meaningless (Welzel 2014).

Young democracies without strong impersonal states (with the efficiency and autonomy that underlie such states) are prone to clientelism and prebendalism to buy political loyalty, leading to ballooning administrative costs and public debt (Shefter 1994; Keefer and Vlaicu 2004; Keefer 2005, 2007; Grindle 2012). Prospects for growth and development dim as resources are diverted and extracted from productive private exchange to wasteful public expenditure with lamentable public service outcomes (Hall and Jones 1999). Once on this path, the incentive structure is perverted into one where politics prove more lucrative than private endeavour, and any retreat or reforms will be opposed by the elites to protect their interests (Fukuyama 2014).

Premature formal institutional reform prioritising democratic participation and accountability mechanisms in the absence of a state that prevents politicians from accessing, redistributing and appropriating state funds, and a rule of law enforced by an independent judiciary that penalises executive overreach, may prove counterproductive. Paradoxically, premature democratisation then

jeopardises both economic emancipation and the likelihood of modern democracy: growth and development cannot progress in extractive environments, democratic or otherwise. Without growth, an empowered, liberated middle class that should insist on democratic accountability and enforce it cannot emerge. Democracy therefore does not guarantee all good things together. It is not the most effective check on executive power, or a surrogate marker for formal growth-and-development institutions.

5.8.1 *Presidential versus Parliamentary Democracy*

Nugent (2010) makes it clear that, much as renewal of the social contract in post-independence Africa was a priority, it became apparent during the ensuing democratisation that frequent elections, political accountability and economic reform are not linked as directly as it may seem. The particular form of democratic constitutions is consequential for state-society engagement. A dichotomy that seems to matter significantly is that between presidential and parliamentary constitutions. Persson, Roland and Tabellini (2000) for instance show that presidential regimes are in principle associated with significant differences in the size of government and the composition of public expenditure. Presidential regimes rely less on legislative cohesion, but have larger separation of powers than parliamentary regimes. Their redistributive efforts prioritise powerful minorities, they are more prone to underprovision of public goods but the rents to politicians are likely smaller than in the case of parliamentary regimes. While the rent to politicians may be higher in the latter, redistribution favours the majority and underprovision of public services is less likely. Hence larger-sized governments with higher levels of service delivery to the broad citizenry are associated with parliamentary regimes (Persson, Roland and Tabellini 2000).

Robinson and Torvik (2016: 908) surmise that “the preponderance of the literature concludes that presidentialism has perverse consequences”. Yet, observing the leaning of both Latin American and sub-Saharan African polities towards presidentialism raises questions beyond the *consequences* of this form of democracy. Hence, extending the work of scholars like Mainwaring and Shugart (1997), Persson and Tabellini (2003) and Cheibub (2007), Robinson and Torvik (2016) probe the potentially endogenous *origins* of presidentialism. They observe a constitutional pattern in post-independence sub-Saharan Africa, showing that 80 per cent of the constitutions were parliamentary at the time of independence. All except three have since switched to presidential constitutions, whereas there is no incidence of a switch from presidentialism to parliamentarianism. Notably, Mauritius and Botswana were among the three countries that did not substitute presidentialism for parliamentarianism after independence and are generally regarded as the most successful countries in sub-Saharan Africa

(Robinson and Torvik 2016).

Presidentialism in Latin-America and sub-Saharan Africa varies from the presidential regime of the United States in important ways. Latin-American presidents have more formal powers, for instance to decree legislation without authorisation by the legislature. Scholars describe the position in Africa as even more extreme, using the terms *hyperpresidentialism* and *imperial presidency* to describe how the powers of the executive expanded amidst a scaling down of checks and balances (Aghion, Alesina and Trebbi 2004; Hayo and Voigt 2013, and Robinson and Torvik 2016).

Robinson and Torvik (2016) proceed to develop a positive model of countries' choice of constitutions. Given their assumptions, they show that political leaders would prefer to be presidents rather than prime ministers. Their coalitions however would not be in favour of switching from parliamentarianism to presidentialism, since they have greater political power relative to a prime minister appointed by parliament, than an elected president. They would allow the switch if they face losing political power to an opposition group, which is more likely when budgets are small – as the case would be in poor societies – and when the distribution of public goods is highly contested. Presidentialism associated with maximal executive powers and weakened checks and balances is therefore more likely to emerge in poor, weakly institutionalised countries where it also poses the greatest threat to the social contract.

5.8.2 *Where Does the Literature Stand on Growth and Democracy?*

The literature often reflects the view that democracy is at the root of Western prosperity; this broad view would also explain the near universality of the desire for democracy (Bratton 2007; Inglehart and Welzel 2010; Welzel 2014). In *Why Democracies Excel*, Siegle, Weinstein and Halperin (2004) propose that democratisation should be *central* to poor nations' development agendas. They define a democracy as “a political system characterised by popular participation, genuine competition for executive office, and institutional checks on power” (Siegle, Weinstein and Halperin 2004: 58) and are emphatic that the evidence clearly proves the superiority of democracies over autocracies in achieving *development* objectives.

Some scholarly work supports the view that democracy causes growth (Rodrik and Wacziarg 2005; Epstein *et al.* 2006; Persson and Tabellini 2008; Acemoglu *et al.* 2014, 2019). There is also evidence that democracy may affect growth negatively (Helliwell 1994; Barro 1996a, and Tavares and Wacziarg 2001), or be of no consequence for growth (Barro and Lee 1994; Alesina *et al.* 1996;

Mulligan *et al.* 2004 and Acemoglu 2008).⁷⁵ Chapter 8 reports my findings on the relationship between democracy and prosperity.

It would seem that the scholarly focus occasionally deviates from the *crux* of the matter. A develop-first, democracy-later notion advocates not so much the growth-advancing prospects of *authoritarian* rule, as the importance of impersonal technocratic states under *any* form of rule. A democracy *without* such a state fails to effectively constrain extraction by the elite, limiting the translation of civic liberties into improved economic outcomes. The debate is often misinterpreted as an ideological one. It is less about the relative growth merits of democracies versus autocracies; it is hard to imagine that any modern-day proponent of autocracy will be found given contemporary consciousness of human rights and especially human-rights abuses. It is about the necessity of modern impersonal bureaucracies and rule of law to curb the executive's abuse of citizens, without which democracy is destined to fail as politics as usual are perpetuated in cycle of isomorphic mimicry and predation. Initially prioritising economic outcomes over social outcomes leads to a sustainable path of first growth, and then modernisation of an empowered middle class, which raises the likelihood of liberal democracy. The sequencing matters crucially (Fukuyama 2014).

For a detailed analysis of scholarly views on the traits of democracy that may prove growth enabling or inhibiting, see Appendix A, section A.3.

A universality that seems to emerge from the disparate scholarly views on potential links between democracy and growth – or more specifically between democracy and reversals of poverty – is that executive overreach and exploitation of society must be halted. Strong, modern states and an independent rule of law may be more effective than democracy in blocking abuse of public funds and reversing the vicious downward spiral of predatory rule.

Notions like state capacity, or quality of governance or the bureaucracy, are used more or less interchangeably in the literature. Their commonality is that they all are more accurate yardsticks of a nation's *actual* institutional environment than democracy. Newly democratised rule may adopt the

⁷⁵ Note that a recent study by Acemoglu *et al.* (2019) indeed produces results supporting a causal link between democracy and growth, challenging the findings of both Barro (1997: 1) that “more political rights do not have an effect on growth” and Gerring *et al.* (2005: 323) that “the net effect of democracy on growth performance cross-nationally over the last five decades is negative or null.” Acemoglu *et al.* (2019: 96) predict that democracy would foster growth through “enacting economic reforms, improving fiscal capacity and the provision of schooling and health care, and perhaps also by inducing greater investment and lower social unrest”, *provided that GDP dynamics are controlled for*. An earlier version of these findings was however disputed by a study (Pozuelo, Slipowitz and Vuletin 2016) finding that once *endogeneity* concerns are addressed, “democracy does not cause growth and, moreover, the common positive association between democracy and economic growth is driven by faulty identification.”

outward appearance of democracy, publicly declaring commitment to the common good, while patrimonial, self-interested rulers in reality continue its *kin-based* political order. There may be no transition to *impersonal* political organisation. It is politics as usual; democratic patrimonialism (or patronage, clientelism and prebendalism) merely replaces autocratic patrimonialism. The political elite remains wealthy, and the poor remains poor. In short, the prerequisite capable, constrained state does not emerge from democratisation. There is no state capacity and no constraints are enforced. Hence, poverty persists.

5.8.3 *Growth and Development under Autocracy*

A key notion of social contracts is that for societies to function well and engage in productive exchange require peaceful order and other essential public goods. Anarchic violence robs its victims not just from possessions that are confiscated, but it strips them from incentives to produce what could be confiscated. Therefore, *production* requires peace and order. Despite the knowledge that social contracts ensuring peace and order are beneficial for the broad citizenry, state-society agreements have not emerged voluntarily in most large societies (Olson 1993, 2000); many have nonetheless succeeded to avoid anarchy.

Olson (1993) describes how peaceful orders emerged in Chinese territories controlled by warlords in the 1920s. Populations of warlord territories were taxed heavily. Although the proceeds were largely appropriated by the warlords, they used their substantial armies to defeat opportunistic roving bandits. Olson (1993) develops an account of how social contracts may have emerged from anarchic banditry. He reports that while the populations of the warlord domains were robbed by both the warlords (or stationary bandits) and roving bandits, they preferred the stationary bandits who taxed rather than plundered opportunistically. The reason for this preference is that taxed subjects have an incentive to produce and the stationary bandit will have an incentive to allow production and income generation that can be taxed. He will also be incentivised to protect income-generating subjects and monopolise theft in a coordinated way eliminating anarchy. It may serve his rationality to provide public goods if that may expand taxable production and income.

Roving banditry erodes all incentives to produce or accumulate anything of value that may be plundered; hence there is not much for roving bandits to pillage. A rational bandit would seize a domain to rule, establish peace and order, and provide public goods to facilitate tax theft that is more lucrative than occasional plundering. Olson (1993, 2000) concludes that bandit rationality therefore brings an end to anarchy and produces involuntary social contracts from the self-interested rationality of rulers most capable to monopolise violence. Autocrats engage in the delivery of public

goods when it raises their tax collections and therefore aligns with their interests. Societal welfare also benefits. Olson (1993, 2000) accounts how much of civilisation developed as a result of a modicum of peaceful order provided by autocrats perpetrating tax theft and depending on their subjects' income generating capacity.

Rational autocrats who appropriate tax proceeds are incentivised to extract the greatest surplus possible from entire societies. The monopoly of violence is used to achieve this objective. Although some of the tax revenues are allocated to the delivery of public goods, much of the high taxes are used to maximise the net surplus of the autocrat. Naturally, high taxes and low public-goods provision lead to lower income for citizens; the rational self-interested autocrat however levies taxes at a rate that maximises his revenue. Citizens are better off than under anarchy, but are made to endure tax rates so high that any further increase would lower both their income and the autocrat's tax collections (Olson 1993, 2000).

Democratic politicians are not less self-interested than Olson's (1993, 2000) stationary bandits and will resort to all sorts of expedients to achieve a majority vote. Appropriating the maximum possible net surplus for personal benefit through revenue-maximising levels of taxation does not aid this objective, but vote-buying through redistributions to majority voters does. Hence democracies do not necessarily engage in less redistribution than autocracies. It is however shared by the citizenry and unlike autocrats, democratic politicians are theoretically not incentivised to extract the largest possible social surplus for personal benefit.

Economies rely on high rates of investment to generate high income. Investors require reassurance that their assets are protected permanently protected against both theft and expropriation, and that contracts are enforced. Autocrats will reap the maximum benefit from their stake in the production and income of their citizens if they adopt a long view and undertake not to confiscate assets or renege on contracts. Promises by autocrats can however not be enforced if they can overrule the judiciary and other sources of power and are therefore not credible. Implicit in this understanding is that the subjects of well-performing autocracies have conviction in their lengthy time horizons (Olson 1993, 2000).

For an economy to function well, citizens need to trust that their property rights will be upheld and the contracts they sign will be enforced impartially. This requires a secure government that credibly commits to safeguarding of individual rights. Olson (1993, 2000) explains that despite the majority-favouring redistributions associated with the vote-buying of democratic politicians, it remained

exceedingly difficult to prevent narrow elite interests from dominating policy decisions and clouding economic outcomes in democracies too.

5.9 Bureaucracies that Get Things Done – The Importance of State Capacity and Governance

The previous sections propose that the validity of institutions as a deep source of growth and development can only be put to the test if the entire bouquet of North's institutions is considered. Empirical selectivity has been biased in favour of formal institutions, with a special predilection for investigating *democracy's* causative influence on growth and development. Another body of literature – the work on state predation – focuses specifically on the association between *state capacity* and development outcomes.

Growth and development emerge from an institutional environment that protects citizens from expropriation, extraction, exploitation, diversion and predation – that is, against the myriad of ways in which the elite may abuse its power for self-enrichment. Democracy does not achieve that; a capable, rule-bound state, however, might.

5.9.1 *Scholarly Work on Governance*

Governance is essentially the coming together of North's rule enforcement that should prevent the perversion of incentives, and Fukuyama's modern state that achieved miraculous growth in development in non-democratic East Asia, while more democratic sub-Saharan Africa *sans* modern states, remained poor, and beholden to exploitative elites.

Governance encapsulates whether governments are getting things done; whether policies are implemented and executed effectively to achieve quality outcomes (Pritchett, Woodcock and Andrews 2010; Boettke and Candela 2019; Vahabi 2019). It also gauges whether taxes extracted from private citizens are spent productively to produce high-quality public goods and services, and importantly, whether the elite can access public funds to divert them to clientelistic, patronage or prebendalist agendas. Quality, rule-based governance performed by merit-appointed, skilled bureaucrats in a modern state offers a more robust bulwark against an extractive elite than democratic accountability in a weak state.

The term governance – from the Greek for “steer” – has been used broadly to include entire regimes of political institutions and traditions (Zhuang, De Dios and Lagman-Martin 2010: 6). A 1989 World Bank study defined governance as a nation's exercise of political power to manage its affairs. In 1992, the World Bank refined its definition of governance to the way a government uses its power to manage a nation's economic and social resources for development. According to The Organisation

for Economic Co-operation and Development's (OECD's) definition, "good public governance helps to strengthen democracy and human rights, promote economic prosperity and social cohesion, reduce poverty, enhance environmental protection and the sustainable use of natural resources, and deepen confidence in government and public administration" (Tarschys 2001: 28).

Governance became linked to institutions in a formulation offered by Huther and Shah (1996: 40), defining governance as "all aspects of the exercise of authority through formal and informal institutions in the management of the resource endowment of a state". The conceptual association between governance and institutions was adopted by Kaufmann, Kraay and Zoido-Lobaton (KKZ) in 1999 and later, in 2003, by Kaufmann, Kraay and Mastruzzi (KKM). A functional definition flowed from the KKZ and KKM studies on governance describing governance as the institutions and traditions by which authority is exercised. The work by KKM and KKZ culminated in the construction of the Worldwide Governance Indicators (WWGI), which are perhaps the most-used set of governance indicators.

In *The Quality of Government*, La Porta *et al.* (1999: 222) stress that "good economic institutions, particularly those in the public sector, are instrumental to economic growth." They then elaborate on what is meant by good economic institutions: limited government, a benign and uncorrupt bureaucracy, a judiciary that safeguards property rights and enforce contracts, modest taxation and non-interventionist regulation. This description of institutions is broader than mere parchment formal institutional constraints; it encompasses also whether the rules are enforced or flouted with impunity. In other words, it describes an institutional environment that is an outcome of rule *enforcement*.

La Porta *et al.*'s (1999) discussion on the criteria of good government (good for development, that is) highlights precisely why institutional *outcomes* rather than *ex ante* rules are the drivers or deep determinants of development. Given a set of objective rules, it is a *bureaucracy's performance* that determines whether a nation progresses or stalls. The rules are not unimportant and constraints do serve as a safeguard in an environment where informal institutions align with the formal rules, lightening the burden on enforcement. Having said that, a given set of formal rules can have wildly divergent outcomes, depending entirely on how bureaucracies perform.

All governments intervene in the economic life of its citizens; one of the most obvious measures of a government's performance would be to assess the quality of its intervention. A standard view is that non-interventionism indicates good governance, as do secure property rights and high-quality regulation (La Porta *et al.* 1999). The area of taxation however proves that a myopic view of the *degree* of intervention as a measure of government quality can be misleading (Fukuyama 2014).

High taxation represents larger intervention, but may finance quality institutions and high-quality public goods, while lower taxes may be all that a highly interventionist government facing low compliance and revolt can collect.

Large-scale interventionism is often associated with inefficient bureaucracy, as greater power to tax and regulate invites bureaucratic delays and corruption. La Porta *et al.* (1999) caution that there is no *automatic* tradeoff between interventionism and bureaucratic efficiency, however. Some bureaucracies deliver a given “bundle of interventions” (La Porta *et al.* 1999: 227) efficiently, while others simply cannot. It is therefore not the *extent* of intervention per se that determines the quality of governance, but the *quality* of the outcomes (Fukuyama 2014).

Measures of governments’ performance by the quality of the public goods it delivers must be adjudicated against the levels of expenditure and efficiency considerations. High expenditure on transfers, public sector employment and public consumption may indicate an extractive government subjecting citizens to distortionary taxes and intervention (Fukuyama 2014). It could also reflect that citizens regard government as legitimate, and their willingness to fund a trusted government’s “public-spirited intent” (La Porta *et al.* 1999: 228). *Ex ante* assessment of the degree of public intervention, size of government, level of taxes or level of expenditure on public goods gives at best preliminary and refutable clues about how governments shape economic life and outcomes; whether state agents exploit and prey on the citizenry, or serve them.

In *Governance and Development*, Baland, Moene and Robinson (2009: 4) report that the development experience of the past five decades supports the notion that “bad governance is the root of underdevelopment”. Landes (1998), Rotberg (2003a, 2003b) and Fukuyama (2014) make similar pronouncements. Other studies award governance a lesser role in development as one of many binding constraints on growth in an economy (see for instance Hausman, Rodrik and Velasco 2008).

Baland, Moene and Robinson (2009) follow Acemoglu, Johnson and Robinson (2005) to emphasise that a nation’s governance reflects its balance of political power. Given that they find regime type (democracy or dictatorship) uncorrelated with development, it is impossible to define a set of institutions that will guarantee a political equilibrium conducive to growth and development (Baland, Moene and Robinson 2009; see also the Acemoglu literature). No set of *ex ante* formal rules – not even democratic rules of broad participation and executive constraints – guarantee a growth-enhancing balance of political power, or growth itself. The balance of political power in a society may skew governance towards powerful interests. The balance of power decides the rules under which states operate, whether political influence can exploit a weak state to engineer a political

equilibrium that serves elite interests. The type and quality of state thus established also decide the *manner* in which states execute collective choices, which directly measures bureaucratic quality.

There is no denying the stifling effect of poor governance on progress (Dixit 2009). The experience of Sierra Leone confirms this: “It is clear that Sierra Leone is a poor country because it has had terrible governance. ... (It) is not intrinsically poor, it has diamonds and great agricultural potential and is close to European markets” (Baland, Moene and Robinson 2009: 20). Post-independence governance was characterised by patrimonialism, unaccountability and kleptocracy, proving disastrous for economic performance while maximising power for the elite controlling the regime (Landes 1998; Rotberg 2003a, 2003b; Acemoglu and Robinson 2013; Fukuyama 2014).

5.9.2 *All Manner of Corruption – Clientelism, Patronage and Prebendalism*

Patrimonialism or clientelism translates into poor economic outcomes through several transmission channels: First, patrimonial or clientelistic exchanges are *inefficient* on a vast scale. Economic incentives are distorted, diverting resources from productive use to powerful officials who extract bribes. Corruption is therefore a highly regressive tax; the bulk of the misappropriated funds find its way to the elites that use their power to extract wealth from citizens (World Bank 2005; Fukuyama 2014). The incentive to cultivate *programmatic* voter support is absent, and public goods are therefore under-supplied and of a low quality. Instead, it serves patrons’ clientelistic political agendas to reward loyalists with private goods, but withhold them from opponents (Krueger 1974; Acemoglu, Johnson and Robinson 2005). Also, the pursuit of rents in patronage-riddled political systems is a time-consuming occupation that absorbs the efforts and energy of entrepreneurial, ambitious individuals who could, instead, be building productive private firms (Keefer 2005; Keefer and Vlaicu 2004; Fukuyama 2014).

Second, patrimonial rulers purposely generate uncertainty and insecurity, rendering supporters reliant on their protection and favour. Patrons may, for instance, award property rights selectively and conditionally in exchange for political loyalty, but can also withdraw them at will (World Bank 2005; Fukuyama 2014). There is no equality before the law or uniformity in the application of rules or holding of rights. Patrimonialism revolves around the ability of patrons to be selective. Third, large-scale economic distortions are created deliberately to exploit the political opportunities they present; an under-supplied commodity is a useful and lucrative political resource. Patrimonial regimes create disruptive and inefficient market distortions because the rent opportunities are useful political currency. In the final instance, a patrimonial regime views a coherent and capable bureaucracy as a source of potential political opposition and deals with the threat through frequent,

disruptive shuffles (Fukuyama 2014).

In addition to the economic costs of the distortions inflicted by corruption, it is also damaging to the *legitimacy* of the political order. If society views the bureaucracy and politicians as corrupt, it undermines the trust that is essential for the efficient operation of states (Krueger 1974; Stiglitz 2015; Fukuyama 2014).

Fukuyama (2014) forwards a view that, although clientelism and patronage constitute material deviations from moral democratic practice that are illegal or at least frowned upon in contemporary democracies, clientelism in fact constitutes a form of democratic accountability in young democracies. He proposes that it should be distinguished from other corrupt practices, first because it is based on reciprocity that enforces a degree of accountability between politicians and loyal voters. The benefit offered is short-term and directly individual instead of long-run and broadly programmatic, yet politicians need to perform on elections promises or voters may turn elsewhere. Also, clientelism may encourage political participation in new democracies (Keefer and Vlaicu 2004; Kramon 2013; Fukuyama 2014).

Clientelism thus differs from a purer type of corruption where officials for instance steal from the public treasury and hoard these funds in personal offshore accounts. Weber referred to this form of corruption as *prebendalism*, based on the feudal phenomenon of *prebends*, where landlords simply granted holders of feudal tenure a territory to exploit for personal benefit (Joseph 1987). Van de Walle (2003a, 2003b) argues that, although clientelism characterises sub-Saharan politics, the much more harmful practice of prebendalism is pervasive in the region and deprives citizens of the ability to hold elected officials to account. This disconnect is exacerbated by foreign donor funding, which then further delegitimises the state; returning from prebendalism to the reciprocity of patronage and clientelism will improve state functioning (Van de Walle 2003a, 2003b; Fukuyama 2014).

In young democracies where the franchise is new and voters not yet accustomed to a culture of political participation through elections, politicians may rely on clientelism to mobilise voters. In low-income societies with low levels of education, clientelistic promises of individual benefits may be more successful in encouraging voter turnout than broad programmatic agendas (Keefer 2005, 2007; Fukuyama 2014). Clientelism is a simple function of economics – poor voters are not dear to buy; they accept modest individual benefits. Clientelism is more costly in wealthy countries as politicians have to offer grander bribes in exchange for political loyalty. In countries that are poor, lacking a robust market economy and entrepreneurial opportunities, politics promises more wealth and upward social mobility to both clients and patrons (Fukuyama 2014). Stronger economies offer

lucrative opportunities to generate private wealth. Ambitious individuals in pursuit of fortune will do so privately and are not easily convinced to serve in public office. Wealthier, more educated voters are better persuaded by politicians' programmatic agendas than small clientelistic bribes; issues like environmental and foreign policy, labour and business regulation and broad policy decide their political loyalty (Fukuyama 2014).

Shefter (1994) writes that the *supply* of patronage matters more than the demand where patronage modes of governance come into existence. Patronage emerges only where politicians can access and redistribute state resources (Shefter 1994; Grindle 2012). There are no mechanisms that eliminate patronage and clientelism automatically as countries become wealthier; it persists in some wealthy countries like Japan, Greece and Italy (Grindle 2012; Fukuyama 2014) due to historical and other particularities that jeopardised reform coalitions (Fukuyama 2014).

5.9.3 *A Deliberate Political Strategy of Weak Governance*

Baland, Moene and Robinson (2009) conclude that poverty-perpetuating bad governance is not primarily a principle-agent outcome, or the direct result of bureaucratic corruption; it is the consequence of power consolidation and a deliberate strategy of rule. They echo the view of scholars across the spectrum of political science, development economics and economic history that poverty results not from determinism of any sort⁷⁶, but from human agency, from a deliberate political strategy of rule makers (Rotberg 2003a and 2003b; Pritchett, Woodcock and Andrews 2010; Acemoglu and Robinson 2013 and 2019; Fukuyama 2014; Stiglitz 2015, and Boettke and Candela 2019).

A 2005 World Bank Study *Improving Public Sector Governance: The Grand Challenge?* quotes Peter Evans (1995: 24) that “weak or predatory states consume the surplus they extract, encourage private actors to shift from productive activities to unproductive rent seeking, and fail to provide collective goods”. Institutions are awarded the starring role, with the “governance conundrum” described as “getting the institutions right” following the failings of the drive to “get the policies right” (World Bank 2005: 279).

Governance is viewed as an outcome of three relationships: one is between politicians and citizens, the next is between politicians as policymakers and the bureaucracy responsible for service delivery, and the third is between the bureaucracy and their clientele – the citizenry.

The first of the three – the relationship between politicians and citizens – is crucial for political

⁷⁶ That is, geographic determinism, or historic determinism.

accountability. It is described as “the heart of governance” (World Bank 2005: 280). If this relationship was decided by formal rules alone, accountability could be guaranteed through the spectrum of constraints on the executive that are associated with well-functioning democracies. Constitutions embody broad participatory features like elections, court adjudication of disputes between the state and civilians, checks and balances on the abuse of power and legislative oversight of the executive. The rule of law is upheld and all are equal before the law; also, citizens and politicians alike abide by the laws.

In reality, accountability among a nation’s politicians is only as strong as its *enforcement* of the rule of law. If executive constraints are weakly enforced, the risk of state capture escalates.

Accountability then recedes and abuse of power is unchecked as the executive pursues its own interest. Institutional reform poses a threat to the self-interested agenda of the executive and will be resisted. Hence state capture poses a principal stumbling block to reform.

The second relationship that has a bearing on the quality of governance is the one between politicians as policymakers and the bureaucracy. Administrative corruption emerges if the compact between the policymaker and bureaucracy is compromised, either because accountability is failing or bureaucratic capacity is weak (World Bank 2005). Administrative corruption is linked to state capture; captured politicians need the cooperation or at least acquiescence of strategic divisions of the bureaucracy to implement self-interested policy. A bureaucracy with limited capacity and accountability serves that purpose, hence politicians prefer clientilistic appointments over merit-based recruitment (World Bank 2005).

The *Business Environment and Enterprise Performance Survey* (BEEPS) conducted by the World Bank in 1999 and again in 2013 among Central Asian and Eastern European countries produced data to build an administrative corruption index reflecting the quality of the compact between politicians and the bureaucracy, and also a state capture index, reflecting the degree of political accountability. Combined, these two indices categorise nations’ quality of governance.

Four classifications of governance emerge from the survey. *Capable* states feature low on both the corruption and state capture indices and are susceptible to technocratic reform provided proper leadership and support. *Weak* states suffer from bureaucratic weakness and corruption but are not captured, although there is significant risk of capture. Given the bureaucratic weakness, the reform challenge entails tax collection, service delivery and budget oversight. The third governance category holds nations that are *restrained*. Bureaucratic capability and accountability ensure that administrative corruption is at a low level, but political accountability is low because of a politically

captured environment. Reform avenues are limited if the political leadership is entrenched, although a robust civil society may drive change successfully. The last category of nations, labeled *captured* states in the World Bank survey, rank high on both the corruption and capture indices. Reform is the least likely to succeed in this type of compromised governance environment suffocated by the stranglehold of vested interests.

The World Bank study (2005) concludes that governance reform is critical for development; also, that governance reform requires leadership, broad support and capacity, all of which rarely exist in nations most in need of governance reform. The political dimensions of reform are key, given that “almost all successful reform efforts have been shepherded through by dynamic leaders” (World Bank 2005: 303). The foremost challenge appears to be one of individual leadership: “dynamic, forward-looking individuals to push much needed reforms” (World Bank 2005: 303) are the conspicuously missing ingredient where poverty persists.

From a deep-determinants perspective, or more specifically an *institutional* deep-determinant perspective, state capacity as reflected in quality of governance is the institutional outcome of formal rules (that are flouted), informal rules driving self-interested leaders towards state capture and compromised bureaucracy, and weak enforcement that permits delinquency. It confirms leaders’ agency in development outcomes, even if they have been elected to lead a constitutional democracy when unempowered constituents’ efforts to hold their democratically elected leaders to account are ineffectual. The governance or institutional-outcome approach exposes the shortcomings of formal democratic rules to avoid the narrow concentration of power and subsequent abuse of such power. It also confirms that economic outcomes depend on *who* governs – irrespective of regime *type* – and on the rules and economic organisation engineered by political power.

5.10 Conclusion

This chapter probes the roles of formal rules and rule enforcement as part of a *broad* approach to institutionalism that will eventually include all three of North’s classes of institutions. It is part of an effort to establish how the incentive environment faced by economic decision makers emerges as accurately as possible. Focusing on *select* institutional aspects, like regime type or social capital, cannot achieve that objective. It is intuitively plausible that the *outcomes* of the rules matter in the *actual* institutional environment that they establish – not *ex ante* parchment rules rendered irrelevant through non-enforcement. Human agency in the application of rules cannot be ignored, which is precisely why similar rules have divergent outcomes in different contexts. Does this nullify institutions as deep determinant? I argue that it does not; it points to the importance of exploring

institutionalism in its broad rather than truncated sense.

Democracy is perhaps the most-scrutinised formal institution with much scholarly attention paid to its relationship with growth and development. Lipset's (1959) modernisation theory that predicts that effective democratisation is more likely to emerge in countries that have grown, with an educated and empowered middle class insisting on broadening the franchise, is viewed as the opposition of institutionalism. According to this line of reasoning, either democracy causes growth, which would validate institutions as deep source over modernisation theory, or growth causes democracy, which is interpreted as a refutation of deep-source institutionalism.

The path to modern democracy where all good things materialise simultaneously, like in Denmark where enviable economic and social outcomes coincide, is all but obvious. Modern-day democracies in sub-Saharan African that remain deeply impoverished and extractively governed, while high-performing non-democracies in East Asia rank paradoxically free on international indices underscore just how fraught and complex the path to growth and development is. It cautions against generalisation and oversimplified single-factor explanations of context-specific and path-dependent development problems. The question however is whether it also signals the death knell of institutionalism if democracy does, in fact, *not* cause growth.

Francis Fukuyama's (2014) work clarifies the apparent tension between institutionalism and modernisation theory. At the outset, it is useful to recognise that Lipset's (1959) modernisation theory as elaborated later by Welzel (2014), and Inglehart and Welzel (2005, 2009 and 2010), aspires to achieve Denmark's *social* outcomes: franchised and free citizens that actualise in all spheres of life and whose rights, freedoms and dignity are safeguarded. This state of nirvana is irreconcilable with widespread poverty. Modernisation therefore presupposes growth. It also presupposes a growth-enhancing, inclusive (or open-access) institutional environment. Rule of law for instance, and a modern impersonal state, both of which curtail citizens' exploitation by an extractive executive must have been in place, to have caused the growth that eliminated pervasive poverty and established a middle class. The enviable social outcomes of a *modern, liberal* democracy are driven by *modernised* citizens; modernisation needs *economic* performance – it is non-starting without growth; growth, in turn, has no chance unless it is incentivised by a favourable formal institutional environment.

This sequencing allows institutionalism as the deep source of growth, emphasising the formal institutions that do cause growth and development, of which democracy is not one, followed by human development and modernisation that raise the likelihood of liberal modern democracy

substantially. Institutionalism and modernisation are thus complementary rather than substitutive. Institutions are the deep cause of the preliminary phase in the development sequence, which has to produce the *economic* outcomes and action resources that empower the rising, educated middle class as poverty recedes. Modernisation derives from the middle class who in turn drives *social* outcomes, which may culminate in (but does not guarantee) liberal democracy.

Fukuyama makes clear how growth and development needs in poor countries may be better served by first transitioning from kin-organised patrimonial states⁷⁷ to modern, impersonal meritocratic bureaucracies that enforce the rule of law objectively, than by early democratisation in the absence of a modern state. In essence, a modern impersonal state and independent rule of law constrain the elite's misuse of public funds for clientelistic, patronage or prebendalist ends more effectively than the mechanisms of democratic accountability. Early democratisation *sans* a strong state and rule of law renders public funds vulnerable to clientelism and patronage, or prebendalism, which establishes a continuation of an extractive regime with electoralism and the outward appearance of democracy, but with none of the high-quality economic or social outcomes associated with modern, liberal democracies. Only once growth has empowered an educated, modern middle class that insists on political participation, will democratic accountability become effective in guarding societal interests against executive and elite extraction.

This study therefore proposes that *a capable, constrained state as reflected in the quality governance*, is an institutional *outcome* representative of not only *ex ante* rules but also enforcement and the actual institutional environment that citizens live and work in. State capacity – not democracy – is the institutional deep source of growth and development. State capacity is the manifestation of the dynamics and distribution of political power. This distribution decides whether the common good or elite interest is prioritised, with material impact on growth and development outcomes. In Chapter 6, North's third class of institutions – informal institutions – is added to the institutional environment to arrive at a *broad* approach. Various definitional notions of informal institutions are explored, as well as the potential impact of informal societal rules on the *actual* institutional environment.

⁷⁷ Hall and Jones (1999) and Rotberg (2003a, 2003b) describe these states as predatory and growth limiting due to the wasteful diversion of productive resources; North, Weingast and Wallis (2009) refer to them as limited-access orders, and the Acemoglu literature refers to them as extractive. These terms denote the same phenomenon – that of states and elites that exploit and prey on their citizenry.

Chapter 6

Informal Institutions and Human Empowerment

6.1 Introduction

The previous chapters emphasise that the aim of this study is to rely on Douglass North's broad definition to explore the deep-cause role of institutions in economic development. In Chapter 5, I analyse two of North's classes of institutions, formal rules and rule enforcement. It is necessary to consider these two classes jointly, as the actual impact of formal rules on the incentive environment is only apparent through the degree that they are enforced. The focus of this chapter is on North's third class of institutions: the informal institutions. These are social drivers of human behaviour, for instance values, norms, culture, inherited belief systems and internalised mental models. Social theory and cognitive science enter the fray as the focus on human behaviour and agency intensifies. The scope of relevant scholarly work is too encompassing to cover in full in this chapter; aspects not included here are discussed in Appendix B.

Scholarly articles confirm a correlation between diversely defined measures of culture, or social capital⁷⁸ and trust on the one hand, and societal outcomes on the other, but rarely in a complete deep-cause context where the institutional variables capture all three classes of institutions that drive (or incentivise) human behaviour – that is, the outcome of the formal-informal-enforcement mix. Institutional outcomes may resemble the formal rules closely, as in Western Europe and Scandinavia's liberal democracies, or as in North Korea. A rule environment that mirrors the formal rules reflects either that minimal enforcement is needed since the rules merely formalise the way society already views the world and behaves of their own volition. It may however also reflect that brutal enforcement dictates societal behaviour.

Disregarding cases of well-aligned formal and informal rules that require minimal enforcement, and also brutal enforcement where individuals in society has no freedom to express and behave according to their own world views, leaves the field open to a myriad of formal-informal-enforcement permutations. Depending on the strength of enforcement, a given set of formal democratic rules may become operational within the boundaries of accountability and executive

⁷⁸ Several scholars explore the role of social capital, or social-capital aspects like trust and social networks, on economic outcomes. It may be viewed as the social-theory equivalent of informal institutions. Inglehart *et al.* (2014) explain that emancipative values in the human empowerment sequence relied on in this study capture the impact of social capital. Although it is therefore not included in this chapter, the influence of social capital on economic outcomes is discussed in section B.2 in Appendix B.

constraint in a society where social norms and belief systems do not correspond with these principles. Or, without enforcement, the same set of rules in a similar social context may degenerate into despotism in a predatory regime enriching the political elite and impoverishing the majority.

Enforcement itself may be an endogenous societal trait that cannot be divorced from societal values regarding individual agency and obedience to authority for instance. Societies' internalised cultural values may influence both the political will to govern within constraints and societal pressure for accountability.

Studying democratic outcomes in persistently *poor* nations negates any notion that institutional environments are an accurate reflection of the formal rules. The *actual* rules that incentivise decision making are vastly more complex. Unwritten and unobservable informal rules may influence both the formal rules that a society may accept *ex ante* and the degree of enforcement that materialises. *Ex post* institutional outcomes variable may resemble society's informal, social rules more closely than the *ex ante*, parchment rules. Unless the formal rules in a society mirror its informal rules closely, or are so brutally enforced that informal rules are inconsequential, the actual institutional environment is hard to predict. As a result, *formal* institutionalism as a deep explanation of economic development leaves much unanswered in the context where answers are most needed – to explain persistent poverty. Adding *informal* institutions bridges some of that divide.

6.2 Informal Institutions and Culture

Douglass North (1991: 111) defines informal institutions as the “terribly important” norms that guide our behaviour more strongly than formal rules and have a “pervasive influence on the long-run characters of economies”. These social rules are deeply embedded cultural heritage or beliefs, norms and social values that determine the way humans see the world. North also puts forward the premise that, although economic outcomes depend on all three classes of institutions, it is the informal rules that provide legitimacy to the formal rules. In 2003 North wrote that, having conquered the natural environment to ensure survival, the dominant human preoccupation is with the things that “are a product of our creation” (North 2003: 4). The immensely complex *human* environment, which we understand very imperfectly, poses the social, political and economic problems that we struggle to solve.

A better understanding of how humans behave and make decisions, of how they think and interact and organise life in their societies will aid a better grasp of the complex problems – like persistent poverty – that are the “products of our creation”. The 2015 World Development Report titled *Mind, Society, and Behavior* concludes that development policy aimed at poverty reversal is due for a

comprehensive redesign based on a large body of micro-level empirical research from the social and behavioural sciences. It claims that economics “has come full circle”, recognising that (The World Bank 2015: 3):

“Individuals are not calculating automatons. Rather, people are malleable and emotional actors whose decision making is influenced by contextual cues, local social networks and social norms, and shared mental models... The mind...is psychological, not logical; malleable, not fixed. It is surely rational to treat identical problems identically, but often people do not... People draw on mental models that depend on the situation and culture to interpret experiences and make decisions.”

Morson and Schapiro (2017) also argue strongly for the humanising of economics through specifically the incorporation of the role of *culture* as driver of human behaviour. Douglass North (2003: 4) explains that: “What we are concerned with is the cultural heritage of humans... We start with a set of beliefs that we have derived from the past, and then we get new experiences that modify that belief system over time. Both the heritage itself and the experiences are shaping the way we understand the world around us.”

The proposition that culture matters for economic development finds support elsewhere in the literature (Landes 1990, 1998; Greif 1994, 2006; Mokyr 2005, 2009, 2013, 2017; Lopez-Claros and Perotti 2014; The World Bank 2015; Morson and Schapiro 2017). Economists have in the past been understandably wary of probing cultural avenues to move poor nations forward; cultural phenomena are not tangible, mostly not observable and also not measurable. It is not obvious how desirable changes may be effected through social planning given the extreme complexity of poverty and the interconnectedness of a broad range of potential determinants.

There is however a deeper discomfort that discourages the cultural discourse. The hesitancy stems from concerns that it may be construed as condescension, an implied criticism of “the *wrong* sort of culture” (Lopez-Claros and Perotti 2014: 1) being the cause of poverty, thereby not only injecting injury to self-identity, but raising resistance to development proposals flowing from cultural diagnoses. Landes (1998: xxi) juxtaposes the cultural ideologies from whence the rich-poor chasm is viewed:

“Some see Western wealth and dominion as ... triumph The Europeans, they say, were smarter, better organized, harder working; the others were ignorant, arrogant, lazy, backward, superstitious. Others invert the categories: The Europeans, they say, were aggressive, ruthless, greedy, unscrupulous, hypocritical; their victims were happy, innocent, weak —

waiting victims and hence thoroughly victimized. (B)oth of these manichean visions have elements of truth, as well as of ideological fantasy. Things are always more complicated than we would have them.”

Landes (1998) concludes however that morality compels us to choose truth over “goodspeak”; we cannot hope to relieve the plight of the poor through avoidance of the difficult questions. Lopez-Claros and Perotti (2014) add that what makes circumventing cultural explanations particularly challenging, is that some development phenomena defy any other explanation.⁷⁹

6.3 Sociologists, Anthropologists and Economists on Culture

Definitional precision for the rather broad notion of culture is lacking in the literature. Culture has been defined in thick, rather all-encompassing terms as “values, beliefs, attitudes, practices, symbols, and human relationships” (Lopez-Claros and Perotti 2014: 6) as expressed “through religion, language, institutions and history” (Temin 1997: 268). A too-broad definition containing every societal trait – in essence a society’s entire genetic endowment – dilutes its explanatory power greatly.

Anthropologists have produced insightful work on the nature of culture. Murdock (1965) views culture as learned, not inherited. He argues that it consists of society’s shared, collective habits and that cultural variation among societies is the cumulative product of “mass learning under diverse geographic and social conditions” (Murdock 1965: 113). Ortner (1984: 130) reviews the anthropological notion of culture; she proposes that culture emerges from social beings’ efforts to make sense of the world they live in and that it “is not some abstractly ordered system... its logic derives from the...organization of action, from people living within certain institutional orders interpreting their situations in order to act coherently within them”.

Sociologists’ understanding of culture has transformed remarkably during the past two decades, however, with Woolcock (2014: 1) surmising that:

“Today’s leading theorists of culture and development represent a ... distinctive perspective vis-à-vis their predecessors, one that seeks to provide an empirically grounded, mechanisms-based account of how symbols, frames, identities, and narratives are deployed as part of a broader repertoire of cultural “tools” connecting structure and agency. A central virtue of this approach is ... the emphasis it places on making intensive and extensive commitments to

⁷⁹ Lopez-Claros and Perotti (2014) cite the 20th-century rise of Japan as a global industrial force during the Meiji Restoration as an example.

engaging with the idiosyncrasies of local contexts.”

Woolcock’s emphasis on culture as a tool set developed in a specific context resembles Swidler’s (1986: 273) definition of culture as “a repertoire or tool kit of habits, skills and styles from which people construct strategies of action.” In this context, culture is society’s reality-coping mechanism.

Economists tend to define culture sufficiently narrowly to assist the identification of causal relationships (Lopez-Claros and Perotti 2014), focusing on “those customary beliefs and values that ethnic, religious and social groups transmit fairly unchanged from generation to generation” (Guiso, Sapienza and Zingales 2006: 23); that is, on unchanging, inherited cultural aspects.

The 2015 World Development Report (WDR) was dedicated in its entirety to explain human behaviour more realistically than neoclassical theory, and to pry open the “black box” of “messy and mysterious internal workings” of economic actors (Freese 2009: 98). The WDR refers to economists’ definition of culture as individual values that are uncontested and broadly shared within a group, but prefers the definition that prevails in anthropology and sociology of culture as a collection of shared mental models or schemas, which are maintained by societal norms, rules and actions. This cognitive approach to culture views it as a collection of mental tools that guides an interpretation of the world rather than a series of actions aimed at upholding values (North 2005, Greif 2006, Mokyr 2013 and World Development Report 2015).

Given the above definitional exposition, the WDR authors propose three drivers – “principles” – of decision-making. First, following psychologists like Kahneman (2011), it is accepted that humans, when faced by an unmanageable volume of information and ways to organise it, resort to a “fast” thinking process of decision-making. *Fast thinking* is effortless, automatic and associative. Slow thinking, which requires effort and is deliberate and reflective, does inform some decisions but still falls short of standard economics’ simplifying assumptions that economic actors “consider the full universe of information and environmental cues and look far into the future to make thoughtful decisions in the present that will advance their fixed, long-term goals” (World Bank 2015: 5).

Fast, automatic thinking influences most of the decisions actors make in a powerful way, although they are predominantly unaware of that. Fast thinking oversimplifies problems and forces them into a narrow frame. Decision makers rely on their received mental models to compensate for incomplete information with assumptions of how the world works, which assumptions are based on associations and belief systems – that is, their “received mental models” (World Bank 2015: 6).

Human sociability is a second principle guiding human behaviour. Thinking socially stems from the human tendency to be influenced by social identities, social preferences, social norms and social

networks. Individuals are concerned about how they fit into their social groups and imitate social behaviour almost automatically (World Bank 2015). Fairness, reciprocity and cooperation are, for instance, common social preferences that may influence collective outcomes positively *or* negatively. Cooperative values in high-trust societies predict positive outcomes, while corruption also requires cooperation to thrive. Human sociability complicates the task of social planners significantly, since social norms and expectations, social recognition and cooperation are all drivers of behaviour, while the efficacy of policy may suppose canonical economic behaviour – that is, autonomous, self-interested decision makers that respond to external material incentives (World Bank 2015). In a study of 15 small-scale societies, Henrich *et al.* (2001) for instance find that conditional cooperation trumps the canonical theory of free-riding behaviour in every society. In other words, the dominant human behaviour is not to free ride, but to cooperate as long as others do. Social preferences and influences may steer societies into patterns of self-reinforcing, collective behaviour, which may be built on trust and shared social values with positive outcomes. Societies may however also coordinate behaviour around destructive focal points like corruption and ethnic segregation. Positive or negative, these “selfreinforcing coordinated points” are embedded and resist change (WDR 2015: 9). Societies’ social networks and norms, or human sociability, therefore forge society-specific patterns of collective behaviour. Accepting sociability as a major driver of human behaviour broadens the scope for policy, implying that interventions may also be in the shape of *social* incentives, such as encouraging cooperative behaviour (World Bank 2015).

The third principle influencing how humans think and behave proposed by the World Development Report of 2015 is particularly relevant; it pertains to the influence of *culture*, which the authors refer to as “thinking with mental models” (World Bank 2015: 25):

“Individuals do not respond to objective experience but to mental representations of experience constructed from culturally available mental models. People have access to multiple and often conflicting mental models, and which one they invoke to make a choice depends on the context. Human decision making, therefore, is powerfully shaped by both contextual cues and the past experiences of individuals and societies.”

Mental models are drawn from the societies people live in rather than their own convictions. These models influence human behaviour pervasively. They affect how humans parent, and their views on saving, insurance, the environment, and the causes and cures of disease. Some are useful, but mental models may also transmit poverty intergenerationally. They stem from the *cognitive* aspect of human socialisation, which the authors define as *culture* (World Bank 2015: 11):

“Culture influences individual decision making because it serves as a set of interrelated ... tools for enabling and guiding action... Mental models and social beliefs and practices internalize aspects of society, taking them for granted as inevitable ‘social facts’. People’s mental models shape their understanding of what is right, what is natural, and what is possible in life. Social relations and structures ... are the basis of socially constructed “common sense,” which represents the evidence, ideologies, and aspirations that individuals take for granted and use to make decisions.”

The anthropological literature explains how people believe that their mental models of how the world works are rooted in hard evidence and common sense (Bourdieu 1977 and Kleinman 2006). In reality, they are often the product of “economic relationships, religious affiliations, and social group identities” (World Bank 2015: 12; Bourdieu 1977; Kleinman 2006). If society has strongly internalised mental models, attempts to alter society’s cognitive decision-making may be futile unless the social practices and norms they draw from change as well.

Persistent, shared mental models drawn from the societies that individuals live in can influence individual decisions and aggregate social outcomes heavily. Poverty is one such societal context that shapes mental models. Poor individuals expend most of their mental energy to ensure survival; their cognitive resources are tapped in the process, making it very difficult to think deliberately (Mullainathan and Shafir 2013). The additional cognitive burden borne by the poor forces them to resort to fast, automatic decision-making, which is informed primarily by their poverty-context mental models. Poverty gives rise to a no-agency mental model that mirrors life as void of opportunity and the capacity to imagine it better. As a result, poor achievement becomes self-fulfilling and perpetuates poverty (Appadurai 2004).

Poverty also affects the way in which individuals *parent*, imposing a cognitive tax on children from high-stress households from the outset. From as early as age three, a divergence develops between the cognitive and socio-emotional skills of children growing up in households at the low end of the national wealth distribution and children being raised in households near the top (World Bank 2015). Both deliberative and automatic thinking processes are impaired by insufficient cognitive and socio-emotional stimulation in early childhood, creating the inability to focus and cope with stressful challenges later in life. A study of maternal caregiving in 28 developing countries by Bornstein and Putnick (2012) finds that mothers in countries with poor economic, health and education outcomes as measured by the United Nations Human Development Index, consistently provide less cognitive stimulation to their children (World Bank 2015). Infants receiving low cognitive stimulation have less sophisticated and also fewer linguistic interactions, and less language capability, which impede

future educational attainment and adult achievements in the labour market (Gertler *et al.* 2014).

The cognitive tax of poverty extends to decisions about *health* and hence a society's health outcomes. Mental models of what causes disease as well as social pressures and norms affect these decisions and also a society's willingness to accept health interventions. A study by Mani *et al.* (2013) similarly finds that poverty-related stress absorbs significant cognitive capacity and shifts decision-making away from energy-demanding and careful deliberation towards fast, automatic thinking rooted in the perceived realities of shared mental models.

Corruption is another societal context that may resist reform if it is rooted in a social norm. Corruption may be the product of society's shared belief that using public office for personal benefit is pervasive, tolerated and even expected. That is, corruption may be a social norm and become entrenched in a society because it conforms to social expectations and shared mental models (Mungiu-Pippidi 2013; World Bank 2015). If society shares a conviction that public office is an avenue to favours, appointments and riches, social networks not only perpetuate corruption but also punish public officials deviating from the norm. Societies may become trapped in an equilibrium where corruption is a social norm and where the automatic thinking process of public servants constitutes corrupt behaviour.

Human decision-making may be considered and deliberate; it may also rely on our perceived realities informed by mental models that shape perceptions and interpretations. They are the associations that automatically come to mind. Mental models influence development outcomes in many domains; societies have shared mental models for parenting, health and money decisions, and for the role of the environment and climate change. Poverty is a societal context that shapes mental models in a profound and often poverty-perpetuating way. It also depletes cognitive capacity and makes automatic thinking more likely while reducing the capacity for deliberative thinking.

The significance of mental models in development outcomes is emphasised by historians that attribute the rise of the modern world to shifts in the mental model of how the world works. The Enlightenment, they say, which precipitated the Industrial Revolution, emerged from a dramatically altered mental model (or *culture*) that changed economic structures and social patterns in sweeping ways (Landes 1990, 1998; Mokyr 2005, 2013; Lopez-Claros and Perotti 2014; World Bank 2015; Morson and Schapiro 2017).

6.4 Religion, Cultural Entrepreneurs and Progress

Prominent among the early defences for culture as a driver of prosperity, is Max Weber's *The*

Protestant Ethic and the Spirit of Capitalism that attributed modern capitalism to a conducive ethic of “hard work, honesty, seriousness, (and) the thrifty use of money and time (both lent us by God)” (Landes 1998: 175). Lopez-Claros and Perotti (2014) cite some of the objections in the literature against Weber’s claim that Protestantism was material in the rise of capitalism. It is not that clear that Protestantism originally embraced the spirit of capitalism. Countries that practised Protestantism only became morally accepting of profit seeking and the accumulation of wealth early in the nineteenth century (Lopez-Claros and Perotti 2014). And Japan, a latecomer to the rich-country ranks, joining in the twentieth century, has no ties with Protestantism.

Although the precise dynamics of the causation coursing from religion to the emergence of capitalism is not clear, Lopez-Claros and Perotti (2014: 18) insist that “it is evident that a crucial aspect of culture such as religion is related with economic attitudes and outcomes, even in contemporary society”. A study by Barro and McCleary (2006) shows that growth benefits from stronger religious beliefs. Kuran (2004) however shows that this is not always the case; he argues that economic development in the Middle East is *impeded* by religious institutions.

Apart from an ethic that endorsed individualism and achievement, Protestantism fostered a belief that man could have mastery over nature. In *The Intellectual Origins of Modern Economic Growth*, Joel Mokyr (2005: 287) writes about the connection between *culture* and *knowledge* to explain the reasons and locality of the Industrial Revolution:

“What has been missing, so far, is a full appreciation of the importance of useful knowledge. Economic decisions are made by individuals on the basis of certain beliefs they hold and knowledge they possess... I refer to these beliefs as “useful knowledge” ... (T)he change in the rate and nature of economic growth in the West must be explained through developments in the intellectual realm concerning this useful knowledge.”

For decades, economic historians felt that *economic* factors should explain the Industrial Revolution. Mokyr (2005) however submits that the *intellectual* changes in Europe that preceded the Industrial Revolution hold the answer. The vast intellectual shift enlarged the sphere of *useful, social* knowledge greatly. It also altered production profoundly, making possible the world envisaged in Adam Smith’s *Wealth of Nations* – a world of high productivity, specialisation and division of labour.

The intellectual pursuit and subsequent diffusion of useful knowledge occurring in Europe around 1750 emerged from a set of *cultural beliefs* that took hold among eighteenth-century elite. Most prominent was the pervasive belief in Francis Bacon’s notion that material progress or economic

growth can be attained through harnessing nature, which can only be achieved through knowledge (Landes 1998). Modern scholars seem to concur that, as cultural entrepreneur, Francis Bacon was pivotal to the intellectual triumphs of the Enlightenment (Mokyr 2013). His was a victory of skepticism over authority. Mokyr (2005: 7) comments that there was a “growing proclivity of Europeans to question traditions that had ruled during centuries in which original scholarship had rarely consisted of more than exegesis and commentary on the classics. Francis Bacon himself was a leader among those skeptics”.

The survival and diffusion of this movement were aided by the then system of political fragmentation and countervailing power. Intellectuals contesting the *status quo* were able to find refuge from persecution. Rebelliousness and skepticism served as the taproots of innovation, and survived only because multicentrism allowed innovative thinkers to move from one sphere of influence or patron to the next. A system of “open science” arose from the political fragmentation and heightening intellectual competition and, by 1680, became an irrepressible intellectual movement (Mokyr 2005).

In *The Wealth and Poverty of Nations*, Landes (1998: 200) also weighs in on why and how Britain managed to break through “the crust of habit and conventional knowledge” to achieve the Industrial Revolution’s new mode of production. Like Mokyr, he stresses *buildup* – “the accumulation of knowledge and knowhow” – and *breakthrough*, when thresholds are crossed. To explain buildup, he details nations’ scientific achievements and technological advances as far back as the Middle Ages, noting that divergent views regarding knowledge and progress evolved long before the Industrial Revolution. Europe, it would seem, became one of the most inventive societies already then (White 1940).

Although the waterwheel had been known since the Roman Empire, it was in Europe that waterpower technique advanced impressively (Landes 1998). Also consider *paper*, for instance; during the Han dynasty, the Chinese invented paper manufacturing by hand and foot. Only when paper reached medieval Europe in the thirteenth century, was its manufacture mechanised (White 1978). The invention of *spectacles* more than doubled the productive life of skilled craftsmen (Abramovitz 1972). The *mechanical clock* was perhaps the most significant mechanical achievement of medieval Europe. It gave Europe reliable time, and brought order and temporal autonomy to everyday life. Life could be coordinated independently and, since work performance could be measured in uniform units, the notion of productivity is entirely a product of the mechanical clock (Landes 1998). It also remained a European monopoly for close on three centuries.

The Chinese invented *printing* in the ninth century. When printing came to Europe centuries later, interest in the written word was already widespread and it became a forum for dissent. Printing spread through Europe within 50 years. The dissemination of printed ideas and knowledge could not be contained due to multicentricity and fragmented political authority.

The Chinese knew and used *gunpowder* in the eleventh century (Needham 1980; Sivin 1990; Levathes 1994). Gunpowder arrived in Europe early in the fourteenth century; by the sixteenth century, the Europeans had invented more rapid ignition, a more powerful explosion, accurate delivery and bell founding, which gave them *military supremacy* (Landes 1998).

It is clear however that Europe pulled ahead of other societies *prior* to the world opening up in the fifteenth century. By 1500, the Muslim world was vast, covering a region that stretched from the west of the Mediterranean to the Indies. Initially, they absorbed the ways of the nations they had conquered, and developed their knowledge (Lewis 1982). Islamic science and technology far surpassed its European counterpart: “Islam was Europe’s teacher” (Landes 1998: 54). Then, denounced as heresy, Islamic science yielded to the theological pressure for religious conformity. Militant Islam laid claim to the only truth, permitting only knowledge that leads back to the truth. All else was error and deceit (Hoodbhoy 1991).

Islam integrates religious and secular life into a single entity. An ideal state would therefore be a theocracy, where all matters of the mind in its most inclusive sense, and also of the spirit are left to the leaders of the faith. This leaves hardly any room for innovation. Most of the technological progress in the Muslim world came from outside, as “(n)ative springs of invention seem to have dried up” (Landes 1998: 55). White (1978: 227) states: “For nearly five hundred years the world’s greatest scientists wrote in Arabic, yet a flourishing science contributed nothing to the slow advance of technology in Islam.”

One civilization that might have outperformed European innovation, was the Chinese. China has an impressive list of inventions, among them the compass, paper, printing, gun powder, the wheelbarrow and porcelain (Ropp 1990). In science and technology though, despite inventions predating European technology by several centuries, China failed to realise its potential (Needham 1969, 1970, 1980; Landes 1998; Lopez-Claros and Perotti 2014). Know-how and knowledge are generally cumulative, with older methods discarded and replaced by newer, superior technology. The industrial history of China however tells a tale of regression and stagnation: horology declined, hemp-spinning technology was never adapted to cotton spinning, and cotton spinning remained unmechanised (Sivin 1990). Coke smelting and the entire iron industry fell into disuse (Elvin 1973).

At first glance, China had many of the characteristics of Western Europe that historians regard as contributory to the Industrial Revolution; even the social class structure had been revolutionised (Sivin 1978, 1990; Ropp 1990). Although “Galilean-Newtonian science” was lacking, there was scope for technological improvement on early innovation (Sivin 1990). Yet technological advance stalled long before scientific ignorance posed an obstacle. Crucially, *innovative effort* was absent (Elvin 1973; Landes 1998).

Sinologists offer various explanations for China’s arrested advancement (Needham 1969, 1970, 1980; Sivin 1978, 1990; Ropp 1990). The first is institutional: the absence of secure property rights and free markets. The Chinese state has always preyed on private enterprise. Lucrative activities were appropriated, many were prohibited, prices were manipulated and bribes extorted. Private wealth accumulation through commerce and industry was near impossible (Landes 1998). Maritime trade was viewed as a divisive force that diverted from imperial interests or as a potential exit opportunity for dissident citizens (Lopez-Claros and Perotti 2014). In fact, during the Ming dynasty (1368-1644), a blank prohibition was placed on all overseas trade. Subversion, smuggling and corruption ensued, followed by confiscation and brutal punishment. Initiative and talent were crushed by bad government (Landes 1998; Lopez-Claros and Perotti 2014).

Etienne Balazs (1964) however stresses a larger context, attributing the technological regression to the pattern of state totalitarianism. In addition to an absence of freedoms, society was weighed down by custom and the state’s enforced notion of higher wisdom. Balazs (1964) makes clear precisely how far-reaching the control of the state was, infiltrating all aspects of private life and monopolising the realm of knowledge. He explains how innovation and technological progress stalled, stifled by an omnipresent state enforcing custom and tradition as the only ways of doing and thinking in Chinese society.

Europeans were not nearly as constrained by state interference during these centuries (Landes 1998; Acemoglu and Robinson 2013). There was an era of exciting innovation challenging conservatism and vested interests. A sense of freedom and progress seeped into all domains of life and replaced an outdated, redundant reverence for state and religious authority. Landes (1998) remarks on the particular dynamism of European progress, the irrepressible groundswell from inside society as they found gratification in acquiring knowledge, in doing things in new and better ways, and also in their liberation from conservative vestiges of authority and knowledge.

In short, what emerged was a *culture* encouraging of learning according to the scientific method, to harness nature to massively improve and expand production (Mokyr 2010, 2013). The equalising

influence of wide accessibility of the knowledge from which innovation sprung brought freedom where earlier there was oppressive authority guarding custom and tradition. One might say that a massive shift in society's mental model as it interacts with prevailing and changing social values, occurred.^{80, 81} It was aided by contingent historical factors, which no amount of social engineering could replace, such as the multicentricity of political Europe at the time, and the timing of the emergence of cultural entrepreneurs like Isaac Newton and Francis Bacon. In time, the formal institutional regime that became modern Western democracy emerged to reflect the societal drive for individuality, freedom, knowledge and progress (Mokyr 2010, 2013).

Japan⁸² also presents a curious historical case of development. Whereas Islam and China regressed as Europe advanced, failing to turn early promising signs of scientific and technological progress into sustained economic development, Japan did the opposite: its per-capita income, measured at a third of Britain's in 1870, caught up with Western Europe's within a hundred years (Lopez-Claros and Perotti 2014). Japan transformed into the second-largest global economy and a frontrunner in technological innovation in "a tale of culture and cultural change. On one hand, the centuries-long transmission of values like honor, loyalty, duty, obedience and discipline contributed in fundamental ways to shape Japan's human capital. On the other hand, a change in mindset needed to happen..." (Lopez-Claros and Perotti 2014: 2). The traditional samurai *culture* was the substrate – the *build-up* – from which Japanese human capital well suited to the rigour of competitive capitalism could emerge. Lopez-Claros and Perotti (2014: 5) explain that Japan was ready for modernisation to emerge and culturally confident enough to acknowledge "the superiority of Western science, technology, and organization ... (I)t is evident that Japanese social values, attitudes, and beliefs were enormously helpful in assisting the country in engaging in a process of modernization."

Landes (1990: 10) stresses that societal transformations emerge from within, not from "external, enclave development". Not only do these transformations imply new ways of doing, for many societies it means a different understanding of how the world works and their place in it – that is, a profound mental remodelling.

⁸⁰ Bikhchandani *et al.* (1992) for instance describe how what society deems *socially acceptable* can precipitate cultural change. Large shifts in societal behavior may follow information cascades, which are situations where individuals, having observed the behaviour of those preceding him, repeat the behavior of the predecessor while disregarding their own information. Shifts in socially accepted behaviour affect the mental models in which much of society's default, fast-thinking decisions are rooted and are bound to affect societal outcomes.

⁸¹ Deirdre McCloskey (2006, 2010, 2016) emphasises the impact of a rising sense of dignity among the bourgeoisie engaging in the previously disregarded vulgarities of merchant trade.

⁸² For a more detailed description of Japan's Meiji Restoration that started in 1870, see Appendix B, section B.1.

6.5 A Culture for Growth and Development

If history teaches us that culture influences economic trajectories, it also illustrates the importance of context. The formal institutional environment, whether religious or political, or simply bad policy and government, may suppress progress by choking off all incentives and society's will to try. On the other hand, a society clinging to anachronistic mental models of the world may fail to thrive in the challenges of the modern global context *even* after far-reaching formal institutional liberation. Progress, it would seem, crucially needs to arise from within; not only from within society, but within individuals. It cannot be imposed.

Without detracting from the complexity and specificity of widely divergent contextual realities, the literature proposes that both past successes and failures hold useful lessons. Sowell (1996: 378) remarks that “cultures ... compete with one another as better and worse ways of getting things done.” Social scientists and economists broadly agree that certain values characterising progressive societies are instrumental to shape and steer development patterns (Lopez-Claros and Perotti 2014: 20): “Time orientation is one such value. Whether a particular culture is forward looking or unduly focused on the past is likely to make a big difference. It is rather more helpful to confront challenges by asking ‘how can we set this right?’ than ‘who did this to us?’ ...”.

A society's attitude towards work is similarly crucial. The medieval invention of the mechanical clock reorganised life in medieval cities in ways that raised productivity dramatically as a precursor for work becoming the organising principle in modern societies, while productivity is the propeller of prosperity (Harrison and Huntington 2000). A value related to society's awareness of the importance of productivity, is whether it functions according to meritocratic criteria linking rewards to performance and achievement, or whether members of society are advanced as a result of unrelated criteria, like ethnic kinship, party affiliation, friendship or family connections. Productivity – and hence society's prosperity – gains most when resource allocation follows efficiency considerations rather than the unrelated criteria listed above. Bertrand and Schoar (2006: 82) report evidence that countries “where family is generally regarded as more important have lower levels of per capita GDP, smaller firms, a higher fraction of self-employed, fewer publicly traded firms, and a smaller fraction of total market value controlled by families, on average.”

Following the insight of many scholars (Landes 1990, 1998; Mokyr 2005, 2009, 2013, 2017) that “knowledge makes almost all the difference”, (Claros-Lopez and Perotti 2014: 21) implies that a society's *attitude* and approach towards the acquisition of knowledge are important. That education and skills training drive competitiveness in a complex global world is a familiar theme. Not only is

the quality of *human capital* driving economic performance dependent on access to new knowledge and the latest technology, a nation's capacity for *technological innovation* is also driven by education.

Moreover, education is the socialisation process that allows individuals to broaden and adjust their mental models of how the world works, improving the quality of their decisions, equipping them to judge governance and politicians critically, and shielding them from being manipulated by demagogues. Glaeser *et al.* (2007) explain how education fosters the socialisation that modernises individuals' outlook, and also political participation, all of which make education a prerequisite (though not a guarantee) for a functional, liberal democracy.

The notion that education is linked to the likelihood of positive societal outcomes is not new. In his early modernisation theory, Seymour Lipset (1959, 1960) finds an increased likelihood of democracy in the presence of human-capital prevalence; Glaeser *et al.* (2004) confirm the human-capital prevalence finding, which Acemoglu *et al.* dispute in 2005, but Kangur (2016) later confirms and interprets as a refutation of institutionalism, subject to some caveats.⁸³

Much of the work was done as part of the deep-determinants battle to establish causation; that is, whether economic development courses *from* (formal) institutional reform (essentially democratisation as reflected in secure property and contractual rights), *through* the proximate determinants (human and physical capital, as well as productivity) *to* economic growth. Or, does causation travel *from* education and human-capital formation, *to* growth and then *to* formal institutions – that is, more or less linearly without an explicit role for culture?

Economic historians' account of the evolution of the modern world is exponentially more complex than either of these sequences, commencing in medieval times when it was easier to acquire and cultivate ignorance, superstition and intolerance, than to uproot and reform them (Mokyr 2005, 2009, 2013 and 2017; Landes 1998). Yet, that is what Europe did, while Islam and China pursued the former route to institutionalise the stoppage of progress. It was about societies' distinctive relationships with knowledge. In Europe, the quest for *intellectual autonomy* dates back to medieval conflicts over the authority and validity of tradition. It had to contend with the dominance of the Roman Church's authority and omnipotence. It was a closed world where new ideas were seen as subversive and insolent. Acceptance for novel ideas were however eased in Europe by "practical usefulness and protected by rulers who sought to gain by novelty an advantage over rivals. It was not an accident, then, that Europe came to cultivate a vogue for the new and a sense of progress"

⁸³ For a complete discussion, refer to Section 4.7 in Chapter 4.

(Landes 1998: 201).

Like Europe's battle for intellectual autonomy, its adoption of *scientific method* as a way of thinking and a basis for accepting what constitutes truth also powerfully uprooted superstition and ignorance. Also this was uniquely European. No credence was given to things unseen; but seeing was not enough – natural phenomena required comprehension and non-magical explanations. Mathematics was viewed as immensely useful to specify observations and formulated results. Truth and reality began to matter more than perception, and who said it no longer mattered. Scientific method was the key to *knowing*, and knowledge powerfully undermined authority.

Landes (1998) emphasises that Britain's mental remodelling was self-sprung. In terms of material endowments, others may have been better or at least as well placed to lead the progress. Britain, however, had the nonmaterial – the *cultural* – values *and* the institutions to fuel and incentivise their rapid advance.

In *The Wealth and Poverty of Nations* (1998), Landes draws on historical lessons to delineate *values* and *institutions* that would serve growth and development of a society. He is careful to define such societies not as superior, but as more suited to large-scale production, which leads to material progress. He describes the following ideal growth-and-development features, which are outcomes of the cultural and formal-institutional mix, and how societies apply these formal and informal rules.

First, a growth-society has strong production capability and the capacity to innovate and expand the technological frontier. Second, it educates and trains young members of society to expand on their knowledge and know-how. Third, jobs are awarded on merit, rewarding competence, and performance serves as the basis for promotion and demotion. Fourth, it incentivises competition, initiative and emulation to encourage enterprise. In the final instance, citizens are free to enjoy and invest the fruit of the endeavours; by implication, citizens are protected from private or public diversion and predation of their hard-earned resources. Freedom and security are essential growth-and-development features.

Political institutions that would oversee the materialisation of the ideal growth-and-development features include secure private property rights, secure personal liberty that shields civilians from tyrannical abuse and private disorder, contract enforcement and several criteria for government. Specifically, Landes (1998: 218) does not consider Western democracy a prerequisite: growth societies must have “stable government, not necessarily democratic, but itself governed by publicly known rules (a government of laws rather than men). If democratic, ... the majority wins but does not violate the rights of the losers; while the losers accept their loss” In addition, government

should be responsive, honest (to discourage rent seeking), efficient, moderate and frugal (to keep taxes and government's claim on the social surplus low).

Landes's (1998) ideal growth-and-development norms imply several corollaries: gender equality, for instance, which would double the available talent pool; no discrimination on the basis of criteria unrelated to performance criteria, and a preference for rational, scientific truth over irrational superstition. Also, social and geographical mobility would allow free movement to pursue opportunity. Society may not share in the prosperity equally because individuals' ability to produce wealth may vary, but it would be a fairer distribution than what privilege and favour would produce. An ideal society "would also be honest. Such honesty would be enforced by law, but ideally, the law would not be needed. People would believe that honesty is right (also that it pays) and would live and act accordingly" (Landes 1998: 218).

No modern society comes close to this ideal; even the prosperous, industrial nations of the West are marred by corruption and rent-seeking. However, the immense distance between this ideal-for-growth-and-development social order and the medieval political and social arrangements from whence they evolved illustrates that society needs the ability to transform itself.

Growth-and-development norms intend no particular cultural bias, Western or otherwise. They are fundamentally a consequence of a globalized world and "the gradual emergence of a commonly shared language to understand some key foundations for economic development. Of course, societies will differ in the ways and the extent to which they have internalized some of these values ..."
(Lopez-Claros and Perotti 2014: 24). Development is also not only about "reducing poverty and expanding opportunities against the background of rising incomes. It is also in a very fundamental way about adopting a set of values that are compatible with humanity's moral development" (Lopez-Claros and Perotti 2014: 24).

So then, culture matters. Formal institutions do too. Which matters more? Democracy does not cause prosperity, although scholars agree that some of the pillars associated with but not exclusive to democracy, are crucial. Growth-and-development institutions may exist regime-independently; benign dictators may implement them with equal success. Autocracy however, by its unrestrained nature, easily leads to tyranny. Democracy however, goes wrong too; although theoretically a system of rules, human agency is conspicuous in the corruption and rent-seeking that actual democracies are unable to prevent. Some of the richest nations are democratic, but so are some of the poorest ones. And then there are non-democratic Hong Kong and Singapore, topping global indices of human and material achievement: they comply with the formal rules that incentivise growth and development.

The formal rules alone do not cause growth, however; society must *believe* in them and *behave* accordingly.

Although he does not probe the depths of the meaning of culture, of individuals' mental models and social attitudes, norms, values, preferences from all perspectives – that of sociology, anthropology, economics and history – it is presumed that when Douglass North includes *informal* institutions in his definition of institutions, he means culture in a broad sense.⁸⁴ That is, in fact, how he explains it. It covers the mental models that we are raised with and that may shift through socialisation and education; it covers the way we see the world, right and wrong, and the social rules we observe not only to gain acceptance and a sense of belonging, but because we internalise them.

If the system of formal rules is *foreign* to these embedded, internalised drivers of decisions and behaviour, the formal rules may either not be observed and be inconsequential, or compliance may be incentivised at a cost, or brutally enforced. Given that a society's informal institutions may range from a modern, growth-and-development culture, to anachronistic and growth limiting while the formal regime may similarly range anywhere on the growth-and-development scale, the *outcome* of the formal-informal-enforcement mix becomes highly context specific and difficult to predict.

6.6 Culture and Modernisation

Scholars agree that *knowledge* is the source of growth (Mokyr 2005, 2009, 2013, 2107; Landes 1990, 1998; Lopez-Claros and Perotti 2014). However, understanding that knowledge and an educated work force cause growth does not put paid to the deep-determinant probe; instead, it asks not only what is the deep causes of growth, but what is the deep cause of the human capital that causes growth. From the perspective of a poor, non-growing country, say Mali, who is human-capital poor, what does it mean to know that becoming prevalent in human capital might change their fate? Why don't they? Why have they not had quality education and skills training, and what intervention will *cause* it?

Landes (1990, 1998) and Mokyr (2005, 2009, 2013 and 2017) agree with Lipset's early view about the importance of quality human capital during countries' modernisation process towards an industrial economy. Theirs however is of modernisation driven by *cultural transformation* – a shift in the reigning mental model about how the world works. A new, open society questions traditional,

⁸⁴ Dobler (2009: 2) for instance confirms the tendency to paint with a very broad brush when informal institutions and, in fact, culture are defined in the *institutional* literature: "Morals, norms, values, habits, conventions, traditions and codes of conduct also influence human behavior. These are cultural factors called informal institutions."

anachronistic beliefs and values in a world where innovation is possible and can overcome resistance, and where rapid technological advance drives growth and prosperity. First, however, society has to *value* the pursuit of knowledge as the vehicle to modern prosperity. Often resisted as Western or euro-centric, Landes (1998) and later also Inglehart and Welzel (2005, 2010) point out that the Western or European association with cultural modernisation is nothing more than accidental, as Japan later proved. Growth-and-development values are universal modern values, and not uniquely Western or European. These regions stumbled upon them first in a stellar confluence of many contributory developments, rather than engineered them (Acemoglu and Robinson 2013, Landes 1998).

Scholars agree that education is crucially important for modernisation; both to acquire knowledge and skills, and to modernise mental models. In an interconnected, non-linear web, the initial shared mental model about education should be “right” in the sense that it is accepting of new ways of doing things – of modernity, that is – instead of merely cementing traditional mindsets.⁸⁵ But the education should also be of the “right” type, as stressed by Morson and Schapiro (2017: 190) who quote Easterlin’s (1996: 56) argument “that education doesn’t always promote economic growth; it depends on its content. Is it of a secular and rationalistic type? If not, its impact will be muted.”

There is relative unanimity amongst scholars that education, knowledge and high-quality human capital are essential for growth and prosperity. There is less agreement about the sequencing of growth determinants and the channels of transmission. Reducing the proposed channels of transmission to the essential components makes clear where the disputes arise. Compare especially Lipset’s (1959) modernisation sequence as improved by Inglehart and Welzel’s (2010) inclusion of World Value Survey data of societies’ mass attitudes, with the modernisation described by Landes (1998) and Mokyr (2013).

Landes and Mokyr’s sequencing, succinctly, has “institutions and culture first; money next; but from the beginning and increasingly, the payoff was to knowledge” (Landes 1998: 278). Or, “(c)ultural changes in the early modern age led to institutional changes that made Europe more friendly to innovation” (Mokyr 2013: 1). Cultural values modernised as science and knowledge allowed societies the technological progress that would lead to the sustained expansions in production that became modern growth in the contemporary rich world. Formal institutional reform evolved in tandem with societies’ changing worldviews. A high bar was set for growth-and-development

⁸⁵ See again the discussion in Section 8.5 about the Muslim world’s hostility to learning, as well as the scientific and technological regression during the totalitarianism of the Ming Dynasty, while Japan’s deliberate cultural modernisation and acquisition of knowledge during the Meiji Restoration led to prosperity.

government especially, not necessarily democracy, but safeguarding security and freedom, and governing honestly. Knowledge was the vehicle to prosperity, but it was fuelled by an innovation-conducive cultural environment and maintained by a growth-and-development formal regime. Growth, however, did not *trigger* the process; the wheels were set in motion by cultural and institutional transformation.

Next consider the sequencing proposed first by Lipset in 1959, and later by Inglehart and Welzel (2010: 551):

“Rich countries are much likelier to be democracies than poor countries. Why this is true is debated fiercely. Simply reaching a given level of economic development could not itself produce democracy; it can do so only by bringing changes in how people act. Accordingly, Seymour Martin Lipset (1959) argued that development leads to democracy because it produces certain socio-cultural changes that shape human actions.”

In 1959, the empirical data needed to test Lipset’s claim did not exist and, although comparative survey data have since become available for the majority of the global population, but social scientists persistently viewed mass attitudinal data as unreliable and volatile (Inglehart and Welzel 2005, 2010). Inglehart and Welzel however argue that reliably measured⁸⁶ modernisation-related mass attitudes are in fact stable traits of given societies, even in low-income populations. Also, that these attitudes appear to influence social change – democratisation, for instance – significantly. Direct measures of these mass attitudes make it possible to explore the role of culture in Lipset’s sequencing, assuming that economic development modernises these attitudes, rendering democracy a more likely social outcome. In other words, it allows an investigation into the sources of *democracy* – a particular formal institutional regime.

Boix (2003), Przeworski *et al.* (2000) and Acemoglu and Robinson (2000, 2001, 2006) have performed quantitative analyses to test the relationship between economic development and democracy, all suggesting crucial institutional and cultural linkages. The 2006 study by Acemoglu and Robinson attempts to establish whether causation runs from economic development to democracy, or whether democratic institutions cause economic growth. They conclude that neither of the two causal paths holds up: fixed national effects capturing a society’s entire historical, institutional and cultural heritage cause *both* economic growth and democracy. This suggests that deeply instilled cultural attitudes are important but are lumped together with various other variables.

⁸⁶ By large-N comparative survey projects like the World Values Survey.

Relying on the measures of key attitudinal variables for nearly 90 percent of the global population obtained from large-N comparative surveys, Inglehart and Welzel (2010) suggest that not only is the institutional and cultural heritage for any society “remarkably enduring”, but also that certain mass attitudes of a given society powerfully predict its degree of democracy. Inglehart and Welzel propose that they are the missing link between economic development and democratisation, grounding Lipset’s modernisation theory in empirical evidence. They offer a more elaborate formulation of modernisation’s sequencing of causal events (see for instance Inglehart 1997; Inglehart and Baker 2000; Welzel, Inglehart and Klingemann 2003; Inglehart and Welzel 2005; Welzel and Inglehart 2008, 2009).

They emphasise that modernisation is not linear. It begins with industrialisation that leads to “bureaucratization, hierarchy, centralization of authority, secularization” and more importantly, to a mass attitudinal shift from traditional values to secular-rational values (Inglehart and Welzel 2010: 553). Modernisation then enters its post-industrial phase associated with a second shift in mass orientation towards emphasis on self-expression and insistence on individual autonomy, which shift heightens the resistance against authoritarianism and the likelihood of democratisation.

Modernisation is not deterministic or irreversible; leader agency, nation-specificities, economic setbacks and contingencies also matter. Significant too is the path dependence of socio-cultural modernisation. Despite the predictable transformation in society’s shared mental models and worldviews, ethnic and religious traditions do not die out; they are well embedded and enduring.

Unlike early ethnocentric conceptualisations of modernisation, and as Landes (1990, 1998) also concludes, Inglehart and Welzel’s modernisation does not describe a process of Westernisation. It is society’s internalisation of universal growth-and-development values that, having first evolved in Europe, emerged with equal success and in a much shortened time span in East Asia. Inglehart and Welzel’s formulation however probes the sources of *democracy* – it is not a theory of the deep sources of *growth*. Hence, they conclude that democracy becomes more probable following modernisation.

The key, they argue, is *knowledge*: the highly educated populations of industrial and especially post-industrial societies are articulate and think independently. They are free from the shackles of poverty that trap all physical and mental energy in efforts to ensure survival and (can afford to) prioritise self-expression and autonomous decision making, leading to a mass demand for modern democracy.

Notably, in Inglehart and Welzel’s modernisation sequence, societal appeals for democracy stem from an insistence on individuals’ autonomy in decisions that affect their lives importantly in a post-

industrial society where material needs are *already* satisfied. They are vastly distinct from the appeals for democratisation in oppressed but deeply impoverished nations in for instance post-independence sub-Saharan Africa, where the most basic material needs may be unmet. Self-expression surely ranks substantially lower than nutrition, basic health care and literacy; these are the needs that poor societies may be expressing through appeals for democratisation. It may be a better material (and freer too) life that they crave, not first and foremost self-expression and autonomy.

Inglehart and Welzel's sequence essentially makes economic development the deep source of democracy⁸⁷ through the shifts in mass attitudes and orientations associated with the knowledge societies of industrial and post-industrial economies, which shifts heighten the probability that societal demand for autonomy and democracy will eventually be irrepressible.

In comparison then, the sequencing proposed by Landes and Mokyr⁸⁸ attributes prosperity to knowledge, to scientific advances, technological progress and innovation. A *cultural transformation* cultivated and incentivised these knowledge societies, who implemented the complementary growth-and-development formal institutions of which stable and honest government, freedom and security ranked importantly. *Education* is important both to acquire knowledge *and* to facilitate the cultural modernisation. Democracy may result or not and is also not a prerequisite, although high standards of governance are set. The deep sources of growth, then, are the *cultural and institutional transformations* that create an opening for education from whence knowledge societies may grow.

To simplify, view the tabled summary in Table 6.1.

The causation proposed by the two approaches in Table 6.1 share the conviction that cultural transformation is key in nations' modernisation process; so are the roles of education and knowledge.

⁸⁷ It is this formulation of modernisation, first proposed by Lipset in 1959 and developed further by Inglehart and Welzel (and others like Inglehart 1997; Inglehart and Baker 2000; Welzel, Inglehart and Klingemann 2003; Inglehart and Welzel 2005; Welzel and Inglehart 2008, 2009) that leads to the ostensible refutation of institutionalism (Glaeser 2004; Kangur 2016) stating that economic development causes institutions (with democracy proxying for the entire realm of formal institutions, informal institutions and enforcement characteristics) and not the other way round.

⁸⁸ Landes and Mokyr are not the only scholars to propose that culture has a significant role in the societal transformation accompanying economic development. See for instance also Myrdal (1957, 1958, 1968 and 1984), Harrison and Huntington (2000) and Spolaore and Wacziarg (2012). Landes and Mokyr are singled out for their detailed clarity on a modernisation sequence that is historically plausible and reconcilable with Douglass North's institutionalism provided his broad cultural definition of informal institutions is accepted. Ultimately, empirics would decide the causation sequence.

Table 6.1 Sequencing of Modernisation

	Landes-Mokyr Sequencing	Lipset-Inglehart-Welzel Sequencing
Deep determinants	<p><i>Cultural transformation, aided by cultural entrepreneurs historically, but also by education and in modern times possibly through the demonstration effect of electronic media.</i></p> <p><i>Formal institutional environment adjusts accordingly; emphasis on good government, freedom and security.</i></p>	Economic development through the industrial and post-industrial stages; economic growth and existential security.
Proximate determinants	Innovation and technological advance in knowledge societies.	Cultural transformation as mass attitudes and orientations shift away from traditional towards secular-rational values during the industrial stage and towards autonomy and self-expression during post-industrialism in knowledge societies.
Outcomes	Growth and prosperity.	Higher probability of democracy.

The Lipset-Inglehart-Welzel sequencing however assumes economic development already exists as their point of departure and is mute about its deep source, which constitutes the *crux* of the split between better-educated, knowledge-intensive and well-governed rich nations on the one hand, and the lesser-educated, knowledge-poor and badly governed poor nations. *That* is the divergence that studies like this one seek to explain.

One may ask whether the two sequencings perhaps agree on more than the proponents would concede to? Whether it is just a different entry point in otherwise relatively similar non-linear chains of causation? Formal institutions of course (as proxied by democracy) remain a stickler – are good institutions an outcome or a deep cause of modernisation? If an outcome, then surely institutions as a deep determinant of growth become unseated. But if the focus shifts to *informal institutions*, and

accepts the broad definitional approach to include *culture*, there is much more agreement: at some point in the drive towards modernity⁸⁹, cultural transformation⁹⁰ emerges as driver of the process. It may be useful to scrutinize the cultural-transformation component of the transmission mechanisms theorised by the two sequencing approaches more closely.

6.6.1 *Landes and Mokyr: Institutions Deep-causing Modernisation and Prosperity*

The Landes and Mokyr approach posits cultural transformation with concomitant institutional reform at the outset of the modernisation sequence. If cultural transformation is then viewed as (at least loosely) tantamount to *informal* institutional transformation,⁹¹ with concomitant *formal* institutional changes reflecting these shifts in society's worldviews, the Landes and Mokyr approach confirms institutions as deep cause of growth and development. The relationship between institutional factors and cultural factors remains unclear, however, and subject to contradiction and inconsistency. The work of Avner Greif (1994, 2006) has brought some clarity to the definitions: institutions are formal and informal rules and incentives that constrain society's behavior and decide resource allocation, while culture is the belief systems, preferences and values that shape institutions.

The distinction boils down to what individuals take as given, and what they have choice over. Greif (2006) considers institutions as given; society sets formal and informal rules that reward compliance and punish deviancy. Individual members of society cannot change these rules much in the same way that they are price takers in perfectly competitive markets. Culture however is a "menu of beliefs and preferences that (individuals) can choose from: political and social values, personal preferences and even scientific and metaphysical theories (including religion). Such choices can be made during an individual's lifetime, and while they are made infrequently, there is no real constraint on the number of times an individual can change his beliefs and preferences" (Mokyr 2013: 2).

Early socialisation by individuals' parents implies that the default option from individuals' cultural menu is to adopt the beliefs and preferences – the mental models – of their parents (Spolaore and Wacziarg 2012). At some stage though, they face the choice to internalise the default, or renounce it. Cultural beliefs and attitudes are not only passed on through vertical transmission channels from one generation to the next vertical (that is, from parents to their children), but also horizontally (from

⁸⁹ For the Lipset-Ingelhart-Welzel sequencing, "some point" is *during* the industrial and post-industrial stages of economic development; for Landes and Mokyr, it is the deep cause at the start of the modernisation.

⁹⁰ Or, if the broad definition is accepted, society's informal institutional evolution drives modernisation in an affirmation of institutions as deep cause of growth.

⁹¹ In other words, in keeping with Douglass North's definition of informal institutions.

peers and the media) or through oblique channels (from teachers and educational sources).

The broader and more varied the cultural menu, in other words the more socialisation by sources other than parents and assuming that individuals are free to choose their beliefs, the more likely they become to deviate from the default cultural beliefs instilled through the way they were parented and the more rapid cultural change becomes in what is termed choice-based cultural evolution. This precipitates institutional change, as well as shifts in economic performance (Spolaore and Wacziarg 2012, Mokyr 2013).

The existing institutional structure and associated sets of incentives decide whether individuals' cultural choices will deviate from the default; the costs and benefits from converting to another belief system versus remaining committed to the traditional beliefs and preferences decide the cultural choice. Individual cultural choice is also made with a view about what others believe. It may therefore be conformist, because individuals may assume that there is wisdom in the majority belief or because there is a social cost to deviancy. Non-conformists may deliberately oppose reigning social beliefs (Greif 2006). The significance of the non-fixity of cultural choice is this: cultural entrepreneurs do not accept the cultural beliefs of others as given.

Scholarly work cites several ways in which influential individuals may influence society's beliefs and preferences. Glaeser (2005) for instance shows how political entrepreneurs mobilise hate towards certain groups for political benefit, while Acemoglu and Jackson (2015) show that the leadership of prominent individuals can promote or undermine generalised trust to affect future societal norms towards more or less cooperation. Mokyr (2005, 2009, 2013 and 2017) focuses on how cultural entrepreneurs add to society's cultural menu from which beliefs are chosen to enlarge society's useful knowledge and drive technological change. Cultural entrepreneurs create epistemic points around which beliefs can be coordinated. They can persuade individuals to abandon existing, traditional beliefs in exchange for new ones. In the modern world of electronic media and the rapid transmission of mass information and ideas, the demonstration effect may similarly have a transformative, modernising effect on culture (Landes 1990).

The literature is clear that *formal* institutional improvement to support well-functioning markets and reduce risk, transaction costs and barriers to trade through secure property rights, contract enforcement and judicial dispute resolution do not explain the growth in useful knowledge and technical progress that was the backbone of the Industrial Revolution. The dynamics of knowledge and technology were driven by changes in the *cultural milieu*, which readied society for an economic dynamic where growth centered on knowledge and technology.

The reformative powers of a cultural transformation depend on whether the formal institutional environment supports innovation. A conformist, conservative environment may view innovators as apostates and heretics, heightening the risk and lowering the success of cultural entrepreneurs. The Industrial Revolution was thus the world's pioneering modernisation episode – the culmination of new cultural beliefs within a propitious environment conducive to sudden change in attitudes and beliefs, which ultimately influenced all aspects of society. What *followed* was modern growth and prosperity.

6.6.2 *Lipset, Inglehart and Welzel: Economic Development Deep-causing Cultural Transformation and Democracy*

The core of the Lipset, Inglehart and Welzel modernisation sequence is that economic development transforms society and politics systematically. Inglehart and Welzel predict (2010) that there should then be pervasive differences between the values and beliefs – the culture – of high-income societies and low-income societies. Moreover, and significant for the sequencing comparison, they rely on World Values Survey⁹² (WVS) data to interpret correlations between income levels and mass attitudes in societies as suggestive of causative relationships.

Specifically, they find evidence of a particular set of attitudinal changes coinciding with the transitioning from an agrarian to an industrial society, and another set of changes in motivations and values during the post-industrial phase. The two sets of changes are associated with two major cultural dimensions that measure cross-country cultural variation. The first attitudinal shift, which is associated with the industrialisation stage of economic development, constitutes a shift along the traditional versus secular-rational values dimension and the second post-industrial shift in values, supposes a movement along the survival versus self-expression values dimension. Both dimensions are constructed from WVS scores of attitudinal variables and are found to be robust (Inglehart and Welzel 2010).

Transitioning from an agrarian to an industrial society entails a process of “bureaucratization,

⁹² The World Values Survey (www.worldvaluessurvey.org) is a “global network of social scientists studying changing values and their impact on social and political life, led by an international team of scholars, with the WVS association and secretariat headquartered in Stockholm.” The survey started in 1981 and has been conducted in six waves with the seventh nearing completion at the end of 2019. It consists of “nationally representative surveys conducted in almost 100 countries which contain almost 90 percent of the world’s population, using a common questionnaire. The WVS is the largest non-commercial, cross-national, time series investigation of human beliefs and values ever executed, currently including interviews with almost 400,000 respondents. Moreover the WVS is the only academic study covering the full range of global variations, from very poor to very rich countries, in all of the world’s major cultural zones.”

rationalization, and secularization” (Inglehart and Welzel 2010: 554). The attitudinal values associated with an agrarian society are traditional;⁹³ they prioritise “religion, national pride, obedience and respect for authority”, while industrial societies⁹⁴ value “secularism, cosmopolitanism, autonomy, and rationality” (Inglehart and Welzel 2010: 554). The prosperity associated with post-industrial societies brings existential security, which again shifts societal values. If survival strategies do not dominate people’s lives, other goals gain prominence. Also, in the knowledge societies of post-industrialism, individuals are required to be innovative and use their judgment in daily decision-making rather than follow prescribed routines. These conditions lead to individuals prioritising self-expression. Countries’ transitioning to post-industrialism is associated with upward progression along the survival-versus-self-expression values dimension,⁹⁵ which polarises values prioritising economic security, order and conformity at the survival end of the dimension, and values prioritising quality of life, trust, participation, tolerance, subjective wellbeing and autonomy at the opposing, self-expression end of the dimension (Inglehart and Welzel 2010). The WVS data show that virtually all of the prosperous nations have gradually shifted along this dimension towards self-expression and autonomy, although their relative positions remain quite stable. In fact, the two value dimensions prove to be highly autocorrelated across the WVS’s successive waves. The WVS data on the two value dimensions can be used to construct Cultural Maps that show where the participant societies are positioned on these two dimensions. An upward movement on the map indicates a shift from traditional to secular-rational values, while a rightward move represents a shift from survival to self-expression values.

Figure 6.1 shows the WVS Cultural Map for 2010-2014, reflecting the survey responses for Wave 6. Cultural maps for Waves 1 to 5⁹⁶ that are constructed from different survey responses, are similar to the one for Wave 6 in Figure 6.1, indicating that country scores on the two value dimensions reflect stable traits for the entire period of 1981 to 2014 over which the six waves of surveys have been

⁹³ The World Values Survey defines traditional values as “importance of religion, parent-child ties, deference to authority and traditional family values. People who embrace these values also reject divorce, abortion, euthanasia and suicide. These societies have high levels of national pride and a nationalistic outlook”.

⁹⁴ The World Values Survey describes the secular-rational values associated with industrial societies as less emphasis on “religion, traditional family values and authority. Divorce, abortion, euthanasia and suicide are seen as relatively acceptable”.

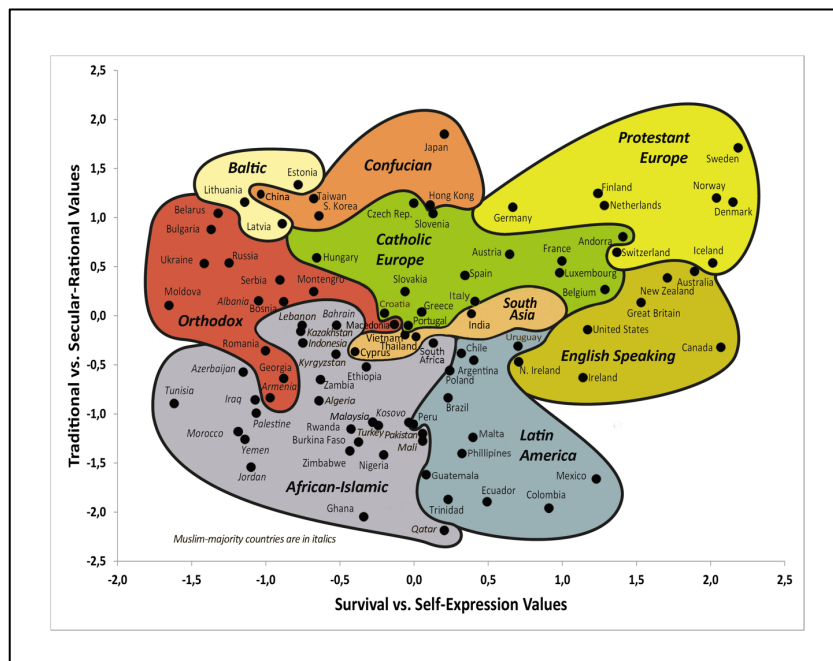
⁹⁵ The World Values Survey defines survival values as prioritising “economic and physical security. It is linked with a relatively ethnocentric outlook and low levels of trust and tolerance”, while self-expression values emphasise “environmental protection, growing tolerance of foreigners, gays and lesbians and gender equality, and rising demands for participation in decision-making in economic and political life”.

⁹⁶ These maps are not replicated here due to the high degree of similarity among the cultural maps for all six waves but can be viewed on the website of the World Values Survey (<http://www.worldvaluessurvey.org>).

conducted.

At first glance, the country groupings on the Cultural Map may seem to follow geographic proximity, but in reality reflect both the economic and the socio-cultural histories of these nations and correspond with geographic proximity only when it coincides with cultural similarity. Virtually all high-income countries are positioned in the upper-right region of the map, indicating that they rank highly on both value dimensions. Lower-middle-income countries are concentrated in the lower-left region of the map, reflecting their low ranking on the value dimensions.

Figure 6.1 The WVS Cultural Map of countries' positioning on the two value dimensions, 2010 – 2014



Source: World Values Survey Website (2018)

Given the relative constancy of countries' values traits, one may infer that countries in the upper-right region, ranking high on these dimensions – one may perhaps propose that these are countries with growth-and-development cultures – are rich *because* of that. Inglehart and Welzel however rely on these observed correlations to propose their modernisation sequence: economic development raises existential security, first pushing values upward along the traditional versus secular-rational values dimension, and then along the survival versus self-expression values dimension.

The direction of causation – *from* rising income *to* cultural shifts – is assumed rather than confirmed. It leaves the deep-determinant question of economic development, of how rising income started, unanswered and does not add much to the policy tool kit. From the perspective of a poor country that

needs *all* of these changes – economic development and existential security especially, but then also cultural modernisation and democracy – this sequence fails to elucidate how, in the words of Jeffrey Sachs (2005), to reach the *first* rung of the ladder.

Despite the reservations about Inglehart and Welzel’s (2010) proposed causation sequence from an economic-development perspective, much valuable evidence is gained from the WVS data. For instance, the data support the Weberian view that historic religious values are imprinted in society even after they have ceased active religious practice.

At the same time, cross-national variations are huge, dwarfing the differences within societies. For instance, 98 percent of the population in relatively traditional countries considers God as “very important in their lives” compared to 3 per cent in secular-rational countries. One may question whether it is justifiable to view national-level mean scores as representative of societal attributes. Despite globalisation and internationalisation however, nations seem to remain a unit of shared values and experiences; *nationality* has a more powerful predictive influence than income, geographic region, education or gender. For instance, one may assume that all global citizens with a university education have modern values and will reside in the upper-right region of the cultural map, while the values of uneducated citizens position them at the lower-left region of the map. Education would then mean everything, and nationality nothing. Empirical realities refute this assumption; there is a substantial distance between the prevailing values of large groups in individual countries and their peers in other countries (Inglehart and Welzel 2010: 557):

“The basic values of most highly-educated Chinese are quite distinct from those of highly-educated Japanese, and even farther from those of other nationalities. Highly educated Americans do not overlap much with their European peers; their basic values are closer to those of less-educated Americans. Even today, the nation remains a key unit of shared socialization, and in multiple regression analyses, nationality explains far more of the variance in these attitudes than does education, occupation, income, gender or region.”

Therefore, modernisation influences large portions of societies in broadly similar ways but does not eliminate national identity; modern societies differ from societies that have *not* modernised in consistent ways. For instance, religion becomes less important in modern societies, and the worldviews of individuals who consider religion as important vary from those who do not in consistent ways, despite the huge variation in the beliefs of specific religions. *Modernisation-linked* values therefore display more cross-national similarity than other values and societal attitudes.

Modernisation-linked values prioritising *self-expression* (like trust, tolerance, political activism,

gender quality and freedom of expression) heighten the ability and motivation of ordinary people to demand democracy. While there is a strong correlation between economic development and self-expression, and again between self-expression values and democracy, the impact of economic development on democracy is transmitted almost entirely through its association with self-expression values (Inglehart and Welzel 2005; Welzel 2007; Inglehart and Welzel 2010).

Inglehart and Welzel (2010: 573) however conclude that “(t)hese correlations suggest that causal linkages are involved”. Their support for Lipset’s (1959) modernisation theory⁹⁷ and seeming refutation of institutionalism’s hypothesis that formal and informal⁹⁸ institutional transformation is a deep cause of economic development is thus based on observed correlations, not robust tests of causation.

6.6.3 *Human Empowerment and Emancipation – Humanising Development*

It is clear that, as economic and political systems develop and transition, so do the societies existing in those systems. The human transformation is fundamental. It comprises more than the skills and knowledge that evolve, reaching into the mental models and belief systems that inform the ways in which humans interact with each other and the world around them. The shifts in national value orientations are an essential driver of developmental progression, whether at the outset (Landes 1998; Mokyr 2015) or as a conductor of progress from one developmental stage to the next (Welzel 2014). To dehumanize development, is to overlook a crucial piece of the puzzle.

Following his earlier work, Welzel (2014) further explores the sequences linking economic development, cultural values and formal institutions in *Freedom Rising*, in what he terms a sequence of human emancipation and empowerment, seemingly also in refutation of institutionalism (Welzel 2014: 37 – 38):

“This is what I call the sequence thesis of emancipation theory. When freedoms grow, we observe human empowerment: people gain control over their lives and their society’s agenda. As human empowerment advances, emancipative values emerge, providing the psychological link between freedoms’ growing utilities and guarantees. Institutions that guarantee universal freedoms are the result, not the cause, of this process. This is an important stipulation because

⁹⁷ That is, the economic development through its accumulation of educated human capital in knowledge societies makes formal institutional reform – democratisation specifically – more likely.

⁹⁸ Informal institutions are interpreted broadly to include societies’ values and cultural attributes, in which case confirmation of the modernisation sequence proposed by Landes (1990, 1998) and Mokyr (2005, 2009, 2013, 2017) of cultural transformation and the associated formal institutional reform driving modernisation and prosperity also confirms Douglass North’s new institutionalism as deep-determinants theory.

it defies the prominent view that institutions are the cause of all development.”⁹⁹

Welzel (2014) follows Sen’s (1999) formulation of human empowerment as the process freeing individuals from the constraints that prevent them from pursuing their own but also society’s mutually shared values. Bates (2012) confirms the emancipatory nature of empowerment; it liberates individual agency and is complete when the only remaining constraint is the equal freedoms of the other individuals in society. Despite meaningful human universals that span all cultures, cultural differences in human values across societies remain profound; these variations are understood and also measured with rising precision. For instance, the extent to which a culture is loose or tight can be measured, similarly whether it is individualistic or collectivistic, or emancipative or survivalist.

The mechanism that decides which cultural orientation dominates is what Welzel (2014) refers to as the utility ladder of freedoms. A society under existential stress values security over freedom and will value survival over emancipation (Inglehart and Welzel 2005, 2010). Triandis (1995) follows a similar reasoning to explain why existential pressure leads to collectivism, while there is less need for collective discipline when survival schemes do not dominate a society, which leaves room for individualism. Gelfand *et al.* (2011) show that existential pressure is also associated with rigid, tight cultural norms while receding pressure makes culture looser and freer.

The utility ladder of freedoms decides towards which cultural orientation a society leans; fading existential pressure heightens the utility of freedoms as individuals experience less force to do things they have no choice over. As the degree of freedom individuals’ actions rises, freedoms become more useful and people start to value them. Emancipative values begin to emerge and replace survivalist outlooks, societies’ cultural orientations shift from collectivist to individualist, from tighter to looser (Welzel 2014: 40): “People resist emancipative values when pressing conditions fix their lives at the low end of the utility ladder of freedoms. Conversely, people adopt emancipative values when permissive conditions move their lives up on the utility ladder of freedoms.”

It was Sen (1999) and later Nussbaum (2000, 2006) who made the notion of human empowerment

⁹⁹ The human empowerment sequence is not a deep-causes-of-growth theory; its primary concern is freedom – the emancipation from dominium, which is particularly pertinent for poor, oppressed nations. In many ways, however, the search for an escape from poverty is linked to the urge to escape oppression, although freedom does not guarantee prosperity. However, the sequencing as summarised by Welzel, commences with “if freedoms grow” without explaining *why* freedoms will start growing in these poor, oppressed nations unless *through some form of formal institutional reform*, which may be modest and far from fundamental democratisation. In addition to interpreting *formal* institutions narrowly as democracy only, Welzel (2014: 45) states his explicit narrow assumption of *institutions* as formal institutions only with the aim of excluding cultural factors.

prominent; they referred to the process as *human development*. For an individual, this means the development of *personal agency*, which is a stage of maturation where one has awareness of one's values and acts in accordance. For societies, human empowerment develops *civic agency*, which is the stage of maturation where all individuals are (equally) free to choose their actions in accordance with their own and mutually shared values (Anand and Sen 2000; Nussbaum and Sen 1993). Hence human empowerment describes the freedom to pursue the utilities that are valued both *individually* and *socially* (Clark 2002, 2006; Welzel 2014).

Welzel explains that his notion is rooted in a defining characteristic of human beings: they possess a larger degree of freedom to choose their actions. It stems from the human capacity to evolve intellectually and imagine alternative courses of action while anticipating their divergent outcomes. This allows humans to select actions that would lead to the anticipated outcomes that they value.

The ideal of an unconstrained existence is not Western; ideas of freedom are found in all cultures. Similarly, all major religions advocate salvation as a free existence, albeit postponed to the afterlife (Welzel 2014). A notion that indeed seems uniquely Western is a free *secular* existence. Both Western and Eastern philosophy deal with the mind-body discrepancy that arises from the limitless freedoms and realities humans can imagine, while they are able to realize only a small fraction of those imagined realities (Welzel 2014).

The discrepancy refers to the distance between the unconstrained existence humans can imagine and their actual material existence; however, because the human intellect can imagine it, the ideal of an unconstrained existence becomes the ultimate value. History tells us that, prior to the Industrial Age, humans' material existence was fraught with hardships; it was brutish and brief. A secular existence free from misery seemed unattainable and imagining a freed existence in the afterlife, which was one of religion's key comforting purposes, became a coping mechanism (Welzel 2014).

The Industrial Revolution however broadened human control over material realities (Landes 1998; Mokyr 2005, 2009, 2017; Morris 2010 and Pinker 2011). The gains in scientific and technological knowledge made life in societies at the forefront of these transformations longer and more secure, also more purposeful and more comfortable, but especially more free (Ridley 2010, Welzel 2014). Even though cultural definitions of freedom may vary, Turner and Maryanski (2008) propose that evolution has hardwired the human mind with an emancipatory desire hence humans derive benefit and satisfaction from feeling free. The view that satisfying human life emerges from emancipation and empowerment is therefore a universally *human* one – not a Western one.

Empowered humans are, broadly speaking, free to act in accordance with their values in as far as

they do not infringe on the equal freedoms of everyone else. Welzel (2014) explains that to do that, in other words to make freedoms *practicable*, requires three elements.

First, legal guarantees of freedom must entitle individuals to exercise their freedoms. These guarantees must entitle every member of society equally. Both private and public freedoms should be safeguarded, the first through personal autonomy rights, the second through political participation rights. Welzel (2014) refers to the legal licensing of civic entitlements as the *institutionalisation* of human empowerment.

Second, individuals' agency to practice freedoms also depends on their capabilities that may be much harder to establish than civic entitlements. Whereas legal guarantees can be engineered to conform to a *preferred* reality, it cannot call it into existence. Individuals' capability to act on their freedoms depends directly on the resources at their command. People with more resources are freer; they can do more to pursue what they value.

Three distinct types of resources – also called *action resources* by Welzel (2014: 46) – determine individuals' relative freedom to pursue what they value: intellectual resources (which are skills, knowledge and information – the fruits of education); connective resources (which are individuals' "networks of exchange and contact interfaces"), and material resources (which are the income, equipment and tools at individuals' disposal). All three resources expand in the face of technological progress (Elias 2004; Veenhoven 2010).

The *third* necessary element of human empowerment is the *motivation* to act on freedoms. Even with guaranteed entitlements and action resources freedoms may remain an unfulfilled potential if individuals are not eager to act on them. Individuals' motivations directly reflect what they value; Welzel (2014) describes emancipative values as values that strongly motivate individuals to exercise their freedoms. The empowerment property inherent in emancipative values is in their encouragement for humans to become the masters of their own lives; they emphasise equal opportunity and humanitarian norms, sensitizing individuals to social injustice. Also, through its emphasis on self-expression, the *voicing* of shared concerns (apart from *achieving* goals) becomes a value. Emancipative values thus describe the *psychology* of human empowerment; they are what motivate humans to exercise their freedoms and to appreciate them.

On the matter of causation in the human empowerment process, Welzel (2014: 335) proposes first an *endogenous* sequencing thesis charting the "dominant flow of impact" among its three key elements. Specifically, the sequence thesis proposes that, action resources expand first, raising the objective utility of civic freedoms. The subjective valuation of freedoms rises next, followed by legal

guarantees of these freedoms, emancipative values and civic entitlements. Given that expanding resources are given as the point of the departure for the endogenous sequence thesis, it leaves questions regarding the deep source of this expansion unanswered.

Welzel's (2014) source thesis however addresses the possible *exogenous* causation of human empowerment. It posits that the cool-water (CW) condition (see also Chapter 5, section 5.5.1) is the deep source of human empowerment because it ensures two types of natural existential security and autonomy: disease security and water autonomy. Both bestow on freedoms an initial utility value that would be absent in other climatic conditions. Fukuyama (2014) also explains that the CW condition influenced the evolution of power dynamics in societies. Water autonomy appears to have cultivated a horizontal power structure, while a more vertical power distribution evolved in societies low on the CW Index.

CW conditions entail moderately cold temperatures, consistent all-season rainfall and waterways that are permanently navigable. The low temperatures kill microbes, which means fewer infectious diseases and slower soil depletion, which enhances land productivity (Jones 1987; Landes 1998; Easterly and Levine 2003). It is also conducive to labour productivity because physical exhaustion is diminished. The consistent rainfall during all seasons maintains healthy water sources and land productivity, while navigable waterways facilitate productive exchange and market access (Gallup and Sachs 2000; Dell, Jones and Olken 2011). CW conditions allow ordinary citizens and small households to farm independently without relying on the support of communities and a multitude of offspring to provide labour (Landes 1998). Access to water cannot be monopolised by a central power, or be used to control the broad citizenry (Jones 1987; Solomon 2011). Welzel (2014) links Western Europe's initial, pioneering role in industrialisation and rapid progress to those countries' CW conditions, following which *contagion* through globalisation exported progress and prosperity further afield.

The CW climate theory essentially posits geography as the deep source of human empowerment that leads to liberty and prosperity. Several loose ends remain from Welzel's exogenous thesis of causation. Why, for instance, did similar CW conditions elsewhere – that is, *not* in Western Europe – not propel a similar ascendance up the utility ladder of freedoms, culminating in prosperity and liberal democracy? Also, the Age of Enlightenment and subsequent Industrial Revolution emerged in a Western Europe affording ordinary citizens in a class-dominated society scant freedoms or action resources despite its CW climate.

Contagion transmitted the progress to other continents and nations; Japan and the well-documented

experience of the newly industrialised East Asian nations evidence that. Why, however, did contagion succeed spectacularly in some regions, but found others, like sub-Saharan Africa, infertile or unreceptive and unable to overcome development obstacles? Climatic variation does not favour East Asia over Africa in a way that may be declared the deep source of their divergent development paths (Landes 1990, 1998).

Despite the embedded and slow-changing nature of culture, it does not preclude human societies from cultural evolution and transformation. Avery (2003) describes culture as a system of inherited reality-management knowledge that accumulates, stores and transfers tried-and-tested knowledge through shared memories and learning. Cultural inheritance systems are permanently reality-checked and evolve through reality-fitness selection that constitutes a self-driven mechanism of progress. Avery (2003) suggests that cultural evolution is a potent, fast engine of progress; it works on learned information, where the learning actors have intellectual capacity that gives them agency – that is, the ability to act with purpose. They are therefore capable of purposeful experimentation through which learned information may be improved, leading to intentional innovation that serves as a rapid propeller of progress. Cultural evolution shapes the inherited system towards greater reality-fitness and utility by favouring what copes with reality well and deselecting what does not.

Theoretically, all social constructs are subject to evolution through reality-fitness selection: ideologies, institutions and technologies are all candidates for deselection from the viability pool should they fail (Avery 2003; Welzel 2014; World Bank 2015). Evolution may be slow in discovering a useful feature, but once found, useful features are rapidly perfected. For instance, since the emergence of science in the 1500s, exponential growth in technological knowledge has heightened humans' control over their realities and material existence enormously and has demonstrated the utility of freedoms. Within a few hundred years, humans' ability to control their realities was elevated exponentially over what was achieved in the preceding millennia. *Science* demonstrated how nations benefit if they outperform their peers and neighbours through investing more in research and development, achieving more knowledge and faster technological progress (Avery 2003; Mokyr 2015).

The knowledge explosion accelerated cultural evolution rapidly enough to mark a cultural discontinuity from the previous phases of human existence. Referring to Nazi Germany and Soviet Russia, Welzel (2014: 50) concludes that: “Attempts by oppressive systems ... to take leadership in technological knowledge ended as crushing failures. The most plausible reason for these failures is oppression itself; oppressive systems are unable to harness people's innate motivations and this disables them to mobilize human intellect at its full scope.”

Welzel's human empowerment sequence contributes valuably to understanding why liberal democracy is stable and associated with progress in advanced knowledge societies benefiting from existential security. The emancipative national cultures that emerge where life's strategies are not dominated by survival, and where the action resources to affect the upward shifts along the utility ladder of freedoms exist. Liberal democracy is achieved when this ladder has been ascended successfully. Welzel's sequence also offers a deeply humanised explanation of why new democracies in poor or failing nations where existential security and hence emancipative values are absent, are bound to be fragile.

One may think of liberal democracy as an outcome of necessary, preceding processes that cannot be superimposed successfully – and artificially – on societies where it has not emerged from within as a product of an emancipative cultural value system where sufficient actions resources have given freedoms utility and made them actionable. The three *preconditions*¹⁰⁰ for this transformative, empowering shift in a society that culminates in liberal democracy exclude the poorest societies from the outset, eliminating the human empowerment sequence as a potential deep source of growth and development. Of the three, only legal guarantees of freedoms can be engineered; social planners cannot create an emancipated mindset or resources where none exist.

It is also worth mentioning that, characterising institutionalised freedoms as a precondition to ascend the utility ladder towards human empowerment, irrespective of the regime type instituting these freedoms, is confirmation of institutionalism. Again, a narrow conception of formal institutions as *only* democracy as the surrogate for all good institutions, which concludes in favour of institutional change only once democracy has materialised, undervalues the benefits of *other* liberalising institutional reforms falling short of full democratisation (Landes 1998; Rodrik 2004; Fukuyama 2014).

The literature by Inglehart and Welzel (Inglehart 1997; Inglehart and Welzel 2005, 2009, 2010; Welzel 2014) however valuably confirms what social scientists have long intuited: subjective beliefs and values are linked to how societies function in important ways and are decisive for objective societal outcomes. While the causal linkages remain unconfirmed, they present evidence that “modernization-linked mass attitudes are stable attributes of given societies” (Inglehart and Welzel 2010: 573). No amount of theorising or observed correlations establishes *causation*, however. Whether modernisation evolves along the Lipset-Inglehart-Welzel modernisation sequence, or

¹⁰⁰ The reader may recall that the three preconditions entail, first, the legal guarantees of freedoms and civic entitlements – also referred to as institutionalised freedom; second, the actions resources, which are the intellectual, material and connective resources individuals can access, and third, emancipative values.

Welzel's human empowerment sequence, or the Landes-Mokyr sequence – which is reconcilable with institutions as a deep determinant of growth – is critical not only to understand the sources of poverty persistence, but for social planning in poor countries.

Even if Inglehart and Welzel's modernisation and empowerment sequences primarily pursue democracy and liberty and may therefore prove less useful from a deep-determinants of *prosperity* perspective, and may fail empirical scrutiny for causation, their data and focus on cultural evolution are invaluable: “(W)e hope to have shown that the kind of skepticism about mass attitudes shared by many political scientists is unwarranted, and that there is every reason for these attitudes to be considered in theories of ... social change” (Inglehart and Welzel 2010: 574).

6.7 Do Informal Institutions Rule in Africa's Neopatrimonial Democracies?

The wave of institutional transformation that swept across the developing and post-communist worlds during the 1990s piqued the interest of scholars from diverse fields of research, all of whom questioned the effect of countries' formal institutional arrangements on a broad range of outcomes – from social planning, to economic performance and democratic quality (Helmke and Levitsky 2003).

A growing body of research (see for instance Carey 2000) on institutional change and its political and economic outcomes in developing and post-communist societies, notably in Asia (Hamilton-Hart 2000; Wang 2000; Gobel 2001 and Tsai 2001), Latin America (O'Donnell 1996; Levitsky 2001; Brinks 2002; Eisenstadt 2002 and Helmke 2003), post-communist Eurasia (Borocz 2000; Collins 2002, Way 2002 and Darden 2002) and Africa (Dia 1996; Sandbrook and Oelbaum 1999; and Galvan 2002) culminated in two key observations. First, formal institutional design alone falls short of explaining many of the societal outcomes of interest to institutionalists. Second, several influential rules informing *political* behaviour are decidedly outside of the sphere of formal, written rules. These informal rules or constraints shape individuals' incentives in systematic and robust ways and may range from society's legislative norms to recognisable patterns of patrimonialism and clientelism.

As an example of how informal institutions infiltrate areas that are the traditional domain of formal institutional analysis, Helmke and Levitsky (2003) refer to studies of presidentialism in neopatrimonial democracies suggesting that executive-legislative outcomes do not conform to constitutional design. They explain that, in the new democracies of Africa and Latin America, “patrimonialist norms of unregulated private presidential control over state institutions may result in a degree of executive dominance over legislative and judicial branches that far exceeds that prescribed by the constitution” (Helmke and Levitsky 2003: 5).

Helmke and Levitsky (2003) distinguish between informal institutions that have emerged spontaneously and that are unrelated to formal institutional structures, and reactive informal institutions that are endogenous to the formal institutional environment. Spontaneous informal institutions are indigenous or traditional, like custom laws and kinship-based norms for instance. They are also assumed to be historically given and persistent, as part of a relatively constant cultural landscape. They are also often perceived as unchanging and overly static. Helmke and Levitsky (2003) propose that phenomena like patrimonialism, clientelism and clan politics are such persistent spontaneous informal institutions. They coexist with democratic, formal institutions and influence institutional outcomes, as in post-independence Africa, but are themselves not explained by contemporaneous formal institutional developments.

Helmke and Levitsky (2003) further suggest that it is important to progress beyond the view of informal institutions as historical constants and understand how they emerge and evolve in contexts where the balance of power and resources is uneven. They are likely to arise from conflict and coercion, not voluntary coordination, and they produce winners and losers. They may be the result of a bottom-up process of repeated interaction or bargaining (see for instance Schelling 1960 and Sugden 1981), or a top-down, strategically designed process crafted by a small elite. A further possibility is that an informal institutional regime arises as the unintended, reality-coping compromise in a historical contingency and then becomes locked in through path dependence.

The literature treats informal institutions as notoriously resistant to change even in the presence of an extensive overhaul of the formal rules (Boettke, Coyne and Leeson 2008). If they do evolve, it is an extremely lengthy, incremental process (Lauth 2000). *Reactive* informal institutions that are not independent of the incentive system created by the formal regime are more susceptible to change than spontaneous informal institutions. Formal institutional reform comes in two guises: the design of the rules may change, or the strength of enforcement may intensify. Reactive informal institutions will adjust to both reform approaches while spontaneous informal rules will possibly respond only to more rigorous enforcement (Lauth 2000; Helmke and Levitsky 2003).

Helmke and Levitsky (2003) refer to the view that the formal-informal interaction is primarily dysfunctional and undermines democratic regimes, markets and formal institutions through clan politics, patrimonialism, corruption and clientelism (see for instance O'Donnell 1996), but argue that the interaction between formal and informal institutions is more complex. Recent studies suggest that informal institutions could also *substitute* or *reinforce* the formal institutions they seem to undermine. H-J Lauth (2000) describes the formal-informal interaction as complementary, substitutive or conflicting based on two dimensions: the first measures the effectiveness of formal

institutions based on compliance and enforcement; the second measures the compatibility between society's goals based on their informal institutions and the expected outcomes of the formal institutions.

Much of the literature limits the formal-informal interaction to two possible scenarios. Effective formal institutions coupled with compatible informal institutions produce a so-called *functional* institutional outcome; Helmke and Levitsky (2003) use the term *complementary*. Informal institutions in this scenario enhance the effectiveness of the formal institutions. The second common scenario arises from ineffective (unenforced) formal institutions and conflicting or antagonistic informal institutions; the formal-informal interaction is *competing* in the sense that adherence to kinship group norms or custom law means a violation of state law. A dysfunctional formal-informal interaction results from this combination; clientelism, clan politics and patrimonialism arise in this particular interaction (Helmke and Levitsky 2003).

Two other formal-informal outcomes are possible in complex societal environments. Ineffective formal institutions that fail to achieve expected outcomes, may be replaced by compatible informal institutions pursuing similar goals; the formal-informal interaction is then *substitutive*. The final possible outcome is an *accommodating* one, where society may harbour conflicting informal expectations but are unable to violate effective formal rules that are enforced.

Helmke and Levitsky (2003) propose that, because developing nations are prone to institutional weakness and instability, the formal-informal interaction is more likely to be either substitutive or competing, but at any rate less predictable and more nuanced than merely dysfunctional. They also mention that in some formal contexts, like authoritarian regimes but surely also in captured democracies where the political objective to reform is absent, normatively desired objectives may be best achieved through informal institutions that subvert the formal institutional regime.

The view that actual political outcomes may diverge dramatically from the parchment rules to steer a nation's development off course, is endorsed by Michael Bratton (2007), the founder and director of the Afrobarometer. He questions whether sovereign constitutions and their associated rule-based agencies and processes are a suitable framework to study the politics of new democracies. Bratton (2007: 97) argues that a better understanding is gained through:

“(R)eal-world politics driven by more contextual dynamics, in which ‘actual existing’ social and power relations – not words on paper – determine who gets what, when, and how? Put differently, do citizens respond primarily to the inscribed regulations of formal institutions or to the unwritten codes embedded in everyday social practice?”

In emergent democracies, political leaders are often from the ranks of the prior revolutionaries and may be unaccustomed to formal constraints on their power. The rule of law may be weak or disregarded with impunity and as those who govern as well as those who are governed align themselves with familiar ways of doing things, the role of formal rules is sharply diminished.

Hyden (2006: 7) asserts that in sub-Saharan Africa – the core of global poverty – unwritten rules hold sway over official state institutions, and that Africa is therefore the “best starting for exploring the role of informal institutions”. Hyden (2006) describes the social logic of the informal institutions of Africa as “the economy of affection”, characterised by authority relationships built on personal trust (“charisma”), political loyalty in exchange for patronage (“clientelism”), shared norms of sovereignty and non-interference (“collective self-defense”) and horizontal exchanges in small groups (referred to as “pooling”).

A number of these dimensions of neo-patrimonial rule – corruption, clientelism and strong-man presidentialism in particular – run counter to the accountability and pluralistic values of democracy (Robinson and Torvik 2016). They are also sufficiently persistent and ingrained patterns of political behaviour to be considered veritable informal institutions. Bratton (2008) quotes Nicolas van de Walle’s (2003a: 310) description of informal presidentialism where power is “intensely personalised” around the individual, irrespective of constitutional rules: “Presidents are literally above the law, control in many cases a large proportion of state finance without accountability, and delegate remarkably little authority on important matters... Only the apex of the executive really matters.”

If Van de Walle’s view of presidentialism holds true for Africa’s new democracies, one would have to surmise that informal institutions trump the formal rules in deciding the institutional outcomes and incentives that shape exchange in society much differently from constitutional or formal institutional design. In her study on democracy trends in sub-Saharan Africa, Burchard (2014: 11) confirms Van de Walle’s surmise, stating that “most African countries experience some form of hyperpresidentialism, in which the powers of the executive dwarf those of other political institutions.” She reports that “virtually every country in Africa has now held repeated multiparty elections over the past two decades”, but that a deepening in the commitment to democratic values both among the elite and within society at large, is rare. The rising electoralism reflects that *procedural* democracy may be achieved, but it produces no material change. Crucial aspects of democracy, most notably translating society’s interests, preferences and votes into representative governance priorities – in other words, *substantive* democracy – are not achieved (Burchard 2014).

Welzel (2014: 267) similarly refers to the near-universal appeal for democracy and rising democratisation, also in sub-Saharan Africa, but notes that many of the neopatrimonial democracies are:

“democracies in a minimal sense... (and) many of them show incomplete civic entitlements... In that sense, they are deficient democracies. (Although) there is a pronounced shrinkage of complete autocracies, with a particularly deep drop in the early 1990s, when Soviet-type communism collapsed, this loss is not compensated by a corresponding increase of complete democracies. Democracies in a minimal sense became the clear majority of societies in the world. In contrast, complete democracies ... are still outnumbered by complete autocracies.”

6.8 Conclusion

An institutional deep-cause analysis has to take cognisance of how Douglass North's three classes of institutions interact to produce an institutional outcome. Economic behaviour faces incentives that are shaped by this *actual* environment. Chapter 5 explains that the effect of parchment rules on behaviour can only be assessed once the degree to which they are enforced is established. Rule-enforcement effects on formal institutions is therefore one institutional interaction to be considered. Another is the one discussed in this chapter, that is, the influence of informal institutions on enforcement, particularly where the formal and informal rules diverge. The range of potential institutional outcomes may be broad, and the most likely one hard to predict. In this regard, Douglass North predicted that informal institutions are “terribly important”. As a powerful driver of human behaviour, they also explain the outcomes of such behaviour. They are also unobservable and therefore more problematic to investigate.

North defines informal institutions broadly, as inherited belief systems, or a society's cultural heritage. Economists, sociologists, anthropologists and historians all define culture differently in the literature and although there appears to be more consensus on its relevance for societal outcomes, views on the *sequence* of causation are again wide ranging. Landes (1990, 1998) and Mokyr (2005, 2009, 2013 and 2017) for instance have cultural transformation that was precipitated by cultural entrepreneurs historically as the root of the innovation and technological advance that drove knowledge societies towards prosperity. Formal institutional reform kept apace, reflecting the shifts in cultural attitudes that evolved as modernisation progressed.

An alternative modernisation sequence initially proposed by Lipset (1959) has growth and development in educated knowledge societies precede a higher likelihood of effective democracy.

The Lipset sequence is often taken as a refutation of institutionalism; this interpretation however hinges on the narrow view that formal democratisation is the only institutional change that matters. Any preceding cultural shifts that might facilitate the societal transformation from an agrarian to an industrial society are overlooked, as are other formal institutional arrangements that might, for instance, have safeguarded property and contract rights at the outset of industrialisation.

Inglehart and Welzel (2005, 2009) and later Welzel (2014) elaborated on Lipset's modernisation, explaining how cultural transformations shift mass value orientations along two dimensions; first from traditional to secular-rational values during industrialisation, then from survival to self-expression and emancipative values during post-industrialism. Welzel (2014) describes the shift as human empowerment – a process characterised by ascending the utility ladder of freedoms depending on three elements: there must be guaranteed civic freedoms, resources to render these freedoms actionable and, most importantly, emancipative values.

Both the Inglehart and Welzel (2005, 2010) modernisation sequence and the Welzel (2014) human empowerment sequence are theorised to culminate in (but not guarantee) liberal, effective democracy, but assume that the resource-generating, industrial growth is already in progress. They are mostly mute on what deep source may have caused growth. The caveat to this statement is the cool-water (CW) environmental condition that Welzel (2014) proposes as an exogenous deep source of human empowerment. Its associated water autonomy and disease security are viewed as resources that raise the utility value of freedoms and therefore place CW countries higher up on the utility ladder of freedoms than countries with different climatic conditions. The CW theory thus seems to cast favourable geography as the initial deep source of modern growth and prosperity in Western Europe, following which contagion carried modernisation and progress to non-CW countries. The CW-disadvantage appears to only persist though where technological advance has been unable to overcome it however (Welzel 2014), once again positing conditions favourable to human resourcefulness as the deep source of modernisation.

A valuable contribution of Inglehart and Welzel and co-authors (see Inglehart *et al.* 2014) is through their work on the WVS, which they use to construct the value dimensions used in their modernisation and human empowerment sequences. This is as much due to their plausible humanising of development that bridges gaps in the understanding of the complex drivers of modernisation, as it is because their cultural data make quantitative analysis possible.

Since sub-Saharan Africa is seen as the core of global poverty, the region will inevitably remain the focus of scholarly work on economic growth and development. Reiterating that geography and

history have proven *not* to be destiny for many of the newly industrialised economies, one may argue that it should also not condemn sub-Saharan Africa to poverty. Also, *formal* institutional reform efforts amounted to post-colonial or post-independence democratisation, but have produced no substantive change to the large numbers of the poor in Africa.

So culture matters, as do formal institutions. Democracy does not *cause* prosperity, although scholars agree that some of the pillars associated with but not exclusive to democracy, are crucial. These growth-and-development institutions may exist regime-independently; they may also produce prosperity in benign dictatorships. Unrestrained autocracy may degenerate into tyranny, but the prevalence of predatory democracies shows that democracy goes wrong too. Some of the richest nations are democratic, but so are some of the poorest ones. And then there are non-democratic Hong Kong and Singapore, topping global indices of human and material achievement – including freedom. They comply with the formal rules that incentivise growth and development. The formal rules alone do not cause growth, however; society must *believe* in them and *behave* accordingly.

In Chapter 7, the interdisciplinary scholarly work on institutionalism and modernisation is integrated into a hypothesised development sequence that relies on a phased approach. Institutions – state capacity specifically – are linked to poverty reversal. Once the poverty cycle has been interrupted, modernisation proceeds to drive human empowerment and emancipation, and eventual prosperity. It is a probabilistic sequence that may culminate in liberal democracy, but setbacks or reversals are possible too.

Chapter 7

A Humanised Development Sequence – A Synthesis of Institutionalism, Modernisation Theory and Human Empowerment

7.1 Introduction

Persistent poverty is incompatible with liberty. Economic servitude erodes individual agency and freedom, also under democratic rule. The presence or absence of civil liberties makes no material difference to citizens whose existence remains dominated by existential concerns (Welzel 2014; Acemoglu and Robinson 2019).

Chapter 2 discusses some recent, global poverty and democracy trends, and raises questions about the relationship between prosperity and democracy, between prosperity and freedom, and also between freedom and democracy. It makes the preliminary observation that poverty and democratisation may *rise* simultaneously. Sub-Saharan Africa appears to be the region most afflicted by this phenomenon, while Singapore and Hong Kong demonstrate the opposite, that prosperity may be achieved in the absence of democracy. These experiences refute the notion that universal suffrage is adequate – or necessary, or perhaps the starting point – to enforce executive constraint and ensure that states prioritise broad societal interests. A thorough review of the literature (in Chapter 6 specifically) supports this observation: democracy does not guarantee prosperity.

Where then does one start to address persistent poverty and human misery? If poverty reversal and economic development are understood as more than material advance, but rather as the complex path to a *liberated* human existence in a prosperous, empowered society, questions regarding deep causes and transmission channels extend beyond the initial triggers of growth into the realms of societal and political transformations.

This chapter first summarises the relevant literature from three scholarly disciplines – institutional economics, political science and sociology – that was discussed in Chapters 4 to 6. It then proceeds to fuse tenets from the various disciplines in an attempt to formulate a probabilistic hypothetical development sequence that may first interrupt cycles of poverty and then drive the progression towards liberty and prosperity through modernisation and human empowerment.

7.2 Synopsis of the Relevant Literature

The literature approaches these questions from several vantage points. In the deep-cause-of-development literature, institutionalists may emphasise the importance of societal rules like property right protection and an independent code of law to curb elite predation and incentivise productive economic exchange. Much of the institutional literature focuses on such formal, *ex ante* parchment rules. Some scholars single *democracy* out as the surrogate for growth-and-development formal institutions. That is, for formal rules that would constrain elite predation and prioritise broad societal interests.

The literature also acknowledges the impact of *informal* institutions – values, norms, belief systems or *culture* in short – with emphasis on social capital, social networks and trust.

A third institutional aspect that receives less attention in the literature, is the role of a society’s rule enforcement characteristics, which redirects the focus from *ex ante* parchment rules to *ex post* institutional outcomes; that is, to the *actual* institutional environment that materialises from all of the formal and informal rules, as well as the degree of rule enforcement. Chapter 4 investigates institutionalism broadly, with closer scrutiny of formal and informal institutions as well as rule enforcement in Chapters 5 and 6. Chapter 5 also addresses how countries’ geographic traits may have influenced how their institutions evolved.

Table 7.1 below summarises the prominent versions (column 1) of the institutional deep-cause theory of economic development. Although the institutional emphasis varies among the approaches, there is concurrence that the institutional impact on economic outcomes (column 3) is transmitted through the specific behaviours incentivised by a prevailing structure of institutions (as explained in column 2).

Table 7.1 Institutional Approaches to Economic Development: Deep Causes, Transmission Channels and Outcomes

Prominent approaches to institutional deep determinants in the literature	Channels of transmission of institutional impact to societal outcomes	Societal outcomes caused by institutions
1. <u>Douglass North <i>et al.</i></u> ¹⁰¹ Three classes of institutions and all three matter. They are:	Despite the variation in institutional emphasis among the different approaches, there	Through their incentivising (or disincentivising)

¹⁰¹ Douglass North developed much of this literature. See for instance North (1971, 1974, 1978, 1981, 1990a, 1991, 1992, 2003 and 2005); see also North, Wallis and Weingast (2009).

<ul style="list-style-type: none"> • Formal institutions (constitutions, laws, regulations); • Informal institutions (norms, values, belief systems, world views and mental models; i.e. culture); • Rule enforcement characteristics (always imperfect; the degree matters). <p>Either extractive limited-access orders or inclusive open-access orders emerge as an outcome of the interaction of all three classes of institutions.</p>	<p>is relative unanimity that, in their role as the rules that organise societies, institutions structure the incentives that motivate human behaviour. Institutions determine whether productive economic activities like investment (capital stock), education (human capital stock), technological innovation and entrepreneurial risk taking are rewarded, or invite predation and confiscation. Institutions therefore determine whether a society accumulates the growth-prerequisite stocks of human and physical capital, and whether technological innovation is encouraged.</p> <p>A prominent aspect of the interaction between institutions and the type of behaviours they incentivise, is the risk-reward trade-off associated with the rules that govern. Where the risk of predation is high and benefits of productive behaviour will likely be forfeited, such behaviour is unlikely to take place on a growth-enabling</p>	<p>effect on activities (investment, education and innovation for instance) related to growth and development, institutions also drive economic outcomes.</p> <p>Institutions therefore shape the incentives that drive economic activity towards an outcome of either poverty, or prosperity.</p>
<p>2. <u>Acemoglu et al.</u>¹⁰²</p> <p><i>De jure</i> and <i>de facto</i> distribution of political power leading to either extractive or inclusive formal institutions.</p>		
<p>3. <u>Focus on formal institutions:</u></p> <p>Executive constraints and accountability,¹⁰³ rule of law, independent judiciary,¹⁰⁴ protection of property rights,¹⁰⁵ contract enforcement.</p>		
<p>4. <u>Focus on informal institutions:</u>¹⁰⁶</p>		

¹⁰² This influential strand of literature attributing nations' failure to extractive formal institutional regimes serving elite interests and designed by elites that have rule-making power, is associated with Daron Acemoglu, James Robinson and co-authors. See for instance Acemoglu (2009), Acemoglu and Robinson (2000, 2001, 2005a, 2006a, 2008, 2012 and 2013) and also Acemoglu, Johnson and Robinson (2001, 2002 and 2005).

¹⁰³ The predatory-state literature emphasises that executive constraint is crucial for economic development to progress (Robinson 2001, Boettke and Candela 2019; Vahabi 2019). For empirical results regarding the constraints characteristic of institutions, see for instance a paper by Kangur (2016).

¹⁰⁴ Scholarly work exploring the role of an independent judiciary and an objective rule of law includes La Porta *et al.* (2004), Hedlund (2001 and 2005), Rodrik (2007), and Besley and Kudamatsu (2008).

¹⁰⁵ For scholarly work exploring the role of property rights, see De Soto (2000), Platteau (2000), Rodrik (2000), Kerekes and Williamson (2008), and Williamson and Kerekes (2009).

¹⁰⁶ Some of the seminal works on informal institutions, culture and cultural components like trust and social capital, including literature from the field of sociology are Myrdal (1958), Geertz (1973), Almond and Verba (1989), Landes (1990, 1998), Greif (1994, 2006), Knack (2002), Knowles (2003), Helmke and Levitsky

Social capital, trust, social networks and culture.	scale. Similarly, if the rules reward political connection more highly than entrepreneurial endeavour, it is the former that will be pursued.	
<p>5. <u>Focus on rule enforcement and institutional outcomes</u>.¹⁰⁷</p> <p>Quality of governance and bureaucracy, corruption, rent-seeking, prebendalism, clientelism, patronage and state capture.</p>	<p>In this sense therefore, institutions <i>cause</i> investment in human and physical capital as well as technological advance (that is, the conventional determinants of growth). Hence institutions are viewed as the <i>deep</i> determinants of growth or economic outcomes, as they cause the conventional or <i>proximate</i> determinants.</p>	
<p>6. <u>Focus on democracy</u>:¹⁰⁸</p> <p>Universal suffrage a surrogate for “all good institutions at once”; rebalances political power adequately to operationalise enforcement of executive constraints and end state predation.</p>		

In seeming contrast with institutionalism’s assertion that institutions are the deep cause of economic outcomes, modernisation theory proposes that economic development heightens the likelihood that effective democracy will emerge and be sustained. Lipset (1959) views economic development as one of the *requisites* for *stable* democracy, noting that *stable* democracy could only evolve and endure from within a supportive socio-economic environment.

Lipset’s development-first sequence contradicts the specific institutionalist notion that *democratisation* may cause the economic development needed to reverse poverty. The institutional universe is however much broader than regime type; the modernisation sequence is mute on the role of other, non-regime-specific institutions. It accepts that the requisite economic development is on track, so implicitly accepts also that the institutional architecture necessary for economic

(2003), Fafchamps (2005), Mokyr (2005, 2013 and 2017), Guiso, Sapienza and Zingales (2006), Knowles and Weatherston (2006), Bratton (2007), Helliwell and Putnam (2007), Boettke, Coyne and Leeson (2008), Keefer and Knack (2008), Tabellini (2008, 2010), Lopez-Claros and Perotti (2014), and Alesina and Giuliano (2015).

¹⁰⁷ A sizeable volume of literature exists on the nexus between the quality of governance and bureaucracy as measures of the actual institutional environment resulting from the degree of rule enforcement, and economic performance. See for instance Weber (1930), Eisenstadt (1973), Hall and Jones (1999), Herbst (2000), Van de Walle (2001, 2003a and 2003b), Keefer and Vlaicu (2004), Johnson and Subramanian (2005), Baland, Moene and Robinson (2009), Pritchett, Woolcock and Andrews (2010) and Holcombe (2019).

¹⁰⁸ The complex relationship between democracy and economic development is the focus of much work by scholars in economic development and political science, for instance Diamond, Linz and Lipset (1988), Siegle, Weinstein and Halperin (2004), Przeworski (2004a), Gerring *et al.* (2005), Keefer (2005 and 2007), Robinson (2006), Ross (2006), Persson and Tabellini (2008 and 2009), Ott (2010), Gerring, Thacker and Alfaro (2012), Acemoglu *et al.*, (2014) and Burchard (2014).

development exists. Lipset's modernisation theory is therefore not a contender in the deep-causes-of-development debate, but rather in the debate on the causes of political transitions and regime sustainability.

Scholarly views following Lipset's (1959) work are mixed on the relationship between economic development and democracy. One view (see for instance Przeworski and Limongi 1997; Przeworski *et al.* 2000) is that economic development (as one requisite among others) made *exogenously* caused democracy more sustainable. Another view (for instance Inglehart and Welzel 2005, and Welzel and Inglehart 2006) offers empirical evidence that economic development is in fact *causal* for democracy – particularly for *effective* or *stable* democracy as distinguished from democracy defined by universal suffrage or electoralism.

Sociologists Christian Welzel and Ronald Inglehart endorse the endogenous or causal version of modernisation theory and detail the transmission mechanism through which economic development causes effective democracy. They specify a sequence of *human* modernisation that transmits economic development to societal transformations towards emancipative value orientations. These then translate into a society empowered not only by material resources, but also by individual autonomy and agency, equipped to sustain and enforce effective democracy where it exists and also to insist on it where it does not.

Table 7.2 summarises the deep causes, transmission mechanisms and possible outcomes of Lipset's early modernisation sequence and the subsequent *humanised* sequence suggested by Inglehart and Welzel.

Table 7.2 Modernisation: Human Empowerment and Emancipation

Deep Determinants	Transmission Mechanism	Outcome
<p><u>Lipset's Modernisation</u>¹⁰⁹</p> <p>Some requisites for democracy: Economic development, wealth, industrialisation, urbanisation, education.</p>	<p>Socio-economic transformation: open-class system, economic wealth, an equalitarian value system, capitalist economy, literacy, high participation in voluntary organisations.</p>	<p>Heightened likelihood that stable democracy is sustainable.</p>

¹⁰⁹ Lipset's (1959) seminal work *Some Social Requisites of Democracy: Economic Development and Political Legitimacy* precipitated extensive scholarly focus on the relationship between political democracy and socio-economic development. See Huntington (1968, 1991), O'Donnell, Schmitter and Whitehead (1986), Almond and Verba (1989), Coleman (1990), Diamond (1992), Cheibub (1996), Przeworski and Limongi (1997), Barro (1999), Przeworski *et al.* (2000), Sen (2001), Acemoglu and Robinson (2001, 2005), Boix (2003), Boix and Stokes (2003), Przeworski (2004a), and Wucherpfennig and Deutsch (2009).

<p><u>Inglehart and Welzel’s Human Empowerment and Emancipation</u>¹¹⁰</p> <p>Civic freedoms and guarantees, action resources (material resources and education) to ascend the utility ladder of freedoms (that is, economic development).</p>	<p>Human emancipation and empowerment through a progression from traditional to rational-secular values during industrialisation. As a sense of existential insecurity recedes during post-industrialisation, individual autonomy and agency evolve along with emancipative mass attitudes. Middle-class mobilisation, societal pressure to democratise and enforce executive accountability.</p>	<p>Heightened likelihood that effective, liberal democracy will emerge and be sustained.</p>
---	---	--

Section 7.4 describes a hypothesised sequence to interrupt and reverse downward cycles of state predation and poverty that persist *after* democratisation. The hypothesised sequence is a synthesis of the theories summarised in Tables 7.1 and 7.2. First, it draws on institutional economics to suggest how state predation may be interrupted and economic development triggered. Second, modernisation theory explains the societal shifts that accompany economic development from agrarian to industrial and knowledge, post-industrial economies. Third, the hypothesised sequence relies on Inglehart and Welzel’s human empowerment and emancipation theory, proposing that the societal shifts accompanying development may change national cultures in ways that render liberal, effective democracy more likely and also more sustainable. Liberal, effective democracy is viewed as the most desired development outcome; that is, as the juncture where all forms of oppression and servitude – political, economic and social – end. In other words, where both freedom and prosperity obtain.

Before the hypothesised sequence is formulated, the role of states in economic development needs to be explored further. The context where poverty persists, or deteriorates, *after* constitutional deliberation to democratise, is of particular interest.

¹¹⁰ Inglehart and Welzel have authored and co-authored a voluminous body of literature scrutinising the determinants of and links between national value orientations and societal outcomes. See Inglehart (1997), Inglehart and Baker (2000), Inglehart and Norris (2003), Inglehart and Welzel (2005, 2009, 2010), Inglehart et al. (2014), Welzel (2006, 2007 and 2014), Welzel and Delhey (2015), Welzel and Inglehart (2006, 2008a, 2008b and 2009), and Welzel, Inglehart and Klingemann (2003).

7.3 Defending the Entry Point to Interrupt Poverty – State Capacity before Democracy

The primary focus of this study is not on the political mechanisms through which democracy may be achieved; it is on poverty reversal and economic development. Yet, the role of democracy – or politics in general – in societies remains so intertwined with matters of material wellbeing, like poverty and economic development, that it remains a central theme in this study. From the literature reviewed in preceding chapters, a theme that emerges strongly is the notion that states must be *constrained* to prevent that they become predatory.

7.3.1 *State Predation, State Capacity and Economic Development*

Boettke and Candela (2019) note that states are either powerful enablers or inhibitors of economic development, *depending on the degree to which it commits to the rules that constrain it from preying on its citizens*. The authors state that *all* states are inherently predatory, given the incentives to employ their powers to tax and allocate property to “maximize their rents from political jurisdiction” (Boettke and Candela 2019: 3). The distinction between states that *enable* and states that *inhibit* development is therefore not one of kind, but one of *degree* of predation (or constraint). Buchanan (1975 [2000]) refers to the notion of an enabled yet constrained state as the “paradox of being governed”. James Madison (1788 [2001]: 269) describes the paradox as follows: “In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself.”

Boettke and Candela (2019) refer to the literature on state capacity¹¹¹, state predation and economic development (see for instance Besley and Persson 2010; Cox, North and Weingast 2015; Vahabi 2011, 2016a and 2016b; Johnson and Koyama 2017, and Geloso and Salter 2018) to conclude that state capacity derives directly from states’ credible commitment to the rules that constrain them from predation. Boettke and Candela (2019: 10) further state that: “It is the *prerequisite* of state capacity, the establishment of political constraints on public predation, that is essential to explaining its relationship to economic development.” State capacity and state predation then constitute opposing extremes on the spectrum of states’ role in economic development, the one enabling development, the other inhibiting development. The distinction between state capacity and state predation lies in

¹¹¹ The authors describe state capacity as “effective public administration” and “the provision of public goods” (Boettke and Candela 2019: 4); similar to the notions of quality of governance and bureaucracy used elsewhere in this study to reference state capacity.

*rule enforcement*¹¹², which is the third institutional pillar (after formal and informal institutions) proposed by Douglass North (1991, 2003).

The predatory-state literature emphasises the nexus between state predation and the failure to constrain state actors from using *political discretion* in rule enforcement (Robinson 2001; Vahabi 2016). This is because *political discretion* by nature is predatory; it entails discretionary, state-authorized transfers of property rights and contract rights, both of which amount to confiscation of resources (Boettke and Candela 2019). Should citizens perceive the judiciary as partial in the adjudication of property-rights and contractual disputes, they resort to extra-legal channels like organised crime and violence to protect these rights (Barzel 2002). Boettke (2018) argues strongly in favour of states' credible commitment to rules that minimise political discretion due the high risk of rent seeking that it carries.

The argument that rule enforcement and constraints on state predation (as the discretionary allocation of property and contract rights) are a “fundamental prerequisite” for strong, capable states that are enablers of economic development is central in the literature on states in economic development (Boettke and Candela 2019: 29); the authors strongly defend that state capacity is causal for economic development.

Buchanan's paradox emerges from the literature repeatedly, that is, the notion that the strongest, most capable states operate within societies with the greatest capabilities to enforce political constraints. Acemoglu and Robinson (2019) rely on this paradox and similarly link it to economic progress in their formulation of a “narrow corridor” that leads to liberty and prosperity. The corridor requires strong, capable states that are competent to meet the complex development-enabling demands of modern economies. These Leviathans may however become predatory unless shackled, constrained by societies that are strong enough to enforce the rules of accountability.

Buchanan's notion of capable but constrained states, and a society sufficiently empowered to rein in predation and enforce accountability as deep causes of economic development courses through much of the institutional literature. After all, laws that protect property and contract rights are *formal institutions*, as is impartiality of the judiciary. Enforcing political accountability and constraints on political discretion – in other words, the degree of state predation – reflects societies' *rule-*

¹¹² This statement assumes that constitutional rules constraining the executive in fact exist. The interesting case is where constitutional deliberation results in democracy and predefined rules limiting political discretion, but then through rule violation fail to translate into state capacity and economic development. Instead, state predation and poverty prevail.

enforcement characteristics. Similarly, empowered societies with emancipative value orientations are more likely to enforce rules and accountability; *informal institutions* are therefore also in the mix. Democracy enters the mix through the supposition that it facilitates rule enforcement. If it empowers society with an effective tool to enforce political constraints and curtail state predation, it would indeed be counted among the deep causes of economic development. The test is whether all democratic societies achieve rule enforcement through democratic accountability. Perhaps more accurately, one may ask whether erstwhile predatory states acting as inhibitors of economic development become capable enablers through *democratic* enforcement of accountability.

7.3.2 *Democracy and Constraining State Predation*

In societies lacking on *all* dimensions of human wellbeing, ending human rights violations and all forms of oppression and repression is rightly prioritised. *Democratising* these societies is proffered as a surrogate for “all good things together” (Fukuyama 2014). It also establishes people power through the agency it bestows on society at large to rewrite the rules to benefit the common good and put an end to the confiscatory and extractive practices of the elite (Welzel 2104). The reasoning further goes that, shifting the balance of political power towards society¹¹³ adequately empowers them to enforce executive constraints and accountability.

Democratisation may have brought human-rights relief in poor, oppressed societies in sub-Saharan Africa. Yet, it is clear that broadening the franchise does not automatically produce the bureaucratic quality that leads to economic growth and development.¹¹⁴ Democratic accountability turns out to be a feeble defence mechanism against governance ills. It does not halt predation by the elite in disempowered societies that do not have the resources to enact their civic rights nor the education to understand when their liberties are violated.

Several scholars explain why democratisation fails to reverse poverty in countries previously plagued by oppressive and confiscatory practices of an extractive, prebendalist elite. Fukuyama (2014) describes how patrimonial autocracies are replaced by patrimonial democracies. Despite public demagoguery pledging commitment to the common good, it remains politics as usual.

¹¹³ That is, “shackling the Leviathan” in the terminology of Acemoglu and Robinson (2019).

¹¹⁴ In the Polity IV Global Report of 2017, *Conflict, Governance, and State Fragility*, the two countries ranking highest globally in terms of state fragility are two sub-Saharan African democracies – the Democratic Republic of Congo, and the Central African Republic. Both score “extremely fragile” on economic effectiveness. In fact, of the 26 “high-fragility” countries in the state fragility index, 14 are democracies – 11 of which are in sub-Saharan Africa. Again, of these 11 sub-Saharan African democracies, six have “extremely fragile” economies. Regime type aside, 21 of the 26 most fragile states are in sub-Saharan Africa. Then again, with the exception of Singapore, all of the 30 *least* fragile states in the index are democracies.

Governments continue to operate on principles of kinship and reciprocity instead of impersonal, technical competency, resulting in outsize public employment and wage bills, and ultimately public debt (Fukuyama 2014). Fukuyama concurs with an earlier work by Keefer and Vlaicu (2004), that public funds in weak, young democracies are funnelled towards clientelism to buy political loyalty. Political loyalty comes inexpensively in societies grappling with existential insecurity; a vote may be exchanged for the promise of a social grant that scarcely eradicates food poverty. Hence Welzel (2014) raises the concern that the near-universal appeal for democratisation in poor countries may in fact be a misconstrued appeal for relief from existential insecurity. It may be about poverty relief rather than an insistence on active political participation in future policy directions. Publicly funded, inexpensive short-term benefits thus drive political support and election outcomes, not ideological and programmatic support for political parties' long-term policy directions.

Perhaps the most elucidating clue about the failure of democracy to lift sub-Saharan Africa out of wicked cycles of poverty and oppression, is the World Values Survey's (WVS) finding that emancipative values in a society are the strongest predictor of critical-liberal democracy (Welzel and Inglehart 2006; Wucherpfennig and Deutsch 2009; Inglehart *et al.* 2014). Emancipative values, in turn, arise in a society during the process of modernisation and human empowerment and are irreconcilable with existential insecurity, where daily schemas are dominated by survival strategies. In short, democracy functions as the intended curtailing mechanism on executive excess and overreach in societies equipped with *emancipative values*, where an educated and empowered middle class assesses the quality of democracy, and enforces accountability.

As for emancipative values, they are a product of growth and modernisation; critical-liberal democracy therefore is a *product* – and not a cause – of growth and modernisation. Thus, the prospect that *existentially insecure* societies will be able to employ the democratic accountability tools at their disposal to halt poverty-perpetuating elite predation is predictably dim.

The literature seems clear that sustained extractive, predatory political leadership in both democracies and non-democracies is a key cause of poverty (Rotberg 2003a, 2003b; North, Wallis and Weingast 2009; Acemoglu and Robinson 2013, and Boettke and Candela 2019). If one observes that democracy (in sub-Saharan Africa at least) does not reverse that ruinous cycle, it seems to follow that democracy does not present these societies with an effective rule-enforcement mechanism to end state predation.

7.4 A Hypothesised Development Sequence Synthesised from Institutional Economics, Modernisation Theory and Human Emancipation Literature

Next, this study proposes a *phased* as opposed to an *all good things from the start through democratisation* (the so-called democracy-first) development sequence. The hypothesised sequence relies on institutionalism, modernisation and human emancipation as complementary, mutually inclusive components. In the literature, Lipset's (1959) modernisation theory, which finds a heightened likelihood that stable democracy will be sustained following growth and education in knowledge economies, is often interpreted as a refutation of institutionalism that posits institutions (and therefore also the formal institution of democracy) as the deep source of growth and development (North 1971, 1990a, 1991, 1992, 2003; Acemoglu, Johnson and Robinson 2005; Acemoglu and Robinson 2008, 2013).

As the summary in Table 7.2 shows, unlike institutionalism, modernisation theory is not a deep cause of growth theory. It assumes that economic development is in progress, hence also that the enabling institutional architecture is in place. It then observes that democracy appears to follow growth and development, without exploring what *caused* such growth and development, or the potentially causal role of institutions other than democracy. Its aim is from the outset to find *requisites* for *democracy*, not for growth and development. In support of Lipset, Welzel (2014: 38) writes that "as human empowerment advances, emancipative values emerge, providing the psychological link between freedoms' growing utilities and guarantees. Institutions that guarantee universal freedoms are the result, not the cause, of this process. This is an important stipulation because it defies the prominent view that institutions are the cause of all development." Institutions associated with universal freedoms are one sub-set of the institutional universe and not the ones postulated to cause growth; autocratic Singapore's economic achievement underlines this distinction markedly.

The hypothesised sequence uses a broad institutional approach and incorporates Douglass North's (1971, 1990a, 1991, 1992, 2003) tripod formulation of institutions as *all* of the formal and informal rules that organise society and incentivise human behaviour, as well as the rule-enforcement characteristics. Inclusion of North's third institutional set, society's rule-enforcement characteristics, allows the study to focus on the *actual* institutional environment within which economic decisions are made.

7.4.1 The Three-Phased Hypothesised Sequence

Table 7.3 summarises the proposed three-phased, humanised development sequence, which fuses institutionalism, modernisation and human emancipation.

Table 7.3 A Three-Phased, Humanised Development Sequence

<i>The deep determinants</i>	<i>The proximate determinants and transmission mechanism</i>	<i>The outcomes</i>
<p style="text-align: center;"><u>Phase 1:</u></p> <p><u>Interrupting the poverty cycle by curbing state predation</u></p> <p>Enforcing constitutionally deliberated rules of constraint to interrupt state predation and enable economic development; strong, capable state; impartial rule of law quality of governance and bureaucracy.</p>	<p style="text-align: center;"><u>Phase 2:</u></p> <p><u>Human empowerment and transformation as existential security grows</u></p> <p>Growth and development lead to sense of existential security; education in knowledge economy; national cultural orientations shift from traditional to secular-rational, and from survival to self-expression values as autonomy and agency evolve, culminating in emancipative values.</p> <p>Empowered and emancipated middle class with resources and ability to mobilise.</p>	<p style="text-align: center;"><u>Phase 3:</u></p> <p><u>Empowered middle class mobilises to gain political participation</u></p> <p>Heightened likelihood that a liberal, effective democracy will emerge and be sustained.</p> <p>Liberty and prosperity.</p>

During the *first phase* of the proposed sequence, it would be important to interrupt state predation and build state capacity. An institutional environment that permits a continuation of state predation is an environment where the humanly devised rules cause poverty through the disincentivising effects of discretionary elite appropriation of property and resources (Hall and Jones 1999; Stiglitz 2015). Following Fukuyama (2014), it is suggested that democracy is not the most effective institutional entry point to approach a reversal of ruinous cycles of predation. In fact, premature democratisation may be counterproductive to poverty reversal (Keefer and Vlaicu 2004; Glaeser, Ponzetto and Shleifer 2007; Pritchett, Woolcock and Andrews 2010).

That state power should be shackled, however, is essential (Acemoglu and Robinson 2019; Boettke and Candela 2019). The study therefore follows Landes (1990, 1998) and Fukuyama (2014) to suggest that a *capable, impersonal state* and *impartial rule of law* constitute the formal institutions

most likely to curtail state predation and cultivate development-enabling state capacity. A capable strong state and independent rule of law are viewed as the *institutional deep causes* of the growth that is a *sine qua non* for human empowerment.

The *second phase* of the proposed cycle marks the societal and human transformation that accompanies modernisation.

Should state capacity be accomplished during phase one, and growth and development materialise, it should heighten societies' *sense of existential security*. Societies' sense of existential security materially affects the value systems that shape societal priorities and behaviour. Chapter 6 explains that an increase in society's perception of existential security leads to a reprioritisation of societal values in two important ways. First, since existential security seems to rise most markedly during societies' conversion from an agrarian to an industrial one, it is during this process that a large shift from traditional towards secular-rational values materialises (Inglehart *et al.* 2014; Welzel 2014).

Then, as economies transition towards knowledge societies, the role of education in society increases in importance. Glaeser, Ponzetto and Shleifer (2007) for instance confirm that education shapes societies' civic culture and views on political participation. It also influences whether societies prioritise being involved in the political decision-making that affects them, as well as being able to exercise their agency and autonomy. Almond and Verba (1989: 315) state that "(t)he uneducated man or the man with limited education is a different political actor from the man who has achieved a higher level of education." Easterlin (1996) however cautions that whether education proves conducive or not to growth and development, depends on whether it expands or simply reinforces students' worldviews and mental models, and therefore on the content. If it is not rationalistic and secular, its growth impact is minimal.

Knowledge economies raise citizens' sense of individual agency, which in turn, triggers the second cultural shift: emancipative values emerge in societies where citizens experience both existential security *and* individual agency. The literature describes an emancipative culture as the best available predictor of effective and liberal democracy (Inglehart *et al.* 2014). Moreover, an emancipative culture is viewed as the most likely *cause* of liberal democracy that prioritises freedom and agency over material benefits and the societal trait most likely to assess the quality of democracy critically (Welzel and Inglehart 2006; Inglehart *et al.* 2014).¹¹⁵

¹¹⁵ Welzel and Inglehart (2006) explain how, during economic development, ordinary citizens adopt values that both push for and are supportive of democracy, and also how these mass orientations translate into *effective* democratic institutions. They follow Coleman's (1990) bathtub model of social change and conclude that "democracy should be understood as an essentially emancipative achievement because the civic actions

Phase three describes the progression from human empowerment and emancipation to effective, liberal democracy.

The democratic desire is a near-universal phenomenon (Bratton 2007; Welzel 2014), touted as an escape from hardship and misery. Poverty, however, entails servitude of a different kind; suffrage does not reverse that. If democracy does not *cause* growth and development, it is impotent to liberate the poor from their plight. Paradoxically, poverty reinforces traditionalism and survivalist priorities in poor countries in juxtaposition with the secular and emancipative values associated with the modern-country outcomes they would like to emulate. Transitioning to a prosperous, liberal democracy seems to relentlessly require first growth and development, then modernisation and democracy-sustaining worldviews and belief systems. Superimposing democracy on traditional and survivalist values creates a chimera of freedom; it cannot hope to achieve the outcomes of a liberal democracy that is forged from within a society where emancipative values have been internalised.

Democracy, therefore, is not a deep cause of economic development, but *other* formal institutional reform is. Strong capable states and independent rule of law *are* indeed institutional deep causes of growth and development. Modernisation is triggered only once heightened existential security causes cultural shifts (that is, changes societies' informal institutions). Then follow education and individual agency to push further cultural transition and democratisation, and only *then* does the truly liberated, empowered human existence that the disempowered, impoverished societies in sub-Saharan Africa long for, become possible. It would seem that there are no short cuts. The road to Denmark is a long and arduous sequence. The channel of transmission suffers materially when *outcomes* of growth and development masquerade as causes in development policy and are inserted out of sequence.

7.4.2 *A Probabilistic Sequence*

The sequence in Table 7.3 is portrayed as linear; real-world development experiences are not linear, nor are the outcomes of any of these phases guaranteed. It is not a mechanistic progression, and context-specificities as well as history matter. Contingencies may strike, and setbacks that trigger societies' existential fears may see the process reversed and earlier progress erased. It remains important though, to understand where to start, and why premature democratisation may in fact heighten the vulnerabilities of poor societies rather than empower them. Also, if the desired development outcome extends beyond existential security to a dignified existence characterised by

and coalitions that attain, sustain, and extend democratic freedoms are largely motivated by emancipative mass orientations" (Welzel and Inglehart 2006: 91).

liberty *and* prosperity, it may be useful to understand that liberal, effective democracy cannot be engineered. It would seem that it has to evolve from within an empowered, emancipated society; a society strong enough to critically assess the quality of democracy and capably enforce political constraints.

7.5 Conclusion

In this chapter, an attempt is made to fuse scholarly work from the fields of political science, development and institutional economics, and sociology to find explanations for the counter-intuitive observation that poverty – in sub-Saharan Africa specifically – may rise along with political participation and democratisation. Elsewhere, in Hong Kong and Singapore for instance, economic development has proceeded rapidly in the absence of democratisation.

Analysing the theories of institutionalism, modernisation and human emancipation in the preceding chapters, as summarised in Tables 7.1 and 7.2, produced a number of conclusions. First, from the institutional literature on the deep causes of development emerges that, although they have not benefited equally from scholarly focus, *all three* “classes” of institutions matter in the development sequence. That is, *formal* parchment rules are instrumental in constraining states from becoming predatory. These rules should prohibit political discretion in the appropriation of assets and resources through protection of property and contract rights. These rules are influential only if they are *enforced*, however. Institutions that enforce rules to protect citizens’ rights from elite predation are for instance an independent rule of law and impartial judiciary. Formal institutions and enforcement traits are development enabling specifically because they constrain state predation and cultivate state capacity.

The literature predominantly finds that universal suffrage does not trigger poverty reversal and economic development automatically; this counter-intuitive finding points to the inability of democratic mechanisms of accountability and enforcement to transform predatory states into capable states. Strong, capable states that prove the most competent enablers of development paradoxically seem to exist in societies with a well-developed capacity for enforcement and political accountability. Liberal, effective democracies are such states: strong and capable, but effectively shackled. As explained in section 7.2, these democracies are unlikely to emerge in societies threatened by existential insecurity. Poverty-stricken societies, it would seem, remain vulnerable to development-inhibiting state predation even after democratisation.

The hypothetical development sequence proposed in this study hence suggests that the entry point to interrupt the cycle of poverty is through non-regime specific formal rules and rule enforcement that

could arrest predation. This constitutes the first phase; institutional efforts are directed towards converting a predatory state into a capable one in an effort to trigger economic growth and development, and cultivate a sense of existential security.

The second phase relies on human empowerment and emancipation that arise from a growing sense of existential security. As survival is no longer at stake, burgeoning autonomy and individual agency within a middle class empowered by education and resources breed emancipative value orientations. Liberal, effective democracy is most likely under these conditions. Phase three describes the emergence of liberal democracy through the mobilisation of an empowered, emancipated middle class. In this form of democracy, state predation is kept at bay by an empowered society creating the conditions favourable for sustained, effective democracy. Liberty and prosperity become likely under these conditions, unlike under premature, procedural democracy where state predation persists.

No country's development path is as linear as the hypothesised sequence may seem to suggest. Setbacks and reversals remain real possibilities, and none of the phases' outcomes are guaranteed. The sequence is driven by human agency and societal transformations, and not nearly as mechanistic as the linear sequence may appear to suggest. Despite these reservations, the proposed sequence contributes to an understanding of the main protagonists in poverty perpetuation. It also identifies the where poverty reversal may most effectively be targeted. The trade-off between state predation and state capacity, which hinges on rule enforcement, translates into a trade-off between development and continued stagnation. Predatory states, it would seem, have much to do with poverty perpetuation. Naturally, countries' development realities are path dependent. Context, history and contingency cannot be ignored; yet, where high but constrained state capacity exists, the prospects for liberty and prosperity are brighter.

Chapter 8 attempts to find empirical evidence for the hypothesised three-phased development sequence developed in this chapter.

Chapter 8

Empirical Evidence of the Hypothesised Development Sequence

8.1 Introduction

Chapter 7 proposes a development sequence synthesised from institutional beginnings merged with modernisation theory and human emancipation in an effort to identify a feasible entry point into the poverty cycle in an attempt to arrest the downward spiral and then embark on the arduous process of reversing it.

While the complexity of poverty, its multi-factor causes, context-specificities and intimately human interface all caution against a formalist approach, even a slim possibility of finding evidence pointing to some potential resolutions to this persistent, wicked problem makes an attempt to produce such evidence worthwhile. The pull of the evidence-based scientific method remains strong, although some of the best acknowledged scholarly contributions on the institutional approach to poverty, like those from Douglass North (for instance 1990a, 1990b, 1991, 1992, 2000, 2003 and 2005), Acemoglu and Robinson (2013, 2019), Landes (1990, 1998) and Fukuyama (2011, 2014) for instance, are qualitative and their evidence anecdotal. The limitations to a quantitative exploration are therefore conceded from the outset.

8.2 The Theoretical Model

Chapter 7 proposes a three-phased development sequence aimed at interrupting a development-inhibiting cycle of state predation. The hypothesised model may be written in function form as:

$$\textit{Prosperity} = f(\textit{state capacity}; \textit{human empowerment}; \textit{liberal democracy}; \textit{geographical traits}) \quad (1)$$

where state capacity constitutes the institutional intervention aimed at interrupting state predation to establish a capable but constrained state. These constraints are embodied in *formal* rules and the *enforcement* of these rules. The next phase, human empowerment and emancipation, ensues if existential insecurity subsides. Liberal democracy, which may emerge when an empowered and emancipated middle class becomes mobilised, is included to investigate whether it is potentially a threshold or gateway condition for prosperity to be achieved. Geographical traits are included as well, given its prominence in the deep-causes literature.

An alternative specification of the deep-cause sequence views liberal democracy as part of the desired outcome of *both* liberty and prosperity instead of a gateway condition and may therefore be included as part of the dependent variable specification by interacting the two conditions, rendering the following functional specification:

$$\text{Liberty and prosperity} = f(\text{state capacity}; \text{human empowerment}; \text{geographical traits}) \quad (2)$$

This specification tests whether liberal democracy (liberty) and prosperity arise simultaneously; the variables of interest remain the same as for equation (1).

Table 8.1 summarises the expected causal relationships in the two model specifications.

Table 8.1 Deep Causes of Prosperity (Equation 1), or of Liberty and Prosperity (Equation 2)

Dependent variable 1: Prosperity		
Determining variables of interest	Expected relationship	Expected impact on prosperity
State capacity	Positive	Cultivating state capacity constitutes the institutional entry point through which development-inhibiting state predation is halted. Protecting property and contract rights and an impartial rule of law are representative of formal institutions and rule enforcement (through an independent judiciary) that limit the discretionary appropriation of property and contract rights by the political elite. The objective is to achieve a capable but rule-bound state that prioritises the common good over elite interests. Combining the key aspects of formal institutions and rule enforcement has an expected positive impact on economic performance as they reflect whether the actual institutional environment incentivises growth and development.
Human empowerment	Positive	Human empowerment embodies the societal transformation that establishes an educated, emancipated middleclass with the agency and emancipated mindset that allow them to mobilise and enforce the prioritisation of broad societal interests over narrow elite interests. Human empowerment is hypothesised to be a powerful driver of prosperity and liberty. It is what empowers society with the capacity to counterbalance a strong, capable state in a synergistic partnership based on both competition and cooperation to produce quality institutional and governance outcomes.
Liberal democracy	Positive	If liberal democracy is a prerequisite for prosperity, the mechanism through which this relationship will be operationalised are the democratic mechanisms through which society may write its own rules, as well as the democratic processes to enforce executive constraints to limit state predation and promote the pursuit of broad, societal interests.

Geographical traits	Positive	The role of countries' geographies may, according to the literature either have advantaged them to achieve rapid growth and liberal, democratic societies, or disadvantaged them leading to poverty and very few freedoms. If geographical traits are measured in terms of countries' Cool Water properties, as explained in Chapters 5, 6 and 7 and Table 8.5, a higher ranking indicates water autonomy and disease security and will be associated with prosperity. Hot and dry climates will have fostered historical dynamics of dependency and exploitation in societies that may continue to be associated with poverty unless societies rewrite the rules.
Dependent variable 2: Liberty and prosperity		
Determining variables of interest	Expected relationship	Expected impact on liberty and prosperity
State capacity	Positive	The same transmission mechanism as for equation (1) applies. In addition, as economic modernisation progresses and an empowered, emancipated middle class mobilises, effective, liberal democracy becomes more likely.
Human empowerment	Positive	The same transmission mechanism as for equation (1).
Geographical traits	Positive	The same transmission mechanism as for equation (1).

8.3 Substantial Limitations

Poverty is a much older phenomenon than prosperity; in fact, prior to the broad and lasting prosperity that emerged from the era of modern growth following the Industrial Revolution, poverty was the prevailing condition. The majority of the world's population have found their way out of poverty, with the onset of modern growth from 1820¹¹⁶ onwards. Hence, to trace the pioneering countries' transmission sequence out of poverty would pose significant data challenges. The institutional focus of this study has been broadened deliberately to incorporate not just formal, *ex ante* parchment rules – or, in an even more restrictive approach, regime type only – as institutional

¹¹⁶ Although 1650 already marked the end of the Malthusian trap in the United Kingdom, when population growth and economic growth became simultaneously positive for the first time (Our World in Data).

representative, but also less observable and measureable *informal* institutional traits and rule *enforcement* characteristics.

A number of complications arise from this broad approach. First, tracking the evolutionary sequence of both the economic and human development of the contemporary prosperous and liberal democracies *from its nineteenth-century inception* requires time series on relevant institutional variables that do not exist. Data on informal institutions are most reliably found in the World Values Survey that has been conducted globally in six waves¹¹⁷, with the first wave commencing in 1981. All time series have hence been adapted to only commence from 1981 onwards, at which date the prosperous liberal democracies were already that: prosperous and liberal. Tracking their evolutionary sequence out of poverty and repression over two centuries is therefore not possible.

On the matter of data constraints, a further complication emerges from the *nature* of variables that seem to matter crucially for economic and human development. They are often qualitative and not observable. The *degree* of rule enforcement and subsequent *quality* of the *actual* as opposed to the parchment-rule institutional environment are for instance not objectively measureable. Similarly, attempting to reliably quantify people's *values* and *beliefs*, as well as their *sense* of existential security and *sense* of individual agency clearly complicates endeavours to produce concrete evidence on how these variables enter the transmission sequence. The study therefore relies on survey outcomes of perceptions as they appear in indices like the World Governance Indicators (WGI) and World Values Survey (WVS).

An additional, rather challenging complication arises from endogeneity concerns. There is no denying that prosperous where an empowered citizenry enforces accountable governance that prioritises the common good over elite interests are more likely to sustain high-quality institutions and governance. Institutional safeguards against predation are likely to incentivise entrepreneurial risk-taking, investment, education and innovation – all of which support society's *continued* prosperity and wellbeing. Hence Acemoglu and Robinson's (2013) reference to vicious and virtuous *cycles*. In a vicious extractive cycle, the influential elite dictates rules that serve their material interests, then gains further political influence through their growing fortunes in a ruinous cycle where political and economic outcomes reinforce each other cumulatively, while the gap between the wealthy elite and poor masses widens perpetually. Similarly, liberal democracy is more likely to be sustained in an empowered, emancipatively-minded society, where inclusive ideals of freedom and

¹¹⁷ The seventh wave was recently completed, and the results are scheduled for release in July 2020.

equality are more likely to incentivise further growth and development, and thus human empowerment.

Disentangling these dense webs of cause and consequence may, at the very least, point to a starting point where poverty-causing vicious spirals can be interrupted and reversed. In an ideal world, suitable instruments to overcome endogeneity may present themselves and be substituted for variables that are known to be endogenous. Acemoglu, Johnson and Robinson's (2001) use of settler mortality as exogenous instrument of institutional quality is a seminal example of an attempt to do that, the validity of which has been largely discredited (Glaeser *et al.* 2004; Przeworski 2004c; Albouy 2012).

Frankel and Romer (1999) similarly constructed an instrument for trade openness, which was similarly found to measure geographical variables rather than instrument trade (Kyvik Nordås 2018). Hence, motivated by the scientific predilection for evidence-based conclusions, the study forges ahead into the uncertain terrain of mathematising unmeasurables despite these significant reservations, placing stock also in common sense, intuitive plausibility and pragmatism, because these questions *need* answers.

8.4 The Data

8.4.1 *Country Selection*

The range of the data set is limited to the availability of the WVS time series, which only commences in 1981. In addition, the country selection was decided on the same criterion and therefore this study includes only countries included in the WVS. The WVS divides participant countries into ten cultural zones, grouped according to cultural similarities observed in the survey results.¹¹⁸

Table 8.2 lists the sample of 105 WVS countries¹¹⁹ analysed in this study, comprising 47 high-income countries, 33 upper-middle income countries, 18 lower-middle income countries and 7 low-

¹¹⁸ The clustering into cultural zones may appear to reflect geographic proximity of countries; this is however the result of cultural similarity coinciding with geographic proximity (Inglehart and Welzel 2010).

¹¹⁹ Table 8.2 shows the 105 countries out of the 107 for which the WVS reports survey findings (Inglehart *et al.* 2014), grouped into ten cultural zones. Of the 107 countries for which WVS data series are available, 105 are included in the study. Northern Ireland and Palestine were discarded due to potential data incompatibility considerations. The World Bank data are reported for the United Kingdom inclusive of Northern Ireland, and for the West Bank and Gaza, raising uncertainty about how the geographical region relates to the region (Palestine) surveyed by the WVS. The labelling of the zones may also appear incongruent with country groupings. It should be borne in mind that the groupings are based on similarities in the value dimensions measured by the WVS despite other cultural dissimilarities that may exist.

income countries (Yemen and Mali in the Middle Eastern cultural zone, and the remaining five in the sub-Saharan African zone).

Considering that the study centres on poverty, it is unfortunate that poor countries are under-represented in the WVS sample.

Table 8.2 The WVS Countries According to the Ten Cultural Zones; World Bank Income Categories Indicated in Brackets*

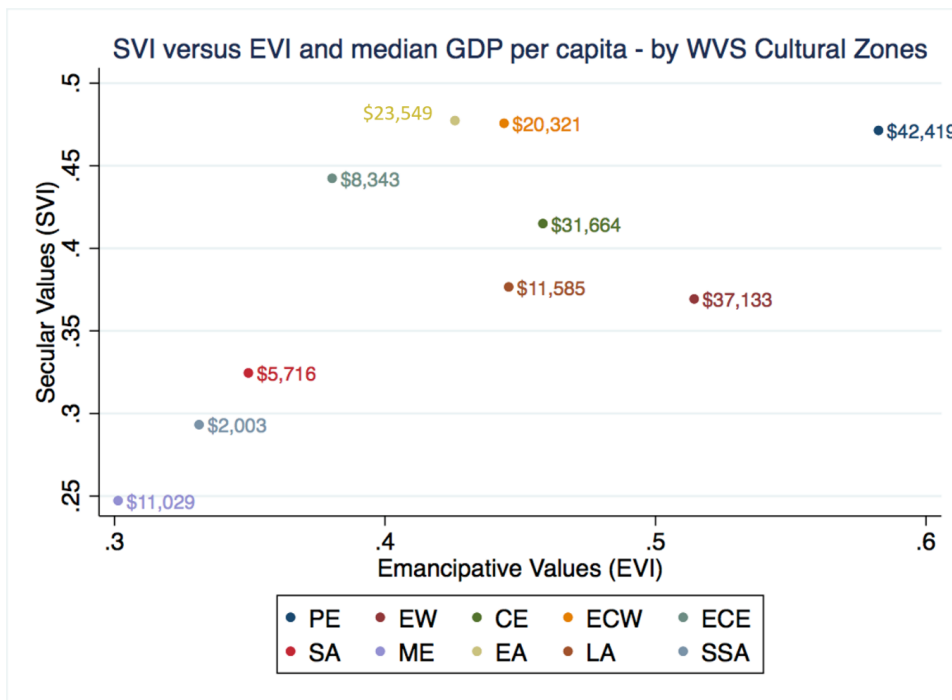
Zone 1 Protestant Europe (PE)	Zone 2 English West (EW)	Zone 3 Catholic Europe (CE)	Zone 4 Ex-communist West (ECW)	Zone 5 Ex-communist East (ECE)
Denmark (H) Finland (H) W Germany (H) Iceland (H) Netherlands (H) Norway (H) Sweden (H) Switzerland (H)	Australia (H) Canada (H) Ireland (H) New Zealand (H) United Kingdom (H) United States (H)	Andorra (H) Austria (H) Belgium (H) Cyprus (H) France (H) Greece (H) Israel (H) Italy (H) Luxembourg (H) Malta (H) Portugal (H) Spain (H)	Croatia (H) Czech Republic (H) Estonia (H) Hungary (H) Latvia (H) Lithuania (H) Poland (H) Slovakia (H) Slovenia (H)	Albania (UM) Armenia (UM) Azerbaijan (UM) Belarus (UM) Bosnia (UM) Bulgaria (UM) Georgia (UM) Kazakhstan (UM) Kyrgyzstan (LM) Macedonia (UM) Moldova (LM) Romania (UM) Russia (UM) Ukraine (LM) Uzbekistan (LM) Serbia (UM) Montenegro (UM)
Zone 6 South Asia (SA)	Zone 7 Middle East (ME)	Zone 8 East Asia (EA)	Zone 9 Latin America (LA)	Zone 10 Sub-Saharan Africa
Bangladesh (LM) India (LM) Indonesia (LM) Malaysia (UM) Pakistan (LM) Philippines (LM) Singapore (H) Thailand (UM)	Algeria (UM) Bahrain (H) Egypt (LM) Iran (UM) Iraq (UM) Jordan (UM) Kuwait (H) Lebanon (UM) Libya (UM) Mali (L) Morocco (LM) Qatar (H) Saudi Arabia (H) Tunisia (LM) Turkey (UM) Yemen (L)	China (UM) Japan (H) South Korea (H) Taiwan (H) Vietnam (LM) Hong Kong (H)	Argentina (UM) Brazil (UM) Chile (H) Colombia (UM) Dominican Republic (UM) Ecuador (UM) El Salvador (LM) Guatemala (UM) Mexico (UM) Peru (UM) Trinidad and Tobago (H) Uruguay (H) Venezuela (UM)	Burkina Faso (L) Ethiopia (L) Ghana (LM) Nigeria (LM) Rwanda (L) South Africa (UM) Tanzania (L) Uganda (L) Zambia (LM) Zimbabwe (LM)

* H = High income; UM = Upper-middle income; LM = Lower-middle income; L = Low income

Source: World Bank and World Values Survey (Inglehart *et al.* 2014)

Figure 8.1 shows the median GDP per capita per cultural zone, calculated for the entire sample period and across all countries in each zone. It presents preliminary evidence of the relationship between cultural orientation as measured on the Secular Value (SVI) and Emancipative Value (EVI) Indices.¹²⁰

Figure 8.1 Relationship Between Culture (Zoned according to SVI and EVI Scores) and Median GDP per Capita (in Constant 2011 PPP dollars)



Source: Own compilation using data from the World Values Survey (Inglehart *et al.* 2014) and the World Bank.

Figure 8.1 shows that zones that are further progressed along the SVI and EVI cultural dimensions also generally produce a higher median GDP per capita. The Middle Eastern zone is a notable exception; it ranks the lowest on both SVI and EVI of all zones but generates a relatively high GDP per capita due to the oil-producing countries (Bahrain, Kuwait, Qatar and Saudi Arabia) included in this zone. The sub-Saharan African zone has the second lowest SVI and EVI rankings after the Middle East and produces the lowest median GDP per capita of all ten cultural zones. Protestant Europe ranks at the top of all zones on its EVI score, and near the top on SVI (similar to the SVI

¹²⁰ See Chapter 6 and Table 8.4 below for detailed explanations of the value orientations measured by the SVI and EVI.

scores of East-Asia and the Ex-Communist West); it does however outperform all other zones in median GDP per capita quite significantly.

This relationship between prosperity measured in GDP per capita and national cultural orientation (in terms of the SVI and EVI dimensions) observed in Figure 8.1 is a central theme for this study as the analysis below will show.

8.4.2 *The Selection of Variables and Sources of Data Series*

The study hypothesises that the reversal of poverty has institutional beginnings in the form of *formal rules* that interrupt and reverse cycles of elite predation. This would not only require a strong capable state that prioritises common interest over elite interest and produces quality governance outcomes. Equally important would be to constrain political discretion and *enforce* rules that prevent continued elite access to public funds and diversion towards clientelism, patronage, patrimonialism and prebendalism. Without effective accountability, governance is likely to regress towards “politics as usual” – that is, elite predation and power consolidation at the expense of the broad citizenry.

Chapters 5 to 7 explain why *democratic* accountability in poor, disempowered societies appears to be ineffectual to “shackle the Leviathan”. Other institutional rules however may achieve that more effectively, righting society’s incentives towards growth and development.

The first phase of the development sequence – interrupting the poverty-inducing predatory cycle through a capable but rule-bound state – is represented in the empirical investigation by variables that reflect formal rules *not* associated with any specific regime type. These rules would constrain executive predation and promote quality governance in any regime type. Table 8.3 shows these variables, the relevant data series and sources. All variables listed in this section are inspected graphically and by means of correlation analysis to establish the direction and strength of their association with the outcome variables, namely poverty and its opposite, economic wellbeing or prosperity. The quality of legal systems and property rights (*lpr*) combined with freedom to trade internationally (*fit*), regulatory quality (*reg*) and sound money (*sm*) taken from the Economic Freedom of the World (EFW) database were included in the model specification as representative of important formal rules and rule enforcement. Legal system and property rights is the individual pillar with the strongest association with GDP per capita, the measure used in this study for economic development and prosperity.

The summary EFW index (*sum*) includes, in addition to the four pillars above, also a fifth pillar representing size of government. This pillar is not shown individually as *size* of government does not

directly relate to either better or poorer quality of governance; it is *quality* that matters (Ott 2010, 2011).

Preference is given to the EFW measures over the World Governance Indicators of the World Bank given that the latter series are only available from 1996 onwards.

Table 8.3 Formal Rules that may be Enforced to Interrupt the Extractive Cycle

Sources	Variable	Legend	Measures the following:
Economic Freedom of the World (EFW) Index (The Fraser Institute)	Summary Index of citizens' freedom to participate in economic activity	<i>sum</i>	"...the degree to which the policies and institutions of countries are supportive of economic freedom. The cornerstones of economic freedom are personal choice, voluntary exchange, freedom to enter markets and compete, and security of the person and privately owned property." (The Fraser Institute).
	Legal System and Property Rights	<i>lpr</i>	"Judicial independence; Impartial courts; Protection of property rights; Military interference in rule of law and politics; Integrity of the legal system; Legal enforcement of contracts; Regulatory restrictions on the sale of real property; Reliability of police" (The Fraser Institute).
	Sound Money	<i>sm</i>	"Money growth; Standard deviation of inflation; Inflation in most recent year; Freedom to own foreign currency bank accounts" (The Fraser Institute).
	Freedom to trade internationally	<i>ftt</i>	"Tariffs: Revenue from trade taxes as % of trade sector, mean tariff rate and standard deviation of tariff rates; Regulatory trade barriers: Non-tariff trade barriers and compliance costs of importing and exporting; Black market exchange rates; Controls of the movement of capital and people: Foreign ownership/ investment restrictions, capital controls and freedom of foreigners to visit" (The Fraser Institute).
	Regulation	<i>reg</i>	"Credit market regulations: Ownership of banks, private sector credit, and interest rate controls or negative real interest rates; Labour market regulations: Hiring regulations and minimum wage, hiring and firing regulations, centralised collective bargaining, hours regulations, mandated cost of worker dismissal, and conscription; Business regulations: Administrative requirements, bureaucracy costs, starting a business, extra payments/bribes/favouritism, licensing restrictions and tax compliance" (The Fraser Institute).
Worldwide Governance Indicators (The World Bank)	Political Stability and Absence of Violence/Terrorism	<i>psv</i>	"... perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism" (Kaufmann, Kraay and Mastruzzi 2010: 3).
	Government Effectiveness	<i>ge</i>	"The capacity of the government to effectively formulate and implement sound policies: ... perceptions of the quality of public services, the quality of the civil service and the degree of its

			independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies” (Kaufmann, Kraay and Mastruzzi 2010: 3).
	Regulatory Quality	<i>rq</i>	“... perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development” (Kaufmann, Kraay and Mastruzzi 2010: 3).
	Rule of Law	<i>rol</i>	“The respect of citizens and the state for the institutions that govern economic and social interactions among them; ... perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence” (Kaufmann, Kraay and Mastruzzi 2010: 3).
	Control of Corruption	<i>coc</i>	“... perceptions of the extent to which public power is exercised or private gain, including both petty and grand forms of corruption, as well as ‘capture’ of the state by elites and private interests” (Kaufmann, Kraay and Mastruzzi 2010: 3).
World Development Indicators (The World Bank)	Poverty: Percentage of population surviving on less than \$3.20 a day; PPP \$ (2011)	<i>pov</i>	This poverty variable is used as a measure of of citizens’ sense of existential security.
World Development Indicators (The World Bank)	Poverty: GDP per capita in constant PPP \$ (2011)	<i>gdppc</i>	This variable is used as an alternative measure of poverty and citizens’ sense of existential security; the averaging effect may however obscure poverty in highly unequal countries.

Source: Kaufmann, Kraay and Mastruzzi 2010; The Fraser Institute; The World Bank.

Phase two of the development sequence describes the transitioning of developing economies from an agrarian towards an industrial economy. During the modernisation that ensues, citizens’ material resources rise, fostering a sense of existential security. Progression into an educated, knowledge society cultivates a human empowerment sequence that emerges parallel with economic development. During industrialisation, mass value orientations shift from traditional to rational-secular values. As human agency and autonomy evolve, emancipative values emerge, rendering modernised societies more likely to live in accountable, responsive and liberal democracies.

Table 8.4 summarises these two value progressions, drawing on evidence from the WVS to describe the cultural dimension of human empowerment and emancipation.

Included are also the variables used to represent education, which is considered a material resource in a knowledge society to breed the sense of autonomy and individual agency that cultivates emancipative values (Welzel 2014). While Welzel (2014) expounds the impact of education as a resource that shifts societies upward along the utility ladder of freedoms, cultivating emancipative values in the process, Glaeser, Ponzetto and Shleifer (2007) emphasise the socialisation attributes of

education. In addition to educational content, it also teaches members of a society the skills to engage productively and constructively with one another. Helliwel and Putnam (2007: 1) nominate education as the most accurate predictor of all sorts of social engagement, “from voting to chairing a local committee to hosting a dinner party to trusting others”. Social interaction requires coordination and an efficient exchange of information. Education facilitates these processes through the acquisition of the skills that are needed to interact constructively with other members of society and also with useful information (Glaeser, Ponzetto and Shleifer 2007).

It is understood from this literature that the relevant level and type of education implied to support liberal democracy is more than literacy and cannot be captured by school enrolment time series. Hence tertiary enrolment and the Human Capital Index are considered to represent the role of education in human empowerment. In the model specification, the Human Capital Index (*hci*) is taken as the more comprehensive measure of quality of education, given the returns on education element captured in the index, over and above years of schooling. This *hci* variable is interacted with the Emancipative Values Index of the World Value Survey (*evi*) to represent the notion of quality of education conditional on the fostering of emancipated critical thinkers needed for and associated with a liberal democracy. Emancipative values are preferred over secular values in the model primarily for the narrow association between emancipative values and liberal, effective democracy (Inglehart *et al.* 2014; Welzel 2014).

Table 8.4 Education, and Emancipative and Secular Values in Human Development

Source	Variable	Legend	Measures the following:
World Development Indicators (The World Bank)	Tertiary Education	<i>ter</i>	“Gross enrolment ratio is the ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. Tertiary education, whether or not to an advanced research qualification, normally requires, as a minimum condition of admission, the successful completion of education at the secondary level” (The World Bank).
Penn World Tables 9.1	Human Capital	<i>hci</i>	Human capital index, based on years of schooling and returns to education (Feenstra, Inklaar and Timmer 2015).
The World Values Survey	Emancipative Values	<i>evi</i>	“12-item index measuring a national culture’s emphasis on universal freedoms in the domains of (1) reproductive choice (acceptance of divorce, abortion, homosexuality), (2) gender equality (support of women’s equal access to education, jobs and power), (3) people’s voice (priorities for freedom of speech and people’s say in national, local and job affairs), and (4) personal autonomy (independence, imagination and non-obedience as

			desired child qualities)” (Welzel 2014: 66 - 69; www.cambridge.org/welzel Online Appendix: 20 - 29).
	Secular Values	<i>svi</i>	“12-item index measuring a national culture’s secular distance to “sacred” sources of authority, including (1) religious authority (faith, commitment, practice), (2) patrimonial authority (the nation, the state, the parents), (3) order institutions (army, police, courts), and (4) normative authority (anti-bribery, anti-cheating and anti-evasion norms)” (Welzel 2014: 63-66; www.cambridge.org/welzel Online Appendix: 12 - 19).

Source: Inglehart *et al.* 2014; Welzel 2014; www.cambridge.org/welzel Online Appendix.

The various waves during which the WVS has assembled cross-country questionnaire responses progressed as follows: Wave 1 was conducted from 1981 to 1984; Wave 2 from 1990 to 1994; Wave 3 from 1995 to 1998; Wave 4 from 1999 to 2004; Wave 5 from 2005 to 2009, and Wave 6 from 2010 to 2015. Wave 7 commenced in 2017 and awaits the release of its survey results in 2020. The findings for the 105 WVS countries included in this study were interpolated as far as possible and sensible to populate time series across the entire WVS time range and the first six waves, from 1981 to 2015.

During phase three, the likelihood that *effective and liberal* democracy may emerge and be sustained rises considerably in societies where emancipative value orientations dominate the national culture.

Liberal democracies are accountable and responsive to the voice and needs of its citizenry; they are distinct from procedural democracies (Burchard 2014), or electoralism. They are also specifically distinct from the politics-as-usual forms of post-independence democracy (Van de Walle 2003a, 2003b), or the phenomenon of isomorphic mimicry (Pritchett, Woolcock and Andrews 2010), which describes the *outward* adoption of democratic forms of state that obfuscate persistent implementation failures due to capability constraints. The crucial distinction lies in society’s ability to impose accountability and constraints on the executive and enforce responsiveness to the common interest as opposed to serving elite interest. This feature is what sets *liberal* democracy apart from democracy in its other guises: in liberal democracy, democratic *quality* is gauged *critically* and an empowered electorate is unlikely to tolerate elite predation. Only in a *liberal* democracy therefore can *democratic* accountability be relied upon to render a continuation of ruinous extractive cycles unsustainable.

Table 8.5 shows the data that the study uses to reflect the notion of *liberal* democracy. Two measures have been considered; first, the Polity IV democracy score (*polity2*), which is a net outcome after

democratic traits have been discounted by autocratic country traits. It is considered an appropriate measure for this study for several reasons: it has a long-run perspective and explains every country's regime classification for each year in detail. Also, Polity IV avoids sacrificing assessment quality on the altar of empirical scope (Munck and Verkuilen 2002). The Polity IV democracy score however does not capture human rights specifically, nor the degree of corruption. Alternatively, the Liberal Democracy Index compiled by the V-Dem Institute (*libdem*) was considered for use in the analysis. The final model presented in section 8.6.4 includes use of the Polity IV democracy score, however results using *libdem* are qualitatively similar.

Also shown in Table 8.5 is the Cool Water Index (*coolwi*) that reflects geographical country traits associated with water autonomy and disease security. Countries' geographies feature in the deep causes of economic development literature either through a direct impact on economic outcomes (Sachs 2003), or indirectly through an impact on institutions (Inglehart *et al.* 2014; Fukuyama 2014; Welzel 2014). The Cool Water Index is an authentically time-invariant exogenous measure of climatic and geographical conditions that affected not only the evolution of power dynamics in countries (Fukuyama 2014), but also societies' value orientations towards agency, autonomy and subordination to traditional sources of authority (Welzel 2014).

Although Easterly and Levine (2003: 3) find “no evidence that tropics, germs, and crops affect country incomes directly other than through institutions...”, it does raise the question whether poor countries' fate has been sealed in deterministic fashion by their unfavourable geographies. One may ask whether geography paradoxically is destiny only when humans let it be that, when human resourcefulness fails to overcome geographical challenges and allows the damaging institutions that arose from geography to persist and reinforce poverty *ad infinitum*.¹²¹

¹²¹ Sachs (2003) disagrees with Easterly and Levine, relying on malaria incidence to argue in favour of a *direct* impact of geographical traits on economic outcomes. Indeed, the World Health Organisation (WHO 2018) reports that its poorer African Region continues to share disproportionately in the global malaria burden. In 2017, for instance, the region accounted for 92 per cent of malaria cases and 93 per cent of malaria deaths worldwide. Although the WHO attributes the disproportionate incidence of malaria in Africa to specific traits of the African vector species, for instance its high human-biting propensity and its longevity, it also concedes that malaria elimination – as was achieved by several countries recently certified malaria free – depends on *institutional* strengths within affected countries. Welzel (2014) reports that the cool-water advantage has been diminishing globally, with the disadvantage persisting where technological innovation has been unable to overcome it.

Table 8.5 Variables Denoting Liberal Democracy and Geography

Source	Variable	Legend	What it measures:
Center for Systemic Peace	Polity IV Democracy Score: Polity 2 revised score	<i>polity2</i>	“Political Regime Characteristics and Transitions, 1800-2018, annual, cross-national, time-series and polity-case formats coding democratic and autocratic ‘patterns of authority’ and regime changes in all independent countries with total population greater than 500,000 in 2018 (167 countries in 2018)”; “Polity2 is a revised combined POLITY Score. This variable is a modified version of the POLITY variable added in order to facilitate the use of the POLITY regime measure in time-series analyses. It modifies the combined annual POLITY score by applying a simple treatment, to convert instances of “standardized authority scores” (i.e., -66, -77, and -88) to conventional polity scores (i.e., within the range, -10 to +10)”. Scores are also allocated as: “-10 to -6 for <i>autocracy</i> , with political power concentrated in the hands of one person; -5 to +5 for <i>anocracy</i> , a regime type featuring inherent qualities of political instability and ineffectiveness, as well as an ‘incoherent mix of democratic and autocratic traits and practices’; +6 to +10 for <i>democracy</i> , a regime type in which the supreme power is vested in the people and exercised by them directly or indirectly through a system of representation” (Center for Systemic Peace).
V-Dem Institute	Liberal Democracy Index	<i>libdem</i>	“The V-Dem Liberal Democracy Index scores the strength of democratic institutions from weak to strong (0-1). The index aggregates variables across several dimensions, including suffrage rights, clean elections, equality before the law, constraints on the executive, and freedom of association and expression” (Our World in Data).
The World Values Survey	Cool Water Index	<i>coolwi</i>	The Cool Water Index (CWI) is associated with two sources of existential security, disease security and water autonomy, both of which cultivate autonomy and independence from rulers, hence blocking historic channels to despotism. The CWI is calculated as “the fraction of a society’s inhabitable area in CW zones that exists in excess of the fraction in dry and hot zones, according to the Koeppen-Geiger classification” (Welzel 2014: 341). A score of 1 would indicate that the entire area is a CW zone, whereas a country score of 0 would indicate that the entire area is dry and hot. A weighting procedure is used to account for variations in rainfall (Inglehart <i>et al.</i> 2014).

Source: Center for Systemic Peace; V-Dem Institute; Our World in Data; Inglehart *et al.* 2014; Welzel 2014.

8.5 Associations and Correlations: Some Stylised Facts

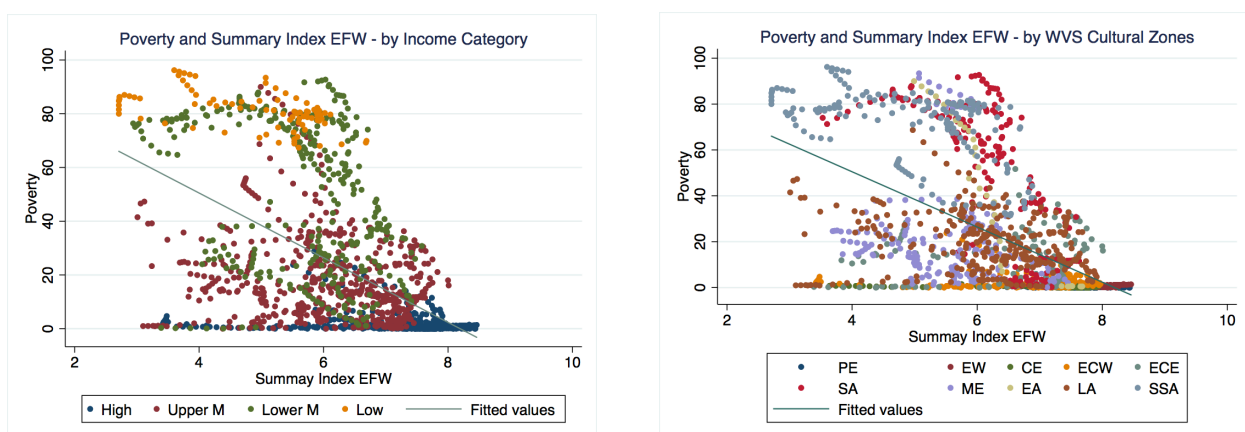
The theoretical sequence posits prosperity as an outcome of, first, *state capacity* in the form of predation-halting rules that are enforced effectively to cultivate growth-enhancing governance. Second, development is driven forward by *human empowerment* and emancipation that heighten the likelihood of effective, liberal democracy – of liberty, that is. It is difficult to predict whether *liberty* in an *empowered*, emancipated society (as opposed to universal suffrage afforded to an impoverished, low-literacy citizenry) drives *prosperity* (as in equation (1) above), or whether they obtain *simultaneously* (as in equation (2) above).

8.5.1 *Formal Institutions, Rule Enforcement and Economic Outcomes*

Evidencing causation in the theoretical sequence is clearly not simple; as a starting point, associations and correlations between formal rules that may halt the downward cycle and countries' poverty levels are investigated. Four such rules are explored for their association with poverty levels; they are four of the pillars of the Economic Freedom of the World Index listed in Table 8.3 that in essence reflect governance traits associated with growth and development outcomes. Specifically, the four pillars are measures of the quality of rule of law and property right protection, monetary stability as would result from prudent monetary policy, the regulatory control over citizens' ability to trade with foreigners, travel abroad and invest abroad, and the extent of government's regulation of credit markets, labour markets, and business. As explained above, the fifth pillar of the summary Economic Freedom score – size of government – is not shown individually, as size *per se* does not directly relate to either better or poorer quality governance.

For completeness however, the association between the summary country scores inclusive of all five pillars and poverty is also shown in Figure 8.2 below.

Figure 8.2 Poverty and the Summary Index of Citizens' Freedom to Participate in the Economy in WVS Countries, Grouped According to World Bank Income Categories and WVS Cultural Zones



Annual data for the 105 WVS countries specified in Table 8.2 are included, for the period 1981 to 2015. As the charts indicate, countries are colour coded firstly according to their World Bank income categorisation of high, upper-middle, lower-middle and low income, and then according to the WVS cultural zones.

Both charts in Figure 8.2 show a negative association between countries' poverty and the summary scores in formal institutions that may incentivise economic exchange (aside from government size, which is included in the summary score but inconclusive for quality of governance).

In the chart on the left with countries grouped according to income categorisation, high-income countries¹²² are concentrated around the high end of the summary score for economic freedom, while low-income countries are clustered around the low end. Two distinct groupings seem to emerge. The first, in the top left quadrants of the two graphs, is a concentration of high-poverty, poor-governance countries from the low-income and lower-middle income groups from the sub-Saharan African and South Asian cultural zones. In fact, in addition to sub-Saharan Africa and South Asia, the Middle Eastern and East Asian zones are also represented well on the poor-governance, high-poverty end of the trend line. The second dense concentration of countries is in the bottom-right quadrants of the graphs in Figure 8.2. Low-poverty, good-governance countries from upper-middle income and high-income countries in the Protestant Europe, English-speaking West and ex-Communist West zones dominate in this grouping. An interesting observation is that *low* governance scores of approximately 6 and below are associated with both very high and very low poverty, presumably again due to the effect of wealthy, oil-producing Middle Eastern countries. *High* governance scores, around 8 and above, are however associated *only* with very low poverty.

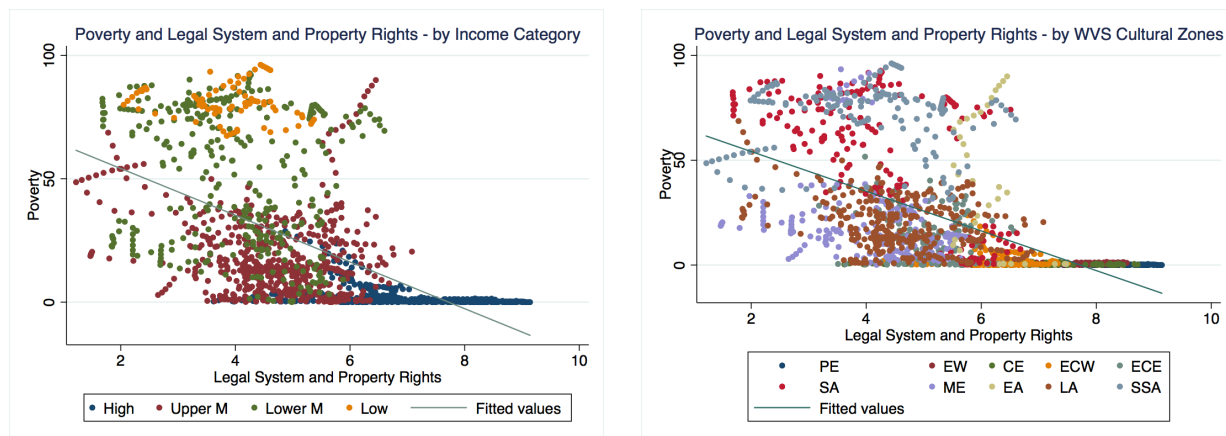
Turning to the individual pillars of the summary index indicates which specific measures are narrowly associated with poverty. The measures for rule of law (legal system and property rights) in Figure 8.3 and the freedom to trade with foreigners in Figure 8.4 exhibit such close, negative correlations with poverty levels.

Notable from Figure 8.3 is the clustering of low-income, predominantly sub-Saharan African countries around the low-legal protection and high-poverty end of the trend line. High-income countries perform well on scores for Legal System and Property Rights. In fact, Figure 8.3 shows a relatively diffuse scattering of country performances on Legal System and Property Rights occur across the lower three income categories until a score of around 6 or 7, which seems to be a tipping

¹²² Poverty in the high-income countries is close to zero for most of the period under review, hence no structural relationship between the summary index and poverty exists in high-income countries.

point after which poverty eradication and legal protection converge rapidly in the high-income countries. The diffuse scattering of lower-middle income countries in the lower legal-protection half of the graphs (0 to 6 on Legal System and Property Rights) across all levels of poverty, raises some questions. Within this (low) range of legal protection, the *high-poverty* middle-income countries are predominantly in the South Asian zone (Bangladesh, India, Indonesia, Pakistan and the Philippines), whereas the *low-poverty* middle-income countries are in the Middle Eastern zone (Egypt, Morocco and Tunisia).

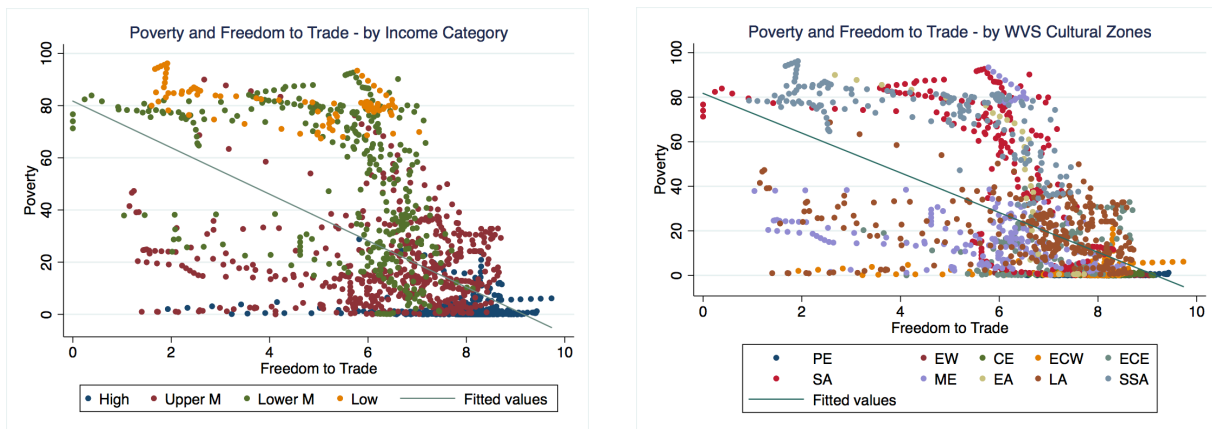
Figure 8.3 Poverty and the Rule of Law (Legal System and Property Rights) in WVS Countries, Grouped According to World Bank Income Categories and WVS Cultural Zones



The upper-middle income country in the East Asian cultural zone that performs disproportionately better on legal protection than on poverty, is China in the early nineties, right before the rapid decline in poverty. The lower-middle income country in Sub-Saharan Africa that similarly performs disproportionately well on legal protection and property rights amidst high levels of poverty is Ghana in the mid-nineties after which poverty has declined while, paradoxically, the legal-protection score has also deteriorated.

Figure 8.4 shows a negative association between poverty and countries' freedom to participate in economic exchange with foreigners. Regulatory controls prohibiting such exchange are associated with higher levels of poverty. Again, low-income countries in sub-Saharan Africa dominate the low-freedom, high-poverty end of the trend line, while the Middle East, Latin America and even ex-Communist West underperform on freedom to trade compared against the trend line.

Figure 8.4 Poverty and State Control over Citizens' Freedom to Trade with Foreigners in WVS Countries, Grouped According to World Bank Income Categories and WVS Cultural Zones



Some interesting outliers in Figure 8.4 are zero-poverty countries that score poorly on freedom to trade with foreigners. High-income Poland in the ex-Communist West during the mid-eighties is one such country; after all, one-party rule only ended in 1989 and the first free parliamentary elections since 1920 took place in 1991 following which the openness of the Polish economy advanced swiftly. Argentina scored similarly low on freedom to trade during the early eighties despite low levels of poverty; the election on 30 October 1983 saw Raúl Alfonsín assume power democratically, however, returning the country to constitutionality and introducing a new era of democracy.

Freedom to trade with foreigners followed suit, rising steadily to close the distance towards the trend line in Figure 8.4. Outlying Iran remained low on both poverty and freedom to trade; while Hungary, like its ex-Communist-West peer Poland, progressed towards greater freedom to trade through the eighties to approach the negative association depicted by the trend line.

Figure 8.5 Poverty and Monetary Stability in WVS Countries, Grouped According to World Bank Income Categories and WVS Cultural Zones

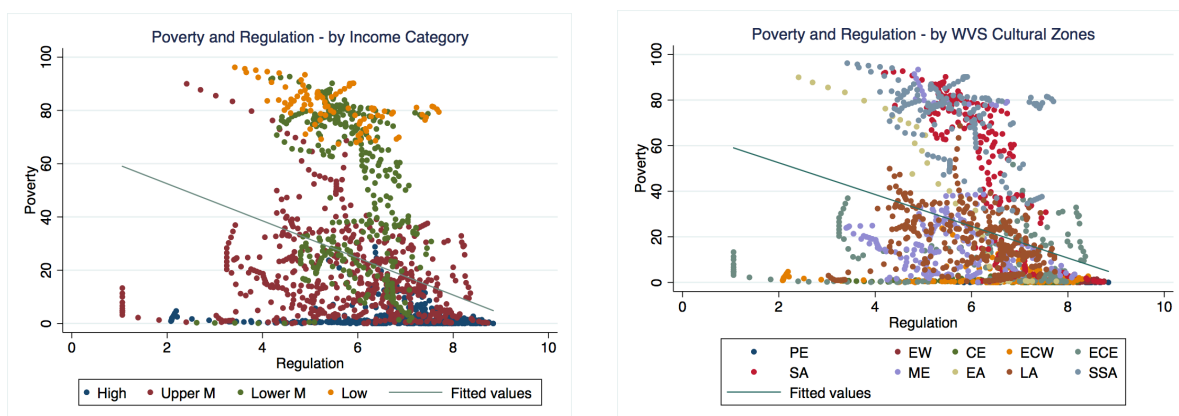


The sound money measure of monetary stability and prudence of monetary policy is again negatively associated with poverty (Figure 8.5); lower-middle income countries perform as poorly if not worse than their low-income counterparts on monetary stability and the ability to keep inflation in check. The cultural zones produce a rather mixed performance; Sub-Saharan Africa ranks among the lowest on sound money, it fares worse on poverty. Latin America, the Middle East and both ex-Communist East and West underperform on monetary stability among the low-poverty countries. The upper-middle income country in Latin America conspicuously underperforming on sound money, is Brazil during the eighties and nineties. It would seem that, of the Economic Freedom of the World pillars investigated so far, sound money has the most tenuous negative association with poverty.

Figure 8.6 portrays the relationship between poverty and the quality of government regulation in spheres of economic life, affecting for instance the access to and cost of credit, the flexibility and functioning of labour markets labour markets, and also the ease and cost of doing business.

The association between poverty and government regulation is negative, indicating that higher-quality regulation is associated with lower poverty. Outliers on the low end of regulatory quality that simultaneously have low poverty are upper-middle income countries in ex-Communist East, while high poverty coincides with high scores on regulatory quality in low and lower-middle income countries in sub-Saharan Africa and Latin America.

Figure 8.6 Poverty and Government Regulation in WVS Countries, Grouped According to World Bank Income Categories and WVS Cultural Zones



Next, the *strength* of the associations between poverty and the Economic Freedom of the World pillars was tested. Table C.1 in Appendix C shows the pairwise correlation results for poverty and the summary index (*sum*) of the EFW Index, as well as the individual pillars plotted in Figures 8.2 to 8.6 above. The signs of all the coefficients are negative, as expected, and all correlation coefficients between EFW variables and the poverty measure are statistically significant at a 1 per cent level of

significance ($p < .01$). Of the individual pillars, legal system and property rights (*lpr*) and freedom to trade with foreigners (*fit*) have the highest (negative) correlations with poverty (*pov*) ($\rho = -0.59$ and -0.58 respectively), while sound money (*sm*) and quality of regulation (*reg*) have weaker (negative) correlations.

If the correlation analysis is repeated, again using the summary index of the Economic Freedom of the World and its individual pillars, but substituting GDP per capita (in constant 2011 PPP dollars) for the percentage of the population living in poverty as an alternative measure of poverty – albeit cruder due to the averaging effect that obscures inequality – the results in Table C.1 are confirmed. The positive coefficients confirm that quality governance (in terms of the EFW indicators) is positively correlated with GDP per capita, and highly statistically significant. Of the individual pillars, legal system and property rights (*lpr*) have the highest (positive) correlation with GDP per capita ($\rho = 0.69$). Table C.2 in Appendix C reports these findings.

To pursue the nexus between poverty (as a measure of societies' sense of existential security) and the quality of governance (as an outcome measure of not only formal institutions that would cultivate economic development, but also of the extent to which these rules are enforced) further, the investigation next turned to the Worldwide Governance Indicators (WGI) of the World Bank.

Of the six pillars of the WGI – Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption – only the first one, Voice and Accountability, described by the World Bank (2019, online) as “perceptions of the extent to which a country's citizens are able to participate in selecting their government” hints at democracy specificity. The remaining five pillars represent regime-independent dimensions of good governance and are therefore of interest in the quest for formal rules that, if enforced, may constrain elite extraction when *democratic* accountability cannot be relied upon to enforce good governance. Singapore, for instance, in 2018 (World Bank 2019) ranked among the 97th to 100th percentiles on the five regime-independent pillars, but achieved only the 41.9th percentile on Voice and Accountability in support of the argument that quality governance does materialise without democratic accountability. South Africa, by contrast, achieved a 70.4 percentile ranked on Voice and Accountability in 2018, but only 36.2 on Political Stability and Absence of Violence, 50.9 on Rule of Law, and 57.2 on Control of Corruption.

The relationship between poverty and the five regime-independent dimensions of governance of the WGI for the WVS countries was investigated similarly to the above analysis of the EFW governance variables. The WGI time series only commences in 1996 however, significantly reducing the number

of observations compared to the EFW series for which observations are available from 1981 when this study's period of observation starts. Hence the graphical associations and correlation results for the WGI governance variables are reported in Appendix C, section C.2 for interest, but not included in the model in section 8.6.4.

The relationship between poverty and the quality of governance as measured by the WGI pillars confirms the observation from the EFW pillars of governance, that low-quality governance is associated with the entire spectrum of poverty. That is, *any* level of poverty can co-exist with weak governance outcomes. High-quality governance, however, is associated with near-zero levels of poverty without exception, suggesting that poverty ceases to exist in the presence of good governance.

Suffice to report that the coefficients confirm not only a *positive* correlation between GDP per capita and WGI quality of governance, but also a *strong* correlation, ranging from 0.60 for Political Stability and Absence of Violence, to 0.71 for Control of Corruption. All correlations are statistically significant at the 1 per cent level. The strong correlation found between GDP per capita and Control of Corruption suggests that, of all the governance variables, the degree to which the diversion of public resources towards private and elite interests through corrupt practices can be curbed matters materially for a society's economic wellbeing.

8.5.2 *Poverty Reversal, Existential Security and Human Empowerment*

Once the cycle of poverty is arrested, and growth and development triggered, it should serve to heighten society's sense of existential security. Also, the transition from an agrarian to an industrial to a knowledge economy, which is accompanied by raised levels of education and a sense of autonomy and individual agency, feeds an emancipative national culture (Welzel 2014).

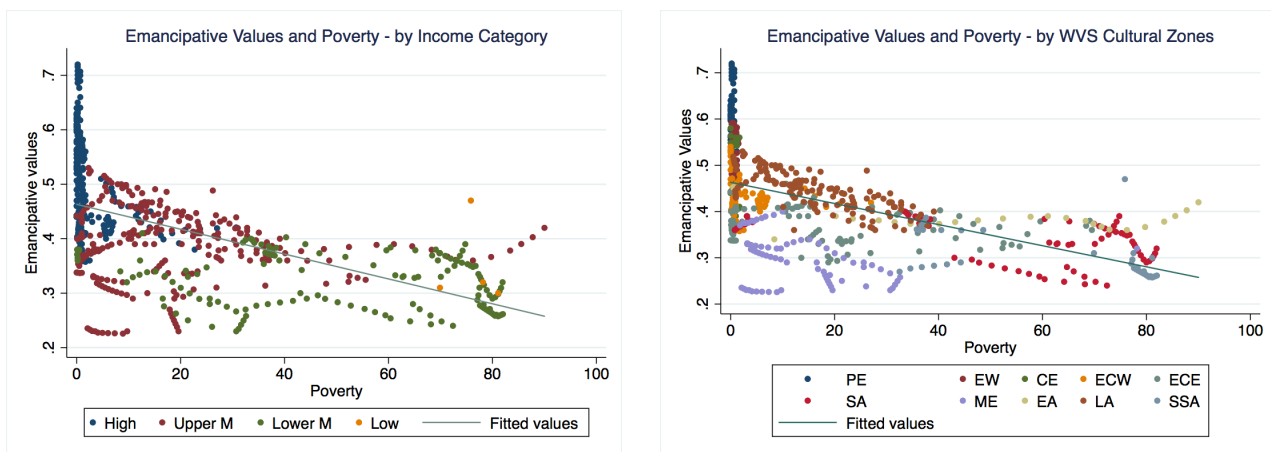
Figure 8.7 below plots poverty against countries' emancipative value orientations as specified in Table 8.4 for the 105 WVS countries from 1981 to 2015. The secular dimension of values (SVI) specified in Table 8.4 is not as central to human empowerment through individual agency and autonomy as emancipative values (EVI) (Inglehart and Welzel 2010); the focus of the analysis is therefore on emancipative values. Again, countries in Figure 8.7 are colour coded firstly according to their World Bank income categorisation of high, upper-middle, lower-middle and low income, and then according to the WVS cultural zones.

The downward sloping trend line demonstrates the expected negative relationship; that is, higher levels of poverty are associated with value orientations prioritising survival and existential security

over emancipative values. The negative relationship might have been more pronounced had poor countries been better represented in the WVS sample of countries. Also, recognising that many poor countries are crippled not by poverty alone, but often by the twin problem of both poverty *and* inequality, poor countries' survey results and EVI scores may be slanted depending on whether they reflect the value orientations of a wealthy minority, or the poor masses that may be harder for fieldworkers to reach.

The conspicuous outlier on the chart, which scores highly on the prioritisation of emancipative values despite the high percentage of the population that lives in poverty, is Ethiopia in 2007, during Wave 5 of the WVS. From 2003 till 2012, the average annual growth rate in Ethiopia was approximately 11 per cent (Alemayehu and Addis 2014). Inflation eventually caught up with this rapid expansion however, owing to the absence of prudent monetary and fiscal policy. Also, the country's macroeconomic performance depended on rain-fed agriculture; crucial as the high level of growth was for poverty reduction, its sustainability was thus precarious (Alemayehu and Addis 2014). Still, though the rapid growth of the early 2000s may have been inadequate to raise the predominantly poor population from poverty, it may have shifted their sense of existential security and along with that their outlook on life.

Figure 8.7 Poverty and Emancipative Values in WVS Countries, Grouped According to World Bank Income Categorisations and WVS Cultural Zones



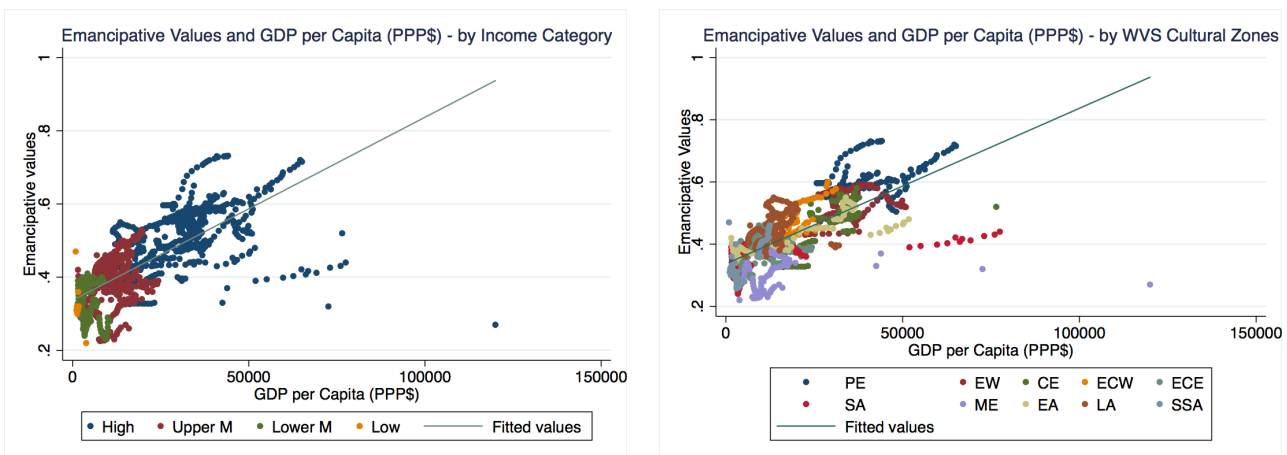
The right-hand chart grouping countries in cultural zones shows that in the Protestant Europe (PE) cultural zone, poverty is virtually non-existent, while emancipative orientations dominate national culture; in fact, countries in this zone score highest on emancipative values of all the WVS countries. Although countries in the Middle Eastern (ME) cultural zone generally experience lower levels of poverty than South Asia (SA) and sub-Saharan Africa (SSA), their EVI scores are not conspicuously

higher. Put differently, relative to their levels of poverty, ME countries perform poorly on EVI, while East Asia (EA), sub-Saharan Africa (SSA) and also South Asia (SA) outperform on EVI scores relative to their comparatively high poverty levels when gauged against the trend line.

As in the analysis of governance variables above, GDP per capita (in constant 2011 PPP dollar) is substituted for poverty as an alternative measure of existential security and plotted against EVI for the WVS countries. The positively sloped trend line in Figure 8.8 confirms that higher levels of GDP per capita coincide with a higher prioritisation of emancipative values.

A number of outlying high-income countries achieve outstandingly on GDP per capita while scoring well below the trend on EVI. These are oil-producing countries in the Middle East; specifically, Qatar in 2010, Kuwait in 2014, Saudi Arabia in 2003 and Bahrain in 2014. On average, the low-income countries perform relatively better on EVI than on GDP per capita compared to the trend line.

Figure 8.8 GDP Per Capita in Constant PPP Dollar (2011) and Emancipative Values Grouped According to World Bank Income Categorisations and WVS Cultural Zones



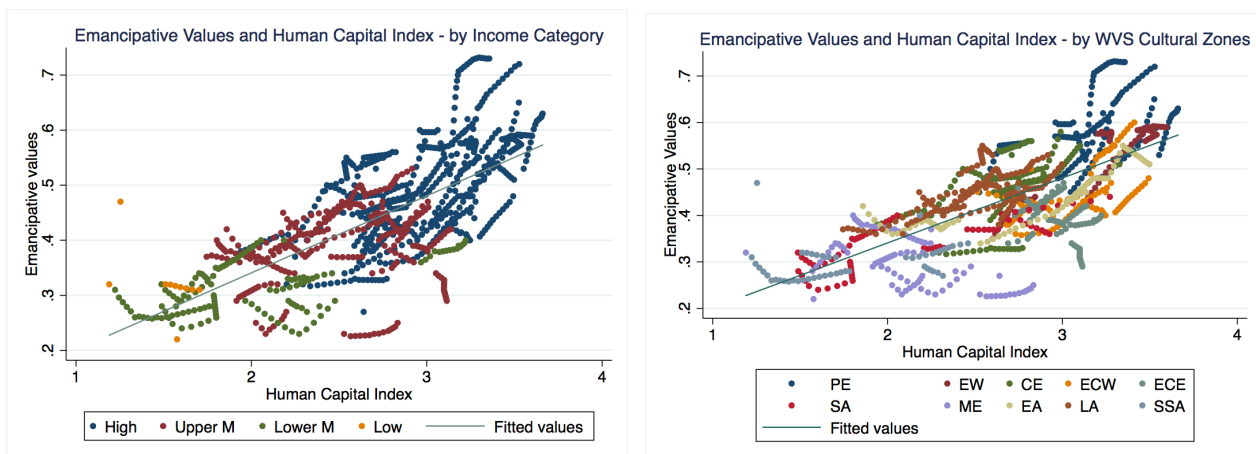
The highest country score on GDP per capita in Figure 8.8 was achieved by Qatar in 2010, while the matching EVI score was the lowest among the high-income countries. Another predictable outlier from the Southern Asian zone outperforming on GDP per capita while ranking disproportionately low on EVI, is Singapore. The data however show that, as GDP per capita rose from 2002 onwards, the EVI score increased at the same, mimicking the upward slope of the trend line. The same can be said of Hong Kong in East Asia, from 2005 onwards. Also conforming to expectation are Sweden and Norway, being the high-income countries scoring highest on emancipative orientation. Countries in the sub-Saharan Africa cultural zone have low levels of GDP per capita, but rank proportionately

low on EVI, clustered tightly around the trend line and thus confirming that national values trend towards survivalist rather than emancipative orientations where poverty robs societies of their sense of existential security.

In addition to the *material* action resources needed to cultivate a sense of security, Welzel’s (2007, 2014) and Inglehart and Welzel’s (2005, 2009 and 2010) theory of modernisation and human development also emphasises the role of *education* in a knowledge society to cultivate a sense of autonomy and agency, and transform value orientations towards emancipative priorities.

Using human capital as measure of societies’ level of education produces a tightly clustered positive association with the extent to which countries’ national cultures prioritise emancipative orientations. In addition to the positive association between human capital and emancipative values, Figure 8.9 indicates that the low-income countries score disproportionately better on emancipative values given their underperformance in human-capital outcomes.

Figure 8.9 Human Capital and Emancipative Values in WVS Countries, Grouped According to World Bank Income Categories and WVS Cultural Zones



The low-income country in sub-Saharan Africa that outperforms on emancipative values despite a very low human-capital score, is once again Ethiopia in 2007, when Wave 5 of the WVS coincided with the high-growth phase that lasted from 2003 till 2012. Figure 8.10 makes it clear that the poorest achievers on *both* human capital and emancipative values are the low and the lower-middle income countries in the sub-Saharan African and the South Asian zones, while the Middle Eastern zone performs disproportionately poorly on emancipative values given its higher human-capital scores.

Tertiary enrolment as an alternative measure for education was also explored. The results are reported in Appendix C, section C.3.

Pairwise correlation analysis was carried out to test the strength of the relationship between emancipative values (*evi*), the two possible measures used for existential security (poverty and GDP per capita as defined above), and the two measures used for education – tertiary enrolment (*ter*) and the human capital index (*hci*). Table C.4 in Appendix C reports the results of the correlation analysis. All the signs are as expected and all correlation coefficients are significant at the 1 per cent level of significance. GDP per capita as measure of existential security, and human capital as measure of education, are particularly highly correlated with emancipative value orientations ($\rho = 0.72$ and 0.70 respectively). Hence these two variables are used in the model in section 8.6.4.

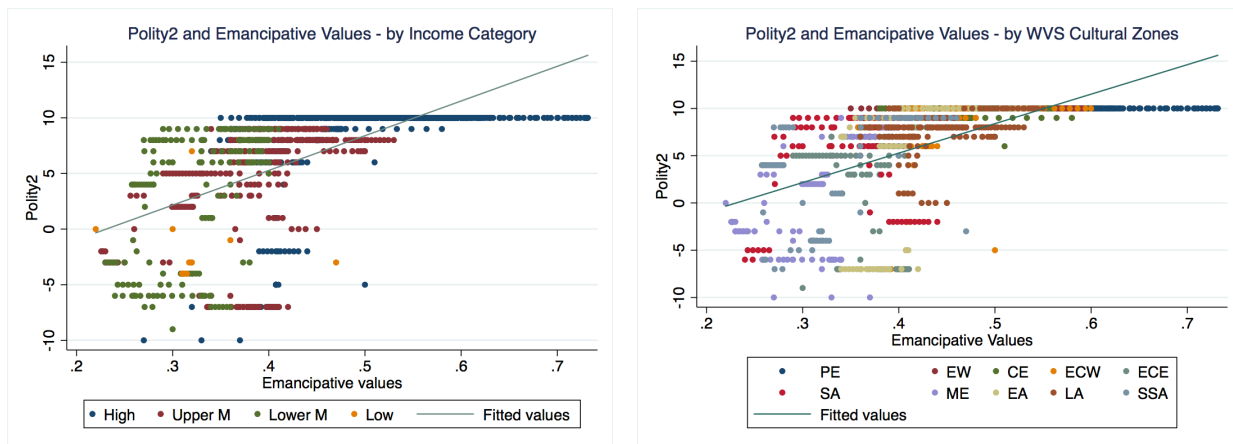
8.5.3 Human Empowerment, Liberty and Prosperity

Once an emancipated mind set has been cultivated in society, the next question to be addressed is whether there is evidence that the emancipative value orientation raises the likelihood of *liberal* democracy, in keeping with the modernisation sequence of Lipset (1959), Welzel (2007, 2014), and Inglehart and Welzel (2005, 2009, 2010). Eventually, the question is whether liberal democracy should it materialise through human empowerment and emancipation, is a driver of prosperity or does human empowerment contribute to prosperity directly (Acemoglu and Robinson 2019).

The study relies on the adjusted Polity IV democracy score (*polity2*) as described in Table 8.4 as a measure of *liberal* democracy to distinguish it from *procedural* democracy or electoralism, which measures democracy by the extent of political participation or suffrage. Responsiveness and accountability to the electorate, or whether governance prioritises the common over elite interest should be captured in the measure.

The scatter graphs and trend lines in Figure 8.10 confirm a positive association between Polity2 scores index and emancipative values for WVS countries. High-income countries are concentrated around high Polity2 scores. An outlier of interest is high-income Croatia in the Ex-communist West, scoring highly on emancipative values but poorly on Polity2 in 1996. Also, Ethiopia's outperformance of its peers on emancipative orientation in 2007 is not matched by its (low) Polity2 score. Outliers whose emancipative-value scores outperform their democracy scores may be indicative of an emerging, emancipated middle class that has yet to mobilise towards democratisation; it may also be a confirmation of the *probabilistic* nature of the phases in the development sequence. Guarantees that the progression will materialise as hypothesised do not exist. The lowest democracy scores recorded came from Qatar (2010), Uzbekistan (2011), Saudi Arabia (2003) and Bahrain (2014), all high-income oil producers in the Middle Eastern zone.

Figure 8.10 Polity2 and Emancipative Values in WVS Countries, Grouped According to World Bank Income Categories and WVS Cultural Zones



The association between liberal democracy and emancipated values was also investigated using the liberal democracy index of the V-Dem Institute. Figure C.7 in Appendix C depicts this relationship for the WVS countries, showing strongly positive associations between liberal democracy and emancipative values, with high-income countries in Protestant Europe and the ex-Communist West scoring highly on liberal democracy.

The pairwise correlation results in Table C.5 in Appendix C confirm that emancipative values are positively correlated with Polity2 scores ($\rho = 0.59$), but even more strongly with the *libdem* measure of liberal democracy ($\rho = 0.75$).¹²³ Both are highly significant at the 1 per cent level of significance. For completeness, the correlations between secular-rational values (SVI, as defined in Table 8.4), emancipative value and liberal democracy are also shown. The cultural variable of interest however is the emancipative rather than the secular dimension, due to the former's well-defined connection with the raised likelihood that an effective, liberal democracy will emerge and be sustained.

8.5.4 Geographic Disadvantage and Economic Outcomes

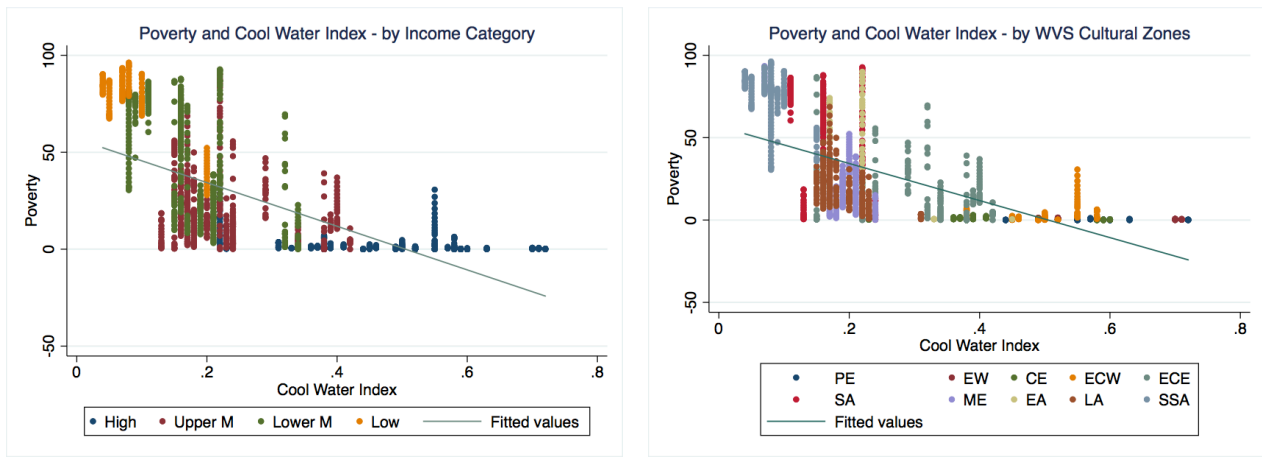
To investigate the potential role of geographical country traits, the Cool Water Index (CWI) used by Welzel (2014) in his exogenous source thesis, is also included in this study. As a preliminary exploration, the association between the CWI and the two measures of existential security –

¹²³ Despite the strong results for the *libdem* measure of liberal democracy, *polity2* is the main variable of choice used for the remainder of the analysis, first because it is widely known among scholars and second for the qualitative assessment in the construction of the index, which penalises democracies for autocratic traits they may exhibit, in the process coming closer to *liberal* as opposed to *procedural* (or simply *electoral*) democracy.

percentage of the population living in poverty and GDP per capita (in constant 2011 PPP dollar) – is shown in Figures 8.11 and 8.12.

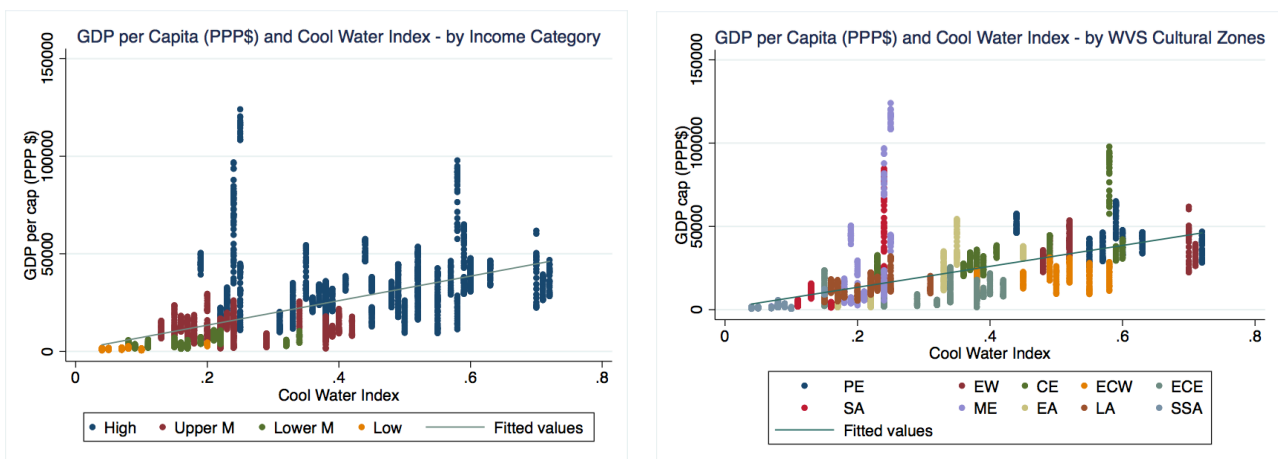
Figure 8.11 confirms the negative association between poverty and countries' CWI scores; in low-income countries in sub-Sahara Africa in particular, poverty and low CWI scores seem to converge, although poverty exceeds the level that the trend line would suggest, given their CWI status, by quite a wide margin.

Figure 8.11 The Association between Poverty and the Cool Water Index in WVS Countries, Grouped according to Income Categories and WVS Cultural Zones



The association between GDP per capita and CWI scores shown in Figure 8.12 is positive, as expected, although the results are more mixed than in Figure 8.11. High-income countries are scattered across a wide range of CWI scores, in many cases ranking lower on the CWI than middle-income countries, although high-income oil-producers in the Middle East weaken the positive association.

Figure 8.12 The Association between GDP Per Capita and the Cool Water Index in WVS Countries, Grouped according to Income Categories and WVS Cultural Zones



8.6 Empirical Model: What Then Matters Most for Prosperity?

It was always going to be difficult and perhaps impossible to model the prosperous, free world's development path from poverty to prosperity and liberty. That much was known from the outset of the study. The data requirements would span nearly two centuries. In addition, the variables must track pervasive societal transformation spanning economic, political and also social – or human – development and modernisation.

For the most part, culture defies mathematisation. Hence, economists either omit it from their models, or consider it an add-on rather than a central feature of the model. Yet, if scientific status entails mathematical proof of theories constructed around cultural drivers, then culture poses an impediment (Morson and Schapiro 2017). The WVS data on national cultural orientations make economic models that include a cultural variable possible, although with circumspection since the data comprise survey responses reflecting subjective perceptions.

Endogeneity also complicates attempts to model a long-term development sequence, from poor and disempowered, to prosperous and free. The notion that development paths are *cycles*, that one period's outcomes become the determining variables for the next-period outcomes – and that setbacks and reversals occur – makes conclusive findings regarding *causation* near impossible. Rittel and Webber's (1973) wicked-problem approach to open and complex social systems comes to mind; reiterative resolutions of a perpetually changing problem with multi-factor causes are attempted rather than an objective optimal solution.

8.6.1 *Model Specification*

Completeness requires that an investigation of the deep causes of poverty – or prosperity – consider the three commonly cited in the literature: institutions in the broad sense (that is, inclusive of formal and informal institutions, as well as rule-enforcement) and also the potential roles of trade openness and countries' geographical traits. Given the focus on democratisation as a surrogate for development-enabling institutions in the context of poverty reversal, the potential role of democracy is investigated separately from the regime-independent formal institutions that may establish state capacity in non-democracies and democracies alike.

Much has been said about institutional variables in the preceding sections. Inclusion of a state-capacity variable represents the hypothesis that halting predatory governance is of first-order importance for poverty reversal (Hall and Jones 1999; Fukuyama 2014; Boettke and Candela 2019). Following the literature, a capable, rule-bound state producing quality governance that enables rather

than inhibits development is essential to interrupt vicious cycles of poverty perpetuation; also, capable constrained states are not exclusively democratic states. State capacity may be strong in non-democracies like Singapore and Hong Kong; it may also be weak in young democracies as for instance in Latin America and sub-Saharan Africa (Keefer and Vlaicu 2004; Keefer 2005, 2007; Burchard 2014). An institutional regime reflecting state capacity and governance is therefore a *regime-independent* measure (intentionally steering clear of rules that are associated with democracy), representing rule *enforcement* and the *actual* institutional environment in addition to parchment rules. An index constructed from four of the EFW pillars of governance is used to represent state capacity as witnessed through quality of institutions and governance. Two alternative democracy variables (*Polity2* and *libdem*) are included independently of the governance measures, to investigate the role of democracy separately.

Human empowerment, which becomes activated only when poverty is reversed, existential insecurities subside and human agency emerges (Welzel 2014), is hypothesised to drive the progression towards prosperity. The human-empowerment variable represents informal institutions and consists of mind-broadening education (human capital index) interacted with emancipative value orientations due to the nexus between an emancipative national culture and the development-enabling progressive ideals of inclusiveness, equality, freedom and tolerance (Inglehart *et al.* 2014).

Trade openness is also a potential deep cause of poverty or prosperity cited in the literature (Rodrik 2002, 2004). The simplest measure of trade openness would be the ratio of exports to GDP, or alternatively the sum of exports and imports to GDP. Both are clearly outcomes of national policies and societal mind sets regarding global participation versus isolation, as well as international competitiveness, monetary prudence and the relative strength of the exchange rate, that they will be hard to defend as deep causes of countries' poverty or prosperity. Frankel and Romer (1999) developed a gravity-model instrument for trade intensity that relied on geographical traits like country size, whether trading partners share a border or are landlocked, as well as the distance between them. Hildegunn (2018) reports findings that the Frankel-Romer instrument is more closely linked to income than to trade and may reflect a direct causal effect of geography on income.

In this study, trade openness is viewed as an institutional outcome that is captured by the Freedom to Trade with Foreigners measure of the EFW, although export performance, measured as the export-to-GDP ratio, is included as a *control* rather than a deep-cause variable. For completeness in a deep-causes context, the role of geographical traits is also included, represented by the Cool Water Index (CWI).

The deep-causes model of economic outcomes is attempted within the constraints posed by the limitations explained above. Most notably, quite a stringently simplifying assumption regarding the directionality of causation is made, postulating a dynamic model of real GDP per capita as potentially a function of state capacity and quality of governance as representative of regime-independent formal rules and their enforcement outcomes, education that cultivates secular-rational mental models and emancipative orientations, democracy and countries' geography.

A dynamic model specification for the deep causes of prosperity (or its inverse, poverty) is depicted in equation (3).

$$\begin{aligned}
 lgdppc_{it} = & \beta_0 + \beta_1 lgdppc_{i,t-1} + \beta_2 lpr_ftt_reg_sm_{it} + \beta_3 (hci_evi)_{it} + \beta_4 i_gdp_{it} + \\
 & + \beta_5 x_gdp_{it} + \beta_6 g_gdp_{it} + \beta_7 polity2_{it} + \beta_8 coolwi_{it} + \mu_i + v_{it}
 \end{aligned} \tag{3}$$

The natural logarithm of GDP per capita in constant 2011 PPP dollar is the dependent variable (*lgdppc*) in the model. The lagged value of the same variable represents persistence in the development process. Starting from first principles, measures of governance to represent formal institutions and the rule enforcement that should establish state capacity and incentivise economic development are included in the equation. They are regime-independent and represented by an index (*lpr_ftt_reg_sm*) constructed from four of the five EFW pillars: Legal System and Property Rights because of the bulwark it offers against state predation; Freedom to Trade with Foreigners because it reflects a business- and investor-friendly regulatory regime; Regulatory Quality and Sound Money, which reflects monetary prudence and financial deepening. This variable is an institutional-outcome measure representing state capacity and ranges between 0 and 10, where 10 would represent a perfect score on institutional quality.

Next, the human capital index interacted with emancipative values ($hci_evi = hci \times evi$) is added as a measure of informal institutions reflecting human empowerment. The variable *hci_evi* reflects not only the importance of education but also the *right kind of education*, one that broadens belief systems towards emancipative ideals rather than reinforcing embedded traditions that may have outlived their reality-coping value. This variable also constitutes the human empowerment and emancipation element of economic development. After interacting the *hci* and *evi* indices, the resulting index is standardised and scaled to be contained between 0 and 10, in line with the state capacity index above.

A set of control variables is included and added in a step-wise fashion in the estimation process, namely; first, the investment to GDP ratio (*i_gdp*), followed by the ratio of exports to GDP (*x_gdp*),

which is included as a measure of countries' global competitiveness, particularly in the exports of manufactured goods, and finally the ratio of government expenditure to GDP (*g_gdp*). The latter control variable reflecting government size is included as it is explicitly excluded from the set of institutional variables because size *per se* is innocuous as measure of institutional quality. The ratio of money supply to GDP is not included as a control variable, as monetary prudence and stability has a bearing on the quality of governance and hence forms part of the institutional variable formulated as *lpr_ftt_reg_sm*.

Polity2 is included as the formal institutional variable representative of democracy (*polity2*). The Polity2 index is constructed to score countries on a net democracy outcome (that is, democracy traits minus autocracy traits) on a scale of -10 to 10; hence poor-scoring countries record negative democracy scores. The series was converted to a positive scale¹²⁴ between 0 and 10 to facilitate interaction with GDP per capita in model in equation (4) to represent a measure for prosperity and liberty.

An alternative measure for liberal democracy, the *libdem* scores explained in Table 8.5 are also used in the estimations to observe whether findings on the importance of democracy are robust and not specific to any particular formulation. Countries' time-invariant Cool Water Index scores (*coolwi*) are added to the theoretical model specification to observe whether geographical advantages drive economic outcomes directly. The latter two indices range between 0 and 1. Coefficient values β_2 to β_8 should be interpreted as semi-elasticities. μ_i is the unobservable country-specific effect and v_{it} is the stochastic disturbance term.

Equation (4) offers an alternative specification for the deep causes of prosperity *and* liberty, positing both prosperity and liberal democracy as the outcome of the institutional measures of state capacity, education-assisted human empowerment, geographical traits and the control variables specified for equation (3) above:

$$\begin{aligned}
 (lgdppc_polity2)_{it} = & \beta_0 + \beta_1(lgdppc_polity2)_{i,t-1} + \beta_2lpr_ftt_reg_sm_{it} + \beta_3(hci_evi)_{it} \\
 & + \beta_4i_gdp_{it} + \beta_5x_gdp_{it} + \beta_6g_gdp_{it} + \beta_7coolwi_{it} + \mu_i + v_{it}
 \end{aligned} \tag{4}$$

In this instance, the dependent variable is specified as the natural log of GDP per capita in constant 2011 PPP dollar, interacted with the *polity2* measure constructed as discussed above. (See again footnote 123 above, explaining that *polity2* is the democracy variable of choice because it is widely

¹²⁴ Using the formula $(polity2+10)/2$.

known among scholars and for the qualitative assessment used in the construction of the index.) All independent variables apart from the dynamic term are identical to those of the model in equation (3).

8.6.2 Descriptive Statistics

A summary of descriptive statistics for the variables used in the estimation process, for the 105 countries included in the study over the sample period 1981 to 2015, is presented in Table 8.6.

The mean value for the GDP per capita, expressed in 2011 PPP dollar is 19 989, with a minimum of 503 and a maximum of 124 025. It is evident that more countries are clustered on the lower end of the income spectrum. When considering the World Bank income categories, average income per capita ranges between 1 679 for low income countries, 4 491 for low-middle income countries, 11 422 for high-middle income countries and 35 876 for high-income countries. Where 10 would represent a perfect score for institutional quality, the index *lpr_ftt_reg_sm* takes on an average value of 6.67. A value of 5.51 for low-income countries is contrasted by a value of 7.61 for high-income countries. Likewise, if 10 would represent a perfect score for human capital conditional on emancipative values, or human empowerment, the average value for all countries over the period under consideration is 4.02. With the overall *hci* distribution skewed to the left, low-income countries record a low value of only 0.63 for *hci_evi*. For low and high-middle income countries the score improves to 1.34 and 2.91 respectively, while a value of 5.23 is recorded for high-income countries.¹²⁵

The average investment ratios vary between 21 and 25 per cent of GDP with an overall average of 24 per cent. Export ratios vary between 16 per cent of GDP for low-income countries and 51 per cent for high-income countries with an average of 39 per cent. Government expenditure for low-income countries is on average 22 per cent of GDP while rich countries can afford a ratio of 40 per cent of their GDP on average. For all countries this figure is 33 per cent.

Turning to democracy, the *polity2* average score (expressed on a scale from 0 to 10), is 6.84, while these scores according to income classification are 3.82 for low-income countries, 5.24 for low-middle and 6.27 for upper-middle income countries respectively, with a score of 8.4 for high-income countries. Analysing *libdem* scores is indicative of qualitatively similar rankings for different income category countries. Finally, for the Cool Water Index, *coolwi*, an average value of 0.31 is recorded, with a low of 0.087 for low-income countries and a high of 0.45 for high-income countries.

¹²⁵ The high-income average EVI score is lowered by the fairly low EVI scores of high-income oil-producing countries (Bahrain, Kuwait, Qatar and Saudi Arabia) in the Middle East.

Table 8.6 Summary of Descriptive Statistics, All Countries, 1981 to 2015

Variable	Obs	Mean	Std. Dev.	Min	Max
<i>gdppc</i>	2 687	19 989.18	18 824.49	502.91	124 024.60
<i>lpr_fit_reg_sm</i>	2 866	6.67	1.46	2.15	9.14
<i>hci_evi</i>	980	4.02	2.15	0	10
<i>i_gdp</i>	3 252	24.09	7.42	-10.74	84.20
<i>x_gdp</i>	3 332	38.96	30.65	0.005	231.19
<i>g_gdp</i>	2 634	33.49	13.62	3.55	204.17
<i>polity2</i>	3 336	6.84	3.47	0	10
<i>libdem</i>	3 504	0.45	0.28	0.015	0.90
<i>coolwi</i>	3 636	0.31	0.17	0.04	0.72

8.6.3 Correlation Analysis

The pairwise correlation analysis for the main variables of interest is displayed in Table 8.7. The correlation coefficient of $\rho = 0.99$ for the lagged dependent variable (*L.lgdppc*) confirms the persistence of GDP per capita. As expected, the correlation results confirm that the institutional variable (*lpr_fit_reg_sm*) constructed from the four equally weighted EFW pillars of governance is highly correlated with GDP per capita ($\rho = 0.70$). This index is taken to reflect the formal rules and rule enforcement that shape state capacity, which gauges whether a country has a capable but constrained state able to produce high-quality governance outcomes.

For the human-empowerment variable, constructed by interacting the human-capital and emancipative-values indices, the positive correlation with GDP per capita is even stronger ($\rho = 0.77$). The two democracy variables, *polity2* and *libdem*, are both positively correlated with GDP per capita (at $\rho = 0.36$ and $\rho = 0.57$ respectively), but more weakly than either the institutional or the human-empowerment variable, while geographic traits represented by the Cool Water Index (CWI) are again strongly positively correlated with GDP per capita ($\rho = 0.71$).

Both democracy variables, *polity2* and *libdem*, are more strongly correlated with the institutional ($\rho = 0.48$ and $\rho = 0.61$) and human-empowerment variables ($\rho = 0.59$ and $\rho = 0.73$) than with GDP per capita, whereas geography seems to have the strongest positive correlation with human empowerment ($\rho = 0.74$) and the weakest with the *polity2* democracy variable ($\rho = 0.55$). A further interesting observation from Figures 8.11 and 8.12 in Section 8.5.4 is that the CWI is more strongly (negatively) associated with poverty than (positively) with GDP per capita, suggesting that poverty prevails where

human agency allows geographic determinism; that is, where innovation and technology fail to overcome geographic disadvantage.

The correlation results confirm the prominence of *state capacity* and *human empowerment* for GDP per capita, also of *geographic traits*; much less so *democracy*. Establishing the correlates of prosperity is however still a long way from disentangling the complex, interrelated web into an elegant, evidence-based sequence of cause and consequence.

Table 8.7 Pairwise Correlation Results for Variables of Interest

	<i>lgdppc</i>	<i>L.lgdppc</i>	<i>lpr_ftt_reg_sm</i>	<i>hvi_evi</i>	<i>polity2</i>	<i>libdem</i>	<i>coolwi</i>
<i>lgdppc</i>	1.0000						
<i>L.lgdppc</i>	0.9983 0.0000	1.0000					
<i>lpr_ftt_reg_sm</i>	0.7048 0.0000	0.6978 0.0000	1.0000				
<i>hvi_evi</i>	0.7721 0.0000	0.7722 0.0000	0.6787 0.0000	1.0000			
<i>polity2</i>	0.3631 0.0000	0.3568 0.0000	0.4766 0.0000	0.5915 0.0000	1.0000		
<i>libdem</i>	0.5690 0.0000	0.5659 0.0000	0.6094 0.0000	0.7266 0.0000	0.8555 0.0000	1.0000	
<i>coolwi</i>	0.7071 0.0000	0.7075 0.0000	0.6398 0.0000	0.7350 0.0000	0.5470 0.0000	0.7121 0.0000	1.0000

8.6.4 Estimation Results

As vantage point, the dynamic models specified in equations (3) and (4) are estimated using a Fixed Effects (Within) estimator to control for country heterogeneity.

The results for the Fixed Effects estimation of equation (3) are reported in Table 8.8. The coefficient on the dynamic term are evidence of persistence in the development process and is highly statistically significant. Independent variables are added sequentially to model the development sequence and to verify the robustness of the model for inclusion of additional variables. Standard control variables are included to ensure that the model is not misspecified, leading to omitted variable bias. In addition, two measures for democracy are included separately to test whether democracy may potentially be considered a significant causal determinant of prosperity. Given that the Cool Water Index is a time invariant variable it is not possible to test for the impact of geographical traits on economic outcome

using the Within estimator, as demeaning of the series will remove not only the country effects,¹²⁶ but also time invariant independent variables. The index is however included in subsequent estimations making use of appropriate estimators.¹²⁷

The impact of both state capacity (*lpr_ftt_reg_sm*) and human empowerment (*hci_evi*) on prosperity is positive and statistically significant across all models. This provides support for the notion that state capacity and institutional quality do matter for economic performance, as is the case for human empowerment. Exports (*x_gdp*) and investment (*i_gdp*) are both positive and significant as expected, based on economic theory. Conforming to expectation, government expenditure to GDP does not contribute positively to economic performance, since large governments tend to crowd out private investment spending (Mitchell 2005).¹²⁸ The coefficient for *g_gdp* is negative and statistically significant, confirming that crowding out impacts prosperity negatively. The impact of both formulations of democracy (*polity2* and *libdem*) is not statically significant, with coefficient values close to zero, confirming the hypothesis of the study that democracy is not a cause of prosperity.

For all models reported, results for variables of interest appear robust and statistically significant with the additional inclusion of explanatory variables. According to R^2 statistic, independent variables jointly explain on average 97 per cent of the variance in the dependent variable. The null hypothesis that the country fixed effects are all equal to zero is rejected in favour of country heterogeneity at the 1 per cent level across all models. Time effects are omitted from the model due to statistical insignificance.

¹²⁶ Fixed effects are calculated after estimation, making use of first-order conditions. Removing the fixed country effects through demeaning at the estimation stage assist in minimizing the impact of endogeneity in terms of biased coefficients, especially in the case of a sizable number of time observations.

¹²⁷ The Hausman & Taylor (1981) Instrumental Variable estimator or Blundell & Bond's (1998) System GMM estimator may be used. The latter result is reported in Table 8.10, Column (8).

¹²⁸ Mitchell (2005) cites multiple explicit and implicit costs associated with high government spending that may turn the relationship between government size and economic growth negative. He lists the costs of extraction through various taxes, the inefficiencies and displacement of private-sector economic activity, the cost associated with subsidising unproductive behaviour while penalising productive activity, market distortions and inefficiencies and the potential stagnation that may follow when innovation is inhibited.

Table 8.8 Fixed Effects Estimation Results for Full Sample of Countries, 1981 to 2015

 (Dependent variable: *lgdppc*)

	(1) FE	(2) FE	(3) FE	(4) FE	(5) FE	(6) FE	(7) FE
<i>L.lgdppc</i>	0.934*** (214.88)	0.926*** (37.69)	0.909*** (49.21)	0.898*** (39.53)	0.908*** (32.29)	0.909*** (34.61)	0.908*** (33.25)
<i>lpr_fit_reg_sm</i>	0.0204*** (7.45)	0.0250* (3.13)	0.0198** (3.82)	0.0184** (4.48)	0.0159* (2.34)	0.0156* (2.66)	0.0160* (2.70)
<i>hci_evi</i>		0.00625 (1.56)	0.00762** (4.64)	0.00336** (3.39)	0.00124*** (9.53)	0.00113* (2.76)	0.00128* (2.72)
<i>i_gdp</i>			0.00363*** (8.49)	0.00387** (5.77)	0.00393** (5.08)	0.00392** (5.09)	0.00393** (5.05)
<i>x_gdp</i>				0.00143*** (8.57)	0.00156** (5.78)	0.00154*** (5.87)	0.00156** (5.79)
<i>g_gdp</i>					-0.000944* (-2.84)	-0.000942* (-2.64)	-0.000938* (-2.52)
<i>polity2</i>						-0.000399 (-0.37)	
<i>libdem</i>							-0.00219 (-0.09)
<i>constant</i>		0.538* (3.14)	0.646** (4.97)	0.718** (4.09)	0.679* (3.11)	0.673** (3.27)	0.680** (3.27)
N	2145	754	741	735	679	668	679
R-squared (Within)	0.9713	0.9634	0.9721	0.9742	0.9754	0.9755	0.9754
F-stat [p-value] (H ₀ : $\mu_1 = \mu_2 = \dots = \mu_{N-1} = 0$)	6.49 [0.0000]	3.20 [0.0000]	3.34 [0.0000]	3.69 [0.0000]	3.97 [0.0000]	3.89 [0.0000]	3.89 [0.0000]

t-statistics in parentheses: * p<0.10, ** p<0.05, *** p<0.01.

t-statistics based on standard errors that are robust to group (income category) heteroscedasticity.

The dynamic model specification as well as endogeneity concerns related to the endogenous links and reverse causality between institutional quality and economic outcomes raised earlier, necessitates further investigation. The Hausman (1976) test result reported in Table 8.9 indeed leads to the conclusion that over and above the dynamic term responsible for statistical endogeneity in the model,¹²⁹ one or more independent variables included are correlated with the unobserved country effect. This may render Ordinary Least Squares parameter estimates (Fixed Effects results¹³⁰) biased and inconsistent, which requires the use of instrumental variable methods. Finding suitable instruments in the context of development economics is not an easy task¹³¹ and there is much disagreement in the literature about what constitutes a good instrument. Given the difficulty in finding external instruments, we revert to the use of internal instruments such as the use of higher order lags of the endogenous variables.

Table 8.9 Hausman Test Results

Null Hypothesis	Dynamic Model	Static Model
$H_0: E(X_{it} u_{it}) = 0$	$\chi^2(7) = 81.54$	$\chi^2(6) = 54.67$
Decision	Reject H_0 as p-value < 0.0001	Reject H_0 as p-value < 0.0001

In Table 8.10 the empirical estimation of equation (3) is repeated using the System General Methods of Moments (SYS-GMM) estimator of Blundell and Bond (1998). Arellano and Bond (1991) first proposed a GMM procedure based on the principle of using lags, in levels, as instruments for a first-differenced model (DIF-GMM). Differencing the model gets rid of individual effects, but also endogeneity. However, when the lagged dependent variable displays persistence, as is the case here with the coefficient on the dynamic term approaching unity, the result is weak instrument bias – like the Fixed Effects estimator, downwards. Arellano and Bover (1995) first showed that more moment conditions exist for the dynamic panel data model specification, that are ignored by IV estimators suggested by Arellano and Bond (1991). Blundell and Bond (1998) extended the work of Arellano and Bover (1995) by articulating the necessary assumptions for this augmented estimator more precisely, suggesting the use of the usual moment conditions (in levels) for the model in first

¹²⁹ Nickell (1981) shows that in the case of a dynamic model specification containing individual effects, the Within estimator is biased of order $O(1/T)$ with T the number of time periods.

¹³⁰ The Fixed Effects results should therefore only be taken as initial investigation of the relationship, which is not void of statistical problems.

¹³¹ See for example Frankel and Romer (1999); Acemoglu, Johnson and Robinson (2001).

differences *and* additional moment conditions (in first differences) for the model in levels. Two-step robust standard errors corrected for finite sample bias (Windmeijer 2005), without which standard errors tend to be downward biased, are reported. The forward orthogonal deviation transformation is used instead of differencing, to preserve sample size in the face of gaps in the data, as proposed by Arellano and Bover (1995). Another advantage of the system GMM estimator over the difference GMM is the identification of the impact of time-invariant variables, notably in this case, the Cool Water Index, reported in column (8) of Table 8.10.

The System GMM estimation results are reported in Table 8.10 and are consistent with *a priori* expectations. Both formal and informal institutions (represented by *lpr_ftt_reg_sm* and *hci_evi* respectively) have a positive impact on *lgdppc*, the prosperity measure. Parameter estimates are robust across different models and statistically significant at conventional levels in all instances. The positive and significant impact of investment and exports on economic wellbeing is also confirmed.

Government expenditure as ratio to GDP is statistically significant at the 10 per cent level in three of the four models, but the coefficients are in all instances very close to zero. The positive (albeit small and only marginally significant) effect is not in accordance with evidence from the growth and development literature. Both liberal democracy variables (*polity2* and *libdem*) are statistically insignificant, as are the geographic advantages associated with cool-water conditions (*coolwi*). These results are justified from the preceding discussions (Keefer and Vlaicu 2004; Keefer 2005, 2007; Ott 2010, 2011; Fukuyama 2014; Welzel 2014).

Diagnostic test statistics are reported for the final GMM models in columns (5) to (8). The Arellano-Bond AR(2) test, which is a test for first-order serial correlation since the model is estimated in first differences, suggests the presence of first-order serial correlation in the model. We fail to reject the null of the Hansen *J* test for overidentifying restrictions at the 5 per cent level and conclude that the instruments are correctly excluded from the model.

For the Sargan test, we reject the null that the instrument set is valid, however the test is not robust. The difference-in-Hansen test verifies the validity of the additional exclusion restrictions that arise from the level equation of the System GMM model. Roodman (2009a) shows that having numerous instruments can result in over-fitting of the model. This can fail to rid the explanatory variables of their endogenous components, potentially leading to biased instruments. In such instances both Hansen tests may produce very high *p*-values, often implausibly close to 1. To avoid instrument proliferation, the instrument set should be reduced by either restricting the number of lags or by “collapsing” the instrument set into a smaller dimension matrix (Roodman 2009b).

In the estimation results reported in Table 8.10 the instrument sets were collapsed for the lagged dependent and all other endogenous variables. Both the Hansen and difference-in-Hansen tests have p -values greater than 0.05, indicating that the instruments are correctly excluded. In addition, none of the p -values are close to unity, suggesting that instrument proliferation is not an issue. In the current analysis, including more lags of the instruments may resolve the serial correlation problem, but at the expense of instrument proliferation, and Hansen and difference-in-Hansen tests' p -values approaching unity.

All coefficients are to be interpreted as semi-elasticities. Considering the marginal effect of an improvement in state capacity and institutional quality ($lpr_ft_reg_sm$) on prosperity (as measured by real GDP per capita), the coefficient can be interpreted as a one unit increase in institutional quality leading to a 1.3 per cent increase in real income per capita, *ceteris paribus* (for model specification in column (5) in Table 8.10). Likewise, a rise in human empowerment taken as a one-unit increase in the index hci_evi , will translate to a 1.4 per cent increase in real income per capita, *ceteris paribus*.

Even though it may be possible to visualise an increase in institutional quality as a one-step increment on a scale from one to ten, and the same for human empowerment, it remains difficult to have a clear understanding of the impact, in addition to be able to compare the relative size or strength of the impact of the various independent variables on the dependent variable. For this purpose, the standardised beta coefficients are also determined and reported in section 8.7.

Table 8.10 Two-step System GMM Estimation Results for Full Sample of Countries, 1981 to 2015

 (Dependent variable: *lgdppc*)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	SYS- GMM	SYS- GMM	SYS- GMM	SYS- GMM	SYS- GMM	SYS- GMM	SYS- GMM	SYS- GMM
<i>L.lgdppc</i>	0.9362*** (45.89)	0.834*** (18.79)	0.916*** (33.24)	0.919*** (39.25)	0.919*** (36.82)	0.920*** (40.62)	0.919*** (37.46)	0.932*** (37.23)
<i>wlpr_fit_reg</i>	0.0381*** (3.52)	0.0419*** (3.55)	0.00179** (2.32)	0.0135** (2.27)	0.0129** (2.08)	0.0112* (1.86)	0.0102* (1.71)	0.00924 (1.60)
<i>hci_evi</i>		0.0334** (2.52)	0.0163** (2.47)	0.0159*** (2.72)	0.0143** (2.43)	0.0129** (2.44)	0.0122** (2.11)	0.00966* (1.70)
<i>i_gdp</i>			0.00267*** (2.82)	0.00236*** (2.89)	0.00278*** (2.83)	0.00307*** (3.47)	0.00305*** (3.20)	0.00334*** (4.14)
<i>x_gdp</i>				0.000616*** (3.24)	0.000702*** (3.04)	0.000741*** (3.45)	0.000774*** (3.19)	0.000585*** (3.05)
<i>g_gdp</i>					0.000962** (2.12)	0.000858* (1.86)	0.000821* (1.90)	0.000458 (0.98)
<i>polity2</i>						0.00262 (1.04)		
<i>libdem</i>							0.0435 (1.35)	
<i>coolwi</i>								0.0634 (1.31)
<i>constant</i>	0.398*** (2.98)	1.192*** (3.47)	0.574*** (2.68)	0.565*** (3.03)	0.528*** (2.67)	0.509*** (2.97)	0.532*** (2.84)	0.440*** (2.31)
N	2145	754	741	735	679	668	679	660
AB(2)					Pr>z=0.018	Pr>z=0.017	Pr>z=0.017	Pr>z=0.012
Hansen					Pr> χ^2 =0.572	Pr> χ^2 =0.663	Pr> χ^2 =0.588	Pr> χ^2 =0.743
Diff-in- Hansen					Pr> χ^2 =0.482	Pr> χ^2 =0.672	Pr> χ^2 =0.724	Pr> χ^2 =0.564

 t-statistics in parentheses: * p<0.10, ** p<0.05, *** p<0.01.
 t-statistics based on robust standard errors.

The System GMM estimation results for the model specified in equation (3) confirm the importance of state capacity, or formal institutions and rule enforcement (*lpr_ftt_reg_sm*) for prosperity measured as real GDP per capita. The evidence is similarly supportive of informal institutions, or human empowerment, represented by education-enhanced emancipative values (*hci_evi*).

Geographic traits do not emerge from these results as a direct driver of prosperity. More importantly, the causal role of democracy is not supported by the evidence, in line with our expectations that democracy is rather an *outcome* of strong institutions and human empowerment through an education-enhanced emancipative value system, than a *cause* of prosperity.¹³²

A model with prosperity (*gdppc*) and liberty (*polity2*) interacted as dependent variable (equation (4)) may therefore be more consistent with the theory that human empowerment drives a simultaneous liberty-prosperity outcome and is subsequently subjected to the same analysis as equation (3).¹³³

The results are reported in Tables 8.11 and 8.12, with Table 8.11 reporting the Fixed Effects estimation results and Table 8.12 the System GMM results.

In Table 8.11, all institutional variables (formal and informal) are positive and statistically significant, as is investment and export ratios. Government expenditure as ratio to GDP is statistically insignificant, and in addition, inclusion of the latter variable results in exports and human empowerment to no longer have a significant impact on the dependent variable, prosperity and democracy, as reported in model (5) in Table 8.11.

¹³² It would appear that the System GMM results are driven by the high and upper-middle income group of countries more than by the lower-middle and low-income group of countries. See Table C.6 in Appendix C for a breakdown of the core model in column 6 of Table 8.10 into these two groupings of countries.

¹³³ The estimations were also performed for an interacted liberty-prosperity variable using *libdem* instead of *polity2*, which estimation produced qualitatively similar but weaker results.

Table 8.11 Fixed Effects Estimation Results for Full Sample of Countries, 1981 to 2015

(Dependent variable: *lgdppc_polity2*)¹³⁴

	(1)	(2)	(3)	(4)	(5)
	FE	FE	FE	FE	FE
<i>L.lgdppc_polity2</i>	0.811*** (37.14)	0.827*** (26.43)	0.819*** (47.31)	0.814*** (67.34)	0.787*** (44.71)
<i>wlpr_fit_reg_sm</i>	0.0473*** (6.21)	0.0579 (2.17)	0.0477* (2.56)	0.0462* (2.41)	0.0609* (2.34)
<i>hci_evi</i>		0.0211 (2.05)	0.0196** (5.08)	0.0135* (2.74)	0.0205 (1.88)
<i>i_gdp</i>			0.00590** (5.19)	0.0060*** (6.68)	0.00662*** (8.55)
<i>x_gdp</i>				0.00161* (3.00)	0.00168 (2.94)
<i>g_gdp</i>					0.000826 (0.78)
<i>constant</i>	1.865*** (8.29)	1.548*** (10.61)	1.585*** (36.13)	1.616*** (39.28)	1.749*** (12.36)
N	2027	732	720	714	667
R-squared (Within)	0.8260	0.8750	0.8874	0.8885	0.8824
F-stat [p-value] (H ₀ : $\mu_1 = \mu_2 = \dots = \mu_{N-1} = 0$)	3.08 [0.0000]	2.81 [0.0000]	2.57 [0.0000]	2.56 [0.0000]	2.66 [0.0000]

t-statistics in parentheses: * p<0.10, ** p<0.05, *** p<0.01.

t-statistics based on standard errors that are robust to group (income category) heteroscedasticity.

¹³⁴ Note that the Polity2 index is spanning a range from -10 to 10. As in the analysis for equation (3) above, the series was converted to a positive scale to allow for interacting it with real GDP per capita and subsequent conversion to natural logarithmic form.

In Table 8.12, the System GMM estimation results are reported. These results confirm that the regime-independent mix of formal institutions and rule enforcement wrapped up in the *lpr_ftt_reg_sm* variable, as well as education-enhanced emancipative values (*hci_evi*) – or informal institutions – contribute positively and with statistical significance to liberty and prosperity (*lgdppc_polity2*), with the exception of the models in columns (5) and (6) where *lpr_ftt_reg_sm* is no longer statistically significant at conventional levels when including *g_gdp* and *coolwi*. The results confirm the expected positive and significant impact of investment (*i_gdp*) and exports (*x_gdp*), but these two control variables are not consistently statistically significant across all model specifications. Geographical traits (*coolwi*) also prove to be statistically insignificant in this set of results. The AB(2) diagnostic test result reported at the bottom of Table 12 suggests that the model is free from first-order serial correlation, while the Sargan, Hansen and difference-in-Hansen test results are all indicative that all the instrument exclusion restrictions are valid.

Overall, in both estimated models (specifications in equations (3) and (4)), the institutional variables of interest (*lpr_ftt_reg_sm* and *hci_evi*) are positive and highly significant, confirming Douglass North's (1990a, 1991 and 2003) proposal that all three classes of institutions (formal institutions, informal institutions and rule enforcement) matter for economic outcomes. It also supports Fukuyama's (2014) and Boettke and Candela's (2019) notion that *state capacity* (that is, a capable but rule-constrained state) *independent* of regime type is the specific institutional variable(s) of importance for economic development and prosperity. The modernisation theory of Lipset (1959) and the *humanised* version of Welzel and Inglehart¹³⁵ are also supported by the finding that society's emancipative values interacted with mind-broadening education drive society's progression towards an outcome of both freedom in an effective, liberal democracy and prosperity.

Government size (*g_gdp*) has no significant impact on prosperity or the liberty-prosperity outcome; this is in accordance with the literature that quality of government matters more than size, again due to the effect of crowding out. In both models, the impact of geography (*coolwi*) is statistically insignificant, supporting Welzel's (2014) prediction that the cool-water disadvantage as an exogenous, deep source of poverty will be eroded as globalisation disseminates technological advance and progress. This diffusion of progress allows human agency and empowerment to emerge where geographic disadvantage may have stifled development previously. Progress diffused through globalisation therefore dissociates human empowerment from advantageous cool-water conditions.

¹³⁵ See for instance Inglehart and Welzel (2005, 2009 and 2010); Inglehart *et al.* (2014); Welzel and Inglehart (2006, 2008a and 2009); Welzel (2014) and Welzel and Delhey (2015).

Table 8.12 Two-step System GMM Estimation Results for Full Sample of Countries, 1981 to 2015

 (Dependent variable: *lgdppc_polity2*)

	(1) SYS- GMM	(2) SYS- GMM	(3) SYS- GMM	(4) SYS- GMM	(5) SYS- GMM	(6) SYS- GMM
<i>L.lgdppc_polity2</i>	0.940*** (22.86)	0.853*** (12.98)	0.855*** (15.36)	0.870*** (18.44)	0.863*** (14.06)	0.869*** (13.61)
<i>wlpr_ftt_reg_sm</i>	0.0329 (1.08)	0.464*** (3.24)	0.295* (1.96)	0.0239* (1.77)	0.0273 (1.46)	0.0254 (1.34)
<i>hci_evi</i>		0.433 (1.64)	0.0437** (2.58)	0.0379*** (2.74)	0.0330** (2.13)	0.0328* (1.84)
<i>i_gdp</i>			0.00339* (1.60)	0.00269 (1.48)	0.00348** (1.51)	0.00398 (1.46)
<i>x_gdp</i>				0.000533** (2.15)	0.000771 (2.06)	0.000760* (1.93)
<i>g_gdp</i>					0.00275 (1.49)	0.00284 (1.07)
<i>coolwi</i>						-0.0221 (-0.13)
<i>constant</i>	0.484* (1.83)	1.232** (2.06)	1.257** (2.43)	1.138** (2.55)	1.089** (2.07)	1.022* (1.93)
N	2027	732	720	714	667	650
AB(2)					Pr>z=0.310	Pr>z=0.336
Hansen					Pr> χ^2 =0.649	Pr> χ^2 =0.786
Diff-in-Hansen					Pr> χ^2 =0.454	Pr> χ^2 =0.828

t-statistics in parentheses: * p<0.10, ** p<0.05, *** p<0.01.
 t-statistics based on robust standard errors.

8.7 Interpreting the Marginal Effects

Since the focus of our study is on poverty reversal in poor countries with the longer-term aim of eventually joining the ranks of the prosperous countries, our primary interest is in equation (3) where prosperity measured as GDP per capita (constant 2011 PPP dollars) is the dependent variable.

Standardising variables that are diversely scaled and denominated, as in this instance, is useful for comparative and interpretative analysis as the standardised beta coefficients all measure units of change in standard deviations. Standardisation of variables implies subtracting the mean and dividing by the standard deviation, resulting in all variables having a mean of zero and standard deviation of one (also refer to as z-scores). When using estimation results employing standardised variables, the strength of the impact of different covariates included in the model can then be compared to each other. For this purpose, the estimation of model (5) in Table 8.10 is repeated using standardised variables and reported in Table 8.13, column (2), while model (5) of Table 8.10 is reported in the first column.

Table 8.13 Two-step System GMM Estimation Results for Full Sample of Countries, 1981 to 2015

(Dependent variable: *lgdppc*)

(Dependent variable: *zee_lgdppc*)

	(1) SYS- GMM		(2) SYS- GMM
<i>L.lgdppc</i>	0.919*** (36.82)	<i>L.zee_lgdppc</i>	0.919*** (36.82)
<i>wlpr_ft_reg_sm</i>	0.0129** (2.08)	<i>zee_wlpr_ft_reg_sm</i>	0.01723** (2.08)
<i>hci_evi</i>	0.0143** (2.43)	<i>zee_hci_evi</i>	0.0281** (2.43)
<i>i_gdp</i>	0.00278*** (2.83)	<i>zee_i_gdp</i>	0.0189*** (2.83)
<i>x_gdp</i>	0.000702*** (3.04)	<i>zee_x_gdp</i>	0.0196*** (3.04)
<i>g_gdp</i>	0.000962** (2.12)	<i>zee_g_gdp</i>	0.01198** (2.12)
<i>constant</i>	0.528*** (2.67)	<i>constant</i>	0.0339*** (6.68)
N	679	N	679
AB(2)	Pr>z=0.018	AB(2)	Pr>z=0.018
Hansen	Pr> χ^2 =0.572	Hansen	Pr> χ^2 =0.572
Diff-in-Hansen	Pr> χ^2 =0.482	Diff-in-Hansen	Pr> χ^2 =0.482

The two main variables of interest for this study are state capacity (*lpr_ftt_reg_sm*) reflecting formal rules and rule (constraint) enforcement as they materialise in governance outcomes, and human empowerment (*hci_evi*) representing informal institutions as they manifest in mass cultural orientations.

Sub-Saharan Africa (SSA) is the global region but also the WVS cultural zone most associated with persistent and rising poverty (as reflected by the lowest global mean real GDP per capita (*gdppc*) of \$2 874 compared to an overall mean value of \$19 989 for all regions; see Table 8.6). It is however also the zone ranking lowest globally on state capacity, human empowerment and export performance. It is worth noting that the region is not the worst performer on investment based on mean investment to GDP ratio (*i_gdp*), outperforming both Latin America and the English-speaking West. Questions arise about the relative importance of these deficits and their relative contributions to poverty. Alternatively, it may be useful to understand how relative progress in one or more of these may impact countries' escape from poverty and eventual progress towards prosperity.

Standardisation of the variables allows some answers to these questions. For instance, assume state capacity (*lpr_ftt_reg_sm*) in SSA improves. Being a standardised series, the change is measured in standard deviations from the mean, which has to be translated into a specific marginal effect on *gdppc*. A one-unit improvement in state capacity (or institutional quality) therefore leads to a 1.3 per cent increase in real per capita income (*gdppc*).¹³⁶

Assuming for instance that SSA would attempt to emulate the institutional path of East Asia (the cultural zone within which newly industrialised economies of Japan, Hong Kong, Taiwan and South Korea are categorised), it would require an institutional improvement of 2.02 units, from the SSA mean of 5.28, to the mean of 7.30 for East Asia. This improvement of 2.02 units translates into a 2.63 per cent increase in *gdppc*, raising the SSA *gdppc* by \$76, from \$2 874 to \$2 950.

Through similar reasoning one can calculate that a single unit rise in human empowerment translates into a 1.44 per cent increase in real per capita income (*gdppc*). If one again would attempt to emulate the modernisation path of East Asia, this time through human empowerment (*hci_evi*), it would

¹³⁶ Given that the standard deviation for *lpr_ftt_reg_sm* and *lgdppc* is 1.461935 and 1.093803 respectively, the steps followed to translate a *standard deviation* change into a *unit* change in *wlpr_ftt_reg_sm* with a quantifiable impact on *gdppc* in percentage terms (and similar for other standardised variables) are as follows:

1 standard deviation increase in *lpr_ftt_reg_sm* → 0.01723 standard deviation increase in *lgdppc*

1.461935 units increase in *lpr_ftt_reg_sm* → 0.01723 * 1.093803 units increase in *lgdppc*

1 unit increase in *lpr_ftt_reg_sm* → 0.01723 * 1.093803/1.461935 units increase in *lgdppc*

1 unit increase in *lpr_ftt_reg_sm* → 0.0129 units increase in *lgdppc*

1 unit increase in *lpr_ftt_reg_sm* → 100(exp(0.0129)-1)% increase in *gdppc*

1 unit increase in *lpr_ftt_reg_sm* → 1.3% increase in *gdppc*

require that the SSA mean be raised by 3.16 units, from 0.89 to 4.05. Raising SSA human empowerment on par with the East Asian mean score corresponds with an increase of 4.55 per cent or \$131 in real per capita income (*gdppc*), from the SSA mean of \$2 874 to \$3 005.

To put the relative impact of raised state capacity or human empowerment into perspective, consider also the effect of raising mean SSA investment (*i_gdp*) to the level of investment in East Asia. Again, translating standard deviations into units shows that a unit rise in investment raises GDP by 0.28%. Hence, raising the mean SSA investment to *gdp* ratio of 23.02 by 6.45 units to the East Asian mean of 29.45 gains \$52 in real per capita income (*gdppc*), an increase of 1.81 per cent from \$2 874 to \$2 926. Similarly, if SSA should rely on export performance (*x_gdp*) to approach the East Asian levels of prosperity, it would require that SSA more than doubles its export units, from a mean of 21.67 to 52.97. This sizeable improvement in exports would translate into a 2.19 per cent increase in *gdppc*, adding \$63 to SSA's mean of \$2 874.

Based on the empirical technique employed in the analysis, it should be borne in mind that these changes are observed in a *ceteris paribus* and static first-round manner; one may assume that the impact may be more substantial should we allow for the multiplying and compounding effects of these (endogenous) changes over time.

Table 8.14 summarises some of these marginal effects to understand where the poor-country deficits are likely to be and where marginal changes may produce sizeable improvements in prosperity. For comparison, the East Asian and South Asian zones are used, as both categories have newly and successfully modernised economies (Taiwan, South Korea, Taiwan and Hong Kong in East Asia as explained above, and Singapore in South Asia); any number of permutations and comparisons would however be possible.

It is clear from Table 8.14 that the scenario's above do not produce the levels of income (*gdppc*) for SSA that South Asia and especially East Asia are capable of achieving. However, comparing scenario's 1, 2 and 3 above shows that improvements in state capacity and human empowerment to come on par with South or East Asia raises real per capita GDP by more than catching up with investment ratios would accomplish. Exports remain a powerful driver of prosperity; exports remain reliant on international competitiveness though, and therefore on conducive institutional architecture.

Table 8.14 Marginal Effects of Improvements in State Capacity, Human Empowerment, Investment and Exports on Prosperity in Sub-Saharan Africa

	Relevant changes in variables	Sub-Saharan Africa (SSA)	South Asia (SA)	East Asia (EA)
Base scenario:	Prosperity (<i>gdppc</i> in PPP\$)	\$2 874	\$13 604	\$21 412
	State capacity	5.28	6.31	7.30
	Human empowerment	0.89	1.86	4.05
	Investment	23.02	26.94	29.45
	Exports	21.67	52.52	52.97
Scenario 1:	SSA state capacity (5.28) raised to level of state capacity in South Asia (6.31) or East Asia (7.30)			
	<i>Gdppc</i> increase in SSA:	\$2 874 Base scenario	\$2 912 (up \$39 or 1.34%)	\$2 950 (up \$76 or 2.63%)
Scenario 2:	SSA human empowerment (0.89) raised to level of human empowerment in South Asia (1.86) or East Asia (4.05)			
	<i>Gdppc</i> increase in SSA:	\$2 874 Base scenario	\$2 914 (up \$40 or 1.4%)	\$3 005 (up \$131 or 4.55%)
Scenario 3:	SSA investment ratio (23.02) raised to level of South Asia (26.94) or East Asia (29.45)			
	<i>Gdppc</i> increase in SSA:	\$2 874 Base scenario	\$2 906 (up \$32 or 1.10%)	\$2 926 (up \$52 or 1.81%)
Scenario 4:	SSA export ratio (21.67) raised to level of South Asia (52.52) or East Asia (52.97)			
	<i>Gdppc</i> increase in SSA:	\$2 874 Base scenario	\$2 936 (up \$62 or 2.16%)	\$2 937 (up \$63 or 2.19%)
Scenario 5:	Both state capacity and human empowerment in SSA raised to levels of South Asia or East Asia			
	<i>Gdppc</i> increase in SSA:	\$2 874 Base scenario	\$2 963 (up \$89 or 3.1%)	\$3 081 (up \$207 or 7.2%)
Scenario 6:	All of state capacity, human empowerment, investment and exports in SSA raised to levels of South Asia or East Asia			
	<i>Gdppc</i> increase in SSA:	\$2 874 Base scenario	\$3 057 (up \$183 or 6.4%)	\$3 196 (up \$322 or 11.2%)

A tentative conclusion may be that state capacity is more narrowly (negatively) associated with poverty reversal than (positively) with prosperity. That is, state capacity may be an essential but insufficient condition to halt state predation, interrupt poverty cycles and trigger development.¹³⁷

When comparing the relative size of the standardised coefficients in column (2) of Table 8.13, human

¹³⁷ This conclusion supports the political-science literature (see for instance Fukuyama 2014), the institutional literature (of for instance Acemoglu and Robinson 2013 and 2019) and the state-predation literature (see Boettke and Candela 2019, Vahabi 2019).

empowerment may however be the stronger driver of prosperity of the two.¹³⁸ It is also quite noticeable from the base scenario in Table 8.14, that the major deficits between SSA variables of interest and their East or South Asian counterparts exist in human empowerment and export ratios.

Human empowerment is an interacted variable, consisting of the human capital index and emancipative values; hence advances in human empowerment may reflect progress in either component, or both. The importance of education stressed in the literature (Glaeser, Ponzetto and Shleifer 2007; Helliwell and Putnam 2007; Welzel 2014) is once again confirmed. The emphasis is however on education that broadens and modernises mental models in support of reality-coping and progress-enabling value orientations. In short, through their emphasis on inclusivity and equality, emancipative values support progress and prosperity. Hence educations that cultivate such emancipative mindsets not only contribute *directly* to productive knowledge economies, but also *indirectly* through the cultural transformation and human modernisation that they advance.

8.8 Conclusion

Significant limitations and constraints complicate attempts to mathematise the probe for deep causes of poverty through a model that tracks the development sequence of modern-day liberal and prosperous democracies from its pre-Industrial Revolution origins. Still, mindful of the merit of the evidence-based scientific method, an attempt was made to find some proof of the drivers of poverty reversal.

The first probe entails an investigation of the hypothesised development sequence that relies on an initial phase of institutional intervention to reverse state predation and build development-enabling state capacity. This phase emphasises the importance of capable but constrained states; it is pursued through formal rules that constrain political discretion in the appropriation of property and resources that are enforced by an impartial judiciary. The second phase relies on society's elevated sense of existential security that follows if phase one succeeds in triggering growth and development. As economies transform from agrarian to industrial and eventually post-industrial knowledge economies, a parallel sequence of *human* emancipation and modernisation produces a well-resourced, educated society that prioritises autonomy and agency. In the third phase, mobilisation by an empowered middle class to gain political participation heightens the likelihood that effective, liberal democracy may emerge and be sustained. Effective, liberal democracy is characterised by the

¹³⁸ The importance of education and human modernisation to drive a humanised development sequence towards prosperity finds support in the literature (Welzel 2014; Inglehart and Welzel 2005, 2009).

development-enabling governance paradox of strong, capable states that are effectively constrained. These are the conditions that allow liberty and prosperity.

The empirical results in this chapter suggest that the hypothesised sequence is plausible. Causation cannot be proven and is assumed through reliance on theories of institutionalism, modernisation and human emancipation. The results do however confirm strong correlations in the ways hypothesised by the theoretical sequence. One may therefore conclude that interrupting state predation is a plausible entry point to reverse the downward cycle of poverty-exacerbating poor governance. Poor, disempowered societies remain vulnerable to predation through their weakened capacity to enforce constraints and accountability. This would also explain why democratisation seems to prove ineffectual as an instrument for poverty reversal. Put simply, if liberty and long-run prosperity in a liberal, effective democracy are the desired outcomes, the development sequence (in reverse) theorises that the human empowerment and emancipation sequence is the mechanism through which these objectives become achievable. The human empowerment sequence, in turn, relies on a sense of existential security to emancipate societies from survivalist concerns. A sense of existential security cannot emerge without reversing poverty, and unless state predation can be constrained (institutionally) to trigger economic development – albeit it off a low base – poverty will persist.

An interesting result from the phased and humanised development sequence entails that the seeming impasse between modernisation and institutionalism – the standoff between the development-first and democratise-first protagonists – disappears. While the democratise-first protagonists may be off the mark, the broader institutionalists are not. This would explain the phenomenon of poverty amidst rising political participation, as has materialised in newly democratic sub-Saharan African nations like Zimbabwe and South Africa, and also prosperity in non-democratic Singapore and Hong Kong. In the simplest terms, *state capacity, or a capable but constrained state*, seems to be the strongest institutional enabler of poverty reversal and should perhaps be promoted as that over political participation.

Following poverty reversal, *human empowerment and emancipation* becomes the endogenous driver towards sustained liberty and prosperity in an effective democracy.

Chapter 9

Conclusion

9.1 The Research Problem, Objectives and Hypothesis Again

This study set out to understand the persistence of poverty and the perpetuation of human misery while enormous privilege and freedom exist elsewhere on the globe. Scholars of history and politics claim that much of Africa's post-colonial woes stem from the third wave of colonialism that swept across the continent as part of Europe's imperialist expansion with no intention to settle in the colonies long term (Fieldhouse 1965; Young 1994; Fukuyama 2014). The scramble for Africa was also dubbed colonialism on the cheap, a disruption of indigenous institutional systems without investing in sustainable institutional replacements (Young 1994). Upon their departure, the colonialists left an inexperienced post-independence leadership with institutional voids and a predictably high likelihood of failure (Fieldhouse 1965; Fukuyama 2014).

Democracy's observable inability to reverse post-independence poverty in sub-Saharan Africa especially, but also elsewhere – in Latin America for instance – highlights the central theme of the study: identifying the poor-country deficits that *do* perpetuate poverty. The study therefore set out to understand 1) the deep causes of poverty, 2) a feasible point of entry in the poverty cycle to interrupt and reverse it, and 3) what drives societies' progress to prosperity once a sense of existential security has been established.

The study hypothesises that poverty is not the product of geographic determinism, which is not a denial that geography has a *part* in poverty. Persistent, modern-day poverty is largely the product of human agency, of the man-made institutions¹³⁹ and rules we live by. Geography has influenced those too, but reversals of fortune in many cases have proven that, should society rewrite its rules to prioritise society's broad interests, liberty and prosperity *can* follow. It is, ultimately, human agency that *devises* the rules and the incentives that drive humans to prosper or to stagnate, and also decides whether geography is destiny or not.

Because democracy does not automatically weight human agency in rule-setting towards society's broad interest, prosperous non-democracies may indicate how it is achieved when democracy is *not*

¹³⁹ "Institutions" in its broad sense, denoting formal rules, rule enforcement and informal rules.

relied upon. Equally important to understand is what sets poor democracies apart from rich democracies and how poor democracies could *become* rich democracies.

These questions are the prominent themes explored in scholarly work from the fields of economic history, political science, institutional and development economics, and sociology. This interdisciplinary theoretical framework is used in Chapter 7 to formulate a hypothesised development sequence that attempts to answer these complex questions. An empirical model embedded in these theoretical works then formulates and tests the hypothesised sequence and produces findings that support the hypothesis.

9.2 Empirical Evidence of the Development Sequence: Institutional Prominence Confirmed

The wicked nature of poverty in complex, open societal systems predicts that mathematisation of the poverty-causing sequences will be hard (Rittel and Weber 1973); wicked problems have a high degree of particularity, no single-factor causes and no objective solutions. Similarly, modelling a *humanised* development sequence relying on cultural drivers of human behaviour, which conform to neither neoclassical rationality, nor to predictable cognitive biases, is equally challenging (Morson and Schapiro 2017). Data constraints further disallow a tracking of the progression of modern-day liberal democracies from pre-Industrial Revolution levels of poverty and disempowerment and interweaving it with the kind of societal transformations that the World Values Survey has recorded since 1981 (Inglehart *et al.* 2014).

The terminology used in the literature on the deep causes of poverty hints at reverse causality and endogeneity. Acemoglu and Robinson (2013) for instance describe vicious and virtuous *cycles* of governance that *cause* economic outcomes in period t , which in turn *cause* the power dynamics and governance in period $t + 1$.

Unable to dismiss the ingrained rigour of evidence-based conclusions despite these limitations, the hypothesised development sequence was tested empirically, and the results are reported in Chapter 8. The correlation tests show that state capacity, which is hypothesised as the point of entry to interrupt cycles of poverty, represented by a measure for quality governance,¹⁴⁰ has a strong negative correlation with poverty. That is, state capacity is associated with a heightened sense of existential security. Inglehart and Welzel (2005, 2009 and 2010) and Welzel (2014) find that a rising sense of

¹⁴⁰ State capacity viewed as an institutional outcome of rules and rule enforcement is reflected in the quality of governance accomplished. Governance is represented by an index constructed from four equally weighted, regime-independent pillars of governance from the Economic Freedom of the World Index (see Chapter 8). The four pillars are the legal system and property rights, the freedom to trade with foreigners, the quality of regulation, and soundness of money.

existential security in society drives its shift towards emancipative value orientations. The results in Chapter 8 confirm that declining levels of poverty – rising existential security – are highly correlated with emancipative values. Inglehart and Welzel also find that emancipative values are a strong predictor of liberal democracy; again, this study’s results confirm that emancipative value orientations in societies are highly correlated with the two alternative measures used for liberal democracy.

The results of a dynamic panel data model developed in Chapter 8 to test the deep causes of poverty (or its inverse, economic prosperity) confirm the hypothesis that what matters for prosperity, are a *constrained*, capable state (that is, state capacity) and an *empowered*, educated and emancipatively minded society. Democratisation does not accomplish either; regime-independent formal institutions that constrain states directly and are enforced to produce high-quality governance and incentivise growth and development, do. An interesting result is that the negative association between state capacity and poverty is stronger when poverty is high than when it is low, suggesting that state capacity matters for poverty reversal; in fact, state capacity is twice as strongly (negatively) correlated with poverty in lower-middle and low-income countries, than in upper-middle and high-income countries. Also, in sub-Saharan Africa, which is viewed as the centre of modern-day poverty, as well as in the East Asian and South Asian regions that have recently emerged from poverty, the negative correlation between state capacity and poverty is approximately tenfold the strength of the correlation in low-poverty regions (Protestant Europe, for instance).

It would then support the theory that state capacity (and not political participation) is the institutional deficit that must be bridged to trigger poverty reversal. State capacity may be essential to reverse poverty but is not enough to drive the progression towards prosperity.

As poverty is reversed, society’s sense of existential security rises and threats to survival recede, the *human* empowerment sequence is hypothesised to commence, based on the theoretical framework discussed in Chapters 6 and 7. Results for the individual cultural zones reported in Chapter 8 and Appendix C show that the sub-Saharan African (SSA) zone has the lowest mean GDP per capita (in constant 2011 PPP dollars) by a large margin. With the exception of the high-income oil-producing Middle Eastern cultural zone, SSA lags behind *all* other cultural zones in the *institutional* variables of interest found to be statistically significant for prosperity; that is, in state capacity, and human empowerment. The two *control* variables that proved to be statistically significant are investment-to-GDP and exports-to-GDP ratios. SSA’s largest deficit *vis-à-vis* cultural zones achieving significantly higher levels of mean GDP per capita is not in state capacity though; nor is its most significant underperformance in investment or exports. It is in its human empowerment, consisting of human

capital (representing mind-broadening education) interacted with emancipative values, supporting a proposal that *human empowerment, through education and emancipation*, is the powerful driver of prosperity.¹⁴¹

Analysing the marginal effects of the variables found to matter for prosperity produced the following results for SSA specifically, the poorest cultural zone globally: based on standardised coefficients, a one-unit increase in state capacity raises GDP per capita by 1.3 per cent; raising human empowerment by one unit leads to a 1.44 per cent increase in mean GDP per capita; a unit-increase in exports-to-GDP increases GDP per capita by 0.07 per cent, while raising investment-to-GDP by one unit raises GDP per capita by 0.28 per cent.

It is worth noting that in comparison with South Asia (SA), the *second-poorest* cultural zone after SSA, SSA performs as follows: SA outperforms SSA in GDP per capita by 373 per cent; SA's advantage over SSA in state capacity is 19.5 per cent; SA's human-empowerment advantage over SSA is 109 per cent. SSA's exports are lagging behind SA by 142 percent, while the investment deficit is only 17 per cent. It should be noted that bridging the deficits in investment and export performance likely hinges on an enabling institutional architecture, as reflected in state capacity.

These deficits are significantly higher when SSA is compared with high-income cultural zones. To illustrate, in comparison with Protestant Europe (PE), the cultural zone with the highest mean GDP per capita, SSA performs as follows: the prosperity deficit based on mean GDP per capita amounts to 1381 per cent; the PE advantage in terms of state capacity is 54 per cent; the human-empowerment deficit in contrast amounts to 688 per cent; the investment deficit is a mere 1.1 per cent, while PE's mean export-to-GDP ratio exceeds that of SSA by 96 per cent. The human empowerment deficit dwarfs the disadvantages in all other explanatory variables. It should be noted that the static comparisons do not reflect the dynamic, compounding effects of multipliers that have, over time, driven the wide modern-day prosperity gap evidenced by the disparities in GDP per capita.

The regression results find no direct contribution from liberal democracy to modern-day prosperity, nor from geographic country traits.

9.3 Some Stylised Conclusions from the Literature and the Empirical Analysis

There can be no doubt that there is a *universal* aspiration to witness a grand reversal of poverty where it persists, into liberal democracy where humans exist free and prosperous, and express internalised emancipative ideals through agency and autonomy in all spheres of life.

¹⁴¹ Refer to standardised coefficient values (z-scores) in Table 8.13, column (2).

Franklin Roosevelt (1941: 242) proclaimed that:

“History proves that dictatorships do not grow out of strong and successful governments, but out of weak and helpless ones... The only sure bulwark of liberty (and prosperity – *author’s insertion*), is a government strong enough to protect the interests of the people, and a people strong enough and well enough informed to maintain its sovereign control over the government” (Roosevelt 1941: 242).

Like sustained liberty and prosperity, liberal democracy cannot be manufactured. It emerges from a competitive and cooperative balance between a *capable, constrained state* and an *empowered, emancipated society*. Both the interdisciplinary literature review and the regression analysis indicate that unless these two elements are cultivated where poverty persists, rich-poor convergence is unlikely.

9.3.1 *Stylised Facts from the Interdisciplinary Literature Review*

Some stylised facts emerge from this study’s interdisciplinary approach to the literature:

First, the institutional approach to the deep causes of economic growth and development entails three “classes” of institutions – formal institutions, informal institutions and rule enforcement traits. All three classes matter. Probing the role of institutions in economic development while disregarding the degree of enforcement, or informal institutions, may not only leave much of the observed modern-day trends unexplained, but may erroneously make institutions appear unimportant.

Second, while democracy (or regime type) is a formal institution, it does not serve as automatic surrogate for all of the formal rules that enforce accountability and executive constraints. It therefore does not automatically shield societies against state predation or establish development-enabling state capacity. The crucial distinction between development-enabling and development-inhibiting states is not whether they are *democratic* or not; it is whether they are *predatory* or not. Some of the most recent literature, Boettke and Candela (2019) and Acemoglu and Robinson (2019) for instance, emphasise the paradox that the most capable states, with the greatest development-enabling capacity, exist in societies that enforce constraints and accountability the most effectively. Non-democracies like Singapore and Hong King accomplish that well, while many democracies like South Africa and Zimbabwe, do not.

Third, the literature has taken the finding that *democracy* does not cause growth and development as a refutation of institutionalists’ claim that institutions are the deep cause of economic development. Instead, it is viewed as support for the claim of Lipset’s (1959) modernisation theory that economic

development is one of the social requisites that render stable democracy more likely. Institutionalism and modernisation are conceptually dissimilar – the former probes deep causes of *development*, the latter probes the mechanisms that cause and sustain liberal democracy. They in fact appear to be complementary, explaining different phases in a development sequence. Thus, institutions do cause poverty reversal and economic development. Democracy is just not (automatically) one of them.

Fourth, poverty reversal needs *regime-independent state capacity*, defined as a state where the rules curtail political discretion to appropriate property and contract rights. Also, these rights of citizens are protected by an impartial judiciary.

Fifth, while universal suffrage establishes electoral democracy, liberal and effective democracy needs an *empowered, emancipated society*. Such a society cannot emerge unless a sense of existential security prevails. Rising existential security is a strong driver of societal transformation, which manifests in mass value shifts; that is, *informal institutions* change. These changes incentivise changes in human behaviour which redirect societal outcomes towards liberty and prosperity. It then follows that liberal, effective democracy cannot co-exist with poverty; electoral or procedural democracy can, but this form of democracy does not produce either the state capacity or well-developed constraint mechanisms needed to reverse poverty. Informal institutions – society's values and norms – *cannot* prioritise survivalist concerns *and* liberty and prosperity all at once.

9.3.2 Empirical Confirmation of Stylised Facts

A number of conclusions from the estimation contribute also to the *empirical* understanding of poverty.

First, the study confirms *democracy's* observed inability to reverse poverty while non-democracies achieve high levels of prosperity. These findings are compatible with theoretical literature from the fields of political science and sociology discussed in Chapters 5 and 6.

Second, the study confirms that *state capacity* is narrowly associated with poverty reversal as theorised in Chapter 5. The negative correlation between state capacity and *poverty* is much stronger where poverty is high, tapering significantly as poverty diminishes, suggesting that state capacity is more useful to interrupt poverty than as a driver of prosperity.

Third, the strong role for state capacity emphasises the importance of not just formal rules that limit state predation and protect citizens' rights, but also that these rules and constraints are *enforced*. State capacity represents regime-independent formal institutions that are enforced to cultivate a capable, constrained state. While the formal rules reflect the *intended* constraints, the quality of

governance outcomes reflects whether effective enforcement in fact materialises. Poverty reversal is therefore regime independent. This finding again adds perspective to democracy's role in development, specifically about its efficacy to enforce executive constraints in meek, existentially insecure societies where human empowerment has not yet run its transformative course. If universal suffrage fails to liberate citizens from predatory rule and economic servitude, democracy does not signify freedom.

Fourth, the empirical results confirm the importance of *human empowerment* measured by interacted human-capital and emancipative-value scores as a driver of prosperity. Human empowerment represents society's *informal* institutions; this also appears to be the institutional class in which modern-day poor countries are lagging furthest behind rich societies. Put differently, the institutional deficit most narrowly associated with poor countries' inability to catch up, seems to be in human empowerment measured as a combination of mind-broadening education and modern values. An empowered, emancipated society is the nemesis of the Leviathan, presenting the essential counterbalance to strong states that is needed to achieve the state-society cooperation and competition characterising the narrow corridor to liberty and prosperity described by Acemoglu and Robinson (2019).

Finally, the study finds that geographical traits are immaterial as a direct driver of prosperity. Since state capacity and human empowerment represent the three classes of humanly devised institutions, the findings rule in favour of human agency in the determinism-versus-agency debate pertaining to poverty and prosperity outcomes. This finding corresponds with Welzel's (2014) explanation that technological advance erodes geographic disadvantage. Hence, poverty may be self-perpetuating, but is not a geographically destined trap. *Poverty is a product of our humanly devised environment, which is where it would have to be unmade.*

9.4 Future Research

Understanding that regime-independent state capacity is a feasible entry point into poverty cycles does not answer a material question: how can this be accomplished where the political-power dynamics lean towards predation? In particular, constraining the highest authority that makes laws, has a monopoly over violence and metes out justice remains deeply challenging; benign authorities may relinquish self-interest voluntary to work for the greater good. Others may be held accountable effectively by strong, vigilant societies. Democracy however has been shown to *not* rebalance the power dynamics in society's favour automatically. In high-performing non-democracies like

Singapore, state capacity was voluntarily cultivated and maintained by political incumbents; it remains unclear how a predatory elite may be *coerced* to retreat.

It may serve elite interests to *facilitate* broad development because it is deemed complementary to sustained predation. It may also serve elite interest to intentionally *subdue* development to prevent empowering coalitions that may in future threaten existing elite interests. Mechanisms to effectively curtail elite predation and enforce broad-interest prioritisation are essential to foster the sense of existential security that may set societal empowerment in motion. Beyond the unlikely voluntary commitment to broad societal interests by benign regimes, democratic efforts by a meek society to hold executives accountable while elite interest dictates against it, or civic uprisings to end elite predation, such mechanisms remain lacking where poverty reversal needs it most. Accomplishing *effective curtailment of elite predation in poor societies* remains an elusive target. Future research may assist to address this central challenge in efforts to reverse modern-day poverty.

Appendix A (Chapter 5)

A.1 Historical Evolution of Three Critical Formal Institutions

Fukuyama (2014: 18) reduces the formal rules essential for *political* order to “three critical sets of institutions: the state, the rule of law, and procedures promoting democratic accountability”. He explains how nations’ economic and political fate is tied to how and whether these institutions emerge; whether they emerge separately or in combination, and how the *sequence* in which they emerge (if at all) matters crucially for both economic and socio-political outcomes. Below is a brief historical account of the origins of the three essential formal institutions, as well as their evolution over time.

A.1.1 *Moving beyond Natural Human Sociability to Achieve a Modern State*

Contrary to the tenets of neoclassical economics, science shows that mankind did not converge from isolated, individual beings into societies. Humans were socially organised from the outset (Fukuyama 2014; Morson and Schapiro 2017). Fukuyama (2014: 18) explains that:

“Natural human sociability is built around two phenomena: kin selection and reciprocal altruism. The first is a recurring pattern by which (humans) behave altruistically toward one another in proportion to the number of genes they share; that is, they practice nepotism and favor genetic relatives. Reciprocal altruism involves an exchange of favors or resources between unrelated individuals... *Both behaviors are not learned but genetically coded and emerge spontaneously as individuals interact.*” (Emphasis added.)

To grasp how political order in societies emerges requires an understanding that genetically coded altruism towards family (nepotism) and friends (patronage and clientelism) is the “default form of human sociability (and) is universal to all cultures and historical periods” (Fukuyama 2014: 19). To override natural human altruism towards friends and family – by for instance favouring a competent stranger – would require a set of institutions incentivising behaviour deviating from genetically coded sociability (Goody 2004). It remains the default form of sociability however, and should the institutions incentivising alternative behaviour break down, humans are hardwired to revert to altruism towards friends and family (Hughes 1988; Goody 2004).

In addition to human hardwiring predisposing human sociability to favour family and friends over (competent) strangers, human nature favours order over chaos. Human beings are “by nature are also norm-creating and norm-following creatures. They create rules for themselves that regulate social

interactions and make possible the collective action of groups” (Fukuyama 2014: 20). Although societies’ rules may be *rationally* conceived, rule-abiding behaviour is usually *emotionally* incentivised by, for instance, pride, shame or guilt. Institutions are the rules that endure over time; human beings’ preference for a rule-ordered society reflects a natural human tendency to institutionalise their behavior (Fukuyama 2014).

Anthropologists describe the societal organisation of the first forty-odd millennia of modern human beings as small, genetically related band-level societies subsisting off hunting-gathering (Hughes 1988). Ten millennia ago, in the first significant institutional shift, band-level societies transitioned into larger tribal societies organised around segmentary lineages. Tribal members could trace their ancestry to a shared progenitor (Hughes 1988; Goody 2004). Tribal societies tended to be egalitarian, with no centralised authority or third-party enforcement of rules (Fukuyama 2014). These early gene-sharing societies were organised along kinship and were therefore in harmony with natural human sociability (Hughes 1988).

The shift from a tribal society to a centralised, hierarchical state with a legitimate monopoly on coercion over its subjects and territory entails a fundamental institutional transition. States are broadly considered either as *patrimonial* (Weber 1930, 1946, 1947 and 1978) where “the polity is considered a type of personal property of the ruler, and state administration is essentially an extension of the ruler’s household” (Fukuyama 2014: 22), or as modern. Patrimonial states remain rooted in genetically coded human sociability, which favours kinship ties over impersonal relationships. *Modern* states however, are impersonal. State administration is performed by bureaucrats recruited on merit and technical expertise, not by family and friends of rulers.

It is unclear how *pristine* states emerged from *tribal* societies. Geographical traits may have had an impact on state formation (Carneiro 1970); Fukuyama (2014: 23) refers to “physical circumscription” or “caging”, which is the “bounding of territories by impassable mountains, deserts, or waterways—allow(ing) rulers to exercise coercive power over populations and prevent(ing) enslaved or subordinated individuals from running away”.

Pristine patrimonial states emerged eight millennia ago in different world regions, such as the Valley of Mexico, Egypt, Mesopotamia and China (Fukuyama 2014). To transition from patrimonial states to modern states implied that natural human sociability had to be overridden; to shift from family-and-friends political organisation to impersonal organisation requires deliberate strategies. The earliest civilisation to establish a modern, nonpatrimonial state was China, nearly two thousand years before impersonal political organisation emerged in Europe (Landes 1998; Ferguson 2011). It would

seem that the main driving force behind the shift to impersonal centralised states, both in early modern Europe and in China, was military competition (Fukuyama 2014). Pervasive and prolonged wars pose funding and logistical challenges that incentivise the central political authority to levy taxes, to establish an administrative hierarchy that capably provisions the military, and, due to military pressure, to base recruitment and promotion on expertise and competence instead of personal ties (Tilly 1990, 2007). It would seem then, that some modern states were built by wars.

As early as 300 B.C., China introduced examinations for civil-service recruitment to transition from patrimonial political organisation to a non-patrimonial state (Fukuyama 2014). In Europe, the shift from kinship as the primary form of social organisation to more modern social relationships was not effected through political mechanisms (Hughes 1988). The Catholic Church amended the rules of inheritance in the early-Middle Ages, making it difficult to bequeath resources to extended kin groups. Within one or two generations after being converted to Christianity, feudalism – constituting an form of early social organisation rooted in legal contract – replaced kinship-dominated social relationships among Germanic barbarian tribes (Fukuyama 2014).

A.1.2 Rule of Law – Whence, and Why so Significant?

The significance of the rule of law in any society is in its authority to bind all – also the most powerful political executive. These rules have religious origins. Religious authorities functioned as *de facto* legal bodies; they interpreted sacred texts and translated them into moral sanction binding all of society equally. In India for instance, the authority of *Brahmin* priests superseded the political power of the *Kshatriya* warriors (Ocko and Gilmartin 2009). The separate *Ulama* hierarchy of religious scholars presided over Islamic law, the *sharia*, while it was applied and administered by a different hierarchy of judges (the *qadis*) (Khadduri 1955). Through Islamic history, religious and political authority was intertwined (Fukuyama 2014: 26): “Though early caliphs united political and religious authority in the same person, in other periods of Islamic history the caliph and sultan were separate individuals, and the former could act as a constraint on the latter.”

The rule of law was the most institutionally entrenched in Western European nations however, due to the autonomy of the Roman Catholic Church. In fact, as Fukuyama (2014: 26) points out, it was “(o)nly in the Western tradition (that) the church emerged as a centralized, hierarchical, and resource-rich political actor whose behavior could dramatically affect the political fortunes of kings and emperors.” The investiture conflict dating back to the eleventh century marked the watershed event that consolidated the authority of the Roman Catholic Church when they successfully defended church autonomy against religious interference of the Roman Emperor (Glaeser and Shleifer 2002;

Fukuyama 2014). The Roman Catholic Church was thus bolstered as custodian of the Roman Law founded on the Justinian Code – the *Corpus Juris Civilis* – of the sixth century (Glaeser and Shleifer 2002). A different but similarly solid legal tradition, the Common Law, evolved from the law of the king’s court in England following the Norman Conquest (Glaeser and Shleifer 2002). The Common Law tradition was promoted more by the monarchs than the church in an effort to gain legitimacy for early monarchies by dispensing justice in an impersonal manner (Fukuyama 2014).

While rule of law was the first of the three key institutions to develop in Western Europe, true rule of law that may fundamentally constrain political power never emerged in China (Orts 2001); possibly because a religion that transcends secular and political life never emerged (Landes 1998; Fukuyama 2014). A Chinese *state* did however arise, in an institutional sequence that was therefore the reverse of Europe’s, where rule of law predates modern states (Ocko and Gilmartin 2009). In the late 1500s, the monarchs in Europe indeed aspired to establish centralised and modern if absolutist states, but unlike the Chinese emperors, their power to execute these pursuits was constrained by the legal order that already existed (Orts 2001; Ocko and Gilmartin 2009). Hence, the monarchs in Europe never achieved the Chinese state’s degree of power concentration. In Russia however, a powerful centralised regime did emerge, perhaps because the Eastern Church was the subordinate of the Russian state (Fukuyama 2014).

A.1.3 Emergence of Consent-of-the-Governed Principle

Democratic accountability emerged last of the three crucial sets of formal institutions cited in the literature (Fukuyama 2014). Parliament as the primary mechanism of democratic accountability evolved out of feudal institutions representing various classes of asset-owning societal elites, from the nobility and gentry, to the bourgeoisie in cities that had gained independence. The feudal law of agrarian societies prescribed that monarchs apply to these feudal bodies – or *estates* – to raise taxes. From the late 1500s onwards, monarchs’ aspirations for absolute sovereignty and the right to tax feudal populations directly pitted them against feudal institutions attempting to shield the interests of asset-owning members.

This power conflict persisted for two centuries in many European countries. It played out in favour of the monarchies in France and Spain, while feudal bodies dominated by avaricious elites emerged victorious in similar power struggles in Hungary and Poland. In England, the power contest between the monarch and feudal estates was uniquely even; hence, a capable parliament blocked the absolutist aspirations of the early Stuart kings. Members of the parliamentary body were predominantly Puritan Protestants who favoured a grassroots form of social and political

organisation over the monarchy's Anglican hierarchy. Civil war ensued; the Glorious Revolution eventually followed from 1688 to 1689, and the Stuart dynasty was deposed. That the replacing monarch was William of Orange of the Netherlands turned out to be significant; accompanying the new monarch to London, was John Locke, the philosopher who enunciated "the principle that obedience to rule should be rooted in the consent of the governed" (Fukuyama 2014: 29).

In his *Second Treatise on Government*, Locke proposed that there should be no taxation without representation; also, "that rights were natural and inhered in human beings qua human beings; governments existed only to protect these rights and could be overturned if they violated them" (Fukuyama 2014: 29 – 30). Locke's principles of consent of the governed and no taxation without representation not only found their way into the 1689 constitutional settlement with the new English monarch William of Orange, they also informed the revolt of the American colonists against British authority in 1776. The principle of *natural* human rights was incorporated in Jefferson's American Declaration of Independence and the Constitution as ratified in 1789, was based on sovereignty of the *populus*.

Although the principle of democratic accountability was thus established, the political orders that materialised in England in 1689, and in the United States in 1789 bore scant resemblance to modern democracy. In both countries, democratic franchise was limited to asset-owning, white, male members of society. This limitation does not detract from the galvanising effect of the notion that "all men are created equal, that they are endowed by their Creator with certain unalienable rights" in *The Declaration of Independence*; sovereignty now vested in *the people*, not a monarch, or a state. The Glorious Revolution in England and the American Revolution established an enduring political order of an executive that is accountable not only to a representative legislature, but to society at large. Subsequent debates and conflicts did not question the principle of governments' accountability to the people; instead, they centred entirely on "who counted as a full human being whose dignity was marked by the ability to participate in the democratic political system" (Fukuyama 2014: 33).

A.1.4 Two Course-Altering Revolutions, and Beyond

The French Revolution of 1789 was a further cataclysmic development during the eighteenth century. Fukuyama (2014) states that the brutality of the revolution polarised French society deeply however, rendering the kind of political reform achieved in Britain much harder to accomplish. Only towards the end of the nineteenth century did France establish a relatively enduring democracy albeit with limited franchise. Many European countries had by then conducted democratic elections under varying restrictions (Furet 1981; Burke 2001). France, who had been the flag bearer for the

democratic notions of freedom, equality and brotherhood prior to the revolution 1789, had become a democratic laggard (Burke 2001).

If the French Revolution did not hasten France's democratisation, it did alter other institutional domains immediately and fundamentally (Friedrich 1956). In 1804, France was the first European country to promulgate a modern code of law code – the *Code Napoléon*, or Civil Code (Fukuyama 2014). The *Code Napoléon* removed feudal privileges and rank from the law to consolidate some hard-won gains from the revolution.

France's second significant institutional achievement was the establishment of a modern administrative state that implemented and also enforced its modern code of law (Friedrich 1956). A few millennia after China had achieved a similar feat, France accomplished the beginning of a modern and centralised, bureaucratic state (Limpen 1956; Schwartz 1956). In the mid-1600s, Kings Louis XIII and XIV had already established a centralised modern bureaucracy operated by officials (*intendants*) who were recruited in the provinces and dispatched to Paris, where they had no kin or ties, to establish impersonal governance (Fukuyama 2014).

A parallel, venal bureaucracy however existed since 1557, when the flamboyance of the French kings bankrupted the government (Schwartz 1956). Desperate to raise funds, public office was sold outright to the wealthy elite, and subsequently bequeathed to their progeny (De Tocqueville 1998). The primary interest of venal holders of public office was not good governance, but to derive maximum personal and material benefit from it (De Tocqueville 1998). This wealthy, powerful elite held significant political sway and resisted reform, which was one of the precipitating factors of the revolution. Public office was purged of venal elements during the revolution to make way for the *Conseil d'État* in 1799, which Fukuyama (2014: 39) hails as “the pinnacle of a truly modern bureaucratic system”.

These two institutional advances led to a more transparent and less arbitrary government who meted out equal treatment to all citizens (Friedrich 1956; Fukuyama 2014). The transition to an impersonal, modern administration was supported by a parallel modernisation of the French education system (De Tocqueville 1998). In 1794, the post-revolution government established, in addition to the eighteenth-century technical schools of the previous regime that trained engineers and technical specialists, several schools tasked specifically with the training of skilled, technocratic civil servants (De Tocqueville 1998; Fukuyama 2014).

The two significant institutional advances engendered by the French Revolution – an objective code of law binding all, and a modern, impersonal administrative system – are not synonymous with

democracy. Yet, they accomplished a more just society. The legal system no longer advantaged an influential elite who benefited from their own manipulation of the system (Limpen 1956). Relieved of its century-old burden of corruption and patronage, the reformed bureaucracy implemented and enforced the new legal code. Property rights were liberated from feudal restrictions, enlarging and stimulating the operation of a market economy (Schwartz 1956; Burke 2001).

Theoretically, the powers of the sovereign were unlimited, but they had to be exercised through a public administration bound by the legal code (Schwartz 1956; De Tocqueville 1998). This combination – a modern, impersonal administration and impartial rule of law – served to check the arbitrariness and absolutists aspirations of sovereigns in the absence of democratic accountability (De Tocqueville 1998). This was very different from the twentieth-century totalitarian dictatorships under Mao, Lenin and Stalin; these were wholly *unconstrained*, despotic states unbound by law, and certainly by any form of accountability to society (Fukuyama 2014).

If the principles of democracy and political equality were institutionalised by the *American* Revolution, the European foundation for an impersonal, modern state was laid during the *French* Revolution – an achievement that had been accomplished in China already in 221 BC during the reign of Emperor Qin Shi Huang (De Tocqueville 1998; Burke 2001; Fukuyama 2014). Although all three of the crucial sets of institutions were established at that time, they were in fledgling stage, with law the most fully developed of the three (Fukuyama 2014). Despite being receptive to the notion of an impersonal modern state since the 1500s, most European states remained patrimonial (De Tocqueville 1998). The notion of democracy was similarly undeveloped. England and her colonies in North America had adopted the principles of consent of the governed, as well as no taxation without representation, but no single society yet permitted political participation of the majority of the adult population (Fukuyama 2001).

At the time, the Industrial Revolution was gathering steam however, setting the stage for unprecedented growth, which altered societies fundamentally (Sachs 2005; Acemoglu and Robinson 2013). Also, although the first wave of colonial conquests by the Spanish and Portuguese, and later by the British and the French had dissipated by the late 1700s, a second and eventually a third wave of colonialism would gain momentum (Fukuyama 2014). Precipitated by much political flux, the past two centuries have witnessed how the development and the dynamic interaction of these institutions have shaped a polarised modern world.

A.2 Undoing a Modern State: State Capture and Repatrimonialisation

Societies' needs dictate which institutions or rules they create. In that sense, institutions are reality-

coping mechanisms; they may for instance produce military protection, or may resolve economic or other societal conflicts, or simply organise societal behaviour in general (Huntington 1965). They do however establish recurring behaviour and, given the inherent conservatism or inertia of established behaviour, institutions may become embedded and resistant to change even when outdated in a fast-changing world. In addition to institutional rigidity leading to an institutional environment becoming unsuited to the demands of an evolving, modern world, repatrimonialisation also poses a threat of institutional decay (Eisenstadt 1973; Beyers, Eising and Maloney 2010; Ferguson 2013; Fukuyama 2011, 2014).

While modern impersonal states pursue meritocratic public governance, elites in most societies operate along the rules of natural human sociability¹⁴², relying on networks of family and friends to consolidate and benefit from their positions of privilege. Should the elites succeed in capturing the state, its accountability to the citizenry is compromised, and also its legitimacy (Beyers, Eising and Maloney 2010). Elite families for instance reappropriated the Chinese government in 200 A.D. following the collapse of the Han Dynasty (Landes 1998; Ferguson 2011). The elites dominated Chinese politics till the demise of the Tang Dynasty in 756 A.D. (Fukuyama 2014).

In Europe, France's efforts to build a modern, impersonal administration from the mid-1600s onwards were torpedoed by the outsize fiscal needs of the monarchs (De Tocqueville 1998). The administration was forced to resort to venality – selling public office outright to wealthy individuals. Repatrimonialisation describes this bureaucratic regression, when powerful elites capture ostensibly or erstwhile *impersonal* state institutions.

Modern liberal democracies are not more immune to political decay than other regime types; modern societies are unlikely to revert to a tribal social organisation, but forms of tribalism in the sense of natural human sociability based on kinship are omnipresent in these societies too (Beyers, Eising and Maloney 2010). Fukuyama (2014: 54) mentions for instance that, “(w)hile everyone in a modern democracy speaks the language of universal rights, many are happy to settle for privilege – special exemptions, subsidies, or benefits intended for themselves, their family, and their friends alone”.

Scholars of political science argue that the self-correcting mechanism implied by democratic accountability prevents institutional decay (Olson 1993; Siegle, Weinstein and Halperin 2004). Non-elites can simply vote non-performing or elite-captured governments out of office. The self-correcting mechanism is substantially weakened however, where the non-elites are poor, poorly

¹⁴² That is, a society organised in accordance with humans' genetically coded preference for kin selection and reciprocal altruism.

organised, and perhaps fail to grasp fully how elite capture of the state undermines their interests (Brennan 2016; Crain 2016). Political decay of this nature erodes government effectiveness progressively as corruption escalates. It may also incite a social groundswell, but in the form of a violent populist revolt by a poor, disempowered society against the elites' self-enrichment and manipulation (Fukuyama 2014).

A.3 Democracy and Growth

Siegle, Weinstein and Halperin (2004) propose that democratisation should be *central* to poor nations' development agendas. They reject the develop-first hypothesis made popular by Lipset's (1959) modernisation sequence, theorising instead that nations remain poor *because* they retain autocratic structures. They maintain that growth in poor autocracies does not outstrip the growth in poor democracies to justify a develop-first approach, while democratic states fared dramatically better on indicators of social wellbeing.

The develop-first approach gained legitimacy when East-Asian autocracies like Singapore, South Korea, Taiwan and more recently China achieved outstanding economic outcomes. Siegle, Weinstein and Halperin refer to Fukuyama's (2014) explanation that nations with stable technocratic governments that are insulated from destabilising democratic politics have better development prospects over democracies without modern states, as a variant of the develop-first theory. The faltering young democracies of eastern Europe, Latin America and Africa seem to support the view that it is unwise to attempt democratisation prematurely. Siegle, Weinstein and Halperin (2004: 58) refer to authoritarian regimes outside of East Asia that had abysmal results however; they view the military governments in Latin America, communist rule in Eastern Europe and the former Soviet Union as well as the "strongman" rulers of Africa as stark reminders of autocratic failure. They find no signs of authoritarian advantage.

Siegle, Weinstein and Halperin advocate against a go-slow approach to democratisation, claiming that it perpetuates vicious cycles of oppression and poverty, and all of the hardships associated with autocracies, ranging from famine and humanitarian crises to conflict and civil wars. They argue that democracy does impose the much-needed checks and balances on the political executive, and introduce self-correcting mechanisms and responsiveness to the interests of society – all of which improve living conditions and contribute to sustainable growth. The theoretical superiority of democracy over authoritarian rule – the importance of leaders' accountability to broad society; the incentive that democratic leaders have to respond to society's needs, and also the constraints on democratic power preventing a monopolisation of political power – are straightforward. If put into

practice, it should hedge society against radical policies that invite economic disaster unlike authoritarian regimes operating in the manner of Acemoglu and Robinson's (2013) extractive states and North, Wallis and Weingast's (2009) limited-access economies.

In all of these regimes, economic monopoly becomes the handmaiden of political monopoly as the ruling party guarantees the success of only their loyalists, with ruinous consequences, and political allegiance dictates social status and access to opportunity. There is however a near-perfect similarity between Siegle, Weinstein and Halperin's description of *authoritarian* rule and the actual political rule in many poor sub-Saharan African countries; the fundamental difference is that these nations have democratically elected, constitutionally sanctified rulers (Rotberg 2003a, 2003b).

Development empirics do not support the notion that democracy is "a dynamic institutional regime that drives development" (Siegle, Weinstein and Halperin 2004: 64) is. Implicit in this endorsement of democratic advantage is the premise that democratic rules are enforced. In reality, they often are not. Real-world outcomes of democracy do not conform to their predictions; many of the world's poorest nations live in democracies where the rulebook failed to translate into political practice (Schmitter and Karl 1991; Sen 1999).

Przeworski (2004) is cautious about drawing any direct correlation between democracy and development. He also cites non-democracies that have emerged as spectacularly successful to dispel any systematic association between regime type and economic progress. Again, the emphasis is on the variety of regime type in high-performing East Asia: Taiwan and Singapore grew extraordinarily under dictators; South Korea was under authoritarian rule for a good part of its rapid-growth phase while Japan and Malta grew rapidly under democracy rule (Przeworski 2004).

Przeworski's (2004) finding that political regime type has no effect on a nation's total income leads him to echo the view of Siegle, Weinstein and Halperin (2004: 21) that "there is not a single reason to sacrifice democracy at the altar of development" but treads more cautiously over the causation debate, emphasising institutional endogeneity and that the role of *underlying conditions* may generate wholly different outcomes in nations with identical regimes. In *Democracy Does Cause Growth* (2014), Acemoglu *et al.* present evidence that democracy has a significant and robust causal relationship with GDP. Heightened investment, improved schooling and provision of public goods, the economic reforms it encourages and reduced social unrest all form part of the transmission mechanism, but civil liberties appear to be the most important. This is in diametric opposition to Robert Barro's view that "more political rights do not have an effect on growth... The first lesson is that democracy is not the key to economic growth" (Barro 1997: 1 and 11) and also Gerring *et al.*'s

(2005: 324) conclusion that “the net effect of democracy on growth performance cross-nationally over the last five decades is negative or null.” The naysayers emphasise that enlightened dictators and one-party non-democracies could, despite the obvious potential disadvantages, manage to execute the politically unpopular yet crucial policies a society needs to progress.

Observing the wildly fluctuating outcomes of any given regime type in different contexts, for instance for autocracy in eastern Asia and in Africa, and again for constitutional democracy in Zimbabwe and in the United States, reinforces the view that underlying conditions (Przeworski’s 2004), country fixed effects (Acemoglu *et al.* 2014) or context-specificity (Rodrik, Subramanian and Trebbi 2002) may be decisive for economic outcomes. This does not void the influence of formal institutions entirely, and especially not of other, more important formal rules like the code of law and effective, non-patrimonial states. It also leaves room for questions regarding human agency, and the inherited belief systems and psychology that drive human behaviour. Human behaviour constitutes the context, the underlying conditions or informal institutions upon which political regimes are imposed in such a way that the outcomes of the regime become indistinguishable from the outcomes of the context.

There is broad consensus that broad, participative governance through democracy serves the wellbeing of society better than oppressive authoritarian regimes (Siegle, Weinstein and Halperin 2004; Przeworski 2004; Sen 1999 and Ross 2006). Wellbeing encompasses more than money metrics like income and wealth; Stiglitz (2015: 96) describes the deleterious outcome of the despondency that takes hold when a citizenry develops a generalised perception that they have no autonomy and no agency in deciding their own future and becomes powerless to improve their own lot. It affects *all* aspects of life. Although democracy promises broad wellbeing through political and economic agency, it has fallen well short on delivery in poor countries whose citizens needed upliftment the most.

The *degree* of participation offered by democracy has come under scrutiny in *Is Democracy Good for the Poor* by Ross (2006). He contradicts claims that democracy, or participative governance, benefits the poor. He points to the well-developed literature on the role of politics in advanced democracies; however, where poverty is severe, there is a much weaker understanding of the role of governments. Democracy may produce the nonmaterial benefits of political rights and civil liberties, but at the bottom end of the distributional scale, hardly any tangible benefits may materialize. He confirms that regime type cannot account for the remarkable disparity in poverty outcomes across the globe and also within nations; he refers to “unmeasured political factors” as possibly distinguishing nations with good outcomes from those with bad outcomes (Ross 2006: 870).

A.3.1 Voter Ignorance

In 2016, Jason Brennan published *Against Democracy* highlighting the risks of voter ignorance for modern democracies. He argues that *uninformed* voting may be as harmful to public interest as air pollution. The accepted view that democracies are redistributive and shield the poor from the excesses of a ruling minority is belied by election outcomes that often fail to reflect public interest (Acemoglu *et al.* 2013). Democracy has no significant effect on income inequality and suffrage in poor countries has not changed the lives of the poor majority (Acemoglu *et al.* 2013). Democracies, despite being accountable to the common good whereas non-democracies need to satisfy only narrow supporter interests, are also not less corrupt than dictatorships.

In 2016, the ten most corrupt nations on the *World Competitiveness Index* were democracies, while history has shown that a random selection of *dictatorial* leaders have established benevolent regimes with a political will and policies that serve broad societal interests, as in Singapore. Nothing prevents dictatorial rule from turning into North Korea however, with luck as the decider.

Caleb Crain (2016) explains the biasing impact of voter *ignorance* on democratic outcomes. There is no invisible hand analogous to Adam Smith's equilibrium-ensuring dynamic in politics. If ignorant voters erred on the liberal side as often as they erred on the conservative side, the collective political outcome will leave decisions largely with the knowledgeable minority in the centre, and voter ignorance will not matter (Crain 2016). As it is, however, voter ignorance has a shape. Voters with more political knowledge are generally less eager to enter a war and socially more tolerant; they are also more understanding of the need to curb public budget deficits and accept the taxes they have to pay to do so, and they are less accepting of government's control of the economy (Althaus 2003).

Bryan Caplan (2011) makes a case that ignorant voters suffer from four biases: they are generally more pessimistic about the direction the economy is headed, they are also suspicious of the wisdom of the market mechanism, they are distrustful of foreigners, and they undervalue the benefits of labour conservation. He raises the possibility that poor policy and democratic failure may result as much from governments executing the will of ignorant voters as governments' failure to behave democratically. Recent history has demonstrated that, anomalously, a democratic election itself may pose a danger to democracy if voters ignorantly sanctify a shift towards reduced participative governance and more discretionary autonomy for the political executive.¹⁴³

¹⁴³ The Turkish Constitutional Referendum held on 16 April 2017 deepened the concentration of power in the hands of the President, weakening the separation of powers and removing Parliament's legislative authority; it was described in the media as an act of "democratic suicide" that dismantles the electorate's ability to hold the executive to account having effectively elected a dictatorship.

A.3.2 *The Power of One: Leader Agency in a Democracy*

Considering the varying growth experiences of similar regime types or formal rules (comparing for instance democracy in Zimbabwe with Germany or Canada, and autocracy in Singapore alongside the failures of the North Korean dictatorship) raises an obvious question: to what extent do individual leaders influence nations' growth performance?

Recent empirical evidence (Jones 2008) explaining global growth variance assigns a substantial role for individual leaders. They have a deciding influence not only on growth performance, but also shape institutional development, which in turn further influences a nation's growth.

Individual leadership is historically viewed from two opposing perspectives. The first, the "Great Man" view, attributes historical events of significance to idiosyncratic individual actions (Carlyle 1937). The opposite view considers historical events as the deterministic outcome of social and technological forces, and the role of individuals is of minimal significance (Marx 1852). The latter view of muted individual impact gained traction through the seeming inevitability of the First World War.

In modern political theory, the role of individual leaders is constrained through the constraining effect of median voter theory. Individual leaders' actions are limited theoretically by veto players, through political competition, and institutional checks and balances (Tsebelis 2002). The paradigm of a muted role for individual leaders in democracies is implicit in much of the deep-determinants literature, following Aristotle's notion of democracies as *ruled by law* – not by men. The growth debate hence centres on nations' institutions, cultures or geographies – all potential determinants of rules and laws – and omits a causative role for specific leadership personalities and the wide range of potential outcomes within democracies that individual-leader variability would imply.

Institutional constraints on individual leaders come in many forms; there is the pressure to get re-elected, the role of opposition parties, and the separation of powers through pursuing independence of the judiciary and legislature. Countries do not apply these institutional constraints – or rules of the game – with equal rigor; they are particularly weak in autocracies (Jones 2008). Modern growth literature has emphasised that institutional variation is a powerful determinant of divergent development paths; if formal institutional rules mirror the authority of individual leadership, the prominence of institutional variation as an explanation for divergent development paths offers sufficient grounds to explore the role of leadership (Jones 2008). Weber (1947) made this point in his theory of leadership, Weber (1947) stressing that leaders only have substantial individual agency when institutions are weak; institutional weakness may emerge from commitment problems, weak

accountability and liability mechanisms, and information asymmetries.

Growth theories that assign a large role to public goods like education and, infrastructure and health, and to national policy (for instance international trade policy) assume potential national leadership agency; as does the authority of national leaders to declare war, or their capacity to pursue systematic corruption (Jones 2008). To establish the *causative* effect of individual leadership on growth empirically is a challenging endeavour. Even if particular leaders are associated with specific growth experiences, the causative effect of leadership remains unproven; it may be growth that is driving transfers in leadership.

A study by Jones and Olken (2005) of leader effects on growth suggests not only the presence of such effects, but also that these effects are substantial. Predictably, the strongest leader effects emerge in autocratic settings, especially if legislatures or political parties are absent. More relevant however, is that the Jones and Olken study could not reject the no-leader-effect hypothesis for democratic settings, confirming the Weberian theory that leaders have substantial agency if they are weakly constrained or unconstrained.

A subsequent study by Jones and Olken in 2009 suggests that institutions influence the impact that national leaders have, but also that national leaders, in turn, shape institutions. An unconstrained leader – typically an autocrat, but conceivably also a democratically elected leader unheeding institutional checks and balances – exerts a forceful influence on nations’ growth experience, but also on institutional evolution. Constrained leaders that are institutionally checked in democracies, have degrees of agency, but have less impact on national growth outcomes or the evolution of a nation’s political institutions (Jones 2008). It stands to reason that a democratically elected leader subsequently succeeding to weaken or circumvent the constraints posed by institutional checks and balances may wield considerable individual agency.

In institutional-theory terms, if the formal political rules are not *enforced*, delinquency among the executive may yield outcomes that deviate from what the formal rules would predict. Therefore, a constitutional democracy with institutional constraints that are enforced will have significantly different outcomes from an identical regime where the constraints are not enforced. The *ex ante* objective rules are weak predictors of these potentially divergent outcomes.

Jones and Olken’s (2009) findings linking national leaders to substantial growth effects place a nation’s growth outcomes in the hands of contemporary leaders. Empirical literature has had some success in explaining global growth disparities as the deterministic outcome of “the distant hand of history” – that is, the result of “deep, historical determinants” (Jones and Olken 2009: 8). However,

these determinants explain only the deterministic portion of growth disparities; it is in the context of the unexplained, non-deterministic part of growth variation that leadership effects become important.

The logical next step would be to raise questions about the selection of national leaders; it would be helpful if good leaders could be distinguished from bad ones prior to the assumption of authority. Similarly, if leaders have a substantial effect on economic growth, first-order questions in understanding divergent growth paths involve the design of institutional systems and rules the produce capable, benevolent social planners; not the “vainglorious or thieves” (Jones and Olken 2009: 8).

In *The Roots of Africa’s Leadership Deficit*, Robert Rotberg (2003b) emphasises the leadership agency phenomenon, pointing to the gaping divide between sub-Saharan nation-states that are poorly led and ones that have been led well consistently. Clusters of developing nations elsewhere, for instance in Latin America or Southeast Asia, have also fallen victim to dramatic fluctuations in the quality of national leadership, but the range of volatility is less extreme.

Rotberg (2003b: 28) reports anecdotal evidence on leadership in sub-Saharan Africa and points to the prevalence of “disfiguring examples”. He explains that approximately 90 per cent of these leaders have over the past 40 odd years behaved despotically, incited civil conflict, eliminated the human and civil rights of their citizenry or have been proven corrupt. The economic outcomes of these nations have mirrored these leaders’ governance outcomes. The leadership deficit ranges from kleptocracies to autocracies that initially assumed power through democratic elections or through military *coups d’état*. Rotberg (2003b) also observes that economic illiteracy and the tendency to pillage national resources are associated with this form of leadership (Landes 1998; Fukuyama 2014).

Some common characteristics of failed leaders are their primary focus on achieving and maintaining power instead of the common good that their power could achieve (Pritchett, Woolcock and Andrews 2010); they insist on adulation from the citizenry but are indifferent to their wellbeing; their impact is often deleterious on a national scale but their home regions are shielded from this destruction; divisive social and racial ideology is exploited for political and even personal gain, and they are partial to blame shifting rather than behaving accountably (Rotberg 2003b).

Rotberg (2003b) concludes that leader agency is observable in sub-Saharan Africa particularly; that good leadership as in Botswana produces conspicuous results, such as improved living standards for the citizenry, progress in basic development indicators, quality education and medical care, strong infrastructure, low crime incidence and opportunities to achieve and excel. Failed leaders fray the

social and economic fabric of society and deprive their citizenry from prosperity and liberty. The literature refers to Africa's reverence for "strong men" as possibly turning democrats into despots, while persuading obedient electorates to uphold the pretension (Rotberg 2003b: 32; Siegle, Weinstein and Halperin 2004; Pritchett, Woodcock and Andrews 2010; Welzel 2014).

Appendix B (Chapter 6)

B.1 Japan's Meiji Restoration

Early 1870, the start of the Meiji Restoration that followed the collapse of the feudal shogunate, marked the beginning of the Japanese modernisation. Two features of the era stand out; the first is the centralisation of political power as the emperor in Kyoto resumed control and the second is the state's role in economic development driven by a small group of reform-minded bureaucrats (Lopez-Claros and Perotti 2014). Much of the credit for the strong political will for reform and modernisation goes to then Home Minister, Okubo Toshimichi who drove a view that the rigid hierarchical structures of the Tokugawa period were anachronistic and counterproductive. Also, there was a growing awareness of Japan's military and economic vulnerability vis-à-vis technologically advanced Europe. Historians describe Toshimichi as a radical moderniser and reformer, not deterred by tradition, social rank or the social upheaval that rapid change may stir (Brown 1962).

Consistent with Toshimichi's belief that merit rather than family or military connections should decide appointments, he recruited talent to staff the Home Ministry, especially hiring meritorious candidates with foreign training to drive his agenda to modernise Japan. By 1871, the Japanese government had sponsored 280 Japanese civilians to study abroad who then populated government departments to realise Toshimichi's vision of the abolition of "backward practices such as the appointment of hereditary territorial lords to positions of influence, instead of abler, more deserving young men" (Lopez-Claros 2014: 3). He travelled broadly, studied scientific and economic achievement in the developed world and met with experts in Western government, business and innovation. He repatriated his views that emulating Western progress was acceptable; in fact knowledge, technology and innovation were key to Japanese modernity and prosperity.

Toshimichi emphasised universal public education and military conscription – ending the Samurai warrior monopoly – and shifted the policy focus to economic development. He believed that quality exports should be promoted and also that a merchant marine needed to be developed to reduce Japan's naval dependency on other countries and the balance-of-payments burden imposed by freight payments (Lopez-Claros 2014).

Segments of Japanese society, like the tradition-bound hierarchical samurai, found the adjustment to modernisation unacceptable; in 1878 six former samurai assassinated Toshimichi (Brown 1962). The societal mindset by then had shifted sufficiently to resist repression, paving the way for rapid reform towards industrialisation and economic development.

It would be implausible to argue against the role of the traditional samurai code of conduct built on work ethic and personal values – the samurai *culture* – in an account of Japanese modernisation; anachronistic as it eventually may have been, it was the *build-up* that shaped Japanese human capital to suit the rigour of competitive capitalism well in the nineteenth century (Smith 1986; Landes 1998; McCloskey 2010; Lopez-Claros and Perotti 2014). Not unlike cultural entrepreneur Francis Bacon 250 years earlier, Toschimichi pioneered Japan’s attitudinal shift towards modernisation. It is worth noting that modern Japan remained essentially Japan, that modernisation is not Westernisation. Modernisation entails a societal transformation towards universal values that would support progress.

B.2 Where Does Social Capital Fit In?

Much of what we know about informal institutions and include in deep-determinants analyses of economic development, derives from social theory but, as with informal institutions and culture in previous sections, definitional accuracy of social capital is also hampered by blurring lines. Erring on the side of narrowness, the literature often views social capital (with much emphasis on trust specifically) as the useful sociological counterpart of informal institutions in development economics, although it would seem that Douglass North had a broader, more encompassing *cultural* concept in mind.

B.2.1 *Social Capital and Definitional Issues*

The social-capital concept has evolved dramatically since 1988, when James Coleman explained its role in the creation of human capital. In social theory, it is viewed as a societal resource associated with the benefits of networks, social norms and attitudinal traits like trust, civic cooperation and reciprocity.¹⁴⁴ In his study of the effect of social capital on the performance of regional governments

¹⁴⁴ Social capital’s connection with culture is obvious through its emphasis on trust and cooperative norms and networks, which for instance constitute the *connective resources* needed to ascend Welzel’s ladder of utilities as emancipative values evolve during the human empowerment sequence. Social capital is also implicitly equated with culture in the literature; Tabellini (2010) for instance investigates whether *culture* has a causal effect on economic development, with culture then measured by individual values and beliefs like *trust* and *respect* – which the social-capital literature often uses as measures of *social capital*. Tabellini however also includes convictions of individual self-determination, which may resemble countries’ positioning on the (explicitly cultural) survival-versus-self-expression values dimension of Inglehart and Welzel (2010). Despite the somewhat blurred overlap between culture and social capital, one may (over)simplify as follows: culture depicts a much broader societal context than social capital, including the historical value inheritance, individuals’ and a society’s relationship with knowledge, modernisation and innovation, and also societies’ views on autonomy and governance. Social capital zooms in on an aspect of the much larger cultural prospectus – the way members of society view and interact with one another (see also Joel Mokyr’s explanation in *The Intellectual Origins of Modern Economic Growth* 2005: 287).

in Italy, Putnam defines social capital as “norms of generalized reciprocity and trust, and networks of civic engagement that are organized horizontally” (Putnam 1993: 101).

Knack and Keefer (1997) find that trust and civic cooperation are positively correlated with economic performance. The transmission channel from trust to economic outcomes is straightforward. Virtually all economic exchange is trust-sensitive; high-trust societies therefore not only have higher volumes of exchange, but also divert less productive resources towards hedging against default and also towards formal enforcement. Resources thus freed up may be put to productive use like innovation.

The Knack and Keefer study similarly links norms of civic cooperation with economic outcomes. Societies with strong cooperative norms constrain the narrow pursuit of self-interest and emphasise the common good. The costs of non-cooperation in a strongly cooperative society derive from both external sanctions like being ostracised or shamed, and internal sanctions like guilt, shame or forfeiting positive self-concept. Civic norms have direct allocative spin-offs if society incurs less cost monitoring and enforcing contracts; they also benefit economic outcomes indirectly if cooperative norms enhance the character of political participation and eventually also the quality of governance and policy.

Also investigating the role of social capital in nations’ development outcomes, Fafchamps (2005) focuses on interpersonal networks that facilitate social exchange as the middle ground where (non-rational) human emotions like trust, or anger or shame, come into play. He proposes that exchange is hindered by information asymmetries and trust deficits. To advance social exchange, the search for information must then be facilitated and trust must be fostered. Both of these aims are accomplished through interpersonal relationships and networks.

Trust, norms of cooperation and associational networks feature prominently in the social-capital literature across the spectrum of political science, sociology and development economics. Stephen Knowles (2005: 23) views social capital as the informal extreme on an institutional continuum, proposing that: “social capital is a similar notion to what North (1990) defined as informal institutions.” Like Putnam (1993), he defines it as trust, a shared set of cooperative norms and networks. Other descriptions of social capital in the literature are, for instance, Fukuyama’s (1997: 378) as “a certain set of informal rules or norms shared among members of a group that permits cooperation among them... The norms that produce social capital... must substantively include virtues like truth telling, the meeting of obligations and reciprocity”. Bowles and Gintis (2002: 419)

define social capital as “trust, concern for one’s associates, a willingness to live by the norms of one’s community and to punish those who do not. While essential to good governance, these behaviors and dispositions appear to conflict with the fundamental behavioral assumptions of economics whose archetypal individual ... is entirely self-regarding.” A definition by Knack (2002: 42) describes social capital as “common values, norms, informal networks, and associational memberships that affect the ability of individuals to work together to achieve common goals”.

The notion of cooperative norms, like orderly queuing and respecting traffic rules, is prominent in most definitions of social capital; so are associational memberships and networks. Associations may promote the interests of their members only, or of both members and non-members. Trust is similarly differentiated. Generalised or thick trust is the notion that most people can be trusted, also those you do not know, and facilitates economic exchange. Particularised or thin trust is defined as trusting only one’s own kind (Knowles 2005).

B.2.2 The Empirics of Social Capital

Empirical studies exploring the role of social capital in economic development confirm that social-capital aspects like trust and cooperative norms are also indicative of a society’s culture, or its informal institutions (Knowles and Weatherston 2006: 22): “We have also argued that informal institutions are similar to what others have labelled social capital or culture. Hence, our empirical proxy for informal institutions could also be interpreted as a measure of social capital or culture.”

In their 1997 cross-country investigation of the economic payoff of *social capital*, Knack and Keefer use indicators for trust and civic norms from the World Values Survey responses that Inglehart *et al.* (2014) also use to construct the cross-country *cultural* maps. Knack and Keefer conclude that, although their findings refute Putnam’s (1993) view that *associational activity* reflects a society’s social capital and should therefore be correlated with societies’ growth performance, the WVS measures of *trust* and *civic cooperation* do correlate with stronger economic outcomes. They qualify their finding, noting that trust and civic cooperation are stronger where there is formal institutional protection of property rights and contract enforcement and less ethnic polarisation.

Another early study by Jonathan Temple (1998) to establish whether initial conditions and initial social capital in particular contributed to Africa’s poor growth experience during the 1970s and 1980s concludes that poor policy outcomes are to blame. However, the explanation goes much deeper: the Temple study also offers evidence that bad policy has its roots “partly in the nature of African societies in the 1960s” (Temple 1998: 342). The initial conditions that characterise the *nature* of societies include their initial social capital.

Although Temple refers to the scholarly approach to view social capital as reflective of the quality of civil society – including the degree of trust, social as well as political participation, and associational memberships – he agrees with Woolcock (1998) that these societal features may well be the *consequences* of social capital rather than measures of social capital itself. Woolcock (1998) also distinguishes four potential dimensions of social capital that may influence countries’ economic development: the degree of social integration, horizontal linkages or associations, the relationship between civil society and the state and institutional quality. For his empirical analysis, Temple then uses an index constructed by Adelman and Morris¹⁴⁵ in 1967 that reflects societies’ *social capability* or, its social “suitability for institutional and economic development” (Temple 1998: 322), proposing that, with the exception of institutional quality, it captures Woolcock’s dimensions of social capital. Temple views the Adelman-Morris Index as a measure of countries’ initial social-development conditions, or an index of *initial social capital*.

Two key findings of Temple (1998) are, first, that observable variables capturing initial conditions explain almost three-quarters of the variation in the growth rates of developing countries, and mainly through their policy effects. Second, of the initial conditions that affect policy outcomes, poor social capital appears to be the most detrimental for policy outcomes. In addition to bad policy outcomes, Temple concludes that developing countries with poor social capital are more likely to suffer from low investment and poor growth; also, “for any two countries with the same level of income, the one with more social capital tends to have more schooling, a more extensive financial system, better fiscal policy and a wider telephone network” (Temple 1998: 341).

Several subsequent studies have endeavoured empirical estimates of the effect of social capital on economic outcomes and development and conclude favourably. Keefer and Knack (2008) confirm specifically that levels of trust and trustworthiness have a significant effect on economic outcomes. They cite substantial evidence that social norms prescribing cooperative or trustworthy behaviour decide whether societies manage to overcome obstacles to collective action, which obstacles would otherwise obstruct their development. Although the evidence is viewed as confirmation of the importance of Douglass North’s informal institutions in his New Institutional Economics (NIE) theory of economic development, it comes from outside institutional economics, from the social-

¹⁴⁵ The components of the Adelmann-Morris Index include: the size of the agricultural sector, the degree of dualism, the degree of urbanisation, the character of basic social organization, the importance of the middle class, the degree of social mobility, the degree of literacy, the extent of mass communication, the crude fertility rate, and the degree to which outlook is modernised (Adelman and Morris 1967).

capital literature.¹⁴⁶

Stephen Knowles (2005: 24) concurs that the social-capital literature serves as a confirmation of the institutional deep-determinants approach to economic development. He views institutions as a continuum, ranging from formal to informal, with social capital occupying the informal end of the continuum. He concludes that “when empirically estimating the effects of social capital on economic development ... social capital can be added to the list of deep determinants of economic development, along with formal institutions and geography.”

From the scholarly evidence one may conclude that, like formal institutions, informal institutional rules – or social capital, or culture – also shape the way in which societies organise themselves and the incentives that motivate human behaviour. They induce growth if they incentivise and facilitate economic exchange in a society, which translates into positive aggregate economic outcomes. With the constituents of social capital, like trust, cooperative norms and networks not directly observable or measurable, the WVS proves a valuable source of metrics for trust, cooperative values, perception of self-determination, and so on.

Many of these measures are closely related to cultural history, for instance religious affiliation, general versus particular trust, respect and tolerance for others, and perceptions of obedience to authority and autonomy over one’s own destiny. Prosperous nations, like Western Europe and Scandinavian countries for instance, practise executive accountability and restraint, with broad political, economic and civic participation of the majority. Unlike their informal institutional traits, their *formal* institutional regime of primarily liberal democracy is salient. In reality, though, their institutional *outcomes* – that is, their context-specific blend of formal, informal and enforcement characteristics – establish the web of incentives that encourages productive economic activity which, when aggregated, constitutes growth and development. Productive economic activity comprises all sorts of entrepreneurial endeavour, innovation and investment in both human and physical capital, all of which is productive use of a nation’s resources. These productive, growth-inducing activities depend crucially on whether the incentives are right for productive use of resources; put differently, whether the institutional mix disallows diversion of productive resources.

¹⁴⁶ See for instance *Development and Social Capital* by Marcel Fafchamps (2005) for a “federating” exercise of the social-capital research across various social sciences.

Appendix C (Chapter 8)

C.1 Pairwise Correlation Results for Poverty and EFW Governance pillars

Table C.1 shows the correlation results for poverty (as measure of existential security) and the EFW governance pillars.

Table C.1 Pairwise Correlation Results for Poverty and the Governance Pillars of the EFW Index for the Full Sample of WVS Countries

	<i>pov</i>	<i>sum</i>	<i>lpr</i>	<i>sm</i>	<i>fit</i>	<i>reg</i>
<i>pov</i>	1.0000					
<i>sum</i>	-0.5397 0.0000	1.0000				
<i>lpr</i>	-0.5849 0.0000	0.7125 0.0000	1.0000			
<i>sm</i>	-0.3730 0.0000	0.8236 0.0000	0.5050 0.0000	1.0000		
<i>fit</i>	-0.5935 0.0000	0.8558 0.0000	0.6337 0.0000	0.6239 0.0000	1.0000	
<i>reg</i>	-0.3481 0.0000	0.8270 0.0000	0.5169 0.0000	0.6194 0.0000	0.6554 0.0000	1.0000

Table C.1 shows the pairwise correlation results for poverty and the summary index (*sum*) of the EFW Index, as well as the individual pillars plotted in Figures 8.2 to 8.6 in Chapter 8. The signs of all the coefficients are negative, as expected, and all correlation coefficients between EFW variables and the poverty measure are statistically significant at a 1 per cent level of significance ($p < .01$). Of the individual pillars, legal system and property rights (*lpr*) and freedom to trade with foreigners (*fit*) have the highest (negative) correlations with poverty (*pov*), while sound money (*sm*) and quality of regulation (*reg*) have weaker (negative) correlations.

Table C.2 similarly shows the correlation results for existential security and the EFW governance pillars, using GDP per capita (in constant 2011 PPP dollars) instead of poverty to represent existential security.

Table C.2 Pairwise Correlation Results for GDP Per Capita and the Governance Pillars of the EFW Index for the Full Sample of WVS Countries

	<i>gdppc</i>	<i>sum</i>	<i>lpr</i>	<i>sm</i>	<i>ftt</i>	<i>reg</i>
<i>gdppc</i>	1.0000					
<i>sum</i>	0.5921 0.0000	1.0000				
<i>lpr</i>	0.6907 0.0000	0.7125 0.0000	1.0000			
<i>sm</i>	0.4926 0.0000	0.8236 0.0000	0.5050 0.0000	1.0000		
<i>ftt</i>	0.5210 0.0000	0.8558 0.0000	0.6337 0.0000	0.6239 0.0000	1.0000	
<i>reg</i>	0.5212 0.0000	0.8270 0.0000	0.5169 0.0000	0.6194 0.0000	0.6554 0.0000	1.0000

The positive coefficients in Table C.2 confirm that quality governance (in terms of the EFW indicators) is positively correlated with GDP per capita, and highly statistically significant. Of the individual pillars, legal system and property rights (*lpr*) have the highest (positive) correlation with GDP per capita.

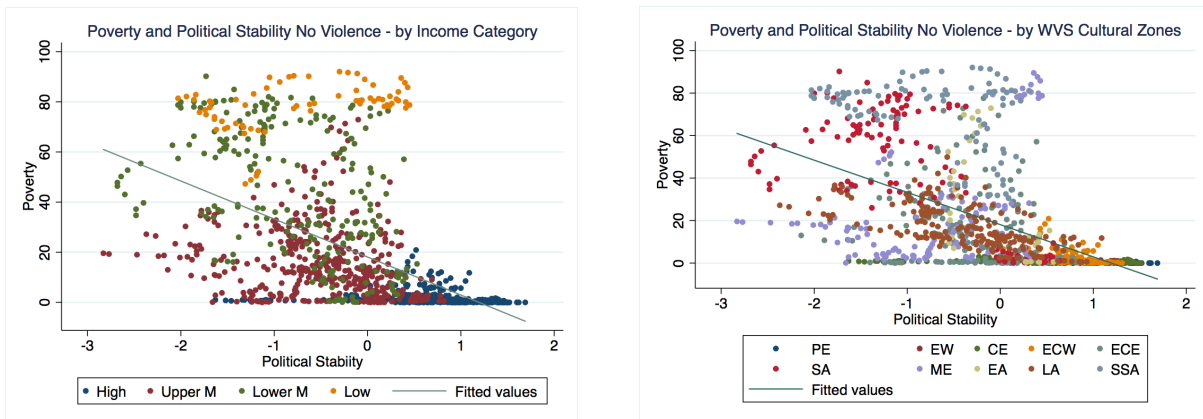
C.2 Existential Security and Governance Using the World Governance Indicators (WGI)

The nexus between poverty (as a measure of societies' sense of existential security) and the quality of governance (as a measure of both formal institutions that would constrain state predation and the extent to which these rules are) is also investigated using the regime-independent governance pillars of the WGI.

Figures C.1 to C.5 show the association between poverty, and the five regime-independent dimensions of governance of the WGI for the WVS countries, first colour-coded according to World Bank income categorisations, then also to WVS cultural zones.

Figure C.1 shows the negative association between poverty, and Political Stability and the Absence of Violence. High-income countries are concentrated around the high-stability-end of the trend line. The distribution of middle and low-income countries is relatively diffuse across all levels of poverty and political stability; it would appear though that convergence ensues once a threshold (from a stability score of 0 to 1) is crossed.

Figure C.1 Poverty, and the WGI's Political Stability and Absence of Violence Pillar in WVS Countries, Grouped according to World Bank Income Categories and WVS Cultural Zones



Poverty is similarly negatively associated with Government Effectiveness. The diffuse scattering of countries funnels towards convergence sooner than in Figure C.2. At high levels of Government Effectiveness, poverty is essentially eradicated.

Figure C.2 Poverty, and the WGI's Government Effectiveness Pillar in WVS Countries, Grouped according to World Bank Income Categories and WVS Cultural Zones



Figure C.3 Poverty, and the WGI's Regulatory Quality in WVS Countries, Grouped according to World Bank Income Categories and WVS Cultural Zones



Figure C.4 Poverty, and the WGI’s Rule of Law in WVS Countries, Grouped According to World Bank Income Categories and WVS Cultural Zones

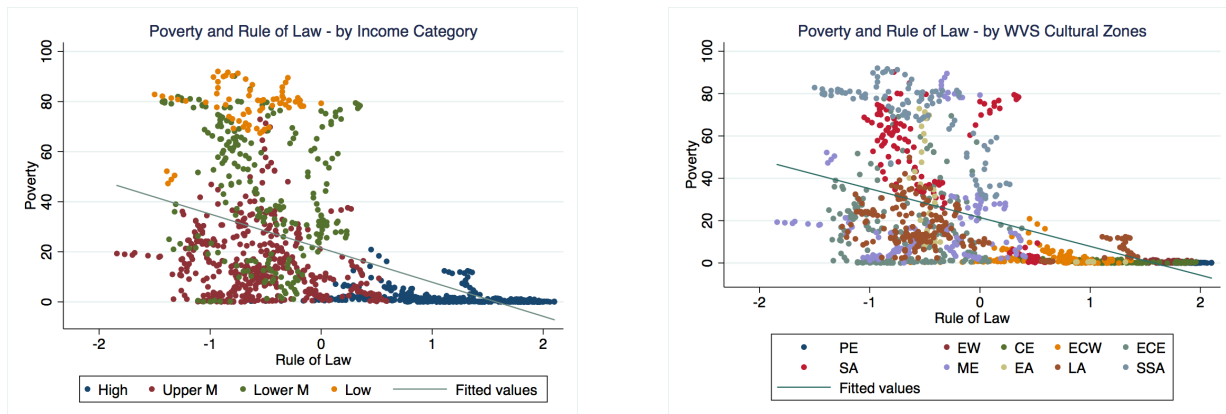


Figure C.5 Poverty, and the WGI’s Control of Corruption in WVS Countries, Grouped According to World Bank Income Categories and WVS Cultural Zones

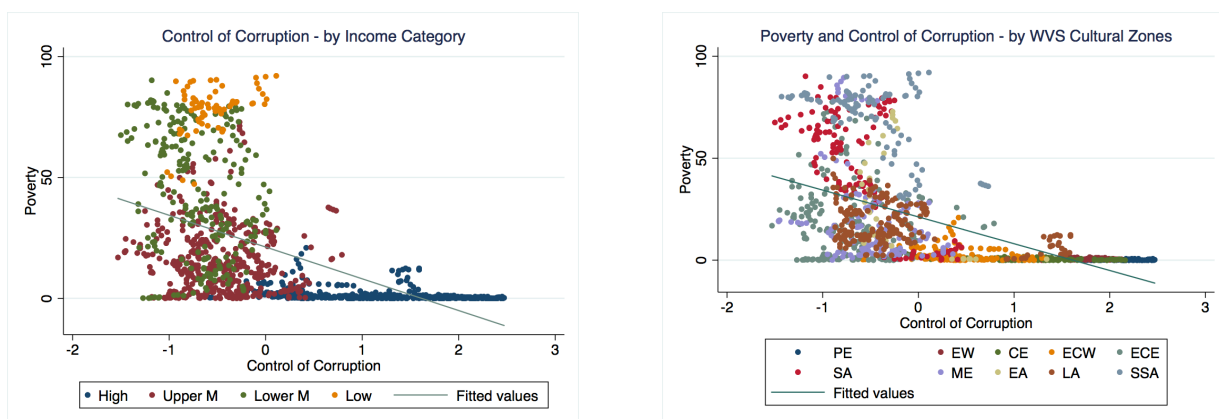


Figure C.3 portraying poverty and Regulatory Quality reports a similar trend. Poverty is negatively associated with the quality of government regulation, as it is with the Rule of Law and Control of Corruption dimensions in Figures C.4 and C.5. Particularly notable in these two dimensions of governance, is the rapid convergence between high scores in governance and the reduction in poverty; in Figure C.5, scores beyond 0 to 1 on the Control of Corruption are associated with near-zero levels of poverty.

Pairwise correlations testing the strengths of the associations between poverty (*pov*), GDP per capita (in constant 2011 PPP dollars) instead of poverty as a measure of existential security, and the five individual WGI pillars are reported in Table C.3. (Note that *psv* denotes Political Stability and Absence of Violence/Terrorism; *ge* is Government Effectiveness; *rq* is Regulatory Quality; *rol* is Rule of Law, and *coc* is Control of Corruption.) All the governance pillars are negatively correlated with poverty, and statistically significant at the 1 per cent level.

Table C.3 Pairwise Correlation Results for Poverty, GDP per Capita and the WGI Pillars for the Full Sample of WVS Countries

	<i>pov</i>	<i>gdppc</i>	<i>psv</i>	<i>ge</i>	<i>rq</i>	<i>rol</i>	<i>coc</i>
<i>pov</i>	1.0000						
<i>gdppc</i>	-0.6039 0.0000	1.0000					
<i>psv</i>	-0.5536 0.0000	0.6049 0.0000	1.0000				
<i>ge</i>	-0.5816 0.0000	0.6955 0.0000	0.7793 0.0000	1.0000			
<i>rq</i>	-0.5648 0.0000	0.6411 0.0000	0.7553 0.0000	0.9371 0.0000	1.0000		
<i>rol</i>	-0.5395 0.0000	0.7044 0.0000	0.8075 0.0000	0.9609 0.0000	0.9325 0.0000	1.0000	
<i>coc</i>	-0.5366 0.0000	0.7129 0.0000	0.7879 0.0000	0.9536 0.0000	0.9029 0.0000	0.9600 0.0000	1.0000

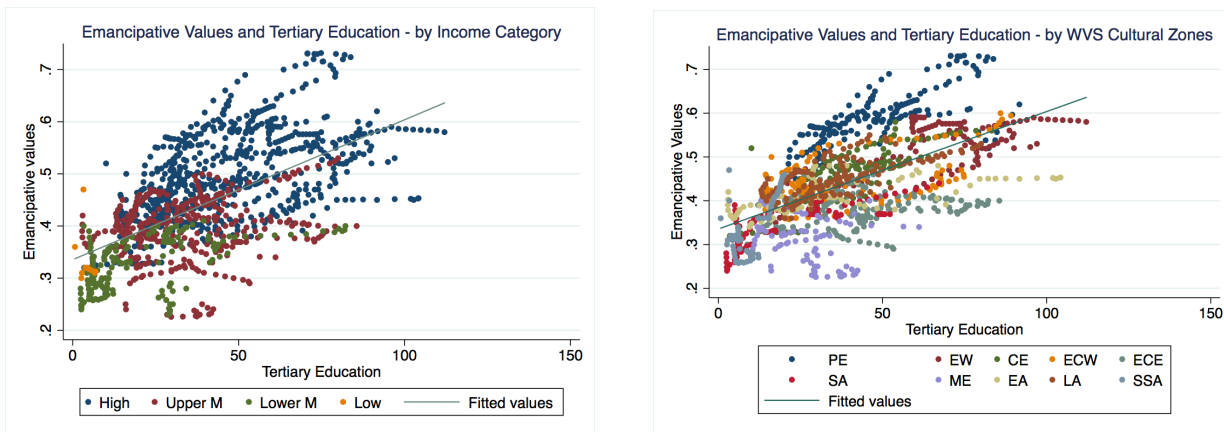
As expected, the coefficients also confirm not only a *positive* correlation between GDP per capita and quality of governance, but also a *strong* correlation, ranging from 0.6049 for Political Stability and Absence of Violence, to 0.7129 for Control of Corruption. Also, all governance variables are statistically significant at a level of 1 per cent. The strong correlation between GDP per capita and Control of Corruption suggests that, of all the governance variables, the degree to which the diversion of public resources towards private and elite interests through corrupt practices can be curbed matters most for a society's material welfare. The detrimental impact that state predation has on development runs deeper than the drawing down of public funds that should fund the social contract. The deeper, more fundamentally damaging effect is the disincentive that it signals to investors, entrepreneurs and innovators that are discouraged by the looming threat of degrees of expropriation through various extractive practices (Boettke and Candela 2019).

C.3 Using Tertiary Enrolment as an Alternative Measure for Education

Figure C.6 illustrates the positive association between the percentage of the population enrolled in tertiary education and the degree to which national cultures prioritise emancipative value orientations. Interestingly, the low-income countries score relatively better on emancipative orientations than on tertiary enrolment, while a number of high-income countries outperforming on

educational enrolment score proportionately weaker in emancipative values compared to the trend line.

Figure C.6 Tertiary Education and Emancipative Values in WVS Countries, Grouped According to World Bank Income Categorisations and WVS Cultural Zones



The chart on the right in Figure C.6 shows that South Asia and sub-Saharan Africa are the poorest performing cultural zones in terms of tertiary enrolment, but fare disproportionately poorer on emancipative values. The Middle East however scores equally low, or lower, on emancipative orientation despite significantly higher levels of tertiary enrolment.

Correlation analysis was carried out to test the strength of the correlations between emancipative values (*evi*), the two possible measures used for existential security (poverty and GDP per capita as defined above), and the two measures used for education – tertiary enrolment (*ter*) and the human capital index (*hci*). Table C.4 reports the results of the regression.

Table C.4 Pairwise Correlation Results for Emancipative Values, Measures of Existential Security and Measures of Education for the Full Sample of WVS Countries

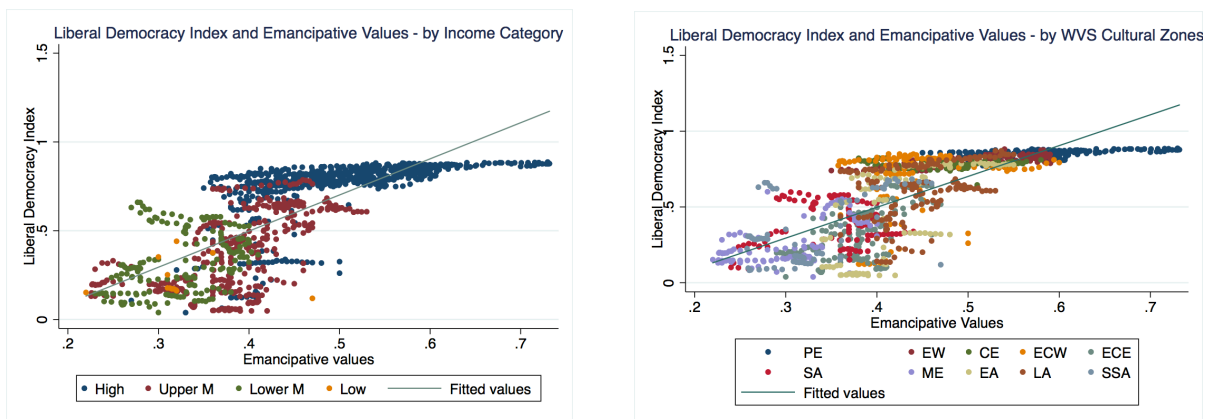
	<i>evi</i>	<i>pov</i>	<i>gdppc</i>	<i>ter</i>	<i>hci</i>
<i>evi</i>	1.0000				
<i>pov</i>	-0.5508 0.0000	1.0000			
<i>gdppc</i>	0.7249 0.0000	-0.6039 0.0000	1.0000		
<i>ter</i>	0.6019 0.0000	-0.6727 0.0000	0.4393 0.0000	1.0000	
<i>hci</i>	0.7044 0.0000	-0.7560 0.0000	0.5089 0.0000	0.7876 0.0000	1.0000

All the signs are as expected and all correlation coefficients are significant at the 1 per cent level of significance. GDP per capita as measure of existential security, and human capital as measure of education, are particularly highly correlated with emancipative value orientations.

C.4 Using the Liberal Democracy Index as Alternative Measure for Liberal Democracy

The association between liberal democracy and emancipated values was also investigated using the liberal democracy index of the V-Dem Institute. Figure C.7 depicts this relationship for the WVS countries, again according to the World Bank income categorisations, as well as the WVS cultural zones.

Figure C.7 Liberal Democracy and Emancipative Values in WVS countries, Grouped According to World Bank Income Categories and WVS Cultural Zones



Both scatter graphs show strongly positive associations between liberal democracy and emancipative values.

Table C.5 Pairwise correlation results between emancipative values, Polity2 country scores, and the V-Dem measure for liberal democracy

	<i>polity2</i>	<i>libdem</i>	<i>evi</i>	<i>svi</i>
<i>polity2</i>	1.000			
<i>libdem</i>	0.8555 0.0000	1.0000		
<i>evi</i>	0.5915 0.0000	0.7501 0.0000	1.000	
<i>svi</i>	0.3128 0.0000	0.3675 0.0000	0.5584 0.0000	1.0000

The pairwise correlation results in Table C.5 confirm that emancipative values are positively correlated with Polity2 scores, but even more strongly with the *libdem* measure of liberal democracy. Both are highly significant at the 1 per cent level of significance. Although the correlations between secular-rational values (SVI), emancipative values (EVI) and liberal democracy are shown, the cultural variable of interest is the emancipative rather than the secular dimension, due to the former's well-defined connection with liberal democracy.

C.5 Breakdown of System GMM Results into Income Groupings

Table C.6 Two-step System GMM Estimation Results for All Countries and According to Income Groupings, 1981 to 2015

(Dependent variable: *lgdppc*)

	(1) <i>All</i>	(2) <i>High and Upper-middle</i>	(3) <i>Lower-middle and Low</i>
<i>L.lgdppc</i>	0.920*** (40.62)	0.913*** (37.20)	0.910*** (12.09)
<i>lpr_ftt_reg_sm</i>	0.0112* (1.86)	0.0127* (1.77)	0.0280* (1.85)
<i>hci_evi</i>	0.0129** (2.44)	0.0127* (1.77)	0.0280* (1.85)
<i>i_gdp</i>	0.00307*** (3.41)	0.00355*** (3.13)	0.000411 (0.57)
<i>x_gdp</i>	0.000741*** (3.45)	0.000773*** (3.59)	0.00107* (1.87)
<i>g_gdp</i>	0.000858* (1.86)	0.000757* (1.80)	-0.00199 (-0.82)
<i>polity2</i>	0.00262 (1.04)	0.00754*** (2.79)	-0.00548 (-0.82)
<i>_cons</i>	0.509*** (2.97)	0.551*** (2.80)	0.591 (1.01)
N	668	547	121
AB(2)	Pr>z=0.017	Pr>z=0.025	Pr>z=0.406
Sargan	Pr> χ^2 =0.000	Pr> χ^2 =0.000	Pr> χ^2 =0.017
Hansen	Pr> χ^2 =0.663	Pr> χ^2 =0.909	Pr> χ^2 =1.000
Diff-in-Hansen	Pr> χ^2 =0.672	Pr> χ^2 =0.947	Pr> χ^2 =0.737

t statistics in parentheses

t statistics based on robust standard errors.

* p<0.10, ** p<0.05, *** p<0.01

The Systems GMM results for the full sample of countries appear to be driven by the high and upper-middle income grouping of countries in column 2 more than the lower-middle and low-income grouping. Weaker results for lower income groupings may partly be attributed to the under-representation of these countries in the sample.

C.6 Marginal Effects of Changes in Variables of Interest

Table C.7 reports descriptive statistics of interest for the marginal effects of the model.

Table C.7 Number of Observations, Mean Values, Standard Deviations, Minimum and Maximum Values of Standardised Variables per WVS Cultural Zone

WVS cultural zone	Variable	Obs.	Mean	Standard deviation	Min. value	Max. value
Catholic Europe	<i>gdppc</i>	297	35320.46	16129.3	16162.33	97864.2
	<i>lpr_fit_reg_sm</i>	385	7.327325	1.005898	3.760441	8.679459
	<i>hci_evi</i>	146	3.975159	1.156756	1.765723	6.326072
	<i>i_gdp</i>	396	23.30971	4.847425	10.217	45.342
	<i>x_gdp</i>	396	51.02703	40.43739	14.04777	222.7032
Ex-Communist East	<i>gdppc</i>	438	9164.969	5483.587	1475.95	25551.09
	<i>lpr_fit_reg_sm</i>	227	6.488655	0.9981361	3.4425	8.067582
	<i>hci_evi</i>	84	3.696773	0.5706738	2.537031	4.861543
	<i>i_gdp</i>	411	24.95503	8.766996	-10.738	57.99
	<i>x_gdp</i>	456	37.20248	13.4433	7.224579	86.20361
Ex-Communist West	<i>gdppc</i>	196	20024.07	5626.352	8283.84	31295.26
	<i>lpr_fit_reg_sm</i>	209	7.066554	1.045302	3.1901	8.432333
	<i>hci_evi</i>	104	4.62869	1.182902	2.90439	7.750876
	<i>i_gdp</i>	236	24.87739	5.489462	-1.5	41.536
	<i>x_gdp</i>	217	54.07388	18.59371	20.75783	94.62461
English West	<i>gdppc</i>	162	37277.56	8069.205	22409.33	61820.57
	<i>lpr_fit_reg_sm</i>	210	8.307545	0.5422106	6.712258	9.029462
	<i>hci_evi</i>	76	6.151463	1.717343	2.571055	8.08886
	<i>i_gdp</i>	216	22.31972	3.516301	14.49	37.426
	<i>x_gdp</i>	216	32.06451	23.65537	6.975559	124.6426
Latin-America	<i>gdppc</i>	349	12290.66	5607.519	4511.994	31974.02
	<i>lpr_fit_reg_sm</i>	447	5.766906	1.312906	2.1475	7.890332
	<i>hci_evi</i>	148	3.605993	0.9541185	1.362527	5.467684
	<i>i_gdp</i>	432	19.89259	4.470582	0.102	32.171
	<i>x_gdp</i>	465	24.02312	11.32725	6.598187	81.40933
Middle East	<i>gdppc</i>	408	22444.01	27375.7	1274.093	124024.6
	<i>lpr_fit_reg_sm</i>	364	5.900925	1.061429	3.552265	7.919749
	<i>hci_evi</i>	88	1.25869	0.4402192	0	2.213421
	<i>i_gdp</i>	459	25.32998	8.839951	1.443	77.163
	<i>x_gdp</i>	525	37.31102	21.53354	0.0053768	131.1297
Protestant Europe	<i>gdppc</i>	216	42551.84	9141.336	25686.51	65083.26
	<i>lpr_fit_reg_sm</i>	280	8.137662	0.6322536	5.338212	8.953178
	<i>hci_evi</i>	141	7.00746	1.485491	3.598734	10
	<i>i_gdp</i>	288	23.26577	3.349685	13.904	36.194
	<i>x_gdp</i>	288	42.41031	12.57582	20.19009	83.42558
East Asia	<i>gdppc</i>	135	21412.48	15666.97	1457.595	54420.07
	<i>lpr_fit_reg_sm</i>	188	7.292073	1.208706	4.439483	9.139026
	<i>hci_evi</i>	72	4.049763	1.723062	1.747383	6.811523
	<i>i_gdp</i>	216	29.44947	7.683762	1.177	48.006
	<i>x_gdp</i>	175	52.97477	53.23197	3.945298	221.6101
South Asia	<i>gdppc</i>	216	13603.88	18692.42	1325.592	84704.28
	<i>lpr_fit_reg_sm</i>	276	6.310396	1.323932	2.900341	9.131384
	<i>hci_evi</i>	72	1.857872	1.264857	0.1723932	4.982737
	<i>i_gdp</i>	288	26.94443	7.712792	13.64	46.928
	<i>x_gdp</i>	288	52.51788	56.75885	3.396255	231.1945
Sub-Saharan Africa	<i>gdppc</i>	270	2873.626	2835.455	502.9054	12388.26
	<i>lpr_fit_reg_sm</i>	280	5.279928	1.434401	2.340227	8.01422
	<i>hci_evi</i>	49	0.8893565	0.7066207	0.002515	2.404971
	<i>i_gdp</i>	310	23.01708	10.22438	4.587	84.203
	<i>x_gdp</i>	306	21.66991	10.80534	3.338307	51.73036

Bibliography

- Abernethy, David B. 2000. *The Dynamics of Global Dominance: European Overseas Empires, 1415–1980*. New Haven CT, Yale University Press.
- Abramovitz, Moses. 1972. “Manpower, Capital, and Technology.” In Ivar Berg (ed.) *Human Resources and Economic Welfare: Essays in Honor of Eli Ginzburg*. New York, Columbia University Press.
- 1986. “Catching-up, Forging Ahead and Falling Behind.” *Journal of Economic History* 46(2): 385 – 406.
 - 1989. *Thinking About Growth; and Other Essays on Economic Growth and Welfare*. Cambridge, University Press.
 - 1993. “The Search for the Sources of Growth: Areas of Ignorance, Old and New.” *Journal of Economic History* 53(2): 217 – 213.
- Acemoglu, Daron. 2008. “Oligarchic versus democratic societies.” *Journal of the European Economic Association* 6: 1 – 44.
- 2009. *Introduction to Modern Economic Growth*. Princeton NJ, Princeton University Press.
- Acemoglu, Daron; Gelb, Stephen and Robinson, James. 2007. *Black Economic Empowerment and economic performance in South Africa*. Non-Technical Policy Brief, August 2007.
<http://www.treasury.gov.za/publications>.
- Acemoglu, Daron; Johnson, Simon and Robinson, James. 2001. “The Colonial Origins of Comparative Development: An Empirical Investigation.” *American Economic Review* 92(5): 1369 – 1401.
- 2002. “The Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution.” *The Quarterly Journal of Economics* 117(4): 1231 – 1294.
 - 2005. “Institutions as a Fundamental Cause of Long-run Growth.” In Aghion, Philippe and Durlauf, Steven N. Durlauf (eds.) *Handbook of Economic Growth* Vol. IA. North Holland, Elsevier.
- Acemoglu, Daron; Johnson, Simon; Robinson, James and Yared, Pierre. 2005. “From Education to Democracy?” *The American Economic Review* 95(2), Papers and Proceedings of the 117th Annual Meeting of the American Economic Association: 44 – 49.
- Acemoglu, Daron; Reed, Tristan and Robinson, James A. 2014. “Chiefs: Economic Development and Elite Control of Civil Society in Sierra Leone.” *Journal of Political Economy* 122(2): 319 – 368.

- Acemoglu, Daron and Robinson, James A. 2000. “Why did the West extend the franchise? Growth, inequality and democracy in historical perspective.” *Quarterly Journal of Economics* 115: 1167 – 99.
- 2001. “A theory of political transitions.” *American Economic Review* 91: 938 – 63.
 - 2005a. *Economic Origins of Dictatorship and Democracy*. New York, Cambridge University Press.
 - 2005b. “The Rise of Europe: Atlantic Trade, Institutional Change, and Economic Growth.” *American Economic Review* May 2005: 546 – 579.
 - 2006a. “De Facto Political Power and Institutional Persistence.” *American Economic Review* May 2006: 325 – 330.
 - 2006b. *Economic Origins of Dictatorship and Democracy*. New York, Cambridge University Press.
 - 2008. “The Role of Institutions in Growth and Development.” *Commission on Growth and Development Working Paper*, Number 10.
 - 2012. *Ten Reasons Countries Fall Apart*. Global Policy Forum (Foreign Policy). July/August 2012.
 - 2013. *Why Nations Fail. The Origins of Power, Prosperity and Poverty*. Londen, Profile Books Ltd.
 - 2019. *The Narrow Corridor. States, Societies and the Fate of Liberty*. Londen, Penguin Random House.
- Acemoglu, Daron; Naidu, Suresh; Restrepo, Pascual and Robinson, James A. 2013. “Democracy, Redistribution and Inequality.” *NBER Working Paper 19746*. December 2013: 1 – 8.
- Acemoglu, Daron; Naidu, Suresh; Restrepo, Pascual and Robinson, James A. 2014. “Democracy Does Cause Growth.” *NBER Working Paper 20004*. March 2014.
- 2019. “Democracy Does Cause Growth.” *Journal of Political Economy* 127(1): 47 – 100.
- Acemoglu, Daron and Jackson, Matthew O. 2015. “History, Expectations and Leadership in the Evolution of Social Norms.” *Review of Economic Studies* April 2015: 423 – 456.
- Ackoff, Russel L. 1974. *Redesigning the future*. New York, NY, Wiley.
- Adelman, Irma and Morris, Cynthia T. 1967. *Society, Politics and Economic Development*. Baltimore, John Hopkins University Press.
- Adelman, Irma. 2000. “Fallacies in Development Theory and their Implications for Policy.” In G.M. Meier and J. E. Stiglitz (eds.) *Frontiers of Development Economics: The Future in Perspective*. Washington D.C., World Bank/Oxford University Press: 103 – 134.

- Aghion, Philippe; Alesina, Alberto and Trebbi, and Francesco. 2004. "Endogenous Political Institutions." *Quarterly Journal of Economics* 119: 565 – 611.
- Aghion, Philippe and Howitt, Peter. 1992. "A model of growth through creative destruction." *Econometrica* 60(2): 323 – 351.
- Albouy, David Y. 2012. "The Colonial Origins of Comparative Development: An Empirical Investigation: Comment." *American Economic Review* 102(6): 3059 – 3076.
- Alemayehu, Geda and Addis, Yimer. 2014. *Growth, Poverty and Inequality in Ethiopia, 2000-2013: A Macroeconomic Appraisal*. To be Published by Forum for Social Studies, FSS.
- Alesina, Alberto, Ozler, Sule; Roubini, Nouriel and Swagel, Phillip. 1996. "Political Instability and Economic Growth." *Journal of Economic Growth* 1: 189 – 211.
<http://doi.org/10.1007/BF00138862>
- Alesina, Alberto and Giuliano, Paola. 2015. "Culture and Institutions." *Journal of Economic Literature* 53(4): 898 – 944.
- Allen, Robert, C. 2010. *The British Industrial Revolution in Global Perspective*. Cambridge, Cambridge University Press.
- Almond, Gabriel and Verba, Sidney. 1989 (first ed. 1963). *The civic culture: Political attitudes and democracy in five nations*. London, Sage Publications.
- Althaus, Scott. 2003. *Collective Preferences in Democratic Politics. Opinion Surveys and the Will of the People*. New York, Cambridge University Press.
- Anand, Sudhir and Sen, Amartya. 2000. "Human Development and Economic Sustainability." *World Development* 28: 2029 – 2049.
- Appadurai, Arjun. 2004. "The Capacity to Aspire: Culture and the Terms of Recognition." In Vijayendra Rao and Michael Walton (eds.) *Culture and Public Action*. Palo Alto CA, Stanford University Press: 59 – 84.
- Arellano, Manuel and Bond, Stephen. 1991. "Some Tests of Specification for Panel Data: Monte Carlo Evidence and an Application to Employment Equations." *Review of Economic Studies* 58(2): 277 – 297.
- Arellano, Manuel and Bover, Olympia. 1995. "Another Look at the Instrumental Variable Estimation of Error-Component Models." *Journal of Econometrics* 68(1): 29 – 51.
- Atkinson, Anthony. 2016. *Monitoring Global Poverty. Report of the Commission on Global Poverty*. World Bank Group, Washington D.C.
- Avery, John S. 2003. *Information Theory and Evolution*. Danvers, World Scientific.
- Ayittey, George B.N. 1989. "The Political Economy of Reform in Africa." *Journal of Economic Growth* 3: 4 – 17.

- 2006. *Indigenous African Institutions*. Ardsley-on-Hudson NY, Transactional Publishers.
- Ayres, Clarence E. 1944. *The Theory of Economic Progress*. North Carolina, University of North Carolina Press.
- Azariadis, Costas and Drazen, Allan. 1990. “Threshold Externalities in Economic Development.” *The Quarterly Journal of Economics* 105(2): 501 – 526.
- Baland, Jean-Marie; Moene, Karl Ove and Robinson, James A. 2009. “Governance and Development.” In Rodrik, Dani and Rosenzweig, Mark (eds.) *Handbook of Development Economics*. North Holland, Elsevier.
- Balazs, Etienne. 1964. *Chinese Civilization and Bureaucracy: Variations on a Theme*. New Haven, Yale University Press.
- Barro, Robert J. 1991. “Economic Growth in a Cross Section of Countries.” *Quarterly Journal of Economics* 106: 407 – 44.
- 1996a. “Democracy and growth.” *Journal of Economic Growth* 1(1): 1 – 27.
- 1996b. “Determinants of Economic Growth: A Cross-Country Empirical Study.” *NBER Working Paper* 5698. Cambridge, MA: National Bureau of Economic Research.
- 1997. *Determinants of Economic Growth: A Cross-Country Empirical Study*. Cambridge MA, MIT Press.
- 1999. “Determinants of Democracy.” *Journal of Political Economy* 107: 158 – 183.
- Barro, Robert J. and Lee, Jong-Wha. 1994. “Sources of economic growth.” *Carnegie-Rochester Conference Series on Public Policy* [http://doi.org/10.1016/0167-2231\(94\)90002-7](http://doi.org/10.1016/0167-2231(94)90002-7).
- Barro, Robert J. and Sala-i-Martin, Xavier. 1995. *Economic Growth*. New York, McGraw Hill.
- Barro, Robert J. and McCleary Rachel M. 2006. “Religion and Economic Growth Across Countries.” *American Sociological Review* 71: 760 – 781.
- Barzel, Yoram. 2002. *A theory of the state: economic rights, legal rights, and the scope of the state*. New York, NY, Cambridge University Press.
- Bates, Robert. 2005. *Markets and States in Tropical Africa: The Political Basis of Agricultural Policies*. Berkeley, University of California Press.
- Bates, Winton. 2012. *Free to Flourish*. Kindle Version (B 00 AP 0 F 9 HO).
- Bauer, Péter T. 1984. *Reality and Rhetoric: Studies in the Economics of Development*. London, Weidenfield & Nicolson.
- Benhabib, Jess and Spiegel, Mark M. 1994. “The Role of Human Capital in Economic Development: Evidence from Aggregate Crosscountry Data.” *Journal of Monetary Economics* 34(2): 143 – 173.

- Besley, Timothy and Kudamatsu, Masayuki. 2008. "Making Autocracy Work." In Helpman, E. (ed.) *Institutions and Economic Performance*, Cambridge MA and London, Harvard University Press: 452 – 510.
- Besley, Timothy and Persson, Torsten. 2010. "State capacity, conflict, and development." *Econometrica* 78(1): 1 – 34.
- Beyers, Jan; Eising, Rainer and Maloney, William. 2010. *Interest Group Politics in Europe: Lessons from EU Studies and Comparative Politics*. New York, Routledge.
- Bikhchandani, Sushil; Hirshleifer, David and Welch I. 1992. "A Theory of Fads, Fashion, Custom and Cultural Change as Information Cascades." *Journal of Political Economy* 100: 992 – 1026.
- Biddle, Jeff. 2012. "The Introduction of the Cobb-Douglas Regression." *The Journal of Economic Perspectives* 26(2): 223 – 236.
- Black, Philip A.; Calitz, Estian and Steenekamp, Tjaart J. 2015. *Public Economics*. Sixth Edition. Cape Town, Oxford University Press Southern Africa.
- Bloom, David E. and Sachs, Jeffrey D. 1998. "Geography, Democracy, and Economic Growth in Africa." *Brookings Papers on Economic Activity* No. 2: 207 – 295.
- Blundell, Richard and Bond, Stephen. 1998. "Initial conditions and moment restrictions in dynamic panel data models." *Journal of Econometrics* 87: 115 – 143.
- Boettke, Peter J. and Candela, R. 2019. "Productive specialization, peaceful cooperation, and the problem of the predatory state: Lessons from comparative historical political economy." *Public Choice* <https://doi.org/10.1007/s11127-019-00657-9>.
- Boettke, Peter J., Coyne, Christopher J. and Leeson, Peter T. 2008. "Institutional Stickiness and the New Development Economics." *The American Journal of Economics and Sociology* 67(2): 331 – 358.
- Boix, Charles. 2003. *Democracy and Redistribution*. New York, Cambridge University Press.
- Boix, Charles; Miller, Michael and Rosato, Sebastián. 2012. "A Complete Dataset of Political Regimes, 1800 – 2007." *Comparative Political Studies* 39(4): 1523 – 1554.
- Boone, Catherine. 2003. *Political Topographies of the African State: Territorial Authority and Institutional Choice*, Cambridge UK, Cambridge University Press.
- Bornstein, Marc H. and Putnick, Diane L. 2012. "Cognitive and Socioemotional Caregiving in Developing Countries." *Child Development* 83(1): 46 – 61.
- Borocz, Jozsef. 2000. "Informality Rules." *East European Politics and Societies* 14: 348 – 380.
- Boserup, Ester. 1976. "Environment, Population, and Technology in Primitive Societies." *Population and Development Review* 2(1): 21 – 36.

- Böss, Michael. 2011. *Narrating Peoplehood Amidst Diversity: Historical and Theoretical Perspectives*. Aarhus Denmark: Aarhus University Press.
- Bourdieu, Pierre. 1977. *Outline of a Theory of Practice*. Cambridge UK, Cambridge University Press.
- Bowles, Samuel and Gintis, Herbert. 2002. "Social Capital and Community Governance." *Economic Journal* 112(483): 419 - 436.
- Boix, Carles. 2003. *Democracy and Redistribution*. Cambridge, Cambridge University Press.
- Boix, Carles and Stokes, Susan. 2003. "Endogenous Democratization." *World Politics* 55: 517 – 549.
- Bratton, Michael and Van der Walle, Nicolas. 1997. *Democratic Experiments in Africa: Regime Transitions in Comparative Perspective*. New York, Cambridge University Press.
- Bratton, Michael. 2007. "Formal versus Informal Institutions in Africa." *Journal of Democracy* 18(3): 97 – 110.
- Braütigam, Deborah A.; Fjeldstad, Odd-Helge and Moore, Mick. 2008. *Taxation and State-Building in Developing Countries. Capacity and Consent*. Cambridge, UK, Cambridge University Press.
- Brennan, Jason. 2016. *Against Democracy*. New Jersey, Princeton University Press.
- Brinks, Daniel. 2002. "Informal Institutions and the Rule of Law: The Judicial Response to State Killing in Buenos Aires and Sao Paulo in the 1990s." Paper prepared for the conference, *Informal Institutions and Politics in the Developing World*, Harvard University, April 5–6.
- Broadberry, Stephen. 2016. *The Characteristics of Modern Economic Growth Revisited*. <https://www.nuffield.ox.ac.uk/users/Broadberry/ModernEconomicGrowth6a.pdf>.
- Brown, Sidney D. 1962. "Okubo Toshimichi: His Political and Economic Policies in Early Meiji Japan." *The Journal of Asian Studies* 21(2): 183 – 197.
- Brubaker, Rogers. 1996. *Nationalism Reframed: Nationhood and the National Question in the New Europe*. New York, Cambridge University Press.
- 2004. *Ethnicity without Groups*. Cambridge MA, Harvard University Press.
- Bruno, Giovanni S. F. 2005. "Approximating the Bias of the LSDV Estimator for Dynamic Unbalanced Panel Data Models." *Economics Letters* 87: 361 – 366.
- Buchanan, James M. 1976. "Public Goods and Natural Liberty." In *The Market and the State. Essays in Honour of Adam Smith*, T. Wilson and A.S. Skinner (eds.), Oxford, Clarendon: 271 – 286.
- 1975 [2000]. *The collected works of James M. Buchanan, volume 7: The limits of liberty: Between anarchy and leviathan*. Indianapolis IN, Liberty Fund.
- Burchard, Stephanie M. 2014. *Democracy Trends in Sub-Saharan Africa, 1990 to 2014*. Institute for

- Defense Analyses Document NS D-5393.
- Burkart, Ross E. and Lewis-Black, Michael S. 1995. "Comparative Democracy: The Economic Development Thesis." *American Political Science Review* 88(4): 903 – 910.
- Burke, Edmund. 2001. *Reflections on the Revolution in France*. Stanford CA: Stanford University Press.
- Caplan, Bryan. 2011. *The Myth of the Rational Voter: Why Democracies Choose Bad Policies*. New Jersey, Princeton University Press.
- Carlson, Christine. 2007. *A Practical Guide to Collaborative Governance*. Portland OR, Policy Consensus Initiative.
- Carlyle, Thomas. 1837. *The French Revolution: A History*. London, Chapman and Hall.
- Carneiro, Robert. 1970. "A Theory of the Origin of the State." *Science* 169 (3947): 733 – 738.
- Carter, April. 2012. *People Power and Political Change*. London, Routledge.
- Carey, John M. 2000. "Parchment, Equilibria, and Institutions." *Comparative Political Studies* 33: 791 – 821.
- Cass, David. 1965. "Optimum Growth in an Aggregative Model of Capital Accumulation." *Review of Economic Studies* 32 (July): 233 – 240.
- Center for Systemic Peace; <http://www.systemicpeace.org/inscrdata.html>.
- Chabal, Patrick and Daloz, Jean-Pascal. 1999. *Africa Works: Disorder as Political Instrument*. The International African Institute, Indiana University Press.
- 2005. *Culture Troubles: Politics and the Interpretation of Meaning*. London, C. Hurst & Co. Publishers Ltd.
- Chang, Ha-Joon. 2011. "Institutions and economic development: theory, policy and history." *Journal of Institutional Economics* 7(4): 473 – 498
- Cheibub, Jose Antonio. 1996. "What Makes Democracies Endure?" *Journal of Democracy* 7: 39 – 55.
- Cheibub, José Antonio. 2007. *Presidentialism, Parliamentarism and Democracy*. Cambridge, Cambridge University Press.
- Cheibub, José Antonio; Gandhi, Jennifer and Vreeland James, R. 2010. "Democracy and Dictatorship Revisited." *Public Choice* 143(1-2): 67 – 101.
- Chenery, Hollis B. 1960. "Patterns of Industrial Growth." *The American Economic Review* 50(4): 624 – 654.
- Clague, Cristopher; Keefer, Philip; Knack, Stephen and Olson, Mancur. 1995. "Contract-intensive Money: Contract Enforcement, Property Rights and Economic Performance." *IRIS Working Paper*, University of Maryland.

- 1996. “Property and Contract Rights under Democracy and Dictatorship.” *Journal of Economic Growth* 1(2): 243 – 76.
- Clapham, Christopher. 1997. *Africa and the International System: The Politics of State Survival*. Cambridge, Cambridge University Press.
- Clark, David A. 2002. *Visions of Development*. Northampton, MA, Edward Elgar.
- 2006. “Capability Approach.” In Clark, D.A. (ed) *The Elgar Companion to Development Studies*. Cheltenham, Edward Elgar.
- Clark, Gregory. 2007. *A Farewell to Alms. A Brief Economic History of the World*. Princeton, Princeton University Press.
- Clark, Howard. 2009. “Introduction.” In H. Clark (ed.) *People Power: Unarmed Resistance and Global Solidarity*. London: Pluto Press: 1 – 22.
- Coase, Ronald H. 1937. “The Nature of the Firm.” *Economia* 4(16): 386 – 405.
- 1960. “The Problem of Social Cost.” *The Journal of Law and Economics* 3: 1 – 44.
 - 1976. “Adam Smith’s View of Man.” *Journal of Law and Economics* 19: 529 – 46.
 - 1992. “The Institutional Structure of Production.” *The American Economic Review* 82(4): 713 – 719.
- Cobb, Charles W. and Douglas, Paul H. 1928. “A theory of production.” *American Economic Review* 18(1): 139 – 165.
- Coleman, James S. 1988. “Social Capital in the Creation of Human Capital.” *American Journal of Sociology* 4 (Supplement): S95 – S120.
- 1990a. “Rational Organization.” *Rationality and Society* 2(1), 94 – 105.
 - 1990b. *Foundations of Social Theory*. Cambridge, Harvard University Press.
- Collier, Paul. 2008. *The Bottom Billion. Why the poorest countries are failing and what we can do about it*. New York, Oxford University Press.
- Collier, Paul and Vicente, Pedro C. 2012. “Violence, Bribery, and Fraud: The Political Economy of Elections in sub-Saharan Africa.” *Public Choice* 153(1-2): 117 – 147.
- Collier, Ruth Berins. 1999. *Paths Toward Democracy: The Working Class and Elites in Western Europe and South America*. New York, Cambridge University Press.
- Collins, Kathleen. 2002. “Clans, Pacts and Politics in Central Asia.” *Journal of Democracy* 13: 137 – 152.
- Commons, John R. 1965. *A Sociological View of Sovereignty*. New York, Augustus Kelley.
- Cox, Gary W; North, Douglass C. and Weingast, Barry R. 2015. *The violence trap: A political-economic approach to the problems of development*. Available at SSRN: <https://ssrn.com/abstract=2370622>.

- Crafts, Nicholas F.R. 1977. "Industrial Revolution in England and France: Some Thoughts on the Question, 'Why England was first?'" *The Economic History Review* 30(3): 429 – 441.
- 1995. "Exogenous or Endogenous Growth? The Industrial Revolution Reconsidered." *The Journal of Economic History* 55(4): 745 – 772.
- Crain, Caleb. 2016. "The Case Against Democracy." *The New Yorker*. www.newyorker.com/magazine/2016/11/07/the-case-against-democracy: 7/23
- Cudworth, Bruce; Cady, Gerlach; Howley, Beth; Maruyama, Sho and Mix, Liz. 2013. *Collaborating against the Wicked Problem of Poverty*. Maxwell School of Citizenship and Public Affairs, Syracuse University, May 2013.
- Dahl, Robert A. 2000. *On Democracy*. New Haven, Yale University Press.
- Dalton, John T. and Leung Tin C. 2014. "Why is Polygyny More Prevalent in Western Africa? An African Slave Trade Perspective." *Economic Development and Cultural Change*, 63: 599 – 632.
- Dang, Giang and Sui Pheng, Low. 2015. *Infrastructure Investments in Developing Economies*. Singapore, Springer: 11 – 26.
- Darden, Keith. 2002. "Graft and Governance: Corruption as an Informal Mechanism of State Control." Paper prepared for the conference, *Informal Institutions and Politics in the Developing World*, Harvard University, April 5 – 6.
- Daunton, Martin E. 1995. *Progress and Poverty: An Economic and Social History of Britain 1700-1850*. London, Oxford University Press.
- Deaton, Angus. 2013. *The Great Escape Health, Wealth, and the Origins of Inequality*. Princeton New Jersey, Princeton University Press.
- De Soto, Hernando. 2000. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York, Basic Books.
- De Tocqueville, Alexis. 1998. *The Old Regime and the Revolution. Vol. 1*. Chicago, University of Chicago Press.
- Dell, Melissa; Jones Benjamin F. and Olken, Benjamin A. 2011. "Temperature Shocks and Economic Growth." *NBER Working Paper* No. 14132, Cambridge MA, National Bureau of Economic Research.
- De Long, J. Bradford. 1988. "Productivity Growth, Convergence and Welfare: Comment." *American Economic Review* 78(5): 1138 – 1154.
- Deschenes, Oliver and Greenstone, Michael. 2007. "The Economic Impacts of Climate Change." *American Economic Review* 97: 354 – 385.
- Development Finance International and Oxfam. 2017. *The Commitment To Reducing Inequality*

- Index*, July 2017, Development Finance International and Oxfam Research Report.
- Dia, Mamadou. 1996. *Africa's Management in the 1990s: Reconciling Indigenous and Transplanted Institutions*. Washington, World Bank.
- Diamond, Jared. 1997. *Guns, Germs and Steel: The Fates of Human Societies*. New York, Norton New York W.W. and Company Inc.
- Diamond, Larry. 1992. "Economic Development Reconsidered." *American Behavioral Scientist* 35: 450 – 499.
- 2008. *The Spirit of Democracy. The Struggle to Build Free Societies Throughout the World*. New York, Times Books.
- Diamond, Larry; Linz, Juan J. and Lipset, Seymour, Martin. 1988. *Democracy in Developing Countries*. Boulder CO, Lynne Rienner.
- Dixit, Avinash. 2009. "Governance Institutions and Economic Activity." *The American Economic Review* 99(1): 3 – 24.
- Djankov, Simeon; La Porta, Rafael; Lopez-de-Silanes, Florencio and Shleifer, Andrei. 2002. "The Regulation of Entry." *Quarterly Journal of Economics* 117: 1 – 37.
- Dobler, Constanze. 2009. "The Impact of Formal and Informal Institutions on Per Capita Income." *Hohenheimer Diskussionsbeiträge Nr 319/2009*.
- Domar, Evsey D. 1947. "Expansion and Employment." *The American Economic Review* 37(1): 34 – 55.
- Dumont, Louis. 1986. *Essays on Individualism*. Chicago, University of Chicago Press.
- Durant, Robert F. and Legge, Jerome S. 2006. "Wicked Problems, Public Policy and Administrative Theory: Lessons from the Lessons from the GM Food Regulatory Arena." *Administration & Society* 38(3): 309 – 334.
- Easterlin, Richard A. 1996. *Growth Triumphant: The Twenty-First Century in Historical Perspective*. Michigan, University of Michigan Press.
- Easterly, William and Levine, Ross. 2003. "Tropics, Germs and Crops: How Endowments Influence Economic Development." *Journal of Monetary Economics* 50(1): 3 – 39.
- Easterly, William. 2006. "The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good." New York, Penguin.
- 2014. *The Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor*. New York, Basic Books.
- Economist. 2017. Free exchange | Get off my cloud, January 14th, 2017: 65.
- Economist Intelligence Unit. 2018. *Democracy Index 2017. Free speech under attack*.
http://pages.eiu.com/rs/753-RIQ-438/images/Democracy_Index_2017.pdf

- Eisenstadt Shmuel N. 1973. *Traditional Patrimonialism and Modern Neopatrimonialism*. Beverly Hills CA, Sage.
- Eisenstadt, Todd A. 2002. “Trust but Verify: How Mexico’s Opposition Forced Electoral Dispute Resolution from Bargaining Tables to Courtrooms and Lived to Tell About it.” Paper prepared for the conference, *Informal Institutions and Politics in the Developing World*, Harvard University, April 5–6.
- Elias, Norbert. 2004. “Knowledge and Power: An Interview by Peter Lundes.” In Stehr N. and Meja V. (eds.) *Society and Knowledge*. New Brunswick, Transaction: 203 – 242.
- Elvin, Mark. 1973. *The Pattern of the Chinese Past: A Social and Economic Interpretation*. Stanford, Stanford University Press.
- Elsner, Wolfram. 1989. “Adam Smith’s Model of the Origins and Emergence of Institutions: The Modern Findings of the Classical Approach.” *Journal of Economic Issues* 23(1): 189 – 213.
- Eltis, David; Lewis, Frank D. and Sokoloff, Kenneth L. 2004. *Slavery in the Development of the Americas*. New York, Cambridge University Press.
- Engerman, Stanley L. and Kenneth L. Sokoloff. 1994. “Factor Endowments, Institutions, and Differential Paths of Growth Among New World Economies: A View from Economic Historians of The United States.” *NBER Historical Paper* No. 66.
- 2002. “Factor Endowments, Institutions, and Paths of Development Among New World Economies.” *Economia* 3: 41 – 109.
- 2003. “Institutional and Non-Institutional Explanations of Economic Differences.” *NBER Working Paper* No. 9989
- 2005. “Colonialism, Inequality, and Long-Run Paths of Development.” *NBER Working Paper* No. 11057.
- 2012. *Economic Development in the Americas since 1500. Endowments and Institutions*. Cambridge, Cambridge University Press.
- Englebert, Pierre. 2000. *State Legitimacy and Development in Africa*. London, Lynne Rienner Publishers.
- Epstein, David L.; Bates, Robert; Goldstone, Jack; Kristensen, Ida and Halloran, Sharyn. 2006. “Democratic transitions.” *American Journal of Political Science*
<http://doi.org/10.1111/j.1540-5907.2006.00201.x>
- Evans, Peter, B. 1995. *Embedded Autonomy: States and Industrial Transformation*. Princeton NJ, Princeton University Press.
- Evans, Peter B. and Rauch, James E. 1999. “Bureaucracy and Growth: A Cross-National Analysis of the Effects of ‘Weberian’ State Structures on Economic Growth.” *American Sociological*

Review 64: 748 – 65.

- Fafchamps, Marcel. 2005. “Development and Social Capital.” *Global Poverty Research Group GPRG Working Paper Series-007*.
- Feenstra, Robert C., Inklaar, Robert and Timmer, Marcel P. 2015. “The Next Generation of the Penn World Table.” *American Economic Review* 105(10), 3150 – 3182.
- Felipe, Jesus and Adams, F. Gerard. 2005. “A Theory of Production. The Estimation of the Cobb-Douglas Function: A Retrospective View.” *Eastern Economic Journal* 31(3): 427 – 445.
- Feng, Yi. 1997. “Democracy, Political Stability and Growth.” *British Journal of Political Science* 27(3): 391 – 418.
- Fenske, James and Kala, Namrata. 2017. “1807: Economic Shocks, Conflict and the Slave Trade.” *Journal of Development Economics* 126(C): 66 – 76.
- Ferguson, Niall. 2011. *Civilization. The West and the Rest*. London, Penguin Books.
- 2012. *The Great Degeneration: How Institutions Decay and Economies Die*. New York, Penguin Books.
- Ferraro, Vincent. 2008. “Dependency Theory: An Introduction.” In G. Secondi (ed.) *The Development Economics Reader*. London, Routledge: 58 – 64.
- Fieldhouse, David K. 1965. *The Colonial Empires. A Comparative Survey from the Eighteenth Century*. London, Palgrave.
- Frankel, Jeffrey A. and Romer, David. 1999. “Does Trade Cause Growth?” *The American Economic Review* 89 (3): 379 – 399.
- Fraser Institute. 2017. *The Human Freedom Index 2017. A Global Measurement of Personal, Civil, and Economic Freedom*. USA: The Cato Institute, the Fraser Institute and the Friedrich Naumann Foundation for Freedom.
- Freedom House. 2018. *Freedom in the World 2018. Democracy in Crisis*. www.freedomhouse.org.
- Freese, Jeremy. 2009. “Preferences.” In Peter Hedström and Peter Bearman (eds.) *The Oxford Handbook of Analytical Sociology*. Oxford UK, Oxford University Press: 94 – 114.
- Friedrich, Carl J. 1956. “The Ideological and Philosophical Background.” In Schwarz (ed.) *The Code Napoléon and the Common-Law World: The Sesquicentennial Lectures*. Delivered at the Law Center of New York University, December 13-15. New York, New York University Press.
- Fukuyama, Francis. 1997. *Social Capital*. Tanner Lecture on Human Values, May 12 to 15. Oxford, Brasenose College: 378 – 9.
- Fukuyama, Francis. 2011. *The Origins of Political Order: From Prehuman Times to the French Revolution*. London, Profile Books.
- 2014. *Political Order and Political Decay: From the Industrial Revolution to the*

- Globalisation of Democracy*. London, Profile Books.
- Furet, Francois. 1981. *Interpreting the French Revolution*. New York, Cambridge University Press.
- Galbraith, John Kenneth. 1969. *The New Industrial State*. Hammondsworth, Penguin.
- Gallup, John. L. and Sachs, Jeffrey. 2000. “Agriculture, Climate and Technology.” *American Journal of Agricultural Economics* 82: 731 – 737.
- 2001. “The Economic Burden of Malaria.” *American Journal of Tropical Medicine and Hygiene* 64(1-2): 85 – 96.
- Galvan, Dennis. 2002. “Institutional Syncretism and Local Democracy in Senegal and in Comparative Perspective.” Paper prepared for the conference, *Informal Institutions and Politics in the Developing World*, Harvard University, April 5 – 6.
- Gastil, Raymond. 1983, 1986, 1987. *Freedom in the World*. Westport, Conn, Greenwood.
- Geertz, Clifford. 1973. “The Impact Of The Concept Of Culture On The Concept Of Man.” Chapter 2 in *The Interpretation of Cultures. Selected Essays*. New York, Basic Books Inc.
- Geloso, Vincent J. and Salter, Alexander W. 2018. *State capacity and economic development: Causal mechanism or correlative filter?* Available at SSRN: <https://ssrn.com/abstract=3294086>.
- Gennaioli, Nicola and Rainer, Ilia. 2007. “The Modern Impact of Precolonial Centralization in Africa.” *Journal of Economic Growth* 12(3): 185 – 234.
- George, Henry. 1879. “Progress and Poverty. An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth The Remedy.” In Drake, Bob (ed.) 2006. *Progress and Poverty. Why there are recessions and poverty amid plenty — and what to do about it!* New York, Robert Schalkenbach Foundation.
- Gerring, John; Bond, Philip; Barndt, William and Moreno, Carola. 2005. “Democracy and Growth: A Historical Perspective.” *World Politics* 57(3): 323 – 64.
- Gerring, John; Thacker, Strom C. and Alfaro, Rodrigo. 2012. “Democracy and Human Development.” *Journal of Politics* 74 (01): 1 – 17.
- Gertler, Paul; Heckman, James; Pinto, Rodrigo; Zanolini, Arianna; Vermeersch, Christel; Walker, Susan; Chang, Susan M. and Grantham-McGregor, Sally. 2014. “Labor Market Returns to an Early Childhood Stimulation Intervention in Jamaica.” *Science* 344 (6187): 998 – 1001.
- Ghatak, Subrata. 2003. *Introduction to Development Economics (2nd ed.)*. London: Routledge.
- Glaeser, Edward L. and Shleifer, Andrei. 2002. “Legal Origins.” *The Quarterly Journal of Economics* 117(4): 1193 – 1229.
- Glaeser, Edward L.; La Porta, Rafael; Lopez-De-Silanes, Florencio and Shleifer, Andrei. 2004. “Do

- Institutions Cause Growth?" *Journal of Economic Growth* 9(3): 271 – 303.
- Glaeser, Edward L. 2005. "The Political Economy of Hatred." *Quarterly Journal of Economics* 120(1): 45 – 86.
- Glaeser, Edward L., Ponzetto Giacomo A.M. and Shleifer, Andrei. 2007. "Why Does Democracy Need Education?" *Journal of Economic Growth* 12 (2): 77 – 99.
- Goody, Jack. 2004. *Comparative Studies in Kinship*. London, Routledge.
- Graff Zivin, Joshua and Neidell, Matthew J. 2010. "Temperature and the Allocation of Time." *National Bureau of Economic Research Working Paper* No. 15717. Cambridge MA, National Bureau of Economic Research.
- Grayling, Anthony C. 2007. *Toward the Light of Liberty*. New York, Walker.
- Green, Elliott. 2013. "Explaining African Ethnic Diversity." *International Political Science Review* 34: 235 – 253.
- Greif, Avner. 1994. "Cultural Beliefs and the Organization of Society. A Historical and Theoretical Reflection on Collectivist and Individual Societies." *The Journal of Political Economy* 102(5): 912 – 950.
- 2006. *Institutions and the Path to the Modern Economy. Lessons from Medieval Trade*. New York, Cambridge University Press.
- Grindle, Merilee, S. 2012. *Jobs for the Boys. Patronage and State in Comparative Perspective*. Cambridge, Harvard University Press.
- Guiso, Luigi; Sapienza, Paolo and Zingales, Luigi. 2006. "Does Culture Affect Economic Outcomes?" *Journal of Economic Perspectives* 20(2): 23 – 48.
- Haber, Stephen. 1997. *How Latin America Fell Behind: Essays on the Economic Histories of Brazil and Mexico, 1800–1914*. Stanford CA, Stanford University Press.
- 2012. "Rainfall and Democracy: Climate, Technology, and the Evolution of Economic and Political Institutions." *SSRN Electronic Journal*, April 2012.
- Hall, John A. 1986. *Powers and Liberties: The Causes and Consequences of the Rise of the West*. Berkeley, University of California Press.
- Hall, Robert E. and Jones, Charles I. 1999. "Why Do Some Countries Produce So Much More Output Per Worker Than Others?" *The Quarterly Journal of Economics* 114(1): 83 - 116.
- Halpern, David. 2015. *Inside the Nudge Unit. How Small Changes Can Make a Big Difference*. London, Penguin Random House.
- Hamilton, Walton H. 1919. "The Institutional Approach to Economic Theory." *American Economic Review* 9 (Supplement): 309 – 318.
- 1932. "Institutions." *Encyclopaedia of the Social Sciences*. Vol. 8. New York, Macmillan.

- Hamilton-Hart, Natasha. 2000. "The Singapore State Revisited." *The Pacific Review* 13: 195 – 216.
- Harrison, Lawrence E. and Huntington, Samuel P. 2000. *Culture Matters*. New York, Basic Books.
- Harrod, Roy F. 1948. *Towards a Dynamic Economics, Some Recent Developments of Economic Theory and their Application to Policy*. London, Macmillan.
- Hausman, Jerry A. 1976. "Specification Tests in Econometrics." *Massachusetts Institute of Technology, Department of Economics Working Paper 185*, August 1967.
- Hausman, Ricardo; Rodrik, Dani and Velasco, Andres. 2008. "Growth Diagnostics." In Serra, Narcis and Stiglitz, Joseph E. (eds.) *The Washington Consensus Reconsidered: Towards a New Global Governance*. New York, Oxford University Press.
- Hayo, Bernd and Voigt, Stefan. 2010. "Determinants of Constitutional Change: Why do Countries Change Their Form of Government?" *Journal of Comparative Economics* 38: 283 – 305.
- Hedlund, Stefan. 2001. "Property Without Rights: Dimensions of Russian Privatization." *Europe-Asia Studies* 53(2), pp. 213–237.
- 2005. *Russian Path Dependence*. Abingdon, Oxon, Routledge.
- Held, David. 2006. *Models of Democracy*. Stanford, Stanford University Press.
- Helliwell, John F. 1994. "Empirical linkages between democracy and economic growth." *British Journal of Political Science* 24(2): 225 – 248.
- Helliwell, John and Putnam, Robert. 2007. "Education and Social Capital." *Eastern Economic Journal* 33(1): 1 – 19.
- Helmke, Gretchen. 2003. "Checks and Balances by Other Means: The Argentine Supreme Court in the 1990s." *Comparative Politics* January 2003.
- Helmke, Gretchen and Levitsky, Steven. 2003. "Informal Institutions and Comparative Politics: A Research Agenda." *The Helen Kellogg Institute for International Studies Working Paper*, September 2003.
- Henderson, Vernon J.; Shalizi, Zmarak and Venables, Anthony J. 2000. "Geography and Development." *World Bank Policy Research Working Paper* 2456.
- Henrich, Joseph; Boyd, Robert; Bowles, Samuel; Camerer, Colin; Fehr, Ernst; Gintis, Herbert and McElreath, Richard. 2001. "In Search of Homo Economicus: Behavioral Experiments in 15 Small-Scale Societies." *American Economic Review* 91(2): 73 – 78.
- Herbst, Jeffrey I. 2000. *States and Power in Africa: Comparative Lessons in Authority and Control*. Princeton, Princeton University Press.
- Hobbes, Thomas. 2019/1651. *Leviathan or the matter, forme, and power of a common-wealth ecclesiastical and civil*. <http://socse rv.mcmaster.ca/econ/ugcm/3113/hobbes/Leviathan.pdf>.

- Hodgson, Geoffrey M. 2000. "What is the Essence of Institutional Economics?" *Journal of Economic Issues* 34(2): 321.
- Hogstrom, John. 2013. "Does the Choice of Democracy Measure Matter? Comparisons between the Two Leading Democracy Indices, Freedom House and Polity IV." *Government and Opposition* 48(2): 201 – 221.
- Holcombe, Randall. 2019. "Progressive democracy: The ideology of the modern predatory state." *Public Choice* <https://doi.org/10.1007/s11127-019-00637-z>.
- Hoodbhoy, Pervez A. 1991. *Islam and Science: Religious Orthodoxy and the Battle for Rationality*. London and Atlantic Highlands NJ, Zed Books.
- Hughes, Austin L. 1988. *Evolution and Human Kinship*. New York, Oxford University Press.
- Huntington, Samuel P. 1965. "Political Development and Political Decay." *World Politics* 17(3).
- 1966. "Political Modernization: America vs. Europe." *World Politics* 18: 378–414.
 - 1968. *Political Order in Changing Societies*. New Haven, Yale University Press.
 - 1991. *The Third Wave: Democratization in the Late Twentieth Century*. Oklahoma City, University of Oklahoma Press.
 - 2004. *Who Are We? The Challenges to America's National Identity*. New York, Simon & Schuster.
 - 2006. *Political Order in Changing Societies*. With a New Foreword by Francis Fukuyama. New Haven, Yale University Press.
- Huther, Jeff and Shah, Anwar. 1996. *A Simple Measure of Good Governance*. Operations Evaluation Department, World Bank, Washington DC. Unpublished.
- Hutchison, Terence W. 1984. "Institutionalist Economics Old and New." *Zeitschrift fuer die gesamte Staatswissenschaft* 140: 20 – 29.
- Hyden, Goran. 2006. *African Politics in Comparative Perspective*. New York, Cambridge University Press.
- Ingham, Barbara. 1995. *Economics and Development*. New York, McGraw-Hill.
- Inglehart, Ronald. 1997. *Modernization and Postmodernization: Cultural, Economic and Political Change in 43 Societies*. Princeton, Princeton University Press.
- Inglehart, Ronald and Baker, Wayne. 2000. "Modernization, Cultural Change and the Persistence of Traditional Values." *American Sociological Review* (February): 19 – 51.
- Inglehart, Ronald and Norris, Pippa. 2003. *Rising Tide: Gender Equality and Cultural Change Around the World*. New York and Cambridge, Cambridge University Press.
- Inglehart, Ronald and Welzel, Christian. 2005. *Modernization, Cultural Change and Democracy*.

- New York and Cambridge, Cambridge University Press.
- 2009. “How Development Leads to Democracy: What We Know About Modernization.” *Foreign Affairs* March/April: 33-48.
 - 2010. “Changing Mass Priorities: The Link Between Modernization and Democracy.” *Perspectives on Politics* 8(2): 551 – 567.
- Inglehart, Ronald; Haerpfer, Christian; Moreno, Alejandro; Welzel, Christian; Kizilova, Kseniya; Diez-Medrano, Jaime; Lagos Marta; Norris, Pippa; Ponarin Eduard and Puranen Bi (eds.). 2014. *World Values Survey: All Rounds*. Country-Pooled Datafile Version: <http://www.worldvaluessurvey.org/WVSDocumentationWV6.jsp>. Madrid: JD Systems Institute.
- Janik, Allan and Toulmin, Stephen. 1973. *Wittgenstein’s Vienna*. New York, Simon & Schuster.
- Jensen, Erik G. and Heller, Thomas. 2003. *Beyond Common Knowledge: Empirical Approaches to the Rule of Law*. Stanford CA, Stanford University Press.
- Johnson, Noel D. and Koyama, Mark. 2017. “States and economic growth: Capacity and constraints.” *Explorations in Economic History* 64(2): 1 – 20.
- Johnson, Simon and Subramanian, Arvind. 2005. *Aid, Governance and the Political Economy: Growth and Institutions*. Paper prepared for the Seminar on Foreign Aid and Macroeconomic Management, Maputo. March 2005: 3.
- Jones, Benjamin F. 2008. “National Leadership and Economic Growth.” *The New Palgrave Dictionary of Economics*, December 2008.
- Jones, Benjamin F. and Olken, Benjamin A. 2005. “Do Leaders Matter? National Leadership and Growth since World War II.” *Quarterly Journal of Economics* 120(3): 835 – 864.
- 2009. “Hit or Miss? The Effect of Assassinations on Institutions and War.” *American Economic Journal: Macroeconomics* 1(2): 55 – 87.
- Jones, Charles I. and Romer Paul M. 2010. “The New Kaldor Facts: Ideas, Institutions, Population, and Human Capital.” *American Economic Journal: Macroeconomics* 2(1): 224 – 245.
- Jones, Eric. 1987. *The European Miracle*. New York, Cambridge University Press.
- 1988. *Growth recurring: Economic change in world history*. Clarendon Press, Oxford.
 - 2006. *Cultures Merging: A Historical and Economic Critique of Culture*. Princeton University Press.
- Joseph, Richard A. 1987. *Democracy and Prebendal Politics in Nigeria: The Rise and Fall of the Second Republic*. New York, Cambridge University Press.
- Kahneman, Daniel. 2011. *Thinking, Fast and Slow*. London, Penguin Group.
- Kangur, Alvar. 2016. “What Rules in the ‘Deep’ Determinants of Comparative Development?” *Research in Economics and Business: Central and Eastern Europe* 8(1): 67 – 96.

- Kapás, Judit. 2017. “How Cultural Values Affect Economic Growth: A Critical Assessment of the Literature.” *Ekonomiska Misao i Praksa (Economic Thought and Practice)* XXVI(I): 265-285.
- Kaufmann, Daniel; Kraay, Aart and Zoido-Lobaton, Pablo. 1999. “Aggregating Governance Indicators.” *World Bank Policy Research Working Paper No. 2195*, World Bank, Washington DC.
- Kaufmann Daniel; Kraay, Aart and Mastruzzi, Massimo. 2003. “Governance Matters III: Governance Indicators for 1996 – 2002.” *World Bank Policy Research Working Paper No. 3106*, World Bank, Washington DC.
- 2010. *The Worldwide Governance Indicators: Methodology and Analytical Issues*. World Bank, September 2010.
- Keefer, Philip. 2005. “Democratization and clientelism: Why are young democracies badly governed?” *World Bank Policy Research Paper No. 3594*, World Bank, Washington DC.
- 2007. “Clientelism, Credibility, and the Policy Choices of Young Democracies.” *American Journal of Political Science* 51(4): 804 – 821.
- Keefer, Philip and Vlaicu, Razvan. 2004. “Democracy, Credibility and Clientelism.” *World Bank Policy Research Paper No. 3472*, World Bank, Washington DC.
- Keefer, Philip and Knack, Stephen. 2008. “Social Capital, Social Norms and the New Institutional Economics.” In Claude Ménard and Mary M. Shirley (eds.) *The Handbook of New Institutional Economics*. Heidelberg, Springer-Verlag: 701 – 726.
- Kemp, Tom. 1969. *Industrialization in nineteenth-century Europe*. London, Longmans.
- 2014. *Industrialization in the Non-Western World*. London, Routledge.
- Kerekes, Claudia B. and Williamson, Carrie R. 2008. “Unveiling de Soto’s Mystery: Property Rights, Capital Formation, and Development.” *Journal of Institutional Economics* 4(3): 299 – 325.
- Kessides, Christine. 2005. “The Urban Transition in sub-Saharan Africa: Implications for Growth and Poverty Reduction.” *Africa Region Working Paper Series No. 97*, The World Bank.
- Khadduri, Majid. 1955. *War and Peace in the law of Islam*. Baltimore, John Hopkins University Press.
- King, Steven and Timmins, Geoffrey. 2001. *Making sense of the Industrial Revolution: English economy and society, 1700-1850*. Manchester, Manchester University Press.
- Kleinfeld, Rachel. 2006. “Competing Definitions of the Rule of Law.” In Carothers, T. (ed.) *Promoting the Rule of Law Abroad: In Search of Knowledge*. Washington DC, Carnegie Endowment.
- Kleinman, Arthur. 2006. *What Really Matters: Living a Moral Life amidst Uncertainty and Danger*.

- Oxford UK, Oxford University Press.
- Knack, Stephen and Keefer, Philip. 1997. “Does Social Capital Have an Economic Payoff? A Cross-Country Investigation.” *The Quarterly Journal of Economics* 112(4): 1251 – 1288.
- Knack, Stephen. 2002. “Social Capital, Growth, and Poverty: A Survey of Cross-Country Evidence.” In Grootaert, Christiaan and Van Bastelaer, Thierry (eds.) *The Role of Social Capital in Development: An Empirical Assessment*. Cambridge UK, Cambridge University Press.
- Knowles, Stephen. 2005. “Is Social Capital Part of the Institutions Continuum?” *Centre for Research in Economic Development and International Trade Research Paper No. 05/11*, November 2005.
- Knowles, Stephen and Weatherston, Clayton. 2006. “Informal Institutions and Cross-Country Differences.” *Centre for Research in Economic Development and International Trade Research Paper No. 06/06*.
- Kooiman, Jan and Chuenpagdee Ratana. 2005. “Governance and governability.” In Kooiman J., Bavinck, M., Jentoft S. and Pullin R. (eds.) *Fish for Life: Interactive Governance for Fisheries*. Amsterdam, University of Amsterdam Press: 325 – 350.
- Koopmans, Tjalling C. 1965. “On the Concept of Optimal Economic Growth.” In *The Econometric Approach to Development Planning*. Amsterdam, North Holland.
- Kramon, Eric. 2013. *Vote Buying and Accountability in Democratic Africa*. PhD Dissertation, University of California, Los Angeles.
- Krueger, Anne O. 1974. “The Political Economy of the Rent-Seeking Society.” *American Economic Review* 64(3): 291 – 303.
- Kuran, Timur. 1997. *Private Truths, Public Lies: The Social Consequences of Preference Falsification*. Cambridge MA, Harvard University Press.
- Kuznets, Simon. 1966. *Modern Economic Growth: Rate, Structure and Spread*. New Haven and London, Yale University Press.
- 1971. *Economic Growth of Nations: Total Output and Production Structure*. Cambridge, Belknap Press of Harvard University Press.
 - 1973. “Modern Economic Growth: Findings and Reflections.” *The American Economic Review* 63(3): 247 – 258.
- Kyvik Nordås, Hildegunn. 2018. “Frankel and Romer revisited.” *Working Papers* 2018:4, Örebro University, School of Business.
- Landes, David S. 1990. “Why Are We So Rich and They So Poor?” *The American Economic Review* 80(2): 1 – 13.
- 1998. *The Wealth and Poverty of Nations. Why Some Are So Rich and Some So Poor*. New

- York, W.W. Norton.
- La Porta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei and Vishny, Robert. 1998. “The Quality of Government.” *Journal of Law, Economics and Organization* 15(1): 222 – 279.
- La Porta, Rafael; Lopez-De-Silanes, Florencio; Pop-Eleches, Christian and Shleifer, Andrei. 2004. “Judicial Checks and Balances.” *Journal of Political Economy* 112(2): 445 – 470.
- Lal, Deepak. 1983. *The Poverty of Development Economics*. London, Institute of Economic Affairs.
- Lauth, Hans-Joachim. 2000. “Informal Institutions and Democracy.” *Democratization* 7(4): 21 – 50.
- Levathes, Louise E. 1994. *When China Ruled the Seas: The Treasure Fleet of the Dragon Throne, 1405-33*. New York: Simon & Schuster.
- Levitsky, Steven. 2001. “A ‘Disorganized Organization’: Informal Organization and the Persistence of Local Party Structures in Argentine Peronism.” *Journal of Latin American Studies* 33: 29 – 66.
- Lewis, Bernard. 1982. *The Muslim Discovery of Europe*. New York, W.W. Norton .
- Lewis, W.Arthur. 1954. “Economic Development with Unlimited Supplies of Labour.” *The Manchester School* 22(2): 139 – 191.
- 1956. *The Theory of Economic Growth*. Great Britain, George Allen & Unwin Ltd. Great Britain (Ninth impression).
- Li, Wei and Yang, Dennis Tao. 2006. “The Great Leap Forward: Anatomy of a Central Planning Disaster.” *Journal of Political Economy* 113(4): 840 – 877.
- Limpen, Jean. 1956. “Territorial Expansion of the Code.” In Schwarz (ed.) *The Code Napoléon and the Common-Law World: The Sesquicentennial Lectures*. Delivered at the Law Center of New York University, December 13-15. New York, New York University Press.
- Linz, Juan J. and Stephan, Alfred C. 1978. *The Breakdown of Democratic Regimes: Crisis, Breakdown and Reequilibration. An Introduction*. Baltimore, John Hopkins University Press.
- Lipset, Seymour Martin. 1959. “Some Social Requisites of Democracy: Economic and Political Development.” *American Political Science Review* 53(1): 69 – 105.
- 1960. *Political Man: The Social Basis of Modern Politics*. New York, Doubleday.
- Little, Ian M. D. 1982. *Economic development: Theory, policy, and international relations*. New York, Basic Books.
- Lopez-Claros, Augusto and Perotti, Valeria. 2014. “Does Culture Matter for Development.” *World Bank Policy Research Working Paper WPS7092*.
- Lucas, Robert E. 1988. “On the mechanics of economic development.” *Journal of Monetary Economics* 22(1): 3 – 42.
- Lynch, Gabrielle and Crawford, Gordon. 2011. “Democratization in Africa 1990 – 2010: An

- Assessment.” *Democratization* 18(2): 275 – 310.
- Maddison, Angus. 1995. *Monitoring the World Economy: 1820 – 1992*. Paris, OECD.
- 2001. *The World Economy: A Millennial Perspective*. Paris, OECD.
 - 2010. *Statistics on World Population, GDP and Per Capita GDP, 1 – 2008 AD*. Groningen Growth and Development Centre. <http://www.ggdc.net/MADDISON/oriindex.htm>.
- Madison, James. 1788 [2001]. “Federalist no. 51: The structure of the government must furnish the proper checks and balances between the different departments.” In Hamilton, A., Jay, J. and Madison, J. *The Federalist, 51*: 267–272. Indianapolis, IN: Liberty Fund.
- Mainwaring, Scott and Shugart, Mathew S. 1997. “Presidentialism and Democracy in Latin America: Rethinking the Terms of the Debate.” In Scott Mainwaring and Mathew S. Shugart (eds.) *Presidentialism and Democracy in Latin America*. Cambridge, Cambridge University Press.
- Mamdani, Mahmood. 1996. *Citizen and Subject; Contemporary Africa and the Legacy of Late Colonialism*. Princeton Series in Culture/Power/History, Cape Town: David Philip.
- Mani, Anandi; Mullainathan, Sendhil; Eldar, Shafir and Zhao, Jiaying. 2013. “Poverty Impedes Cognitive Function.” *Science* 341: 976 – 80.
- Mankiw, Gregory N. 2013. “Defending the one percent.” *Journal of Economic Perspectives* 27(3): 21 – 34.
- Mann, Michael. 1981. *Consciousness and Action Among the Western Working Class*. London, Macmillan Press Ltd.
- 1984. “The Autonomous Power of the State.” *European Sociology Archives* 1984.
 - 1986. *The Sources of Social Power: Volume 1, A History of Power from the Beginning to AD 1760*. Cambridge, Cambridge University Press.
 - 1993. *The Sources of Social Power: Volume 2, The Rise of Classes and Nation States 1760-1914*. Cambridge, Cambridge University Press.
 - 2003. *Incoherent Empire*. Verso.
 - 2004. *Fascists*. Cambridge, Cambridge University Press.
 - 2005. *The Dark Side of Democracy: Explaining Ethnic Cleansing*. Cambridge, Cambridge University Press.
 - 2012. *The Sources of Social Power: Volume 3, Global Empires and Revolution, 1890-1945*. Cambridge, Cambridge University Press.
 - 2012. *The Sources of Social Power: Volume 4, Globalizations, 1945-2011*. Cambridge, Cambridge University Press.

- Markoff, John. 1996. *Waves of Democracy*. Thousands Oaks, Pine Forge Press.
- Marshall, Monty G. and Elzinga-Marshall, Gabrielle C. 2017. *Global Report 2017. Conflict, Governance, and State Fragility*. Vienna, Center for Systemic Peace, The Polity Project.
- Marx, Karl. 1852. "The Eighteenth Brumaire of Louis Bonaparte." In *Die Revolution* (New York).
- 1933. *Capital*. London, J. M. Dent.
- Mauro, Paolo. 1995. "Corruption and Growth." *Quarterly Journal of Economics* 110(3) (August): 681 – 712.
- McCloskey, Deirdre N. 2006. *The Bourgeois Virtues: Ethics for an Age of Commerce*. Chicago, University of Chicago Press.
- 2010. *Bourgeois Dignity: Why Economics Can't Explain the Modern World*. Chicago, The University of Chicago Press.
- 2016. *Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World*. Chicago, University of Chicago Press.
- McFaul, Michael. 2002. "The Fourth Wave of Democracy and Dictatorship." *World Politics* 54: 212 – 244.
- Meier, Gerald M. 2001. "The Old Generation of Development Economists and the New." In G. M. Meier and J. E. Stiglitz (eds.) *Frontiers of Development Economics: The Future in Perspective*. Washington DC, World Bank/Oxford University Press: 13 – 50.
- Meltzer, Allan H. and Richard, Scott F. 1981. "A Rational Theory of the Size of Government." *The Journal of Political Economy* 8(5): 914 – 927.
- Ménard, Claude and Shirley, Mary M. 2010. *From Intuition to Institutionalization: A History of New Institutional Economics*. Paper presented to the Annual Meeting of the International Society for New Institutional Economics, Sterling, Scotland.
- 2011. *The Contribution of Douglass North to New Institutional Economics*. <https://halshs.archives-ouvertes.fr/halsh-00624297>.
- Michalopoulos, Stelios and Papaioannou, Elias. 2016. "The Long-Run Effects of the Scramble for Africa." *American Economic Review* 106(7): 1802 – 1848.
- Midlarsky, Manus I. and Midlarsky, Elizabeth. 1999. "Environmental Influences on Democracy." In Midlarsky M.I. (ed.) *Inequality, Democracy and Economic Development*. New York, Cambridge University Press.
- Mill, John Stuart. 1848. *Principles of Political Economy with some of their Applications to Social Philosophy*. New Impression, 1920. London, Longmans Green and Co.
- Mitchell, Daniel J. 2005. "The Impact of Government Spending on Growth." *Executive Summary in Backgrounder* no. 1831, March 31. Massachusetts, The Heritage Foundation.

- Mitchell, Wesley C. 1910. "The Rationality of Economic Activity. Part II." *Journal of Political Economy* 18(3): 203.
- Mo Ibrahim Foundation. 2018. *Ibrahim Index of African Governance*.
<http://mo.ibrahim.foundation/news/2018/2018-ibrahim-index-african-governance-iiag-key-findings>.
- Mokyr, Joel. 2005. "The Intellectual Origins of Modern Economic Growth." *The Journal of Economic History* 65(2): 285 – 351.
- 2009. *The Enlightened Economy: An Economic History of Britain, 1700–1850*. New Haven, Yale University Press.
 - 2013. "Cultural Entrepreneurs and The Origins Of Modern Economic Growth." *Scandinavian Economic History Review* 61(1): 1 – 33.
 - 2017. *A Culture of Growth: The Origins of the Modern Economy* Princeton NJ, Princeton University Press.
- Montesquieu, Charles-Louis. 1750. *The Spirit of Laws*. Geneva, J. Barrillot.
- Morris, Cynthia T. and Adelman, Irma. 1988. *Comparative Patterns of Economic Development, 1850–1914*. Baltimore, Johns Hopkins University Press.
- Morris, Ian. 2010. *Why the West Rules – For Now*. New York, W.W. Morton.
- Morson, Gary Saul. 2003. "Narrativeness." *New Literary History* 34(1): 59–73.
- Morson, Gary Saul and Schapiro, Morton. 2017. *Cents and Sensibility. What Economics Can Learn from the Humanities*. Princeton and Oxford, Princeton University Press.
- Mullainathan, Sendhil and Shafir, Eldar. 2013. *Scarcity: Why Having Too Little Means So Much*. New York, Times Books.
- Mulligan, Casey B. and Sala-i-Martin, Xavier. 1993. "Transitional Dynamics in Two-Sector Models of Endogenous Growth." *Quarterly Journal of Economics* 108(3): 737 – 773.
- Mulligan, Casey B.; Gil, Ricard and Sala-i-Martin, Xavier. 2004. "Do Democracies Have Different Public Policies than Nondemocracies?" *Journal of Economic Perspectives* 18(1): 51 – 74.
- Munck, Gerardo L. 2014. "What is democracy? A reconceptualization of the quality of democracy." *Democratization* 23(1): 1 – 26.
- Munck, Gerardo L. and Verkuilen, Jay. 2002. "Conceptualizing and Measuring Democracy: Evaluating Alternative Indices." *Comparative Political Studies* 35(1): 5 – 34.
- Munro, Ann P. 1966. "Land Law in Kenya." *Wisconsin Law Review* 1966: 1071-96. Reprinted in Hutchinson, Thomas W. (ed). 1968. *Africa and Law*. Madison, University of Wisconsin Press.

- Murdock, George Peter. 1965. *Culture and Society*. University of Pittsburg Press.
- Murtazashvili, Jennifer and Murtazashvili, Iliia. 2019. "Wealth-destroying states." *Public Choice*
<https://doi.org/10.1007/s11127-019-00675-7>.
- Myrdal, Gunnar. 1957. *Economic Theory and Underdeveloped Regions*. London, England: Duckworth.
- 1958. *Values in Social Theory*. London, RKP.
 - 1968. *Asian Drama*. London, Allen Lane.
 - 1990/1953 (orig. in Swedish 1930). *The Political Element in the Development of Economic Theory*. New Brunswick, Transaction.
 - 1984. "International Inequality and Foreign Aid in Retrospect." In Gerald M. Meier & Dudley Seers (eds.) *Pioneers in Development*. Oxford, Oxford University Press: 151 – 165.
- National Treasury. 2019. *The Budget Speech of the Minister of Finance*, delivered on 20 February 2019.
- Needham, Joseph. 1969. *The Grand Titration: Science and Society in East and West*. London, Allen & Unwin.
- 1970. *Clerks and Craftsmen in China and the West. Lectures and Addresses on the History of Science and Technology*. Cambridge, University Press.
 - 1980. "The Guns of Khaifeng-fu." *TLS* 11 January: 392.
- Nelson, Richard R. and Phelps, Edmund S. 1966. "Investment in Humans, Technological Diffusion, and Economic Growth." *American Economic Review* 56(2): 69 – 75.
- Newberg, Paula R. and Carothers, Thomas. 1996. "Aiding – and Defining Democracy." *World Policy Journal* 13(1): 97 – 108.
- Nickell, Stephen. 1981. "Biases in Dynamic Models with Fixed Effects." *Econometrica* 49 (6): 1417 – 1426.
- Norris, Pippa. 2011. *Democratic Deficits*. New York, Cambridge University Press.
- North, Douglass C. 1961. *The Economic Growth of the United States 1790 – 1860*. Englewood Cliffs NJ, Prentice Hall Inc.
- 1966. *Growth and Welfare in the American Past. A New Economic History*. Englewood Cliffs NJ, Prentice Hall Inc.
 - 1968. "Sources of Productivity Change in Ocean Shipping, 1600-1850." *Journal of Political Economy* 76(5): 953 – 970.
 - 1971. "Institutional Change and Economic Growth." *Journal of Economic History* 31(1): 118 – 125.

- 1974. “Beyond the New Economic History.” *Journal of Economic History* 34(1): 1 – 7.
 - 1978. “Structure and Performance: The Task of Economic History.” *Journal of Economic Literature* 16: 963-978.
 - 1981. *Structure and Change in Economic History*. Cambridge, Cambridge University Press.
 - 1990a. *Institutions, Institutional Change, and Economic Performance*. New York, Cambridge University Press.
 - 1990b. “A Transaction Cost Theory of Politics.” *Journal of Theoretical Politics* 2(4): 355 – 367.
 - 1991. “Institutions.” *The Journal of Economic Perspectives* 5(1): 97 – 112.
 - 1992. “Institutions and Economic Theory.” *American Economist* 36(1): 3 – 6.
 - 2000. “Big-Bang Transformations of Economic Systems: An Introductory Note.” *Journal of Institutional and Theoretical Economics* 156 (1): 3 – 8.
 - 2003. “The Role of Institutions in Economic Development.” *United Nations Economic Commission for Europe Discussion Paper Series* No. 2003.2, October 2003: 5.
 - 2005. *Understanding the Process of Economic Change*. Princeton NJ, Princeton University Press.
- North, Douglass C. and Davis, Lance. 1970. “Institutional Change and American Economic Growth: A First Step Towards a Theory of Institutional Innovation.” *The Journal of Economic History* 30(1): 131 – 149.
- North, Douglass C. and Thomas, Paul Robert. 1973. *The Rise of the Western World: A New Economic History*. Cambridge UK, Cambridge University Press.
- North, Douglass; Wallis, John J. and Weingast, Barry R. 2009. *Violence and Social Order: A Conceptual Framework for Interpreting Recorded Human History*. New York, Cambridge University Press.
- Nunn, Nathan. 2008. “The Long-Term Effects of Africa’s Slave Trades.” *Quarterly Journal of Economics* 123: 139 – 176.
- Nunn, Nathan. 2010. “Shackled to the Past: The Causes and Consequences of Africa’s Slave Trades.” In Jared Diamond and James A. Robinson (eds.) *Natural Experiments of History*: 142 – 184. Boston, Harvard University Press.
- Nunn, Nathan and Puga, Diego. 2012. “Ruggedness. The Blessing of Bad Geography in Africa.” *The Review of Economics and Statistics* 94(1): 20 – 36.
- Nunn, Nathan and Wantchekon, Leonard. 2011. “The Slave Trade and the Origins of Mistrust in Africa.” *American Economic Review* 101: 3221 – 3252.
- Nugent, Paul. 2010. “States and Social Contracts in Africa.” *New Left Review* 63: 35 – 68.

- Nussbaum, Martha C. and Sen, Amartya. 1993. *The Quality of Life*. Oxford, Clarendon Press.
- Nussbaum, Martha C. 2000. *Women and Human Development*. New York, Cambridge University Press.
- 2006. *Frontiers of Justice*. Cambridge MA, Harvard University Press.
- Ocko, Jonathan K. and Gilmartin, David. 2009. “State, Sovereignty, and the People: A Comparison of the “Rule of Law” in China and India.” *The Journal of Asian Studies* 68(1): 55 –100.
- O’Donnell, Guillermo. 1996. “Another Institutionalisation: Latin America and Elsewhere.” *The Helen Kellogg Institute for International Studies Working Paper*, March 1996.
- O’Donnell, Guillermo; Schmitter, Phillip C.; Whitehead, Laurence. 1986. *Transitions from Authoritarian Rule: Comparative Perspectives*. Baltimore, John Hopkins University Press.
- Olson, Mancur. 1993. “Dictatorship, Democracy, and Development.” *American Political Science Review* 87(9): 567 – 76.
- 2000. *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorship*. New York, Basic Books.
- Olsson, Ola and Hibbs, Douglas A. Jr. 2005. “Biogeography and Long-Run Economic Development.” *European Economic Review* 49(4): 909 – 38.
- Onyango, Paul. 2009. “Re-configuring Poverty: The Wickedness Perspective.” *African Journal of Tropical Hydrobiology and Fisheries* 12: 37 – 46.
- Organisation for Economic Cooperation and Development, 2017. “Government at a Glance.” *OECD Report* 2017.
- Ortner, Sherry B. 1984. “Theory in anthropology since the 60s.” *Comparative Studies in Society and History* 26(1): 126 – 166.
- Orts, Eric W. 2001. “The Rule of Law in China.” *Vanderbilt Journal of Transnational Law* 34(1) January 2001.
- Ott, Jan C. 2010. “Good governance and happiness in nations: Technical quality precedes democracy and quality beats size.” *Journal of Happiness Studies*, 11(3).
- 2011. “Government and Happiness in 130 Nations: Good Governance Fosters Higher Level and More Equality of Happiness.” *Social Indicators Research* 102(1): 3 – 22.
- Our World in Data. 2017. *Global Extreme Poverty*. <https://ourworldindata.org /extreme-poverty>.
- Palagashvili, Liya. 2018. “African chiefs: comparative governance under colonial rule.” *Public Choice* 174(3): 277 – 300.
- Persson, Torsten; Roland, Gerard and Tabellini, Guido. 2000. “Comparative Politics and Public Finance.” *Journal of Political Economy* 108: 1121 – 1161.
- Persson, Torsten and Tabellini, Guido. 2003. *The Economic Effects of Constitutions*. Cambridge,

- Massachusetts, MIT Press.
- 2008. “The Growth Effect of Democracy: Is it Heterogeneous and How Can it be Estimated?” In Helpman, E. (ed.) *Institutions and Economic Performance*, Cambridge MA, Harvard University Press: 544 – 585.
 - 2009. “Democratic Capital: The Nexus of Political and Economic Change.” *American Economic Journal: Macroeconomics* 1(2): 88 – 126.
- Pinker, Steven. 2011. *The Blank Slate*. New York, Penguin Books.
- Platteau, Jean-Philippe. 2000. *Institutions, Social Norms, and Economic Development*. London, Routledge.
- Pomeranz, Kenneth. 2000. *The Great Divergence: China, Europe, and the Making of the Modern World Economy*. Princeton NJ, Princeton University Press.
- Powelson, John P. 1997. *Centuries of Economic Endeavor*. Ann Arbor, University of Michigan Press.
- Pozuelo, Julia Ruiz; Slipowitz, Amy and Vuletin, Guillermo. 2016. “Democracy Does Not Cause Growth: The Importance of Endogeneity Arguments.” *IDB Working Paper Series* N° IDB-WP-694.
- Pritchett, Lant; Woolcock, Michael and Andrews, Matt. 2010. “Capability Traps? The Mechanisms of Persistent Implementation Failure.” *Centre for Global Development Working Paper 234*. December 7, 2010.
- Przeworski, Adam and Fernando Limongi. 1997. “Modernization: Theories and Facts.” *World Politics* 49: 155 – 183.
- Przeworski, Adam; Alvarez, Michael E.; Cheibub, Jose Antonio; Limongi, Fernando. 2000. *Democracy and Development: Political Institutions and Well-Being in the World, 1950 to 1999*. New York, Cambridge University Press.
- Przeworski, Adam. 2004a. “Democracy and Economic Development.” In Mansfield, Edward D. and Sisson, Richard (eds.) *The Evolution of Political Knowledge. Democracy, Autonomy and Conflict in Comparative and International Politics*. Columbus, Ohio State University Press.
- 2004b. *Institutions Matter? Government and Opposition/Leonard Schapiro Lecture*, delivered to the British Science Association, Lincoln, England, 8 April 2004.
 - 2004c. *Some Historical, Theoretical, and Methodological Issues in Identifying Effects of Political Institutions*. Mimeo, Columbia University.
- Putnam, Robert D. 1993a. “What Makes Democracy work?” *National Civic Review* 82(2): 101 – 107.
- 1993b. *Making Democracy Work: Civic Tradition in Modern Italy*. Princeton, Princeton

University Press.

- Putnam, Robert D. and Helliwell, John F. 1995. "Social Capital and Economic Growth in Italy." *Eastern Economic Journal* 21: 295 – 307.
- Qi, Lingling and Shin, Doh Chull. 2011. "How Mass Political Attitudes Affect Democratization." *International Political Science Review* 32: 245 – 262.
- Rebelo, Sergio. 1991. "Long-Run Policy Analysis and Long-Run Growth." *Journal of Political Economy* 99(3): 500 – 521.
- Rein, Martin. 1976. *Social science and public policy*. Harmondsworth UK, Penguin.
- Reno, William. 1998. *Warlord Politics and African States*. Boulder Colorado, Lynne Rienner Publishers.
- Ridley, Matt. 2010. *The Rational Optimist*. New York, Harper Collins.
- Rittel, Horst W. J. and Webber, Melvin M. 1973. "Dilemmas in a General Theory of Planning." *Policy Sciences* 4(2): 155 – 169.
- Robinson, James A. 2006. "Economic Development and Democracy." *Annual Review of Political Science* 9: 503 – 27.
- Robinson, James A. and Torvik, Ragnar. 2016. "Endogenous Presidentialism." *Journal of the European Economic Association* 14(4): 907 – 942.
- Rodríguez, Francisco. 2006. *Openness and Growth: What Have We Learned?* Paper prepared as background note for the United Nations' 2006 World Economic and Social Survey.
- Rodrik, Dani. 2000. "Institutions for High-Quality Growth: What they are and how to acquire them." *Studies in Comparative International Development* 35(3): 3 – 31.
- 2002. *Institutions, Integration and Geography: In Search of the Deep Determinants of Economic Growth*. <https://wcfia.harvard.edu/publications/institutions-integration-and-geography-search-deep-determinants-economic-growth>.
 - 2004. *Getting Institutions Right. A User's Guide to the Recent Literature on Institutions and Growth*. <https://www.sss.ias.edu/faculty/rodrik/papers>.
 - 2007. *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*. Princeton NY, Princeton University Press.
- Rodrik, Dani; Subramanian, Arvind and Trebbi, Francesco. 2002. "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development." *IMF Working Paper* WP/02/189.
- Rodrik, Dani and Wacziarg, Romain. 2005. "Do Democratic Transitions Produce Bad Economic Outcomes?" *American Economic Review* 95: 50 – 55.

- Romer, Paul M. 1986. "Increasing returns and long-run growth." *Journal of Political Economy* 94(5): 1002 – 1037.
- Roodman, David. 2009a. "Practitioners' Corner: A Note on the Theme of Too Many Instruments." *Oxford Bulletin of Economics and Statistics* 71(1): 135 – 158.
- 2009b. "How to do xtabond2: An Illustration to Difference and System GMM in Stata." *Stata Journal* 9(1): 86 – 136.
- Roosevelt, Franklin Delano. 1938. "Fireside chat on economic conditions." April 14. Published in *The Public Papers and Addresses of Franklin D. Roosevelt*, 1941: 242 – 43.
- Ropp, Paul S. 1990. *Heritage of China Contemporary Perspectives on Chinese Civilization*. Los Angeles, University of California Press.
- Ross, Michael. 2006. "Is Democracy Good for the Poor?" *American Journal of Political Science* 50(4): 860 – 874.
- Rostow, Walt W. 1975. *How it all began: Origins of the Modern Economy*. New York, McGraw-Hill.
- Rotberg, Robert I. 2003a. "Failed States, Collapsed States, Weak States: Causes and Indicators." In Rotberg, Robert (ed.) *State Failure and State Weakness in a Time of Terror*. Brookings Institute Press/World Peace Foundation.
- 2003b. "The Roots of Africa's Leadership Deficit." *Compass: A Journal of Leadership* 1(1): 28 – 32.
- Sachs, Jeffrey D. 2001. "Tropical Underdevelopment." *NBER Working Paper* No. 8119, February 2001.
- 2003. "Institutions Don't Rule: Direct Effects of Geography on Per Capita Income." *NBER Working Paper* No. 9490, February 2003.
- 2005. *The End of Poverty. Economic Possibilities for Our Time*. New York, The Penguin Press.
- Sachs, Jeffrey D. and Warner, Andrew. 1995. "Economic Reform and the Process of Global Integration." *Brookings Papers on Economic Activity* 1: 1 – 95.
- Sachs, Jeffrey D. and Woo, Wing Thy. 1994. "Experiences in the Transition to a Market Economy." *Journal of Comparative Economics* 18: 271 – 275.
- Samuelson, Paul. 1976. "Illogic of Neo-Marxian Doctrine of Unequal Exchange." In David A. Belsley et al. (eds.) *Inflation, Trade and Taxes: Essays in Honor of Alice Bourneuf*. Columbus, Ohio State University Press: 96 – 107.
- Sandbrook, Richard and Oelbaum, Jay. 1999. "Reforming the Political Kingdom: Governance and Development in Ghana's Fourth Republic." *Center for Democracy and Development Critical*

- Perspectives Paper* (June 1999).
- Schedler, Andreas and Sarsfield, Rodolfo. 2006. "Democrats with Adjectives." *European Journal of Political Research* 46: 637 – 659.
- Schelling, Thomas, C. 1960. *The Strategy of Conflict*. Cambridge MA, Harvard University Press.
- Schmitter, Philippe C. and Karl, Terry Lynn. 1991. "What Democracy Is... and Is Not." *Journal of Democracy* 2(3): 75 – 88.
- Schumpeter, Joseph A. 1942. *Capitalism, socialism, and democracy*. New York and London, Harper & Brothers.
- Schwartz, Bernard. 1956. *The Code Napoléon and the Common-Law World: The Sesquicentennial Lectures*. Delivered at the Law Center of New York University, December 13-15. New York, New York University Press.
- Sen, Amartya. 1981. *Poverty and Famines: An Essay on Entitlement and Deprivation*. Oxford, Clarendon.
- 1999. *Development as Freedom*. Oxford, Oxford University Press.
 - 2001. *Development as Freedom*. New York, Alfred Knopf.
- Serpa, Sandro and Ferreira, Carlos Miguel. 2019. "The Concept of *Bureaucracy* by Max Weber." *International Journal of Social Science Studies* 7(2): 12 – 18.
- Shambaugh, David L. 2000. *The Modern Chinese State*. New York, Cambridge University Press.
- Siegle, Joseph T.; Weinstein, Michael M. and Halperin, Morton H. 2004. "Why Democracies Excel." *Foreign Affairs* 83(5): 57 – 71.
- Sivin, Nathan. 1978. "Imperial China: Has Its Present Past a Future?" *Harvard Journal of Asiatic Studies* 38(2): 449 – 480.
- 1990. "Science and Medicine in Chinese History." In Ropp (ed.) *Heritage of China*. Los Angeles, University of California Press: 164 – 196.
- Skousen, Mark. 2007. *The Big Three in Economics: Adam Smith, Karl Marx and John Maynard Keynes*. New York, ME Sharpe Inc.
- Smith, Adam. 1759. *The Theory of Moral Sentiments*. Edited by D.D. Raphael and A.L. Macfie. Oxford, Clarendon (1976).
- 1776. *Wealth of Nations*. Vols. 1 and 2. Penguin Classics, London, 1999.
- Smith, Peter. 2005. *Democracy in Latin America: Political Change in Comparative Perspective*. New York, Oxford University Press.
- Solomon, Steven. 2011. *Water: The Epic Struggle for Wealth, Power, and Civilization*. New York, McMillan.
- Solow, Robert M. 1956. "A contribution to the theory of economic growth." *The Quarterly Journal*

- of Economics* 70(1): 65.
- 1957. “Technical Change and the Aggregate Production Function.” *The Review of Economics and Statistics* 39(3): 312 – 320.
- South African Revenue Service (SARS). 2019. *The 2019 Tax Statistics*. Published by National Treasury and SARS, December 2019.
- South African Social Security Agency. 2017. Official website <http://www.sassa.gov.za/index.php/social-grants>.
- Sowell, Thomas. 1996. *Migrations and Cultures: A World View*. New York, Basic Books.
- Spolaore, Enrico and Wacziarg, Romain. 2012. “How Deep Are the Roots of Economic Development?” *NBER Working Paper* No. 18130, June 2012.
- Statistics South Africa. 2017. *Poverty Trends in South Africa. An Examination of Absolute Poverty between 2006 and 2015*. Report 03-10-062015:14.
- 2019. *Quarterly Labour Force Survey*. Quarter 4: 2019, published on 11 February 2019.
- Stiglitz, Joseph E. 2012. “Commentary on The Price of Inequality.” In *Project Syndicate* <https://www.project-syndicate.org/commentary/the-price-of-inequality>.
- 2015. *The Great Divide*. United Kingdom, Penguin Random House.
- Sugden, Robert. 1981. *The Economics of Rights, Cooperation, and Welfare*. London, Basil Blackwell.
- Swan, Trevor W. 1956. “Economic Growth and Capital Accumulation.” *Economic Record* 32 (November): 334 – 361.
- Swidler, Ann. 1986. “Culture in Action: Symbols and Strategies.” *American Sociological Review* 51: 273 – 286.
- Tabellini, Guido. 2008. “Institutions and Culture.” *Journal of the European Economic Association* April–May 2008: 255 – 294.
- 2010. “Culture and Institutions: Economic Development in the Regions of Europe.” *Journal of the European Economic Association* 8(4): 677 – 716.
- Tarschys, Daniel. 2001. “Wealth, Values, Institutions: Trends in Government and Governance.” In *Governance in the 21st Century*, Organisation for Economic Cooperation and Development.
- Tavares, Jose and Wacziarg, Romain. 2001. “How democracy affects growth.” *European Economic Review* 45(8): 1341 – 1378.
- Temin, Peter. 1997. “Is it Kosher to Talk About Culture?” *The Journal of Economic History* 57(2): 267 – 287.
- Tetlock, Philip E. 2005. *Expert Political Judgment: How Good Is It? How Can We Know?* Princeton NJ, Princeton University Press.

- Thaler, Richard H. 2015. *Misbehaving: The Making of Behavioral Economics*. New York, W.W. Norton & Company.
- Thaler, Richard.H. and Sunstein, Cass.R. 2009. *Nudge. Improving decisions about health, wealth and happiness*. London, Penguin Books.
- The Heritage Foundation. 2019. *The 2020 Index of Economic Freedom*.
<https://www.heritage.org/index/country/hongkong>.
- The World Bank. 1989. *Sub-Saharan Africa – From Crisis to Sustainable Growth: A Long-term Perspective Study*. The World Bank, Washington DC.
- 2000. “Entering the 21st century.” *World Development Report 1999/2000*. New York, Oxford University Press.
 - 2005. “Improving Public Sector Governance: The Grand Challenge?” In *Economic Growth in the 1990s. Learning from a Decade of Reform*. The World Bank, Washington DC.
 - 2015. “Mind, Society and Behavior.” *The World Bank Development Report*. The World Bank, Washington DC.
 - 2018. *The World Development Report 2018*. <http://www.worldbank.org/en/publication/wdr2018>.
- Tilly, Charles. 1990. *Coercion, Capital, and European States AD 990–1990*. Cambridge MA, Blackwell.
- 2007. *Democracy*. New York, Cambridge University Press.
- Todaro, Michael P. and Smith, Stephen C. 2009. *Economic Development* (10th ed.). Boston, Addison Wesley.
- Triandis, Harry C. 1995. *Individualism and Collectivism*. Boulder CO, Westview Press.
- Tsai, Lily Lee. 2001. *Substituting for the State? The Logic of Private Efficiency in Chinese Local Governance*. Paper prepared for the Annual Meetings of the American Political Science Association, San Francisco CA, 30 August – 2 September, 2001.
- Tsebelis, George. 2002. *Veto Players: How Political Institutions Work*. New York, Russel Sage Foundation.
- Turner, Jonathan H. and Maryanski, Alexandra. 2008. *On the Origin of Societies by Natural Selection*. Boulder, Paradigm Publishers.
- United Nations Conference on Trade and Development (UNCTAD). 2019. *World Investment Report*. UNCTAD/WIR/2019, United Nations.
- United Nations Development Programme. 2018. *Human Development Report 2018. Human Development for Everyone*. New York, United Nations Development Programme.
- V-Dem Institute (Varieties of Democracy). <https://www.v-dem.net>.

- Van Cranenburgh, Oda. 2008. "Big Men Rule: Presidential Power, Regime Type and Democracy in 30 African Countries." *Democratization* 15(5): 952 – 973.
- Van de Walle, Nicolas. 2001. *African Economies and the Politics of Permanent Crisis, 1979–1999*. Cambridge, Cambridge University Press.
- 2003a. "Presidentialism and Clientelism in Africa's Emerging Party Systems." *Journal of Modern African Studies* 41: 297 – 321.
 - 2003b. "Meet the New Boss, Same as the Old Boss? The Evolution of Political Clientelism in Africa." In Kitschelt and Wilkinson (eds.) *Patrons, clients and policies: patterns of democratic accountability and political competition*. Cambridge, Cambridge University Press, Cambridge.
 - 2003c. "Introduction: The State and African Development." In Van de Walle, Nicolas; Ball, Nicole and Ramachandran, Vijaya (eds.) *Beyond Structural Adjustment in Africa: The Institutional Context of African Development*. New York, Palgrave MacMillan US.
 - 2004. *Overcoming Stagnation in Aid-Dependent Countries*. Washington DC, Center for Global Development.
- Vahabi, Mehrdad. 2011. "Appropriation, violent enforcement and transaction costs: A critical survey." *Public Choice* 147(1), 227 – 253.
- 2016a. "A positive theory of the predatory state." *Public Choice* 168(3/4): 153 – 175.
 - 2016b. *The political economy of predation: Manhunting and the economics of escape*. New York NY, Cambridge University Press.
 - 2019. "Introduction: a symposium on the predatory state." *Public Choice*
<https://doi.org/10.1007/s11127-019-00715-2>.
- Veblen, Thorstein B. 1899. *The Theory of the Leisure Class: An Economic Study in the Evolution of Institutions*. New York, Macmillan.
- 1919. *The Place of Science in in Modern Civilisation and other Essays*. New York, Huebsch.
- Veenhoven, Ruut. 2010. "Life is Getting Better: Societal Evolution and Fit with Human Nature." *Social Indicators Research* 9: 105 – 122.
- Wang, Hongying. 2000. "Informal Institutions and Foreign Investment in China." *The Pacific Review* 13: 525 – 556.
- Way, Lucan A. 2002. "The Dilemmas of Reform in Weak States: The Case of Post-Soviet Fiscal Decentralization." *Politics and Society* 30(4): 579 – 598.
- Webber, Melvin M. 1978. "A difference paradigm for planning." In R. Burchill and G. Sternlieb (eds.) *Planning theory in the 1980s: A search for future directions*. New Brunswick NJ, Rutgers University: 151 – 162.

- Weber, Max. 1930. *The Protestant Ethic and the Spirit of Capitalism*. London and New York, Routledge Classics.
- 1946. *Essays in Sociology*. New York, Oxford University Press.
 - 1947. *The Theory of Social and Economic Organization*. New York, Free Press.
 - 1978. *Economy and Society*. Berkeley, University of California Press.
- Weber, Edward and Khademian, Anne M. 2008. “Wicked problems, knowledge challenges, and collaborative capacity builders in network settings.” *Public Administration Review* 68: 334 – 349.
- Weijnert, Barbara. 2005. “Diffusion, Development, and Democracy, 1800-1999.” *American Sociological Review* 70: 53 – 81.
- Weischet, Wolfgang and Caviedes, Cesar N. 1993. *The Persisting Ecological Constraints of Tropical Agriculture*. New York, Longman Scientific and Technical.
- Welzel, Christian. 2006. “Democratization as an Emancipative Process: The Neglected Role of Mass Motivations.” *European Journal of Political Research* 45: 871 – 896.
- 2007. “Are Levels of Democracy Influenced by Mass Attitudes?” *International Political Science Review* 28(4): 397 – 424.
 - 2014. *Freedom Rising. Human Empowerment and the Quest for Emancipation*. New York, Cambridge University Press.
- Welzel, Christian and Delhey, Jan. 2015. “Generalizing Trust: The Benign Force of Emancipation.” *Journal of Cross-Cultural Psychology* 46(7): 875 – 896.
- Welzel, Christian and Inglehart, Ronald. 2006. “Emancipative Values and Democracy: Response to Hadenius and Teorell.” *Studies in Comparative International Development* 41: 74 – 94.
- 2008a. “The Role of Ordinary People in Democratization.” *Journal of Democracy* 19(1): 126 – 140.
 - 2008b. “Democratization as Human Empowerment.” *Journal of Democracy* 19(1): 126 – 140.
 - 2009. “Political Culture, Mass Beliefs and Value Change.” In Christian Haerpfer *et al.* (eds.) *Democratization*. Oxford, Oxford University Press: 126 – 144.
- Welzel, Christian; Ronald, Inglehart and Klingemann, Hans-Dieter. 2003. “The Theory of Human Development: A Cross-Cultural Analysis.” *European Journal of Political Research* 42 (2): 341 – 380.
- White, Lynn Jr. 1940. “Technology and Invention in the Middle Ages.” *Speculum* 15: 141 – 159.
- 1978. *Medieval Religion and Technology: Collected Essays*. Berkeley, University of

California Press.

- Wicksell, Knut. 1896. "Ein neues Prinzip der gerechten Besteuerung." In *Finanz Theoretische Untersuchungen*, Jena. (Translated as "A New Principle of Just Taxation" in *Classics in the Theory of Public Finance*, R.A. Musgrave and A.T. Peacock (eds.)). London, MacMillan: 195.
- Wight, Jonathan B. 2015. *Ethics in Economics. An Introduction to Moral Frameworks*. Stanford CA, Stanford University Press.
- Williams, Eric E. 1994. *Capitalism and Slavery*. Chapel Hill, University of North Carolina Press.
- Williams, Paul D. 2016. *War and Conflict in Africa*. Cambridge, Polity Press.
- Williamson, Claudia R. and Kerekes, Carrie B. 2009. *Securing Private Property: The Relative Importance of Formal versus Informal Institutions*. Appalachian State University, mimeo.
- Williamson, Oliver. 1975. *Markets and Hierarchies: Analysis and Antitrust Implications. A Study in the Economics of Internal Organization*. New York, Free Press.
- 1996. *The Mechanisms of Governance*. Oxford, Oxford University Press.
- Windmeijer, Frank. 2005. "A Finite Sample Correction for the Variance of Linear Efficient Two-Step GMM Estimators." *Journal of Econometrics* 126(1): 25 – 51.
- Wolcott, Susan and Clark, Gregory. 1999. "Why Nations Fail: Managerial Decisions and Performance in Indian Cotton Textiles, 1890-1938." *The Journal of Economic History* 59(2): 397 – 423.
- Wondolleck, Julia M. and Yaffe, Steven L. 2000. *Why Collaboration? In Making Collaboration Work: Lessons from Innovation in Natural Resource Management*. Washington DC, Island Press.
- Woolcock, Michael. 1998. "Social Capital and Economic Development: Toward a Theoretical Synthesis and Policy Framework." *Theory and Society* 27: 151 – 208.
- 2014. "Culture, Politics, and Development." *The World Bank Policy Research Working Paper* 6939. The World Bank, Washington DC.
- World Competitive Centre; www.imd.org/wcc/world-competitiveness-center-publications/competitiveness-2016-rankings-results.
- World Economic Forum. 2019. *The Global Competitiveness Report 2017-2018*. Geneva, World Economic Forum.
- World Health Organisation. 2018. *The World Malaria Report 2018*. World Health Organisation.
- Wrong, Michela. 2002. *In the Footsteps of Mr Kurtz. Living on the Brink of Disaster in Mobutu's Congo*. New York, HarpersCollin Publishers.

- Wucherpfennig, Julian and Deutsch, Franziska. 2009. "Modernization and Democracy: Theories and Evidence Revisited." *Living Reviews in Democracy* 1: 1 – 9.
www.newyorker.com/magazine/2016/11/07/the-case-against-democracy: 7/23.
- Young, Crawford Mervin. 1994. *The African Colonial State in Comparative Perspective*. New Haven, Yale University Press.
- Zhuang, Juzhong, De Dios, Emmanuel and Lagman-Martin, Anneli. 2010. "Governance and Institutional Quality and the Links with Economic Growth and Income Inequality: with Special Reference to Developing Asia." *Asian Development Bank Economics Working Paper Series* No. 193. February 2010.
- Zouboulakis, Michel S. 2002. "Stuart Mill's Institutional Individualism." *History of Economic Ideas*, X(3), <https://www.researchgate.net/publication/290054072>.