
THE POLITICAL ECONOMY OF COLLECTIVE ACTION, INEQUALITY, AND DEVELOPMENT

Preface, Table of Contents, and Introduction

Forthcoming



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Preface: Sapiens and Neanderthals

Thanks to their ability to invent fiction, Sapiens create more and more complex games, which each generation develops and elaborates even further. – Yuval Noah Harari (2015)

According to historian Yuval Noah Harari (2015), from about 70,000 to 30,000 years ago, *Homo sapiens* vied with *Homo neanderthalensis* for dominance in areas of Europe and the Middle East. The Neanderthals were larger, stronger, better adapted to cold climates, and had larger brains. They also used tools and knew how to care for their sick. Neanderthals could dominate in one-on-one combat. Yet, sapiens ultimately prevailed. Indeed, they exterminated the Neanderthals. Sapiens triumphed because they had developed collaborative cognitive abilities that Neanderthals simply lacked. Specifically, sapiens developed the ability to tell stories, not just about lions in bushes, but also about each other—that is, to gossip. This capability permitted forms of cooperation that Neanderthals could not achieve; it fostered organizing cooperative activity among individuals, solving collective-action problems. Concurrently, Sapiens developed the ability to talk about things not present, “things they have never seen, touched, or smelled. . . Only *Homo sapiens* can speak about things that don’t really exist, and believe six impossible things before breakfast” (2015, 24). Sapiens learned to share legends, myths, gods, and other abstract concepts (relevant later on) like nationhood. They shared stories that could forge common purpose, common identity, and ideologies. “But fiction has enabled us to not merely imagine things, but to do so *collectively*” (25; emphasis in text). Collective storytelling facilitated rapid social adaptation to changing environments. To alter group behavior, Sapiens could change shared stories—a process much faster than genetic evolution. This “cognitive revolution” ushered in the triumph of *Homo sapiens* over *Homo neanderthalensis*.

Before 10,000 years ago, Sapiens spread across the planet and survived as foragers. In terms of leisure and arguably quality of work, they achieved relatively high standards of living.

Normally, work did not exceed 35-40 hours per week and it involved multiple stimulating tasks. Foragers ate varied and balanced diets and exercised substantially. Children who survived their first few years had good prospects of living at least until 60, sometimes 80. With multiple sources of food, deprivation of one type rarely led to starvation.

About 9,500 years ago, however, Sapiens began to develop agriculture. The agricultural revolution, unfolded over the next 7,000 years, extending across the globe via simultaneous invention. Cultivating crops was not the idea of a single person or group, but rather an adaptation to roughly similar environmental conditions scattered around the globe. The agricultural revolution, which Harari calls history's greatest fraud, vastly improved food productivity permitting substantial population growth. It also brought more labor, more disease (transmitted between humans and domesticated animals), lower life expectancies, additional reasons for territorial conflict, graver consequences to losing such conflicts—such as starvation, which might also arise from drought or insects—and dimensions of inequality and social hierarchy that Sapiens had not previously experienced. Whereas this shift in production benefited the species as a whole (the gene pool), most individuals—except those at the top of the hierarchy—experienced more deprivation. Adaptive human activity—sensible in multiple relevant contexts—fostered more work for mere survival, more disease, etc. From the point of view of the peasant masses, the agricultural revolution introduced many new collective-action problems. How might they work together to escape toil, disease, instances of starvation, and the often cruel authority of those at the top of social hierarchies?

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Introduction: Towards a Framework for Development Theory

The power of a theory is exactly proportional to the diversity of situations it can explain.
– Elinor Ostrom (1990)

Why do some societies achieve high standards of living, broad access to education and quality health care, serviceable infrastructure, predictable and largely impersonal legal procedures, along with relatively accessible avenues to peaceful political expression, while others stagnate with guarded islands of extravagant wealth, surrounded by oceans of poverty, corrupt autocratic systems, and simmering conflicts—or even full-blown civil wars? Why did South Korea, with an authoritarian patronage-oriented regime that faced a devastating war from 1950-1954, whose 1960 GDP per capita was half that of Mexico and twice that of India, have by 2015, a per capita GDP that exceeded Mexico's by a factor of three and India's by a factor of 17? By that time, moreover, South Korea was a functioning democracy. How, then, might a society trapped in stagnation initiate and sustain processes of economic and political development?

In the Americas, the resource-rich areas first colonized by Europeans by the 20th century had experienced substantially less growth in per-capita output than the later colonized, resource poor and less desirable areas (Engerman and Sokoloff 2002). Following its 1994 brutal civil war, with genocide, Rwanda developed a successful government that, although authoritarian, instituted stability and economic growth. That same year, South Africa elected Nelson Mandela as president, signifying the end of its repressive apartheid regime. Since 1979, under the political monopoly of its communist party, China has attained an average annual rate of per-capita GDP growth of 8.5%. Burundi, on the other hand, increased its per capita GDP at an average annual rate of 0.13% since 1961.

Development is not just a matter of achieving adequate rates of saving, building capital, and acquiring technology; nor is it just a matter of “getting the institutions right” – at least not in a superficial sense of importing constitutions, legislation, and concepts of property rights from developed countries. These two prescriptions speak to often necessary conditions that affect development, but they do not begin to establish *sufficient* conditions for development because the political economy of development is more complicated. The first prescription ignores power entirely. The second fails to adequately consider how configurations of power operating within specific social contexts shape the creation, evolution, and demise of institutions and, perhaps more critically, how such configurations shape degrees of enforcement and implementation of institutional prescriptions within such contexts. Argentina’s “electoral law of 1853, which purported to allow popular participation in the political process, from the beginning proved itself a sham. Elections were invariably ritualistic parodies, staged managed by lackeys of the powerful, with only a minute fraction of the electorate participating” (Rock 1987, 129; quoted in Acemoglu and Robinson 2006, 5).

Indeed, development has multifaceted economic and political components. At a simple level, economic development connotes sustainable, steady increases in average living standards, especially for the lower half of the income distribution. More comprehensively, it involves widespread realization of basic human capabilities by arranging for adequate health care, education, other public services, and infrastructure. At an institutional level, economic development connotes the evolution of mutually understood and expected informal and formal procedures for circumventing multiple forms of free riding that accompany public goods, common resources and externalities; and for mitigating conflict, protecting universal (as opposed to selective) property rights, and enforcing production and exchange agreements. Political

development connotes a similar evolution with respect to creating and enhancing the effectiveness, legitimacy, and sustainability of informal and formal political institutions that foster capacities to deliver public services, broad participation, and that, simultaneously, protect basic civil rights. In both cases, development requires reform of existing formal arrangements, along with a complementary evolution of informal institutions. It involves enhancing state capacity, balanced—over time—with broad avenues for political input and limits on concentrated private and public power.

Political and economic inequalities permeate development processes, both as conditions that shape their evolution and as developmental outcomes. Unequal access to power, decision arenas, knowledge, wealth, productive resources, and positions within exchange processes creates large asymmetries with respect to basic capacities, opportunities, barriers, and ensuing outcomes—such as distributions of income, wealth, and political authority. Myriad social conflicts follow. These effects, in turn, influence and constrain future developmental prospects. A society's, often tenuous, ability to resolve sets of associated collective-action problems, therefore, shapes its political and economic evolution.

The complexity of political economy poses a core dilemma for social scientists: how can we systematically analyze phenomena that exhibit such intricate interactions, so many routes of causality, and so many instances of idiosyncrasy that emerge from unique combinations of social ingredients? Might we exhaust ourselves merely trying to list specific instances, inputs, relations, and outcomes, or do so by merely recounting anecdotes? Biologists face similar, if not greater, complexity. There are myriad species, subspecies, geneses and phyla; so many possible competitive, symbiotic, and accidental interactions; so many mechanisms of transfer, locomotion, propagation, and reproduction; so many niche and environmental influences.

Biologists address this complexity with a mix of theory—such as evolution, genetic transmission, photosynthesis, and predator-prey dynamics—along with description and categorization that draws distinctions among phyla, genus, species, components of cells, environmental conditions, and so forth.

In this text, I adopt an analogous approach. I construct a conceptual framework for development theory that integrates concepts of causality and techniques for categorization. This discussion merges and extends prior approaches by combining five developmental hypotheses that posit fundamental causal relationships; and it constructs a multi-layered typology of developmental social orders based on categorization of underlying political settlements with reference to associated (or ensuing) collective-action problems that confound development. The point is to provide an analytical framework that permits tractable navigation of such complexities: one that permits traversing the difficult theoretical terrain stretched between relatively simplistic hierarchies of causality (e.g., geography or a combination of preferences and technology as ultimate causes), on one hand, and idiosyncratic case studies on the other.

Here, I employ the straightforward concept of collective-action problems, accompanied by game-theoretic reasoning, as its principal analytical lenses for examining multifaceted interactions between inequality, power, and economic and political development. Collective-action problems (CAPs) arise when, within a given social context, individual pursuit of inclinations and interests generates some form of undesirable outcome for a group. Pollution, crime, and excess conflict are examples. Although the idea of CAPs frequently appears in the literature, I employ this concept as a nuanced analytical lens. I distinguish between first- and second-order CAPs. First-order CAPs involve multiple forms of free riding—letting others do the work, take the risks, pay the costs. Who makes the coffee at work, lifts their head to oppose

the dictator, or cuts their carbon consumption? In principle, negotiated agreements can resolve such CAPs, but why should anyone believe a mere promise to honor an agreement, when cutting corners is easier or more profitable? Should we believe a firm's promise to deliver a safe, high-quality product or not pollute, a politician's promise to respect minority rights, a warring party's promise to lay down arms if the other side does so first? Second-order CAPs involve arranging mechanisms (or relations) of coordination and enforcement that render agreements that could, in principle, resolve first-order CAPs credible, implementable, indeed meaningful.¹ And the enforcement component of second-order CAPs links economic and political processes and agreements: political economy. This nuanced, two-sided concept of CAPs thus offers an analytical lens for examining a huge variety of developmental issues. Humans, after all, are simultaneously social animals and individuals. Individual activities and beliefs both respond to and influence group beliefs and interactions, and vice versa. Competition, cooperation, conflict, and incomplete or skewed understandings abound. CAPs thus permeate economic, political, and social dynamics.

Analogously, strategic behavior permeates human societies, occurring whenever one person or one group's actions affects others. Game-theoretic reasoning permits systematic analysis of myriad strategic interactions. It fosters *vicarious problem solving*, wherein investigators attribute material and/or social goals to individuals or groups, along with possible actions and various obstacles and constraints (Schelling 1978). On this basis, one can infer (predict) likely behavior. Game-theoretic reasoning requires only an assumption that humans seek goals and that agents' actions influence outcomes for others (Gintis 2009). Hence its breadth of application—here, application to the political economy of development.

¹ Chapter 1 elaborates on first- and second-order CAPs.

In the social sciences, a *conceptual framework* provides a platform for drawing distinctions, explaining core avenues of causality and, often via extensions, predicting outcomes of social interactions that operate in various specific contexts (Jenkins-Smith et al. 2017). Conceptual frameworks provide vocabulary, sets of categories, and sets of causal principles that facilitate subsequent analysis. By designating and fostering avenues for inquiry, they create foundations for entire research programs. Although, given such breadth, many elements of a specific framework are, at best, difficult to test empirically, frameworks point to coherent bodies of complementary theory that may guide subsequent research, including multiple more focused theoretical models with more precise conceptual and operational specifications. Multiple testable hypotheses may then follow.²

Despite its breadth, this book does not attempt to explain long-term historical origins of developmentally functional institutional systems. For example, it does not sort out the degree to which geographic differences have conditioned distributions of power and institutional evolution over centuries—a question posed by Engerman and Sokoloff (2002). The present focus is both more contemporary, primarily though not exclusively on the 20th and early 21st centuries, and it pays considerable attention to short and medium-term time horizons; the latter might extend a few decades. Even so, this approach addresses foundations of institutional development in a manner that is consistent with many historical accounts of institutional evolution.

² A framework is analogous to a Lakatos (1978) research program that provides core untestable fundamental propositions (e.g. substantive rationality) that foster multiple testable propositions. The program offers a “positive heuristic” that specifies a set of related avenues for research: a research agenda that can guide more precise theory and hypothesis testing. Here, a “negative heuristic” incorporates empirical analysis and leads to rejecting paths that fail relevant criteria. A progressive research program leads to discovering novel facts. Snowdon, Vane, and Wynarczyk (1994, 20-25) summarize this concept and apply it to distinct traditions in macroeconomic theory. Jenkins-Smith et al. (2017), noting that a Lakatos program offers “hardcore” axiomatic propositions with a “protective belt” of auxiliary hypotheses, call such a program an “ancestor” to their advocacy coalition framework; a topic addressed in Chapter 6.

This text employs nation states as its primary unit of analysis, but many of its principles apply to specific geographical and topical policy domains (addressed in Chapter 6), industrial sectors and various sub-national regions including municipalities (addressed in Chapters 8 and 9), and supra-national regions such as the European Union. Indeed, Chapter 8's discussion of political settlements invites sub-national distinctions within at least two of its four designated categories.

My proposed framework also merges several intellectual traditions. It utilizes a broad and flexible interpretation of economic and rational-choice institutionalism—a variant on methodological individualism that employs a broad and minimal conception of rationality as goal-oriented behavior (Ostrom 1998; Gintis 2009). It adds a complementary emphasis on game-theoretic reasoning as a systematic method for conceptualizing ubiquitous strategic interactions among various agents, who may be individuals, organizations, or coalitions. As such, this framework offers multiple avenues for vicarious problem solving that analysts may apply to specific developmental contexts. It also incorporates social conflict theory. Distributions of power shape institutional formation, and asymmetric distributions of power generate commitment problems. To classify underlying developmental contexts, this approach considers distinct types of political settlements—that is, understandings, relationships, and arrangements held among powerful parties to use politics rather than violence as their primary method for resolving disputes. Certain configurations of political settlements underlie distinct configurations of social orders. Finally, this approach frames processes of institutional evolution within a

punctuated equilibrium dynamic, an addition that renders its premises compatible with historical institutionalism and punctuated equilibrium policy theory.³

Because their concept of social conflict underlies two of this text’s core hypotheses, a brief comparison to the Acemoglu-Robinson approach (2006, 2008, 2012) permits further elaboration.⁴ In their discussions of the economic origins of dictatorship and democracy, the uses of elite power, and the comparative economic success of nations, these authors utilize seven basic principles:

1. An economic foundation, meaning that individuals use well-defined (broad) preferences (such as a desire for more income) to evaluate social outcomes. Corresponding economic incentives affect political attitudes, and individuals behave strategically, as in game theory.
2. A focus on social conflict among various groups of political actors who can affect economic and political outcomes through collective organization and access to resources (sources of de facto power) and, more generally, through exercises of both de facto and de jure power.⁵
3. Attention to the role of political institutions in designating decision-making authority (de jure power) and, more generally, the impacts of distributions of power on the evolution of both political and economic institutions.
4. A focus on commitment problems related to the typical inability of powerful parties to credibly signal that they will refrain from using their power for their own benefit—a condition that undermines the credibility and feasibility of potential agreements. By

³ For a comparison of rational choice and historical institutionalism, with commentary on the compatibility of these approaches, see Hall (2009). For a review of punctuated-equilibrium policy theory, see True, Baumgartner, and Jones (2009).

⁴ Many of these principles also appear in Acemoglu, Johnson, and Robinson (2002, 2004).

⁵ De facto power is immediately available, “on-the-ground” power; de jure power arises from institutionally designated positions, such as prime minister (Chapter 5 elaborates).

designating the distribution of relatively permanent de jure political power, however, political institutions can (sometimes) resolve such problems.

5. Attention to distinctions among various sources of income and wealth, notably that between the political incentives implied by land ownership as opposed to ownership of productive resources that rely on physical and human capital.
6. A Schumpertarian approach to political development as constituting fair elections and broad political participation. This approach underlies the Acemoglu-Robinson distinction between authoritarian and democratic forms of governance.
7. The concept of a political equilibrium in which powerful parties do not encounter sufficiently strong incentives to invest resources in acquiring (additional) de facto power for the purpose of altering existing institutional configurations.

Using these principles, Acemoglu and Robinson (2012) distinguish between *extractive* and *inclusive* institutions, with attention to the stability of each. Whereas extractive institutions sometimes foster short- to medium-term growth by transferring resources from relatively unproductive to productive sectors—for example, from agriculture to heavy industry in the USSR starting in the 1920s—they cannot achieve sustained growth because extractive institutions stifle technological innovation and creative destruction. By contrast, inclusive political and economic institutions, when sufficiently stable, foster long-term growth.

My approach retains this emphasis on the importance of strategic reasoning and economic incentives—though with more leeway for shifts in preferences arising from social influence. It also retains a focus on social conflict, the importance political incentives conferred by distinct sources of wealth, the impact of distributions of power on institutional evolution, the importance of commitment, and a potential for institutions to establish credible commitment.

Indeed, commitment problems reflect unresolved second-order CAPs, and, for complex exchanges, institutions underlie feasible possibilities for resolution.

Yet, there are differences. Rather than focus inquiry on distinguishing democratic from authoritarian paths of development, and corresponding concepts on inclusiveness and exclusiveness (important though they are), my approach adds dimension and nuance by directly considering categories of political settlements—that is, mutual understandings held among powerful parties to resolve conflicts primarily through politics rather than violence. The contours of political settlements, which depend on their social foundations and configurations of authority, influence the evolution of institutions and, consequently, corresponding economic and political development. They do so, moreover, in manners that do not necessarily rely on a democracy/dictatorship dichotomy. Even so, the notion of a political settlement (developed in Part III of this text) does bear resemblance to the Acemoglu-Robinson concept of a political equilibrium. The implications of distinct types of political settlement, however, extend beyond an exclusive/inclusive dichotomy—relevant though that is. I also place more emphasis on second-order CAPs—especially those related to enforcing institutional prescriptions. Such CAPs interfere with attaining sufficient implementation and social mobilization for rendering nominally inclusive political and economic institutions inclusive in practice. Moreover, my approach does not require that political inclusion guarantee or lead to economic inclusion, and vice versa.⁶ Additionally, I include a richer concept of political development that extends beyond a Schumpertarian notion, by also stressing state capacity, the rule of law, legitimacy, and social mobilization.

⁶ This statement also takes exception to the North et al. (2009) “double balance hypothesis”; more in Chapter 7. My approach addresses critiques of Acemoglu and Robinson mentioned by Khan (2017), without rejecting much of their core logic.

In many respects, this book offers a sequel to my 2013 book, *Collective Action and Exchange: A Game-Theoretic Approach to Contemporary Political Economy*. That book addresses the same basic proposition: development requires resolution of collective-action problems, but it does so with more micro foundation and less attention to macro-level interactions and processes of development. My 2013 text begins with micro foundations that address the ability of small and large groups to develop and implement cooperative agreements related to myriad types of free riding (first-order CAPs) as well as methods for rendering such agreements credible by establishing requisite coordination and enforcement (second-order CAPs). A key implication follows: resolution via enforcement requires exercises of power. The discussion proceeds to complicate the analysis by successively introducing social preference theory, especially the concept of intrinsic reciprocity, and bounded rationality, which establishes foundations for conceptualizing institutions. Next, it turns to institutions as conduits for the transmission of motivation, information, and more fundamentally, cognition. Informal and formal institutions and institutional systems thus act as social coordination devices—foundations of social choreography (Gintis 2009). This discussion proceeds to address the compatibility of informal and formal institutions (or lack thereof), with implications on relationships between local self-governance, third-party enforcement, social norms, formal institutions, and complex exchange. These are foundations of governance and economic development. After considering social networks and the political economy of policymaking, my 2013 text closes at the macro level: location, information, growth, power, commitment, and development.

My new text expands on these final topics.

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