

**Scarcity, Conflicts and Cooperation: Essays in Political and  
Institutional Economics of Development**

**by**

**Pranab Bardhan**

## Table of Contents

Preface

Chapter 1: History, Institutions and  
Underdevelopment

*Appendix: Empirical Determinants*

Chapter 2: Distributive Conflicts and the  
Persistence of Inefficient Institutions

Chapter 3: Power: Some Conceptual Issues

Chapter 4: Political Economy and Credible  
Commitment: A Review

Chapter 5: Democracy and Poverty: The Peculiar  
Case of India

Chapter 6: Decentralization of Governance

Chapter 7: Capture and Governance at Local and  
National Levels

Chapter 8: Corruption

Chapter 9: Ethnic Conflicts: Method in the Madness?

Chapter 10: Collective Action and Cooperation

Chapter 11: Irrigation and Cooperation: An  
Empirical Study

Chapter 12: Global Rules, Markets and the Poor

## Preface

In the last few years several technical books and many journal articles have been written on institutional economics and political economy. The purpose of this book is less to present original research contributions to this literature, more to provide an integrative and somewhat reflective account of where we stand today, particularly on some of the major issues of that literature as they relate to problems in developing countries. The treatment in most of the chapters here is more discursive than in technical journal articles, although I'd like to think that the arguments are not loose, they instead provide a coherent logical structure and an "analytical narrative".

Since my intended readership goes beyond the research community in Economics and is inclusive of most social scientists and policy thinkers in general, I have tried to avoid formal models except in two chapters (in chapters 7 and 10 I have briefly enunciated a couple of new models to formalize some ideas partly because of a dearth of formalization in what happens to be under-researched areas at present). In some other chapters (for example, chapter 4) I have reviewed the existing models without elaborating on the formal details, bringing out instead the essential ideas involved. In Economics the prevailing culture is not to take someone seriously if he or she comes unarmed with (or should I say, unescorted by) a model. I find models particularly useful in puzzling out the various assumptions that we often need even to derive

what seems like an intuitively obvious conclusion, and in deciphering unifying principles connecting seemingly unrelated case studies. But the world of institutional and political economy is full of ambiguities, contextual nuances and multi-dimensional complexity, which at our current state of empirical knowledge are extremely difficult to capture with our necessarily oversimplified quantitative exercises in model building or hypothesis testing. Research, of course, progresses with abstractions, but at these early stages of our enquiry in this rather murky territory undue preoccupation with precision may often mislead us about the larger picture, and we may never find the lost keys if we confine our search only in the lighted area. There are, of course, some who go to the other extreme of echoing what Ansel Adams once said about photography: “There is nothing worse than a sharp image of a fuzzy concept”.

Institutional failures, weak accountability mechanisms and missed opportunities of cooperative problem-solving constitute the running theme of our story of underdevelopment. The institutional framework of an economy defines and constrains the opportunities of individuals, determines the business climate, shapes the incentives and organizations for collective action by local communities in resolving their common problems, and encompasses the structures of commitment and accountability that the political authority in society provides. In all these respects the institutional framework is often relatively weak in many poor countries, and that is the main concern for most of the chapters in this book. We start in chapter 1 with a general introduction to the recent literature on institutions and development, examining the current emphasis on quantifying the macroeconomic effect of institutional quality (taken largely in the limited sense of secure property rights). Apart from pointing to the usual econometric problems

in identifying the impact of property rights institutions on the basis of crude cross-country data, it is arguable that other institutional variables play as important a role as secure property rights. For example, we show the significance of the regime of political rights in determining particularly outcome variables measured in the standard human development indicators. Also, particular social and political institutions that coordinate individual actions are of critical importance in economic performance, but their effects are usually hard to quantify. So here we move on to a comparative-historical analysis of the various imperfect coordination mechanisms of society (state, market, business groups, local community networks, etc.) that attempt at correcting the pervasive coordination failures that beset early stages of industrial transformation.

In chapter 2 we explore the various processes through which dysfunctional institutions seem to persist in poor countries, and, contrary to much of the literature, we emphasize the role of distributive conflicts in this, in showing why there may be very little of self-correcting forces in changing these institutions. It is often claimed that in certain cultures (examples may be drawn from Japanese or Swedish societies) coordination or collective action in orchestrating improvements in institutional arrangements is easier. I have no doubt that these cultural factors are important in determining a country's institutional history. But one common thread running through some of the chapters here (apart from chapter 2, we refer to this in chapter 3, 5, 6, 9, 10 and 11) is to explore how these institutional differences may be related to underlying social or ethnic heterogeneity and initial inequalities in asset distribution.

Since political economy of institutional change largely involves distribution of power, we analyze the structural basis of the concept of power in chapter 3, after looking at various social

battlefields where power is exercised and linking power to inequalities in resource endowments. As is now widely recognized in the political economy literature, processes to work out better institutions are often blocked by different kinds of commitment problems. In the interaction between the state and private economic agents (and among the agents themselves) various commitment devices can play a crucial role particularly in decisions involving long-term investment, which we discuss in chapter 4, where we also raise the issue of trade-off between commitment and accountability.

Issues of accountability obviously bring in mind the various democratic rules of ensuring accountability and we discuss them in chapter 5 in the context of examining the complex relationship between democracy and poverty in a large poor democracy, India, why this democratic country has been rather slow in grappling with its mass poverty. We illustrate with concrete examples how the welcome expansion of democratic rights for the hitherto subordinate groups in a poor country can sometimes overwhelm the usual commitment procedures that are indispensable both for governance and long-term investment. One way the conflict between the procedural and participatory aspects of democracy can be mitigated is to bring accountability and responsibility face to face at the local level. In particular a lot of attention has been paid in this context in recent years to the accountability mechanism that works through decentralization and devolution of power, which is the theme of chapters 6 and 7. The former shows that in spite of the undoubted informational and other advantages, in situations of weak political accountability decentralization has some special problems not discussed in the standard literature on fiscal federalism. One of these problems relates to the frequent cases of elite capture of local governments in cases of a high degree of social and economic inequality. The obvious question

then is about the differential proneness to capture at different levels of government. Chapter 7 works out in a theoretical model the conditions under which the capture of governments by elite interests is stronger or weaker at the local level compared to the central level. Weak accountability is also behind the common institutional failure we call corruption; in chapter 8 we discuss its effects, reasons for persistence, and policy issues that it raises. Institutional failures, rather than cultural antagonism, is also our focus in chapter 9, where we try to understand the raging ethnic conflicts in different parts of the world, the difficulties of containing them and policy lessons we can draw.

As we have mentioned above, bringing about institutional change requires collective action, and in chapters 10 and 11 we analyze the impediments to attempts at collective action, particularly those posed by distributive conflicts in heterogeneous groups and unequal societies, a problem that links up with the role of distributive conflicts in the persistence of dysfunctional institutions that we have discussed in chapter 2. Chapter 10 investigates theoretical issues, both at the macro and the micro level, and chapter 11 illustrates with an empirical study of collective management of irrigation water in rural south India, where the different social and economic determinants of conflict or cooperation by local communities of farmers in water management are quantified, with a particular emphasis on the role of initial wealth inequalities.

Finally, in chapter 12 we go beyond the national boundaries and explore the effects of global rules, institutions and market processes from the point of view of the poorest people in the world. The focus here is on domestic institutional quality which often determines how much

a poor country can participate in the opportunities opened up by globalization and at the same time minimize the concomitant hardships.

In chapters 7 and 10 where we have explicitly introduced formal models, we have confined the models in starred sections, so that readers who are not interested in the technical details may skip those sections; there are some pointers and summaries of the main arguments in the other sections of the chapters. Chapter 4 reviews a whole array of theoretical models, and even though we try to focus on some of the essential ideas without elaborating on the technical details; some non-specialist readers may find the chain of analytical arguments rather heavy-going, and so we have tried to summarize the main arguments at the beginning and also in various sections of the chapter.

Some of the chapters draw upon and revise materials earlier presented in articles in the *American Economic Review*, *Journal of Economic Literature*, *Journal of Economic Perspectives*, *Economic Development and Cultural Change*, *World Development*, and *Economics and Politics*. I jointly worked with Dilip Mookherjee in developing the model in chapter 7, and with Tsung-Tao Yang in chapter 10. Tsung-Tao also assisted me in researching the materials in some of the other chapters. I have also benefited from comments from Samuel Bowles, Maitreesh Ghatak, Karla Hoff, and Gerard Roland on parts of the manuscript, and from three anonymous referees on the whole manuscript. While working on this book I received financial assistance from the Network on Inequality and Economic Performance funded by the MacArthur Foundation. I am grateful to all of these people and organizations.