The Poverty of New Institutional Economics

Sharecropping in Ghana, and the Problems with Economic Theories of Agrarian Institutions

Summary

Since the early 1990s at least, development theories and policies have increasingly come to emphasize the importance of institutions. One significant approach is the New Institutional Economics (NIE), which emphasizes how institutions can reduce the costs and uncertainty involved in transactions, and thereby enable trade, growth and poverty alleviation. NIE, however, is rooted in social science paradigms of evolutionism and functionalism. These paradigms suffer from a number of methodological, theoretical and empirical problems, and, as a result, contain inaccurate assumptions of bounded, homogenous and inertial communities. Consequently much NIE also rests upon these assumptions. These assumptions are illustrated in one particular application of NIE—the analysis of sharecropping, with a case study of Ghana.
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Abbreviations

CPR Common Property Rights
III Induce Institutional Innovation
M&E Monitoring and Enforcement
NIE New Institutional Economics
OIE Old Institutional Economics
TC Transaction Cost

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Preface

As development theorists and policy-makers have become increasingly dissatisfied with the orthodox neoclassical economics of the 1980s, institutional approaches have gained popularity. Yet many institutional approaches, such as New Institutional Economics, remain founded upon highly selective readings of social science. Because of the malleability of the concepts of institutions, new institutional economic approaches seem to explain anything under the sun. There are very few critical approaches to NIE, and those that do exist are often overly dismissive and superficial. This essay thus seeks to take a critical approach based in the intellectual history of social sciences. I examine NIE in depth, and look closely at a particular application of NIE to the analysis of sharecropping. There is also a great legacy of social analyses of sharecropping in Ghana from which to evaluate NIE.

This paper attempts to be truly inter-disciplinary. In contrast to overly dismissive critiques or multi-disciplinary analyses that selectively incorporate disconnected concepts, I have attempted to read, understand, historically situate, compare and integrate various disciplines and methods. Unfortunately, time and space constraints have prevented fieldwork and a review of the survey data on sharecropping (e.g., in the Ghana Living Standards Surveys).

I would like to thank Ian Scoones for reviewing my argument and chapters. These ideas developed partly with the support of Gillian Hart. I have also been inspired by the work of Lyla Mehta and Melissa Leach. Zohra Moosa not only helped proof the paper, but steadied my hand, head and heart throughout the long, stressful process of composing it. As always, my deep gratitude to my family—Dan, Jessica, and Laurel deGrassi—for their enduring support, without which this paper would not have been possible.
Chapter 1: The Rise of Institutional Analysis

For a number of intellectual and contextual reasons, the 1990s saw a flourishing of ideas about institutions in development theory and policy, as well as in the social sciences more generally. Moore (1999: 79) provides a revealing description:

In the social sciences, the 1990s have been the decade of intellectual reaction against neoliberalism and the utilitarianism with which it is so intimately associated. Scholars have been queuing up to denounce as a fantasy the arid world of rationally self-interested human beings ... The hot stories in social science are about how norms, values and institutions modify or override the imperatives to rationally self-interested action, and thereby make a better world.

One can identify roughly three institutional perspectives that have arisen over the past few decades in development theory: civic, state, and market. The context for the rise of institutional analysis was the reaction by donors and development institutions against ‘statist’ approaches and towards neoliberal approaches. This swing was most significant in structural adjustment policies that aided to deregulate economies, liberalise trade, and privatise state industry—the so-called ‘Washington Consensus’ (Gore 2000). ‘Get the state out’ and ‘get the prices right’ were the slogans of the day.

In seeking other means for development besides the state, development agencies increasingly turned to civil society. This is where the first institutional approach arose—in addressing the difficulties of organising collective action for management of resources and services (Ostrom 1990).

The second contributing factor to the rise of institutional approaches was the move to reform the state. While most donors defend the benefits from neoliberal policy, they will concede that development / poverty reduction / economic growth have not been as great as expected or hoped. One explanation was that implementation had gone wrong, either in preparation, speed, sequence, security, depth or breadth. Poor implementation was said to be the result of malfeasant bureaucrats; what was needed was ‘good governance’ (World Bank 1994).

A third explanation emphasises that even with proper implementation neoliberal reforms were insufficient for development. Part of this explanation stemmed from accumulating proof that newly industrialised East Asian countries had intervened heavily in their economies (Amsden 1989; Wade 1990), despite claims otherwise (World Bank 1996). A different part of this perspective emphasises that markets must be ‘enabled’ through public goods and appropriate policy, legislation, and (even sometimes) regulation (de Soto 1989; World Bank 2002). This approach drew on the booming discipline of New Institutional Economics, which purported to be more realistic than neoclassical economics by taking seriously imperfect information, bounded rationality and transaction costs (Stiglitz 1986).

NIE is said to be particularly useful for understanding impoverished areas of developing societies where markets do not function according to neoclassical models (Hoff et al. 1993). And so fell the Washington consensus (Burki and Perry 1998; Gore 2000)

The following paragraphs explain my interest in NIE, particularly with regard to sharecropping and Africa, specifically Ghana. Though this paper focuses primarily on New Institutional Economics (NIE), I also touch on related institutional perspectives.

Sharecropping is seen by some as a key means of access by poor to land as a basic asset for survival and growth (Deininger 2003). Others claim that sharecropping retards technical change and (hence) growth in agriculture, and thus prevents the full-blown development of capitalism, industry and prosperity (Bhaduri 1973). Following this latter view, many
countries have undertaken land reforms—often after peasant-based rebellions or even revolutions—to eliminate landlord-tenant structures, and return 'land to the tiller.' In other cases governments have outlawed sharecropping, or enacted restrictions on land ownership or share levels. Hence the economistic questions of whether the institution of sharecropping results in lower yields per hectare, and whether sharecropping lowers tenants' welfare, have acutely political implications.

While my focus on landlords and tenants may seem antiquated in a development world dominated by excitement over information and communication technologies, deliberative democracy, globalisation and so on, it is actually quite important. Sharecropping is a theme upon which so many top policy makers, economists, and several Nobel laureates have cut their teeth, and which claims to have produced a 'new development economics' for the Twenty-First Century (Stiglitz 1986). Now that most analysts look more sceptically on simple claims that globalisation will soon eradicate poverty (Norberg 2003), New Institutional Economics are important because they are increasingly being used to explain apparently persisting differences in development (e.g. Assane and Grammy 2003; Keefer and Shirley 2000).

Ghana is a relevant country to examine NIE, given that the dismal levels of development are being explained by the notion that rural Africa is particularly dominated by 'missing markets, imperfect information, and high transactions' (Townsend 1999: 49). NIE is being used to explain why free market programs and modern agricultural technologies have yet to boost growth in Africa. The assumptions in NIE therefore will, I expect, increasingly shape how we view past experiences, present circumstances, and future possibilities for development.

The Argument in Brief

Much NIE rests upon flawed paradigms of evolutionism and functionalism, and consequently makes incorrect assumptions that agrarian communities are bounded, homogenous and inertial. These incorrect assumptions lead to inaccurate predictions, as shown in applications of NIE to sharecropping in Ghana.

The structure of the paper is as follows. Chapter 2 lays out the basic characteristics of New Institutional Economics, contrasts NIE with neoclassical economics and old institutional economics, and mentions the subfields of NIE and how NIE has been used to analyse sharecropping. In Chapters 3 and 4, I describe the paradigms of evolutionism and functionalism, show how NIE rests on these paradigms, and then describe how inaccurate assumptions—of bounded, homogenous, and inertial communities—in these paradigms find their way into NIE. Chapter 5 describes theories of sharecropping, illustrating how NIE approaches to sharecropping also rest on these same flawed assumptions, with evidence from various sharecropping studies. Chapter 6 examines how these assumptions lead NIE approaches to sharecropping to make inaccurate predictions about sharecropping in Ghana, with particular reference to capital markets, monitoring and enforcement costs, and adjustment of share proportions to marginal productivity. Chapter 7 concludes by summarising the argument, and situating NIE theories and methods in their political and economic context.

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1 Dorward et al. (1998), Hubbard (1997) Gabre-Madhin (1999), Jayne et al. (2002); Kherallah and Kirsten (2001); Kherallah et al. (2002). To ease reading, I have placed references in footnotes where there are four or more consecutive citations.
This study is unique in at least four ways. First, while previous studies have noted in offhand ways the functionalism and evolutionism in NIE, the basis of NIE in these paradigms has not to date been analysed and illustrated in detail. Second, serious critiques of NIE are just now beginning to build up, but still remain few, broadly sketched, and disconnected. Third, almost no studies have critically examining in depth the NIE approach to sharecropping. Fourth, most of the NIE literature on sharecropping has focused on Asia, and to a lesser extent Latin America, generally neglecting Africa.

Chapter 2: NIE in a Nutshell

2.1 New Institutional Economics

As its name suggestions, the basic tenet of New Institutional Economics is that institutions are important in understanding economics, and vice versa. NIE stems from dissatisfaction with the restrictive assumptions of neoclassical economics, and with the lack of a theoretical framework within Old Institutional Economics (OIE). NIE relaxes two key assumptions of neoclassical theory: perfect rationality and costless transactions. The implication of recognizing transaction costs and ‘bounded’ rationality is that often markets will not function properly—or even exist—without institutions to overcome information and transaction problems. NIE also arises out of a desire to explain varying economic performance over long time spans, something difficult for the comparative statics of neoclassical economics (Farabotn and Richter 1998; Nabli and Nugent 1989).

By relaxing overly restrictive neoclassical assumptions, NIE is said to be more realistic: ‘New institutional economists are the blue-collar guys with a hearty appetite for reality’ (Williamson 2000b). But several features of the neoclassical analysis are retained—’the underlying tools of neoclassical price theory and the sophisticated quantitative techniques developed by a generation of cliometricians continue to be a part of the tool kit’ (North 1990: 135). NIE, then, is essentially ‘a modification of neoclassical theory’ (North 1994), and ‘demonstrates how rational choice theory can be modified to meet many of the objections that critics have raised to it …’ (Ensminger 1992: 16).

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1 Ankarloo (2002); Ankarloo and Palermo (2004); Evans (1993); Fine and Milonakis (2002); Fligstein (2001); Hira and Hira (2000); Mehta et al. (2001); Peters (2002).
2 A few NIE works in Africa include Besley (1995); Dec (1997); Robertson (1987); Pender and Fafchamps (2001).
NIE, of course, is not 'a homogenous and monolithic body of knowledge' (Nugent and Nabli 1989: 1336). Before describing some of the branches of NIE, I first contrast it with Old Institutional Economics.

2.2 Old Institutional Economics

Old Institutional Economics was founded in the early Twentieth Century by the Americans Thorstein Veblen, John R. Commons, and, earlier, the German Carl Menger, who generally opposed the rationalism, individualism and utilitarianism in the then developing neoclassical economics of Leon Walras and Vilfred Pareto. They were deeply influenced by concepts from biological evolutionary theory, and sought to apply the science of natural selection to economics and society. Their work remained general, descriptive, and qualitative, in contrast to the quantitative analytic modelling in neoclassical economics.

2.3 Basic Similarities and Differences

Based on several reviews (see Parada 2002 for a review of the reviews), the table below summarises the basic similarities and differences between neoclassical, old institutional, and new institutional economics.

| Table 2.1: Neoclassical, New Institutional, and Old Institutional Economics |
|-----------------------------|-----------------------------|-----------------------------|
|                             | NC  | NIE | OIE                        |
| **Similarities**            |     |     |                            |
| Unit                        | Individual | Individual | Society                   |
| Interests                   | Self | Self | Socially determined        |
| Utility                     | Maximise | Maximise | Satisfy                    |
| **Differences**             |     |     |                            |
| Transactions                | Costless | Costly | Costless                   |
| Information                 | Perfect | Imperfect | Imperfect                 |
| Rationality                 | Full | Bounded | Socially determined        |

2.4 Map of the field

The various subfields of NIE have been well surveyed before, and I shall not repeat them here (see Furubotn and Richter 1998; Kherallah and Kirsten 2001; Nabli and Nugent 1989). Kherallah and Kirsten (2001: 7) provide a useful map, reproduced in Figure 2.1 below.

Figure 2.1: Sub-Fields of NIE

The fields most relevant to sharecropping—and hence the fields upon which this essay concentrates—are Transaction Cost Economics, New Economic History, Law and Economics, and the Economics of Information.

2.5 The Case of Sharecropping

NIE approaches have been used to explain the existence of sharecropping—as opposed to wage labour or renting of land by tenants—as well as the changes in sharecropping over time. NIE approaches suggest that sharecropping contracts provide incentives for tenants to work
diligently even without costly monitoring by landlords, whilst also allowing tenants to spread risks in the absence of insurance markets. As explained in Chapter 4, there are also a number of other minor elaborations on NIE interpretations of sharecropping.

In Chapter 4 I will discuss theories of sharecropping in more detail, describing classical theories, NIE interpretations, and some of the problems of analysing sharecropping with an NIE framework. First, however, it is necessary to explore in more detail NIE, and in particular how it comes to have flawed assumptions—of bounded, homogenous and inertial communities—by being founded upon deeply problematic paradigms of evolutionism and functionalism.

It may be counter-intuitive to suggest that NIE rests on assumptions of bounded, homogenous, and inertial communities, since several NIE currents purport to be able to explain trade in an era of globalisation, interest groups, and economic change through time. But these assumptions do find their way into the heart of NIE through paradigms of evolutionism and functionalism, to which I now turn.

Chapter 3: Evolutionism in the NIE, and its Limits

This chapter and the next illustrate how NIE is flawed because it is based upon evolutionary and functionalist paradigms with flawed assumptions. Evolutionism and functionalism are paradigms because they are broad bodies of thought about how the world works. They, like paradigms in general, are not completely consistent. Different strands have various historical origins and methodological tendencies. That said, the strands also have several key common features, which justify speaking about ‘the paradigm’ of evolutionism and ‘the paradigm’ of functionalism.

Evolutionism makes analogies between societies and organisms, and posits linear stages of development. Similarly, NIE suggests societies evolve in a manner analogous to organisms, and that there are linear stages of society in economic development. For NIE, societies with trade-enabling institutions flourish and out-compete societies without such institutions. Any given society can be categorised according to a single set of stages in the ‘evolution from simpler to more complicated forms of exchange’ (North 1990: 121). As I detail below, such biological analogies and unilineal schemes depend on and repeat inaccurate images of the majority of the world as consisting of ‘primitive’ communities that are bounded, homogenous and inertial.

Before I continue, I must make four cautions. First, the following analysis primarily scrutinises the work of Douglass North (1990). I believe this is warranted since he has provided one of the most coherent outlines of NIE theory, and his work is very influential and
often cited as support for NIE claims. Other NIE writings are examined in depth in Chapters 5 and 6, where I look at analyses of sharecropping.

Second, I am concerned with rural communities in the developing world. These are treated variously as ‘primitive societies’ ‘tribes’ ‘backwards communities,’ etc. in the NIE literature. When I use the simple term ‘communities’, I am referring to these.

Third, while NIE distinguishes between consciously devised formal laws and unconscious informal norms, it treats ‘primitive societies’ as being dominated by the latter (Williamson 2000a: 596-600). I, in contrast, only speak of norms because I contest the formal/informal distinction as well as the presumed dominance of informal norms in ‘primitive societies.’

Fourth, the NIE and the literature on sharecropping are diverse, at times self-contradictory, bodies of thought. My analysis below should not be misconstrued as suggesting that every part of all NIE and sharecropping analyses are evolutionist and functionalist and contain assumptions of bounded, homogenous and inertial communities. Rather, I am merely flagging erroneous tendencies in this literature.

### 3.1 Evolutionism

Evolution is often used in ambiguous ways to mean different things (Sanderson 1992). To help achieve a clearer understanding of the ways in which evolutionism pervades NIE, this section briefly describes five main types of social evolutionist thought:

1. **Classic Cultural Evolutionism**
2. **Social Darwinism**
3. **Neo-Evolutionism**
4. **Evolutionary Economics**
5. **Development Studies**

These schools differ in terms of what is evolving (individuals, societies, firms), whether there are multiple paths of evolution, and why things evolve (because of natural or divine ‘laws’—that is, teleology—or due to selective pressure, whether natural or socio-economic).

#### 3.1.1 Classical Cultural Evolutionism

Nineteenth Century Classical Cultural Evolutionism described a given, hierarchical set of stages in biological and human worlds ordained by God. The schema was teleological and unilinear. Proliferating stories from overseas traders, colonialists, and missionaries were used by ‘armchair’ anthropologists to try to devise schema for the evolution of the worlds societies from most primitive to most advanced (e.g. Frazer 1890). For instance, Lewis Morgan (1877) categorised societies into three groups: savages, barbarians, and civilised. Evidence of earlier stages could be found in the continued persistence of some traits, called ‘survivals’, with no practical use (Tylor 1871). One revealing episode was when Classical Evolutionists took great interest in a ‘bush woman’ from southern Africa forcibly brought to Europe and put on display as a living relic of early human society (Gilman 1986) (I shall return later to this example).

#### 3.1.2 Social Darwinism

Social evolution was seen as ‘natural’ by Social Darwinists (and some Old Institutional Economists)—Herbert Spencer foremost among them—who applied Darwinian scientific

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* Others included Henry Maine (in *Ancient Law* (1861)) and E.B. Tylor, who believed in the evolution of religion from animism in primitive societies, to polytheism in kin-based societies, to monotheism in modern civilized societies.
theories of evolution to humans. Darwin showed that current (non-human) species evolved according to basic principles: with variety in populations and selective pressures, those organisms with heritable characteristics that enhance chances for producing surviving offspring will be sustained. Spencer drew from this a universal law of evolution from simplicity to complexity. He compared social evolution with the evolution of organisms from single cells to complex beings. Soon thereafter, social Darwinists cited early-Twentieth Century scientific advances and laissez-faire economics to argue that some humans and societies were biologically inferior and destined to be out competed. However, this position became untenable after the Nazi atrocities in World War II (Stocking Jr. 1968; Caplan 1978). Subsequent analysis focused on how cultures—rather than biological traits—shape human interaction. For example, the popular studies by Mead (1928) and Benedict (1934; 1946) focused on 'national cultures' of Polynesia and Japan.

3.1.4 Evolutionary Economics

Evolutionary economics explicitly uses Darwinian analogies to understand how firms evolve (Hodgson 1993; Hodgson 1999; Vanberg 1994; Vromen 1995; 1999; see also Vanberg 1994; Vromen 1995). The field branched out of Classical Cultural Evolutionism and OIE, declined around World War II, and was revived in the 1950s and 1960s. Key work by Alchian (1950) and Hayek (various) spurred thinking, crowned by Nelson and Winter (1982) in their strict Darwinian focus on selective pressures acting on a variety of heritable traits.

3.1.5 Development Studies

Development studies drew on the Classical Evolutionism in modernisation theory by emphasising general 'stages of progress' (Rostow 1960; cf. Gerschenkron 1962). Modernisation theory elaborated different socio-economic-cultural-political aspects of various stages, similar to Classical Evolutionism. Societies of the world could be placed on a two dimensional axis from 'traditional' to 'modern' in terms of binaries: group / individual, closed / open, static / changing, agriculture / industry, subsistence / commercial, personal / impersonal, etc. (Brohman 1996: 15-26).

3.1.6 Assumptions in Evolutionism

Evolutionist theories contributed to views of communities as bounded, homogenous and inertial. Societies were conceived of as bounded wholes, which had evolved through time relatively separate from each other. Societies could be classified entirely as fitting into one stage or another—internal cleavages and struggles within societies were ignored or downplayed. Finally, societies were presumed to evolve only slowly, such that one could
still find unchanged remnants—'survivals'—of previous societies in current ones. Inertia was assumed.

3.2 Evolutionism in NIE

NIE is influenced by particular types of evolutionism: broadly by pre-Darwinian teleological evolutionism, and specifically by analogies with Darwinian natural selection.\(^6\)

At a broad time-span, NIE is unilinear and teleological. North (1990: 118-130) applies institutional analysis to different stages of the 'evolution of cooperation' in economic history:

1. early forms of trade in small-scale tribal villages or hunter gatherer communities
2. kin-based long-distance trade
3. early manufacturing-based trade
4. extensive specialisation-based trade, which requires institutions to protect property rights across borders—essentially 'modern Western societies' (North 1990: 120).

Like Spencer a hundred years before, North sees societies as moving through these stages, transitioning from 'simpler to more complicated forms' (ibid., 121). At several points North draws from the Classical Evolutionist Louis Morgan (via Colson (1974)) for anthropological evidence that in 'primitive societies' rules 'reduce the chances for conflict because they reduce the total amount of ambiguity' (Colson 1974: 52).

At a shorter time-span, however, NIE proposes multi-lineal economic selection of institutions. The essential argument is that conflict and uncertainty are costly to society, so societies that develop institutions that resolve conflict and uncertainty are more likely to prevail over those that do not. Uncertainty can lead to destruction of property, humans and knowledge, and can also prevent trade, which brings great benefits to society: 'institutions that enable the parties in the exchange to capture more of the gains from trade will grow relative to those that fail to realize this potential' (North 1990: 92).

As with evolutionists, many New Institutional Economists make an analogy between biological organisms and societies. Just as populations of organisms evolve with different genetic characteristics, so do collections of societies evolve with different institutional characteristics.\(^7\) Genes code for certain actions in the body, and institutions code for certain actions in a community:

Gene : Organism
Institution : Community

The three necessary elements for biological evolution—variety-creation, selection, and replication—are also present in institutional evolution. First, just as new characteristics in organisms result from random mutations of DNA, so too 'it is obvious', argues North, that for changes in informal constraints, 'accidents, learning, and natural selection all play a part (Boyd and Richerson 1985)' (North 1990: 87).

Second, selective forces act on these characteristics, leading to non-teleological evolution: 'changes in informal constraints – norms of behavior – may very well evolve without any specific purposive activity' (North 1990: 86-7). In other words, just as natural selection acts at aggregate level in an undirected fashion on a population, so too does it operate on groups of communities: 'Individuana ... do not choose between institutions, customs, and social

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\(^6\) See also Fracchia and Lewontin (1999) and Hodgson (1999: 87-127).

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3.3 Critiques of Evolutionism

NIE analysts have by and large ignored the vast history of evolutionary theory. They have picked selective concepts when it has suited them. This superficiality and selectivity is exemplified in North's comment that 'cultural evolutionary theory is in its infancy' (1991: 87), despite 150 years of such scholarship and criticism thereof. Critics have argued that evolutionism is:

- teleological
- ahistorical
- mechanistic
- biased
- endogenously
- progressive
- continuous
- self-justifying

The teleological notion of a divinely ordained or natural 'law of progress' is illogical because it puts cause after effect—the 'cause' of a stage of society is its need to move towards a final endpoint.

Though evolutionists were concerned with change over time, they often ignored history. Rather than document transformation, comparisons were made between societies presumed to occupy different stages (Nisbet 1969).

Evolutionism was also highly mechanistic—by emphasising broad patterns of shifts from one stage or form to another, it ignored conscious individual and collective agency in shaping history and society. Rather, change was a product of either 'laws of progress' or the aggregation of unrelated individual actions.

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8 See also Hayek (1979); Platteau (1994): Williamson (2000: 597) 'informal institutions have mainly spontaneous origins—which is to say that deliberative choice of a calculative kind is minimally implicated.'
9 See also Dow (1987); Langlois (1986); Vroomen (1995).
10 Likewise, Williamson (2000a: 596) mentions 'The vast literature on culture' but cites only a single reference from an economic sociology handbook (DiMaggio 1994). Ruttan's (1988) review is similarly superficial, and relies on outdated work.
11 Numerous works could be cited (Carneiro 2001; Greene 1959; Erickson 1998; Ferguson 1999; Sanderson 1992; Stocking Jr. 1968; Stocking Jr. 1987).
Evolution had an ‘endogenous bias’—it portrayed societies as developing in relative separation from each other.

Evolutionism portrayed communities as homogenous by treating them as coherent units that could be ranked in one stage or another. The assumption that everything in the world moves from simple to complex relies on an inaccurate portrayal of ‘primitive’ societies as relatively simple and undifferentiated.

As with modernisation theory, evolutionism emphasised progression in one direction; the possibility of reversing direction, or even switching paths, was largely excluded.

Evolutionism implied relatively smooth progression, and sharp disjunctions or ‘discontinuous changes’ were downplayed (Gould 1982; Aoki 2000; Mehta et al. 2000). Evolutionism was also criticised as suggesting that those who were at the top were there because they were more fit. It naturalised hierarchies caused by deep injustices. Evolutionary narratives thus justified colonialism by reference to the benevolence of ‘advanced’ societies protecting and developing ‘primitive’ societies. Likewise, Social Darwinism led to forced sterilisation (Eugenics), and was used in Nazi ideologies and genocide.

The limitations of evolutionism are exemplified in the example of the bushmen mentioned above (p. 18). Classical Evolutionary schema (and NIE!) relied on the idea of hunter gatherers as the most primitive stage in the evolution of human societies. Subsequent research showed ‘the Bushmen’ consist of quite different people (in language, history, etc.) who often had traded widely in various commodities, farmed, and herded cattle. When their trade was taken over by white colonialists, and their cattle and land taken by local Tswana elites, they were reduced to the poverty of hunting and gathering (Gordon 1992; Wilmsen 1989). Hence, what was thought to be an unchanging, homogenous society in an early stage of development is actually a recent product of conflictual international forces interacting with differentiated local societies. The notion that ‘Bushmen’ are relics from an early stage of humanity has been used by colonial and contemporary administrations to justify paternalistic control.

3.4 Implications of Critiques of Evolutionism for NIE

The ahistorical conjectures in evolutionism bring into NIE the incorrect assumption that agrarian communities are bounded. The emphasis on evolution along a path neglects how the continual interaction between societies shapes their development (Vanberg 1994: 87).

The emphasis on bounded societies each developing along their own paths homogenises communities by overlooking how supra-local connections can create divisions and rifts within communities.

NIE also portrays ‘primitive communities’ as homogenous by reducing individual and collective agency. Much NIE relies on mechanistic selection that does not allow for social difference or inequality in power: ‘the norms of human society cannot be explained in terms of human volition … hunter-gather societies may have the norms they do because these

12 North does note discontinuities (1990: 89-90) but largely dismisses their prevalence.
norms have survived natural selection' (Basu 1995: 22). The actual construction and negotiation of norms is not explored. North and others generally use passive verbs, there are usually no actors in these accounts: ‘... a custom or tradition may be gradually eroded [by who?] and replaced [by who?] with another’ (86). By suggesting evolution operates on a homogenous aggregate, NIE plays on broad stereotypes and thereby reduces peoples’ humanity. Just as Spencer compares people to termites and ants, so NIE tends to treat entire nations, societies and communities as wholes, each blindly obeying a set of shared norms, and each occupying a single stage in the linear evolution of institutions. And just as Marshall (1891) writes in sweeping stereotypical terms of ‘savage races,’ ‘ruder stages of human life’ (302), and parasitic races such as ‘Jewish and Armenian money-dealers in Eastern Europe and Asia’ (303), so do North, Posner, Platteau Furubotn and Richter, and others speak without qualm of ‘primitive communities’ that are all essentially the same. Basu (1995: 20), for example, repeats broad stereotypes by asserting ‘the Protestant work ethic helps economic progress; Rastafarianism does not’ (see also Harrison and Huntington 2000). North (1990: 125) also homogenises ‘primitive societies’ by downplaying the internal divisions that can generate institutional change; for him ‘sources of institutional change’ in ‘tribal organization’ have always been ‘external.’

Evolutionism in NIE portrays institutions as inertial through analogies with natural selection. Organisations evolve to fit institutional incentives, producing a ‘lock-in’ (ibid., 7), and such lock-in is only eroded gradually. Collective, conscious organisation for change is downplayed. Rather, change results from the slow application of selective forces on otherwise static institutions: ‘changes were an aggregate of literally thousands of specific small alterations in agreements’ (North 1990: 89). However, as Hodgson (1993: 168) notes, ‘While in biology it can be assumed that the genes have considerable stability and may maintain themselves with fidelity through time, we cannot assume the same in cultural evolution ... we have to further explain why that trait or rule sustains itself beyond the instant of its selection.’

Indeed, as to why ‘informal constraints’ are so persistent, Williamson (2000: 596) admits ‘North does not have an answer to that perplexing question, nor do I.’ Rather, inertia is assumed, it is a product of the assumed similarity of genes and institutions. Consequently North and others have no real answer to their own question, ‘When do relative price changes lead to institutional change and when are they simply a source of recontracting within the framework of existing rules?’ (North 1990: 86).

With the notions of separate, largely homogenous communities evolving through ‘stages’ on a linear path, NIE ignores how institutions can quickly change from social difference and supra-local flows of people, goods, ideas and finance. For example, North and others attribute Latin American under-development to the Spanish habit of ‘bureaucratic centralized control’ inherited 500 years ago, and thereby overlook continental and intra-country differences, as well as centuries of intervening international relations (North 1990: 103) (see also Acemoglu et al. 2001; Knack and Keefer 1995).

3.5 Conclusion

Evolutionary theory has a long history. NIE rests on specific evolutionary concepts. NIE generally ignores the vast body of social science critiquing evolutionism; instead most NIE makes highly selective use of social theory, relying on patches of antiquated, inaccurate
concepts. Consequently, NIE takes from evolutionism flawed assumptions about bounded, homogenous and inertial communities. Similar tendencies are present with the functionalism in NIE, to which I now turn.

**Chapter 4: Functionalism in the NIE, and Its Limits**

Functionalism suggests that the existence, nature, and change of a socio-cultural norm can be explained by its function in sustaining a group. NIE embodies such functionalism by claiming that norms can be explained by the economic functions they serve in reducing the uncertainty of transactions. But functionalism has been critiqued for being ahistorical, teleological, positivist, idealist, harmonious, systemist, unable to explain change, and ignorant of agency. These flaws lead functionalism to make incorrect assumptions about bounded, homogenous and inertial communities. NIE therefore also relies on and maintains inaccurate portraits of communities as a bounded group of members with given sets of norms that all members uniformly perceive, obey, and reproduce.

4.1 Functionalism

Functionalism in social theory is generally described as an approach or doctrine trying to explain the origin, nature and change/persistence of cultural forms and institutions in terms of the functions they perform for the cohesion and survival of a group.¹⁵ Thus the basic elements in functionalism are: (1) a culture; (2) a group having the culture; and (3) the function the culture serves in sustaining the group.

Evolutionism and functionalism are opposed in some ways, and very complementary in others. On the one hand, varieties of evolutionism emphasising changes over history are at odds with functionalist accounts that only look at present structures, needs, and functions.

On the other hand, the paradigms can be complementary. Evolution can be seen as one way of deriving functional forms (e.g. Parsons 1966; Basu 1995: 20, 22). In the sections below, I

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give an account of different strands of social functionalism, as they developed in British and American anthropology and sociology.

Emile Durkheim was a founder of sociology and functionalism, aiming to understand how different parts of society fit together. He distinguished cohesion based on similar beliefs (mechanical solidarity) from cohesion in which specialised components each play mutually complementary roles and thus interlink (organic solidarity). As with evolutionism, there was a biological analogy; in this case, it was with the organs of the body, where the kidney, heart, etc. each have their functions to play in ensuring overall survival. Durkheim argued that modern societies are characterised by a greater division of labour, and hence have organic solidarity. Modern societies still need shared norms, and in the transition from traditional societies they experience an exceptional period of turbulence or anomie. Durkheim’s ideas were adopted and spread by the anthropologist Bronislaw Malinowski.

4.1.1 American Sociological Functionalism

Talcott Parsons was the ‘father’ of functionalism and generally American sociology. Parsons was educated in the England and Europe in the 1920s (even attending Malinowski’s lectures) and hence was heavily influenced by Durkheim and Weber. His magnum opus, The Structure of Social Action, appeared in 1937. Parsons theorised how cultures, social systems, and personalities (his terms) interact to maintain social order. For him, there is a core set of long-lasting shared expectations about what people in various positions should or should not do (status roles). Cultures thus need to match the patterns of people’s actions (what he called the social system), or else there would be alienation and disaffection fatal to stability. Through socialisation, individuals internalise others’ expectations about them. A

social system thus is structured with value patterns (as well as sub-systems), and has functions that need to be fulfilled for the system to survive. Though the overall form of society may change slightly, equilibrium is maintained among the constituent parts of society.

Parsons’s legacy is evident in the work of subsequent thinkers. Robert Merton, Parsons’ student, defended functionalism by being more empirical and descriptive, and rejecting notions of full integration, functionality of all cultural items, and exclusively positive functions. The anthropologist Clifford Geertz took up Parsonian functionalism while studying and teaching at Chicago in the 1950s, later becoming a popular writer on culture.

Robert Redfield studied and taught his whole life at Chicago (except for fieldwork in Mexico), becoming Dean of Social Sciences, and aiming to synthesise sociology and anthropology. Indeed, Chicago became a centre of functionalism with the arrival of Radcliffe-Brown (the promoter of British anthropological functionalism, described below).

4.1.2 British Social Anthropology

Functionalism came to British social anthropology via Durkheim and then Malinowski, reaching its pinnacle in Radcliffe-Brown’s (1952) Structure and Function in Primitive

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16 The history of functionalism in American sociology is extensive (Baert 1998; Black 1961; Coser 1972; Coser 1976; Cuff et al. 1998; Eisenstadt 1990; Silverman 1979).

17 Adaptation to a surrounding environment, defining goals and mobilizing resources to meet them, integrated coordination of parts for coherence, and maintaining motivation. This is his AGIL schema: Adaptation, Goal-attainment, Integration, Latency.
Society, in which he emphasised integrated social systems in harmony (Radcliffe-Brown 1940: xxii; Stocking Jr. 1984; Moore 1994).

Functionalists reacted against the speculative and superficial schemas of Classical Evolutionist armchair anthropologists. British functionalists, particularly Radcliffe-Brown, emphasised detailed fieldwork (much in contrast to Parsons’ abstractness) in order to try to discover underlying contemporary rationales / functions for what at first seemed like irrational or magical beliefs / actions, the so-called ‘survivals’ left over from earlier periods.

For example, whereas Classical Evolutionists viewed rituals as anachronistic irrational ‘survivals’, functionalists viewed rituals as reproducing social values and bonds, thereby ensuring stability and survival (e.g. Durkheim 1912; 1930; Radcliffe-Brown 1952: 157; Turner 1967; Geertz 1973a). Another example is the study The Nuer by E.E. Evans-Pritchard, Radcliffe-Brown’s student. Evans-Pritchard argued that despite ‘lacking legislative, judicial, and executive organs’, the Sudanese Nuer were ‘far from chaotic’, because cultural rules facilitated ‘a persistent and coherent form’ that enabled the Nuer to reach ‘a state of equilibrium’ (286, 281).

4.2 Functionalism in NIE

Whereas Parsons and Durkheim analysed norms in term of their social functions, and Evans-Pritchard emphasised that social institutions can also play political functions, the New Institutional Economics analyses institutions in terms of the economic functions they perform.

Institutions are conceived of as naturally stable sets of rules (e.g. Nabli and Nugent 1989: 1335). Habit is a given fact—North (1990: 86) assumes a priori ‘the tenacity of norms of behavior.’ Norms are also shared: ‘expectations derive from a common understanding of the rules of the game and the penalties for deviation and are based on shared beliefs and shared identities of network members’ (World Bank 2002: 171).

By providing a commonly understood set of guidelines for interaction, it is argued, such stable rules ‘exist to reduce the uncertainties involved in human interaction’ (North 1990: 25). For the World Bank, drawing on North, ‘informal institutions allow those sharing norms or culture to behave predictable, lowering the risks in a transaction’ (World Bank 2002: 171; see also Ruttan and Hayami 1984: 204). Social institutions are necessary because ‘the small size of the market in each community precludes the possibility of using modern marketing practices aimed at reducing uncertainty’ (Hayami and Otsuka 1993: 16; see also Binswanger and Rosenzweig 1986; Binswanger and McIntire 1987).

The evolutionism in NIE also relies on functionalist anthropology to describe the early, lower stage of ‘primitive society.’ ‘Primitive’ social institutions, North and others argue, function to meet the needs of (early) stages of economic development. In constructing this narrative about primitive societies, North draws almost exclusively on three sources deeply embedded in functionalism. Indeed, North learned from Robert Meerton’s sociology while doing research on the East Coast (North 1997: 4).

Firstly, North (1990: 37-8) draws on functionalist accounts of the Nuer, the classic case study by Evans-Pritchard mentioned above. He argues that anthropological evidence illustrates how ‘traditional culture’, as informal constraints or rules, allow the Nuer to get along with one another. North (1990: 37) quotes an article (originally from 1979 by Robert Bates) illustrating how, ‘despite the potential for theft and disorder, the Nuer in fact tended to live in
relative harmony ... the Nuer appear to have avoided the potentially harmful effects arising from the pursuit of self-interest’ (Bates 1983; see Bates 1979). In the following sections I shall return to some of the limitations of functionalist accounts of the Nuer, and hence for North’s reliance on such accounts.

Secondly, North and others draw on the work of the functionalist-turned-interpretative-anthropologist Clifford Geertz (see Geertz 1978). Geertz analyses a bazaar market in Morocco, where ‘information is poor, scarce, maldistributed ...’ (29). He argues that the bazaar is ‘a distinctive system’ and that ‘much of the way in which the bazaar functions can be interpreted as an attempt to reduce such ignorance for someone ...’ (29, emphasis added). For Geertz, there are ‘rules’ of intensive bargaining in bazaars, and these are to be understood as ‘a communication channel evolved to serve the needs of men’ (32).

Third, North and others18 draw on Richard Posner, at the University of Chicago, who in turn draws on anthropology of the 1950s and 1960s for their ‘valuable ... insights into the economic function ... [of] ...the distinctive institutions of primitive society’ (Posner 1980: 2). Posner is essential to North’s theories of institutional economics, as well as a major guide for the field (Furubotn and Richter 1998, see, inter alia, pp. 15, 33, 74, 81, 172, 176, 440). For Posner, there is a set of ‘distinctive institutions’ that are unique to ‘primitive society’ and these ‘can be explained as adaptations to uncertainty or high information costs’ (4). Posner’s evidence comes from the evolutionist and functionalist anthropology mentioned above: the Classical Evolutionist Maine, the neo-evolutionist Service, and the functionalists Evans-Pritchard, Malinowski, Radcliffe-Brown, and Redfield (Posner 1980: 8).

4.3 Critiques of Functionalism

During the 1960s to the 1970s—times of civil war, migration, and struggle against colonial rule and racial discrimination—and onward, the methods, assumptions and aims of functionalism were thoroughly critiqued, though few of these were recognised in NIE, which was forming at the same time.19 The main critiques of functionalism were that it was:20

- ahistorical
- teleological
- positivist
- idealist
- overly harmonious
- positivist
- systems-based
- unable to explain change
- ignorant of agency and practice

ahistorical

teleological

Firstly, functionalists explained current norms by describing their concurrent functions, ignoring the details of how norms developed historically over time. ‘Primitive’ societies and economies were seen as timeless and unchanging, ‘without history.’21 Such a portrait grew out of, and helped reinforce, notions of colonial subjects as stuck in a lower stage of humanity, and hence legitimised foreign rule (Feuchtwang 1973: 97; Trouillot 1991).

teleological

Lacking history, functionalists tended to ‘regard the beneficial consequences or functions of a phenomenon as the cause of its existence ... no explicit theory is specified that can explain how the beneficial consequences factually translate into effective causes’ (Vanberg 1994: 32; Hempel 1959). Seemingly anything could be explained with offhand conjectures about its

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18 Many key critics were sociologists (Bourdieu 1986; Dahrendorf 1959; Giddens 1968; Giddens 1976b; Giddens 1984; Gouldner 1970; Mills 1956; Mills 1959; Zetlin 1973). In anthropology, key critics were also political economists (Wolf 1966; Roseberry 1983, Wolf 1982; Mintz 1985), political and legal anthropologists (Comaroff 1982; Leach 1954; Moore 1978; Moore 1986), and interpretativists (Clifford and Marcus 1986; Geertz 1975b; Marcus and Fischer 1983; Mintz and England 1985; Smith 1973).


20 E.g. Datta and Nugent (1989); Fafchamps (1992); Furubotn and Richter (1998); Hayami and Otsuka (1993); Platteau (1994).

A phenomenon may have multiple causes, and may serve multiple purposes, whilst any given function can be fulfilled by various phenomena. We therefore must look to history to understand why a particular phenomenon arises.

positivist

Functionalists regarded their disciplines as 'a natural science of human society' (Ratcliffe-Brown 1940: xi) and believed that by objectively studying regularities and testing models, they could discover laws of behaviour and develop A Scientific Theory of Culture (Malinowski 1944; see also Redfield 1956: 12; Goddard 1991: 67-8). But such positivism obscured varying interpretations of culture and how any understanding is mediated by socially constructed discourses. It has since been shown that anthropologists' accounts often reflected their own backgrounds and preoccupations more than objective reality. In particular, functionalists purportedly neutral and detached studies were to be used in the 'scientific control of [by] colonial administration' (Malinowski 1929: 22, 23) through existing 'traditional authorities'—a system known as 'Indirect Rule' designed to conserve colonial costs and ensure native stability.

idealistic

Functionalism also tended to be idealistic—it over-emphasised the influence of 'shared norms,' and therefore neglected material processes and interests. Social theorists have learned the pitfalls of idealism from debates over Max Weber's controversial (1930) work Protestantism and the Spirit of Capitalism, taken by some that 'Protestant culture' caused capitalism. This mis-reads Weber, and is historically inaccuracy (Giddens 1976a; Lehmann and Roth 1993; Ray 1987). Another prominent debate concerns the role of 'Asian' or 'Confucian' culture in

harmonious

Functionalism's 'harmony ideology' (Nader 1990) neglected or downplayed deep conflict, and its associated issues of power and differentiation. Parson only analysed power in terms achieving collective objectives, rather than examining conflicts within society. Stratification and inequality were seen as normal, legitimate aspects of society (Davis and Moore 1945). Conflict, when acknowledged, was seen to release tension and thereby re-establish stability (Coser 1956; Gluckman 1963). Functionalism's harmonious perspective stems partly from its inattention to history and supra-local and material processes that generate and shape conflict.

systemist

Functionalism emphasized bounded social system. Redfield (1956) for instance portrayed communities as 'a small cosmos' (9), being 'integrated,' 'self-sufficient,' 'self contained,' and 'distinct from all other communities' (15). Broader connections were not analysed due to the historical, idealist, and harmonious tendencies in functionalism (Cuff et al. 1998: 110-1; Vincent 1986). Subsequent work, though speaking of 'world systems' and 'capitalist systems,' showed how even 'small scale societies' had long been embedded in transnational flows of people, ideas, goods and finance (Wallerstein 1974; Wolf 1982).

un-able to explain change

In emphasising how social institutions function to maintain group survival and equilibrium, functionalism provided few clues as to how and why deep structural change actually occurs.

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22 This was the point of the 1970s and 1980s interpretative and post-structuralist anthropology (Rosaldo 1989; Tsern 1974; Geertz 1973b; Rubinow and Sullivan 1979; Marcus and Fischer 1986).
23 See also Hailey (1944); Malinowski (1930); Mamdani (1996).
The emphasis was on systems in equilibrium, so that communities were only every 'slow changing' (Redfield 1956: 4).

ignorant of agency and practice

Part of the inability to explain change was the lack of attention to human agency, and hence the distinction between rules and actual practice. The abstract postulations and models about culture as rules (e.g. Akerlof 1976, see esp. p. 610) lost a fundamental insight of the detailed, historical work of anthropologists: meanings are context specific. 'Rule statements,' the noted legal anthropologist S.F. Moore (1986: 90) insists, 'are not intelligible out of social context.' Rather, 'attention to the general political/economic/historical background is considered essential' (321), and allows one to see how rules are 'used, abandoned, bent, reinterpreted, side-stepped or replaced' (Moore 1978: 4).

Each of these problems with functionalism in turn contributed to problematic notions of communities as bounded, homogenous and inertial, as illustrated in the following diagram and described in the following paragraphs.

By ignoring history and material flows, functionalism ignored the broad connections in goods, people, ideas and finance in which communities were embedded. The emphasis on self-contained, coherent systems also excluded analysis of supra-local links.

Functionalism (and much NIE) depicted communities as homogenous by downplaying conflict and power, normalising material inequality, and by suggesting that there could be a singular scientific notion of culture. Communities were depicted as homogenous by suggesting conflict was only an aberration of society. Differentiation, where recognised, was seen as complementary, as functioning in mutually supportive ways (recall the analogy with organs playing different functions in a body). The positivism in functionalism obscured differing interpretations of cultural norms that different people within the same 'community' may have in various times and places.

Functionalist analysis assumed communities and norms were inertial by ignoring history, power, agency and material and supra-local processes. In analysing the present functions of
norms, functionalists failed to examine how norms can be dynamic. By ignoring struggles over power, functionalists failed to understand how and why norms change. Human agency also plays a key role in creating, destroying, and reinventing various norms. The idealism in functionalism occluded how multiple dynamic material processes can shape, and be shaped by norms, and hence contribute to quite often rapid change. Often times the processes shaping norms extended well beyond a locale—processes which 'systems theories' tended to ignore.

In the next few paragraphs, I concretely illustrate these limitations by describing problems with key case studies that were formative in functionalist social theory.

4.3.1 Geertz

In his classic (1963) ethnography of Java, Geertz portrays communities as materially homogenous by emphasising peasants' 'shared poverty'—'one will not find issues of gender asymmetry, racial discrimination, colonial domination, ethnic violence, and so on in Geertz's work,' notes prominent Harvard anthropologist Sherry Ortner (1999: 4), a student and admirer of Geertz. So strong is Geertz's aversion that he barely mentions the violent revolution that ended his fieldwork in Indonesia (only a minor footnote refers to the accompanying 60,000 deaths). Subsequent studies have revealed marked economic, social and political differentiation and conflicts over power in Java before, during and after colonialism.27

Also problematic is Geertz depiction of a singular, harmonious culture:

few of his works explore differences or variations in the beliefs, values, or idioms embraced by different groups within societies ... Geertz makes assertions about 'the Balinese', 'the Javanese' ... [etc] without considering the possibility that there are culturally important differences within these categories. (Sewell 1999: 50)

Geertz's (1973: 452) popular metaphor, 'The culture of a people is an ensemble of texts ...' was criticised for its static, closed portrait of culture (Scholte 1986; Asad 1982). Geertz (1973) view of culture as 'a system of inherited conceptions' (89) largely ignores agency, change and conflicting re-interpretations and re-constructions. As another critic notes, 'A text is written; it is not writing. To see culture as an ensemble of texts or an art form is to remove culture from the process of its creation' (Roseberry 1989: 24).

Along similar lines, Geertz and other functionalists' accounts of rituals have been widely criticised.28 Critics have shown how rituals often do not neatly reproduce shared, local stable social values and bonds, but rather are often key moments illustrating conflict and change; rituals too are influenced by material and ideological differences between people as well as by broader forces.

4.3.2 Redfield

Like Geertz, Redfield's rural field work was ended by revolutionary activity, but he ignored these turbulent politics and portrayed his study villages as harmonious and bounded. Subsequent studies showed extreme conflicts, poverty and regional histories of trade and labour migration on large maize plantations (see Roseberry 1989: 213-215; Lewis 1951).

27 Alexander and Alexander (1982); Breman and Siradj (2002); Hart (1986b); Hüsken 1989; Hüsken and White (1989); Puncus (1996); White (1983); White and Wiradi (1989).

28 For a review of concepts and references, see Kelly and Kaplan (1990). See also Comaroff and Comaroff (1993); Dirks (1994); Taussig (1980).
4.4 Implications of Critiques of Functionalism for NIE

By explaining institutions in terms of their functions in reducing uncertainty of local exchange in 'primitive communities,' NIE ignores the histories of community involvement in supra-local processes.\textsuperscript{30} It also assumes that there is a coherent 'social system' sharing such norms. By assuming inertial, shared norms, NIE fails to see how community members may be in conflict because they are involved in supra-local processes that clash.\textsuperscript{31} And broader material processes are also overlooked by idealist notions suggesting that economic development can be attributed to local norms (e.g. Garibaldi-Fernandez 2000).

In asserting that 'community norms' function to reduce the uncertainty of exchange, NIE portrays communities as homogenous. Community members are tacitly assumed to have few conflicts over norms and obey them in certain, well-informed interactions—'power and conflict ... are noticeable for their total absence from North's theoretical framework' (Fine and Miulonakis 2002).\textsuperscript{32} By suggesting that rules are sufficient to reduce uncertainty, NIE ignores how people face uncertainty due to the various material processes in which they are involved and for which superfluous norms may be of little significance. Much NIE presumes that there exists a pre-constituted community that shares those norms, rather than examining how communities are forged from various people with different identities. And NIE neglects the ways in which differentiation shapes the emergence, enforcement, change and forms of norms. Finally, through the un-reflexive notion of objective 'community norms' NIE downplays how people may differ in conflicting interpretations of norms.

\textsuperscript{30} As Basu et al rightly notes, 'the lack of deep historical treatment is one reason why general historians mostly ignore neo-institutional economic history' (1987: 12).

\textsuperscript{31} See also Mosse (1997) on collective action theory and the importance of histories of 'external authority and resources' (500).

\textsuperscript{32} See also Peters (2002: 10) on CPR.

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\textsuperscript{29} (Gough (1971); Hutchinson (1996; 1998; 2000); Jok and Hutchinson (1999); Johnson (1982); McKinnon (2000).
Explaining norms by their function in resolving uncertainty also homogenises communities by naturalising uncertainty. For North (1990: 25), information costs inevitably arise from the natural facts of (1) biologically ‘limited processing ability’ of human brains, and (2) the ‘complexity of the environment.’ Uncertainty is said to be an inevitable outcome of information overload and limited brains; he thus ignores how socio-economic and political differences and conflicts between people generate uncertainty.

In emphasising that norms function to reduce uncertainty, NIE obscures the dynamism of norms—how norms can change quickly, and how norms must continually be reproduced and maintained through action. Nearly all NIE fails, for instance, to consider any of the immense historical scholarship on how many seeming African ‘traditions’ were actually recent inventions arising out of Indirect Rule (Ranger 1983; Mamdani 1996; see Lentz for a review).

For North the stability of norms is attributed, in a tautology, to habit: ‘informal constraints . . . have tenacious survival ability because they have become part of habitual behavior’ (North 1990: 83). But as Hodgson (1993: 169) argues, ‘The endurance of rules should not be taken for granted; it has to be explained . . .’. NIE analysts do not ask how norms are maintained continually, and hence what relation they bear to historical events. Much like the ‘fit’ between norms and societies emphasised by Talcott Parsons, North (1990: 7) attributes stability to ‘the lock-in that comes from the symbiotic relationship between institutions and the organizations that have evolved . . .’. Consequently, institutionalists, like functionalists concerned with ‘anomic,’ worry that if transitions ‘from one set of institutions to another . . . are too rapid or too frequent, they can undermine predictability and thereby impose social losses’ (Nabli and Nugent 1989: 1343). By portraying communities as harmoniously integrated, it fails to examine how norms change in response to micro-level schisms and individual agency as well as macro-level material and ideological forces.

4.5 Conclusion

Because NIE builds on functionalism—the notion that social institutions can be explained by the functions they serve in promoting stability and survival of a group—NIE has come to rest on flawed assumptions of bounded, homogenous and inertial communities. These assumptions stem originally from basic problems within functionalism, namely its lack of history, and its teleology, positivism, idealism, harmony ideology, systems orientation, inability to explain change, and ignorance of agency and practice.

Having shown how NIE in general is premised upon two paradigms with flawed assumptions, the next chapter analyse how these assumptions are evident in a particular application of NIE—the analysis of sharecropping.

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33 See also Furubotn and Richter (1998: 15).
Chapter 5: NIE and Sharecropping

Sharecropping is important in development because it is a widespread and longstanding institution in regions of poverty, and it has attracted much cutting-edge economic analysis. This chapter illustrates how prevailing analyses of sharecropping use NIE. Consequently, such analyses share assumptions about bounded, homogenous and inertial communities.

5.1 What is Sharecropping?
Sharecropping involves a landlord letting out land to a tenant in return for a share of the harvest. There are almost endless variations in and modifications of sharecropping: contract length, whether the landlord also provides inputs, whether tenants have more than one landlord, etc.

Classical economists—David Ricardo, Adam Smith, and Karl Marx—viewed sharecropping as a feudal relic that would wither away with the transition to capitalism. It was said to be based on extra-economic factors (political, religious, social) concentrating ownership of land in the aristocracy.

There are two general NIE approaches to sharecropping: comparative statics, and institutional change. The former seeks to explain why sharecropping exists (as opposed to renting out land or hiring in labour), and whether sharecropping affects land productivity (relative to renting or hiring). The institutional change perspective examines how agrarian contracts change over time, and the nature and determinants of such changes.

5.2 NIE Explanations of Sharecropping: Comparative Statics
The literature on sharecropping is massive, and I will not detail it here. The main work I address is the comprehensive survey by Hayami and Otsuka (1993), which reviews and brings together much of the voluminous literature. In brief, the NIE interpretation of sharecropping is that it facilitates resource use in the presence of market failures caused by imperfect information and transaction costs. Thus, the NIE approach to agrarian relations uses ‘basically the same approach as that of the modern theory of industrial organization in terms of its emphasis on risk, transaction costs, and incentives’ (ibid., 5).

Sharecropping allows labour-short landlords to acquire labour, and land-short tenants to acquire land. The question is why sharecropping, rather than just hiring the labour, or renting out the land. The explanation is to be found in the existence of imperfections in labour and insurance markets, imperfections that arise due to imperfect information. Firstly, because landowners cannot have perfect information over hired workers, and enforcement of work for wage is costly, landlords will have to spend resources attempting to make sure their workers are performing up to task. So, hiring is less attractive for landlords. Secondly, insurance markets for tenants fail because of the difficulty of acquiring information about whether tenants are risky to cover and whether claims are legitimate. So, renting is less attractive to risk-averse tenants because they would be forced to bare all the risks in the case of crop failure. Thus, the NIE explanation is that: (1) sharecropping gives tenants a residual claim in part of what they produce, thereby giving them an incentive to work hard (an incentive lacking in wage labour); and (2) tenants are not forced to bear all the risk (as they would be with renting). Sharecropping thus balances these opposing incentives, as seen in the table below.
Various permutations exist on the above postulate about balancing work incentives and risk. These variations make different assumptions about whether:

1. shares can be varied
2. there is uncertainty in production
3. enforcement of contracts is costly
4. land is degradable
5. there are economies of scale
6. contracts are one-off or repeated
7. tenants and landlords are anonymous or have reputations
8. landlords are optimisers
9. landlords are risk averse
10. credit markets exist
11. agriculture requires great skill
12. tenants and landlords have different skill levels
13. landlords are flexible during disasters

Analyses addressing the above questions are surveyed well in Hayami and Otsuka (1993) and Singh (1989) and I will not dwell on them here. The possibility of combining various assumptions has provided endless options for economists to build, test, and critique models.

5.2.1 Comparative Statics Theories of Sharecropping

There are two main comparative statics views about sharecropping—that it is inefficient and results in lower yields than other arrangements, or that it is efficient and results in similar yields (see Hayami and Otsuka 1993 for a list of works that fall generally into each camp). The first, the ‘inefficiency school,’ derives from a minor footnote in the work of Alfred Marshall (1891). The Marshallian version of sharecropping is that it is inefficient because the split share results in tenants applying less labour to the land than they would if they were simply hired, and hence results in lower yields (Marshall did not address the issue of monitoring and enforcement (M&E) of labourers). Though relatively inefficient, sharecropping exists as a second best option to overcome market failures.

The second ‘efficiency school’ derives from the work of Steven Cheung (1969), and partly Johnson (1950). Cheung criticised Marshall for not realising that landlords could increase tenants’ shares, and thereby obtain greater productivity. For Cheung then, the explanation for sharecropping lay in its risk-spreading function. Though the risk-spreading explanation has been questioned and reformulated, it has generally remained a key feature of NIE approaches.

5.2.2 Evidence for NIE Comparative Statics

Many empirical studies of sharecropping have sought to confirm or disprove either the Cheungian claim that sharecropper productivity is as efficient as other contracts, or the Marshallian claim that it is less efficient. Empirical investigations of (in)efficiency have attempted to hold constant other factors, such as:

- Variable input use
- Different crops grown
- Differences in soil quality
- Value of crop produced vs. physical yield

The findings, compiled in Hayami and Otsuka (1993) are mixed, but generally lean towards the ‘efficiency’ school.

Table 5.1: Risk and Incentives in Sharecropping

<table>
<thead>
<tr>
<th>Risk falls on:</th>
<th>Hired labour</th>
<th>Sharecropping</th>
<th>Fixed Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work Incentives:</td>
<td>Minimal</td>
<td>Medium</td>
<td>Maximum</td>
</tr>
<tr>
<td>Supervision costs (simply opposite of work incentives)</td>
<td>High</td>
<td>Moderate</td>
<td>None</td>
</tr>
</tbody>
</table>

Subsequently it was argued that risk spreading need not necessarily imply sharecropping, as one could spread risks simply by having a combination of two contracts—one with wage labour, and one with rent (Newbery and Stiglitz 1979).
5.3 Explaining Changes: Induced Institutional Innovation

The key work here is that of Hayami and Ruttan (1985). They argue, much like North, that institutions evolve according to changes in relative factor prices (deriving from relative factor ratios). However, like NIE they assume that 'primitive' institutions are inertial and hence only adjust within certain limits.

The strongest evidence comes from some of the authors' own research (Hayami and Kikuchi 1981). They analyse South Subang, a 'typical upland village' in Garut District of West Java in which population growth increased pressure on land and lowered wages. This resulted in a disequilibrium of the marginal productivity of labour in agriculture relative to the off-farm labour market. Hence the shared portion of the harvest 'needed' to be adjusted downward to maintain comparable levels of marginal labour productivity. They suggest that institutional inertia—'resistance to change in long-established custom ...' (ibid., 188)—prevented adjusting share levels downward: 'reduction of the share rate was not quite so consistent with basic village moral principles.' Instead, there was a shift from allowing any labourer to be employed to harvest shares, to opening harvesting only to those who had previously participated (without pay) in weeding and transplanting that year's crop. This effectively reduced the remuneration back down in line with wages.

In another study, of East Laguna (Luzon, Philippines), Hayami and Kikuchi (1981) argue that new more productive agricultural technologies raised the marginal productivity of labour, while wage rates remained relatively constant. In their view, because institutions change slowly, shares could not be adjusted downward by landlords to resolve the disequilibrium. Consequently, landlords added extra unremunerated tasks, effectively reducing wages.

5.4 Evolutionism and Functionalism in NIE approaches to Sharecropping

Sharecropping literature helped consolidate NIE, and is one of the few areas where there is any empirical analysis of NIE theories. Several key sharecropping theorists have been in the same professional networks as those of the NIE school. The Chicago connection is again important, encompassing Steven Cheung (who composed his thesis while at Chicago), Vernon Ruttan (a PhD from Chicago in the 1950s), and Keijiro Otsuka and J.D. Reid. The following discussion shows how sharecropping literature has similar limitations as NIE.

NIE theories of sharecropping rest on evolutionary notions of stages from primitive to modern society, as well as biological analogies suggesting that sharecropping institutions evolve spontaneously through selective processes: 'if share contracts were relatively inefficient they would quickly die out' (Allen 1985: 30). Reid (1976: 558), for example, writes, 'the very prevalence of sharecropping should seemingly lend a priori credence to the competitive assumptions of our model.' Share contracts are said to evolve, but little or no attention is given to studying actual bargaining processes.

Sharecropping institutions are also explained in terms of their function in resolving market failures. Because it exists, sharecropping must be efficient, as 'one would expect maximising

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35 The main thesis was originally published under the same name in 1971. See also Binswanger and Ruttan (1978).
36 The emphasis on institutional change is an outgrowth of their theories of induced technical change—how the pattern of technology use adjusts to relative factor ratios, after Hicks (1935: 124-125).
37 Technically, their research focuses on labor contracts, rather than sharecropping, but still a form of agrarian contract.
individuals to adopt only efficient institutions’ (Quibria and Rashid 1984: 104). Joseph Stiglitz (1989: 26) writes, societies adapt to the absence of a complete set of markets: institutions develop to perform the functions that otherwise would have been served by the missing markets. Thus sharecropping can be viewed in part as an institutional adaptation to the absence of certain risk (insurance) markets. Where evidence fails to match theory, another function is identified to explain any inconsistency away: ‘higher rent (in sharecropping vs. fixed-rent) ... is considered to reflect the higher risk that landlords have to bear under the cost sharing contract’ (Hayami and Otsuka 1993: 121, emphasis added). If landlords do not adopt sharecropping but rather hire labour, it must obviously be because the cost of M&E is low (ibid., 99). And if landlords choose fixed rent, it must be because they are unable to enforce sharecropping contracts (ibid., 120).

Such evolutionism and functionalism contain views of communities as bounded and homogenous with inertial sharecropping institutions. The comparative statics approach, for example, generally only examines the immediate landlord-tenant nexus without reference to supra-local connections. Induced Institutional Innovation approaches tend to imply that institutions evolve according to local population-land ratios, and hence are not influenced by broader forces. Hayami and Kikuchi (1981: 11) write, ‘Village communities in the developing economies of Asia are, to a large extent, self-contained and subsistence-oriented ...

5.5 Limits of NIE Assumptions and Evidence on Sharecropping

There are few explicit critiques of NIE interpretations of sharecropping. There are however revealing case studies come from Java, the Philippines, Malaysia, California, Madagascar and the southern United States.

5.5.1 Bounded

The previous chapter showed the inaccuracy of Geertz’ view of Javanese villages as homogeneous and closed. Hayami and Kikuchi’s case study in Java is also contradicted by Pincus’ (1996) research in the same village:

39 Though they do note that ‘the market linkage with the urban sector varies widely among the villages.’ See also Hayami and Otsuka (1993: 6).

40 A minor exception is Bell and Zusman (1977). Though they theorize ‘tenants who possess different endowments of productive factors’ (391), the authors ignore social and political differences.
A large proportion of farmers and labourers were highly mobile, actively engaged in employment, tenancy and credit relations and the acquisition of productive assets well beyond the boundaries of the village. Previous studies carried out in the same locations had provided no indication of the degree of labour and capital mobility. Yet once the mobility of labour and capital in North Subang is recognised, the authors' [Hayami and Kikuchi's] thesis that real wages and production relations respond directly to demographic pressure on land resources cannot be sustained. (31, 32)

Hayami and Kikuchi re-studied their Philippine case, and have found deep connections to local towns, the capital, and international labour markets. The village's good transport links (on a port-trading network and major highway) and access to tractors, modern rice varieties, and irrigation made it 'one of the most productive rice areas in the country' (2000: 31).

Perhaps because these connections contradict their earlier assumptions of institutions evolving from local factor ratios, the re-study hardly mentions Induced Innovation theory. A key supra-local force shaping sharecropping institutions has been identified as the state. In her study of the rise and fall of sharecropping in Twentieth Century California agriculture, Wells (1996) found that broader state apparatuses shaped local bargaining processes: 'they shape the material consequences of class position, the ideological construction of class interests, and the social processes of class struggle.' The importance of broader politics in local institutions has been overlooked: 'Because the majority of sharecropping analyses have been conducted by economists working within a microeconomic framework, most attend little to the roles of political constraints and class struggle' (Wells 1996: 303).

These broader connections with the state are ignored in NIE accounts, as the mechanistic theories of competitive evolutionary selection of institutional forms have no place for agency, contingency, society and organised politics. In contrast, Scott (1985) shows how competition between political parties over power in the central Malaysian state reverberated back into local contractual relations in villages. Hart also describes these patronage networks and their impact on bargaining and monitoring and enforcement costs. She furthermore shows how the mass repression and violence by anti-Communist forces in Indonesia dramatically reduced the bargaining power and hence share proportions of poor tenants.

Hart (1991) shows how monitoring and enforcement costs were shaped as well by broader gender ideologies linked to both conceptions of the state and to politicised Islam in Malaysia. Likewise, Jarosz (1991) also shows the critical importance of gender ideologies in shaping the prevalence, form, and enforcement of contracts (see also Stolcke 1988). In sum, then, one would have to conclude that, in contrast to the assumption of bounded communities in the evolutionary and functionalist tendencies of NIE approaches to sharecropping, labour forms are 'always influenced by the larger political and economic environment' (Little and Watts 1994: 12).

5.5.2 Homogenous

Evidence also calls into question portrayals of communities as homogenous. In the case of the Philippine village studied by Hayami, only twenty years later do we find out that their study village, despite being portrayed as indicative of Southeast Asia in general, was actually quite unique, chosen very deliberately, and after some difficulty, for it presumed bounded, homogenous characteristics:

I wanted a 'typical rice village' - modest in size with about a hundred householders, clearly demarcated from other villages, not exposed too much to urban activities, and within commuting distance of no more than two hours from the IRRI ... contrary to what I expected, such a village was difficult to find ... I kept thinking 'perhaps there is no such a thing as a typical village. (Hayami and Kikuchi 2000: xvii)
Upon finding East Laguna, however, ‘it did look exactly like the typical Philippine village I had in mind’ (ibid.), despite the fact that it had a greatly less biased land distribution than much of the Philippines.

Regarding Java, the previous chapter mentioned the general literature criticising Geertz’s portrayal of ‘shared poverty’ in Java, and has showed the dramatic social, economic, and political differentiation of Javanese communities. Pincus illustrates this specifically for the village examined by Hayami and Ruttan, showing that their emphasis only on land distribution within villages overlooked non-land wealth and extra-village wealth and thereby underestimated inequality.

One crucial point ignored in NIE approaches is how community members differ in their political allegiances. Hayami and Kikuchi give no account of political differences within East Laguna: ‘few villagers commented on their relationships with the haks [the peasant land movements]’ (ibid., 27). Yet, these polities are crucial to the form and change of agrarian contracts, as Scott and Hart show. Wells documents how landowners switched to sharecropping after supervision became costly due to work slow downs organised by the United Farm Workers union to protest poor working conditions.

Gender often combines with other forms of differentiation in specific ways to shape sharecropping institutions. Hart shows how gender ideologies were formed out of a combination of politicised Islam and ruling party patronage networks. Wells shows how the bargaining power of labourers was shaped by the mobilisation of Chicano ethnicity. The historian Charles Van Onselen (1990; 1992; 1996) demonstrates the importance of institutionalised violence, racism and paternalism in sharecropping.
In sum, numerous studies show that the assumption of homogenous tenants is unfounded. As Scott (1985: 206) notes ‘We are never dealing with an abstract landlord and his abstract tenant confronting one another in an abstract situation.’ Economic, ethnic, political, racial, and gender differentiation in their context-specific and combined forms have a strong impact on agrarian institutions.

5.5.3 Inertial

Claims of institutional inertia in the Java case were soon invalidated. In fact, Hayami and Kikuchi (1981) contradict their own notions of institutional inertia in shares by noting (in passing without any discussion) that South Subang harvesters’ share was ‘reduced to one-seventh’ (184-5). It also seems contradictory to contend that village norms prevented changing shares, but these very same norms and habits allowed previously remunerated tasks to all of a sudden be done without any payment at all. In South Subang, shares remained at one-seventh until the 1990s (even with these additional tasks), despite continued increases in productivity. This was due to the strength of the farmers in prohibiting ‘large farmers to take unilateral decisions which are to the detriment of the sizeable populations of small cultivators’ (Pincus 1996: 123). Stability here resulted not from habit or norms, but from organised resistance.

Hayami and Kikuchi (1981) also contradict themselves with evidence from another village they studied, the recently settled North Subang. There, agricultural productivity increased but wages stagnated, so harvest shares dropped rapidly from one-fifth, to one-sixth, and so on reaching one-tenth. Hayami and Kikuchi attribute the change in shares in this community to ‘loose community ties’ (204). The presence of large landlords and weak, fragmented migrant tenants of different ethnicities prevented maintaining share rates. Tenants had threatened to boycott harvests, and protested to the village head, whereupon changes were banned for a year (Pincus 1996). But the ease of access to labour overcame this resistance. Thus, through their own evidence, Hayami and Kikuchi (1981) contradict their explicit assumptions of bounded, homogenous communities and institutional inertia.

Likewise, Hayami and Kikuchi’s Philippine re-study found that over the years shares fell dramatically. Contradictorily, lack of institutional change is explained by ‘inertia’, but when institutions do change ‘inertia’ is all but forgotten, change is explained by the need to restore equilibrium by bringing marginal productivity of labour back in line with wage rates.

5.6 Conclusion

Having surveyed NIE theories of sharecropping and shown how they contain problematic assumptions from evolutionism and functionalism of bounded, homogenous and inertial communities, I now turn to examine the predictive powers of NIE theories with reference to sharecropping in Ghana.
Chapter 6: Examining NIE Predictions about Sharecropping in Ghana

This chapter looks more closely at NIE approaches to sharecropping by examining how well certain predictions stand up to evidence from Ghana. I examine predictions concerning capital markets, monitoring and enforcement costs, and adjustments to changing marginal productivity. These predictions have been chosen out of the many available in the NIE literature on sharecropping because there is sufficient material to analyse them and because they illustrate clearly the problems with underlying assumptions of bounded, homogenous and inertial communities. The analysis in this chapter addresses the basic questions:

1. How do key assumptions embedded in NIE shape predictions made about sharecropping?
2. How are the limits of those assumptions illustrated by testing predictions with Ghanaian evidence?

First some background on the context of sharecropping in Ghana. Ghana is located on the coast of West Africa, with a southern, more densely-populated forest zone, a transition zone, and a northern savannah zone. The pre-colonial Asante kingdom expanded and contracted, profiteering from trade in gold, palm oil, rubber and slaves. During British colonialism, 1896 to 1957, cocoa became Ghana’s largest export. The economy flourished during the post World War II boom, but subsequently declined with political repression until the mid 1980s, which saw both economic and political liberalisation, continuing through the 1990s. Sharecropping contracts have been widely studied in the south of the country, initially in relation to cocoa, but now with many of the other crops (which include maize, cassava, yam, oranges, oil palms, and plantains). 35

6.1 Capital Markets and Bounded vs. Situated Communities

6.1.1 NIE Assumption of Bounded Communities

NIE approaches assume institutions are shared norms and values of clearly defined, bounded communities. As such, institutions help reduce uncertainty of interaction and hence overcome the imperfect information / transaction costs that lead to incomplete or failed markets.

6.1.2 NIE Prediction about Capital Markets

Among other reasons, sharecropping can be explained by the interlinking of contracts in capital and land between a landlord and a tenant. Because a tenant will owe a landlord part of her or his output, it will be easier for a landlord than for a moneylender to give the tenant credit, since the landlord will already have information about the tenant and the means to recoup the loan. The costs of a moneylender loaning to the tenant are prohibitively high since the tenant will not have collateral (by virtue of being a tenant), and it would be costly for the moneylender to try and investigate the tenant’s ability and willingness to repay. In contrast, the landlord will be able to obtain credit because he or she owns land that can be used as collateral. The landlord will thus have greater access to credit markets, and can pass on the credit to the tenant at lower rates than the tenant would otherwise be able to obtain. In

35 Amanor (2001); Amanor and Diderstungh (2001); Akyemeng (2001); Austin (forthcoming); Berry (2000); Berntsrh (1973); Besley (1995); Gyasi (1994); Hill (1956; 1963); Quisumbing et al. (2001); Takane (2002); Udry and Goldstein (1999). Firmin-Sellers (1996) is related to, but not relevant for, the following analysis.
short, sharecropping helps overcome missing markets in capital that arise due to information costs (Bardhan 1980; Mitra 1983; Stiglitz and Weiss 1981). 46

6.1.6 Counter Material

The NIE assumption of bounded communities leads to an erroneous reading of the role of capital markets in the development of sharecropping in early Ghana. Expressions of 'communities' were social-political actions, not indicative of actual natural, fixed boundaries (Amanor 2001; Berry 2000; Rathbone 1997). Numerous processes spanning scales were crucial to early capital markets in Ghana and their relation to sharecropping. These are listed below and explained thereafter:

1. changing configurations of political power between states, provincial chiefs, and local chiefs
2. intervention of foreign colonial powers in native law and administration
3. migration south from northern Ghana and French colonies
4. declining cocoa prices (resulting from World War I and the Depression)
5. the collusion of international cocoa marketing companies

Sharecropping developed from attempts by labourers working on cocoa farms to ensure that they were compensated. Tenants in Ghana had a specific social identity: they were from northern Ghana and Burkina Faso and were forced by colonial taxes to seek cash income. Consequently, tenants would return home periodically. With a boom in Ghanaian cocoa production, labour demands by landlords rose. 47 At the same time, cocoa prices were increasingly variable and were declining, due to World War I, the depression, and the collusion of international cocoa marketing companies. Hence, landlords were reluctant to pay higher wages upfront in the midst of uncertain final prices, yet needed access to more and more labourers. Landlords had also become indebted with the rise of money lending, and negotiated rents payable to sub-chiefs (for farms outside of the landlords' homeland). Labourers thus pressured landlords for sharecropping, and landlords by and large conceded.

even though the effective rates paid by landlords with sharecropping were much higher than
with annual wages (Amanor and Diderutuah 2001: 5; Austin 1987; forthcoming).

Hence, when we recognise supra-local connections, we can see that early Ghanaian
sharecropping resulted from landlords lack of capital, rather than their access to capital, as
NIE assumptions would lead us to predict. The socio-political identity of the tenants as
foreign ‘strangers’ was also critical for their push to sharecropping as a means of ensuring
compensation before they returned home. NIE’s bias towards bounded communities relates
back to functionalist anthropology’s emphasis on farmers in Ghana, and elsewhere, as
constituting ‘a homogenous, sedentary, equilitarian peasantry’ (Fortes 1940: 250).

6.2 Monitoring and Enforcement Costs, and
Homogenous vs. Differentiated Communities

6.2.1 NIE Assumption of Homogenous Communities

‘Primitive’ or agrarian communities are relatively homogenous because plentiful land
provides resources for all. Such communities share egalitarian norms of reciprocity that
constrain accumulation and promote redistribution. These norms make primitive
communities suspicious of links with the outside world, and thus hinder trade,
commercialisation and their attendant wealth and inequality (Ault and Rutman 1979; Hayami
and Otsuka 1993; North 1990; Posner 1980).

6.2.2 NIE Prediction about Monitoring and Enforcement Costs in
Sharecropping

Based on the assumption of a ‘relatively homogenous’ village community (Hayami and
Otsuka 1993: 87) with a ‘group of identical tenants/laborers’ (Mitra 1983: 168), monitoring
and enforcement costs are seen to arise from natural characteristics of human biology and
agricultural geography. Monitoring and enforcement costs result from the imperfect
rationality of the principals (homogenous landlords) and the innate ‘self-seeking with guile’
of agents (homogenous tenants), and consequently vary only according to:

1. farming knowledge of landlord
2. proximity of landlord to fields
3. structure of communication in village
4. complexity of crop arrangement
5. familiarity of landlord with crop arrangement

The size of M&E costs can shape the form of agrarian contracts. If it is too costly for a
landlord to monitor and enforce the terms of a share contract, they will prefer the simpler
fixed-rent (Hayami and Otsuka 1993: 99; Reid 1976).

6.2.3 NIE Evidence

An NIE perspective would emphasise that sharecropping prevails in Ghana—rather than
renting—because there are low monitoring and evaluation costs. Firstly, landlords can
monitor tenants easily since, as farmers themselves, most landlords in the cocoa region are
familiar with cocoa production, itself not a complex technology. Secondly, the tight nexus of
relations in Ghana’s ‘primitive’ rural communities could be said to provide information on
tenants’ performance, and thus lower M&E costs. Hence sharecropping prevails.
6.2.4 Critique

The inattention to differentiation beyond the landlord-tenant relation makes NIE approaches unable to recognise socio-political influences on monitoring and enforcement costs. In particular, there are almost no NIE analyses of gender and sharecropping. NIE accounts take at face value the 'myth of community' (Guijt and Shah 1998), whereas many social historians focus on exploring fractures within communities (for examples, see the references in Schwalm 1997; Li 1996).

The assumption of a homogenous community finds its way into the model as 'N homogenous landless farm-workers' (Hayami and Otsuka 1993: 22). Consequently, all the following equations are mis-specified. For example, the landlord’s income (y) is given as:

\[ y = N[(1-a)Q - B] + q \]

where:
- \( y \) = income
- \( N \) = number of (homogenous) workers
- \( a \) = parameter indicating output sharing rate
- \( Q \) = output per (homogenous) worker
- \( B \) = parameter indicating fixed payment
- \( q \) = other income

While a close reading of NIE material does show some mention of social differences—for example, between young and old, native and migrant, men and women—such differences are usually glossed over, mentioned in passing, or dismissed as exceptions (Hayami and Kikuchi 2000: 8-9). The only thing close to a social relation is the simple fact that individuals bump into one another more frequently in 'the small community' (Hayami and Otsuka 1993: 17): 'the landlord may be able to collect sufficient information according to his tenant’s conduct by casual observation and gossiping' (ibid., 4). Hence, such 'personal ties' always lower M&E costs—they are 'highly instrumental for efficient work enforcement' (ibid., 100; see also Sadoulet et al. 1997). In contrast, Mann (1989) shows the broader power and politics in local 'personal ties' between husband and wife: 'Male control ... was backed not merely by individual [violent] force but also by mechanisms of social control enforced by ruling classes, churches, and the state' (796).

6.2.5 Counter Prediction

M&E is not just about technical management, like buying and applying inputs. Tenants will have more or less inclination and ability to cooperate and follow the terms of a contract, or contest the terms of a contract, in relation to socio-economic and political forces.

6.2.6 Counter Evidence

In numerous villages, tenants are largely new male migrants, while landlords consist of male natives or early settlers and, to a lesser extent, labour- and capital-short women. The allocation of social reproductive work (cooking, child rearing, cleaning, etc) to women restricts their time for agricultural labour, and hence relatively fewer women are tenants, and more are forced to sharecrop out any land that they do have.

These domestic obligations shape monitoring costs in at least four ways. Firstly, reproductive work lessens the time women have to work as tenants. Consequently, most tenants are men, thus lowering M&E costs where men have more information about each others’ activities through social networks. Secondly, where women do farm as tenants, their need to secure income to meet household expenses puts them in a lower bargaining position and thus less willing to risk getting caught shirking, hence lowering monitoring costs. Alternatively, reproductive obligations on women make them viewed as 'less reliable' tenants

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Baek (1997) is an exception.
needing greater oversight (Takane 2002). NIE theories of sharecropping are blinded to these
dynamics by their gender-blind assumption that ‘Each potential tenant has the same
reservation expected utility’ (Singh 1989: 38). Fourth, women landlords may have less time
to monitor their own tenants.

A landlord’s monitoring costs of labour are lowered by the patriarchal control of a male
tenant over family members labouring on his fields—a phenomenon widely mentioned
outside of the NIE literature (Austin forthcoming: 584, 586; Grier 1992; Hill 1956: 9; Hill
1963: 188). Women are often obliged to work on their husbands’ farms, and often
landlords prefer tenants who can mobilise unpaid family labour (Daddieh 1994: 205; Austin
forthcoming: 555-6)—the labour inputs of such tenant families would be relatively more
assured and hence need less monitoring.

Gender relations also shape enforcement costs. Unequal legal-political rights hinder
women’s ability to uphold contracts, whether as tenants or as landlords. Indeed, young
women were pawned until the 1950s (Austin forthcoming), and child pawning and slavery

This example has focused on how gender relations affect monitoring and enforcement costs,
but one could also consider other aspects of social differentiation in Ghanaian communities
such as political affiliation, descent (as in from slave or pawns), age, religion, and ethnicity.

6.3 Adjustment to Marginal Productivity, and Inertial vs.
Dynamic Institutions

6.3.1 NIE Assumptions of Inertial Institutions

NIE approaches assume that institutions evolve in order to reduce uncertainty in transactions.
Changing relative prices can induce institutional change, but only slowly, due to the innate
inertial nature of institutions (Basu 1995; Basu 1996; Hayami and Ruttan 1985).

6.3.2 NIE Prediction about Marginal Productivity

Traditional sharecropping arrangements evolved in order to overcome market failures, and
rising population pressure will only gradually lead to greater shares going to landlords. In a
process analogous to biological evolution of new genes, a new norm for the division of shares
will be selected through numerous individual-to-individual bargains (Boyd and Richerson

6.3.3 NIE Evidence

Prior to the cultivation of cocoa, tribute on gold, snails, animals and other items was said to
be shared out in thirds with chiefs. An NIE interpretation would thus interpret the one-third
share system (called abusa) as a familiar cultural norm, a ‘ready-made system’ (Kimble
1963: 19) available to be adapted to cocoa sharecropping, a la Hayami (1998). Abusa
sharecropping could thus be said to be an age-old traditional norm held by Ghanaian
communities to deal with farm risk, scattered fields, and missing markets in land, capital, and
insurance.

50 See Agarwal (1996: 281); Jarroz (1991); Munir (1989); Yungstrom (2002).
Firstly, evidence on prior gold abusa tribute actually illustrates how shares were not determined strictly according to a predefined and universally agreed norm, but rather varied dramatically in practice: 'the working out of the exact proportion paid to the various parties varied with the situation and the persons involved ... [S]tate tax gathering systems did not function in so regularised a fashion as proclaimed in some general accounts' (Durnett 1998: 69, 76, 75). The effective share taken was often higher than that formally stated, if it was formally stated at all. Farmers in centralised areas could be 'subject to other exactions and incidences through kings, chiefs, and subchiefs, including court fines and fees and special levies' (ibid., 70). And when states needed greater revenues for various purposes (including war) they raised levies. Since appropriation was done in a context of political allegiances and violence, and there were innumerable add-ons and evasions, the shares thus varied from total confiscation to a token fee.

Secondly, there were also ambiguities in cocoa abusa tribute that farmers would have to pay to chiefs. There was considerable conflict over the rate of tribute, who was to pay, to whom it would be paid, and who would make and enforce all these decisions. Around 1913 Britain’s Chief Commissioner in Ghana, Sir Francis Fuller, ‘made a rule’ and changed the tribute rate from one-third to one-tenth (quoted in Austin forthcoming: 356). Chiefs, hearing higher rates obtained elsewhere, tried to raise it, evoking ‘vehement protest, from cocoa growers and sympathetic commissioners alike’ (Berry 2000: 16). Subsequently, the police magistrate proposed to allow chiefs to charge a penny per tree (or roughly one-twentieth of the harvest value at that time), which was then endorsed by the Kumasi Council of Chiefs. The Gold Coast governor wished to wait for the outcome of relevant hearings at the West African Lands Committee, but chiefs took up the ‘penny per tree’ edict, which ‘quickly...
attained the status of custom' (ibid., 17). The governor cautioned that while this rate was not custom, chiefs could make it so: 'one penny] cannot be regarded as part of native customary law ... chiefs would be better advised to place existing practice on a sound statutory footing by enacting by-laws,' but few ever did (quote in ibid., 17). For if chiefs formally codified the tribute as 'customary law,' there would result disputes over which chiefs controlled which land (and its associated tribute) (Austen forthcoming: 350).

Because the penny tribute was a set fee per tree, when cocoa prices fell and plantations matured (becoming less productive), farmers could not afford the tribute, which rose as an effectively rising share of gross revenue, reaching 47% by 1921 and 60% by 1930 (Austen forthcoming: 346). The government tried to reduce the price after 1933, to one-half penny south of Kumasi, and one-fourth north. This attempt was patchy, and rates were returned to a penny by 1936. Prices dropped during World War II, and the penny per tree was challenged again, apparently being reduced to one-fourth penny per tree by the newly constituted Ashanti Confederacy Council. Nonetheless, various chiefs tried to set their own rates higher or lower, varying them in relation to (among other things) land quality, harvest levels, demand for land, access to transport, political allegiance, and whether farmers were paying cash rents or a share of harvest (Austen forthcoming).

Hence, rather than an innate inertia, 'custom' was constructed as eternal and unchanging (even while practices varied greatly) through supra-local historical socio-political dynamics. In Ghana, like most of Africa, Britain and France were motivated by costly and turbulent experiences in India and South Africa to adopt indirect rule through 'native authorities' and 'customary law' (Mamadani 1996). Chiefs played their own role in constructing custom and tradition (Rathbone 1997; Amanor 2001). Much 'customary law' in Ghana was compiled by

In addition to the question of the tax rate, there was also change and conflict over the question of who could be taxed, strangers or citizens, and hence what were the criteria for citizenship, and who fit those criteria. For instance, one chief in 1920 tried to claim tribute from 'settlers' who had been there for 200 years, but this was overruled by a chief commissioner as 'neither natural justice nor good faith' (Austen forthcoming: 358). The West African Land Commission was told that one-third tax was levied on all cocoa, from citizens and strangers alike. However, then the colonial government—specifically Chief Commissioner Fuller—forbade chiefs from taxing cocoa grown by citizens ('natives' of the area). Some chiefs attempted to extract tribute from citizens, but the government would not let them (ibid., 356). Tension and ambiguities persisted: one provincial commissioner compromised and allowed sub-chiefs to levy a small, fixed rent.

A related question was trying to define precisely who were 'strangers.' Administrators considered that strangers to the Asante cocoa region were from the coast or the north. However, 'Not content to collect tribute from the relatively small population of non-Asante

cocoa farmers, they [chiefs] insisted that ‘strangers’ included everyone farming on their stool lands who were not actually their subjects’ (Berry 2000: 19). Consequently, in 1913 Fuller declared that in relation to cocoa tribute ‘strangers’... means anyone Ashanti or non-Ashanti, not belonging to the particular Division or Clan, on whose territory he has made himself a Plantation’ (quoted in ibid., 19). Consequently, ‘Rather than being frozen, stabilised, or even clarified by colonial rule-making, [formal] ‘citizenship’ could be redefined at the stroke of an administrator’s pen’ (Berry 2000: 20).

Abusa is certainly changing, but the notion that it is only now gradually evolving after built up pressure is mistaken. Such a notion relies on inaccurate portrayals of abusa as fixed in the past, and neglects a great deal of historical scholarship on the conflicts over and changes in Ghanaian agrarian contracts.

6.4 Conclusion

This chapter has examined some of the predictions from NIE approaches to sharecropping. Specifically, it examined how assumptions about bounded, homogenous and inertial communities lead to inaccurate predictions about the roles of capital markets, monitoring and enforcement costs, and marginal productivity in sharecropping.

Chapter 7: Conclusion

‘History matters’
—Douglass North, 1993 Nobel Laureate in Economics

‘It’s hard to just forget the past’
—Enrique Iglesias, international pop music star

7.1 Summary

The importance of institutions in development has been increasingly recognised by development theorists and policy-makers. However, this essay has shown how New Institutional Economics has suffered from its roots in flawed paradigms of evolutionism and functionalism. Problems with these paradigms impart to NIE inaccurate assumptions of bounded, homogenous and inertial communities. These assumptions are incorporated into NIE approaches to sharecropping, leading to misunderstandings and inaccurate predictions, as shown in the previous chapter.

7.2 Research and Policy Implications

Much NIE implicitly presents itself as an independent advance in economic science that just so happens to be able to explain contemporary events (Williamson 2000a). NIE has largely not realized that taking institutions, culture, and power seriously means being reflexive, it means scrutinising you, the author, and your own position and role within society. NIE fails to reflexively interrogate how its whole approach relates to, and indeed arises out of, contemporary contexts, concerns and debates. For example, North’s (1990) crowning arguments about institutions, culture and history came precisely when issues of culture were being fiercely debated in the ‘Culture Wars’ throughout American universities and the public

51 North (1990: vi)
in general, though North makes no reference whatsoever to these debates. It would have been hard for North to not be aware of these debates, as they often centred around his own Washington University, and its prominent figures like Todd Gitlin and Gerald Early (Director of African and African-American Studies Program). North’s arguments about economic ‘divergence’ between civilisations mirrors this era’s debates about ‘civilisational differences’ between black and white Americans (D’Souza 1995), in a volatile context of cuts in affirmative action, the Rodney King incident, and Gulf-war Arab-bashing. In Europe also, there was a rise in cultural politics, evident in the resurgence of neo-Nazis, and conservative governments being elected on anti-immigrant platforms (Stolcke 1995; Grillo 2003).

The ascendance of New Institutional Economics following North has come in an era of intense institutional reform around the world. Third World governments were being reformed and cut through structural adjustment, a new international trading system was being established with the transition to the World Trade Organisation. As North noted, “we live in a world where the rapidity of institutional change is very apparent” (1990: 6).

It is precisely in this era of massive institutional reform that NIE has purported to provide insights into the nature of institutions and institutional change. North’s book includes praise by T.N. Srinivasan stating North is ‘required reading’ for all ‘policy makers’ in this ‘time when economic and political institutions are being reformed and replaced.’ As North states, ‘we are trying to figure out basically what makes the world work.’

The two key messages coming out of most NIE is that change is slow, and that economic differences result not from political oppression or unequal economic power but ultimately from different underlying cultural endowments. First, despite some recognition of contemporary change (see the above quote, 1990: 6), North stalwartly insists “… the single most important point about institutional change … is that institutional change is overwhelmingly incremental’ (North 1990: 89).

Second, trade-enabling norms are essential for development: ‘the most important source of both historical stagnation and contemporary underdevelopment in the Third World’ is ‘the inability of societies to develop effective, low-cost enforcement of contracts’ (North 1990: 54). In similar terms, Platteau (1994) argues that generalised morality is necessary for economic growth because it reduces transaction costs: ‘To function effectively, at least in a long-term perspective, the market requires … generalised morality’ (ibid., 795). This is because ‘the pervasive presence of generalized morality in a society can prevent enforcement costs of the rules of honesty from being excessively high’ (ibid., 756).

The West has done well, Platteau (1994) argues, because it has strong morals: ‘the western world has a somewhat unique history rooted in a culture of individualism pervaded by norms of generalized morality’ (770, emphasis in original). Conversely, dismal African development can be explained by its lack of morals: Africans and their ‘cultural endowment’ (802) are characterised by ‘mistrust and limited morality’ (803). African states have not been able to ‘supply norms of generalised morality’ (790) because Africans ‘tend to remain entangled into all sorts of tightly-knit networks of personalised relationships’ (795). Essentially then, all the problems of poverty on the continent boil down to the fact that Africans are too ‘tribal’ to reap gains from trade. Such assertions hearken back 50 years to studies of ‘national cultures’ (see page 19 above), blaming ‘tradition’ and ‘tribes’ as obstacles to development.
The implication is that if anything is needed it is cultural change, not state intervention. North (1994: 366), for example, argues that 'the difficulty of turning economies around is a function of the nature of political markets and, underlying that, the belief systems of the actors.' Such a view finds its ways into concrete proposals. A project document for the $55 million Land Administration Project in Ghana, for instance, states:

In Ghana, there may be as much as $US 8-10 billion of dead capital, in the form of land and housing and property assets. Until cultural traditions and values change, so that trading of land and property in Ghana for capital and economic gain becomes wider spread, the potential to use more effectively the vast accumulation of land and property in the country will go unrealized. (World Bank 2000: 8)

We should be concerned because NIE (with all its misleading implications) has been formed and invoked by very senior figures in development policy throughout the world. Joseph Stiglitz, for instance, became Chief Economist at the World Bank. Vernon Ruttan became a senior advisor to the United States government and the Consultative Group on International Agricultural Research. Hans Binswanger, a joint author with Ruttan of Induced Institutional Innovation, rose quickly in the World Bank to become Director of Rural Development for Africa. Another proponent of Induced Innovation, John McIntire, now heads the Senegal World Bank office. Binswanger, J.P. Platteau and others advise on important documents such as the World Bank's land policy (Deininger 2003).

So precisely at critical juncture of national and global institutional transformation, then, many new institutional economic approaches seem to imply a laissez-faire strategy based on letting cultures evolve. For example, with sharecropping, the World Bank's new policy document states 'Improving on share contracts through government intervention is difficult if not impossible' (Deininger 2003: 85; see also Mitra 1983). Likewise, Hayami and Kikuchi (1981: 170) write that 'artificial limitations on contract choice in agrarian economies will lead to inefficient alternatives as substitutes.' Indeed, Cheung's (1969) founding contribution to NIE analyses of sharecropping was formulated as a reaction against Taiwanese land reform. His argument that 'different contractual arrangements [own use, hiring, renting, or sharing] do not imply different efficiencies of resource use' was a direct critique of efforts by the Taiwanese government to restrict rents, redistribute public lands, and redistribute landholdings exceeding three hectares. Such attempts to evaluate sharecropping in purportedly neutral economic terms—like other representations of sharecropping—are actually political moves themselves (Lessig 2002).

As with sharecropping, so intervention is ruled out with other institutions (Stiglitz 1974: 219, 252-3; Cheung 1969: 161; Reid 1976: 575; cf. Wells 1996: 308-9). What results is a profoundly laissez-faire approach:

I share with Hayek (1998) that the view that the rational design of an optimal system is not only impossible but also hazardous, and that a better system can evolve only through trial and error by many people in society, similar to the process of biological evolution involving mutation and natural selection. (Hayami 1998: 51)

Contrast this with the rhetoric of campaigners aiming to change global trade regulations. They emphasise agency and consciousness in changing institutions with slogans like 'Rigged Rules and Double Standards' (Watkins 2002) and 'Who's Rules Rule?' Even Joseph Stiglitz has transformed into a key figure in debates over globalisation (Stiglitz 2002b), away from mechanistic agency-less models, to emphasise 'The rules of the game have been designed for the most part by the advanced industrial countries, or more accurately, by special interests in those countries, for their own interests, and often do not serve well the interests of the developing world, and especially the poor' (Stiglitz 2002a: 24).

In the midst of rapid institutional change and dramatic inequalities in economic and political power, powerful figures are adopting NIE approaches that emphasise inertia and culture-based explanations. So overwhelming is the popularity of NIE that its basis in shaky social science foundations is overlooked. More than a hundred years of social theory is largely ignored. There is not a single reference to any anthropological journal in North’s (1990) landmark work. Another key figure erroneously asserts that ‘little is known about the evolution, emergence, and decay of informal institutions and how they interact with formal institutions’ (Eggertsson 1997: 1192). Yet another, Kaushik Basu, claims ‘we do not have a well-founded theory of how particular social norms come about’ (1986: 1895), and that ‘little more is known today about the growth and decay of customs than Marshall knew’ (Basu et al. 1987: 19; see also Basu 1995: 22). Platteau (1994), like others, is content to make a lengthy contribution on institutions to a major journal, despite his admittedly ‘limited acquaintance with subjects other than economics’ (536). The social sciences are being ignored, or rather colonised, by economics (Fine 2001). Like so many others, Hayami and Kikuchi (1981: 6) note, ‘Our economic approach to institutional change represents an attempt to apply standard economic theories on production and exchange to human behavior involving political and socio-cultural processes.’

What the epigraphs at the beginning of this chapter illustrate is how, for many outside of NIE, the notion that history (and institutions) matter is utterly commonsensical. Why then the attention lavished upon NIE approaches that ‘are still very ignorant about institutions’ (Williamson 2000a: 595)? The popularity of New Institutional Economics may have less to do with its theoretical validity and empirical accuracy—both which I have shown are severely limited—than with the depoliticising, conservative culturalist assumptions it makes in an unequal, globalising world.

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