PROSPECTS FOR A THEORY OF INSTITUTIONS AND DEVELOPMENT

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Introduction

The question ‘is there a heterodox theory of institutions and development’ invites an immediate riposte. ‘Yes, there are several such theories, and some of them have been with us for more than a hundred years!’ We have the old institutionalism of Thorstein Veblen, John R. Commons and the recently re-discovered Radhakamal Mukerjee (Madan and Gupta 2000). We have the revival of the old institutionalism by Geoffrey Hodgson (1988). We have the new institutionalism of Oliver Williamson and Douglass North. Given the considerable differences of intellectual approach that lurk under these similar-sounding labels, we also have a learned comparison of their similarities and differences (Rutherford 1994). Interestingly, the surveyor of this theoretical abundance says: “I have not discovered within the OIE [old institutional economics] any approach or model that I could wholeheartedly adopt as my own”, and of the NIE [new institutional economics]: “I cannot fully align myself with any of its principal research programs” (ibid: xi).

Perhaps then that is the point of the question. Is there a heterodox theory of institutions and development, i.e. one that can command full and wholehearted assent – or are they all, in their own special ways, unconvincing? The drift of opinion seems to be that they are all in one respect or another unconvincing and that, if there is a better theory, it lies in the future. So the question really is: what are the prospects for a more convincing theory of institutions and development, and how should it be built? For example, Paul Vandenberg has posed the question whether a future theory of institutions can be built on neoclassical foundations, albeit as modified by the new

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institutional economics of North, or whether neoclassical analysis is wholly incompatible with understanding institutions, as for example Geoff Hodgson has argued in his advocacy of a revived form of the OIE. Vandenberg’s conclusion is rather sobering. “In understanding how the avoidance of problems of the neoclassical methodology prompts new problems, we may begin to appreciate the difficult choices involved in developing a more realistic mainstream approach to economics” (2002: 233).

This paper falls into two halves. The first section is methodological and consists of my comments on some of the central issues in the debate over the avoidance of problems of the neoclassical methodology – the motivation for heterodoxy; the use of the rational actor model and the significance of methodological individualism and two unresolved issues. In venturing these remarks, I am conscious that fools rush in where philosophical angels fear to tread. I shall feel the fear, and do it anyway. The second section is intended to be substantive. Criticising North’s division between institutions/rules and organisations, it advocates Greif’s definition of institutions as a system of connected rules, beliefs and organisations. Criticising North’s narrow focus on property right rules, it is argued that the achievement of secure property rights is only the first step in building the institutions that will permit the continuous growth of the capitalist system. Capitalist growth does not continue without a variety of structural transformations also taking place. Structural transformation creates pressures for major alterations to property rights, for example in land and labour, and these alterations raise social conflicts that, if development is to continue, need to be resolved.

Some initial methodological remarks

(1) The motivation for heterodoxy

One question that should be asked at the start is why one might want to build a non-neoclassical theory, either in whole or in part. If heterodox is a synonym for non-neoclassical, what is the value in heterodoxy per se? One answer is that making space for heterodoxy is valuable because heterodoxy defends the cause of theoretical pluralism. There is merit in this view. However, there is a world of difference between defending theoretical pluralism and proscribing particular types of theory – such as neoclassical types. Advocating heterodoxy is valuable when it widens the range of choice of theoretical approaches; but not if it tries to narrow it.
The motive of promoting theoretical pluralism itself is valuable only if the initial theoretical approach (in this case, the neoclassical) is proved to be unserviceable or seriously defective. This raises the prior question of the definition of ‘neoclassical’ for the purpose of answering this question. The terms “neoclassical” and “heterodox” are used as a kind of shorthand, taken over from authors who have applied these labels to themselves and their opponents. We must ask how easily or accurately this shorthand can be decoded. Perhaps the best strict definition of ‘neoclassical’ is Samuelson’s definition of the neo-classical synthesis as the integration of Keynesian macroeconomics and Marshall’s marginalism (Aspromourgos 1986: 265-70). Adopting this strict definition means that any theory that does not conform to the underlying assumptions of the neoclassical synthesis then automatically becomes “heterodox”. In this usage, Douglass North’s espousal of positive transactions costs would be enough to qualify him as a heterodox theorist.

More popularly, ‘the neoclassical approach’ is understood loosely to denote a particular style of economic theorising, grounded on rational choice, using equilibrium analysis and featuring smooth, decentralised adjustments of economic behaviour to changing price signals. Within this ultra-loose classification, however, a huge variety of different theories co-exist and contend, each with its own specific questions, methodological devices, assumptions, conclusions and recommendations. It would seem arbitrary and counter-productive dismiss all of these tools, and the insights they open up, and to place them out of the theorist’s reach.

Theoretical advances come from criticism, the pitting of thesis against antithesis. Let us designate the Solow model of growth as the epitome of neoclassical economics, in the strict sense. The most effective criticism of it came from the economists of Cambridge (England) – Joan Robinson and Nicholas Kaldor, with critical assistance of the interloper Luigi Pasinetti. The secret of their success was that, when they criticised the Solow model, they did so on two different levels. The first level was a technical critique, carried out in neoclassical terms, about the definition of capital and the possibility or otherwise of valuing a heterogeneous set of capital goods when interest rates vary - and thus the validity of the claim that the interest rate is determined exclusively by the declining marginal productivity of capital. The claim was shown to be valid only in a one-commodity model. Underlying the Old Cambridge economists’ technical critique was an alternative vision of the nature of the economy. As Cohen and Harcourt put it:

“The English Cantabrigians argue for a return to the classical political economy vision [where] profit-making decisions of capitalist firms are the driving force,
with the fundamental economic problem being the allocation of surplus output to ensure reproduction and growth" (2003:199-214).

Such an economy is not subject to the absolute sovereignty of an atomised population of individual consumers. Rather, individual workers and consumers occupy a variety of positions of subordination, according to their class places in the division of labour.

This alternative vision of the economy is one in which the labour market assigns individuals to a hierarchy of occupational roles. These roles are stratified by economic reward, social recognition and political empowerment. Some are top dogs, but top dogs require underdogs.\(^2\) The differentiation of labour rewards is decided by the relative bargaining strength of the individual employee and of shareholders of the firm or their managers. Legal property rights allow the firm to appropriate the surplus from production, after paying out labour rewards. The saving and spending behaviour of the different social classes and the animal spirits of the investing capitalist firms are the determinants of the rate of profit. Under these assumptions, the capitalist firm, as an institution, is the driving force of development.

Thus the Solow model elicited, absolutely unintentionally, an alternative account of how the capitalist system works. Although the Cambridge critique, like the Solow model itself, remained semi-detached from mundane doings of development economists, they absorbed and applied the idea of the capitalist firm as an institutional engine of growth. The idea was further developed by Stephen Hymer (1975), who produced the seminal work that linked the evolution of the capitalist firm to the spread of uneven development.

\(\)\(^2\) The rational actor model

Much opposition to the neo-classical approach in the popular but loose sense seems to derive from a desire reject rational choice theory on the ground that the rational actor model provides an inadequate description of humanity. In summary: “people are not self-interested calculating machines, and any social science that says they are must be wrong!” Naturally one sympathises with this cri de coeur of the frustrated humanist. Moreover, the rational actor model is in origin normative, i.e. it tells us how to calculate rationally about economic welfare, but it has been transposed into a positive

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\(^2\) This is no longer literally true, of course. In C19th sawmills, the top dog guided the saw while the underdog, down in the sawpit, pulled the saw and covered himself with sawdust. (The dog was a spiked hook holding the log firm as each plank was cut.) Today, although the invention of electric power and the circular saw have abolished top dogs and underdogs, the terms live on in the language as metaphors, because labour market stratification continues unabated and the relative benefits of being higher up the labour hierarchy have actually increased over time.
usage. This is quite true, but, if this is intended as an objection to it use for modelling, it misunderstands the role of positive models. Positive models are an instrument of thought, not a photograph of reality. The instrumental view is that the goodness of a theory depends on what one wants to do with it, whether it can be constructed to do what one wants and whether other thinkers find the construction useful for their own purposes, too. A good positive theory does not have to be “true”, in some fundamental sense, or to correspond exactly to the world as we see it. All theories are simplifications and at best can represent only aspects of reality. Theories are pieces of intellectual scaffolding that help their creators towards something that might be a plausible interpretation of the world. If the rational actor assumption is not being advanced as a true description of human psychology, it does not need to be refuted as such.

Furthermore, there is in fact reasonable correspondence between observed economic behaviour and the basic predictions of the rational actor model. There are a few exceptional cases, but in general when a commodity’s price goes up, people buy less of it. When its price goes down, in general they buy more of it. They do not go on in a routine way buying the same amount, except perhaps when they expect the price change to be reversed very soon. Indeed, it is difficult to think how capitalist firms could possibly organise themselves so successfully, if it were the case that price changes did not have the consequences that the rational actor model predicts.

Notwithstanding it serviceable results, however, the rational actor model may be incompletely specified. In recent years, it has come to be better appreciated that the rational actor model does not account for the behaviour of a minority of any population who act against their own self-interest to enforce moral norms forbidding opportunistic behaviour. Yet it is the non-self-interested behaviour of this minority that underpins the functioning of the entire economic system. This incompleteness is of fundamental importance, and it vindicates the cri de coeur of the frustrated humanist, but it does not justify jettisoning the rational actor model in favour of an economic theory based on habit.

The option of wiping the slate clean and starting again with an entirely different behavioural model, based for example on habit, routine and custom, does not seem to be at all an attractive strategy. A habitual actor model speaks only of repetition, not of what is being repeated or why a routine was adopted in the first place. This is not helpful in explaining change, which is the essence of understanding development. Explaining change relies on evidence of variation over time. Inertia or stasis can be
given an infinity of explanations, but that is no explanation at all. To say this is not
to deny that people have habits, but only to suggest that habit cannot be the
behavioural principle that explains development. In any case, because time is a
universal scarce resource, much observed routine or habitual activity can be explained
as a rationally justifiable form of limited rationality.

(3) Methodological individualism

Methodological individualism is another feature of neoclassical practice to which
objection is often made, sometimes coupled with the rational actor model. The
frustrated humanist takes this principle to be a proclamation of an atomised world in
which, to quote Margaret Thatcher, “there is no such thing as ‘society’”. Since
everyone knows that there is such a thing as society, the principle of methodological
individualism apparently must be expelled from our theorising.

What methodological individualists actually assert is that social phenomena are
nothing more or less than the sum of the individual actions that constitute them. Thus
social phenomena should be explained with reference only to the principles that
govern the behaviour of individuals (whether rational or otherwise) and the context
within which the individual acts, as perceived by that individual (Andersen 2004:
116).

The principle of methodological individualism does not deny that the behaviour of
individuals is influenced by factors in the context of action. Thus, if it is invoked to
deny the causal influence of institutions on individuals’ preferences and purposes, for
example, in order to buttress the principle of consumer sovereignty, it is being
invoked wrongly. In the modern capitalist economy, there are strong feedback loops
between some of the institutional actors e.g. firms (via advertising and marketing) and
governments (via health promotion regulations) and the preferences of individual
consumers – and this is a major feature of its operation. The principle of
methodological individualism does not forbid the scrutiny of such loops, and it is
perverse to use it as a veto on their analysis.

However, the social influences that shape the preferences of individuals may not be
relevant to the purpose a particular theory e.g. of how a price system works. For this
purpose, it is reasonable to take tastes as given. That is because, whatever preferences
are, and however they were formed, it makes no difference to the proposition that the
demand is adjusted to supply by price changes or rationing. Here we have a separate
issue about whether the boundaries of a particular theory (i.e. what is taken to be exogenous and what is taken to be endogenous) have been appropriately drawn. It is on this issue, the exclusion of too much that is really endogenous (including the role of institutions), that one might want to fault the Solow model.

The principle of methodological individualism is valuable because it blows the whistle on basing explanations on abstract collective entities that are not anchored back into the behaviour of individuals (e.g. theories of class behaviour that are contradicted by the observed behaviour of individuals in that class). It is a discipline against deploying in argument macro aggregates that are inconsistent with what we know about micro behaviour. That is all, and it is a discipline worth submitting to. It is useful in the context of de-constructing the Solow model, because it leads us to question the process of aggregation that produces an aggregate production function. The Cambridge inquisition into how K – aggregate capital - can be unambiguously valued in the presence of Wicksell effects seems to me very similar in spirit to applying the principle of methodological individualism.

(4) Unresolved issues

If the capitalist firm is to take central place as the institutional engine of growth, one unresolved issue is the type of competition in which such firms engage. New growth theory, while solving some of the problems of excess exogenous variables in the original Solow model, and introducing the effect of selected externalities, maintains a perfectly competitive regime for firms (see Romer 1986 and Lucas 1988). Neo-Marxists have in the past favoured the idea of monopoly capitalism, but although this might make sense in the national context, it has been undermined by the advance of globalisation. The question is whether it is worth trying to move beyond perfect competition to some form of oligopolistic competition, perhaps in the form of Stackelberg leadership.

Another unresolved issue is whether it is possible to incorporate structural change within the framework of growth. If growth is the product of (some form of) competition between capitalist firms, this competition does not just generate additional output, that may happen to have any particular composition. It changes the composition of output, the distribution of income, the spatial pattern of production and demographic statistics in predictable ways. Since these changes are the essence of “development”, how can they be incorporated into the overall framework? Assumptions of homothetic preferences, neutral total factor productivity growth and
instantaneous market adjustment seem to be the obstacles here, and foregoing them may, as Vandenberg feared, prompt new problems – and difficult ones.

**North’s Synthesis**

The thesis of Solow’s model and the antithesis of the Cambridge critique produced one attempted synthesis in the work of Douglass North. Once a youthful Marxist, North nursed the ambition of building an eclectic theory of institutions and development that eliminated what he saw as the weaknesses of both neo-Marxism and neoclassical economics. He wanted to meld their strengths into a single social science – a new institutional economics (Breit and Hirsch 2005: 213-4). The questions he wanted to answer are fundamental to understanding the relation between institutions and development. The first is the historical question about how small unproductive, face-to-face economies with low transaction costs became large productive, impersonal economies with high transaction costs, and whether in less developed countries this transition can be facilitated by strategies and policies. The second is the obverse of the first, namely why do seemingly dysfunctional institutions tend to persist, so that economic performance over long periods of time has a path-dependent trajectory, retarding economic convergence.

Douglass North’s work has gone through various distinctly different phases. My comments here relate to North (1990). From neoclassical theory, North wanted to retain the assumptions of ubiquitous scarcity and competition, but drop the assumptions of rational utility maximisation and frictionless, costless transactions. From neo-Marxism, North wanted to retain the idea that institutions are crucial to development, but drop the idea of revolutionary change; and to retain the idea of ideology (that people operate with ‘pre-existing mental constructs’ and so do not necessarily see the world as it really is), but to de-link ideology from any specific class analysis. His is thus an eclectic approach to theory, located somewhere between the neoclassical model and neoclassical institutionalism (Vandenberg 2002: 233).

North rejects the rational choice approach to human behaviour because of the mixture of human motives (as evidenced by the results of experimental economics), the limitations of human computational ability (as argued by Herbert Simon and others) and the ideologies that we use to fill the inevitable gaps in our knowledge of the world. These features of the human mind create uncertainties always threatening to plague human interactions, and institutions are then represented as a functional means
to reduce uncertainty by regulation and restraint. No set of institutions can be
guaranteed to be efficient in terms of economic performance, nor are there immanent
forces driving them towards greater efficiency. All changes will therefore be
marginal, and thus the evolution of institutions will be highly path-dependent.

North regards “the behavioural assumptions of [neoclassical] economists” as “the
fundamental stumbling block preventing an understanding of the existence, formation,
and evolution of institutions” (North 1990: 24). By this he means primarily the
assumption of zero transaction costs. Coase had introduced the idea of positive
transaction costs to explain the existence of the firm. North sought to apply the same
idea at the level of the whole economy, arguing that impersonal arm’s length
transactions are not self-enforcing, and that in a world of positive transactions costs,
there is a need for third party enforcement, ultimately by coercion. However, the
extent to which states act as impartial third parties is theoretically problematic and
empirically variable. In some countries, inferior enforcement institutions come to
dominate superior ones, and this provides an explanation (additional to differences in
population growth and savings rates) for the failure of countries’ levels of per capita
income to converge.

Moving beyond property rights to the politics of structural change

North makes a distinction between institutions, which he defines as the rules of the
economic game, and organisations (including firms), which are entities that have to
observe the rules of the game, or find ways of altering them (North 1990: 5). Types
of organisations include economic, political, social and educational bodies.
However, the claim that there exists a set of disembodied authoritative rules, which
organizations and their entrepreneurs seek to change to their advantage, seems both
artificial and legalistic. It does not deal with the important question of how a set of
rules first becomes and then ceases to be legitimate and authoritative, in the sense of
commanding general unforced obedience. A more natural and useful definition of an
institution is that of Greif, namely a system of connected rules, beliefs and
organisations that guides, enables and motivates regularity in behaviour (quoted in
Helpman 2004: 115). Rules need connected beliefs to confer and erode their
legitimacy, as well as associated organisations of people to keep the rules
operational.3 The constant recruitment of new people into organisations creates the
possibility of spontaneous institutional mutation.

3 Even in the simplest case, the rules of the road, someone has to paint the white lines and maintain the
police monitoring cameras.
Certainly, when the counterfactual is Hobbesian anarchy, replacing chaos with the regulation of behaviour is in itself desirable, for the reasons that Hobbes gave:

“[Where every man is enemy to every man] there is no place for industry; because the fruit thereof is uncertain: and consequently no culture of the earth; no navigation nor use of the commodities that may be imported by sea . . . and the life of man, solitary, poor, nasty, brutish and short” (Hobbes (1651) 1960: 82).

North focuses on property rights that provide security in exchange as their main functionality for the purposes of economic development, and his reference to Beirut in the 1980s makes it clear that his comparison is indeed with chaos (North 1990: 3, 121). However, once the problem of Hobbesian anarchy is overcome (which admittedly it has still not been in numerous “failed states”), other institutional issues emerge in relation to development. Secure property rights are not therefore automatically uncontroversial; indeed, once order and stability have made possible technical progress, as they did in eighteenth century Britain, the social impact of technical progress makes secure property rights contentious in a new way. In a dialectical manner, the very security of property rights becomes a source of conflict during structural transformation.

We can see this change in the more critical views on private property that emerge with Bentham, and are expressed here in the words of John Stuart Mill.

“The social arrangements of modern Europe commenced from a distribution of property which was the result, not of a just partition, or acquisition by industry, but of conquest and violence: and notwithstanding what industry has been doing for many centuries to modify the work of force, the system still retains many and large traces of its origin. The laws of property have never yet conformed to the principles on which the justification of private property rests. They have made property of things which never ought to be property, and absolute property where only a qualified property ought to exist” (Mill [1848]: II i, para. 3)

The justification of private property thus rested on the existence of legislation that allowed the incentive effects of private property to do their work, for example, legislation that favoured the diffusion, instead of the concentration of wealth. Since such legislation that did not in fact exist, Mill, like other classical economists was not a wholehearted supporter of existing property rights.
In particular, for them, the developmental advantages of laws securing property rights in land must depend on the distribution of land ownership and whether the land is being improved and cultivated. In numerous cases, before economic development begins, land rights are not broadly distributed across the population. Often a small elite class holds the bulk of a society’s landed wealth – often uncultivated and unimproved - and thereby exercises political dominance, even where the structure of government is relatively decentralised. In such frequent cases, it is impossible to ignore the need for land reform in its classic sense of an equalising re-distribution, in order to raise the productivity of land and labour in agriculture and, by easing the food supply constraint, facilitate rural and urban industrialisation. Empirical research evidence is quite consistent with this claim. In various studies, inequality of land ownership trumps inequality of income distribution as a negative determinant of per capita income level (Alesina and Rodrik 1994 and Deininger and Squire 1998). Successful land redistribution is thus often a major trigger event for the development of industrial capitalism.

Industrialisation and urbanisation also bring to the fore the issue of the property rights of workers over their labour power. As the evolving manufacturing system changed the conditions of labour, Marx famously complained that security of the wage contract made the exploitation of labour perfectly legal. He further argued that capitalist property relations had by 1848 become fetters on the expansion on the forces of production. Marx may have been wrong about many things, but he was right about this. Unless there was to be a revolution, the fetters of existing property rights in labour had to be broken. And broken they were, though not in the way Marx predicted – not by a proletarian revolution, but by Fabianism in Britain and revisionist social democracy in Germany. First, the extension of the franchise to universal suffrage made it possible for workers to modify labour rights in their own favour. Second, remedies were legislated for particular stochastic risks of workers’ lives – unemployment, injury and ill health and old age –by creating the entitlements of the welfare state. Third, the co-variant risk of general unemployment, which Marx had seen as free market capitalism’s Achilles heel, was greatly reduced by institutionalising the management of aggregate demand. Finally, as European national states, supposedly the guarantors of appropriate institutions for economic

4 “The capitalist therefore takes his stand on the law of commodity-exchange. Like all other buyers he seeks to extract the maximum possible benefit from the use value of his commodity [labour power]” (Marx {1867} 1976: 342).

5 At Oxford University in the 1950s, students were offered just one lecture on Marx. It was given by Isaiah Berlin and entitled “Why Marx was wrong”.

development, succumbed to militarism and war, a new framework of economic cooperation and harmonisation was gradually created in the European Union.

A key issue then is whether such fundamental qualifications to property rights in land and labour can take place by general consent, or whether the attempt breaks down amid political instability and violent conflict. As Simon Kuznets put it:

“If these conflicts were to be resolved so as to preserve a sufficient consensus for growth and change, and yet not at a cost that would retard it unduly, some resolution mechanism was needed – acceptable to and consistent with the modern view of man and society” (1980: 419).

In the end, the elite has to decide whether the entrenchment of broadly based property rights through democratisation will serve its interests better than the status quo and to balance this potential gain with the immediate loss that land reform inflicts on them. The same dilemma of development faces them on the issue of enhancing workers’ rights, but this usually becomes salient further down the road of industrial capitalist development.

It is hard to characterize these decisions as either ones of necessity or of choice. Choice and necessity are usually inextricably entangled in the striking of grand social bargains. A means of resolution and moving forward is essential, and institutions that provide it. Three key components of high-level politics that assist a consensual transition are: the degree of multi-party competition, the extent of decentralisation and the scope for open public debate – Albert Hirschman’s “voice” option (1970). These are the institutions of liberal pluralism that have helped to prevent the recurrent crises of each previous phase of capitalism turning into spiralling self-destruction. Yet the fact that past crises have been surmounted is no guarantee that the next crisis will also be surmounted, or that the institutions that were serviceable the last time round will be serviceable again. In particular, democracy in the narrow sense of multi-party elections could prove to be a double-edged sword in some situations. Where free market capitalism has been allowed to generate considerable new inequalities of wealth and income, and new inequalities between a rich minority and a poor majority are structured along lines of ethnic or religious divisions, multi-party elections could become a prelude to persecution and conflict.

3 Conclusions

Simon Kuznets asserted the impossibility of a purely economic theory of growth. He thought that a more general theory was desirable, but that it faced the central problem
of how to make endogenous what economists generally regard as givens: technology, population, tastes and institutions (Syrquin 2006: 320). The new growth theory has now solved, in a plausible manner, the problem of endogenous technical progress. However, population growth, tastes and institutions remain largely exogenous in new growth models. Robert E. Lucas has said: “Growth economics is what we can understand; development economics is what we do not understand” (quoted in Ruttan 1999). In fact development economists understand a great deal about population, tastes and institutions. So the new growth economics is still what can be mathematically manipulated in a macro model; development economics is what the macro mathematician does not yet know how to make mathematically tractable.

In reviewing prospects for a theory that links institutions with development, I began by challenging some lines of argument that have been favoured by heterodox economists in this area. I argued against the view that it is necessary to renounce all the tools of neoclassical economics and start from a clean slate; that, because the rational actor model is not an accurate description of human motivation and capacities, it must be abandoned; and that the principle of methodological individualism should also be ignored, because it prevents us from incorporating into our theories the social influences on individual behaviour. The reason for making these points was a reluctance to see the baby from which future theory might grow be thrown out with the neoclassical bathwater.

The problems of neoclassical methodology that Vanderberg was anxious to avoid seem to me to lie in other quarters. They are whether there is any substitute for the aggregate production function; whether the replacement of perfect by oligopolistic competition is feasible; and whether the assumptions that block out structural change can be dropped. I ask these questions as a consumer of models, and the answer from the producers may well be “no”. If it is, and if Kuznets was right, then the aim must be for something less transcendental, more partial and more incomplete.

In criticism of North’s synthesis of neoclassical and neo-Marxist elements in his theory of institutions and development, I have argued elsewhere that institutions cannot be properly understood in terms of Weberian ideal types, defined according to legal and technical criteria with apparent universal relevance (Toye 2007). This is a false, legalistic and unhistorical objectification of institutions. What matters most for the functioning of institutions is the manner in which they are linked into high-level politics, and the nature of the high-level politics into which they are linked. This is why transplanting institutions promiscuously from one country to another will give
such unpredictable results, as we saw in Russia in the 1900s and 1990s, in independent Africa in the 1960s, in Iran in the 1970s – and we see again today in Iraq.

For both these reasons, in the discussion of institutions and economic development, a narrow focus on secure property rights is highly misleading. If the growth and diffusion of industrial capitalism is driven by scientific and technological innovation, if capital requires the cooperation of labour and if innovation continuously changes the conditions of that cooperation, the sustainability of the whole system relies on many more institutional underpinnings that the legal security of property rights. A broad distribution of property rights is essential. So is a specific character of high-level politics, because it must be such as to allow the distribution of property rights to be altered, in response to each new wave of technical innovation, without engendering a collapse into conflict.
References


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