

---

---

STANFORD  
UNIVERSITY PRESS



2020

William D. Ferguson  
Gertrude B. Austin Professor of Economics  
Grinnell College  
[Ferguso1@grinnell.edu](mailto:Ferguso1@grinnell.edu)  
<https://bferguson.sites.grinnell.edu/>



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

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



## **Introduction: Towards a Framework for Development Theory**

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

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

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

Development is not just a matter of achieving adequate rates of saving, building capital, and acquiring technology; nor is it just a matter of “getting the institutions right” – at least not in a superficial sense of importing constitutions, legislation, and concepts of property rights from developed countries. These two prescriptions speak to often necessary conditions that affect development, but they do not begin to establish sufficient conditions for development because the political economy of development is more complicated. The first

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

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

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

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

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

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



the dictator, or cuts their carbon consumption? In principle, negotiated agreements can resolve

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

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

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

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

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

Because their concept of social conflict underlies two of this text's core hypotheses, a brief comparison to the Acemoglu-Robinson approach (2006, 2008, 2012) permits further elaboration.<sup>4</sup>

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

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

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

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

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

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

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

Yet, there are differences. Rather than focus inquiry on distinguishing democratic from authoritarian paths of development, and corresponding concepts on inclusiveness and exclusiveness (important though they are), my approach adds dimension and nuance by directly considering categories of political settlements—that is, mutual understandings held among powerful parties to resolve conflicts primarily through politics rather than violence. The contours of political settlements, which depend on their social foundations and configurations of authority, influence the evolution of institutions and, consequently, corresponding economic and political development. They do so, moreover, in manners that do not necessarily rely on a democracy/dictatorship dichotomy. Even so, the notion of a political settlement (developed in Part III of this text) does bear resemblance to the Acemoglu-Robinson concept of a political equilibrium. The implications of distinct types of political settlement, however, extend beyond an exclusive/inclusive dichotomy—relevant though that is. I also place more emphasis on second-order CAPs—especially those related to enforcing institutional prescriptions. Such CAP5u2.68 tdy, co of

In many respects, this book offers a sequel to my 2013 book, *Collective Action and Exchange: A Game-Theoretic Approach to Contemporary Political Economy*





\_\_\_\_\_ (1998) "A Behavioral Approach to the Rational Choice Theory of Collective Action,"  
American Political Science Review, 92(1), 1-22.

Rock, David J. (1987), *Argentina, 1516-1987: From Spanish Colonization to the Falklands War*  
Berkeley: University of California Press.

S