UNITED NATIONS UNIVERSITY
UNU-WIDER

WIDER Working Paper 2018/132

Institutions and Asia's development

The role of norms and organizational power

Mushtaq H. Khan*

October 2018

United Nations University World Institute for Development Economics Research
wider.unu.edu

Abstract: The role of institutions in Asian development has been intensely contested since Myrdal's *Asian Drama*, with later contributions from institutional economics and developmental state theory. Despite much progress, the dominant approaches do not agree about the institutions that matter nor do they explain why similar institutions delivered such different results across countries. Cultural norms and informal institutions clearly matter but the appropriate norms did not already exist in successful countries; they evolved over time. The distribution of holding power across different types of organizations, the 'political settlement', can explain the diversity of experiences and help to develop more effective policy.

Keywords: institutions, organizations, political settlements, norms, industrial policy, development
JEL classification: B52, L52, O17, O25, O43

Acknowledgements: I am very grateful to Deepak Nayyar, two anonymous referees and workshop participants for very useful comments on an earlier draft.

* SOAS, University of London, London, UK, email: mk100@soas.ac.uk.

This study has been prepared within the UNU-WIDER project on 'Asian Transformations: An Inquiry into the Development of Nations'.

Information and requests: publications@wider.unu.edu

ISSN 1798-7237 ISBN 978-92-9256-574-9

Typescript prepared by Lesley Ellen.

The United Nations University World Institute for Development Economics Research provides economic analysis and policy advice with the aim of promoting sustainable and equitable development. The Institute began operations in 1985 in Helsinki, Finland, as the first research and training centre of the United Nations University. Today it is a unique blend of think tank, research institute, and UN agency—providing a range of services from policy advice to governments as well as freely available original research.

The Institute is funded through income from an endowment fund with additional contributions to its work programme from Finland, Sweden, and the United Kingdom as well as earmarked contributions for specific projects from a variety of donors.

Katajanokanlaituri 6 B, 00160 Helsinki, Finland

1 Introduction

Gunnar Myrdal's *Asian Drama* (1968) was arguably the first systematic analysis of the role of institutions in Asia's development. Myrdal described his magisterial work as an 'institutional approach' that aimed to explain why conventional economic analysis was providing inappropriate policy advice. Economic policies that worked in advanced countries were failing in Asia, Myrdal argued, because of Asian behavioural norms.[1] Conventional economics assumed that people would respond flexibly and rationally to market incentives, but social, institutional, and political factors made Asians respond in different ways.

Like Myrdal, later institutional economists such as North (1990) or Acemoglu and Robinson (2012) began to explain the poor performance of some developing countries by comparing their market-supporting institutions and informal norms with advanced countries. But like Myrdal, they ignored the Asian countries that performed remarkably well with unorthodox institutions, and they did not ask why similar unorthodox institutions were not working in other Asian countries. The new institutional analysis failed to explain these variations because, first, it focused only on an analysis of *institutions*, both formal and informal, ignoring how characteristics of organizations and the distribution of *power* between them affected the operation of institutions and the persistence or otherwise of behavioural patterns. Secondly, they also downplayed the critical role of institutions in responding to market failures. Later developmental state theorists did focus on institutions addressing market failures, in particular, industrial policy institutions. But they too ignored the role of power in explaining the effectiveness of particular institutional arrangements. The 'political settlements framework' looks at the interdependence of institutions and organizations, and how the distribution of power across organizations affects the effectiveness of particular institutions and the persistence of particular types of informal behaviour. This framework can explain the diversity of Asian experiences better and can help to formulate more effective policy.

One of Myrdal's most influential observations was that states in South Asia were 'soft states' that could not enforce social discipline. Political leaders tolerated indiscipline on the grounds that this was 'democratic planning' and engaged in corruption themselves. Myrdal argued that this behaviour was the product of attitudes, cultures, and regressive institutions. Myrdal was describing something important, but it was an incomplete observation. The soft states were only 'soft' in some areas. They were very hard in other areas, for instance in repressing communists or secessionists. The weak implementation of *some* institutions and policies is more likely to have been due to the interests of powerful organizations in specific countries and sectors rather than a general feature of their cultures and attitudes. The 'political settlement' describes the distribution of power across different types of organizations. This can vary greatly across countries and sectors, and over time, and can help to explain significant differences in institutional outcomes and behavioural patterns.

The relationship between institutions and political settlements can be explored through the lens of industrial policy institutions, which played an important role in Asian countries. Success with industrialization depended not just on initial capabilities and endowments, but also on how a number of critical transformative institutions were implemented. Successful variants in Taiwan and South Korea in the 1950s and 1960s involved the allocation of resources to new firms and

[1] Myrdal's work takes in India, Pakistan, Ceylon, Burma, Malaya, Thailand, Indonesia, and the Philippines, with occasional references to South Vietnam, Cambodia, and Laos. However, his in-depth analysis is largely based on India and to a lesser extent Pakistan, with references to other countries supporting the main lines of argument.

sectors as conditional policy rents. The aim was to accelerate technology adoption and learning-by-doing to raise productivity and competitiveness in new sectors. The critical condition for success, as developmental state theorists pointed out later, was that relevant agencies in these countries could effectively discipline the recipients of policy rents. The credible threat of rent and asset re-allocation based on results ensured that mistakes could be corrected and rapid productivity growth was achieved.

In China in the 1980s, industrial policies were different but enforcement was again successful with even more dramatic outcomes. At the other end of the spectrum were countries in South Asia in the 1960s where the beneficiaries of industrial policy were much more difficult to discipline. Powerfully connected business houses, and groups linked to them, captured policy rents and could not be disciplined. Not surprisingly, these countries achieved less significant industrial outcomes. South East Asian countries were somewhere in between. However, the 1980s saw the beginning of a different type of industrialization in South Asia, led by sectors like automobiles and pharmaceuticals in India and garments and textiles in Bangladesh. These successes also depended on institutions and policies that supported capability development but in ways that the rents could not be unproductively captured in these political settlements.

Developmental state institutions worked in North East Asia and China not because these countries already had market-supporting behavioural norms, nor because they were less corrupt or otherwise better at following market rules. Transformational policies and institutions during periods of rapid development inevitably disrupt pre-existing property rights and create very significant rents as they target multiple market failures. Their aim is to transform societies. If the appropriate rights, norms, and behaviour already existed, a social transformation would not be required (Khan 2004, 2007). Rather, transformations are successful when institutions are effective in changing rights and behaviour. And this happens when particular outcomes are aligned with the interests of the powerful or are in the interest of political leaderships who can enforce these outcomes given the distribution of power.

This paper is structured as follows. Section 2 outlines Myrdal's contribution to institutional analysis and how modern institutional analysis has developed aspects of his analysis. Section 3 sets out an alternative institutional analysis based on political settlements, and the implications for the analysis of the effectiveness of institutions. Section 4 draws on the experiences of Asian countries to explore how developmental policies and institutions worked across political settlements and how critical transformative institutions can be designed to work even in apparently adverse political settlements. Section 5 concludes by discussing incremental versus radical strategies for reforming governance and institutions. While Myrdal advocated radical change, he recognized, with some pessimism, that the incremental approach was the one that most countries would adopt. However, a deeper evaluation of the experiences of the last fifty years suggests that the incremental approach can have less pessimistic prospects than may appear at first sight, particularly if incremental policies can be designed to take into account the interdependencies between organizational power and institutions.

2 Myrdal and institutional analysis

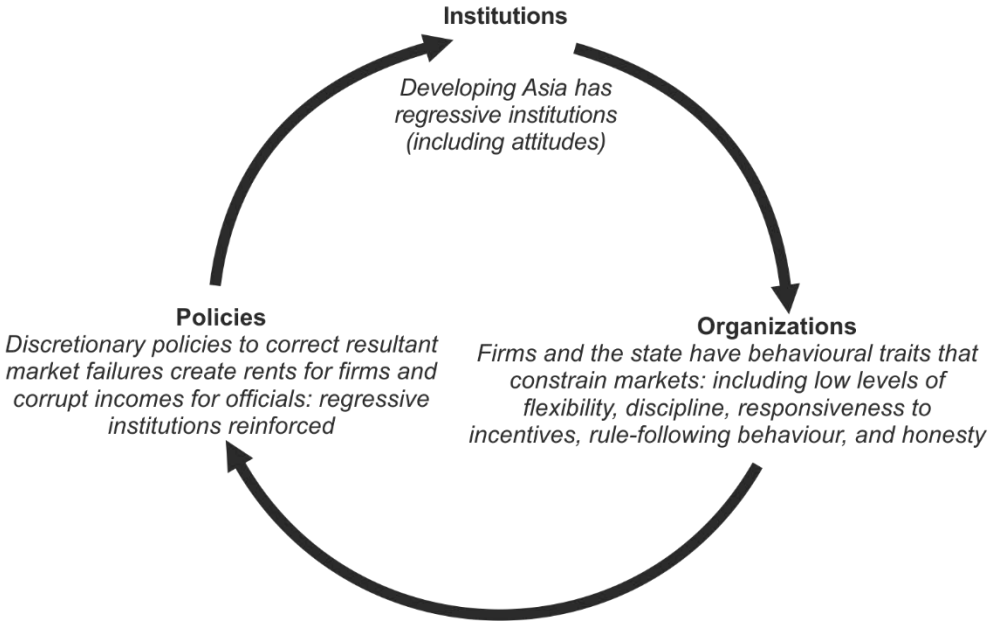
Myrdal raised the question that continues to motivate institutional analysis: why does behaviour not respond to incentives in the same way in every context (Myrdal 1968: 16-24)? Myrdal rightly criticized economic policy that assumes that responses to the same incentives will be the same everywhere. But he argued that the explanation lay in behavioural regularities in South Asia that prevented individuals from responding rationally to economic incentives. He called these patterns

of behaviour institutions, and in India, Myrdal's main case study, the regressive institutions he identified included the caste system, the taboo on cow slaughter, dysfunctional pre-capitalist structures of land rights, and the management of firms based on caste, family, and ethnic allegiances. What Myrdal describes as institutions include both what we would today call formal institutions like property rights and legal injunctions against cow slaughter, as well as informal institutions like caste, that are either self-enforced or enforced by informal extra-legal processes (North 1990).

Myrdal's argument was that formal and informal institutions reinforce each other and are therefore difficult to change. Their persistence can prevent the emergence of the behavioural patterns necessary for a modern market economy, including efficiency, diligence, flexibility, enterprise, and even honesty. He concluded that significant change was necessary, but this was only likely if *compulsion* was used to change these attitudes. But the 'soft' South Asian states were unable or unwilling to impose any such social discipline on citizens (Myrdal 1968: 60-3). His response was to propose a big push to change institutions and attitudes because '[i]t is often not more difficult, but easier, to cause a big change rapidly than a small change gradually' (Myrdal 1968: 115).

Figure 1 summarizes the links in Myrdal's analysis. The parallels with the later institutional economics of North and his followers are obvious. Inherited institutions and attitudes in Asia were often regressive, with roots going back to pre-colonial and colonial periods, which Myrdal loosely describes as 'feudal'. These pre-existing institutions include dysfunctional property rights over land or hierarchical caste systems or other social attitudes that were inimical to the effective operation of a capitalist market economy. Individuals and firms could not respond flexibly to price signals or market opportunities in such a context. To deal with the underperforming economy, states found it necessary to operate a raft of discretionary top-down controls like licensing economic activities, providing subsidies and protections, and so on. The result was the resolution of some problems but the creation of even more inefficiencies, since these interventions too could not be properly policed or enforced. We would today describe this as rent creation followed by corruption. Anticipating subsequent debates over rents, rent-seeking, and governance, Myrdal argued that interventions created 'extraordinarily high profits' (rents) for privileged companies in the private sector (Myrdal 1968: 926). Given the low social discipline, these interventions induced further rule violations and regressive behaviour, completing the loop in Figure 1 (Myrdal 1968: 901-35).

Figure 1: Myrdal's institutional analysis



Source: Author, based on Myrdal (1968: 901-35).

Myrdal's analysis anticipated modern institutional analysis whose logical structure is quite similar. It also anticipated the literature on how corrections to market failures can lead to government failures (Bhagwati 1982, 1983; Krueger 1990). It is not clear whether Myrdal believed that the primary problem for progress was the blocking power of regressive interests or the values and cultures of societies. In parts of his early discussion it appears that regressive institutions are protected by powerful interests. But later Myrdal argues that gradual changes were possible in Europe because reforms were aligned with the values of western civilization while in South Asia, regressive social behaviour, stratification, and attitudes were sanctioned by old cultures and popular religion, and so gradual reform was more likely to be overturned (Myrdal 1968: 2114-15).

The distinction between the two positions is important for Myrdal's justification of radical change. If regressive behaviour was embedded in rigid mental models of large numbers of people, there may indeed be no alternative to radical cultural revolutions to break down these ways of thinking. But if the resistance comes from the powerful, attempts at big changes are likely to be violently resisted and smarter incremental reform strategies may in any case work better, for instance by taking on the resistance of different elites piecemeal or by working in alignment with the interests of some of the powerful to achieve greater productivity and welfare gradually.

Material interests and cultures clearly interact in a dialectic way. Powerful interests will invest in cultures that support their interests, and these can become deeply entrenched if they provide broader groups affirmation and identity. Nevertheless, it is important to assess the dominant direction of causality over time. Myrdal's earlier argument that regressive institutions and attitudes are protected by configurations of interests is more in line with my own thinking and with the evidence discussed in Section 4. If on the other hand, cultures and norms persist because of mental models, we are in a thicker soup. Much later, Douglass North came to a similar impasse when he was trying to explain the persistence of dysfunctional institutions. He resisted explanations based on the distribution of power, so mental models must explain institutional stagnation by a process of exclusion (North 1995). Unfortunately, this can easily descend into a genetic explanation because we then have to explain why the dysfunctional mental models of some population groups do not get updated or rejected in the light of evidence. Fortunately, North abandoned this line of argument in time.

It is not necessary to deny that values, cultures, or religions can have an independent existence and do not just reflect material interests. Cultures and norms can indeed influence patterns and objectives of group mobilization. Myrdal's warnings about the regressive role of culture and religion can hardly be ignored in the context of the backward slide towards obscurantism and populism in large parts of contemporary South Asia and beyond. Even so, the question remains as to whether progress requires substantial social upheavals to destroy these ideological frames or whether incremental strategies can be made to work. If the challenge is to design institutions and policies that are effective, in particular power configurations, some incremental strategies may be effective, and regressive attitudes and institutions *may* be more directly addressed as these material interests become stronger. We will return to these questions.

The questions Myrdal raised became the subject of a vast outpouring of research in institutional economics and political economy in subsequent decades. Liberal rent-seeking analyses drew on the work of Krueger (1974) and Posner (1975) to argue that liberalization was required to reverse discretionary policy interventions of the type that Myrdal had described. This, it was argued, would reduce rent-seeking and corruption and make economies more efficient. The work of North and his associates (North 1981, 1990; North, et al. 2007; North, et al. 2009; North, et al. 2013) and later of Acemoglu and Robinson (2012) identified the formal and informal institutions that supported efficiency (essentially institutions that made market transactions more efficient) and those that were largely redistributive or 'extractive'. The role of political power in blocking the emergence of market institutions did find a place in mainstream institutional analysis in the work of Acemoglu and Robinson (2000, 2012). They recognized that powerful groups can block progressive change.

But the emerging analysis suffered from many of the weaknesses in Myrdal's original work. The mainstream work on rents and rent-seeking ignored the rents that are created by welfare-enhancing state interventions, which means that different types of rent-seeking and corruption can be associated with very different development outcomes (Khan 2000a, 2000b, 2006). The mainstream work on property rights and formal institutions ignored the fact that capitalist development required radical changes in pre-existing rights and institutions. A society is unlikely to achieve a good enforcement of formal institutions when property rights are going through fundamental transformations. We find this contradiction not only in Myrdal, but also in later authors like Acemoglu and Robinson (Acemoglu, et al. 2001; Khan 2012).

Finally, the analysis of power in mainstream theorists like Acemoglu and Robinson (2000, 2012) was deficient because it assumed that the development problem was that small powerful groups would protect monopolies or 'extractive' institutions. The power of these groups to protect monopolistic institutions could therefore be countered by introducing 'inclusive political institutions' that would empower the majority to take them on. In reality, the problem of power is much more complex. In developing countries, the groups demanding damaging rents and blocking the productive restructuring of property rights may be led by intermediate class activists mobilizing large subaltern groups in a variety of populist or identity-based movements. When *these* powerful groups demand and protect damaging rents, inclusive political institutions do not necessarily help. Their networks may be difficult to disrupt and attempting to do so can unintentionally trigger even more regressive results. The challenge is to devise incremental changes in policies and institutions that can nudge such a society with its inherited power structures in the direction of greater productivity and towards 'better' evolutionary paths for institutions and distributions of power.

3 Political settlements and institutional evolution

An important weakness in the analysis of Myrdal and institutional economists who followed is that they do not provide a convincing analysis of the differences in performance *across* developing countries. The high-growth countries in Asia did not have the cultures and values of western capitalist societies, they did not have well-enforced formal institutions during their transitions, and they did not have inclusive political institutions. And yet they achieved dramatic capitalist transitions. Moreover, from the 1980s, there were significant growth accelerations in South Asia as well, without the massive disruptions in cultures and attitudes that Myrdal had felt were necessary.

The 'political settlements' framework addresses this challenge by providing a different way of thinking about institutions. The framework incorporates three analytical propositions. First, that the adherence to, or enforcement of, particular institutions depends on the responses of organizations operating under the institution. Institutions are adhered to or enforced only when the organizations under that institution are willing to act to ensure adherence or enforcement. The horizontal checks and balances across organizations are typically much more important in ensuring rule-following behaviour than the occasional vertical enforcement by the state. Second, as any institution implies costs and benefits for different types of organizations, the overall adherence to or enforcement of the institution depends on the interests of affected organizations. The distribution of power across *different types of organizations* (the political settlement) therefore matters. Finally, apart from market-supporting institutions (like property rights) a range of other institutions are required to address market failures and to maintain political stability. During periods of crisis or during social transformations, institutions are involved in the organization of substantial changes in rights and resource allocations. How these 'transformative' institutions work can be truly decisive. The political settlements framework uses these propositions to provide an alternative assessment of institutional performance and policy (Khan 2010, 2017).

The interdependence of institutions and organizations appears in the work of Greif (2006). He used a game-theoretic approach to see how institutions could endogenously emerge in repeated prisoner's dilemma games. Institutions, in this approach, were simply the equilibrium behaviour of organizations. The formal specification of an institution was therefore less important to Greif than the actual behaviour of organizations in adhering to particular rules and enforcing them on each other. An implication of this approach, though Greif did not put it like that, is that if equilibrium behaviour diverged from the formal rule, it would appear that the formal rule was being distorted or modified by the behaviour of organizations. His models did not consider the distribution of power across organizations, but in games where there can be different distributions of benefits, more powerful organizations can be expected to hold out in distributive conflicts till the equilibrium behaviour of other organizations adjust to sustain the distribution desired by powerful organizations (Knight 1992). The behavioural regularities that emerge in the general case will therefore depend not just on the feasibility of particular punishment strategies but also on the relative holding power of the organizations involved.

The importance of power in driving institutional changes and determining the effectiveness of their implementation is clear in some of the Marxist literature on institutional transitions. A number of Marxist historians identified the critical role of power in explaining the pace and direction of the transitions to capitalism in Europe (Brenner 1976, 1985; Wood 2002). The puzzle they addressed was that the transition to capitalism happened first in England rather than in parts of Europe that were more commercialized and culturally sophisticated. The Italian city states, Holland, and the Baltic states were more commercialized centres of long-distance trade. The Renaissance was also centred in continental Europe. The capitalist transition in England could not

therefore be explained by its more advanced culture or market institutions. Rather, these theorists argued, this was the fortuitous outcome of a balance of power between peasants, lords, and monarchs that allowed lords to enclose the commons, yet prevented them from reducing the peasantry to serfdom as in Eastern Europe and Russia. The Enclosures privatized common village lands but allowed the rich peasants to become capitalist tenant farmers on land leased from large enclosing landlords. This created a landless proletariat and dramatic new inequalities which, far from being aligned with 'western values', were strongly resisted by the Church (Tawney 1938). This heavily contested transformation created an agrarian capitalism that drove innovation and productivity growth. It unleashed intense competition between capitalist tenant farmers who had to generate productivity growth to survive in market competition and who could in turn impose discipline on a new class of wage workers to achieve these goals.

A specific configuration of organizational power drove the English transformation, rather than a hard state or specific cultures and values. Similar institutions did not emerge in much of Europe till military competition with Britain persuaded Bismarck, Napoleon, and other state leaders to push through a series of institutional transformations from above that created the grounds for subsequent capitalist transitions. Similar state-led transitions began in Asia with the Meiji revolution in Japan in the nineteenth century, which foreshadowed transitions in Taiwan and South Korea in the twentieth. In each case, the transition was driven by different types of state and non-state organizations but in all cases, a specific distribution of organizational power enabled outcomes that led to the emergence of more dynamic societies. These institutional changes were mostly gradual rather than revolutionary breaks with pre-existing cultures and norms, though the latter changed over time as production systems and power configurations changed.

In every case, there was resistance from losers, but the losers were typically not the small groups of privileged monopolists, as in Acemoglu and Robinson's analysis. The resistance to the Enclosures in England came from peasants. Far from inclusive institutions assisting the majority, the dispossessed peasants could not block these changes because parliament was not inclusive enough. Representation was restricted to property owners. Nor did parliament play a role in ensuring that peasants were rapidly or fairly compensated. They were not compensated at all. Parliament therefore played no direct role in the capitalist transition. The transition was successful because landlords could expropriate common lands without much peasant resistance, but they could not expropriate the peasant's own land because peasants had sufficient collective power at the village level. This fine balance of power ensured a capitalist transformation of agriculture that eventually led to an improvement in the welfare even of the poor. The configuration of organizational power and types of political institutions mattered, but in more complex ways than Acemoglu and Robinson suggest.

Finally, the role of institutions in addressing market failures and in supporting changes in rights and capabilities during social transformations has a large heterodox literature. The diversity of experiences in addressing market failures can be examined through the lens of rents (Stiglitz 1996; Khan 2000a, 2000b, 2004). Rents can be defined in a number of ways, but most are consistent with a definition of rents as incremental incomes associated with specific institutions. Some types of institutional changes, like the creation of artificial monopolies, create socially damaging rents. But welfare-enhancing state interventions, from those that create or re-allocate property rights to those that address market failures also create incremental incomes somewhere. What type of rents are created and how they are allocated and managed can therefore serve as a useful lens for assessing the relevant institutions. Dynamic societies have institutions that allow growth-enhancing transformations or rights and the creation and management of rents that drive learning, innovation, and political stability. Less dynamic societies mismanage rents, allowing some groups to capture assets and rents without delivering results, or they create rents that are directly unproductive, like monopoly rents or conflict-inducing redistributive rents.

Since all institutional innovations create new incomes, they inevitably create rents, and therefore incentives for rent-seeking. The outcomes of the rent-seeking depend on the design of institutions and the relative power of rent-seeking organizations and state agencies. Rent-seeking outcomes can range from a redistribution of the benefits of useful rent creation to distortions in the implementation of useful rents or the creation of entirely damaging rents (Khan 2000b). Rent-seeking is just as ubiquitous in advanced countries but the adherence to a rule of law in these countries means that the rent-seeking is generally rule-following. However, legality does not ensure good social outcomes, and the converse is also true. Both legal rent-seeking (like lobbying) and illegal variants (like bribing and patron–client politics) can be associated with socially damaging, less damaging, or even beneficial outcomes.

In developing countries, the adherence to the rule of law is generally low because the economic strategies of powerful organizations do not require a rule of law. The powerful in these countries therefore generally do not support the enforcement of a rule of law. Rent-seeking here is much more likely to be illegal or extra-legal. This often takes the form of corruption, and it is not surprising that corruption is widespread in developing countries. In addition, political processes typically involve patron–client politics and the allocation of resources through patronage networks. This is a further source of corruption, and this too is ubiquitous even though it may take different forms across countries and regions. Low tax revenues mean that politics is unlikely to be solely based on promises to spend the budget in particular ways. These promises would not be sufficient to attract powerful organizers and organizations to support particular parties. This, together with a generally low level of adherence to formal rules, explains why patronage and political corruption are often a normal part of the political process in developing countries (Khan 2005).

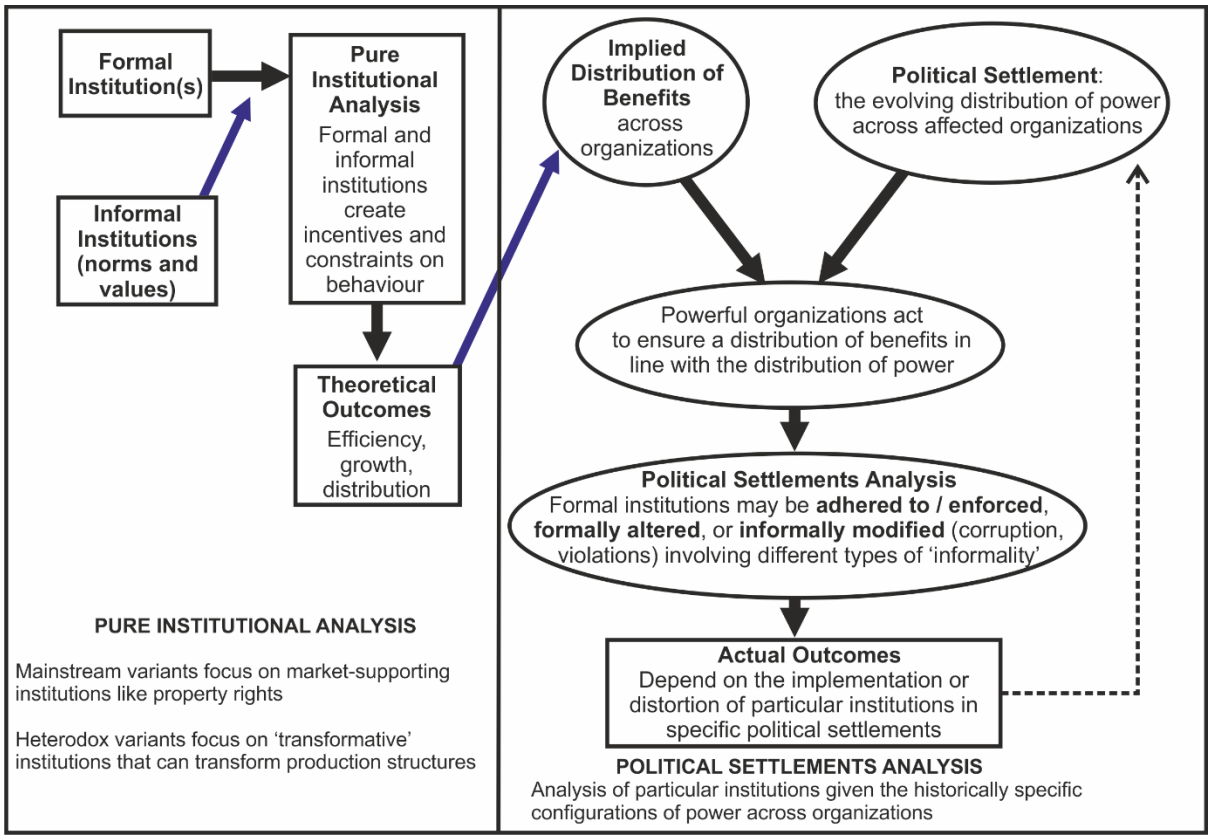
Taking these observations on economic and political rent-seeking together, it is not surprising that successful developers were not free of corruption. South Korea in the 1960s or China in the 1980s had significant levels of corruption and yet achieved rapid development. Myrdal's analysis of corruption and later mainstream analysis does not address this challenge. The variations in the outcomes of corruption become explicable once we recognize that the real differences between countries are in the types of rents created and how they are managed. Where state agencies could manage the allocation and withdrawal of rents to support productivity growth, desirable results were achieved despite the inevitable rent-seeking that took the form of corruption. Corruption declined over time in these countries as productive capabilities developed and the growth in the number and complexity of productive organizations created growing organizational support for formalization and rule-following behaviour (Khan 2005, 2006).

The management of industrial and technology policies is an important policy domain where we can examine the significance of the distribution of power for the institutional management of rents. Developing-country firms typically have low capabilities in organizing production. Myrdal recognized the critical importance of learning-by-doing in raising capabilities, a point later taken up by Amsden (1989) and others. Developing countries do not have to invent new technologies; they can grow by adopting existing ones. But they do not have the skills and capabilities required to operate modern technologies and have to acquire them through learning (Myrdal 1968: 691-6). However, Myrdal did not discuss the market failures that may prevent investments in learning-by-doing, which was taken up by Amsden (1989) and others who identified the importance of conditional rents and the necessity of disciplining emerging businesses by withdrawing support if necessary. Evans (1995) added the influential idea of 'embedded autonomy' to explain why intervention by East Asian states resulted in productivity growth rather than predation. These states had the autonomy to act, but they used this to raise economic productivity rather than being predatory. They did this because government agencies were embedded in dense business–government networks that allowed the knowledge of the business sector to be incorporated into policy.

While developmental state theorists provided a deeper analysis of institutions and rents that went beyond the focus on market institutions in mainstream institutional economics, the analysis was still largely a purely institutional one that ignored the configurations of organizational power that enabled particular institutions to work in some contexts but not others. The rent-granting and rent-withdrawal institutions that Amsden and others identified in East Asia existed in similar forms in South Asia where they achieved far less impressive results. The state had sufficient autonomy to destroy or constrain many good businesses in South Asia, but it did not discipline the bad ones. Similarly, dense networks between business and government in South Asia and sometimes in South East Asia resulted in crony capitalism rather than efficiency-enhancing information sharing. The differences between these cases cannot be understood by looking at institutional structure alone, we need to understand how specific configurations of organizational power made similar institutions operate differently.

Figure 2 summarizes the distinction between a 'pure institutional analysis', which focuses on the theoretical incentives created by formal and informal institutions that *may* result in particular outcomes, and the political settlements extension, which looks in addition at how the specific distribution of power across organizations affects the *actual* adherence to and enforcement of these institutions. Note that the introduction of particular institutions and policies on the left-hand side is not entirely pre-determined by the existing power structure. Otherwise, societies would be completely trapped by the interests of those who were already powerful. There is always some policy space for the introduction of new institutions and policies that innovative political leaderships or organizations can exploit, but their implementation and effect do depend on the reaction of a broader range of organizations.

Figure 2: Political settlements and institutional outcomes



Source: Author, based on Khan (2010, 2017).

The historically given distribution of organizational power is the 'political settlement' at the top right-hand corner of Figure 2. The political settlement describes the holding power of organizations affected by particular institutions. The country and sector-specific configurations of organizational power cannot be inferred from first principles. This knowledge has to be based on a reading of history. Holding power is not just based on the economic strength of organizations but also on the networks they can organize and mobilize. Ignoring this is one reason why all variants of pure institutional analysis remain deficient, both the mainstream variants that focus on market institutions and heterodox variants that introduce transformative institutions. Every institution or policy has distributive implications, and organizations can be expected to support or resist the implementation of specific institutions. If particular institutions create rents or seek to manage rents in ways that are against the interests of powerful organizations, the latter will resist by trying to change the formal institutions or informally modifying them through corruption and rule violations, with effective adherence and implementation as a boundary case. Note that the informality here is different. It has nothing to do with norms and everything to do with power in a context of poor rule enforcement. Actual economic outcomes will depend on the implementation of institutions or policies, not their theoretical effects. Figure 2 also shows that the political settlement is itself affected by economic outcomes which change the distribution of power over time. It is this evolutionary dynamic that a historical analysis of institutions must attempt to capture.

Depending on how policies and institutions affect economic activities, the relative power of organizations will evolve in particular ways. Radical change may be deemed to be necessary from the political settlements perspective only if the existing political settlement allows no incremental improvements in outcomes. The radical change would involve political mobilizations and the creation of new organizations that sought to *directly* change the political settlement at the top right-hand corner of Figure 2. The danger is that big shocks can just as well result in the formation of even more regressive coalitions, while incrementalism may actually result in dramatic progressive changes in the political settlement over time.

4 Comparative institutional experiences

The analytical links described in Figure 2 can help to make sense of comparisons between the North East Asian and South Asian experiences in the 1960s, the period that Myrdal looked at. They can also help us to understand institutional evolution in parts of Asia since then. In the early 1960s, South Korea began its industrial take-off shortly after Park Chung Hee took power in a military coup in 1961. By then South Korea had carried out substantial land reforms as the Japanese occupation had dispossessed the most powerful elements of the Korean *yangban* landed elite and had converted much of their land to Japanese ownership. With the departure of the Japanese, land reform based on the redistribution of Japanese land and the compulsory purchase of land from the remaining landlords was relatively easy to achieve. These reforms led to a significant equalization of landholdings and a dramatic reduction in the number of tenants as they became smallholders. However, it did not create a class of yeoman tenants on the English pattern who could drive an agrarian capitalist revolution from below. The global conditions were not right for small-holding agriculture to make much of an impact on South Korea's economic progress. At best, the land reform created political stability in the countryside in the face of the communist threat from the North, expanded the domestic market somewhat, and perhaps created a greater demand for education from the peasantry (Kohli 1994; Putzel 2000).

The real impetus to modernization in South Korea came with the industrial push in the 1960s. The critical elements of the new institutional and policy structure provided significant rents to the

chaebol to enable them to engage in investments in modern technologies followed by learning-by-doing to improve their organizational and technical capabilities (Amsden 1989; Khan 2000b). The policy instruments supporting the learning-by-doing compelled the *chaebol* to rapidly acquire international competitiveness. Otherwise, the strategy may have ground to a halt with many infants requiring permanent support. This is exactly the unproductive rent capture following discretionary interventions that Myrdal described in the South Asian cases he studied.

Why did South Korea not fall into the same trap? Pakistan provides a better comparison with South Korea than India, because Pakistan attempted a mix of import substitution and export promotion, as did South Korea, and it provided rents to large holding companies using similar instruments. Indeed, in the early years, South Korean planners came to Pakistan to learn about planning strategies. While there were obviously many differences between the two countries, the decisive difference was that large Pakistani companies were connected to powerful and dense networks within the bureaucracy, army, and political parties and could use their help to successfully retain rents even when their failure to become competitive became obvious.

The organization of networks in Pakistan was fragmented, and each network was powerful enough to resist disciplining by others or by state agencies. In the late 1960s, there were open criticisms in the media of the capture of public resources by the 'twenty-two families' but the military regime was unable to impose discipline on its own clients. There was much corruption in this process, as Myrdal recognized, but it was more than just a problem of corruption. The value-reducing rent capture by powerful networks was public knowledge and hurt the legitimacy of the military government. It tried unsuccessfully to rein in its clients, including revealing their names and the money they owed, but failed. The regime was eventually brought down in 1971 as a result of popular mobilizations spurred by the privileges of these unproductive elites (Khan 1999). The failure was therefore deeper than knowledge, values, or interests. The top leadership had strong incentives to limit rent capture by uncompetitive business groups but failed to overcome their resistance. The nature of the failure suggests that a different design of strategies, perhaps supporting smaller or less-connected capitalists, or rewarding them after they had achieved some results, may have worked better in this political settlement. Indeed, we find that different strategies of supporting technology acquisition and learning worked much better in a number of sectors in South Asia in the 1980s.

We know as a result of later revelations by the *chaebol* that the allocation of industrial policy rents in the 1960s in South Korea involved significant corruption. But, here, corruption could not featherbed inefficiency. The *chaebol* receiving support knew they had an opportunity to become competitive, but they also knew that the option of capturing the rents while remaining inefficient was not feasible. This was because the state agencies monitoring them were more powerful than the networks individual businesses could mobilize. The agencies soon figured out that their payoffs would be higher if they re-allocated rents to more efficient *chaebol*. Corruption still happened, but here it was of a profit-sharing type. The *chaebol* needed the support of the state, and they were willing to treat the political leadership as informal business partners who could claim a share of profits as 'dividends'. But these payoffs did not affect the conditions on which they were getting the support. The state leadership had no interest in tolerating inefficient *chaebol* because it could collect higher 'dividends' from more dynamic *chaebol*. The logic behind this was simple, and both sides soon worked out that profit-sharing corruption was not only *not* contrary to continuous productivity growth, it created incentives for the state leadership to credibly insist on productivity growth. Underpinning the enforcement of these rules was the effective power of state agencies to withdraw rents from any non-performing *chaebol* (Khan 1998, 2000b).

Where did this power come from? It is hard to argue that the pre-existing history of South Korea had produced a culture with attitudes of rationality and discipline that were significantly superior

to contemporary South Asia. True, it had a more developed industrial history as a result of Japanese colonialism, but this cannot directly explain why inefficient firms were not allowed to capture rents. Rather, the capacity to withdraw rents and to discipline the *chaebol* was more plausibly underpinned by a specific political settlement. The distribution of organizational power in South Korea had long historical roots, in particular in the impact of Japanese colonialism. Japanese colonialism was brutal, but it did not create a fragmented set of political organizations in its colonies, as the divide-and-rule strategies of British colonialism created in South Asia and elsewhere. The post-war South Korean political settlement was marked by an absence of powerful *competitive* networks within the state and bureaucracy, so individual *chaebol* could not collude and share rents with one group to prevent themselves being disciplined by another group.

When the South Korean state began its industrialization drive, its leaders did not have a pre-conceived plan for how the conditional rents system would operate. Rather, trial and error rapidly revealed that linking support to the *chaebol* to the achievement of export targets was very effective because these conditions could be enforced. The result was rapid productivity growth as *chaebol* put in great effort to raise productivity, knowing that the alternative would be disastrous for them. Once the enforceability of these rules became known, the system evolved in a particular direction, with more ambitious learning strategies emerging. In contexts where minimum rules of efficient operation could be enforced, a similar logic of informal but 'efficient' profit-sharing between companies and public officials emerged in a number of Asian countries, including China in the 1980s.

Trial and error revealed a very different reality to South Asian state leaders. Political and bureaucratic leaders in Pakistan and India were soon aware that industrial policy rents were being unproductively captured and that this was harming their collective interest. While individual bureaucrats and politicians benefited, the higher-level leaderships lost out because of their inability to discipline factions within their own parties and bureaucracies. Individual businesses could construct alliances with powerful political and bureaucratic networks that undermined any possibility of disciplining them. The failure of governing these rents was not ultimately one of flawed mental models but rather of a configuration of power that made it impossible to impose discipline on these firms.

In India, Myrdal argued that productivity growth was not even an explicit goal of import protection, and that protection was driven by the need to conserve foreign exchange (Myrdal 1968: 1158). This is not true. Promoting domestic industry and using protection as an instrument to develop domestic productive capabilities was a demand of the nationalist movement, and it was supported by emerging Indian capital in the Bombay Plan of 1944. The failings of the industrial licensing system was of great concern to the Indian state (Chakravarty 1987). However, when state leaders discovered that efficiency could not be achieved, it is not surprising that they would occasionally justify their policies by saying this was not even their intention.

We know from the report of the *Industrial Licensing Policy Inquiry Committee* (Dutt 1969) that Indian policy-makers were painfully aware that businesses being supported were not meeting the licence conditions and were behaving like monopolies. The Dutt Committee recommended sanctions on business houses that failed to comply with licence conditions, but this was not implemented. As in Pakistan, the problem was clearly neither ignorance nor the interests of state leaders. Rather, the problem was the political weakness of those who wanted to achieve productivity growth relative to the powerful networks who saw greater benefit in capturing rents without delivering results and using the rents to sustain their power and patronage networks. The distribution of power was the source of this prisoner's dilemma outcome, whereas the capacity of political leaderships in South Korea and other developmental states to credibly discipline free riders allowed the pie to increase

for everybody. Institutions and institutional outcomes reflected the political settlement rather than values or norms.

We now turn to Myrdal's analysis of the soft South Asian state. It is true that planning agencies in South Asia could not discipline businesses protected by powerful networks led by political entrepreneurs from the intermediate and upper classes. But other state agencies *were* able to discipline subaltern classes or regional separatist movements. In these conflicts, states in India, Pakistan, Indonesia, Thailand, Myanmar, and the Philippines were ready to use overwhelming force to 'discipline' segments of their societies. The enforcement problems were therefore limited to specific sectors and institutions rather than being a general malaise of 'softness'. The *specific instruments* that were used, particularly for promoting industrial development, had governance and disciplining requirements for *specific organizations* that could not be adequately enforced. The implication is that other institutions and instruments allocating rents to a different set of organizations may have achieved better development results.

This insight can help to explain the significant growth accelerations in a few sectors in India and Bangladesh in the 1980s with relatively minor institutional and policy innovations. The previous industrial policy had achieved *output* growth in many sectors, but *productivity* growth was low because of poor disciplining. As a result, competitiveness was typically not achieved in most sectors (Acharya, et al. 2003: Table 2.2; Virmani 2004: Table 1; Bosworth, et al. 2007: Table 3). The growing economic openness from the 1980s helped imports of capital and machinery and supported productivity growth. But the achievement of competitiveness also required institutions and policies that assisted learning and capability development. What is interesting is that relatively minor institutional and policy innovations created compulsions for productivity growth that were previously missing.

The new policy and institutional innovations in a few sectors were successful because rents were delivered to organizations that did not have the power to protect them unconditionally. Conditions could be credibly enforced that would hurt the firms if they failed to deliver results. An important feature in several of these take-offs was that investors were induced to *first* invest their own resources in learning, with policy promising sufficient *ex post* rents to give a high return to their risky investments if they succeeded.

I have discussed these examples at greater length elsewhere; they included automobiles and pharmaceuticals in India and garments and textiles in Bangladesh, sectors that drove the growth accelerations in these countries from the 1980s onwards (Khan 2011, 2013a, 2013c). The cases are different in detail, but we summarize the Bangladeshi garments and Indian automobiles cases to illustrate their common features. In these two cases *ex post* rewards were created for a foreign partner to transfer capabilities to domestic firms. The Indian pharmaceutical sector was slightly different. Here *ex post* rents were created for domestic firms that succeeded in developing their capabilities based on a successful enforcement (for a time) of the Indian Patent Act of 1970. But all these sectors were similar in rewarding successful capability development *ex post* as a way of encouraging prior private investments.

In the Bangladesh garments sector, the critical instrument was an agreement, backed by the Bangladeshi state, between a Bangladeshi and a South Korean company. The context was the Multi-Fibre Arrangement of 1974, which created potential *ex post* rents for least-developed countries like Bangladesh if they could achieve sufficient quality and competitiveness to sell garments in the quota-protected US market. The instrument developed by Bangladesh was to pass on this potential *ex post* rent to the South Korean company, Daewoo, as its reward for transferring export capability to its Bangladeshi partner, Desh (Khan 2013b). The instrument, essentially an agreement to transfer a percentage of future sales revenue to Daewoo, was sufficiently rewarding

for it to invest in capability transfer, but its design also ensured that unless Desh actually acquired the capability to export, no-one would make any money. No *ex ante* rents were directly allocated to powerful business networks in Bangladesh to enable their learning-by-doing, so there was no possibility of capturing rents using domestic patron–client politics. This combination of credible incentives for Daewoo to earn rents and the compulsions for the private investors to recover their prior investments in learning by achieving results resulted in a dramatic success story of capability development. Desh became a competitive global firm within months of sending an army of supervisors to South Korea to learn factory and supply chain organization. As the competitive organizational design that it adapted was appropriate to Bangladeshi conditions, thousands of Bangladeshi entrepreneurs imitated and entered the garments industry. The explosive growth of the sector created millions of jobs and within two decades Bangladesh had become the second biggest garment producer after China, though still far below China in absolute terms.

In the Indian automobile industry, the government created credible incentives for Suzuki, a Japanese company, to enter the heavily protected domestic car market provided it produced a car in India with sixty per cent domestic content within five years. Given that Indian tier one and tier two producers already had basic technical capabilities in the sector, the incentive of entering the highly protected Indian market and capturing tariff rents *ex post* was sufficient for Suzuki to invest in building up the organizational and technical capabilities of its Indian suppliers to international standards.

Here too, the mechanisms of rent allocation were credible to the parties as was the enforceability of the conditions. Rents could not be captured by domestic networks of tier one and two producers engaged in upgrading because no *ex ante* rents were transferred to them using traditional industrial policy instruments. Suzuki invested in their upgrading and it knew, given the strong opposition to its operations from domestic automobile and machine tools producers, that a failure to achieve the domestic content conditions would prevent it from remaining in the Indian market. There was no question of the capacity of the Indian state to enforce this condition on Suzuki. The learning-by-doing was financed in this case by up-front investments by Suzuki, which were later recovered in the form of very high profits. India's benefit was to upgrade its auto components industry and similar deals with other foreign companies followed, so that by the 1990s its auto components industry had become a globally competitive one. By the turn of the century, the sequential upgrading of auto components producers enabled India to produce its own branded cars that were internationally competitive. It became one of the few countries in the world with the capacity to do so.

In both these cases incremental policies and institutions turned out to be enforceable from the perspective of specific developmental goals given the distribution of power across the organizations involved, including relevant governance agencies. This is potentially a promising escape from the bind of weak enforcement, because it exploits the observation that in most states, enforcement failure does not extend to all dimensions. Economic development would be more rapid, and strategies of inclusion more effective, if these opportunities were more thoroughly exploited. The importance of the appropriate design of policies and institutions across different political settlements is insufficiently understood, which is why Bangladesh and India have not been able to replicate their own successes in a few sectors in many others.

Looking at South Korean or Taiwanese industrial policy as the paradigmatic form has been very damaging for follower countries. These North East Asian states inherited political settlements from Japanese colonial times that were characterized by the absence of powerful factional political organizations. The enforcement capacities of these states in enforcing conditions on rents allocated to powerful firms was much stronger because firms receiving policy rents could not easily make secondary coalitions with powerful factions to protect their rents for a price. As senior politicians

and bureaucrats discovered that they could enforce conditions and achieve outcomes that were aligned with their own interests, sequential improvements in policy design followed. These countries clearly did not begin with the cultural norms of the West, but the gradual productive transformation of their societies through the development of capabilities and competitiveness created a very similar impetus for sustaining and improving investments in education, health, and culture. This progressively took them in the direction of modern societies, including a transition from learning societies to innovation societies. With the transition to innovation increasing in pace over the last two decades, the dominance of institutions supporting learning and catching up has been gradually superseded by institutions supporting innovation. While the achievements of these 'developmental states' have been truly impressive, the institutions and policies that they used to achieve development are not replicable in other states, even in Asia, where the political settlements are substantially different.

South Asia inherited a very different political settlement. Both democratic and authoritarian governments in India, Pakistan, and Bangladesh discovered their enforcement capabilities were limited when they faced powerful political and bureaucratic factions led and organized by the 'intermediate classes'. Myrdal described a moment in the history of these countries when they were using policy instruments that faced very serious implementation constraints. Subsequent developments in the 1980s and beyond show that substantial rates of growth could be achieved in these countries with other types of rent allocation and development policies, even though these have not been developed to their full extent. Nevertheless, the long-run pace of development in South Asia is likely to be slower and more uneven than in North East Asia. States in South Asia do not have the political and institutional capacity to support development across a broad range of sectors and regions all at once, as these types of strategies typically require disciplining *ex ante* policy rents granted to a broad range of established businesses. Moreover, the poor results of bureaucratic management and the involvement of politicians and bureaucrats in policy-distorting variants of corruption have had negative effects on morale. The very best young graduates no longer find a career in the civil service sufficiently rewarding in most parts of South Asia, and this has negative cumulative effects on bureaucratic capacity.

South East Asia has been somewhere in between in terms of the complexity of their internal power structures and therefore the constraints on the enforcement of socially desirable policies set by political settlements. Over the longer term their success has been somewhere in between South and North East Asia. From the perspective of the political settlements framework, it is not surprising that we find a great diversity of economic strategies and institutions that have worked and failed across these countries (Khan 2000b, 2007). South East Asian countries have come a long way in the half century since Myrdal wrote his *Asian Drama*, and some now face new challenges of progressing from learning to innovation societies while dealing with emerging challenges of populist politics.

5 Incremental versus radical reform and prospects for the future

On one critical question, the jury is still out. Myrdal posited that incremental changes were not only more painful than radical or revolutionary changes in the long run; incremental strategies were also more likely to fail. The case against incrementalism that Myrdal posited still affects many variants of modern institutional analysis. Acemoglu and Robinson are arguably in the same tradition in ruling out the sustainability of growth without a big shift towards inclusive political and economic institutions. As Myrdal pointed out, incrementalism can be an excuse for unproductive elites to keep tolerating indiscipline and regressive practices, and reversals are likely to follow (1968: 1909-10). However, neither Myrdal nor Acemoglu and Robinson have a

convincing explanation of where the big changes will come from. Even *if* leaderships emerged in these countries with very different beliefs and a willingness to unleash discipline on society, or even if the critical junctures that Acemoglu and Robinson identify as the prelude for revolutionary changes came around (Acemoglu and Robinson 2012: 110-23), there is no necessity that a strategy of radical institutional change would indeed be successful over time.

If we are right in arguing that the distribution of power in society is relevant for institutional operation, attempts by political movements to enforce radical changes on powerful organizations could unleash substantial violence and very high 'transition costs' (Khan 1995, 2012). Nor is it clear that incremental strategies are much more likely to fail if they are appropriately constructed. What is clear is that many of the formal institutional and policy strategies that Myrdal looked at did indeed fail because their requirements of enforcement and adherence were unrealistic. But a leadership that was developmental could conceivably follow an incremental strategy that took into account issues of enforcement to propose institutions and policies that were more likely to be effective for achieving development in that social context.

The elephant in the room for making these comparisons is China, a country that Myrdal did not include in his original study and one that Acemoglu and Robinson write off as unlikely to succeed given its 'non-inclusive' institutions (Acemoglu and Robinson 2012: 428-46). In fact, China is not only the most dramatic developmental transformation in human history, it also went through massive politically driven upheavals and revolutionary changes in the organization of its society. These upheavals could have had a positive impact in two quite different ways: first, because the upheavals destroyed pre-existing regressive cultures and attitudes or, second, because they created a disciplined political organizational structure, the Communist Party, which allowed certain types of discipline to be imposed on the enforcement of particular policies and institutions. The distinction is important. The institutions and attitudes that the communist revolution tried to root out were precisely the individualistic profit-seeking attitudes and individual property rights that the post-1979 transformation gradually brought back. One could argue that the upheaval was necessary to reboot these pre-existing ideas and institutions, to make them more appropriate for modern capitalism, but surely a less socially costly route could have been tried. Tens of millions of lives were lost or disrupted in the Great Leap Forward and the Cultural Revolution alone and many aspects of pre-revolutionary culture survived.

A more compelling case for the potentially positive effects of revolutionary disruption is that it may have enabled the construction of a cohesive and largely inclusive political organization, the Communist Party, with significant enforcement capabilities for allocating resources on a scale not possible in other developing countries. The organization of the Communist Party gradually came to include within it almost all of the politically active Chinese population, and it developed formal mechanisms for reaching compromises and enforcing agreements on collective rent allocation decisions. Decades of organizational activity were necessary to create this political structure but once it had emerged, the enforcement of collective rent allocation decisions became much more effective. This may not have been the primary intention behind the construction of the party, but after 1979, its organizational structure proved to be extremely useful for policing the types of policy rents that created new capabilities in production. The political settlement that the Chinese Communist Party represents may not be a permanently sustainable one, nor may it be the most appropriate one for enforcing the new types of property rights and contracts that will be required as China moves from a learning to an innovation society, but it was very effective in organizing the post-1979 economic miracle based on adopting and adapting existing technologies and attracting significant foreign investments.

While the end results of the upheaval were clearly very positive, regardless of how we explain it, the policy implications are not clear. If the construction of a disciplined and inclusive political

organization is the element that explains China's subsequent institutional success, this is by no means assured as an outcome of an upheaval. Upheavals can destroy pre-existing institutions and organizations without necessarily leading to the emergence of a disciplined and inclusive organization. Massive upheavals are more likely to create unmitigated chaos for long periods. The answer to Myrdal's social discipline and soft state problem may be to look much more seriously for incremental answers that take us in the direction of more organized and disciplined societies. I find very promising the examples of successful sectoral development in Myrdal's 'soft states' in the 1980s and beyond. These provide rich but all-too-rare examples of strategies that may work to accelerate the social transformation of countries in progressive and inclusive directions. If incremental strategies can be sustained across sectors and regions (and that is admittedly a big if), these strategies could gradually result in the multiplication of successful sectors and social interests, which may eventually want a better formal enforcement of social rules in general.

The growth and empowerment of productive organizations that will eventually *need* the enforcement of rules in their own interest is the only sure way of eventually creating the effective demand for a transition to a rule-following society. As against this, regressive interests and organizations in these societies can also be expected to mount their own rent-seeking and influencing activities. We can expect them to try and sustain patterns of behaviour that amount to social indiscipline, damaging types of corruption, and regressive types of redistributive activities. The pace of and prospects for development are likely to depend on the contest between these contending forces.

References

Acemoglu, D., S. Johnson, and J.A. Robinson (2001). 'The Colonial Origins of Comparative Development: An Empirical Investigation'. *American Economic Review*, 91(5): 1369–401.

Acemoglu, D., and J.A. Robinson (2000). 'Political Losers as a Barrier to Economic Development'. *American Economic Review Papers and Proceedings*, 90(2): 126–30.

Acemoglu, D., and J.A. Robinson (2012). *Why Nations Fail: The Origins of Power, Prosperity and Poverty*. London: Profile Books.

Acharya, S., I. Judge Ahluwalia, K.L Krishna, and I. Patnaik (2003). 'India: Economic Growth 1950–2000'. Global Research Project on Growth. New Delhi: Indian Council for Research on International Economic Relations.

Amsden, A. (1989). *Asia's Next Giant: South Korea and Late Industrialization*. Oxford: Oxford University Press.

Bhagwati, J.N. (1982). 'Directly Unproductive, Profit-seeking (DUP) Activities'. *Journal of Political Economy*, 90(5): 988–1002.

Bhagwati, J.N. (1983). 'DUP Activities and Rent Seeking'. *Kyklos*, 36(4): 634–37.

Bosworth, B., S.M. Collins, and Arvind Virmani (2007). 'Sources of Growth in the Indian Economy'. NBER Working Paper Series 12901. Cambridge MA: National Bureau of Economic Research. Available at: http://www.nber.org/papers/w12901 (accessed on 1 August 2018).

Brenner, R. (1976). 'Agrarian Class Structure and Economic Development in Pre-Industrial Europe'. *Past and Present*, 70: 30–75.

Brenner, R. (1985). 'The Agrarian Roots of European Capitalism'. In T.H. Astonand C.H.E. Philpin (eds), *The Brenner Debate: Agrarian Class Structure and Economic Development in Pre-Industrial Europe*. Cambridge: Cambridge University Press.

Chakravarty, S. (1987). *Development Planning: The Indian Experience*. Oxford: Oxford University Press.

Dutt, S. (1969). *Report of the Industrial Licensing Policy Inquiry Committee*. New Delhi: Department of Industrial Development, Government of India.

Evans, P.B. (1995). *Embedded Autonomy: States and Industrial Transformation*. Princeton, NJ: Princeton University Press.

Greif, A. (2006). *Institutions and the Path to the Modern Economy*. Cambridge: Cambridge University Press.

Khan, M.H. (1995). 'State Failure in Weak States: A Critique of New Institutionalist Explanations'. In J. Harriss, J. Hunter, and C.M. Lewis (eds), *The New Institutional Economics and Third World Development*. London: Routledge.

Khan, M.H. (1998). 'Patron-Client Networks and the Economic Effects of Corruption in Asia'. *European Journal of Development Research*, June 10(1): 15–39.

Khan, M.H. (1999). *The Political Economy of Industrial Policy in Pakistan 1947-1971*. Department of Economics Working Paper. London: SOAS University of London. Available at: http://eprints.soas.ac.uk/9867/ (accessed on 1 August 2018).

Khan, M.H. (2000a). 'Rents, Efficiency and Growth'. In M.H. Khan and K.S. Jomo (eds), *Rents, Rent-Seeking and Economic Development: Theory and Evidence in Asia*. Cambridge: Cambridge University Press.

Khan, M.H. (2000b). 'Rent-seeking as Process'. In M.H. Khan and K.S. Jomo (eds), *Rents, Rent-Seeking and Economic Development: Theory and Evidence in Asia*. Cambridge: Cambridge University Press.

Khan, M.H. (2004). 'State Failure in Developing Countries and Strategies of Institutional Reform'. In B. Tungodden, N. Stern, and I. Kolstad (eds), *Toward Pro-poor Policies: Aid Institutions and Globalization*. Proceedings of Annual World Bank Conference on Development Economics. Oxford: Oxford University Press and World Bank. Available at: http://eprints.soas.ac.uk/3683 (accessed on 1 August 2018).

Khan, M.H. (2005). 'Markets, States and Democracy: Patron-Client Networks and the Case for Democracy in Developing Countries'. *Democratization*, 12(5): 705–25.

Khan, M.H. (2006). 'Determinants of Corruption in Developing Countries: The Limits of Conventional Economic Analysis'. In S. Rose-Ackerman (ed.), *International Handbook on the Economics of Corruption*. Cheltenham: Edward Elgar.

Khan, M.H. (2007). 'Governance, Economic Growth and Development since the 1960s'. In J.A. Ocampo, K.S. Jomo, and R. Vos (eds), *Growth Divergences: Explaining Differences in Economic Performance*. Hyderabad, London, and Penang: Orient Longman, Zed Books and Third World Network. Available at: http://www.un.org/esa/desa/papers/2007/wp54_2007.pdf (accessed on 1 August 2018).

Khan, M.H. (2010). *Political Settlements and the Governance of Growth-Enhancing Institutions*. Research Paper Series on Governance for Growth. London: SOAS, University of London. Available at: http://eprints.soas.ac.uk/9968 (accessed on 1 August 2018).

Khan, M.H. (2011). *India's Evolving Political Settlement and the Challenges of Sustaining Development*. London: SOAS University of London. London. Available at: http://eprints.soas.ac.uk/12844/ (accessed on 1 August 2018).

Khan, M.H. (2012). 'Governance and Growth: History, Ideology and Methods of Proof'. In A. Noman, K. Botchwey, H. Stein, and J. Stiglitz (eds), *Good Growth and Governance for Africa: Rethinking Development Strategies*. Oxford: Oxford University Press.

Khan, M.H. (2013a). 'Technology Policies and Learning with Imperfect Governance'. In J. Stiglitz, and J.Y. Lin (eds), *The Industrial Policy Revolution 1. The Role of Government Beyond Ideology*. London: Palgrave. Available at: http://eprints.soas.ac.uk/id/eprint/17296 (accessed on 1 August 2018).

Khan, M.H. (2013b). 'The Political Settlement, Growth and Technical Progress in Bangladesh'. DIIS Working Paper 2013: 01. Copenhagen: Danish Institute for International Studies: Copenhagen. Available at: http://www.diis.dk/graphics/Publications/WP2013/WP2013-01.Bangladesh%20-%20Mushtaq-H-Khan.pdf (accessed on 1 August 2018).

Khan, M.H. (2013c). 'Political Settlements and the Design of Technology Policy'. In J. Stiglitz, J.Y. Lin, and E. Patel (eds), *The Industrial Policy Revolution 2. Africa in the Twenty-First Century*. London: Palgrave. Available at: http://eprints.soas.ac.uk/id/eprint/17297 (accessed on 1 August 2018).

Khan, M.H. (2017). 'Political Settlements and the Analysis of Institutions'. *African Affairs*, Virtual Issue: Political Settlements Research in Africa: 1–20. Available at: https://doi.org/10.1093/afraf/adx044 (accessed on 1 August 2018).

Knight, J. (1992). *Institutions and Social Conflict*. Cambridge: Cambridge University Press.

Kohli, A. (1994). 'Where Do High Growth Political Economies Come From? The Japanese Lineage of Korea's "Developmental State"'. *World Development*, 22(9): 1269–93.

Krueger, A.O. (1974). 'The Political Economy of the Rent-Seeking Society'. *American Economic Review*, 64(3): 291–303.

Krueger, A.O. (1990). 'Government Failures in Development'. *Journal of Economic Perspectives*, 4(3): 9–23.

Myrdal, G. (1968). *Asian Drama: An Inquiry into the Poverty of Nations*, Volumes I, II and III. A Twentieth Century Fund Study. New York, NY: Pantheon.

North, D.C. (1981). *Structure and Change in Economic History*. New York, NY: W.W. Norton.

North, D.C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.

North, D.C. (1995). 'The New Institutional Economics and Development'. In J. Harriss, J. Hunter, and C. Lewis (eds), *The New Institutional Economics and Third World Development*. London: Routledge.

North, D.C., J.J. Wallis, S.B. Webb, and B.R. Weingast (2007). *Limited Access Orders in the Developing World: A New Approach to the Problem of Development*. World Bank Policy Research Paper 4359. Washington DC: World Bank.

North, D.C., J.J. Wallis, S.B. Webb, and B.R. Weingast (eds) (2013). *In the Shadow of Violence: Politics, Economics and the Problems of Development*. Cambridge: Cambridge University Press.

North, D.C., J.J. Wallis, and B.R. Weingast (2009). *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*. Cambridge: Cambridge University Press.

Posner, R.A. (1975). 'The Social Costs of Monopoly and Regulation'. *Journal of Political Economy*, 83(4): 807–27.

Putzel, J. (2000). *Land Reforms in Asia: Lessons from the Past for the 21st Century*. LSE Development Studies Institute Working Paper Series 00-04. London: LSE DESTIN.

Stiglitz, J.E. (1996). *Whither Socialism?* Cambridge MA: MIT Press.

Tawney, R.H. (1938). *Religion and the Rise of Capitalism*. Harmondsworth: Penguin.

Virmani, A. (2004). *Sources of India's Economic Growth: Trends in Total Factor Productivity*. Working Paper 131. New Delhi: Indian Council for Research on International Economic Relations.

Wood, E.M. (2002). *The Origins of Capitalism: A Longer View*. London: Verso.