

Lecture 10 – Development and Violence

The book by Robert Bates is packed with interesting ideas. Here I will try to give a skeletal version of the whole thing.

Economic development is fundamentally about investment in the future, including physical and human capital formation and institutional development. Investment in the future entails risk. People do not invest unless they are sufficiently assured that their effort will be protected. Natural disasters can ruin investments and so can man-made events such as wars, coups and crimes. Risk and development are deeply intertwined. Progress requires specialization and complex market interaction, leaving people vulnerable to misfortune. People also need to risk trying new forms of production and organization. Moreover, wealth attracts predators.

In agrarian societies these challenges are addressed through extended families. Families of successful farmers grow larger and start to probe for new opportunities. They send young family members away from home. These offshoots might begin farming virgin land or perhaps seek work in more urbanized areas. The family backs these forays financially and when they succeed the family collects a return. Family members remain in touch and mutually insure each other. They also locate in different places and specialize in different types of production. Therefore, within-family insurance can work quite well. Some kind of growth along these lines is essential for economic progress because if a family stays on their original piece of land they will eventually run into decreasing returns to scale and have to either stop growing or get poorer.

Perhaps the biggest risk facing successful families is the threat of violent predation. To combat this problem a wide variety of societies have developed family feud practices. Simply put, an attack on one family member is treated as an attack on all family members and the victimized family takes revenge. This action is likely to lead to further retaliation, confirming a big cycle of violence. Of course, with these threats violence will not normally break out. But when it does, the cycle will be difficult to break. Also, the presence of tough, well-armed family members so that a family can credibly threaten retaliation against any transgressor families is in itself a provocation. This is an unstable environment that can quickly slide into violence.

Bates reads the history of state formation in Europe as a story of the State replacing the family as the main provider of security. Waging war is potentially profitable but also expensive for rulers. A ruler can coerce resources out of his subjects but if he does this systematically he will stifle development. Moreover, the rise of cities and towns complicates a ruler's ability to extract money through force. City dwellers build walls and other fortifications to protect themselves, disburse their money across many safes across town and even send their wealth out of town. So seizing the wealth of urbanites is tricky.

Successful rulers hit on a different plan, essentially selling their expertise in violence to urban elites in exchange for support. Rulers set up relatively modern legal

systems to replace the family feud as the main method for protecting people from violence and predation. This meant, essentially, that if a family member broke the laws then his family would have to deliver him to justice or else the justice would come after him. In other words, particular perpetrators of crimes would be punished rather than reaping generalized revenge against the criminal's family. This system was superior to the old one because it avoided endless feuding. The beneficiaries of this improvement were willing to pay rulers for providing the service. Moreover, this system was good for economic development, extending rulers' tax bases. Rulers also favoured this base through "mercantilist" practices that held up prices of the goods that were produced and sold by the urban dwellers while holding down agricultural prices.

State formation in the modern world resembled the European experience. Third World leaders also tended to favour urban and industrial interest over rural and agricultural ones. These leaders also garnered support in exchange for these economic distortions. But there were two crucial differences. First, the post-WWII international order significantly reduced the risk of interstate war. Therefore, third-world leaders were not nearly as dependent on their populations for financial support as were the European rulers who had preceded them. The avoidance of war was, of course, a good thing. But a big negative consequence is that third-world leaders did not have to foster economic development as the Europeans had in earlier centuries to support their war-waging capabilities. Moreover, the Cold War context meant that dictators could raise money from either the USSR or the USA by opposing the other side. Economic development, or indeed respect for human rights, were not required to keep this money flowing. As a consequence many countries failed to develop economic and political institutions conducive to economic development.

In the last two decades of the 20th century two big events shook up this state of affair. First, the debt crisis of the 1980's applied financial pressure to previously comfortable regimes. Second, the end of the cold war dried up the patronage money from the USA and the USSR. These big shocks led to democratization in some cases, such as South Africa and Chile, and state failure in other cases such as Somalia and Congo.