PROSPERITY AND VIOLENCE

SECOND EDITION

1

INTRODUCTION

Time and chance happeneth to them all.

—ECCLESIASTES 9:11

IN A MUSEUM IN NORTH GERMANY, I encountered two cabinets depicting early life in the region. The first contained a model of settlement in the fourth century A.D.; the second a model of the region in the twelfth. Figures 1.1 and 1.2 present the basic outlines.

In the first model, people dwelt in small settlements inland from the sea, seemingly huddled on the sides of a river. They dressed in skins and lived in huts, hunted with spears, and journeyed in boats fabricated from the pelts of animals. Their small settlements appeared fragile, as if designed to facilitate rapid flight from invaders. They resembled uncertain embers in an ocean of darkness: the sea itself, of course, but also the surrounding forest that mounted up from the river, crossed the surrounding hills, and swept east across the continent, giving way to marshes and then to the steppes that led to Asia.

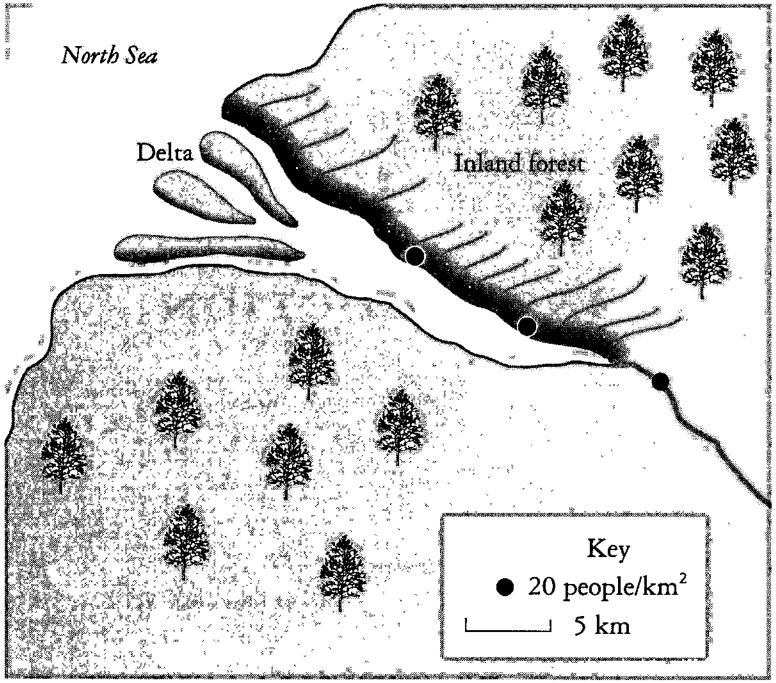

Figure 1.1 North German Settlements circa A.D. 300

As revealed in the second display, centuries later the pattern had changed. Population had grown. Rather than scattered in small camps, most families now lived in dense settlements, surrounded with walls for protection. Settlement had become not only more concentrated, but also, paradoxically, more dispersed. Some families had ventured forth to settle on the shores of the sea. Others had formed camps in the swamplands of the delta and still others had moved inland to dwell in the surrounding forest. By all appearances, most were more prosperous than their ancestors. Their houses were made of timber, not skins; so too their boats. Their clothes were of fiber and their implements artfully crafted. Market stalls stood adjacent to the walls of the settlement, where merchants appeared to exchange the crafts of the town for fish

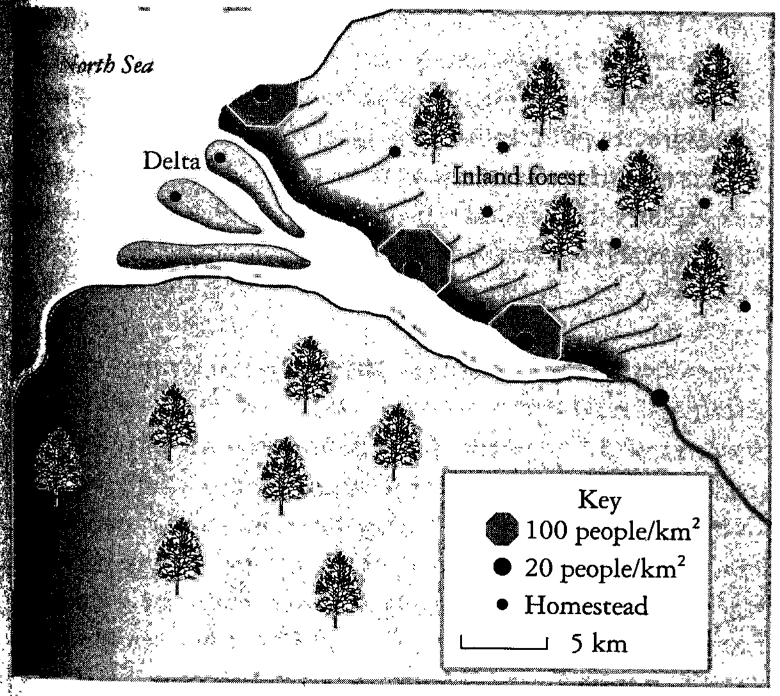

Figure 1.2 North German Settlements circa A.D. 1100

from the delta, game from the forest, or grain from the surrounding countryside.

The exhibits depicted life in the region centuries before. Exiting the museum, I abruptly reentered the present. The museum stood on a hill overlooking a river, just where it entered the sea. Automobiles sped along the surrounding streets and pedestrians crowded the adjacent sidewalks. Where once there had been a delta, there now lay a harbor, congested by tankers, ferries, and freighters. Across the river, industries lined the embankment, spouting smoke into the basin formed by surrounding hills. The sea beyond the delta lay shrouded by smog from the city.

The story depicted in the museum exhibit captures an oft-told tale. It has been recounted by the archeologists (e.g., Carneiro 1970) who reconstruct the past and by social scientists (e.g., Boserup 1981) who study development in modern societies. Karl Polanyi refers to the transition from village to city and from agriculture to industry as "the great transformation" (1944); Kuznets and others refer to it as "structural change" (1966). This book explores the political economy of development by studying the politics and economics of this transformation.

THE FIELD OF DEVELOPMENT

Students of development specialize in the study of the poorer nations of the world. Rather than concentrating on the advanced industrial societies, they focus instead on nations in Asia, Africa, and Latin America that remain heavily rural, largely agricultural, and largely impoverished. The field thus defines itself cross-sectionally, distinguishing rich nations from poor and focusing on the politics of the latter.

While much can and has been learned by proceeding in this fashion, there appears an obvious mismatch between the phenomenon being studied and the data employed. Scholars pursue their research by taking cross sections at one point in time; but development implies the *passage* of time. As approached here, development refers to the growth of per capita incomes and to the transformation of social and political systems. Development, growth, and transformation: each word highlights the temporal, rather than the spatial, element of human societies.

My research has focused on contemporary Africa and Latin America, and I will repeatedly draw on what I have learned from my work in these regions. But I will also draw upon materials from history. Societies that are now urban, industrial, and wealthy were themselves once rural, agrarian, and poor. I will therefore marshal materials from medieval and early modern Europe. Noting the lessons to be learned from the great power rivalries of the recent era—the competition between Communist and capitalist states—I will also seek lessons from the great power rivalries of the past, and in particular that between Britain and France in early modern Europe.

In exploring the historical and contemporary experiences of developing societies, I will address two key themes. One is economic: I will look at ways in which societies increase the average incomes of their members. The other is political: I will explore the institutions they form, the governance structures they create, and, above all, the ways in which they alter—or fail to alter—the use of violence.

CAPITAL

In my discussion of economic development, I focus on the formation of capital. Capital is the factor of production that spans time. In one period, people may choose to save; withholding resources from present consumption, they may invest them, or form capital. They do so in order to secure the increased possibilities for consumption that investment provides. They make present sacrifices in order to secure future gains.

Capital can take the form of a bridge or canal or industrial plant. It can also take the form of a bank account or financial portfolio. But capital need not be physical or monetary. It can also take the form of a skill or a mode of expression, which may itself be costly to acquire. Time that could be spent in pleasure may instead be devoted to study, such that the person can later gain the rewards that accrue to proficiency and attainment. Classrooms, universities, and apprenticeships: these, as much as banks or industries, constitute loci for the formation of capital.

Because the formation of capital spans time, the decision to invest entails risk. The costs of investment occur in the present; they are therefore certain. The payoffs occur in the future. Future events can therefore render rewards uncertain and alter the incentives to form capital. Fire, flood, or disease can intervene and disrupt the most promising of endeavors. But so too can the conduct of human beings, who may launch wars, overthrow governments, or fail to honor pledges, thus disrupting the plans of others.

In a variety of ways, institutions address the problem of risk. In my analysis of agrarian societies, for example, I shall stress the way in which families provide insurance against costly acts of nature. In such societies, families also provide defenses against the risks arising from the behavior of others; kinship provides a political system, capable of restraining behavior and safeguarding property. As I shall show, kin relations provide insufficient assurances, however, to motivate the formation of the kinds of capital necessary for an industrial society. The assurance kinship provides, moreover, comes at high cost. Analysis of these costs helps us to understand why it is not societies governed by kinship, but rather societies governed by states, that secure the great transformation.

In exploring the political foundations of economic development, I therefore isolate and examine two core, or primitive, actions, one economic and the other political: the decision to form capital and the formation of institutions that render it rational to do so.

ECONOMIC ORGANIZATION

By opening up new lands or purchasing new plants or machinery, or by investing in skills or improvements in the mechanical arts, people can secure higher levels of output per capita and thereby increase the quantity of goods or services they can consume. Economic growth also results from increases in the productivity of land, labor, and capital: by investing in the creation of new technologies, people can increase the level of output they secure from a given quantity of each resource. Equally important, economic growth results from changes in the manner in which people organize the process of production. In this book, I focus not only on investment but also on organization as a source of economic growth.

The ways in which production is organized affect the level of output. Some kinds of economic activity combine factors of production in ways that simply "scale up," as it were: an increase in the quantity of inputs yields a proportionate increase in the quantity of goods produced. In other kinds of economic activity, however, production is organized in such a manner that an increase in the quantity of inputs yields a more than proportionate increase in output. Output increases as if it were responding not simply to the addition of resources to production but also to the interactions between them. It responds multiplicatively rather than additively to increases in the use of land, labor, and capital.[1]

Agriculture provides an example of the first kind of economic organization. For a given state of the art, when the quantity of land, labor, and capital doubles, then so too does the output from farming. This is not to argue that farming has failed to achieve technological progress, and is thus incapable of growth. With the movement from animal traction to mechanical power, with the adoption of new breeds of plant and beast, and with the application of chemical and biological innovations

[1] In this discussion, I omit the distinction between internal and external economies of scale. A more complete analysis would include them, relating one to the creation of markets and towns and the other to the rise of firms. Each serves as sources of growth, but while the first was important in the medieval and early modern periods, the latter was important to the era of the Industrial Revolution. Each also gives rise to distinctive political problems, and the argument that I advance can and should be extended to address them.

to farming, the output per unit of land and labor has risen dramatically. But economic growth in agriculture has not greatly benefited from changes in economic organization. The form in which agricultural production is organized has altered far less than other aspects of farming. A large corporation may own the farm; the processing of foodstuffs may take place in factories; and the production process may itself be mechanized. But more often than not, the farmer and his household organize the process of production.

If the household is emblematic of the form of organization characteristic of farming, then it is the team that best represents the form employed in industry. Teams allow for forms of production that not only combine inputs into production additively, but that also extract benefits from the members' interaction. In a modern enterprise, one unit of the organization may be in charge of the procurement of raw materials; another of their milling and shaping; and a third of their fabrication into finished products. Other units may provide the services necessary to sustain the production process: the recruitment and training of labor; the purchasing of materials; the financing of the firm; or procurement, sales, and the negotiation of contracts.[2]

In such forms of economic organization, the impact of one unit's effort depends upon the conduct of others. Increases in output result not merely from the sum of the efforts devoted to production, but also from the complementarities among them. Such forms of organization can thus generate increases in output that are more than proportionate to increases in the quantities of inputs. The form of organization itself becomes a source of growth.

[2] Farmers too perform such tasks. But the seasonal nature of production means that they can be performed sequentially. In industry, they must be performed in parallel.

To illustrate, envisage a firm in a developing society that not only recruits workers but also trains them, teaching them to read, to calculate, and to write. Each unit of the firm gains from the increased supply of educated labor. Not only the plant but also such support services as accounting and sales benefit from the investment. And the productivity of the plant is enhanced by the increased productivity of the staff in these other departments. The complementarities embodied in the structure of the firm thus multiply the impact of the initial investment in training.

All who follow those most visible of teams—those in modern athletics—can quickly grasp that interactions can be productive. But they will also realize that interactions can be perverse. Hazards as well as opportunities result from interdependency within teams. Not only can a member of a team enhance the performance of those about her, she can also sulk, withhold effort, and harm the performance of others. If only for this reason, teams possess managers who can inspire, cajole, or coerce, and so impose discipline. Like sports teams, economic organizations also require governance structures. Firms require managers to coordinate relationships, ensuring that the conduct of one unit of the team enhances, rather than impedes, the performance of others.

The creation of capital provides one source of growth. So too does the formation of economic organizations. And just as the study of the creation of capital leads to the study of politics, so too does the study of organizations. To form economic organizations, those who possess power must delegate it to private hands. They must place it in the hands of those who will govern productive relationships and secure the benefits that can be produced by the complementary efforts of those who employ land, labor, and capital to produce goods and services.

Those who engage in politics, rather than production, specialize in the use of violence. Most commonly, they use power to redistribute, not to create, wealth. As acts of redistribution often inflict losses, the use of force often destroys. For power to be used to produce wealth, coercion must therefore be used in new ways. Those who specialize in the use of force must refrain from violence and delegate their authority to those who will employ it productively. They must delegate it to those who specialize in combining land, labor, and capital in the process of production.

When do kings grant liberties to merchants and burghers? When do political executives vest power and authority in the executives of firms? Why do some states, which could easily destroy economic organizations, instead allow them to govern their economies? Why do others fail to do so? In exploring the political foundations of economic development, I address these kinds of questions.

In this book I therefore look not only at the manner in which capital is formed. I also look at the way in which violence becomes domesticated, as it were, and is used neither to predate nor to destroy but rather to strengthen the productive forces of society.

POLITICAL FOUNDATIONS

I had come to northern Germany to interview firms that imported coffee from East Africa. The museum had provided a welcome diversion during a long weekend in which offices were closed and time hung heavy upon me. Leaving the exhibit, I entered a nearby café. The menu offered an inviting selection of hot beverages, including the robusta coffees of Uganda and the arabica coffees of Kenya. The warm respite I derived from consuming them could, I knew, be multiplied a thousandfold at any instant in northern Europe and a millionfold in any day. Consumers in the developed world sought the products of East Africa and willingly offered a portion of their incomes to procure them.

From my fieldwork in East Africa, I knew that Kenyan merchants, bankers, and industrialists had fashioned a harbor that, while smaller than that of the city in northern Germany, nonetheless resembled it in form and function. To export the coffees of Kenya and Uganda, they had invested in the construction of rail facilities, piers, and warehouses. They had built office buildings and leased out space to brokers, shippers, and insurance firms. They had widened and deepened the harbor, altered the flow of the river, and constructed sidings and terminals. Not only had they thus invested the capital in the perfection of the harbor and the creation of its facilities; but they had also created a governance structure to regulate the flow of traffic from inland, through the port, and thence overseas. By act of the Kenyan Parliament, they had formed a corporation that vested the management of the port in an executive who could hire and fire managers and deputies and who possessed the power to order, to discipline, and to fine, and thus to govern the flow of goods through the facility.

In response to the economic opportunities offered by the demand for tropical products in the Northern Hemisphere, then, investors had created in East Africa a productive economic organization, and the state had delegated to its management the power to govern its activities. There coffee was bulked and crated by blue-collar workers; inspected and insured by clerks; and shipped in containers, lifted by cranes onto ships made of steel. On the coast of East Africa, the demand for coffee had evoked the creation of an industrial form of economic activity.

As my research took me inland, I learned that not only capitalists but also peasants had responded to the demands of consumers in the industrialized nations. For several months, I worked in Meru, a district that lies on the slopes of Mount Kenya. Coffee production had rendered the district prosperous, and small towns dotted the mountainside, containing shops owned by artisans who produced clothing, footwear, furniture, and farm implements. Churches, banks, bars, restaurants, and hotels lined the streets. On weekends, farmers and their families gathered in town, some entering on foot, others emerging from crowded taxis, and a fortunate few descending from their own vehicles.

Farmers in Meru had prospered from the production of coffee. With the proceeds they had earned, some had invested in cattle. Many had financed the education of their children, some of whom attended elementary school in the village, others secondary school in town, and some universities abroad. Many of those who secured an education had then taken jobs in the cities; maintaining ties with their families at home, they funneled a portion of their earnings back to the farms and shops of Meru. Even during a drought in 1985—the year I worked in the district—Meru, its farmers, and its towns radiated a sheen of prosperity and well-being that reflected the successful response of its peasants to the opportunities provided by exports of coffee.

Departing the farms at the foot of Mount Kenya, I then journeyed farther inland and crossed into Bugisu, a coffee-producing region lying on the slopes of Mount Elgon in Uganda. There too farmers had invested in the production of coffee, and towns had sprung up to provide them the means to ship their crop, to collect payment, and to make purchases for their farms and families. But prosperity and tranquility, I soon learned, lay in Bugisu's past; stagnation and fear characterized its present.

Unlike the streets of the towns in Meru, those in Bugisu were not crowded with farmers hurriedly making purchases or leisurely enjoying the pleasure of town; rather, they were occupied by soldiers, while farmers fearfully huddled on their homesteads in the forests. Youths did not stroll about in school uniforms, as they had in Meru; in Bugisu, they instead marched, lockstep, in military garb, lashed by the voices—and the belts—of their commanders. On the farms, the coffee-bearing trees remained unpruned; diseases ran unchecked from plant to plant and farm to farm; and stocks accumulated, for want of the ability of merchants to finance the purchase of the crop or its transport to the coast.

By venturing from the coast inland, I was therefore forcefully introduced to the link between prosperity and violence. In the coastal harbor, force was not absent; rather, it was structured and organized. In Meru, prosperity was undergirded by peace. In Uganda, the fear spread by violence undermined the willingness to invest or to engage in economic activity. Such comparisons and contrasts highlight the significance of the political foundations for development.

Development involves the formation of capital and the organization of economic activity. Politically, it involves the taming of violence and the delegation of authority to those who will use power productively. Just as this introduction has cut from Europe to Africa to make these points, so too will the text move from materials from history to those drawn from modern societies in an effort to explore these themes.