The Challenges of the Institutional Turn: New Interdisciplinary Opportunities in Development Theory

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This chapter has benefited from the careful reading and comments of the editors, Fred Block, Marion Fourcade-Gourinchas, Nathan Newman, and Anna Wetterberg. Its flaws and failings remain entirely mine. The sections on the capability approach and institution possibilities for expanding capabilities draw heavily on Evans 2002, 2003.

Development theory is ready for new departures. Economic analysis of development has taken an "institutional turn." Setting out the opportunities and challenges presented by the institutional turn is the goal of this chapter. My discussion will start with the displacement of "capital fundamentalism" from the theoretical core of development economics. I will then go on to discuss the institutional turn itself. While the institutional turn has taken a variety of forms, I will focus on only a few.[1] The "new growth theory," whose implications have been least effectively exploited by non-economists, will be a primary focus. Sen's "capability approach," which, despite its carefully measured formulations, is arguably the most radical version of the institutional turn, will also be a focus. North's historical institutional approach will be used as a bridge between the two. I will end with a challenge to institutionally oriented analysts with roots in other social sciences to step forward and contribute to the resolution of the new puzzles being generated by the institutional turn coming out of economics.

The issues raised by the institutional turn are theoretical, but they have implications for policy and politics.[2] Theories that focused on capital accumulation had the virtue of projecting consistency between established institutional interests and the requirements of developmental success. Newer approaches undermine this comfortable correspondence. If the contradictions between existing institutional interests and developmental goals can be resolved, it will only be through a more sophisticated approach to the politics of institutional change, an approach which connects power and culture and focuses on distributional issues. This chapter does not claim to offer such a resolution. It rests content to point out the extent to which the frontiers of development theory have shifted to new, inevitably interdisciplinary, theoretical terrain.

The Institutional Turn

“Capital fundamentalism” assumed that solving the problem of underdevelopment was primarily about increasing poor countries’ stock of capital.[3] It was a vision with strong intuitive appeal. From the point of view of poor countries, it also lent itself to optimistic projections of future growth. Poor countries could become rich if they could increase their domestic savings, which would then become investments, producing a proportionate expansion of future incomes. If domestic savings rates couldn’t be increased, external financing could fill the gap. Rich countries should suffer from diminishing returns to capital. Capital should flow from where it is relatively abundant and therefore gets lower returns (rich countries) to where it is relatively scarce and should get higher returns (poor countries). “Catch-up” becomes a reasonable expectation.

Unfortunately, capital fundamentalism did not work—either theoretically or empirically. Almost fifty years ago, Robert Solow (1957) pointed out that capital fundamentalism neither made theoretical sense nor accounted for the long-term trajectory of American growth. Given that capital, especially physical capital, is subject to diminishing returns, additions to the stock of capital could not possibly account for long-term growth of the kind experienced by the United States.[4] Relying on increases in the capital stock to solve development problems in the global South didn’t work very well either. Capital tended to flow among rich countries rather than from rich to poor. International institutions, trying to compensate with loans and grants, found to their frustration that more capital often did little good. Visions of capital accumulation as a “magic bullet” persist, despite all, even in academic discussion.[5] Nonetheless, the consensus has moved capital off its throne as magic bullet.[6] Today, most would agree with Hoff and Stiglitz (2001: 428, 389) that “shortage of capital must be a symptom, not a cause, of underdevelopment.”

Hoff and Stiglitz (2001: 389) summarize the impact of what they call “modern economics” on the study of development with a simple assertion: “Development is no longer seen primarily as a process of capital accumulation, but rather as a process of organizational change.” This is one way of flagging the institutional turn, but it doesn’t fully capture the extent of the change. Along with organizations, culture and norms are also involved. The role of power in shaping both organizational structures and culture is central.

There are a variety of "institutionalisms" with a variety of ways of defining "institutions."[7] Only a small subset will be dealt with here.[8] What is essential to my argument is only that turning the focus to institutions brings a gamut of new considerations to the analysis of development. Preferences depend on beliefs and expectations rooted in shared cultural understandings. Relationships among economic agents that are based on loyalties and identifications not easily reduced to the pursuit of material ends enter into the mix. Technological change is shaped by incentives as well as shaping them. Development theory becomes a brave new world, full of intriguing but ornery conceptualizations.[9]

Moving the study of development in the direction of such a brave new world was probably not the goal of most of the theorists who produced the institutional turn. Increasing the consistency and elegance of existing theoretical formulations and bringing predictions more in line with empirical observations was the goal. The institutional turn was a by-product. The "new growth theory" exemplifies the process.

The New Growth Theory

The new growth theory, which has become an established part of conventional theoretical discussions of growth in the last twenty years, started from Solow's argument that "technological change" must account for most growth, then went further by making the production of new ideas "endogenous."[10] Instead of being something whose explanation lay outside the bounds of economic growth models, the emergence of productive new ideas ("rate of technological change") was seen as depending on economic incentives which were in turn shaped by institutional contexts.

In principle, the implications of the new growth theory are optimistic. Underlying this optimism is the simple idea that the dismal logic of diminishing returns, which limits the prospects of development strategies based on machinery and other physical capital, does not apply to ideas. Ideas are "nonrival" goods, simultaneously useable by any number of different people at the same time. Once a useful idea or piece of knowledge has been created—the proverbial design for a better mousetrap—the cost of using it again is essentially zero. Returns therefore expand with the scope of its use, without corresponding increase in costs (Romer, 1993a: 63). New ideas that spur the rate of technological change can lead to increased growth even if people are unable to shift income from consumption to savings. Increasing returns to ideas can compensate for diminishing returns to other factors of production.[11]

In the abstract, the implications for the global South might seem even more optimistic. There is, after all, already a monumental stock of productive ideas available in the North. At first glance, transporting them to the global South looks easy. If they can be effectively inserted into productive processes in the South, rapid growth should result. Optimistic possibilities are easiest to see if we focus on the set of ideas that are traditionally identified as "technology"—ideas that transform physical processes of production. These kinds of ideas are, in principle, easiest to move across national boundaries, increasing poor countries' stock of productive ideas and therefore their growth rates. Since technology, narrowly defined, can be embodied in machinery, it creates the possibility that foreign direct investment or the import of capital goods by local firms might generate increasing returns by facilitating the transport of ideas. Ideas may also "leak" (that is, be emulated by actors other than their owners), creating positive spillovers within and between countries.

Sometimes, things do work this way and growth follows. In most cases, however, the flow and the utilization of ideas are complicated and difficult processes. Garnering returns from ideas depends on being able to put them together with complementary inputs—physical capital and skilled labor—as well as with complementary ideas (cf. Easterly, 2001a: 150–51). If prospects of increasing returns draw these complementary inputs to better endowed locales, then being poor remains a trap, despite the apparent transportability of ideas.

The case of skilled labor is a good example. Skills are essential complements to technology and returns to any particular skill are likely to increase as a result of the agglomeration of complementary skills. Concentrations of skilled workers are likely to attract capital. Skilled workers are likely to want to move to places where they can combine their knowledge with those of other skilled workers (see Kremer 1993; Hoff and Stiglitz 2001: app. A; Easterly, 2001: 155–60). All of this works against poor countries. They will suffer triply: from having lower concentrations of skilled workers to begin with; from the natural tendency of skilled workers to move to better endowed countries where the returns to their skills will be greater; and from the fact that citizens who plan to stay in their homelands will have lower incentives to invest in training than workers in rich countries.

Other problems are equally obvious. If ideas are assets, their owners will do their best to maintain control over the returns that ideas generate. Since owners are concentrated in the rich countries of the North, to the degree that they succeed in maintaining control, the returns will flow back to the North. When the focus was on diminishing returns from physical capital, the expectation that growth rates would converge was reasonable. When the focus is on ideas, countries that have accumulated the larger stock of ideas are likely to grow faster than those with smaller stocks. Indeed, one of the advantages of the new growth theory over capital fundamentalism is that it makes the failure of poor countries to catch up more theoretically comprehensible.[12]

By fostering a more sophisticated understanding of why "catch-up" is difficult, the new growth theory has helped shift attention to institutional issues but the new growth theory's contribution to the institutional turn is more fundamental. Once growth is seen as centered around ideas, not as an exogenous factor, but as resulting from the actions of forward-looking economic agents responding to incentives, institutions come to the center of the development stage. Because they shape the incentives to develop ideas, institutional arrangements are central to determining the rate of growth. The fact that institutions not only mold the incentives to generate new ideas but can be seen themselves as essentially constituted by "ideas" completes the logic that binds the new growth theory to the institutional turn.

Institutions and Ideas

Most development theorists would agree that the genre of ideas most influential in explaining why some countries develop and others stagnate are not the "technologies" associated with changes in physical processes of production, but rather the more complex concatenations of ideas that form the basis for organizations and institutions. At the simplest level, ideas embodied in institutions range from double-entry bookkeeping to a McDonald's franchise operations manuals, from congressional committee rules to research universities. Since they all have the "non-rival" character that is fundamental to "ideas," the returns they generate will grow with the scope of their application.

The potential for generating returns from institutional technologies is most obvious when we look at the returns to organizational technologies in firms. Having developed a system of organizational ideas, Wal-Mart, McDonald's, or Starbucks can use it to generate returns in thousands of locations all around the world. The organizational manual has the same non-rival property as the plan for a wheelbarrow; the additional cost of having many people use it simultaneously is trivial. These sorts of "organizational technologies" can be as powerful in generating returns as the conventional technological ideas that come more immediately to mind as illustrations—like MSDOS or Linux.

More fundamental still are the institutionalized ideas that operate at the level of the society as a whole—like administrative norms, legal rules, and other governance mechanisms. They are ideas themselves, but they also generate (or fail to generate) the incentives for the production of new ideas of all kinds, and thereby help determine the overall rate of growth. They are what Romer (1993c) calls "meta-ideas." By arguing that the quality of the ideas embodied in these kinds of governance institutions provides the best historical explanations for differential rates of development, the institutionalist analysis of Douglass North (1981, 1986, 1990) converges with the new growth theory and pushes the institutional turn further in the direction of sociopolitical analysis.

One of the principal effects of North's contribution is to make institutional politics a central determinant of growth. In the new growth theory, politics enters growth equations because political variables may influence the incentives of economic agents to develop new ideas.[13] In North's analysis the political characteristics of institutions do more than create incentives. They become embedded in the assumptions and behavior of economic actors with a thoroughness that makes them likely to persist in "path-dependent" ways. The "institutional frameworks" that North considers "the underlying determinant of the long-run performance of economies" (1990: 107) are analogous to what sociologists might call "a normative order." They explicitly include informal norms and customs as well as formal rules and procedures. The scope of a "normative order" goes far beyond guaranteeing property rights by punishing force and fraud. Even if we limit ourselves to the aspects of "institutional frameworks" most central to economic growth, for example, providing predictable guarantees of property rights, the necessary framework involves a complex combination of legitimation, social learning, and coercive power.

North's version of historical institutionalism, like the new growth theory, does remain conventional in one important respect: growth of incomes, as measured by market valuations, continues to be the fundamental metric of development. However generous the disclaimers about the importance of other social and political goals, these remain complementary, implicitly subordinated to the fundamental income metric. The full flowering of the institutional turn depends on escaping this restrictive vision. Amartya Sen's capability approach best exemplifies the logic of escape.

The Capability Approach

Sen defines "capabilities" as the set of valued things that it is feasible for person to do. The range of capabilities is enormously variegated—from having dependable access to adequate nourishment to having the possibility of being a respected participant in community life. Taken together, capabilities define the extent to which people can "lead the kind of lives they value—and have reason to value" (Sen 1999a: 18).

The contribution of the capability approach is really two inseparably interconnected contributions. First, it is the most elegant and effective effort, among a long series of attempts, to impose on conventional economics the proposition that enhancing human capabilities is the only legitimate measure of development and that income growth is only an intermediate measure, imperfectly correlated with the real goal.[14] At the same time, the capability approach argues convincingly that democratic deliberation is not only a feasible method for orienting efforts to expand human capabilities, but the only defensible method.[15]

Most economists would probably acknowledge that the expansion of human capacities is the ultimate goal of development. Where they would differ from Sen is in their conviction that, while indicators of health, education, or for that matter civil rights and security, are all important, there is no way to weight and sum them that can provide a means of comparing a collectivity's overall level of utility or welfare, either across nations or over time. Therefore, the best (and really the only) effective overall metric we have for measuring the expansion of capabilities is the expansion of real incomes.[16] What sets Sen apart is his refusal to accept this proposition. He argues that real incomes are an analytically inadequate metric for making welfare comparisons (1999a: 79–80), and that utilitarian efforts to reduce well-being to "one homogeneous good thing" (real incomes) are equally inadequate.[17]

Sen's refusal to accept real incomes as the "one good thing" capable of providing a proxy for development brings the question of social choice at the heart of "what development is about" (cf. Sen 2001). For the capability approach to work, it must be possible to arrive at a legitimate weighting of many different capabilities. From this it follows that "There is a strong methodological case for emphasizing the need to assign explicitly evaluative weights to different components of quality of life (or of well-being) and then to place the chosen weights for open public discussion and critical scrutiny" (1999a: 81). In other words, "a proper understanding of what economic needs are—their content and their force—requires discussion and exchange" (1999a: 153).[18] The capability approach entails then a political process that is "democratic," in the thick sense of continuous deliberative involvement of the citizenry. Better institutions don't just improve our ability to achieve ends given by economic theory (as in the new growth theory). Deliberative decision-making institutions are the only means of adequately defining what the desired ends of development might be.[19]

Post-Sen, it is hard to resurrect either the anonymous aggregation of individual exchanges via the market or top-down technocratic analysis of needs as sufficient summaries of society's economic goals.[20] As long as development models assumed that preferences had to be taken as exogenous and avoided questions of social choice, a technocratic definition of the means for attaining a plausible end, which in practice meant growth in real incomes, made sense. Even though "getting preferences right" was logically prior to figuring out how to realize them, there was no way of even beginning to figure out what "right" might mean. Sen's elegant and persuasive argument that "right" means "arrived at through open public discussion" changes the nature of the argument. Figuring out concrete institutional mechanisms for instantiating "open and public discussion" becomes the central problem of development.

Just as the new growth theory turned technological change and idea creation into something that had to be dealt with inside economics (rather than left conveniently exogenous), the capability approach makes the process of collective preference formation irretrievably endogenous.[21] Not only do preferences become the endogenous results of institutional arrangements, but a particular type of institutional arrangements, namely those that promote public discussion and exchange is specified as the sine qua non of legitimate preference formation.

The capability approach shifts the focus to the institutions which facilitate choices of developmental goals. It puts the institutions of collective decision-making at the center of any economic theory of development, not just of social or political theories of development but of any economic theory of development. On reflection, this makes sense. Dani Rodrik (1999) comes to the same conclusion from a very different epistemological direction.[22] The ability of communities and societies to define their goals is certainly the most basic kind of institutional technology. Without it, the acquisition of other institutional techniques is unlikely to bear fruit. Accepting this basic fact ratchets up the level of challenge to those who would try to build on the institutional turn.

The Challenges of the Institutional Turn

One of the reasons ideologues and policymakers cling to capital fundamentalism is that its policy prescriptions are consistent with the existing global structure of economic power. The theoretical presumption that inputs of capital are the key to increased well-being is thoroughly congruent with the preferences of those who control capital. The institutional turn threatens this congruence. Its implications for policy are complex and often ambiguous. It draws attention to ways in which the interests of the powerful may conflict with those of ordinary citizens, particularly in poor countries. Of most immediate concern here, however, is another effect of the institutional turn. It challenges social scientists outside of economics, who have traditionally claimed to be institutionally oriented, to engage with the new perspectives coming out of economics and demonstrate how their own approaches can help resolve some of the complications created by the institutional turn.

The nature of the challenge will be illustrated here with three examples of issues raised by the institutional turn that I consider to be particularly crucial to the theory, policy, and politics of development. First, I will set out some disquieting extensions of the new growth theory: the implications of focusing on the economic power of ideas for global concentration of income and for the institutional preferences of those with major proprietary interests in ideas. Then I will discuss, equally briefly, pessimistic implications of North's "non-functionalist" vision of basic institutions for the evolution of economic governance. Finally, I will explore possible extensions of the capability approach that have implications for both inequality and governance.

Ideas and Inequality

The new growth theory brings the analysis of governance institutions to the core of even the most economistic analysis of growth. At the same time, it predicts an increasingly important role for a particular set of economic actors. These actors, who might be called (following Negroponte 1996) "bit-based" entrepreneurs, are corporations whose most important assets are "collections of bits rather than collections of atoms," which is to say ideas or images rather than machines or natural resources. Bit-based entrepreneurs have distinctive advantages and distinctive institutional preferences, both of which are potentially problematic.

The exciting possibilities for growth generated by increasing returns from ideas are epitomized by the expansion of bit-based economic empires. At the same time, when growth is bit-based the absence of an argument for the eventual predominance of diseconomies of scale leaves tendencies toward concentration of incomes and economic power unchecked by "market forces." Given that political power cannot really be insulated from economic power, this implies increasing political as well economic inequality.

Unhampered by the normal diseconomies of scale that flow from dependence on physical capital and consequently unconstrained by the U-shaped cost curves that are a major pillar of competitive equilibria, those whose primary assets take the form of ideas and images are in an enviable position. Bit-based entrepreneurs can enjoy increasing returns from even a single product for as long as the scope of the market continues to expand. The possibility of returns that increase indefinitely with the size of the market applies not just to "technology," like the program for MSDOS, but to ideas and images more generally—everything from the formula for Coca-Cola to the image of Mickey Mouse to the image of Michael Jordan dunking a basketball. "Network externalities" and what might be called "cultural externalities" magnify the effects of increasing returns.[23] The incentives to secure "first mover advantages" and "lock-in" are very large (cf. Williamson 1975, 1985; Arthur 1990, 1994). All of this magnifies possibilities for the concentration of income and power well beyond what they would be in an economy based on physical production of simple tangible goods.[24]

None of this negates the tremendous promise of growth based on the generation and exploitation of new ideas to improve the well-being of ordinary citizens in rich and poor countries alike.[25] Nor does it negate the fact that bit-based entrepreneurs should, in principle, have an interest in institutional contexts that foster the generation of ideas. What this perspective suggests, however, is that interests in the production of ideas are always accompanied by equally powerful interests in being able to appropriate returns from ideas. As current North-South struggles over intellectual property rights indicate, it is the South that is confronted by demands to strengthen the institutions of appropriability while suffering from the full effects of the inegalitarian distribution of existing property rights.

This analysis suggests that global extensions of Northern property rights protection are more likely to exacerbate current inequalities than to redress them and underlines the importance of building institutions capable of compensating for the inegalitarian downside of bit-based growth. Two kinds of institutional responses can be imagined. First, governance institutions capable of restraining the inegalitarian tendencies themselves might be constructed. Alternatively, inequality could be allowed to increase but attention directed toward means of compensating for the negative political, social, and economic effects of increased inequality. If, however, we move from desirability to likelihood, prediction of the trajectory of change in economic governance institutions must start with the probable agenda of bit-based entrepreneurs themselves.[26]

Even if the home country agendas of bit-based entrepreneurs include an interest in generating new ideas, their global institutional agendas must almost inevitably center on the problem of appropriating returns. Ideas are easier to steal than tangible assets. In addition, the extent to which information is "private property" is often ambiguous (e.g., the human genome). Bit-based entrepreneurs need political and legal structures that will maximize the difficulty of stealing ideas whose ownership has been established and facilitate the transformation of ideas that might be considered part of the "commons" into private property.

Markets which deal in bits must be regulated more intensely than any homogeneous commodity market; otherwise it is too easy for interlopers to threaten returns by copying the ideas or images.[27] From aggressive U.S. efforts to keep entrepreneurs in the South from pirating copies of Titanic or Windows to the court-ordered closure of Napster, the centrality of regulation to "free" markets has never been clearer than in the contemporary global economy.[28]

Developing institutions that will more effectively prevent the theft of ideas and images is the defensive half of the bit-based agenda. The expansive part of the agenda involves expanding the definition of what ideas and images can be privately owned. Transforming ideas previously considered part of the natural or cultural "commons" into private property is an obvious strategy for generating new assets and returns. The process is most dramatic when nature is transformed. Shared seed-stocks which have emerged out of millennia of experimentation by communities of anonymous agrarian producers are further transformed to make them private property. Or, in an even more extreme example, the name "basmati rice" is patented so that a particular entrepreneur can appropriate the returns from reputation for flavor. Like protecting established rights to intangible assets, effective transfer of ideas from the non-appropriable public sphere to the terrain of private appropriability requires a powerful, globally organized legal-administrative apparatus.

Bit-based entrepreneurs have preferences in the realm of norms, culture, and customs, as well as in the realm of legal-administrative apparatuses. Homogenization of consumption preferences across markets and world regions maximizes the extent of the market over which a given idea or image can reap returns. Given that the bulk of the market for most commodities is already located in rich countries, homogenization generally takes the form of trying to spread consumption patterns from rich countries.

The corporate strategies of demand creation that follow from this logic run directly counter to the deliberative model of preference formation advocated by Sen. No matter how carefully individuals reflect on their needs and preferences, they do so within a context of culture and information that is strongly shaped by bit-based "empires" like those of Coca-Cola and MTV.[29] These empires devote immense resources to constructing effective means of diffusing tastes and attributing value to patterns of consumption focused on the ideas and images that they control.

From the point of view of the citizens of the global South, homogenization involves a double loss. First, whatever preferences might emerge out of their own experiences and worldviews are unlikely to be validated by global messages which assign value to particular goods, services, and practices. Second, as Sen points out, "being relatively poor in a rich community can prevent a person from achieving certain elementary 'functionings' (such as taking part in the life of the community)" and may affect the "personal resources needed for the fulfillment of self-respect" (1999a: 71). To the degree that bit-based entrepreneurs succeed in diffusing rich country consumption standards throughout the globe, all but the most affluent citizens of the global South become "relatively poor in a rich community"—much poorer than they would be if they could arrive at consumption standards through open discussion and exchange based on their own experience and resources.

By focusing our attention on the institutional implications of the dominance of global, bit-based entrepreneurship, the institutional turn reveals a key set of challenges to development strategy and policy. This focus also makes it clear that questions of power and politics must take center stage in any response to these challenges. The centrality of questions of power is further reinforced by looking at the implications of Douglass North's version of the new institutionalism.

Inertia and Lock-in as Problems for Governance Institutions

The ambivalent consequences that flow from putting the economic role of ideas at the center of development theory are even more preoccupying when the ideas in question are embodied in basic governance institutions. Institutions depend on mutually shared expectations. Any set of shared expectations has a strong advantage over uncertainty about how other actors will behave. Bardhan (2001:276) summarizes the argument nicely, "there are increasing returns to adoption of a particular institutional form: the more it is adopted, the more it is attractive or convenient for others to conform on account of infrastructural and network externalities, learning and coordination effects and adaptive expectations."

All of this would be fine if there were compelling reasons to believe that the emergence of institutions followed a "functionalist" logic (i.e., that governance institutions could only come to predominate if they were more "efficient" in delivering overall welfare than competing possibilities). North, however, is explicit in rejecting the idea that some kind of automatic functionalist process guarantees the emergence of the most efficient institutional forms. The possibility of institutions that are disadvantageous to long-run development emerging for idiosyncratic reasons that have little to do with any kind of overall "efficiency" or "social return" and then getting "locked-in" (Arthur 1990, 1994) is all too plausible (Bardhan 1989, 2001; Pierson 1997).

Once institutions take hold, they are likely to endure even if they have a long-run negative effect on development, crowding out the possibility for the emergence of more efficacious institutions (cf. Grief 1994).[30] Getting out from under bad institutions is likely to be the most difficult part of trying to develop new ones. This is true even in the unlikely case that the returns from existing institutions are not biased in the sense of favoring one constituency over another. If existing institutions provide differential returns to some portion of society, which consequently has a special vested interest in their maintenance, then the problem gets worse. If that segment is also differentially powerful, which is highly likely if not axiomatic, the problem is even more intractable.

As Robinson (1997) points out, even growth-enhancing institutional transformations that would expand the potential revenues of politically dominant elites are likely to be rejected if such changes imply diminished relative political power. For example, landlords, whose status and political power in agrarian societies depend on their disproportionate control over the principal productive asset (land), are the most obvious illustration. Even if they are promised increased revenues based on the projection of increased productivity from more dispersion of control over agricultural production, this is unlikely to compensate for the likelihood of diminished political power (which must eventually threaten their ability to collect revenues, regardless of whatever guarantees they may be offered) (see Bardhan 2001: 278–79).

The Northian perspective highlights the centrality of the politics underlying effective institutions, both in the positive sense that effective governance institutions require deep political legitimacy and in the negative sense of vested interests creating powerful obstacles to generating the institutional frameworks necessary to enhance either productivity or well-being. The search for social agents and political processes with capacity to generate institutional change becomes even more central to developmental theory and the challenge of building on North begins to look surprisingly similar to the challenge of building on Sen.

Institutional Possibilities for Expanding Capabilities

If one of the institutional turn's contributions is to clarify the reasons why institutional change might move in directions that would frustrate development goals, its other function should be to generate new institutional "imaginaries" that expand our definitions of development. Sen's capability approach plays this role. He generates a vision of a counterfactual developmental politics by making a compelling case for the feasibility and necessity of authentic deliberative institutions that will allow choices about allocations and growth strategies to be "democratic" in the thick sense of messy and continuous deliberative involvement of the citizenry in the setting of economic priorities.

The question is, "How can we get from existing institutional configurations to something closer to the deliberative forms of economic governance that Sen proposes?" A full-fledged effort to build a plausible political path lies well beyond the scope of this paper, but some indication of the directions that such efforts might take is in order. I will indicate two. The first might be called "leveling the cultural playing field," the second "creating collective capacity for capability expansion."

The problem of tilt on the cultural playing field has already been discussed. As has been pointed out, the efforts of individuals and communities to make consumption choices consistent with "the kind of lives they value" (Sen 1999a: 18) take place on a culturally tilted playing field, one on which bit-based corporate empires devote immense resources and skill to reshaping preferences. Diversification of sources of information and images should be considered a major public good. Supporting the expansion of opportunities for public discussion and interchange is an equally important investment in leveling the cultural playing field. Both would enhance people's ability to "choose the life that they have reason to value." Currently, the resources and institutional support devoted to this kind of leveling are paltry and unsystematic. Even our theories of what would constitute a level playing field are underdeveloped. Most culturally oriented analysis of development simply combines denunciation of the power of the existing global cultural apparatus (both public and private) with celebration of "local" or "indigenous" culture (cf. Escobar 1995). Plausible institutional strategies that would level the cultural playing field for the bulk of the citizens of the global South who live in market-dominated urban settings are missing.

The importance of enlarging collective capacity for capability expansion is equally obvious. Gaining the freedom to do the things that we have reason to value is rarely something we can accomplish as individuals. Instantiating the social choice exercise that Sen advocates depends on public policy that explicitly acknowledges the importance of collective action. It requires public mores that legitimate contestation and collective struggles. It depends on organizations that transcend primordial and parochial interests. Without organized collectivities—unions, political parties, village councils, women's groups etc.—democracy is too easily hollowed out and the "social capital" created in families and communities too easily turns parochial and exclusionary.

There is, of course, a huge and variegated literature on the development of collective capacities. One strand focuses on collective decision-making at the level of organizations and small communities: studies of participation (e.g., Korten 1980; Uphoff et al.1979; Uphoff 1986, 1992) and collective action (e.g., Ostrom 1990, 1995).[31] A separate but reinforcing strand is the burgeoning literature on "social capital" (e.g., Evans 1996; Putnam 1993, 2000; Woolcock 1997). Perhaps the most intriguing class of institutional forms goes under the rubric of "deliberative democracy," based on a Sen-like premise that collective decision-making can be a process of "joint planning, problem-solving and strategizing" involving ordinary citizens, in which "strategies and solutions will be articulated and forged through deliberation and planning with other participants" (Fung and Wright 2003: 20).[32]

The very size and scope of this variegated literature might be considered an encouraging indicator. Even global development institutions, particularly the World Bank (cf. McNeil 2002), have become intrigued with these ideas, generating an expansive set of empirical work demonstrating the efficacy of both social capital and "participation" at the level of development projects.[33] Kanbur and Squire (2001: 215), for example, argue that "Development practitioners have come to a consensus that participation by the intended beneficiaries improves project performance."[34]

By arguing that choices based on genuine public discussion and interchange are not only feasible but essential to development, Sen sets new goals. Realizing those goals requires finding plausible means of overcoming the obstacles to institutional transformation that are laid out so persuasively in the Northian perspective. There are promising leads to build on but the bulk of the job remains to be done.

Building on the Institutional Turn

The institutional turn has taken a firm hold on the future course of development theory. Accumulating capital will remain a key element in economic growth, but the politics of institutional change have become the new point of departure for development theory. Theories of how to build institutions capable of tying the allocation of resources and the organization of production to real "public discussion and interchange" among ordinary citizens are at the heart of the constructive agenda. What makes this constructive agenda challenging is that it contradicts both the current character of economic governance and the likely preferences of the powerful.

The implications of the theories that gave us the institutional turn are fully consistent with observed empirical trends in the contemporary course of development as "globalization." Given the context of existing institutions of economic governance, the new growth theory predicts exactly the kind of increases in inequality, between regions and within countries, that we observe. A Northian nonfunctionalist institutionalism underlines the difficulty of moving beyond the existing matrix of governance to one that would be consistent with either egalitarian growth strategies or the deliberative politics of the capability approach. By arguing that genuine choices based on public interchange and discussion are theoretically feasible and essential to development, the capability approach sets new goals, but does not explicate means of overcoming the Northian obstacles that stand in the way.

This brings us back, finally, to the question of "interdisciplinary opportunities" which has so far been left implicit in the discussion. All of the intellectual developments discussed here have originated within the discipline of economics. Yet the analytical tools and disciplinary presumptions of economics provide little "comparative advantage" in exploring their implications and responding to the challenges that they present. Responding to these challenges demands expertise in the analysis of social organization and culture, the traditional purview of sociologists. Issues of politics, power, and governance, the core expertise of political scientists, are even more central.

Sociologists, political scientists, historians, and others who have fancied themselves spokespersons for institutional approaches to development can no longer hide behind the excuse that the intellectual dominance of economic theories built on atomistic individuals and self-regulating markets leaves other disciplines no viable theoretical space for the exposition of their ideas. Nor can economists interested in institutional analysis claim that marginalization within their discipline hampers their participation in debates on development theory.

Complaints that the sphere of politics and policy continues to be dominated by outmoded theories are still legitimate. Indeed, this is what we would expect given the congruence of those theories with the preferences of the powerful. Nonetheless, such complaints are no excuse for failure to exploit the theoretical space that the institutional turn has made available. Creative advances at the core of the economic analysis of development have created that space by coming up with formulations that are both more theoretically sophisticated and better grounded empirically. Hopefully such efforts will continue apace, but an equally creative complementary response from other disciplines and perspectives is essential.

Notes

1. Among the important strands of institutionalist thinking that are neglected are organizational and informational approaches (e.g., Stiglitz) and transaction cost approaches (e.g., Williamson). Also neglected is the range of alternative approaches which have been important sources of insights for a long time but never succeeded in generating a "turn" within the economics discipline as a whole—most obviously Marxist, feminist and ecological approaches.

2. For further analysis of some implications for politics and governance policies, see Evans 2003, 2004.

3. See King and Levine, 1994; Easterly 2001a: chap. 3.

4. See Easterly 2001a: 47–53 for a nice summary of what he calls "Solow's surprise."

5. Among the various efforts to defend the idea that capital accumulation is the key to growth, see Jorgenson et al. 1987; DeLong and Summers 1993; Kim and Lau 1994, 1995; Young 1995.

6. King and Levine (1994:286) conclude, "there is little support for the view that capital fundamentalism should guide our research agenda and policy advice. . . . international differences in capital-per-person explain little of the differences in output per person across countries; and growth in capital stocks accounts for little of output growth across countries. Moreover while the ratio of investment to GDP is

strongly and robustly associated with economic growth, there is little reason to believe that this constitutes evidence that increasing investment will cause faster growth. Indeed, recent results indicate the opposite: economic growth Granger-causes investment and savings, not the other way around." Blomstrom, et al. 1996 conclude that "formal and informal tests using only fixed investment ratios as independent variables give evidence that economic growth precedes capital formation, but no evidence that capital formation precedes growth. Thus, causality seems to run in only one direction, from economic growth to capital formation." Barro 1997 agrees as do Lin and Lee 1999. Easterly's (2001a:40) reading of the evidence is that increases in capital accumulation are neither necessary nor sufficient to account for high rates of growth.

7. Chang and Evans (2000:1) offer the following generic definition: "Institutions are systematic patterns of shared expectations, taken-for-granted assumptions, accepted norms and routines of interaction that have robust effects on shaping the motivations and behavior of sets of interconnected social actors."

8. For a review of some other "institutionalisms" within and outside of economics see Hodgson 1988.

9. Again, Hoff and Stiglitz (2001:396) capture the spirit of the transformation involved, when they assert that in "modern economic theory," "the 'deep' fundamentals of neo-classical theory—preferences and technology—are themselves endogenous."

10. See Romer 1986, 1990, 1993a, b, 1994 and Lucas 1988. For recent summaries see Aghion and Howitt 1999 or Easterly 2001a: chap. 3, 8, 9.

11. It still remains important not to extrapolate from the potential for growth generated by the non-rival character of ideas to an assumption of overall increasing returns to capital (broadly defined). As Solow's critique of early endogenous growth modes (1994) points out, in a model in which output is a function of the overall stock of capital and net investment is a roughly constant fraction of output, any departures from the assumption of constant returns to capital produces widely divergent and implausible predictions, making such models "very-unrobust."

12. For a recent analysis of the impressive persistence of the North-South income gap, see Arrighi et al. 2003.

13. Thus, for example, opening up the possibility of Barro (1991) using the rate of assassinations as a variable in a growth equation without fear of being accused of becoming a political scientist.

14. See, among many other earlier efforts, Streeten (1994). See also Stewart and Deneulin (forthcoming) for a comparison of the capability approach with various other efforts to "dethrone GNP."

15. For summaries of the social choice side of Sen's work, see Sen 1995, 1999a, b.

16. For a cogent statement of this point of view, see Srinivasan 1994.

17. The capability position doesn't deny the benefits of income growth. Wealth and income are, as Sen puts it (1999a: 14), "admirably general-purpose means for having more freedom to lead the kind of lives we have reason to value." At the same time, single-minded focus on income growth at the societal level may create trade-offs in which the opportunities of the majority of the population to develop a range of capabilities suffer. In highly unequal societies where growth of GNP primarily reflects the growth of incomes of the richest 20 percent and elites are hostile to public

investment in collective goods like health and education, the translation of increased national income into other things that people "have reason to value" cannot be taken for granted. Brazil has focused (quite successfully) on income growth for the past half century, but poor parents whose greatest goal is keeping their infants alive are still better off living in Kerala than in Brazil (cf. Sen, 1999a: 21–24, 43–49).

18. The prerequisite for these arguments was Sen's ability to move beyond Arrow's (1951, 1963) elegant "impossibility theorems" by showing that even modest additions to the informational base on which social choices are made, for example, even partial interpersonal comparisons of utility, are sufficient to make social choice feasible.

19. The exercise of making social choices is also in itself an opportunity to exercise one of the most important of all capabilities, the capability of making choices. As Sen puts it (1999a:291), "processes of participation have to be understood as constitutive parts of the *ends* of development in themselves."

20. This is not to argue that bureaucracies and markets are irrelevant. Each plays a large role in providing the informational base on which the "social choice exercise" required by the capability approach depends.

21. Sen is, of course, hardly alone in abandoning exogenous preferences. See Hoff and Stiglitz (2001: 396). See also Bowles 1985 for an interesting development of the idea of endogenous preferences.

22. Rodrik argues (1999: 19) that we should "think of participatory political institutions as meta-institutions that elicit and aggregate local knowledge and thereby help build better institutions."

23. Once the number of my friends using MS Word passes a certain point, I have to start using it, too, in order to communicate with them, even if my individual assessment is that it is an inferior product. Bill Gates's returns grow accordingly. Likewise, once enough of my friends decide that *Slate* has the most interesting slant on the news, my views are less valued unless I can place them in relation to the Slate position—whether or not I value that position individually.

24. The examples used here are obviously "ideal typical." The importance of "bit-based" assets extends well beyond "pure cases" like Mickey Mouse and Windows. Most corporations are partially bit-based. Purely "atom-based" commodities (e.g., steel, cotton, soap, or cloth) are increasingly the exception rather than the rule in the modern economy. A wide range of manufactured goods (e.g., Kleenex, Nike shoes) depend on associated images for their profitability and this is even more true of services—whether production or consumption oriented. Thus, the preferences of "bit-based entrepreneurs" play an ever growing role in defining economic rationality.

25. See Easterly (2001a:173–75) for some nice examples.

26. For a more general analysis of the institutional implications of bit-based entrepreneurship, see Varian and Shapiro 1998 and Newman 2002.

27. Goods whose value is based primarily on physical transformation rather than on ideas, the rearrangement of atoms rather than bits can, of course, also be copied. But the potential gains diminish in proportion to the value of the idea content. Unlike pirated copies of Windows, "pirated copies" of a Ford sedan are likely to cost more to produce than the originals.

28. In the conventional political optic, the idea of "free" trade automatically includes intellectual property rights as part of the assumption that "free" obviously

applies only to "legal" trade, but as recent controversies over the inviolability of patent rights in relation to AIDS drugs indicate, definitions of legality are constructions that are always in the process of being reconstructed. Conversely, trade in goods whose production violate labor or environmental law could also be considered trade in "illegal" goods.

29. Cf. Sen (1999: 240), who notes that "The sun does not set on the empire of Coca-Cola or MTV."

30. To the degree that it is possible to imagine that a substantial component of the "institutional framework" governing individual societies are actually generated at the global level (as in John Meyer's 1987 vision of a world dominated by "western scripts") the problem becomes even more difficult. As long as governance institutions inhered in individual societies, it was possible to tell stories in which pressure toward increased institutional "fitness" was generated by Darwinian competition among societies. To the degree that the growing importance of global economic governance rules and institutions compels participants in the globalized political economy to conform to a pattern of "institutional monocropping"—at least as far as major economic and political rules are concerned—the diversity of institutional frames required for selection disappears, heightening North's original skepticism regarding connections between institutional survival and "fitness" (cf. Evans forthcoming; 2003).

31. This work also connects, of course, to work that is not usually considered part of the "development" literature such as work on secondary associations (e.g., Cohen and Rogers 1995) and work on social movements and mobilization (e.g., McAdam et al. 2001).

32. Fung and Wright call it "empowered participatory governance." For other discussions of how "deliberative democracy" might work see Benhabib 1996; Bohman & Rehg 1997; Elster 1998; Gutman and Thompson 1996; Mansbridge 1990.

33. Within this genre, Deepa Narayan's (1994, 2000) work is some of the most compelling.

34. The shift should not be overstated. "Participation" in projects and "ownership" of loans involves limited possibilities for the exercise of choice. The question of how much real "empowerment" is generated remains (cf. Houtzager and Moore 2003). Receptivity among global policy makers is far from universal, as the rejection of the draft version of the 2000–2001 World Development Report, in part on the grounds that it excessively foregrounded the idea of empowerment, illustrates (Wade 2001a, b).

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