INSTITUTIONS, DEVELOPMENT, AND GLOBAL INTEGRATION: A THEORETICAL CONTRIBUTION

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ABSTRACT

The paper focuses on the concept of institutions and their relationship with development in developing countries, especially in sub-Saharan Africa, in order to understand their specific responses to economic reform and divergent performances vis-à-vis other developing countries. While the concept of institutions has been increasingly used in the literature it has lacked explanatory power, with institutions often being reduced to variables in econometric models. The paper aims at refining the concept in order to highlight the limits of the mainstream conceptual framework and the economic reforms usually demanded by the multilateral financial institutions, which did not improve the problematic situation of African States and their integration into the global economy. The first part of the paper critically reviews the concept of institutions and its uses by the development agencies. The second part proposes an alternative theoretical framework, which clarifies their nature and transformation, distinguishes different dimensions and levels of institutions and analyses them in terms of their composition with other existing institutions. The third part analyses the different dimensions that link the concept of institutions to political economy issues, particularly through the concepts of State credibility, legitimacy, and the developmental State. The fourth and final part focuses on the effects of globalisation.

INTRODUCTION

In the development economics literature, the relationship between institutions and development is a subject of growing interest, in academia as well as in international financial institutions[1]. However, theoretical analyses, as well as the reforms prescribed by multilateral financial agencies, generally rely on neoclassical economic foundations that greatly limit the understanding of institutional transformation in developing countries, particularly in Sub-Saharan Africa. Firstly, this paper presents a series of criticisms of the mainstream approach of the relationship between institutions and economic development. They stem from internal conceptual flaws, institutions being frequently presented as an adjunct to economic processes and often reduced to their formal existence and discrete variables in growth models and cross-country regressions. Secondly, the paper introduces the elements of a theory of institutions in relation to development that gives a more accurate account of their actual transformation in developing countries, especially in Sub-Saharan Africa, as well as the recurrent failure of the reforms demanded by international financial institutions. Institutions are complex phenomena, the content and form of which must be distinguished. They are path-dependent, interact with

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[1] A preliminary version of this paper has been presented at the African Studies Association Annual Meeting, Houston, 15-18 November 2001.

each other, and their meaning and function cannot be understood independently from the existence of other institutions with which they "compose". Rather than static ex ante entities, institutions should be apprehended in the perspective of their "composition" with other existing institutions in a given setting. One is dealing here with permanent processes of transformation, the singular outcomes of which emerge only ex post. Moreover, institutions are always shaped by the power relationships that stem from the local political economy, which are ignored in the neoclassical approach of institutions and its pivotal concepts of property rights and transaction costs, or reduced to rent-seeking or interest groups competing on political markets.

Section 1 looks critically at conceptual issues, and discusses the evolution of the concept of institutions in mainstream theory and international financial agencies. It questions the often simplistic usage of institutions, for instance their recurrent use as causal variables in econometric growth equations. Section 2 presents an approach of institutions in terms of "composition of institutions", which attempts to overcome the pitfalls of neoclassical institutional theory, for instance the usual formal-informal duality of institutions. It attempts to refine their different possible dimensions, in particular their form, content, and dynamic nature. Section 3 highlights the centrality of political economy in the construction and transformation of institutions, in particular the role of the State and politics. In contrast with the depoliticized framework of neoclassical institutional analysis, the section stresses the concept of legitimacy as an essential dimension of the resilience of institutions. Asian developmental States show that there is no ex ante and intrinsic developmental outcome that is attached to a specific type of institution. Economic and developmental performances resulted from particular modes of composition between institutions - as well as between institutions, on the one hand, and domestic and international political interests and economic forces, on the other -, which may disintegrate with changing conditions or be rendered unproductive. Section 4 concludes in considering the effects of globalisation on institutions, which in developing countries puts them under stronger constraints of recomposition, and impinges on credibility, fiscal capacity, and social policies, e.g. State capacities.

I. INSTITUTIONS AND DEVELOPMENT: ANALYTICAL ISSUES

Some evolutions of the concept of institutions in mainstream economics

As is well-known, the narrow general equilibrium version of neoclassical economics does not provide a theoretical basis for institutions. Markets are seen as exchanges that arise out of the spontaneous interaction of self-seeking individuals. Goods traded in every market are assumed to be homogenous, so that prices provide the only information needed to make decisions on production and purchasing. No individual possesses sufficient market power to affect the market price. Markets must exist for all goods and services - for now and in the future - so that individuals can make completely informed rational decisions based on perfect information. Only a Walrasian auctioneer is required for the economy to reach Pareto optimality. In less extreme versions, property rights are exchanged and money is needed as a means of payment, which leads to the minimalist recognition of institutions and the State. The theory of property rights[2] emphasized that private property rights were central to economic efficiency, such as individual rights to use, sell and transform property. Individuals must be free to enter contracts, which must be enforced through some external guarantor like the State. In addition, while monetary institutions have not been adequately explained in a general equilibrium framework - reasons for holding money require an assumption about uncertainty -, there is some recognition that money is needed as a means of

[2] Which emerged in the 1960s with the studies of Alchian (1965) and Demsetz (1964).

payment (Hodgson 1992). This then sets preconditions for a monetary institution like a central bank, which, like the guarantor for property rights, is to be independent and neutral.

At the macroeconomic level institutions result from the presence of market imperfections and are designed to correct them, more or less successfully: examples are unemployment insurance, regulations of firm governance, legal structures, and so on. Their existence plays an essential role in explaining particular economic performances: for example, the legal structures, or corporate governance institutions, are generally viewed as key factors in explaining the differences in the economic performances of Central and Eastern European countries in transition, or in the effects of the crisis of 1997-98 on the exchange rates of Asian countries (Blanchard 2000: 39).

At the microeconomic level institutions became important analytical objects, which were explained through the key concepts of property rights and transaction costs that account for the existence of firms[3]. Distribution of wealth does not matter here and if property rights are well-defined, outcomes will be Pareto efficient[4]. As Douglass North has explicated, institutions are constraints that structure political, economic, and social interactions. They consist of informal - i.e., self-enforcing - constraints (sanctions, taboos, customs, traditions, codes of conduct) and formal regulations (constitutions, laws, property rights). Institutions take the form of regulations as well as ethical and behavioural norms, and their major role is to reduce uncertainty by "establishing a stable (but not necessarily efficient) structure to human interaction" (North 1990: 6). Defined as "rules of the game" shaping the incentives of the players as to how to transact, institutions have thus been widely analysed in game-theoretic perspectives, focusing on notions of enforceability in terms of Nash-equilibrium, shared beliefs, and contracts[5]. There have been several theoretical proposals that deviated from the neoclassical framework, particularly the hypotheses of rationality, such as the reflections on conventions or evolutionary theories of economic change, which placed in the forefront concepts like cognitive routines, technological innovation and learning[6].

The economics of asymmetries of information, with the notions of market failure, have justified the role of the State and institutions as fully accepted objects within mainstream theory. In the world of policymaking vis-à-vis the developing countries - and especially the Bretton Woods institutions - this integration of the State and institutions into the mainstream theory underlying the framework of their reforms - the so-called "Washington consensus" - gave rise to an "expanded" version. Beyond the series of the usual prescribed policies (e.g. fiscal discipline, liberalization, secure property rights), States and institutions are here necessary to the provision of public goods - and supra-State institutions to the provision of global public goods - such as macroeconomic stability, as well as to effective and accountable legal, regulatory, and political institutions[7].

The role of institutions has also become prominent with the rise of the political economy of development. This field of research has burgeoned in the last decade and elaborated a variety of models of interaction between economic outcomes and governmental structures and policies. Among recurring topics, the research examines, e.g., the economic consequences of autocracies, democracies or oligarchic regimes, the role of interest groups, the effects of partisan politics and of the design of specific institutions - such as parliaments - and their various relationships with

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[3] Major studies being the seminal paper by Ronald Coase (1937) on the nature of the firm, followed by the work of Douglass North.
[4] As critiqued by Stiglitz (2000).
[5] A detailed synthesis of these perspective is in Aoki (2001).
[6] As developed by Richard R. Nelson and Sidney G. Winter; Nelson and Winter (1982). For a recent assessment, see Nelson and Winter (2002).
[7] The canonical works being here those of Joseph Stiglitz. After the expression "Washington consensus" was coined by Williamson (1990), Joseph Stiglitz and Dani Rodrik developed the "post", "augmented", or "expanded" Washington consensus.

the executive. The effects of political cycles on economic growth[8], as well as the links of economic institutions with political power - e.g. the independence of central banks -, the political feasibility of reforms[9] and their appropriate timing and sequencing, and the problems of time-consistency, are classic issues in this political economy literature. The latter, however, has remained a sub-field of economics - of mainstream economics, to be precise – and is based on methodological individualism and the representative agent[10]. It borrows certain ideas from political science more so than it does the latter's questions and methods (such as case studies); political science, for its part, has at the same time become increasingly influenced by the rational choice framework. The choice of models as preferred analytical tools heavily constrains the conceptualisation of States and institutions. In mainstream political macroeconomics institutions are often apprehended in an elementary way, even if the models have become very complex[11]. Markets are still the outcome of individual voluntary exchanges, institutions exist to support them and to correct market failure, and governments design policies aimed at protecting their interests and rents. These views have permeated the work of development agencies[12].

The consensual approach of institutions in development agencies

One of the specific features of development economics – a feature which is less strategic in other branches of economics - is its permanent exchanges with international financial institutions - multilateral or bilateral aid agencies -, which act as producers of concepts. More than other sub-fields it is both simultaneously and ambiguously positive and normative (Banerjee 2002: 2). Concepts of development theory circulate - with the help of financial inducements - between the academic world and these donor agencies, which give them additional visibility and validity. The concept of institution - in addition to concepts such as poverty, social capital and others - is one of these. These concepts are intrinsically ambiguous, as they simultaneously belong to the theoretical and operational spheres, and hence the political domain[13].

In the 1980s, institutions thus entered the field of development mainly via the theoretical prism of neoclassical economics, as opposed to the non-neoclassical tradition of institutional economics[14]. An increasing number of econometric studies, associated with the construction of ad hoc databases stemming from the new growth theory, have added institutional variables to the usual factors of growth - capital, labour, total factor productivity, or technological progress. Interest in institutions has been given additional impetus through empirical testing. Simultaneously, institutions have become widely used concepts in donor agencies for both political and operational reasons, in particular through the notions of "bad governance" and the "rediscovery" of corruption. These institutional defects became the main reasons for the failure of the reforms that had been prescribed by the international financial organizations - as well as

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[8] One reference is Alesina et al. (1997).

[9] All possible variations can be considered in regard to the influence of interest groups on government policies, e.g. wars of attrition, preference for status quo, and so on; see, among others, Fernandez and Rodrik (1991).

[10] One well-known example being the median-voter theorem.

[11] The literature is now enormous: syntheses are provided, among others, by Drazen (2000), Persson and Tabellini (2000), Alesina (1998), Bourguignon and Verdier (2000).

[12] For instance the World Bank. As the 2001 World Development Report on institutions and development stated: "voluntary exchange is needed to develop markets that deliver growth, provide individuals with opportunity and reduce poverty. Such market exchanges needs to be supported by a wide variety of institutions…Why might integrated and well functioning markets fail to develop ? Transaction costs play a key role. …Such costs of business transactions relate to inadequate information, incomplete definition of rights on income and assets and enforcement of these rights. They also are imposed by inadequate competition" (World Bank 2001: 1-2).

[13] Sindzingre (2002a) on the concept of poverty, and (2002b) on the contribution of international financial institutions to the production of "truths" in development economics; on the political economy use of the concept of social capital, see Fine (2001).

[14] E. g. Thorstein Veblen or Karl Polanyi.

the issues over which additional conditionalities were attached -, thus allocating the responsibility of failures to the developing countries and not to the reforms - although it is now widely recognized that financial liberalization reforms have been the key factors in a significant number of crises[15].

For developing countries, institutions are now mostly analysed in terms of their contribution to growth: growth enhancing or diminishing. Likewise, the global crises of the 1990s are often described as resulting from the "weakness" of legal, regulatory and financial institutions. Analyses focus not only on the actions of governments but also on the behaviour of firms and private agents, and on issues of corporate governance, e.g., the rules governing the relationship between managers and shareholders, which thus extends the pervasive notion of governance, that itself was previously used to examine economic reforms and their associated conditionality. The analysis of institutions is also linked to the paradigm of poverty reduction, which, at the end of the 1990s, had been established as the basis of action and legitimacy by all aid agencies (Sindzingre 2002a). A consensus has developed that builds around a series of causalities and shapes a political economy now widely shared by both academics and financial institutions. For instance, one of the characteristics of the poor is that they are hurt and excluded from markets and that development is hindered by ineffective institutions - opaque laws, corrupt courts, biased credit systems, and so on. Institutions are needed to make markets work and this constitutes a major mechanism for poverty reduction (World Bank 2001).

Institutions, economic reform and endogenous processes

According to this new consensus, economic reforms fail not because they may be inappropriate but because developing States are often weak: they are either subjected to the pressures of particular groups and of populist demands or are "captured" by certain groups within the ruling elite[16]. Vested interests, lobbies, and other "cronies" resist reform efforts in order to maintain access to rents. Hence a strong emphasis is placed on the building or reform of legal systems, while at the same time altering inefficient rent-creating regulations and State organizations (Johnson and Shleifer 2001). These reforms are presented as welfare and equity enhancing, through the dismantling of local institutions that allow small groups to siphon off public resources: e. g. marketing boards, State-owned enterprises, capital-intensive projects (Tanzi and Davoodi 1997), crony financial firms borrowing on international markets (Wei and Wu 2001) or speculating on short-term capital flows, and protectionist barriers. In the "post-Washington consensus" framework, economic reforms are considered to favour development and to be beneficial for the majority when they weaken traditional institutions that perpetuate social discrimination, inequality, arbitrary power, and, in this sense, are anti-developmental (Stiglitz 1998).

The underlying model of the political economy of reform uses as a main analytical framework the distinction between "winners" and "losers". There is an awareness that reform, e.g., liberalization, generates "losers" and "winners". For instance, liberalization reforms not only create losers within countries but have extensive consequences for trading partners (Obstfeld and Taylor 2001: 1). However, the costs of adjustment are postulated to be ephemeral and necessarily leading to a more efficient allocation of resources. Markets and prices are supposed to adjust in the medium term. This simplistic dichotomy divides social groups as if they constituted distinct and exclusive categories, which is unrealistic, especially in developing countries, where the coexistence of multiple types of allegiances, both traditional and modern, is

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[15] This is shown by Chang et al. (2001) on the case of the Korean crisis of 1997-98; a study of 53 countries found that 78% that had been affected by banking crises between 1980 and 1995 were associated with financial liberalization periods (Demirguc-Kunt and Detragiache 1999).

[16] Among many others, see Williamson (1994) on populist policies and Bates and Krueger (1993) on State-capture; a discussion focused on the effects on inflation is in Desai et al. (2002).

quite common. Even within the World Bank, there have been debates highlighting the disagreements on the acceptable size of groups, and the time frame and duration of the negative consequences of reform (Kanbur 2000).

The design of economic reforms in developing countries, especially in the poorer ones whose bargaining power and capacities are weak, did not incorporate an understanding of the operation of local institutions and institutional change. This contributed at times to the reforms' erosion. In Sub-Saharan Africa, for example, many civil service reforms of the "first generation" of the IMF's financial stabilization programs were aimed at downsizing staff size and wage expenditures (Lienert and Modi 1997). Fiscal crises combined with investment and operating expenditure cuts, however, accelerated the dereliction and loss of credibility of public institutions, especially the judiciary, customs, and internal revenue administrations. In the 1990s, the Bretton Woods institutions recognized that public expenditure contraction had seriously undermined the already problematic operational capacity of African States[17].

While in theory the second generation of civil service reforms has focused on improving incentives and upgrading skills (Lienert 1998), in practice it has relied on simple notions of institutional reorganization, such as creating "enclave" administrations financed and managed by donors who are caught in the dilemma of prescribing local "ownership" - an oxymoron - and disbursing their funds rapidly. Given the priority the International Monetary Fund accords to financial stabilization and capacity to service the debt, "capacity building" has frequently focused mostly on financial administration and amounts to financing foreign technical assistance. Reforms focused on technical solutions failed to understand the political economy issues, i.e. the shifting of rents and political influence that can arise in the wake of liberalization[18]. Moreover, for geopolitical motives international financial institutions have continued to lend money to regimes with little regard as to whether they have met the former's conditionalities[19] - e. g. fiscal deficit reductions. Irrespective of the validity of their reforms, this has eroded their credibility and efforts at building institutions in developing countries - e. g,. judicial courts, investment agencies, and so on.

One dimension of the failure of many economic reforms in Sub-Saharan Africa stems from their exogenous origins. Institutional change is by nature an endogenous process involving legitimate institutions[20]. Institutions are most often built with multiple external elements and exogenous forces in a permanent process of borrowing and absorption of institutions, in part or in whole (e.g., democratic elections, labour institutions, religious establishments such as churches). They may be imposed by force - e.g., by external colonizers, lender conditionality or domestic government - but their particular arrangements, credibility, degree of acceptance, and rhythms of development are endogenous and the outcomes of history. In this sense, institutions are simultaneously the products of historical processes and the flexible, unpredictable, and contemporaneous adoption of elements of institutions, often from neighbours[21].

Institutions and economic performance: the limits of quantitative approaches

The weakness of the neoclassical approach to institutions becomes apparent when they are used as explanatory variables in cross-country regressions aimed at understanding variations in

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[17] For instance, within the Fund, Tanzi (2000a), or Dia (1994) at the World Bank.

[18] This has been the case of many reforms equating "institution building" with the computerization of revenue collection. Stein et al. (2001) for the case of liberalization in Nigeria.

[19] For instance, in Kenya, the Bretton Woods institutions gave 19 adjustment loans between 1979 and 1996, or in Côte d'Ivoire, 18 loans between 1980 and 1994, or in Pakistan, 22 loans between 1970 and 1997, and again in 2001 after Pakistan joined the US anti-terror campaign (Easterly 2001a: 108).

[20] Sperber (1985) for a cognitivist perspective, Aoki (2001) for a game theoretic explanation.

[21] This is one of the issues of economic geography - the growth rate of neighboring countries being one of the best predictor of a particular country growth.

growth rates. Institutional and political dimensions are here only additional variables to growth models that have already included physical capital, human capital, and technological progress, but have been unable to explain the poor performance of some regions - econometric testing giving often inconsistent and weak results[22], partly due to poor statistics, bad econometrics and problems in specifying measurable proxies for largely pertinent but immeasurable variables. However, the whole exercise is flawed for theoretical reasons. Firstly, most of the econometrics has been aimed at verification, not falsification, "proving that the evidence does not contradict the theory, rather than the evidence proves the theory" (Kenny and Williams 2000: 10). This arises from a more general problem with the axiomatic approach of neoclassical economics. Neoclassical economics has a core set of propositions that are not altered in the face of counter evidence. Some have explained this in terms of I. Lakatos' work on the methodology of scientific research programmes, which consists of a hard core of irrefutable propositions, positive heuristics which provide instructions on tools and questions, and finally a protective belt of theories, empirical conventions and auxiliary hypotheses[23]. Hard core propositions are that agents optimise, have preferences and act independently. Institutions and their empirical proxies play a role as auxiliary hypotheses, positive heuristics focus on how institutions can improve the operation of markets by reducing opportunism and lowering transaction costs and a protective belt of empirical observations is given by a loose use of proxies[24].

The underlying conception of institutions allowing for such proxies is simple and equates the existence of formal institutions - e. g., parliaments, courts, elections, public services, etc. (as, e.g., units in a database) -, with the internalisation of these institutions in the reasoning of individuals - e.g., elections being equated with democracy. It also supposes that the meaning and relevance of a particular institution is fixed regardless of historical trajectories and change, and that they are identical for all the inhabitants of a given country (but strangely stopping at its borders), regardless of their social and individual characteristics. These econometric studies consider institutions as discrete, autonomous and separable categories - "rule of law", "political stability", "accountability", "civil rights", "ethnic conflicts", and so on. Hence, they can enter in causal relationships with other discrete quantities to which they are supposed to be similar, such as growth, investment, and so on, resulting in causalities of the type: "the rule of law has a positive relationship with investment", etc. However, institutions are multidimensional processes, sometimes "discretisable", sometimes not, and they are not the quantifiable entities that constitute the usual objects of economics. This is aggravated by the use of proxies that may have only very indirect relations with the institutions they are supposed to represent, e.g., number of parties, elections, newspapers as proxies of democracy and so on.

Secondly, quantitative approaches suffer from epistemological universalism which implies that all economies are comparable and affected by the same laws regardless of time or space[25]. This interpretation has allowed large scale cross-country regressions that assume a global common system of causal relationships. However, institutional processes are indeterminate: changes in conditions can lead to unpredictable behavioural responses. Changes in policies in one situation that might improve growth may do the very opposite in other cases. Import liberalization might increase the competitiveness of a manufacturing sector equipped with financial accessibility, technological capacity, and market opportunities abroad, but permanently destroy the manufacturing base of an economy which does not have these capacities (Stein 1992).

This raises the general problem of institutional endogeneity. Institutions may be considered not as causes, but as outcomes, painfully and endogenously built up over time. The lack of in-depth

[22] Kenny and Williams (2001) provide an excellent literature review.

[23] For example, Weintraub (1985) has interpreted general equilibrium theory in these terms.

[24] Such as Clague et al. (1997) on usage of International Country Risk Guide data as proxies for property rights security which are linked to higher per capita growth rates in their econometric equations; reviews of the flaws of the use of institutions in growth equations are in Temple (1999), Aron (2000), and Kenny and Williams (2000).

[25] Kenny and Williams (2001: 14).

theory of institutions and of their mutual relationships, their links with economic behaviour and State formation - which is clearly an ambitious task - leads to a permanent problem of levels of reasoning, from the individual to more aggregate levels and vice-versa. It also makes the determination of the relevant causalities difficult: e.g., is democracy conducive to growth or growth conducive to democracy? How does one link factors that are influenced by each other or influenced by other variables, such as human capital, level of income, accountability, democratic elections, property rights, rule of law, independent judiciary or regulated financial institutions, and so on. For instance, with econometric methods, the relationship between political regimes and average rates of economic growth is inconclusive, although political stability seems important. "Institutions clearly matter" but no particular institution (Przeworski et al. 2000).

II. FORMS AND CONTENTS: INSTITUTIONS AS A PROCESS OF COMPOSITION

Formality, norms, and development

Mainstream institutional economics recognizes the indeterminacy of many of its concepts in terms of economic outcomes. This is the case with the ambiguous dichotomy of formal/informal institutions. A general problem is that distinctions of institutions based on the degree of formality are ad hoc explanations. As in labour markets, differences between the formal and informal constitute a continuum of activities rather than a duality of polar opposites. The problem of "local" ownership, or internalisation of institutions by individuals, is often analysed by institutional economics through this distinction, albeit admitting its weak explanatory capacity. It is erroneous to oppose formal rules and institutions and informal ones, as if the "informal" level had weaker rules. "Informal" is a misleading term suggesting a lesser degree of formality, while in fact unwritten rules may be extremely complex and much more compulsory than "formal" ones.

For institutional economics, regulations and norms, either formal or informal, can have opposing or congruent goals and values. Equally, contract enforcement follows formal or informal mechanisms. However, there is obviously a reciprocal influence between formal rules such as legislation and informal norms (Sunstein 1997: 36), as well as significant variations between countries in the value attached to legal rights or unwritten rules[26]; whether formal or not, all plainly constitute institutions. In other cases they may be opposed, with the poor performances of some transitional countries being said to result from the superimposition of "formal" laws on an existing set of "informal" rules[27]. This induces a "transplant" effect creating institutional dysfunctionality if formal rules contradict or do not complement existing norms (Berkowitz et al. 2000). The emergence of informal norms may be a response to a particular market organization: informal mechanisms of contract enforcement such as networks and reputation in relational contracting may be optimal in settings characterized by incomplete information and free riding problems, which are recurrent in developing countries[28]. For institutional economics, these informal institutions entail inefficiencies: many developing countries are characterized by repeated transactions within limited spheres of exchange and networks, within the "limited morality" of communities as contrasted with the "generalized

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[26] A well-known example is the obsession with legal procedure in the US, which is often contrasted with more implicit rules in Asia.

[27] Among others, Stiglitz (1998), Nee (1998), Pistor (1999).

[28] E.g. Greif (1989) on the example of the medieval Maghribi traders.

morality" of the market[29]; likewise, interlocking contracts within networks are said to be sub-optimal[30].

The inconclusive character also affects the link with equity and efficiency: the possible relationships between norms, development, and equity are as diverse as norms themselves. Development can encourage norms that are efficient and more or less egalitarian, as well as discriminatory (Young 1998: 821). Norms can reflect the preferences of interest groups[31], but individuals may follow norms from which they derive no benefit, which challenges neoclassical assumptions on rationality. There may also be a vicious circle between the "exit option" of individuals from institutions and their steady erosion, which can perpetuate social withdrawal as institutions are debilitated. Institutions may facilitate collective action as well as reinforce the status quo. Norms may or may not move towards improving social justice, regulate excesses of poverty or wealth, and help to reduce inequalities, as well as create discrimination and exclusion. Social norms may be either opportunities for, or obstacles to, well-being.

Forms and contents of institutions

To understand the economic impact of institutions, one must distinguish institutional forms, referring to the name and alleged function of an institution - which may be "formal" or "informal" -, from their "content", i.e., mental representations, inferences, and emotional states, and the associated rules of behaviour, obligations and prohibitions, which vary from one individual to another and change with time. The existence of an institution gives no information in itself on the nature of the content of a particular institutional form, i.e., the meanings and values attached to it, the intensity of the rules that it conveys, and the degree of its "penetration" - "internalisation" - in the minds of individuals. Neoclassical institutional economics deductively posits the behaviour of individuals from the a priori function of an institution and uses an ad hoc conception of transactions with no related theory of psychology[32]. Transactions are the simple and direct expression of the beliefs of individuals: e.g., if individuals vote, it means that they have a perfect and complete understanding of democracy. This is obviously not the case, particularly in developing countries where individuals are exposed to a multiplicity of beliefs systems. Institutions do not receive a priori content, nor a priori legitimacy. Institutional innovations are not always relevant and may be ephemeral. They are transformed, or "processed" by individuals according to their own beliefs, social environment, and history.

At a cognitive level, institutions are, in the first place, mental representations. They do not constitute concrete and external objects, e.g., public service, democracy, or property rights, even if these are specified by concrete attributes, distinctive signs, language and procedures. Therefore, they do not constitute discrete entities or objects which would "cause" other events or institutions, as the event "p" would cause the event "q": for instance, democracy, or accountability, "causes" economic growth, the "intervention of the State" "causes" the slowdown of growth, multipartisan politics "causes" democracy, or autonomous bureaucracy is a "cause" of the developmental State. Such conceptions of institutions as concrete objects in causal sentences, widely used in the cross-country regressions literature, are to be taken only as metaphors. Institutions constitute meta-levels of mental representations. Institutions are layers of elements, links or meta-links: some institutions have command over other institutions, their functioning and interpretation. They constitute the internal content filling other institutional forms - some institutional forms may be empty or have very different values or economic outcomes according to the mental representations of the individual dealing with them, or the external context which limit, circumscribe and specify the functioning and meaning of a given

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[29] Platteau (1994) on traditional societies.
[30] Fafchamps (1996) on entrepreneurs in Kenya.
[31] This is recognised even in many formal analyses, e.g., Weiss and Fershtman (1998: 815).
[32] The results of economic psychology are rarely incorporated in institutional economics.

institution[33]. Institutions are individual representations of representations, or representations providing rules for other representations: e.g., "courts" is a mental representation that presupposes and provides some rules of action and shapes the representation of "justice"; likewise, "public service", or "administration", presupposes as well as specifies and gives rules of action vis-à-vis the concept of "State" or "power"[34].

Individuals or groups may adopt institutions, e.g., from other countries or societies, without adopting the "complete" nexus ("package") of their forms and contents. It is indeed difficult to adopt the entire package because the various layers of meaning and functions of a given institution are path dependent and by definition originating from a group or location. Thus, individuals may integrate only "fragments" of institutions - of their forms and content -; e. g. sophisticated administrative rules without the value of serving the State, democratic devices without the same idea of democracy as in the country of origin, a free press but with limited notions of freedom, an independent central bank or rules defining accountable government without the same concept of independence or accountability as in Europe or the United States[35]. Likewise, a set of rules may be adopted but only applied to a set of individuals - e.g., public services provided only to the civil servant's community -, which entirely modifies their content. Elements of non market institutions may be sold - e.g., security, public education -, and market exchanges may be reserved to individuals having power or entitlement to it. The modification of a rule may alter the entire coherence of an institution - as the reforms imposing "cost recovery" eroded the entire system of public health in Sub-Saharan Africa. Moreover, institutions are highly diverse social phenomena and are characterized by variable degrees of influence on individual behaviour. Rules of politeness obviously incorporate a different intensity of obligation from other conventions, such as driving codes or religious rules[36].

The institution of "democracy" is a classic example. In several developing countries, formally democratic regimes are not at all democratic, and sometimes use the institutions associated with democracy, like constitutions, to set up perversions of democracy[37]. In addition, democratic regimes have sometimes been associated with poor economic performance, increase in corruption, and social conflict[38], and cross-country regressions may find negative relationships between democracy and growth[39]. As is well-known, authoritarian governments may enjoy high growth rates and in the poorest countries the strongest institutions may be the least democratic[40]. There is no uniform relationship between types of political institutions and a particular level of development[41]. On the other hand, at an analytical level there is a positive relationship between institutional development and growth - what the Washington consensus calls the "quality" of institutions. Freedom may be an intrinsic dimension of human development, according to Amartya Sen (1999). Other studies have found a positive relationship between institutional accountability and economic performance (Rodrik 1999b). This confirms the importance and complexity of the question: how to understand the effective content, "intensity", pervasiveness, and degree of adhesion to particular institutional rules.

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[33] For instance, after the WWII, France put in place the ingredients of a developmental State, industrial policy and empowered technocrats, but these technocrats have been negatively perceived by the citizens. These ingredients have therefore worked in a different way from facts that could be described with the same words in East Asia. In Africa, technocrats are sometimes independent from the rest of the civil service: however, this autonomy can be anti-developmental in making them not accountable.

[34] This is one of the key issues of cognitive science, developed in the pioneering work of Sperber (1985).

[35] Geography may have some relevance here, the proximity to particular countries and institutions favoring exposure to these institutions.

[36] As analysed in the canonical work by Lewis (1969).

[37] Côte d'Ivoire is an example, the government having drafted an entirely ad hoc constitution in order to eliminate a political opponent.

[38] Bardhan (1993), Przeworski (1993); this has, e.g., been the case in Nigeria.

[39] Among others, Tavares and Wacziarg (2001).

[40] In sub-Saharan Africa, the military and the secret services are often the only well-functioning institutions.

[41] This is shown by Bratton and Van de Walle (1997) on democratization processes in Sub-Saharan Africa.

Moreover, in neoclassical institutional economics institutions are often conceived as distinct from markets and are supposed to correct market imperfections. As is well-known[42], markets are not only institutions but also affect and are in turn affected by a variety of related institutions. Norms discriminate between different spheres of exchange (e.g., "religious" vs "secular"), and provide guidance on the acceptability of particular goods and prices in specific markets. The same has been shown for States and markets, and there cannot be a strong society without a strong State (Evans 1997). In developed countries, markets cannot function without States or supra-State organizations[43]. In developing countries, weak States lead to weak markets, as illustrated by the failure of privatisation reforms in Sub-Saharan Africa, which have often only meant a shifting of rents from patrimonial States to private oligopolies, local or foreign (Tangri 1999).

Values also inform the content of institutions. Shared values, a concept difficult to reconcile with methodological solipsism, appear to make markets more effective. They act as insurance and risk-pooling mechanisms, reduce uncertainty, and allow individuals to extend decisions into the future[44]. Symmetrically, even the most decentralized markets, i.e., financial ones, are obviously the objects of coordination and regulation, as shown by the Bretton Woods institutions' advocacy after the 1997-98 Asian financial crisis for a "global financial architecture" and "global governance". Totally decentralized markets may lead to pure and generalized predation and the collapse of production[45].

Thus, there is no such thing as "institutions" abstracted from history and the sedimentation of contents, forms and values that time and circulation in space create for a particular institutional form. It is possible to use the concept of institutions in general inferences only if institutions are analysed in a functionalist perspective and if historical change is explained by the reduction of transaction costs. Applied to particular situations, functionalist arguments become rapidly tautological, ignore the influence of many other historical factors, and do not explain the emergence of singular institutional forms and contents (Sindzingre 1998). Some countries have exhibited remarkable economic performances while not having the institutional forms - secured property rights and contract enforcement -, that neoclassical econometric studies assume to be crucial factors of economic growth[46]. China had a dramatic rate of growth without clear property rights (Rodrik 2001c). There are no unique sets of causalities, nor a linear path leading to development (Adelman 2001: 118). Nor is there a "global standard" of institutions. Many institutions that have arisen under advanced capitalism are not necessarily beneficial to other economies at different stages of development. Institutions must correspond to local specificities and capacities[47]. Functionalist arguments confuse functions and forms: e.g., regulating markets are functions which do not necessarily correspond to specific institutional forms; and some functions, such as giving assurances to investors, may be achieved in the absence of private property rights, which are a particular form among others[48].

Beyond neoclassical institutional theory: the compositional approach

This suggests that the relevant approach is not to analyse institutions *per se*, as discrete units isolated from their external environment, but to focus on the "composition" of institutions,

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[42] From non-neoclassical institutional economics, particularly the work of Marcel Mauss and Karl Polanyi, and the concept of embeddedness (Evans 1995, Stein 1995a).
[43] As witnessed by the US government intervention after September 2001, or in the management of corporate criminality.
[44] This has been shown for developed countries that value solidarity and altruistic systems of social protection (Davezies 2000).
[45] As shown by mainstream analyses of decentralized corruption (Shleifer and Vishny 1993).
[46] Among others, Yusuf and Stiglitz (2001: 230), Clague et al. (1997), Keefer and Knack (2000), Sonin (1999).
[47] Chang (2002), Evans (2000).
[48] Rodrik (2002: 4).

which allows for a better understanding of institutional change and the reasons why some institutional devices are adopted and others become irrelevant or are rejected. This composition operates with sets of institutions, past and present. Institutions are to be analysed in terms of their relationship with other existing institutions. The presence or absence of other institutions provides the scope, field of extension, the content and function of a given institution. For example, in settings where there are no political parties, other institutions may "fill" this "void" and function[49].

For instance, to explain economic stagnation in Africa and the variety of outcomes elsewhere, colonialization is often loosely depicted as a destroyer or - on the contrary - a creator of the institutions in one-time colonies[50]. The latter are characterized by their geographical and natural endowments that would influence the formation of institutions (other proxies can be used, such as demography). These arguments deny the diversity - and sometimes implicitly the existence - of local institutions (kingdoms, village communities, and so on) and the complex interactions that resulted from colonization, as any encounter involving power relationships. Institutional change never operates on a *tabula rasa*, because there is never an institutional *tabula rasa*. In Africa, colonization has been destructive in some cases, while producing institutional innovation and development in others. Mainstream institutional economics has also shown that some collective values have been optimal in some contexts and not in others[51].There are no types of institutions that are intrinsically favourable or unfavourable to development across time and space: only arrangements and compositions of institutions are, depending on the way external forces compose with recipients institutions[52].

"Institutions matter", but what matters more is how they compose with each other. For example, geography, trade, and institutions are often considered as determinants of growth, but their interrelationship is equally important[53]. Causalities interact both between the "dependent" and "independent' variables and among the "causal" variables themselves. To be effective institutions must find "relays" in other institutions: a free press or independent judicial court existing in isolation will not generate the same effects as, say, a free press articulated to an independent court. These "relays" may be achieved by the institutional arrangements themselves but they cannot function outside the political power structure: the way in which the latter effectuates this relay *in fine* is what will make it work or not. From a cognitivist perspective, at a given point in time and space, institutions receive their conceptual content, meaning, legitimacy, the intensity of obligation toward the rules associated with them, and their scope of competence because they coexist and are interlocked with other institutions. Each institution has a specific and unpredictable rhythm of change. Any institution, whether it is endogenous (be it enduring or innovative) or exogenous (of external origin), develops specific meanings and functions in its relationship with other institutions: it is the environment provided by the existence of other institutions that gives it scope, content and meaning.

The relational nature of institutions - both with themselves and with other economic domains - greatly complicates efforts to transform them. Institutions only change slowly, as they are subject to the rhythm of both internal and external forces[54]. History has been said to move along three heterogeneous rhythmic paths, the short one - politics -, the medium one - economics -,

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[49] Likewise, if there are no churches, political institutions may serve this function, or if there are no State judicial courts, traditional religion may regulate social relationships.

[50] Among others, Acemoglu et al.(2001a), Beck et al. (2002).

[51] On the well-known example of the reputational mechanisms of the medieval Maghribi traders in contexts such as long distance trade and ruler hostility, contrasted with the individualistic institutions and values that have developed at the same time by other groups like the Genoa traders, Greif et al. (1994).

[52] The colonial encounter is an example but the same could be said of economic reforms, e.g., the Washington consensus. The "fallacy of composition" effect is a good example: a set of policy and institutions may be positive in a limited number of cases, but becomes harmful when extended and implemented in numerous countries.

[53] As shown by Rodrik (2001c) on the example of China's economic growth.

[54] As Veblen has pointed out, quoted in Arrow (1998: 44).

and the long one - beliefs[55]. Institutional change is obviously influenced by initial conditions, the level of income of individuals or countries, and by the particular allocation of investment - local and international, public and private -, which simultaneously reflects geopolitical power relationships. The impact of these factors has greatly differed among regions of the world. One well-known example is the differing international treatment, institution building, and mode of global economic integration of East Asia and Sub-Saharan Africa in the 20th century: e.g., the features of the Japanese colonization of Northeast Asia - sometimes considered as having been favourable to infrastructure, human capital, manufacturing activity and administrative efficiency[56] -, the role of the Cold War and the US purchase of goods for the Vietnam war from East Asian countries (Stein 1995b), and US assistance towards North Asia to counter the influence of communism (Jomo 2000). This may be contrasted with the "scramble for Africa": with colonial regimes that not only failed to support infrastructure and human capital but left a tiny minority of secondary school and university graduates and actually erected barriers to indigenous accumulation[57].

Finally, institutions need credibility. While credibility is a perception at the individual level, these perceptions are endogenous and not the outcome of exogenous decisions or top-down processes. They are influenced by past events and by the interaction with other institutions and sets of beliefs. For example, orthodox reforms have attempted to achieve the independence of central banks through shifts of formal structures. Whatever the economic validity of central bank independence, its operational functioning depends on complex perceptions of the behaviour of political elites: credibility of even the most economic and "independent" institution cannot be isolated from politics, contrary to mainstream theses; moreover, it may not be desirable from a democratic perspective (Grabel 2000). Another example: in many developing countries during democratic elections, individuals may find ex-dictators more credible and end up voting for them. A new institutional form here is filled with established locally legitimate allegiances and exchanges of obligations. Likewise, many civil service reforms prescribed by the Bretton Woods institutions - such as the creation of autonomous agencies for tax collection or customs enforcement aimed at insulating them from political influence - have failed, as they focused on the formal organizational design. At the individual level the new design had little credibility, as it was a reform coming from discredited governments or donors and was competing with daily routines and expectations driven by local political norms (related to career, security, and so on).

III. REINTRODUCING POLITICAL ECONOMY

Politics and neoclassical institutionalism: the depoliticization process

Neoclassical institutional analyses remain within an apolitical, or "depoliticized", framework. Institutions are examined independently of political regimes and power relationships. In addition, in the operational world of the Bretton Woods institutions their Articles of Agreement forbid them to interfere in the domestic politics of their "client" countries. The apolitical and technocratic justification of their activities is an intrinsic part of their credibility and legitimacy. Successful reforms or countries are explained by the existence of "strong institutions", characterized by stable expectations and a "social contract" between States and individuals[58]. The underlying model of society is made of individuals voluntarily contracting in markets,

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[55] This has been powerfully analyzed by Fernand Braudel.
[56] This controversial argument has been discussed in Booth (2001), quoted in Jomo (2001: 463), Kohli (1999), Stein (1995b).
[57] Hopkins (1973), Stein (2001), Sindzingre (2002c) for a comparison of East Asia and Sub-Saharan Africa.
[58] "Forging a new social contract" is a reform proposed by the Bretton Woods institutions, an example being the suggestions for a new social policy linking governments and their populations after the Asian crisis (Kawai 2000).

including political markets. E.g., the concept of social capital[59] - which implies the voluntary acquisition and capitalization of inter-individual relationships ("capital") - works as a collective asset and is usually shown to have a positive effect on growth[60]. This concept of contracts denoting individual and voluntary participation erases the dimension of political power, particularly as it relates to relationships with States. Moreover, many institutions, rules, and group affiliations in developing countries are not the product of social contracts, nor are they negotiable on markets or modifiable by individuals. Complex memberships and allegiances characterize developing countries and blur the boundaries between "interest groups" (Haggard and Webb 1993).

For developing countries - and especially in Sub-Saharan Africa - the analytical framework of the 1980s has been marked by the disqualification of the State and the stigmatisation of developing country civil services - seen as inefficient, oversized, corrupt -, both in academia and in the literature on international financial institutions. The State was presented - particularly in the rational choice and public choice literature - as the source of economic failure and having been captured by rent-seeking politicians. In the 1990s - more in research than in policy practice - the State has been rehabilitated within in the Bretton Woods institutions by imperfect market theory and the economics of information[61]. However, the role of the State is still conceived as an adjunct of markets through its provision of public goods, regulations, and macrostability. The State is treated as institutionally extraneous rather than the main source and reflection of political power, able to impede, enhance or transform the institutionalisation and operation of markets.

Constraints on institutional change: legitimacy

Institutions need legitimacy. However, legitimacy is not an autonomous, circumscribed, top-down causal entity. Legitimacy is not provided by external entities, e.g., international financial agencies and the technicalities of their reforms. This is a reminder of the complexity of the question of the supervision of institutions - the old question of "who supervises the supervisors" (Stiglitz 1999), which can be infinitely multiplied if the rules are not perceived as legitimate. Legitimacy arises from the reciprocal interactions between various political levels, governments and the individuals who constitute and interact with a given institution. For a State assisted transformation of markets and institutions to be effective, this legitimacy is a pivotal element. It is a legitimacy built from the point of view of the rulers - where development, redistributive and social policies, converge with their desire to stay in power, as underlies the developmental economic policies in Korea[62]. It is also a legitimacy from the point of view of the individuals - a process that is endogenous and unpredictable ex ante.

In developing countries institutions compete among themselves, in the sense that they come from heterogeneous origins and establish heterogeneous sets of incentives, norms, rights and obligations, e.g., obligations vis-à-vis patronage or family authorities and obligations vis-à-vis the State or bureaucratic rules. Depending on the situation, institutions exhibit variable degrees of legitimacy. The existence of several simultaneous "public" spheres - "traditional" and "modern" - may induce contradictory behaviour, which often weakens the introduction of new institutions. There cannot be a single social contract linking individuals and States through a stable idea of public service. State credibility in poor countries has been weakened because their

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[59] Embraced by agencies like the World Bank; Fine (2001) or Englebert (2001) have made in-depth criticisms of the concept.
[60] E. g. Putnam (1993).
[61] Particularly in various studies by Joseph Stiglitz, including his input into the World Bank's World Development Report of 1997 on the State in developing countries.
[62] This quest for legitimacy has been at the root of developmental social policies, initially directed at the military and civil servants, Kwon (1999).

governments seldom provide effective social protection and are affected by external aid dependence, budget cuts, and shrinking investment. In a vicious circle, individuals show little respect towards the rules laid down by States, and they tend to submit to the rights and obligations systems that provide protection and insurance against risk, e.g., through membership in various kinds of networks[63].

The preeminence of politics

Institutions are shaped above all by politics. Firstly, institutions and property rights correspond to a fixation - a stabilization - of a particular balance of political power relationships, which subsequently retroact on them, e.g., between labour and capital, landowners and the landless, and so on. This is the case not only within States but at the supra-State level, as is obviously shown by the balance of power within multilateral financial institutions. For instance, in many developing countries the encounter of the poor with the State's "rule of law", or with a judicial decision, may bring about more a disaster than an improvement of welfare or equity. Secondly, it is the politically powerful who decide the modalities, timing, enforcement and sanctions attached to the functioning of an institution. Likewise, it is the political power structure that decides *in fine* which group or individual can claim its property rights.

Institutions deriving from the State have to be differentiated from institutions that are not linked to it[64]. Institutions connected to the State include an intrinsic dimension of coercion, which is a core attribute of politics. State institutions are also the result of human intentionality – of politicians or civil servants -, of building or reforming institutions as well as individual behaviour. This is why State institutions always incur the risk of not being "internalised". In contrast, institutions not associated with the State may emerge as the provisional and self-regulating stabilization of infinite individual interactions and mental representations - which is the definition of "internalised" institutions.

The way rulers use and redistribute resources is essential, as are their time horizons and the degree of confluence of their own political interests with the country's interest and welfare. The fact that rulers may be predatory, rather than developmental, is more relevant than the formal type of political regime, democratic or not (Evans 1992). Predatory rulers are usually associated with short term strategies and rapid siphoning of public resources. However, the mechanisms they use to stay in power over the long term can be very destructive; a purely predatory ruler[65] may find institutions useless and even threatening (Robinson 1996).

Whatever the form of government, economic policies are shaped by internal politics and the consolidation of power more than by purely economic considerations or external recommendations: hence the permanent "double-edged diplomacy" of the governments of developing countries under external economic constraints[66].

Conditions of transformation: developmental institutions and States

A recurrent feature of neoclassical institutionalism is the "under-theorization" of the State. Its political economy framework generally conceives the State as the "grabbing hand"[67]. The composition of institutions helps in understanding the success of developmental States in East

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[63] Corruption problems may be analyzed in this perspective, Sindzingre (2001).
[64] This partly evokes the top-down and bottom-up distinction.
[65] Whose ideal-type was Mobutu in the ex-Zaïre.
[66] What the Bretton Woods institutions stigmatise as "policy reversals"; Evans et al. (1993), Sindzingre (2000) on the example of Ghana.
[67] According to the emblematic title of Shleifer and Vishny (1998) focusing on the transitional economies.

Asia[68]. History shapes variants in the composition of institutions and their "productive" or "unproductive" aspects. The unproductive aspects of Asian development were noted well before the 1997-98 financial crisis: "ersatz capitalism"[69]. Corruption and cronyism remain permanent dimensions of Asian States. Corruption shows that the nature and outcomes of institutions can be understood only in considering one institution as composed, linked to and limited by other institutions: there is no a priori good or bad effect of corruption on growth. Contrary to mainstream political economy, corruption and capital evasion occurred under regimes that had both experienced or not experienced financial liberalization[70]. "Alliance capitalism", i.e.,. long-term relations between firms and the financial sector, was a recurrent feature of the "miracle"[71]. This institutional arrangement evolved into collusive practices and it has been destabilized by financial liberalization measures precipitated by the Bretton Woods institutions[72]. The balance of developmental ingredients and the interaction of institutions with domestic and international economic forces, and their representation by individuals, is very complex. It can lead to different economic structures and outcomes, and is never a given for eternity: thus, developmental States may decline, as is shown by the example of Korea. On the other hand, ingredients that appear to be the least favourable to economic growth as stated by the mainstream literature - corruption, trade barriers - have been at the roots of the economic successes of today's developed countries. No intrinsic economic outcome is attached ex ante to a particular set of institutions, contrary to the arguments of the Washington consensus, which aim more at "kicking away the ladder" vis-à-vis the latecoming developing countries[73].

Beyond favourable initial conditions, the well-known institutional ingredients of developmental States included State intervention in the economy and active public policies, particularly in the industrial arena[74], and the stability of bureaucratic relations vis-à-vis politics and the economy. These were intermingled with local values and institutions, e. g., family- and firm-based social protection. Institutions of intervention resulted from a unique combination of flexibility in the face of changing market conditions and continuity in the creation of both the constraints (the rules of behaviour) and the support (risk reduction, financing etc) needed for the stability of the institutions of the market (Chang 1995).

Some States of Sub-Saharan Africa have also exhibited the features of developmental States: well-known cases are Botswana and Mauritius (Mkandawire 2001), which are helped by a coextension of political elites and economic winners[75]. The legitimacy of growth strategies was enhanced by not disconnecting them entirely from precolonial political and social institutions (Englebert 2000). However, many African States in the post-colonial period were characterized by the disruption in the continuity of local institutions, factional struggles, and civil wars. A lack of legitimacy of the rulers who took power, combined with a hostile attitude toward private accumulation - which was perceived as a potential political threat -, undermined the development of the developmental State. States and administrations have been shaped by constraints of redistribution, not accumulation, in order to counter centrifugal forces (secession, political opponents, and so on). This was mostly accomplished through massive recruitment in

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[68] The literature on the developmental State in East Asia is vast, e. g. Johnson (1982), White (1988), Amsden (1989), Wade (1990), Aoki et al. (1996) and more recently on the consequences of the Asian financial crisis, among many others, Johnson (1999), Woo-Cumings (1999), Pempel (1999), Agosin (2001), Robison et al. (2000), Montes and Popov (1999).

[69] Yoshihara (1988), Bello and Rosenfeld (1990), Clad 1989).

[70] Grabel (2002), Khan and Jomo (2000), Khan (1996).

[71] Wade (2000), Suehiro (2001) on the example of Thailand.

[72] As shown by numerous studies, for instance Chang (2001) or Stiglitz (2002), showing there has been a systematic underestimation of the role of institutions in promoting capital account liberalization or transition from communism.

[73] Chang and Evans (2000), Chang (2002).

[74] Temple (1997), discussing the theses of Young and Krugman on productivity, Rodrik (1998b).

[75] Botswana's success story may be explained by a combination of prudent macroeconomic and budgetary policies, investment in physical and human capital, and the building of a meritocratic administration (Acemoglu et al 2001b).

the civil service. Large scale projects were undertaken for State building motives, leaving an accrued debt with few economic benefits.

The international geopolitical context has also not been favourable to the formation of developmental States in Africa. More than any other region of the world, stabilization and adjustment programs have had a negative impact on African States. Asian and Latin American governments had greater room for bargaining and intervening in support of private accumulation. Adjustments did not contribute to structural change departing from the model of the small open colonial economy which characterized African countries at independence: an economy focused on the export of natural resources - whose international prices fluctuated greatly - and the import of manufactured goods from developed countries[76]. Vulnerability to commodity price shocks was indeed increased, which prevented African States from triggering a virtuous circle of higher savings and investment with the potential to free them from perpetual aid dependence (Akyüz and Gore 2001). Economies did not diversify and many African countries have increasingly relied on a handful of natural resource exports[77]. As is well-known, there has been a secular decline in their relative prices and which has been aggravated by extreme volatility[78]. No State or institution can develop when depending on such volatile prices; natural resources are thus, in this case, a fetter on economic growth[79].

IV. INSTITUTIONS AND GLOBALIZATION

Globalisation, trade openness - the situation of an economy -, and liberalization - a policy measure - are often conflated. Beyond the fact that it has become a buzzword, globalisation refers to the growing flows of capital, goods, technology, people, and information, combined with the improvement and lowering of transportation costs. The impact of "globalisation" on States and institutions in developing countries is a matter of hot debate. Likewise, the impact of trade openness on growth and poverty is very controversial. The fallacy of composition that it entails is rarely addressed (Evans 1991: 64). While the positive relationship has become conventional wisdom, some studies remind us that globalisation is historically linked to colonial exploitation (and particularly colonial exploitation)[80] and has raised at least several caveats[81].

In an institutional perspective, there are positive dimensions of globalisation, in terms of flows of goods and information, technological diffusion, and the increase in income of skilled workers. In addition, globalisation has enhanced the capacity of a global "civil society" of criticism and the influencing of institutional change; globalisation may indeed mean a retreat from the excesses of neo-liberalism and free market stances (Fine 2002). The recurrence of crises, especially financial and corporate ones, has highlighted the aporias of financial capitalism and fallacies of neoclassical hypotheses. These crises, at least in developed countries, have induced rapid institutional changes and rehabilitation of State intervention much more rapidly than in their absence. As is well-known, however, globalisation and trade openness have modified the balance of power - of bargaining power - between capital and labour - especially unskilled labour - in favour of capital because of their differential mobility, as is shown by the

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[76] Well analyzed by Hopkins (1973).
[77] Even studies within the Bretton Woods institutions have recently questioned the logic of adjustment, which failed to address many problems, such as the increase in world interest rates, the rise in the debt burden, and the paucity of skill-biased technical change between 1980-98: Easterly (2001b), at the time a World Bank economist, admits that the median per capita income growth in developing countries was zero percent during this period.
[78] Sub-Saharan exports experienced, between the 70s and the 90s, four times the volatility experienced by the industrial countries, UNCTAD (2001: 39).
[79] This is the literature on the "natural resource curse", e.g. Sachs and Warner (2001).
[80] Milanovic (2002).
[81] Among many others, Rodrik and Rodriguez (1999), Winters (2000), Harrisson (1995), Rodrik (2001a and 2001b).

weakening of institutions dealing with labour markets[82]. Numerous studies show that trade openness is a factor in the growth of global income inequality, although this fact is often denied[83]. Trade is likely to increase corporate profits and the income of educated workers, but at the expense of less educated and unskilled workers (Baker and Weisbrot 2001: 4).

In terms of capital flows, Sub-Saharan Africa, with the exception of South Africa, is the part of the world that has participated the least in globalisation (Streeten 2001). Financial flows to poor countries are even less than they were a century ago (Obstfeld and Taylor 2001: 51). For measures such as the importance of trade in the economy, however, Africa may be considered very "globalised" (Melchior et al. 2000). African countries have opened their economies in the 1990s under the conditionalities of the Bretton Woods institutions[84]. From a growth perspective, the benefits have been tiny compared to the transaction, adaptation and information costs incurred in the wake of liberalization.

The impact of globalisation on States and institutions has been more ambiguous. States are still the relevant unit in international relations and vis-à-vis their own citizens (Evans 1997, Weiss 1998). The number of States tended to increase in the 20th century[85]. Since States are still the constitutive units of international institutions, the latter tend to be more multilateral than "global". However, liberalization and openness weaken institutions in developing countries when States are already fragile; in any case, they destabilize old contents and legitimacies, and introduce or at least expose individuals to new institutions. Again, the nature of political regimes determines possible outcomes and in authoritarian regimes or oligarchic ones, e.g.,, the ruling elites may entirely capture opportunities offered by liberalization. These consequences on States impinge on several domains, in particular sovereignty, fiscal capacity and ability of States to provide social protection.

Credibility and redistributive capacities

The sovereignty and credibility of the least developed States, especially in Africa, are already low due to their aid dependence and asymmetric power relations within multilateral and bilateral arrangements which set the rules of global integration. Pressure also comes from the sub-State level - e.g., the so-called global civil society that donors promote – which continues the paradigm of State disqualification. The wave of democratisation in developing countries has occurred during a period when States are weakening and less able to provide the economic transformation that was the purpose of social struggle and the promise of democracy (Strange 1996).

Likewise, States' fiscal capacity has been eroded by globalisation[86]. Trade liberalization has lowered tariffs and export taxes, two important sources of revenue. The competition to attract international capital (with tax holidays, subsidies, export processing zones, and so on) had also a deleterious impact. Reforms are now advocated by the Bretton Woods institutions not because of their benefits for the local populations, but for their positive effects on international investors (Rodrik 2001b). New difficulties are also created by electronic financial transactions[87]. This is especially the case in African poor countries, whose budgets strongly rely on the taxation of external trade. Empirical studies showed that liberalization led to a decline of the tax/GDP ratio,

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[82] Ortega and Rodriguez (2001); on a case study of labor institutions in Ghana, Anyemedu (2000).
[83] Among the studies fueling this hot controversy and supporting the association of globalization with inequality, with different time spans, Wade (2001) and his debate with Martin Wolf, Milanovic (1999), Bourguignon and Morrisson (2001).
[84] Between 1988-89 and 1999-2000, the share of trade in the GDP increased from 38 to 43% while Africa's share of world trade declined (UNCTAD 2001: 27).
[85] Smallness has been compensated through membership in monetary or economic unions (Alesina et al. 2000).
[86] Which creates a "fiscal squeeze", as shown by Rao (2001).
[87] Called "fiscal termites" (Tanzi 2000b).

due to the reduction of external taxes and tax incentives for international investors[88]. The design of tax reform measures does not take into account the impact they may have on the other economic sectors, budgets, public investment or the social consequences[89]. Globalisation has thus eroded the financial capacity of States to legitimise policy choices by addressing equity issues (Pollin 1998).

Legitimacy and social policies

The effects of globalisation on State welfare capacities vary considerably from one country to another, both in degree of risk and in levels of compensation[90]. Globalisation and trade openness, however, expose labour to external shocks and increase the need for social protection, and at a time when globalisation has debilitated the sheltering function of States (Rodrik 1999a: 141). Liberalization, e.g., causes job losses and hurts specific groups of workers and households. Bigger governments may have greater social protection options. There seems to be a positive correlation between a country's exposure to international trade and the size of its government (Rodrik 1996). Countries that have strong institutions are better able to manage social conflict and reduce the impact of external shocks, e.g., international price volatility, which has direct effects on budgets and producers' incomes[91]. Economic and political instability is intensified if States already suffer a deficit of legitimacy, as is often the case in Sub-Saharan Africa. Globalisation erodes the State's capacity to provide social protection, to pursue redistributive policies, and to keep public institutions functioning (Deacon 2000). Ironically, the absence of legitimacy reduces the ability to implement the very policies that would build legitimacy in the face of globalisation.

These problems set the context of the ongoing debate on the role of international institutions in terms of institution building and development. In response to the Asian crisis and the widespread criticism of the policies the Bretton Woods institutions employed to manage the crisis[92], there has been a call to reexamine the "international financial architecture". Another dimension of the debate is the role of supra-State institutions in providing rules to regulate and "civilize" globalisation (Helleiner 2000). These are the issues of "global governance", i.e., building institutions that are truly global and not international. It questions their respective legitimacy - the Bretton Woods institutions vs. the UN -, ability to penetrate domains usually reserved for State sovereignty (e.g., security, health, labour rights), their economic competence, and right to sanction public policies that differ from the conceptual framework and conditionalities they decide on for particular developing countries.

CONCLUSION

The paper has focused on an institutional theory of development and the insufficiencies of the neoclassical approach to institutions that have increasingly informed thinking in the academic literature and in the Bretton Woods institutions. These weaknesses are apparent when institutions are used as explanatory variables in the economic growth literature. The elements of an alternative "compositional" approach have been presented, which address the complexity of the concept. The meaning and outcomes of institutions are shaped by their articulation to other

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[88] E. g. Levin (2001) on Tanzania.
[89] Kubota (2000), Toye (2000).
[90] As shown by Burgoon (2001) for industrialized countries.
[91] Rodrik (1998a); on the other hand, "conflict societies" and "fight for shares" are more likely to expose countries to economic crises, as shown by Argentina, e.g. Baer et al. (2002).
[92] Summarized in the popular book by Stiglitz (2002).

institutions: by the presence or absence of them. Institutions are multi-layered phenomena, with forms and contents that may have distinct historical trajectories and effects on economic development. Institutions are not ex ante "effective" or detrimental to growth.

In developing countries, especially in sub-Saharan Africa, many factors - colonialization, foreign geopolitics, aid dependence - have contributed to the weakening of States and institutions, which in some countries have lost all legitimacy and credibility, and must be entirely rebuilt. This legitimacy is a pivotal element, from the point of view of the rulers as from the point of view of the individuals. Institutions result from processes that are endogenous and unpredictable ex ante. State capacity and policies are another key element: in Asian developmental States, public intervention resulted from a combination of flexibility and rules needed for the stability of market institutions.

Africa's participation in the global economy is conditioned on effective and stable institutions. Orthodox reform programs have aimed at minimizing State intervention, removing hypothetical distortions, but have created further instabilities. They have left entirely unaddressed the root causes of Africa's marginalisation - the lack of export diversification and primary commodity dependence -, as well as the challenges of African institutional transformation - except ex post and in a trivial way, e.g., observing the negative economic consequences of civil wars or poverty. In terms of concepts and policies, the institutions approach presented here shows that the endogeneity and multidimensionality of institutions - cognitive, political, economic - should incite the multilateral financial agencies to recognize the limits of their conceptual framework, that reforms must focus on rebuilding States and institutions, that there cannot be any standard type of reform nor automatic outcome, and that political dimensions always determine *in fine* the functioning of markets, the success of economic reforms, and the resilience of institutions.

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