

*Introduction: Institutions and economic development in South Asia**

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The ‘weak’ and ‘flawed’ nature of South Asian institutions has become axiomatic in development discourse, with the persistence of this view outweighed only by its lack of concreteness. The fascination with institutions is noteworthy precisely because the most fundamental questions about them are still under debate: there is little agreement on the definition of institutions beyond generic statements, let alone an established consensus on which institutions engender development. Instead institutionalist explanations float far and wide, netting the blame for various policy failures, with a striking lack of critical inspection. This special issue is an attempt to bring together various perspectives on institutional change and economic development in South Asia in an attempt to problematize the very concept of institutions and their perceived role in fostering economic development. The geographical focus on South Asia furthers a central aim of this collection: to emphasize the contextual nature of institutions. This translates into a need for disaggregating secular institutional theory into its precise constraints and implications for particular spaces, moments, and contexts.

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The eight contributions in this issue range from the panoramic to the particular. Three articles on the history and economics of institutions in South Asia include Imran Ali's sweeping view of South Asian institutional development and the *longue duree*; Atiyab Sultan's analysis of colonial and contemporary ideas of economic development, and Adeel Malik's long-run examination of shrines as a node for religious and political power. Anthropological perspectives on corruption, the villain of institutionalist discourse, are presented in two articles by Akhil Gupta and Nayanika Mathur. Two articles on decentralization and privatization, by Kamal Munir and Jean-Paul Faguet, examine governance and reform from below: while Munir studies the case of two failed privatizations in Pakistan, Faguet presents an instance of successful transformation of local government infrastructure in Bangladesh. In conclusion, Barbara Harriss-White's article pushes the conversation still further with her examination of the informal economy and its link with institutional structure. Together these articles bring together diverse perspectives on institution-building and reform in South Asia, providing a hard-nosed critique of the existing scholarship. We hope that the special issue will enable a more sceptical view of institutional theory, and its tropes and applications, and encourage a more acute and particularistic view of institutional development in South Asia.

A brief history of institutions

In his seminal work on institutions and institutional change, the economic historian Douglass North defined institutions as humanly devised constraints that structure political, economic, and social interactions, and are a primary determinant of the economic performance of a state.¹ North's pioneering scholarship on institutions emerged in the 1970s and 1980s and became a forerunner among theories of long-run economic development. The core principle of this new school of thought was that institutions created the incentive structure of the economy and 'as that structure evolves, it shapes the direction of economic change towards growth, stagnation, or decline'.²

¹ See Douglass North, *Institutions, institutional change and economic performance* (Cambridge, 1990).

² Sebastian Galiani and Itai Sened, 'Introduction' in Sebastian Galiani and Itai Sened (eds), *Institutions, property rights and economic growth: The legacy of Douglass North* (New York: Cambridge University Press, 2014), p. 2.

As scholarship on the subject broadened, the problem of collective action and the ‘tragedy of the commons’ emerged with a realization of the importance of individual property rights in a market economy. Individual property rights were regarded as a prerequisite for the functioning of a market economy and the absence of the same hailed as a key facet of ‘institutions’ that causes long-run underdevelopment. Instead of a free and independent individual reaping the fruits of a capitalist system, economists theorized about the many obstacles that constrained choice in the economy—and ‘institutions’ emerged as the catch-all term for describing these. A leading economist, Shepsle, noted ‘standing between the individual qua bundle of tastes and available social choices are institutions . . . frameworks of rules, procedures, and arrangements- that prescribe and constrain . . . the way in which business is conducted’.³ This also underlined the need for economists to analyse the political economy of a society, as competitive markets could not operate in a vacuum, with political actors deciding many of the rules of the game or ‘institutional constraints’.

Following concern with the uncertainty and instability that political structures introduced into society, North’s first intuition was that ‘the major role of institutions in society is to reduce uncertainty by establishing a stable (but not necessarily efficient) structure to human interactions’, and he formally defined institutions as ‘the rules of the game in a society or, more formally, as the humanly devised constraints that shape human interaction’. Thus he emphasized that institutions, in consequence, ‘structure incentives in human exchange whether political, social, and economic’.⁴ Building on these ideas, North investigated path dependence and institutional structure, extending his ideas to developing economies. Development economists in the 1960s and 70s had obsessed over technological change and capital accumulation as the prerequisites for growth, ignoring historical antecedents. So, for instance, the growth models popular during this period assumed that property rights were enforced. The new institutional approach to development economies pioneered by North posits that enforcement of property rights has a cost that affects the allocation of resources and thus has an effect on growth. Hence the institutions that assure those rights become a

³ Kenneth A. Shepsle, ‘Institutional equilibrium and equilibrium institutions’ in Herbert Weisberg (ed.), *Political science: The science of politics* (New York: Agathon Press, 1986), pp. 51–55.

⁴ Galiani and Sened, ‘Introduction’, p. 6.

relevant piece in the economic architecture on which the process of growth and development is built; and their comparison provides a fundamental explanation of differences in growth and development between different contexts.⁵ While there is no final consensus on the matter, other institutions considered relevant for promoting economic development include the legal and fiscal capacity of a state, the availability of cheap credit, the strength of contract enforcement, and so forth.

Scholarship on institutions has since burgeoned, and institutionalist explanations of underdevelopment remain a dominant discourse. The theoretical literature on institutions makes many claims about the relationship between state structures and welfare outcomes, and on the long-term consequences of bureaucratic and legal changes. However, there are numerous gaps and assumptions in a literature that often lacks historical depth and contextual nuance. While economists like Dani Rodrik and Daron Acemoglu posit that extractive, colonial institutions can be held responsible for long-term underdevelopment in post-colonial societies, other scholars like Ha-Joon Chang assert that European countries acquired ‘strong’ institutions only after reaching a certain level of economic prosperity. Chang challenges the direction of causality suggesting that strong institutions are a *result of* and not necessarily a prerequisite for economic development.

The conversation becomes even richer as it becomes more interdisciplinary, and economic historians have attempted to understand specific periods of institutional engineering and reform and studied their contemporaneous and long-term effects. Similarly, anthropologists and sociologists have sought to examine the everyday impact of institutions, the mechanisms of bureaucratic (in)efficiency, and the prevalence of corruption in many developing economies. South Asia presents the perfect site for such an interdisciplinary conversation, especially as the economic ascent of India in spite of institutional weaknesses has undermined the institutionalist school of development economics. It has also occasioned the need for a more critical and refined understanding of what we mean by institutions, what makes them strong or weak, and which institutions are consequential for economic development. The articles in this

⁵ Ibid.

issue prise open these theoretical ambiguities and inconsistencies as discussed in the following section.

Institutions in South Asia

'Weak' institutions are constantly held up as the reason for long-run underdevelopment in South Asia. It is a convenient explanation that is almost tautological, given how expansive definitions of institutions can be. At the same time, such a reading obscures the need for a more direct inquiry into the precise actors, constraints, practices, and regulations that hinder performance. However, the idea that institutions are the cornerstone for sustained welfare gains has lost none of its currency, and has become an almost catch-all concept for whenever a policy intervention fails: the 'system' or the 'bureaucracy' are held as ultimately responsible and pernicious enough to undo the best-laid schemes of the development economist. Colonial institutions in particular are viewed as an ever-fixed mark, condemning post-colonial states to poverty for eternity. The articles in this collection seek to go beyond these generalizations, and weave complex historical and empirical analyses to consider how institutions and built and function in South Asia.

The history and economics of institutional change

In his article on the lineages of retardation in Pakistan, Imran Ali explores the interactions of political power, social authority, and economic development over the *longue duree*. By tracing historical trends from pre-colonial South Asia to the present, Ali presents an alternative to short-sighted dependency theories and instead brings a rich and refreshing account of the processes engendering underdevelopment in contemporary Pakistan. While taking a panoramic view, the article buttresses its claims with rich empirical detail, and the reader perambulates through post-Mughal Lahore, the canal colonies and Musharraf's dictatorship in the lucid statement of a fundamentally novel view of underdevelopment in South Asia. Such an encyclopaedic piece sets the stage for the more particular and pointed criticisms contained in the remaining articles, while also reminding the reader that by dimming the importance of conventional moments of rupture (e.g. 1947), an alternate view of continuous historical processes in the region can be developed.

The articles by Adeel Malik and Atiyab Sultan engage directly with the existing scholarship on the long-run impact of institutions. Much of the academic evidence on institutions and their impact on development relies on econometric studies that use proxies to capture their effect, as, for example, in a famous study by Acemoglu and Robinson,⁶ the mortality of European settlers in colonies is used as a proxy for institutions. Other studies have used rainfall and latitude as proxies for them. Yet it is possible to be sceptical about the use of climate and geography as instrumental variables for the state of institutional development in any region, and the scholarship on institutions stands to advance by a closer engagement with the specific history of institutions, instead of the ambition to quantify regardless of relevance.

By contrast, Malik and Sultan both rely on rich historical bases to develop their arguments. Atiyab Sultan studies the career, writings, and influence of Malcolm Darling, the famed advocate of the Punjab peasant in the twentieth century, to draw parallels between colonial policies of ameliorating poverty and present day developmentalist thought. The cooperative movement was championed by the colonial state, as it placed the burden of reform on the impoverished peasantry while absolving the political elite and state policies of blame. The post-colonial continuities of these ideas, evidenced in the popularization of microfinance and community development programmes, point to the continuities between colonialism and development thought. The article casts question marks over the assumption that development is a post-colonial preoccupation of independent states and instead calls for a re-examination of the presumed institutional legacies of colonial rule in the thought and practice of economic development.

Adeel Malik, in his essay on 'Pirs and Politics in Punjab, 1937–2013,' presents the first systematic mapping of politically influential shrines in Pakistani Punjab by tracing their influence from the colonial period to contemporary times. By exploring the configuration of political power around religious influence, Malik develops a fine-grained understanding of particular families and the mechanisms they use to remain politically influential across generations. This represents an important theoretical and empirical step forward for the study of the long-run consequences of specific powers and privileges

⁶ D. Acemoglu, J. Robinson and S. Johnson, 'The colonial origins of comparative development: An empirical investigation', *The American Economic Review*, 102, 6 (2012), pp. 3077–3110.

allotted to elites in the colonial era. Malik's distinction between riverine and non-riverine shrines in their relative influence shows the influence of geography. His detailed examination of shifting political loyalties, the connections between pirs and military governments, and marital ties detail the various dynamics at work, and help explain the persistence of elites and weak political institutions.

Anthropological perspectives on corruption

A compelling and recurring argument on colonial institutions in South Asia relates to the *quality* of institutional changes brought by the British. While overtly centralizing and modernizing administrative functions, colonial institutions privileged personal connections and nepotism and retained all the drawbacks of the traditional feudal system cemented with the apparatus of the modern state.⁷ At the same time, colonial accounts of South Asian society are replete with frustration at the predominance of friendship, nepotism, and the abuses of discretionary authority these allow. At heart is an argument about corruption and 'South Asian culture' which privileges family and friendship over the impartial state structures that colonial governance introduced. Advocates of empire will blame South Asian culture for the failed institutional transplant of British bureaucratic laws and institutions. Conversely, critics of empire claim that blaming South Asian culture is a racial argument, and that the institutions set up under colonial rule were geared towards maximizing discretionary authority, a process that has been exacerbated with the ascent of corrupt elites in the post-colonial era.

This emphasis on corruption as the rogue element undoing the performance of institutions is challenged forcefully in the articles by Akhil Gupta and Nayanika Mathur respectively. In an important contribution, Gupta questions why liberalization failed to curb corruption in India and highlights why particular sectors of the economy have witnessed an increase in corruption since 1991. By highlighting the importance of recent anti-corruption movements in India, Gupta explores why India has not transitioned from vertical corruption (pervasive corruption in a large number of transactions with citizens at all levels of the state machinery from the bottom up) to horizontal corruption (grand corruption in which political elites

⁷ See for instance Ayesha Jalal, *Democracy and authoritarianism in South Asia: A comparative and historical perspective* (Cambridge: Cambridge University Press, 1995).

extract large sums of money from corporate or commercial interests). Instead, he finds that the institutional nature of corruption has transformed and evidences this in a typology of corruption scandals. Gupta shows how both vertical and horizontal corruption flourish in India, but he distinguishes between the impact of each on the common man. He argues that vertical corruption engenders cynicism at the state among the citizenry and an increasingly lower threshold of tolerance for corruption, demonstrated in the popular Anna Hazare movement. Gupta focuses on the affective and emotional implications of corruption and the socio-political changes they can bring, in a powerful analytical step away from state/elite foci of institutional malaise.

Nayanika Mathur problematizes the role of corruption still further in a dense, empirical account of a poorly performing development programme. The article is based on her ethnographic work on the NREGA programme in Uttar Pradesh and Mathur contends that corruption is the lazy person's answer to why the Indian state fails with a startling regularity. Mathur shows that it was transparency rather than corruption that was to blame for poor performance under the programme, and she distinguishes between the *sarkari* (official) record of the programme and the *asli* (real) happenings as she witnessed them. By recounting the actions and practices among the bureaucracy to fill the documents that bore loose or no connections with the reality, Mathur shows how the traceability of corrupt practices remains a challenge. She uses the colloquial expression of 'paisa khana' (eating money) to follow a complex system of corruption and the leakage of money, and shows how a clamour for reducing corruption in the public domain is misplaced if it relies on official documents that do not reflect the actual realities of programmes. She argues that an over-emphasis on curbing corruption increased the amount and fictitiousness of the paperwork in the case of NREGA, ultimately rendering the programme unimplementable. In this intricate and thoughtful essay, Mathur leaves the reader with an important question: instead of castigating corruption, should the focus instead be on 'articulating the banal bureaucratic everyday that produces *sarkar* in the first place'?

The sociology of institutional reform

Critical evaluations of privatization and decentralization represent another perspective on institutional change: what processes are

unleashed when ossified institutional structures are given to private actors or when local government approaches are employed to improve governance? Kamal Munir and Jean-Paul Faguet take this on in their respective articles. Munir presents a grim view of privatization, emerging from his analysis of two key privatizations in Pakistan. The cases presented include the privatization of the banking sector and the introduction of private producers in the energy sector in the country. Munir traces the way the policy of privatization creates rent-seeking regimes and shows why there is little resistance to this. Using a mix of primary and secondary data, he shows how the performance of the organizations worsened significantly after privatization, in terms of efficiency, profits, and competition. Munir contends that it contributed to the simultaneous processes of the privatization of profits and socialization of risk, under a neo-liberal policy environment. Munir's erstwhile state institutions therefore end up representing a preferred, competitive alternative which was bartered away for the financial gain of particular parties. The answer to poorly performing state institutions is not a blanket policy of privatization facilitated by a neoliberal regime, but a more painstaking nurturing in problem areas.

Jean-Paul Faguet, in his analysis of decentralization in Bangladesh, shows how efforts from the bottom-up can deliver an efficient local government apparatus and also lead to better welfare indicators. Weaving a rich tapestry of the toil of the common man to achieve lasting change, Faguet shows how the broad-brushed enthusiasm for the schemes of technocrats and visionaries may be misplaced. Faguet reviews national-level evidence of decentralization in Bangladesh before delving deep into the particular dynamics at play at the local level. This is an important, positive contribution on the ways institutional and governance reform can be achieved. Faguet engages with the theoretical scholarship on decentralization before presenting a theory of local government responsiveness which is predicated on substantive, competitive politics. He then analyses the Bangladeshi context, demonstrating the overall national trends in social development in the country before focusing on the lowest levels of governance in two upazilas to understand incentives and effectiveness of public service delivery. Faguet brings rich insights from his work in the Sauria and Rajnagar upazilas, comparing their endowment and welfare indicators. Paradoxically, the richer upazila, Rajnagar, has worse health outcomes than Sauria. Faguet explains the difference by critically examining the day-to-day functioning of the health systems in both upazilas and finds Sauria had a more effective

system. The analysis becomes even sharper when it is revealed that this divergence occurred only in the last decade. Faguet provides the missing pieces of the puzzle by examining the underlying incentives and behaviours in local government, which clinch his argument that decentralization leads to heterogeneous responses. By showing the concrete steps to improved welfare gains, Faguet presents a successful story of institutional reform and its constituents.

These two articles therefore unveil institutions as resulting from a cumulative and incremental process rather than a single instrument, devised at a certain point in time. Models assuming a constant institutional set-up see change as discontinuous, requiring a crisis or an institutional breakdown to come into effect. They heavily emphasize the persistence and durability of institutions. However, an alternative approach could view institutions as the result of an *incremental process*, one that is evolving and altering not only via structural replacement but through everyday performance. Such a view also highlights the role of individuals manning institutions at particular points in time and humanizes terms like the ‘bureaucracy’ and the ‘legal system’ for their malleable and fallible everyday existence (this relates back to the earlier pieces on corruption as well.) It also opens up institutions to myriad possibilities of partial reform instead of dramatic overhaul. The task then is to navigate between the Scylla of structural determinism and Charybdis of unbridled agency in the contextual analysis of institutions.

Institutions beyond the state

The nail in the coffin of adherence to conventional institutional approaches in South Asia is driven by Barbara Harriss-White, in her article on the informal economy and institutional change in India. Over 60 per cent of India’s GDP is unregistered, and Harriss-White probes the economic and technical processes driving activity in the informal sector. Using a pentagon of traits—small firms, the informal economy, non-metropolitan sites, innovation, and the state’s relation to informality—Harriss-White takes the reader on a tour of the motor-forces driving the Indian economy. Her case study of the town of Arni in Tamil Nadu, explores the dynamics of a commodity economy and the innovative behaviour that characterizes it. She distinguishes between three types of innovation—inventive, adaptive, and adoptive—that characterize the town’s economy before raising the question of which

institutions encourage innovation. Harriss-White shows the dynamic nature of the informal economy driven by ‘cultures of collegiality, the failure of the state’s provisioning and infrastructural agencies, and innovation in the state’. She concludes the analysis with an examination of the institutional cradle that facilitates innovation and demonstrates how in the case of Arni, ‘a coherent informal institutional structure for innovation has yet to emerge, and may never do so’.

This special issue brings together a cross-disciplinary examination of institutions and policy reform in South Asia, juxtaposing articles on the historical development of institutions in the region with ongoing government interventions aimed at institutional reform. It interrogates the very idea of institutions as static or state-based, as well as their perceived role in economic development. Institutions may also be informal and dynamic. Some articles shed light on the historical antecedents of contemporary state structures while others explore the range of consequences of privatization and decentralization as the behemoth of institutions recedes from view. Together, these articles underline the need for a more nuanced understanding of institutions in South Asia and their relationship with economic development that considers the horizontal (regional) and vertical (temporal) variation in institutions. It presents a collection of articles that diverge in their focus and technique, but challenge the received narratives of institutional discourse. Together we hope they will lead to more informed and nuanced debates on the role of institutions in the economic development of South Asia.