CENTER FOR INSTITUTIONAL REFORM AND THE INFORMAL SECTOR

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I. Introduction

The Center for Institutional Reform and the Informal Sector (IRIS) is an internationally recognized source of research and advisory expertise for addressing economic growth and governance issues in transition and developing countries. Led by Director and Principal Investigator Charles A. Cadwell, IRIS has more than 160 experienced economists, lawyers, social science and other staff worldwide who carry out research, advisory assistance and disseminate ideas to policy makers and others, ultimately contributing to the well being of millions of people.

A grant from the United States Agency for International Development (USAID) launched IRIS on August 31, 1990. The aim was to foster legal and economic reform by creating and disseminating knowledge about the relationship between institutions and economic growth. It was also to assist organizations and individuals studying and improving institutions in their own countries. Members of the IRIS staff, both at College Park and worldwide, have carried out hundreds of research activities and advisory assistance projects, and disseminated ideas and lessons learned to governments, donors, academics and civil society. IRIS has worked in 67 countries, drawing support for its activities from a wide variety of donors and other organizations such as the World Bank, the Asian Development Bank, the Inter-American Development Bank, the German Development Agency, the Swedish International Development Cooperation Agency, the U.S. Department of Defense, the Mott Foundation, the Soros Foundation and the Tinker Foundation.

The following section of this report represents the vision of Mancur Olson, the IRIS founder and principal investigator from 1990 until his death in 1998. He describes what he considered "the needed research," focusing on the relationships between institutions and economic development in developing and transition countries. Many of the fruits of Prof. Olson's intellectual call to arms will be synthesized into a series of forums to high-level USAID decision makers (and later to field missions through a Web version) over the period 2001-2002. The forums, funded under the SEGIR/LIR IQC, will bring together world-renown experts to present and debate the insights of this new institutional economics perspective and how they bear on improving aid programming and effectiveness.

The rest of this document summarizes the high points of IRIS research produced since IRIS's inception in 1990. The focus of this summary is on research that was supported under Cooperative Agreement No. DHR-A-00-90-00031-00 from August 31, 1990 through December 31, 1999, with particular emphasis on those research outputs that are of particular relevance to the current and future work of USAID.

II. The IRIS Idea: The Needed Research

Much of the best research on economic growth has postulated an aggregate production function in which output is a function of two or three aggregated factors of production. The three conventional aggregate factors are, of course, capital, land (or land and other natural resources), and labor (or human capital, including the skills, culture, and entrepreneurial abilities of the population). The increase in output that is not explained by the increases in the quantity of the familiar factors of production—the "residual"—is usually attributed to the advance of knowledge. Many researchers have emphasized inadequate supplies of one or the other of the classical factors as the decisive problem for economic development.

When the study of economic development first became a separate specialty, almost everyone believed that the main obstacle to development was a lack of savings and capital goods. Costly capital goods are, of course, needed for a modern economy. Nonetheless, high rates of forced saving and investment have in fact failed to prevent economic failure in the Soviet-type societies. There has also been no correlation between the amounts of capital provided to countries through foreign aid and their rates of economic growth. In the many poor countries with very little capital in relation to the supply of labor and natural resources, the marginal product of capital should be many times higher than it is in the capital-rich countries, at least if a shortage of capital is the decisive obstacle to development. If other things were equal, this would imply a gigantic gain to investors from shifting their capital to the countries with the least capital, but usually this has not occurred—capital often even flees from capital-poor to capital-rich countries. This suggests that other things are by no means equal and that the supply of capital cannot be an exogenous variable in any model that succeeds in explaining economic growth.

Many observers have similarly taken it for granted that shortages of land and other natural resources arising from overpopulation are the main cause of poverty. Diminishing returns to labor are an obviously important reality. Yet the low-income countries of the world are, in fact, slightly less densely settled, on average, than the rich ones. The relatively prosperous countries of Western Europe and Japan have population densities as great or greater than India and most other low-income countries. Some of the most successful developing economies have been crowded cities like Hong Kong and Singapore, which support huge populations with virtually no natural resources. There is also no correlation between the rates of growth of population and of per-capita income across the countries of the world.

Other students of development have focused on labor and supposed that education, or cultural attitudes toward work and saving, or the different traits of various peoples, were the key to economic development. Human capital is an obvious determinant of productivity. Nonetheless, those individuals from poor countries who happen to be able to enter the economically successful countries usually produce several times as much in the new institutional environment as they did in the one they left, even before they have been in the new environment long enough to have acquired a different culture or education. There are immigrants to the United States from both poor and rich countries, but the differences in the average earnings in the U.S. across these groups of immigrants is very small in comparison to the differences in per-capita incomes in the countries of origin. In addition, the same peoples who fail to prosper under one set of institutions succeed brilliantly under another, as the experience of the Chinese, the Germans, and the Koreans shows. Thus a large part of the differences in per capita income across countries cannot be accounted for through differences in education or in the willingness to work or to save.

The dramatic differences in real per-capita incomes between Eastern and Western Europe, or between the less developed and the most developed countries, certainly cannot be explained by differences in access to the world's stock of technological knowledge. To a great degree, the ideas and production functions used in the richest countries are available to the world. Technological discoveries and other ideas can be used by ever more countries without being depleted or congested and they are often also un-patentable and thus available free of charge. Those few low-income countries that have found the right institutions have accordingly been able to enjoy uniquely rapid "catch up" growth. The many developing countries that lack the appropriate institutions, like the Soviet-type countries, usually have, in spite of their opportunity for technological borrowing, slower "residual" or productivity growth than the advanced countries.
Evidently neither the amounts of the conventional aggregate factors of production nor the opportunities for technological borrowing are able to explain economic performance. The process of elimination suggests that the economically successful countries must have systematically different institutions—different legal and organizational arrangements and economic policies—than the economies that have failed. Observation confirms that this is in fact the case.

Thus the working hypothesis of the project on Institutional Reform and the Informal Sector (IRIS) is that the quality of a country's institutions is a principal determinant of its economic performance. While recognizing that other factors, including the conventional aggregate factors of production and the rate of advance of knowledge, are also important, IRIS will focus on research into the relationships between institutions and economic development, both in Eastern Europe and in the Third World.

No one idea will guide all of the prospective research about institutions and economic development. It may nonetheless be heuristically useful to discuss one hypothesized link between institutions and development that is suggested by the difficulties and disappointments associated with the transitions to market economies in Eastern Europe. It is becoming clear that a country cannot obtain a competitive market economy simply by repealing communism and making sure that the government does not interfere with the economy. A thriving market economy does not emerge automatically. It requires institutions that most people in the economically developed democracies unthinkingly take for granted, but that the emerging democracies of Eastern Europe and the societies of Africa, Asia, and Latin America usually do not have.

A thriving market economy apparently requires, among other things, institutions that provide secure individual rights—that insure that individuals, and the firms that they create, can best advance their interests by being as productive as possible and engaging in mutually beneficial trade. The incentives to save and to invest depend upon individual rights to marketable assets—on property rights.

Similarly, a society cannot have much borrowing and lending or obtain many of the other gains from mutually advantageous trade unless individuals and firms have the right to make contracts with one another that will be impartially enforced. If there is no right to create legally secure corporations with limited liability, the private economy cannot properly exploit those productive opportunities that are too large for most individuals to undertake. If there is no legal framework to encourage invention through patents and copyrights or to facilitate risk sharing through insurance and hedging in futures markets, a market economy will be defective.

Even in some of the countries where all the foregoing rights are available, they are not secure. Some dictatorships have, at times, provided individuals with the rights needed for competitive markets and thereby brought about periods of rapid economic growth. Yet the dictators' subjects have not only lacked political freedoms, but also any confidence that their property and contract rights will continue to be respected if the regime, or even the dictator's policy, changes. Thus the market rights do not elicit as much investment and economic advance as would have occurred if everyone were confident that they would last. It is only in the stable, developed democracies that there is widespread confidence that the individual rights needed for a thriving economy can be relied upon over the long run. These are the societies where property and contracts are most predictable. It is in these societies that capital is least scarce and where it would accordingly be expected to have the lowest return. Capital nonetheless often flees to these societies from capital poor countries with undemocratic, unstable, and otherwise inadequate institutions. It is probably no accident that the countries in the world with the highest per capita incomes are stable democracies.

There is a strange dualism in governments that partly explains why the institutions needed for successful development are not more generally understood or more widely used. In the absence of government, a powerful individual may physically possess something, but no one has any socially enforceable rights—there is no private property without government. Neither are there contracts, corporations, or patents. The relatively large informal sectors in most developing countries are much less productive than they would otherwise be because the relatively poor and powerless individuals in these sectors have almost no legal rights.

Just as governments are essential for individual rights, so governments are also the greatest threat to these rights. It is only governments that can expropriate property on a large scale, or unilaterally change the terms of contracts, or systematically repress mutually advantageous trade. Thus we arrive at the paradoxical hypothesis that sustained economic development may require governments that are strong enough to last indefinitely, yet so limited and restrained that they do not use their overwhelming power to abrogate individual rights.

This last hypothesis is meant to illustrate rather than delineate the area of research addressed by IRIS. Among the other problems on which research is needed is the special difficulty of establishing efficient and incorruptible large scale organizations, both governmental and corporate, in poor societies. In less developed societies today, as in Europe in pre-industrial times, the moral commitments to small units, such as village communities, tribes, and extended families, are impressive, but faithfulness to the purposes of large organizations and to the impersonal rules that are needed if they are to function honestly and effectively is usually lacking. The principal-agent problems in bureaucracies in pre-industrial countries are notorious. Therefore, diseconomies of scale appear to be an important reality in low-income countries and this implies that these countries will not usually have comparative advantage in those types of production that require large-scale organization.

The same information problems that especially handicap large bureaucracies in poor countries also sometimes generate problems in credit, insurance, land, and output markets, at least when trade reaches beyond traditional small social units. For example, credit is not available to many poor farmers, not only because legal rights are often not well defined, but also because farmers lack collateral, violations of credit contracts are costly to verify, and loan quantities are too low to justify the costs of administration. Interestingly, alternatives to impersonal credit markets in the form of lending or financial intermediation by small community groups that rely on peer pressure may entail better and much less costly enforcement than the existing formal legal system. Programs to expand the market for livestock and to insure farm animals have often failed because of the high costs of monitoring the activities of farmers and the quality of animals, yet there have been some successes in cattle insurance where it was accompanied by widely available veterinary services that could monitor farmers' care of animals at low cost. In general, a successful economy requires both private and public institutions that limit the costs of information, bargaining, and transactions, and many of these institutions are lacking in both the developed countries and in Eastern Europe.

There is also a need for more research on the extent to which societies have coalitional or organizational structures that emphasize distributional struggle as opposed to production and mutually advantageous trade. In many countries, whether developed or developing, there is a high density of organizations designed to seek special-interest favors from government or to cartelize markets. In some countries, such as Argentina, this problem may well be overwhelming, and it appears to be important even in explaining some problems in developed countries, such as the "British disease" of slow growth. There is also evidence that collusions for distributional advantage of a smaller and less conspicuous (but by no means necessarily less damaging) kind are important in explaining the extraordinary deterioration in economic performance over time in the Soviet-type economies. This is yet another example of the type of institutional question on which IRIS focused its research.

III. Summary of IRIS Research

The IRIS Center published 10 books from 1990 through 1999. The Center also produced 236 working papers, 81 articles in refereed journals, 29 country reports, 17 social capital initiative papers, and 4 Bangladesh papers. The topics of this output are wide-ranging, but much of the work deals with the causal relationships between economic development and various kinds of institutions—defined as the sets of rules and procedures by which transactions are conducted by markets and other social organizations, including the government. Under this general rubric, four themes cover the most significant research sponsored by IRIS over the past 10 years:

A. *Governance institutions and growth: the nature and implications of incentives facing the state*
B. *Legal and economic policy institutions, and growth: incentives and the operation of markets.*
C. *Social capital, social norms and collective action.*
D. *Special problems of the transition.*

The following is an annotated list of those IRIS outputs that are the most significant and applicable to the goals and operations of USAID. Summaries are given for a selected group of these papers. Other IRIS publications are listed in a final section.

A. Governance institutions and growth: the nature and implications of incentives facing the state

Institutions, such as constitutions, campaign finance laws, and the norms of political parties, all shape political processes and the resulting actions of government. Given the incentives embodied in these institutions, interest groups endeavor to shift the balance of power their way, seeking influence and control over policy mechanisms, the development of new laws and regulations, and the allocation of resources. The resulting political process—and the extent to which the outcome embodies an Olsonian "encompassing interest"—determines the trajectory of economic development over time. Mancur Olson's own work, and that of many of his colleagues and followers, wrestle with the impact of political—e.g., democratic—institutions on the development of markets. A proper understanding of the evolution of political institutions, their impact on economic development, and the impediments to political reform is required for well-designed projects for helping recipient countries improve their institutions of governance. Such an understanding is especially crucial for the design of anti-corruption projects.

- Mancur Olson, *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships*, New York: Basic Books, 2000. Posthumously published, this book outlines Olson's thinking on issues of governance and growth, and applies his ideas to an analysis of how the Soviet state system evolved, and how that evolution created both impediments and opportunities for the transition economies. Olson contends that the reliable enforcement of private contracts and the protection of individual property rights depend on governments strong enough to guarantee these rights, yet constrained enough not to undermine them—in short, that "market-augmenting government" is the path to prosperity. He explores this conclusion with particular respect to the Soviet Union and its successor states, but the implications extend to anywhere that prosperity remains elusive.

- Mancur Olson and Satu Kahkonen (eds.) *A Not-So-Dismal Science: A Broader View of Economies and Societies*, Oxford University Press, 2000.[1] The key theme emerging from this volume is the interaction between political, economic, legal, and social forces. The editors and contributors of this book discuss and analyze these many factors, leading to the conclusion that economics is at the forefront of the movement toward a unified social science. The following contributions are of particular importance:
    - Mancur Olson, "Dictatorship, Democracy, and Development." Originally published in the American Political Science Review, 87(3) (September 1993), this chapter analyzes the kings or dictators who control autocratic governments—and the oligarchies or majorities or other ruling interests that control other types of governments—in just the way that economists analyze the behavior of firms, consumers, and workers. That is, it takes a broader approach to economics by applying the familiar assumption of rational self-interest to the ruling interests that control a government, and then finds what types of policy will best serve that ruling interest.
    - Mancur Olson, "Big Bills Left on the Sidewalk: Why Some Nations Are Rich, and Others Poor." In this article, originally published in the *Journal of Economic Perspectives*, 10(2) (Spring 1996), Olson attempts to show that the low-income countries of the Second and Third Worlds are poor not so much because of their lack of physical and human capital—the traditional explanations—as because of their institutions, which keep them far below their potential incomes. If these countries improved their governance sufficiently, they would obtain colossal gains from foreign investment and advanced technologies. Generally, the article illustrates that governance not only matters, but also that it is critical to, economic performance.
    - A chapter by Pranab Bardhan, "The Nature of Institutional Impediments to Economic Development," considers governance, institutions, and (especially) the difficulties of collective action and their importance in determining whether there is stagnation or progress. Bardhan emphasizes that there is no necessity for spontaneous or automatic processes in order to obtain socially efficient or desirable outcomes, and then points out how the obstacles to collective action can not only keep spontaneous or market forces from automatically eliminating dysfunctional institutions, but also keep societies from obtaining adequate supplies of public goods. He elaborates on social fragmentation as a key example of one of these obstacles.

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[1] While the papers by Olson, and the work of bringing the book out for publication, were supported by the Cooperative Agreement, the contributions by other scholars were funded under a separate USAID grant.

  - Another important chapter is by J. Bradford De Long, entitled "Overstrong Against Thyself: War, the State, and Growth in Europe on the Eve of the Industrial Revolution." De Long, in analyzing early modern Western Europe, demonstrates how it was the interests of kings and the forms of government that mainly determined whether there was economic growth or stagnation—and even partly explain the source of our modern world, the Industrial Revolution. De Long explains the importance of the incentives facing the leaders of governments—and the intimate connection between these incentives and property and contract rights.

- Martin C. McGuire and Mancur Olson, "The Economics of Autocracy and Majority Rule: The Invisible Hand and the Use of Force," *Journal of Economic Literature (*1996) 34. McGuire and Olson are the first to derive an incisive explanation of how governments combine political and economic calculation to balance the competing choices between public good allocation and group discriminatory redistribution. These choices lie on a spectrum between the two polar extremes of utopian democracy and perfect autocracy. The authors show that democracies can be expected to tax at lower rates and provide better public goods than autocracies, because the majority will internalize some of the distortion costs of redistribution. The paper establishes an analytic framework for understanding the crucial decisions between investment and redistribution that all governments must make. Because it illuminates how the incentives to make these decisions depend on the political configuration of society, the analysis is applicable to a very wide class of problems where political and economic calculation interact.

- Steve Knack and Phillip Keefer, "Does Inequality Harm Growth Only in Democracies? A Replication and Extension," *The American Journal of Political Science*, Vol. 10 (2) Spring 1996. This paper critically examines the venerable political-economy hypothesis that the security of private property is incompatible with democracy: since a certain amount of inequality in wealth and income is inevitable in any market system with private property, majority rule voting implies keeping property rights in flux, because the median voter will always support redistribution schemes favored by the poorer half of voters. Persson and Tabellini claim to provide support for this model in an influential article: while not directly examining property rights, they make inferences from growth performance and find that greater income inequality is related to slower growth in per capita incomes in democracies, but not in autocracies, arguing that this result is consistent with the view that majority-rule voting makes property rights less secure. Knack and Keefer argue that autocrats' policies are not wholly insensitive to the preferences of some important constituencies (if not majorities); accordingly, greater inequality could be associated with insecure property rights in autocracies (through political instability and violence for example) as well as in democracies. They show that the empirical results of Persson and Tabellini are produced entirely by measurement error in income inequality and in their regime type indicator. Correcting for measurement error, the relationship between inequality and growth is equally strong in democracies and autocracies.

- Mancur Olson Jr., Naveen Sarna, and Anand V. Swamy, "Governance and Growth: A Simple Hypothesis Explaining Cross-country Differences in Productivity Growth," July 1998, IRIS Working Paper #218. This paper links empirically the changes in total factor productivity to quality-of-governance indicators by employing subjective indicators of property rights, contract enforceability, and bureaucratic inefficiency and corruption. The authors show for a sample of 58 developing nations that policies and institutions—as measured by the ICRG index and the black market currency exchange premium—explain a substantial part of the cross-country variation in total factor productivity growth. Coupled with the links between governance and factor accumulation demonstrated by Knack, Keefer et al, this evidence supports a modified neoclassical growth model in which the quality of governance affects economic performance through various channels.

- Mancur Olson and Satu Kähkönen (eds.), *A New Institutional Approach to Economic Development: Achieving India's Full Potential*, forthcoming. The first part of this book contains the papers published in the book *A Not-So-Dismal Science*, while the second part explores how the approach presented in that volume is relevant to India. This additional part describes the specific applications of this broader approach to India in the areas of technology policy, trade, agriculture, and public finance.

- Patrick Meagher (ed.), *Governance and the Economy in Africa: Tools for Analysis and Reform of Corruption*, Center for Institutional Reform and the Informal Sector, 1996. This volume is about the ways in which contemporary developing nations have begun to impose discipline on those holding power, and more importantly how African societies can do so on a much greater and more permanent basis. This volume places the economic harms of corruption in the foreground, with the aim of helping to identify and prioritize those areas where the harms are greatest and the problems most susceptible to resolution. This is the crux of policy choice in this area. Just as important, this volume focuses on African experiences and on approaches relevant to African reformers. The aim, in sum, is to provide an appropriate resource for the region.[2]

B. Legal and economic institutions and growth: incentives and the operations of markets

Institutions that define and enforce contracts, make possible the use of collateral in borrowing, provide a legal basis for complex long-term transactions, define and ensure property rights, and above all, prescribe and enforce social order, have been shown in a

[2] This project was USAID-funded but not under the Cooperative Agreement.

number of IRIS studies to be closely correlated with economic growth. Empirical evidence on which legal and economic institutions are especially strongly correlated with economic growth can be useful to USAID in targeting their programs of legal and regulatory reform. This evidence is relevant to such projects as drafting new commercial codes, creating business and collateral registries, reform of judiciary systems (and other mechanisms for contract enforcement), building an institutional framework for competition policy and natural monopoly regulation, and eliminating administrative (and other) barriers to entry

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- Mancur Olson and Avinash Dixit, "Does Voluntary Participation Undermine the Coase Theorem?" The 'Coase Theorem' states approximately that 'governments do not need to worry about externalities because private agents will transact among themselves and reach optimal outcomes.' A similar analog can be applied to the public goods problem. The theorem as stated is a powerful and very widely cited 'result' that has had several important policy applications. Dixit and Olson's article, originally titled "The Coase Theorem is Wrong," shows how the Coase theorem falls apart when there are any transactions costs. Thus, in the presence of even the smallest uncertainty about private valuations of public goods, a medium-size or large group of people would almost certainly not agree on the efficient way to resolve these problems.

- Christopher Clague, Phillip Keefer, Steve Knack and Mancur Olson, "Contract-Intensive Money: Contract Enforcement, Property Rights, and Economic Performance," *Journal of Economic Growth*, 1999. Although many trades are "self-enforcing," so that the gains from them can be obtained irrespective of what governments do, much economic activity is highly sensitive to governmental policies. The authors thus introduce an objective measure of contract enforceability and property rights, which they call "contract-intensive money" or CIM, equal to the proportion of M_2 not comprised of currency outside banks. The logic behind CIM is that for numerous reasons, individuals will hold a larger proportion of their financial assets in the form of currency in environments where third-party enforcement of contracts is unreliable. Through country case studies, the authors show that CIM varies over time in response to political events in ways predicted by their arguments. They also demonstrate that CIM is positively related to investment and growth rates, and to the relative size of contract-dependent sectors of the economy.

- Christopher Clague, Philip Keefer, Steve Knack and Mancur Olson, "Property and Contract Rights in Autocracies and Democracies," *American Journal of Political Science*, 1997. The authors present and test empirically a new theory of property and contract rights. Any incentive an autocrat has to respect such rights comes from his interest in future tax collections and national income, and increases with his planning horizon. The authors find a compelling empirical relationship between property and contract rights and an autocrat's time in power. In lasting—but not in new—democracies, the same rule of law and individual rights that ensure continued free elections entail extensive property and contract rights. The authors show that the age of a democratic system is strongly correlated with property and contract rights.

- Steven Knack and Phillip Keefer, "Institutions and Economic Performance" *Economics and Politics*, 1995, republished in *Democracy, Governance and Growth* (Steven Knack ed.) forthcoming. In this now seminal paper, Knack and Keefer examine the effect of property rights and other measures of governance on economic growth. Their central finding is that there is a large and statistically significant effect of property rights and governance on economic growth. Knack and Keefer use two measures of governance on produced by BERI (Business Environment Research International) and another produced by ICRG (International Country Risk Guide— now Political Risk Services). The latter (ICRG) measure has now become an industry standard in the study of economic growth and is used in most empirical studies of the subject. The WDR, a globally distributed document, now reports this measure in its statistical tables and a recent study (Sala-i-Martin 1999), which ran 4 million regressions, found it was one of the most robust determinants of economic growth.

- Satu Kähkönen and Anthony Lanyi (eds.), *Institutions, Incentives and Economic Reforms in India*, forthcoming. The contributors to this volume argue that without the appropriate institutional and political underpinnings, economic reforms will be only partially successful. Not only could they fail but they may even lead to outcomes that are worse than the original situation. The papers in this volume illustrate the efficacy of this new institutional approach with reference to a number of crucial policy areas—privatization, fiscal policy, agricultural reform, labor policy, and financial sector development. In each of these sectors, the contributors demonstrate the need for a reform effort based not only on known policy prescriptions, but also on devising means of overcoming those institutional factors and incentives that impede reform. Among the issues discussed are the interplay of center-state relations and their impact on policy; the poor incentive structures faced by both tax payers and government officials; inadequate coordination among different levels of government, which results in the poor delivery of services; outdated government marketing schemes that impede agricultural growth; and strategies to improve the operations of the financial and labor markets.

- Omar Azfar, "Sufficient Conditions for Rapid Convergence," March 1999, IRIS Working Paper #230. What must a developing country do to grow rapidly? The answer to this question should consist of conditions that, if satisfied, almost always lead to rapid economic growth. Azfar identifies a set of "sufficient" conditions for rapid convergence. All market economies that perform above average on institutional quality, trade openness and educational enrollment, and avoid high inflations, converge in incomes as fast as regions converge within countries. There are no exceptions to the rule and the convergence regression has a good fit.

- Omar Azfar, Thornton Matheson and Mancur Olson, “Market-Mobilized Capital,” June 1999, IRIS Working Paper #233. One important channel by which market-augmenting government affects economic growth is through its effect on market-mobilized capital—the level of capital mobilized by market mechanisms. Market-augmenting government, which is measured in part by both statutory law and law enforcement, affects the magnitude of market-mobilized capital, and through this and other channels, economic growth. This variable, market-mobilized capital, allows us to identify, more clearly than in previous work, the causal links between finance and growth, and to show clear links between statutory law and economic performance.

- Ross Levine, “Napoleon, Bourses, and Growth: With a Focus on Latin America,” March 1999, IRIS Working Paper #229. Stock markets are not merely casinos. A growing body of research suggests that access to well-functioning stock markets helps spur economic development. Of equal relevance to policymakers, countries where legal codes stress the rights of shareholders and where the regulatory system rigorously encourages corporate information disclosure tend to have better developed financial markets. Many Latin American governments fail to augment the functioning of private markets. Specifically, these governments do not encourage the dissemination of comparable high-quality corporate financial statements and they fail to provide effective legal protection to minority shareholders. Part of Latin America’s approach to markets is due to its Napoleonic legal heritage. Together, these legal/regulatory features help account for the comparably underdeveloped state of Latin America’s bourses and its disappointing growth.

- John Wallis, “The States and the Corporations in Early Nineteenth Century America,” March 1999, IRIS Working Paper #228. John Wallis traces the fiscal and ideological roots of the policies of American states towards incorporation. These were to form the blueprint for the limited liability company, which dominated commercial activity in the twentieth century, and appears to be expanding its dominion at the turn of the twenty-first. The paper describes how fiscal interests were important in determining the policies that states set with regards to companies. Initially states encouraged and protected monopolies, but eventually adopted legal institutions, specifically company law, which followed rules of fairness and efficiency by allowing incorporation following general rules. The paper discusses the political forces that led to this evolution throughout the United States.

- Robert Summers, “Some Basic Ways Good Law, Good Legal Institutions and Sound Principles of the Rule of Law Can Help Augment Markets,” March 1999, IRIS Working Paper #227. The first part of this paper details several requirements from good contract law, and supporting institutions, for the augmentation of the market for loans. Summer’s analysis shows the complexity of the requirements for market-augmenting government, which makes it a little less surprising that governments everywhere do not effectively augment the market for loans. The second part of the paper asks why some countries have good laws and good legal institutions and others do not, and one answer that Summers conjectures is that they have an ideological preference for law-likeness. While Summers appears to agree with the received wisdom of the day—that the central role of government is to allow private parties to interact as they will—his paper demonstrates the complex legal requirements for establishing this seemingly elementary freedom in practice.

- Peter Murrell (editor). *Assessing the Value of Law in Transition Economies*, University of Michigan Press, June 2001. Please see the reference to this volume under the category "Special Problems of the Transition."

C. Social capital, social norms and collective action

Self-interest, narrowly defined, does not explain all human behavior or social outcomes. Many institutions, especially informal, affect interactions of individuals with markets and governments. Much economic life takes place outside the official sanctions of the state, or precedes legal and political development. Small-scale markets, including credit markets, and in general what is called the "informal sector," depend on voluntary action and social norms at the village or neighborhood level. These microeconomic phenomena, however, are of great macroeconomic importance, because in many poor countries they affect a large part, even the majority, of the population. A better understanding of such phenomena can contribute to better targeted projects for improved delivery of public services at the local level, support of microcredit institutions (and other assistance to small business), and in general more widespread and effective stakeholder participation in local government.

- In the book, *Institutions and Economic Development*, Johns Hopkins University Press, 1997, edited by Christopher Clague, there are three chapters of particular importance to USAID. These are:
  - Elinor Ostrom, "Investing in Capital, Institutions, and Incentives." This chapter explains the ways in which social capital is created and maintained. By comparing irrigation projects, one highly successful and one less so, she demonstrates the importance of the structure of rules and stakeholder participation to the delivery of state services and the success of community organizations.
  - Charles Cadwell, "Implementing Legal Reform in Transition Economies." Cadwell describes the conditions in Russia that impede the establishment of a rule of law, and argues that in this environment, donors can be most helpful if they think of particular policy debates as opportunities to educate many different political actors about how policy should be formulated and implemented rather than as specific laws to be corrected.
  - Robert Picciotto, "Putting Institutional Economies to Work: From Participation to Governance." Picciotto contends that institutional economics can play an important role in guiding the activities of development practitioners. He presents a conceptual framework for

thinking about institutional design in terms of hierarchy, market, and participation principles. Using this framework, he clarifies the goals of reform programs and the issue of the respective roles and contributions of the public, private, and NGO sectors.

- Anand Swamy, Young Lee, Steve Knack, and Omar Azfar, "Gender and Corruption," November 1999, IRIS Working Paper #232. Using several independent data sets, the authors investigate an aspect of corruption that has received little attention: its differential incidence by gender. The authors use micro data to show that women are less involved in bribery, and are less likely to condone bribe taking. Cross-country data show that corruption is less severe where women comprise a larger share of the labor force, and where women hold a larger share of parliamentary seats.

- Steve Knack and Phillip Keefer, "Does Social Capital Have an Economic Payoff?" *Quarterly Journal of Economics*, 1997. This paper presents evidence that "social capital" matters for measurable economic performance, using indicators of trust and civic norms from the World Values Survey for a sample of twenty-nine market economies. Membership in formal groups—Putnam's measure of social capital—is not associated with trust or with improved economic performance. The authors find trust and civic norms are stronger in nations with higher and more equal incomes, with institutions that restrain predatory actions of chief executives, and with better-educated and ethnically homogenous populations.

- Christopher Clague, "Rule Obedience, Organizational Loyalty, and Economic Development," *Journal of Institutional and Theoretical Economics*, 1993. This paper attempts to advance our understanding of institutional differences across societies by exploring some of the determinants of rule obedience and organizational loyalty. A basic idea in the paper is that there are forces that lead societies to evolve to very different levels of rule obedience. The forces sustaining these different levels include both narrow considerations of self-interest and the evolution of attitudes that reinforce past patterns of behavior. Somewhat similar sets of forces operate within organizations to produce different levels of organizational effectiveness.

D. Special Problems of the Transition

While transition economies face the same problems as developing economies, building a set of effective market-augmenting institutions—governmental, legal and market—is a task that has been carried out in the face of special obstacles and "path dependencies," created by the structures and attitudes that still persist from the previous Communist regimes. USAID's extensive programs in this region cover many of the same areas as those already mentioned under the headings of governance, legal and economic institutions, and social capital; but generally, these programs must be designed differently to cope with the special environment created by the institutions and behavior that still carry over from the Communist system. Research into special problems of transition can assist USAID design programs that are especially fitted for this group of countries.

- Christopher Clague and Gordon C. Rausser (ed.) *The Emergence of Market Economies in Eastern Europe*, Blackwell Publishers, 1992. This book is a compilation of works by leading Western economists that discusses the many social arrangements—contract law, secure private property, a predictable taxation policy, a stable monetary structure, and an appropriate regulatory framework—that must be constructed in order to enable market forces to enhance productivity in Eastern European economies. The book's chapters are classified into four general topics: overall approaches to the transition; macroeconomic balance and financial discipline; government policy towards the private sector; and privatization policy and the current state of privatization plans. This volume was the first to offer a comprehensive overview of this uncharted territory.

- Paul H. Rubin, "Growing a Legal System in the Post-Communist Economies," *Cornell International Law Journal*, Vol. 27, No. 1, Winter 1994. The article reviews problems with contract law in transition economies, problems that are especially severe in Russia. The author argues that private mechanisms (e.g., reputation and self-enforcing agreements) can be used to facilitate exchange; that government can encourage the use of these mechanisms (thereby assisting private parties and economizing on government resources), especially by enforcing private arbitration decisions; and that the results of these private decision processes can be incorporated into the law when legal code revisions occur.

- Peter Murrell (editor). *Assessing the Value of Law in Transition Economies*, University of Michigan Press, forthcoming. The special circumstances inherited by a transition economy create a situation where law may not play the same market-augmenting role as it does in an established market economy. Many of USAID's activities have been premised, however, on the assumption that building legal institutions inside transition economies will lead to economic growth. The essays in this book examine this assumption from several different angles and thereby assist USAID in refining its programming and its expectations of what reform will bring. The over-arching aim of the book was to develop from the experience of the transition countries insights into how legal and institutional reforms work, asking to what extent they added value in the transition and under what circumstances were they successful, or not. Instead of broad assessments applying only general legal reasoning or macroeconomic analysis, each essay focuses on analysis of the individual economic agent who is subject to the new institutions, examining the microeconomic pathways through which legal and institutional reforms change economic activity. The following contributions were noted by a reviewer of the book as especially outstanding:
    - Kathryn Hendley, Peter Murrell, and Randi Ryterman. "Law Works in Russia: The Role of Legal Institutions in the Transactions of Russian Enterprises." The authors use survey data to examine whether law and legal institutions add value to Russian transactions. They find that

enterprises view legal institutions relatively benignly. Inter-enterprise contacts are important in resolving transactional problems, but courts are used when negotiations fail. Legal strategies affect transactional success, while the potential for hold-up reduces success and the nature of ownership and control affect the ability to sustain relationships. They conclude that law works in Russia because their results show that the economic and institutional environment rewards enterprises that invest effort in constructing contracts, that possess superior legal knowledge, and that orient legal work to new opportunities.

- Katharina Pistor. "Law as a Determinant for Equity Market Development: The Experience of Transition Economies." Pistor cautions against assuming a simple causal relation between the enactment of "good" law and desired economic outcome variables. Instead, she proposes that the efficacy of particular rules depends to a large extent on preexisting conditions. Moreover, different sets of rules interact with each other. In the context of stock market development, the most important sets of legal rules include shareholder property rights and investor protection, as well as stock exchange trading rules. She analyzes the interaction of these different rules within the given constraints of particular countries, taking the development of the Czech, Polish, and Hungarian stock exchanges as examples. It is suggested that for the development of stock markets in these countries, investor protection rules that differed considerably across countries at the outset of reforms, were more important than shareholder property rights, which were rather similar and weak across the board.
- Kathryn Hendley. "Beyond the Tip of the Iceberg: Business Disputes in Russia." Hendley explores how disputes between trading partners in Russia evolve, so that most never reach courts. The early stages of the process are important because they shape the structure of disputes and bring to light the social and economic factors that influence the decision to move forward. This approach provides a more complete understanding of the role of law, legal actors, and legal institutions at every stage of this process than is possible through detailed analyses of judicial decisions, pleadings, or caseload statistics. It is also helpful in assessing the level and nature of litigation, i.e., whether the "right" disputes are being litigated. Law and legal institutions emerge as necessary but not sufficient conditions for pursuing delinquent customers through to litigation. Other factors are clearly more important. In particular, levels of competition and uncertainty have a significant impact on behavior.
- Daniel Berkowitz, "Does Russian Legal Reform Matter? Evidence from Crude Oil-Export Allocations." During the transition period, product market competition increased in the Russian crude oil sector, but the federal government retained almost near monopoly control over crude oil transport and export allocation by retaining a controlling stake in the pipeline-transport joint stock company Transneft. The government attempted to use a law passed in 1996 to allocate export capacity. The paper empirically assesses the effect of the law on actual allocation and

compares its effect with other factors. Controlling for this allocation law, scarce capacity was allocated to reward firms that incurred debts from sales due to non-payments from buyers in the domestic market and CIS (Commonwealth of Independent States) market, and some attention was paid by implementers of the law to efficiency considerations such as distance to port and production efficiency.

- Anthony Lanyi, Neil McMullen and Leonid Polishchuk, "Technical Assistance for Russian Fiscal Reform." (A Study for USAID-Moscow, July 17, 1997).[3] In addition to reviewing technical assistance to Russia in the fiscal area, the study presents an analysis of the fiscal situation in Russia, showing how the legacy of central planning, compounded by subsequent political conflicts, have led to inadequate tax revenues. The economic and institutional factors impeding Russian fiscal reform are broken down into tax administration, the culture of tax evasion, weaknesses in legal and economic institutions, the fiscal impact of economic restructuring, political will and poorly defined and designed fiscal federalism. Some policy options are then outlined.

E. Other Significant Publications

Governance Institutions and Growth

- Anthony Lanyi and Young Lee, "Governance Aspects of the East Asian Financial Crisis," presented at the Market-Augmenting Government Conference, March 1999, IRIS Working Paper #226
- Robert Cooter, "The Optimal Number of Governments for Economic Development," presented at the Market-Augmenting Government Conference, March 1999, IRIS Working Paper #222
- Todd Sandler, "Global Challenges and the Need for Supranational Infrastructure," March 1999, IRIS Working Paper #225
- Martin C. McGuire, "Failures in Governance: Restrictions on the Dominion of Markets" presented at the Market-Augmenting Government Conference, March 1999, IRIS Working Paper #223
- Philip Keefer and Steve Knack, "Polarization, Property Rights and the Links Between Inequality and Growth," April 1995, IRIS Working Paper #153
- Alexander Galetovic and Ricardo Sanhueza, "Citizens, Autocrats, and Plotters: An Agency Theory of Coups D'Etat," April 1996, IRIS Working Paper #189
- Ricardo Sanhueza, "The Hazard Rate of Political Regimes," April 1996, IRIS Working Paper #188
- Jonathan Isham, Daniel Kaufmann, and Lant H. Pritchett, "Governance and the Returns to Investment: an Empirical Investigation," *The World Bank Economic Review*, Vol. 11(2), July 1997 (IRIS Working Paper #186, April 1996)

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[3] This work was supported under the Cooperative Agreement but because prepared for the USAID/Russia mission, it is not in the public domain.

- Phillip Keefer and Steve Knack, "Why Don't Poor Countries Catch Up? A Cross-National Test of An Institutional Explanation," *Economic Inquiry*, Vol. XXXV, No. 3, July 1997
- Barry R. Weingast, "The Political Foundations of Democracy and the Rule of Law," *MSI*, April 1993
- Wallace E. Oates, "Fiscal Decentralization and Economic Development," *National Tax Journal*, Vol. xlvi, (46) no. 2, 1993
- Mancur Olson, "Autocracy, Democracy, and Prosperity," *Strategy and Choice*, 1991

Legal and Economic Policy Institutions and Growth

- Praveen Dixit, "Economic Policymaking: the Nepal Experience," November 1995, IRIS Working Paper #182
- Patrick Meagher (ed.), International Commercial Transactions in the West Bank and Gaza: Model Contracts and Commentary (IRIS, 1996)
- James H. Anderson, Young Lee, and Peter Murrell, "Do Competition and Owner ship Affect Enterprise Efficiency in the Absence of Market Institution? Evidence After Privatization in Mongolia," February 1999, IRIS Working Paper #220
- Satu Kähkönen and Patrick Meagher, "Opportunism Knocks?: Legal Institutions, Contracting, and Economic Performance in Africa," (paper submitted to USAID/EAGER Project, 1997) IRIS Working Paper #204
- Patrick Meagher, "Combating Corruption in Africa: Institutional Challenges and Responses" (paper presented at IMF seminar, 1997) IRIS Working Paper #203
- Kathryn Hendley, Barry Ickes, Peter Murrell and Randi Ryterman, "Observations on the Use of Law by Russian Enterprises," *Post-Soviet Affairs*, Vol. 13, No. 1, January-March 1997, IRIS Working Paper #201
- Maria Sagrario Floro, "Incentive Structures and Performance of Rural Financial Institutions: The case of the Philippines," November 1996, IRIS Working Paper #198
- Avner Greif, "Markets and Legal Systems: The Development of Markets in Late Medieval Europe and the Transition From Community Responsibility to an Individual Responsibility Legal Doctrine," April 1995, IRIS Working Paper #159

Social Capital, Social Norms and Collective Action

- Paul J. Zak and Stephen Knack, "Trust and Growth," July 1998, IRIS Working Paper #219
- Jonathan Isham and Satu Kähkönen, "Institutional Determinants of the Impact of Community-Based Water Services: Evidence from Sri Lanka and India." November 1999, IRIS Working Paper #236
- Jonathan Isham, "The Effect of Social Capital on Technology Adoption: Evidence from Rural Tanzania," forthcoming
- Thierry van Bastelaer, "Imperfect Information, Social Capital and the Poor's Access to Credit," October 1999, IRIS Working Paper #234

Special Problems of the Transition

- Peter Murrell, “What is Shock Therapy? What Did it Do in Poland and Russia?” *Post-Soviet Affairs* 9(2), 1993
- Peter Murrell and Yijiang Wang, “When Privatization Should Be Delayed: The effect of Communist Legacies on Organizational and Institutional Reforms,” *Journal of Comparative Economics*, 17, 1993
- Barry W. Ickes and Randi Ryterman, “Roadblock to Economic Reform: Inter-Enterprise Debt and the Transition to Markets,” *Post Soviet Affairs*, vol.9 (3), February 1994
- Barry W. Ickes and Randi Ryterman, “The Interenterprise Arrears Crisis in Russia,” *Post-Soviet Affairs*, Vol. 8, 1994
- Jon Elster, “Constitution-Making in Eastern Europe: Rebuilding the Boat in the Open Sea,” *Post-Soviet Affairs*, Vol. 8, 1994
- Peter C. Ordeshook, “Constitutions for New Democracies: Reflections of Turmoil or Agents of Stability?” May 1995, IRIS Working Paper #162
- Peter C. Ordeshook and Olga Shvetsova, “If Hamilton and Madison Were Merely Lucky, What Hope is there for Russian Federalism?” April 1995, IRIS Working Paper #158
- Peter C. Ordeshook, “Russia, Federalism, and Political Stability,” April 1995, IRIS Working Paper #156
- Peter C. Ordeshook and Olga Shvetsova, “Lessons for Citizens of a New Democracy,” April 1995, IRIS Working Paper #155
- Peter C. Ordeshook, “Institutions and Incentives: The Prospects for Russian Democracy,” June 1994, IRIS Working Paper #115

IV. Appendix A: IRIS Publications 1990-1999

IRIS Research Published 9/90-12/99

Bangladesh Papers Total: 4

1	Constraints to SME Development in Bangladesh	October 1998	Najmul Hossain
2	Pragmatic Solutions for Post Flood Rehabilitation in Bangladesh	October 1998	Forrest Cookson
3	Secured Finance for SME's in Bangladesh	June 1998	Patrick Meagher
4	Credit Information In the Bangladesh Financial System	March 1999	Forrest Cookson

Books Total: 10

1	The Economics of Rural Organization, Published for the World Bank	January 1993	Karla Hoff, Avishay Braverman Joseph Stiglitz
2	Property to the People: The Struggle for Radical Economic Reform in Russia	January 1994	Lynn Nelson, Irina Kuzes
3	Russia's Stormy Path to Reform	January 1995	Robert Skidelsky
4	One for All: The Logic of Group Conflict	January 1995	Russell Hardin
5	International Commercial Transactions in the West Bank and Gaza: Model Contracts and Commentary	January 1996	Patrick Meagher
7	The Emergence of Market Economies in Eastern Europe	January 1992	Christopher Clague
8	Governance and the Economy in Africa: Tools for Analysis and Reform of Corruption	January 1996	Patrick Meagher
9	Institutions and Economic Development	January 1997	Christopher Clague
10	Institutional, Economic and Organizational Basis of Military Capability	January 1999	Anthony Lanyi, Kimberly Brickell

Country Reports Total: 29

1	Reform Issues in Mongolia	October 1991	Peter Murrell
2	Poland: Small Business Project Outline of Recommendations	March 1991	Charles Cadwell, Elizabeth Rhyne, James Boomgard
3	The Informal Sector in Chad	January 1992	Jean-Francois Hennart
4	Chad Financial Sector and Private Sector	October 1991	Roger Jantio
5	Airline Competition Policy in Nepal	June 1992	Steven Morrison
6	Price Policy in Mongolia: A Chronology of Development	May 1992	Peter Murrell, Georges Korsum, Karen Dunn
7	Mongolia in Transition: The New Legal Framework For Land Rights and Land Protection	May 1992	Christopher Whytock
8	Options for Reform of the Business Registration System: Nepal	June 1992	Mark Huisenga, Christos Kostopolous
9	A System and Implementation Schedule for Simplifying Business Registrations in Chad	September 1992	Benjamin Hardy
10	The Chadian Private Sector	November 1992	Roger Jantio, Russell Nicely
11	Environment for Investment in Madagascar: Institutional Reform for a Market Economy	February 1993	Hilton Root
12	Current Status of the Legal System and the Rule of Law in Chad and its Effect on the Private Sector	October 1992	Louis Aucoin
13	Parallel Market for Foreign Currencies in Nepal	September 1993	Dev. Res. And Training Center, Nepal ***
14	Analysis of Competition in Mongolia: Three Case Studies	April 1994	Karen Dunn, William Kovacic, Robert Thorpe
15	Dispute Resolution as an Alternative to the Ordinary Courts in Madagascar: A Guide to Choice in the International Arena	October 1992	Louis Aucoin
16	Towards an Independent and Accountable Judiciary: Report on Judicial Reform in Madagascar	December 1994	Louis Massicotte
17	Economic Reform in Nepal: A Cursory Assessment	May 1995	Praveen Dixit
18	Commercial Legal Institutions in the West Bank and Gaza	May 1995	Patrick Meagher, Huseeini Hibe
19	Critical Issues in Nepal's Micro-Finance Circumstances	March 1997	Joanna Ledgerwood
20	The Impact of Ownership on the Grameen Bikas Banks' Current and Future Performance	June 1997	Muzammel Huq, Peter Boone
21	Capital Market Development in Nepal	June 1997	Anita Tuladhar
22	The Nepal Stock Exchange - A Review	June 1997	Ravi Peiris

23	Bank Restructuring in Nepal: Analysis of the Causes of Apparent Financial Difficulties of the Rastriya Banijya Bank	February 1994	Peter Rymaszewski
24	Credit Rating Services in Nepal: An Assessment Report	July 1994	Clara Lipson
25	On the Prospects of Legal Reform in the Kyrgyz Republic	September 1996	Michael Wallace
26	Forms of Enterprise in Kazakhstan	September 1996	Thomas O'Brien
27	Working on Legal Culture Changes in Kyrgyzstan: Drafting Practical Commentaries on Civil Code	May 1996	Howard Ockman
28	Nepal: Changing Laws and Regulations to Improve Access to Credit by the Poor	February 1997	Heywood Fleisig
29	Secured Finance for SMEs in Bangladesh	October 1998	Patrick Meagher

Reprints Total: 81

1	Factor Proportions, Relative Efficiency, and Developing Countries' Trade	January 1991	Christopher Clague
2	Relative Efficiency, Self-Containment, and Comparative Costs of Less Developed Countries	April 1991	Christopher Clague
4	The Devolution of Centrally Planned Economies	January 1991	Peter Murrell, Mancur Olson
5	A Collective-Choice and Microeconomic Approach to Macroeconomics: from Sticky Prices and Lags to Incentives	April 1991	Mancur Olson
6	The Role of Morals and Incentives in Societies	October 1991	Mancur Olson
7	Introduction: Imperfect Information and Rural Credit Markets-Puzzles and Policy Perspectives	September 1991	Karla Hoff, Joseph Stiglitz
8	Land Taxes, Output Taxes, and Sharecropping: Was Henry George Right?	January 1991	Karla Hoff
9	Paying to Improve Your Chances: Gambling or Insurance	January 1991	Martin McGuire, John Pratt, Richard Zeckhauser
10	Institutional Reform in East Central Europe: Hungarian and Polish Contract Laws	June 1992	Daniel Ostas
11	The Corporation and the Economist	February 1992	Dennis Mueller
12	Privatization Complicates the Fresh Start	October 1992	Peter Murrell
13	Conservative Political Philosophy and Strategy of Economic Transition	October 1992	Peter Murrell
14	Group Composition, Collective Consumption, and Collaborative Production	October 1992	Martin McGuire
15	Identifying the Free Rider: How to Partition a Group Into Positive and Zero Contributors to the Common Good	October 1992	Martin McGuire
16	Foreign Aid and Insurrection	April 1992	Hershchel Grossman
18	Rational Ignorance, Professional Research, and Politicians' Dilemmas	January 1991	Mancur Olson
19	The Interest Free Solution	December 1992	Mancur Olson
20	Foreword	January 1992	Mancur Olson
21	Economic Growth, Sustainability, and the Environment	January 1991	Mancur Olson, Ralph D'Arge, Richard Norgaard, Richard
23	Autocracy, Democracy and Prosperity	January 1991	Mancur Olson
24	Review of Politics and Policy Making in Developing Countries: Perspectives on the New Political Economy	January 1993	Roger Betancourt
25	Do Lawyers Impair Economic Growth?	January 1992	Mancur Olson
26	Lawyers and Economic Growth - A Real Herring?	January 1992	Philip Keefer
27	Fiscal Decentralization and Economic Development	January 1993	Wallace Oates
28	Rule Obedience, Organization Loyalty and Economic Development	June 1993	Christopher Clauge
29	The Credibility Game: Reputation and Rational Cooperation in a Changing Population	August 1992	Joel Guttman
30	Two Essential Characteristics of Retail Markets and their Economic Consequences	September 1993	Roger Betancourt, David Gautschi,
31	The Output of Retail Activities: French Evidence	May 1993	Roger Betancourt, David Gautschi,
32	Dictatorship, Democracy, and Development	September 1993	Mancur Olson
33	Why are Prices So Low in America	September 1993	Christopher Clague
34	Constitution-Making in Eastern Europe: Rebuilding the Boat in the Open Sea	January 1994	Jon Elster
35	The Interenterprise Arrears Crisis in Russia	January 1994	Barry Ickes, Randi Ryterman

36	The Transformation of Socialist Economies: Alternative Approaches and Early Lessons of Experience		
37	Roadblock to Economic Reform: Inter-Enterprise Debt and the Transition to Markets	February 1994	Barry Ickes, Randi Ryterman
38	When Privatization Should be Delayed: The Effect of Communist Legacies on Organizational and Institutional Reforms	January 1993	Peter Murrell, Yijiang Wang
39	Evolutionary and Radical Approaches to Economic Reform	January 1992	Peter Murrell
40	What is Shock Therapy? What Did it Do to Poland and Russia	January 1993	Peter Murrell
41	Why Are Differences in Per Capita Incomes So Large and Persistent	January 1992	Mancur Olson
42	Seeking Security in Poland	June 1993	Ronald Dwight, Leigh Reighenbach
43	From Communism to Market Democracy: Why is Economic Performance Even Worse after Communism is Abandoned?	January 1994	Mancur Olson
44	Growing a Legal System in the Post-Communist Economies	January 1994	Paul Rubin
45	Production, Appropriation and Land Reform	June 1994	Herschel Grossman
46	Ethnic Heterogeneity, District Magnitude, and the Number of Parties	February 1994	Peter Ordeshook, Olga Shvetsova
47	Why Has the Economic Performance of Spanish-Speaking and English-Speaking Countries Been so Different?	January 1993	Mancur Olson
48	The Second Theorem of the Second Best	January 1994	Karla Hoff
49	Import Liberalization in Hungary	January 1994	Andra Nagy
50	On the Political Foundations of the Late Medieval Commercial Revolution: Genoa During the Twelfth and Thirteenth Centuries	January 1994	Avner Greif
51	A Solution to the Problem of Externalities When Agents are Well-Informed	December 1994	Hal R. Varian
52	Privatization in the Former Soviet Union and the New Russia	May 1994	Alexander S. Bim, Derek C. Jones, Thomas E. Weisskopf
53	Privatization in Bulgaria	May 1994	Derek C. Jones, Charles Rock
54	Incidence Theory, Specific Factors and the Augmented Hecksher-Ohlin Model	March 1994	Christopher Clague, David Greenaway
55	How Many Parties Will New Zealand Have Under MMP?	December 1994	Jack H. Nagle
56	The Political Foundations of Democracy and the Rule of Law	April 1993	Barry R. Weingast
57	Bureaucracy and Economic Development	December 1994	Christopher Clague
58	Social Capital and Development Capacity: The Example of Rural Tanzania	December 1995	Louis Putterman
59	Economic Reform and Smallholder Agriculture in Tanzania: A Discussion of Recent Market Liberalization, Road Rehabilitation, and Technology Dissemination Efforts	December 1995	Louis Putterman
60	The Transition According to Cambridge, Mass.	April 1995	Peter Murrell
61	Reexamining Russia: Institutions and Incentives	April 1995	Peter C. Ordeshook
62	Economic Analysis of Law as a Guide to Post-Communist Legal Reforms: The Case of Hungarian Contract Law	April 1995	Daniel T. Ostas, Burt A. Leete
63	Arrow's Theorem: An Example of the Axiomatic method in the Social Sciences	April 1994	Marek M. Kaminski
64	Electoral Rules, Constituency Pressures, and Pork Barrell: Bases of Voting in the Brazilian Congress	May 1995	Barry Ames
65	Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures	January 1996	Philip Keefer, Stephen Knack
66	Growth Capabilities and Development: Implications for Transition Processes in Cuba	January 1996	Roger Betancourt
67	Does Participation Improve Performance? Establishing Causality With Subjective Data	September 1996	Jonathan Isham, Deepa Narayan, Lant Pritchett
68	Institutions and the Convergence Hypothesis: The Cross-National Evidence	January 1996	Stephen Knack
69	Property and Contract Rights in Autocracies and Democracies	June 1996	Christopher Clague, Philip Keefer, Stephen Knack, Mancur Olson
70	Big Bills Left on the Sidewalk: Why Some Nations Are Rich and Others are Poor	March 1996	Mancur Olson
71	Does Inequality Harm Growth Only in Democracies? A Replication and Extension	March 1996	Stephen Knack, Philip Keefer
72	The Economics of Autocracy and Majority Rule: The Invisible Hand and the Use of Force	March 1996	Martin C. McGuire, Mancur Olson
73	Civil Liberties, Democracy and the Performance of Government Projects	July 1997	Jonathan Isham, Daniel Kaufmann,

			Lant H. Pritchett
74	End of the Tunnel? The Effect of Financial Stabilization in Russia	April 1997	Barry W. Ickes, Peter Murrell, Randi Ryterman
75	Observations on the Use of Law by Russian Enterprises	January 1997	Katheryn Hendley, Barry W. Ickes, Randi Ryterman, Peter Murrell
76	Politics and Economics of Mongolia's Privatization Program	May 1995	Georges Korsun, Peter Murrell
77	A Simple Test of the Nutrition-Based Efficiency Wage Model	October 1997	Anand V. Swamy
78	Does Social Capital Have an Economic Payoff? A Cross-Country Investigation	December 1997	Philip Keefer, Stephen Knack
79	Why Don't Poor Countries Catch Up? A Cross-National Test of an Institutional Explanation	July 1997	Philip Keefer, Stephen Knack
80	The Effects of Government Decentralization During Transition: Evidence from Enterprise-State Relations in Mongolia	October 1997	James Anderson, Georges Korsun, Peter Murrell
81	Substituting for the State: Institutions and Industrial Development in Eastern Nigeria	December 1997	Deborah Brautigam
82	The Political Economy of Food Pricing: An Extended Empirical Test of the Interest Group Approach	January 1998	Thierry van Bastalear
83	The Varieties of Eurosclerosis: The Rise and Decline of Nations Since 1982	January 1996	Mancur Olson
84	The Devolution of Power in Post-Communist Societies	January 1995	Mancur Olson

<u>Social Capital Initiative Papers Total: 17</u>

1	The Initiative on Defining, Monitoring and Measuring Social Capital: Overview and Program Description	April 1998	
2	The Initiative on Defining, Monitoring and Measuring Social Capital: Text of Proposals Approved for Funding	June 1998	
3	Social Capital: The Missing Link?	April 1998	Christiaan Grootaert
4	Social Capital and Poverty	December 1998	Paul Collier
5	Social Capital: Conceptual Frameworks and Empirical Evidence--An Annotated Bibliography	January 1999	Tine Rossing Feldman, Susan Assaf
6	Getting Things Done in an Anti-Modern Society: Social Capital Networks in Russia	November 1998	Richard Rose
7	Social Capital, Growth and Poverty: A Survey and Extensions	May 1999	Stephen Knack
8	Does Social Capital Facilitate the Poor's Access to Credit? A Review of the Microeconomic Literature	May 1999	Thierry van Bastelaer
9	Does Social Capital Matter in Rural Water Delivery? A Review of Literature	May 1999	Satu Kähkönen
11	Is Social Capital an Effective Smoke Condenser?	May 1999	Martin Paldam, Gert Tingaard Svendsen
12	Ethnicity, Capital Formation, and Conflict	September 1999	Robert Bates
13	Mapping and Measuring Social Capital: A Conceptual and Empirical Study of Collective Action for Conserving and Developing Watersheds in Rajaasthan, India	June 1999	Anirudh Krishna, Norman Uphoff
14	What Determines the Effectiveness of Community-Based Water Projects? Evidence from Central Java, Indonesia, on Demand Responsiveness, Service Rules, and Social Capital	September 1999	Satu Kähkönen, Jonathan Isham
15	What Does Social Capital Add to Individual Welfare?	October 1999	Richard Rose
16	Social Capital in Solid Waste Management: Evidence from Dhaka, Bangladesh	September 1999	Sheoli Pargal, Mainul Huq, Daniel Dilligan
17	Social Capital and the Firm: Evidence from Agricultural Trade	September 1999	Marcel Fafchamps, Bart Minten
18	Exploring the Concept of Social Capital and its Relevance for Community-based Development: The Case of Coal Mining Areas in Orissa, India	October 1999	Enrique Pantoja

Working Papers Total: 236

1	The New Institutional Economics and the Cuban Economy	August 1991	Roger Betancourt
2	Two Essential Characteristics of Retail Markets and Their Economic Consequences	September 1993	Roger BetancourtGautsch
3	Economic and Political Determinants of Agricultural and Food Prices: A Cross-National Study	August 1993	Christopher Clague
4	Designing Land Policies: An Overview	January 1991	Karla Hoff
5	Evolutionary and Radical Approaches to Economic Reform	January 1992	Peter Murrell
6	The Second Theorem of the Second Best	January 1994	Karla Hoff
7	Conservative Political Philosophy and the Strategy of Economic Transition	October 1992	Peter Murrell
8	Consequences of Limited Risk Markets and Imperfect Information for the Design of Taxes and	January 1991	Karla Hoff, Joseph Stiglitz

	Transfers: Overview		
9	Technological Change, Imperfect Markets, and Agricultural Extension: Overview	January 1991	Karla Hoff, Jack Anderson
10	Group Composition, Collective Consumption, and Collaborative Production	October 1992	Martin McGuire
11	Economic Logic, International Security, and the Equilibrium Among Nations	January 1992	Martin McGuire
12	Freedom of Association and Self-Selecting Groups	May 1991	Martin McGuire
13	Identifying the Free Riders: How to Partition a Group Into Positive and Zero Contributors to the Common Good	October 1992	Martin McGuire
14	The Pure Theory of Unemployment Insurance: Hoping for the Worst When Insurance is Available	May 1991	Martin McGuire
15	Two-Party Representative Government	January 1991	Dennis Mueller
16	Multiparty Representative Government	January 1991	Dennis Mueller
17	Comparison of Two-Party and Multiparty Representative Governments	January 1991	Dennis Mueller
18	The Executive Branch	January 1991	Dennis Mueller
19	An Evolutionary Perspective in Economies and in the Economic Reform of Centrally Planned Economies	January 1991	Peter Murrell
20	Fiscal Decentralization and Economic Development	July 1993	Wallace Oates
21	Principles of Fiscal Federalism: A Survey of Recent Theoretical and Empirical Research	January 1991	Wallace Oates
22	Autocracy, Democracy, and History with Appendix: An Abstract Model of Autocratic Versus Democratic Government	January 1991	Mancur Olson
23	The Outputs of Retail Activities: French Evidence	May 1993	Roger Betancourt, David Gautschi
24	Rule Obedience, Organizational Loyalty and Economic Development	June 1993	Christopher Clague
25	Prolegomena to the Economics of Rural Organization	January 1992	Karla Hoff, Avishay Braverman, Joseph Stiglitz
26	A Tale of Two Sectors: The Formal and Informal Sectors in India	December 1991	Pradeep Srivastava, Urjit Patel
27	From Socialism to Market: Changing the Rules of the Game	June 1992	Christopher Clague
28	From Communism to Market Democracy: Why is Economic Performance Even Worse After Communism is Abandoned?	January 1992	Mancur Olson
29	Checks and Balances, Rent-Seeking and Economic Development	January 1992	Philip Keefer
30	Non-Leaky Buckets: Optimal Redistributive Taxation and Agency Costs	May 1993	Karla Hoff, Andrew Lyon
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