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# In Good Company: About Agency and Economic Development in Global Perspective

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## ABSTRACT

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The paper discusses some evidence, based on a review of new literature on economic history, about what is referred to as the Sen-hypothesis, that increasing human agency (of both men and women) is a key factor in economic development. It briefly discusses various dimensions of agency (or its absence): slavery (as the absolute suppression of human agency), access to markets, agency concerning marriage, and political participation. This concept perhaps also allows economic historians to move beyond the historical determinism that is central to much recent work in this field.

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Economic historians are in good company these days. Their point, that ‘history matters’, is now generally accepted, and the concept ‘path dependency’ is widely used in economics and the social sciences. In fact, top journals in economics publish papers about the Weber thesis and its historical testing, about slavery and slave trade, about the impact of patterns of colonization on long-term economic growth and about the effect of the printing press on city growth, or the potato on population growth - to give only a few examples. Economic history is very trendy these days.

This new trend is closely linked with the rise of new institutional economics. The writings of Acemoglu, Robinson, Greif, Kuran and Nunn – amongst many others – show the great impact of Douglass North’s research agenda on the field of economics. Powerful institutions such as the World Bank, the IMF and the UN, share the basic ideas about the importance of efficient institutions, good governance, and well protected property rights.

There are a few reasons to be slightly concerned about the success of this approach, however. The main worry is that the new ‘historical economics’ very much focus on the persistence of institutions and the path dependency of economic performance. Global inequality, to summarize one of the stories told, is the result of patterns of colonization which began in the early modern period, and which were determined by the incidence of infectious diseases (such as malaria) on settler mortality (Acemoglu et al. 2001). More in general, economic institutions are determined by socio-political institutions, which are quite persistent, as a result of which the performance of countries also shows systematic and relatively stable patterns. The problems of Africa can be traced back to its pre-1800 history of being forcefully involved in the slave trade (Nunn 2007), and the problems of the Caribbean have the same root causes (Nunn 2008). The stagnation of the Muslim world, similarly, has as its cause certain institutions adopted within Islam in the 7<sup>th</sup>-10<sup>th</sup> centuries (Kuran 2011). These are famous examples of ‘big stories’ told by some of the most prominent representatives of the new trends. But it can also be summarized as follows: we seem to be doomed by our past, because we cannot fundamentally change the institutions we inherited. Deep historical changes predetermine what is happening today, and we are all the prisoners of the history we inherited. It almost appears as if economic historians and economists are now telling us that we cannot be held responsible for the fact that it appears to be so difficult to change global

inequality and alleviate poverty, because the ‘true’ reason for it are rooted in a very deep past.

Of course, I do not intend to deny that there is truth in the stories about path dependency, but it is probably also a matter of emphasis. The regressions that show how deep historical forces impact on current patterns of global inequality also demonstrate that the coefficients are all less than one and that R-squares are all much below one. Another rhetoric strategy, perhaps a less fashionable one at the moment, would be to stress the ‘freedom’, the ‘agency’ that is implied by the same results. History matters, but perhaps ‘only’ determines 20% or 40% of the end-result; the same interpretation that argues that the glass is half full can be seen as demonstrating that it is half empty. And even if history can explain 60% or 80% of the outcomes, it would make sense to be most interested in the remaining 40% or even 20% that allows us to change things in the future.

Can we try to free our profession from an overemphasis on historic determinism? Which concepts and ideas can be developed and refined to demonstrate that there are roads to prosperity and freedom, that men make history as much as history is making men? The suggestion developed here is that agency – a concept that can be derived from Amartya Sen’s writings about development – can perhaps play this role. Perhaps the most radical reconceptualization of the aims and by implication the ‘true’ measure of development has been suggested by Nobel Prize laureate Sen (1987, 1999), who proposed that the degree to which people are able – or are enabled – to develop their capabilities is the real measure of development. It means that a society has to create the ‘space’ for realizing one’s potential. The power over goods and services clearly plays a role in this (because poverty dramatically limits the choices people have), but intellectual development (via education), political participation, human rights and other non-material values play an equally large role in this approach. Agency (defined as the capacity for autonomous decision making) is a key value in this process of ‘development as freedom’ – the more agency people are allowed to have and the more agency they acquire themselves, the better they can really develop their capabilities.

There is a second, perhaps even more interesting part of the Sen approach: he also develops the argument that freedom is not only the measure of development, but that it is an important – perhaps the most important – driver of economic and social-political change as well. When people acquire agency, they will use this to further

their economic and social-political position. This is exactly what development is about: that (poor) people improve their lot, and are able to lift themselves out of poverty and destitution. Poor people are poor because they are the victims of bad institutions, bad governance, poor economic and geographic circumstances (large distances to markets, for example, or a poor soil and a bad climate). To overcome these constraints, to break through these vicious circles, empowerment of men and women is key.

This links up with recent literature suggesting that participation, or autonomy (the equivalent for the term ‘agency’ as used here) is a vital driver economic development. This point was forcefully made by Nobel Prize laureate, Joseph Stiglitz (2002), and it links nicely to the recent proposal by yet another Nobel Prize laureate, Douglass North (et al.) that ‘open access’ is, in a similar way, crucial for socio-economic change (North et al. 2009). Similarly, another recent Nobel laureate, Elinor Ostrom (1990), stresses the importance of self-governance to make sustainable management of natural resources possible. We obviously are in good company here.

This approach could be called the dual Sen-hypothesis: development is defined as freedom, is the first part of the hypothesis. That freedom – or rather ‘agency’ – is an important precondition and driver of long-term economic and socio-political change is the second part. The latter part is a testable hypothesis. It is by definition true, of course, when development is only measured in terms of freedom (then the two ‘variables’ blend together). To test the second half of the Sen-hypothesis, we have to use other – more traditional – definitions of development; perhaps we have to fall back on the human development index or even GDP.

Agency is a complex phenomenon, however. One of the problems is that it has many dimensions: it concerns political participation, but also the degree to which people can decide about their marriage. It is related to economic decision making, to free access to markets and how much coercion there is in the organization of the labour supply, but also to the development of a civil society. And ‘freedom’ as such is perhaps not a very meaningful thing in a complex, highly literate world; one has to possess the right skills – the human capital – to really participate in markets, political events and the civil society. Human capital is therefore a crucial link in the process: it is an essential precondition for real participation and autonomy.

In this brief essay I will sketch four examples taken from economic history about the links between agency and economic development. It is an attempt to illustrate the approach that is proposed here. I will start with a brief analysis of long-term consequences of the systematic suppression of agency in the form of slavery: what are the effects if people are systematically robbed of their autonomy? Next we move to participation in (other) markets, in particular capital markets. The third dimension of agency that is discussed relates to the micro – household – level: when did people acquire agency concerning marriage, perhaps the most important decision they take in life? And finally what about the links between political participation and economic development – does participation really further economic growth?

### *The long-term effects of slavery*

The most extreme way to take away agency of people is to enslave them. One of the clearest messages from recent research seems to be that this has extremely negative consequences for long-term economic performance, both in the slave producing countries and in the slave-receiving regions of the world (however, the slave-trading nations seem to be unaffected by it). Other forms of labour coercion as practiced on a large scale in Latin America, Eastern Europe (second serfdom!), and other parts of the world, may have had similar, but probably smaller long-term effects. The world map of slavery in 1600, 1700, or 1800 would probably accurately predict a large part of present global inequality. The various parts of the global economy were characterized by striking differences in the organization of the labour supply: a precocious free labour market in parts of Western Europe contrasted with slavery in its plantation colonies and with other forms of coerced labour in other parts of the ‘periphery’, a point already made by Wallerstein (1976) in his seminal analysis of the ‘modern’ world economy. Europeans, in particular inhabitants of the North-Sea area, had at a relatively early stage access to a free labour market, an institution that (due perhaps to different scarcities of land and labour) did not exist in Africa or the Caribbean (or was very underdeveloped there).

It is impossible to review the literature about these links here in detail (see Engerman and Sokoloff (1997, 2002), Nunn (2007, 2008) (Nunn and Wantchekon 2009)). It also raises the issue why and how Western Europe became a region with

almost no slavery (see Fynn-Paul 2009), and why serfdom disappeared without leaving much traces after the 11<sup>th</sup>/12<sup>th</sup> centuries. Similar questions could be asked concerning other parts of EurAsia: why did coerced labour more or less disappear from China and Japan, but not from Java or Sri Lanka?

### *Access to markets*

The issue of ‘free’ labour markets brings us to the more general question of free access to (more or less well functioning) markets. It is arguably one of the keys to long-term economic development. An older tradition (inspired by Marx) has argued that markets are the instruments of exploitation. Most economic historians disagree: markets as such do not exploit anybody; it is the institutions in which markets are embedded that may be exploitative and use the market to their own advantage. By contrast, poverty and underdevelopment are probably to a large extent the result of the fact that people have no access to well-functioning markets: they cannot sell the products they produce at a reasonable price, they have no access to credit at reasonable conditions and they cannot work for a proper wage. Underdevelopment exists and persists because markets are at great distance (according to new economic geography), because institutions are limiting access to markets and are creating the wrong incentives when people do participate in markets (according to new institutional economics). Only when people do have access to well functioning markets – when they have acquired agency in this respect – can they really improve their lot. This is what development is about: that people themselves can start to change their lives for the better, invest in their future and that of their children.

The best example of this is, of course, the micro-finance movement as developed by Nobel Prize laureate Yunus (and many others) (see Yunus 2008). It basically argues that once you create the right institutions on the capital market, and give trust and credit to the enterprising ‘poor’ – in particular to women –, that they will be able to improve their lot and repay the loans (see the review of these views in Duflo and Banarjee 2011). The underlying problem of underdevelopment in this view is that institutions surrounding the capital market are inefficient, as a result of which interest rates are prohibitively high, and people simply have no access to credit (or at conditions which are very exploitative).

The way in which the capital market functions can indeed be seen as a litmus test of the quality of the institutional framework of an economy – a point already made by Douglass North (1990). Because of the time element of all transactions involved (one usually exchanges money now against a promise to pay back the money in the future), trust plays a much larger role in capital market transactions than in transactions on product or labour markets. De Soto (2001) has pointed out that often even the poor in developing countries have property – land, houses – which could be used as collateral, thereby solving some of the constraints of capital markets in those parts of the world. Because their property rights are very unclear (not many farmers, for example, have official titles to the land they have in use), this source of capital remains dormant, implying that those farmers lack the means to loan money at reasonable conditions. These problems in capital markets also link up with similar constraints in commodity markets and labour markets: because capital is so scarce, farmers have to sell their crops long before the harvest, creating conditions of dependence on loan sharks that are quite harmful to their interests. These problems of ‘interlinkage’ mean that inequities on the capital market tend to spill over to other markets as well, reducing free access there too (Van Zanden 2004).

On the other hand, it has often been argued that credit and savings are keys to long-term economic development – one can therefore expect that poorly functioning capital markets will be a major handicap. The European experience seems to justify these claims. Already in the late Middle Ages an institutional framework emerged which solved the problem De Soto was concerned with and made it possible to use land and buildings as collateral. These relatively well protected property rights resulted – as North ‘predicted’ – in a capital market characterized by low interest rates: in the 14<sup>th</sup> and 15<sup>th</sup> century they declined from about 10-12% (already quite low by international standards) to 5-6% (or, as low as they are nowadays). (Van Zanden 2008). Moreover, for the most advanced parts of Western Europe, it has been demonstrated that people had almost unrestricted access to these capital markets at (very) low costs: they could borrow at 5-6%, using their houses, land and other possessions as collateral. Credit instruments were developed that catered to the needs of men and women – for example, *renten* (annuities) vested on the life of the creditor, became a popular instrument for saving for one’s old age. Credit relationships became normal, even between members of the same family (a father who wanted to retire, sold his craft shop or farm in return for an annuity vested in his life). Women and men

participated equally in these capital markets (Van Zanden, Zuijderduijn and De Moor 2010). In sum, the expansion of Western Europe in the centuries before the Industrial Revolution was (also) based on a ‘deep’ and ‘thick’ capital market, embedded in institutions that facilitated it.

By contrast, in current developing countries we still see a confluence of ‘bad institutions’ and ‘poorly functioning capital markets’ with very high interest rates, to which peasants and the poor have no access. There is indeed a very strong relationship between all kinds of measures of institutional quality of countries (level of corruption, for example), and the interest rate on private loans (as published by IMF). High interest rates, besides affecting investment and growth, also have other negative consequences – on trust, for example. When people decide about keeping their promises, they have to balance the immediate profits of renegeing on their commitments (by, for example, not paying back a certain sum of money) against the long-term gains to keep word – in terms of reputation, and in particular future deals that can be made because one is trustworthy. The higher the interest rate, the shorter the time horizon, the smaller incentives will be to stick to contracts and not to behave opportunistically. The longer the time horizon (as reflected by low interest rates), the more trustworthy people will tend to behave. This interaction between capital market, institutions, interest rates, and trust, is one of the ‘poverty traps’ that is sustaining underdevelopment.

### *Agency and Marriage*

Marriage is perhaps the single most important decision people take during their lifetime. But who takes this decision? Is marriage arranged, and is the girl and/or the boy married off at a very young age, or is it the result of the free agency of the two partners? Historically, most complex societies knew systems in which the parents, usually the father, often in consultation with other members of the extended family, had a decisive say in the marriage contract, a situation that was often endorsed by the state (as was the case in Qing China and in the Roman Empire). Western Europe in the Middle Ages offers an interesting exception to this general pattern, however. In the North Western part, a marriage pattern developed which was based on consensus,

in which girls and boys actively sought their future partners themselves, and decided whom to marry (De Moor and Van Zanden 2010).

There are reasons to believe that the rise of the European Marriage Pattern (as the marriage system based on consensus has been named) had important consequences for social and economic development. In a system of arranged marriages, girls are married off when they are young, perhaps directly after the menarche (or perhaps even younger). This is rational, because if they are older, they will have developed their own ideas and preferences, which may be a problem when marriage is arranged for them. This however seriously limits a girl's opportunities to develop herself – to, for example, invest in her human capital. In the European Marriage Pattern, girls married at age 23 to 27, and therefore had a radically different life cycle: between age 12 and 25 they often worked as servants in the households or the craft shop of other families. The same applied to men, who at marriage usually were one to two years older than their spouse. These 'young ones' not only formed a very flexible labour force, of which many migrated to cities (perhaps for one or two years, or perhaps permanently), they also were the apprentices of the guilds of western Europe, the servants in the households of the rich, and the wage labourers in many occupations. In short, this new life cycle created room for continued human capital formation – of both men and women – which was one of the keys of European economic development in the centuries after 1300.

Since then the system has gradually spread – and nowadays we see a strong positive link between age of marriage (as an index of the degree of control parents can still exercise over the marriage decision of their children) and all kinds of indicators of social and economic development. Another way to phrase this is that for economic development a switch in demographic behaviour is required from 'quantity' to 'quality' of offspring. The consensus marriage that developed in Western Europe was a first and very important step into that direction: it resulted in fewer children (due to the postponement of marriage by perhaps as much as ten years), and created favorable conditions for increased investment in their schooling and training. The 'Little Divergence' that occurred in the early modern period between North-Western Europe, where this new demographic pattern emerged, and the rest of Europe, may therefore be partially explained by these demographic changes.

### *Political participation and economic development*

The debate about the links between political participation and economic development is as old and venerable as the social sciences themselves (going back in time at least to Montesquieu). We know that in the long-term there is a rather strong positive link between democracy and GDP per capita: rich countries have high degrees of political participation, whereas poor countries tend to have low levels of democracy (Rodrik 1997). The debate is about what is driving this correlation; is economic growth a precondition for the gradual spread of democratic values and practices (is democracy some kind of luxury?), or is the causal link the reverse: one needs ‘constraints on the executive’ (to use the phrase introduced by Douglass North) to safeguard property rights, as a precondition for economic growth. And there is a third option: both processes are driven by a third force, such as human capital (Glaeser et al. 2007), or the civil society (as suggested by Putnam 1993).

It is important also to notice that the older tradition that thought there was a trade off between economic development and democracy – with the success of the Soviet Union in mind – is not very popular anymore. Also the idea that democracy is bad for growth because it leads to redistribution via the state has been falsified by recent research, most notable by Peter Lindert’s (2004) work on the links between public expenditure and growth. From another tradition we can mention the ideas developed by Sen (1981) (and to some extent contested by O’Grada (2009)) about the link between political institutions and the occurrence and severity of famines: in democracies hardly any famines occur; moreover, the big famines of the 20<sup>th</sup> century are related to autocratic regimes (Stalin, Mao, Pol Pot).

So there is a happy consensus: political participation – made possible by an ‘open access’ political system (North et al. 2009) – furthers economic growth, and appears to be a precondition for sustained economic development. The key question remains, however, how to move from a ‘natural state’ (to copy North’s term) to an ‘open access’ regime. Europe since the Middle Ages had old traditions of ‘corporate collective action’, of bottom up institutions such as communes, guilds and parliaments that often created a counterbalance in the political system (cf Van Zanden, Buringh and Bosker 2011). These ‘countervailing powers’ acted as a break on the power of the executive, and helped to maintain some kind of balance within the political system.

To bring this story up to the present – and to South Africa – it is illuminating to sketch the rise and decline of the Apartheid system during the 20<sup>th</sup> century, a sketch that we derive mainly from Feinstein's (2005) book on the economic history of South Africa. What is striking for an economic historian who has been mainly working on Western Europe, is that the economic history of the region is characterized by a lot of violence. Much of this violence stemmed from the problems analyzed by Domar in his seminal paper on the causes of slavery: an elite needs labour to produce a surplus, but because land is abundant, no voluntary labour offers itself at low costs. Therefore a dual appropriation is 'necessary': the indigenous people of the region were robbed of their land (which was taken by white farmers), and they were coerced (via taxation for example) to do wage labour. This double process of appropriation laid the basis for the development of the South African economy in the 19<sup>th</sup> and early 20<sup>th</sup> century. The main source of demand was initially the farming sector; before 1800 much imported slave labour was used there, but after the abolition of slavery in the 1830s the indigenous blacks were increasingly involved in the agricultural activities of the *boers*. The economy only really took off during the 1870s and 1880s, when rich sources of diamonds and gold were discovered, which led to a spectacular increase of its output, and in a very strong demand for unskilled labour in the mines. The Apartheid system that was introduced after 1948 was a continuation of the dual economy that came into existence in the late 19<sup>th</sup> century. Gradually levels of education among blacks increased, leading to demand for political participation, which was systematically denied, and for access to better jobs, which were however reserved for the white population. At the same time, however, the South African economy underwent a process of industrialization – agriculture became much less important (and the black workers in the countryside were not needed anymore), and industry becomes the most dynamic sector – initially as a result of import substitution behind high tariff bars. Within the Apartheid system labourers in industry were not trained, only had temporary jobs (they were supposed to return to the 'homelands') and often did not live with their families. This system did work (more or less) in the mining industry (with its dominance of unskilled labour), but seriously retarded the development of industry, where much higher levels of skill were required. South African industry as a result remained uncompetitive on export markets, and was unable, when the mining industry was confronted with diminishing return, to become the engine of economic growth. This is, Feinstein argues, a key problem which the

Apartheid system was unable to resolve; its labour market and its institutions for human capital formation of (black) industrial workers failed to produce an efficient work force able to be competitive on world markets. These economic problems – in combination with increasing (international) political pressures – caused the abolition of the Apartheid system in the 1990s.

### *Conclusion*

Feinstein's message is that Apartheid – the systematic suppression of the agency of the blacks – was not conducive to long-term economic development. Its story demonstrates the importance of one of the key factors linking agency to economic performance: the crucial role played by human capital in modern economies. For the Romans it was probably not a big problem that the slaves on their estates were kept illiterate, nor was this a constraint in the expansion of gold mining in 19<sup>th</sup> century South Africa. However, as new growth theory reminds us, human capital is the driving force of economic change in modern societies, which do not need the 'chattel' labour anymore that is characteristic of 'traditional' economies (such as the Roman Empire); such labour is now increasingly and perhaps predominantly mechanized. This shift from 'quantity' to 'quality' requires institutions at the household level (such as, for example, the European Marriage Pattern), but it also implies that the highly schooled workers of the 20<sup>th</sup> and 21<sup>st</sup> centuries have to be taken seriously by their employers (because they possess crucial 'tacit' information about what is really happening in factories and offices) and by their politicians. Moreover, it seems that institutions at these different levels – the state, the factory, the household – are all interlinked. To illustrate this: the French anthropologist Emmanuel Todd (1985) has developed the argument that the way we deal with power is learned within the family: there, children witness how their parents and other family members treat each other, how they deal with gender issues, how, in short, power is being handled. In family systems with a strong sense of hierarchy, they will learn to behave similarly, and their behaviour beyond the family sphere will probably be similar. He expects, therefore a strong correlation between family systems and political systems.

It is therefore probably no coincidence that we see correlations in the occurrence of participative institutions. In the Middle Ages, Western Europe

developed a set of institutions which allowed high levels of agency among the population – the marriage system, the disappearance of slavery, the emergence of efficient and accessible market and the rise of representative institutions and other ‘bottom up’ institutions all pointed in the same direction. Elsewhere it has been argued that this set of interrelated institutions laid the basis for the long-term economic success of the region (Van Zanden 2009). Agency really mattered. Other parts of the world were at the time much less lucky and in a way paid the price for the success of Western Europe. Within the constraints of this paper it is not possible to deal with the genesis of global inequality in more detail here, but I hope to have shown that the approach inspired by Sen can help us to better understand these processes of long term economic change and development.

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