Building a case for developing institutions and communities in South Asia based on the learnings from neo institutional economics

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ABSTRACT
This paper makes a case for modelling institutions in South Asia based on the visions of the founding fathers of our societies and claims we can move towards greater cooperation and communication in the region through such linkages and cooperation of institutions within the system. The paper works within the broad paradigm of institutional economics aimed to transforming South Asia through bias free (unbiased) quality institutions. Emerging from this perspective it is our contention that ethics and holistic institutional perspectives are in fact central to the understanding of economic outcomes in a societal context.

Key Words: South Asia, Cooperation, Communication, Institutional Economics, Quality, Institutions

Introduction
This paper makes a case for modelling institutions in South Asia based on the visions of the founding fathers of our societies and claims that we can move towards greater cooperation and communication in the region through such linkages and cooperation of institutions within the system. The paper works within the broad paradigm of institutional economics aimed to transforming South Asia through bias free (unbiased) quality institutions.

Its main argument is that entrepreneurship development or social and political conflict and adjustment theories are each able to give a side aspect to the development process. By analyzing a set of empirical studies of communities, social entrepreneurship successes and markets in rural areas. It is observed that each theoretical perspective only gives a side view or aspect of reality. Emerging from this perspective the our contention made is that ethics and holistic institutional perspectives are in fact central to the understanding of economic outcomes in a societal context. Otherwise will remain a Roshomon kind of situation each theory only seeing a part of the reality and dangerously generalizing into policy "advice". Abstract as this sounds is shown in concrete cases at different levels of aggregation, namely the firm, the enterprise, the community and the market that empirical research without the foundations of community and ethics is not illuminating or problem solving in nature.
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These perspectives we believe are important in the South Asian context for as we begin with the founding fathers of the freedom movement of the sub continent, whether Gandhi, Nehru or Jinnah all seeing the problem in these more general terms. Nehru and even paradoxically Jinnah were wedded to the secular ideal till the very end, and this is a fact that needs to be underlined at the outset.

Jawaharlal Nehru introduced the term “Temples of Modern India”, for the public institutions he created after Independence, like public sector units, engineering educational institutes and irrigation projects.

Likewise, Jinnah in his address to the constituent assembly of Pakistan on 11th August 1947, forcefully espoused a secular state in which every citizen would be free to follow his own religion. The State shall make no distinction between the citizens on the grounds of faith. This was a strong case for a vision of communities being brought together to form a modern State.

Underlining this paper is a conceptualisation of an institutional approach towards long run economic growth in South Asia. The paper asserts that South Asia needs to develop institutions and communities, which are created in the context of self-actualisation. Here, the system must be brought to a point where it itself represents “reason” and a determining agent with its own vision of values and collective moral compass. This is a concept which has its philosophical origins in Immanuel Kant’s concept of free will (Kant, translated in, 1998).

South Asia needs to develop such institutions which become a law upon themselves. The region needs to develop as a common community where no political or corporate Rent Seeking can undermine such an institutional structure. Thus, South Asia needs to develop communities and Institutions, which overcomes political bias and are wedded to a reason free from prejudice.

Why conventional political institutions cannot work in an emerging South Asia? What is needed in its place?

This paper asserts that theoretically in order to build a concrete basis for growth in the region, the need is, to incorporate into the theory, a Richer Body of Institutions than neo classical growth theory allows for, including, within its conceptualization, at the least, universities (Acemoglu, Johnson, Robinson 2004).

The basic questions present in the realm of political-economy, for almost every country and society is:

   Firstly, how to achieve growth? Secondly, after achieving it, how to maintain it, continuously? Finally, how to resolve a situation when divergence comes between the reality as it exists and the visions of its founding fathers?

   The economic prosperity of a nation is tangential, but relevant to the solution of this conundrum. In this regard, various theories and models have been propounded by economists.

   Acemoglu et al conclude that there are two types of institutions 1) economic institutions and 2) political institutions. Economic institutions show a collective
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choice of the society and there are different groups in the society where every group differs in choosing the type of economic institution. These differences among the groups creates the conflicts amongst them which can only be solved by some political power which can be de jure or de facto and not necessarily would the last choice be efficient or fairly distributive. Political power also determines property rights and distribution of resources which is the root cause of efficiency. This is the reason, why groups use their political powers to satisfy their self-interests and this is how institutions change country to country.

Further they state that the question comes why some societies end up choosing good or bad institutions? Societies with good economic institutions and better determined property rights prosper than those who lack. There can be other variables like geography and culture which affect prosperity among the countries. Culture has an influence on prosperity. The natural example of this is South Korea and North Korea, despite all the cultural and demographic similarities, these two countries differ greatly in terms of prosperity because they choose or are forced to choose different institutions.

Then why do institutions differ? There are four views according to Acemoglu et al.

1. Effective institutional view: - says that society will choose a set of institutions which will be efficient for the society but again sometimes chosen institutes differ from the actual choice of the society to serve the interests of political elite.

2. Ideological view: - says that there are different ideas and beliefs of the groups of the society. The elite group of society or an individual, views some sort of economic institutions are favorable for the country so they apply those views on the whole society.

3. Incidental institutional view: - has twoversions:
   a. Moore says that a class conflicts and especially the middle class is pioneer to decide the type of institution.
   b. Shleifer notes the power of legal system makes the difference in the institutions.

4. Social conflict view: - says not necessarily the whole society has a power to choose the types of institutions but some elite group chooses the type of institutions and the ruler class or group may not give the property rights to the minority soapstone sure their future returns.

5. All views have one thing in common. There is a problem of inefficiency while choosing institutions and the source of this inefficiency is the problem of commitment. It can be the lack of trustworthiness of the society among elites that can be in terms of political elites who would never like to change the economic or political institutions which erode their sole property rights. Despite that, change creates growth. However, the lack of commitment to this change is the reason of prevailing inefficiency, while simultaneously desiring
better institutions and by doing this the political elite can degrade the efficiency leading to misdistribution of resources among the society.

6. Then, to create better institutions some important views should be applied like expansion of the power into broad groups of the society, limit the money extraction power of the elite group which encourages them to fall in the line of society’s interests, separation of political institutional changes from economic institutions, but the interest groups or elite group/individual will try to deny these changes which can be seen in the colonial period. Colonial countries with good institutions became poor when bad institutions were installed upon them to extract resources from them. Earlier, these countries were prosperous but the colonial countries that were less prosperous found better institutions by European invader countries. This proves the social conflict viewpoint where decisions taken increase the power and prosperity of the elite class.

7. The solution of this problem is a fair distribution of political power which comes from the source of de jure and de facto political power, combination of both the powers makes actual power because many times de facto power has the ability to overthrow de jure power and vice versa.

8. In the early nineteenth century, modern European society saw the constitutional rule and provided with the best example of secure property rights especially in England and Netherland where good economic institutions shaped the economic activities which in turn made the changes in political power. That is de jure political power which has characteristics to allow good economic institutions and broad vested interest of the society in political and economic institutions.

The case for effective as well as inclusive institutions in South Asia—Why is it important for institutions to promote efficiency as well as equity?

A study had been done by William Easterly of the Centre for Global Development and Ross Levine of the University of Minnesota (Easterly and Levine, 2003), which sought to measure on what factors economic growth tended to matter. Institutions turned out to matter most—but that is putting it mildly. Geography and policy, as influences in their own right, turned out to matter not merely less than institutions but, roughly speaking, not at all.

One explanation may be that other studies related good policies to growth rates, whereas Mr. Easterly and Mr. Levine related it to the level of income. Say if a current policy affected growth rates for a spell, but not enough to have a significant effect on incomes in the long term, then studies sponsored by certain pro establishment researchers could conclude that the policy was in fact helping the economy. Or the reason could be that some other studies fail to include institutions alongside policies as a possible explanation for development. If low-income
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countries with bad policies also have bad Institutions, and Institutions are not included in the analysis, then an apparently bad policy regime such as say “A lethargic leader heading an apparently corrupt administration reeking of scams” may act as a proxy for bad Institutions, and appear to be the true underlying influence, leading to a big agitation by opportunistic political forces whereas actually the true villain is the underlying faulty institutions which do not change with policy regime change.

Harkin Sean (2010) argues that the scientific concept of feedback is the idea that a change in some element of a system can cause further change in that element-represents a general concept of economic change. Positive feedback can cause long run growth whereas long run classical equilibrium which sees the economy as being continually drawn back to balance after any change from this position, in a form of what scientists call negative feedback.

Given such observations, it should be clear that the study of what can happen in South Asia, if newer inclusive institutions are built up which aim for a more ambitious effort at integration of diverse communities, should be as important as the study of the current conservative establishments in South Asia. To explain these things, and to explain their relationship with the processes that tend to restore equilibrium, one can put forward a simple thesis rooted in the principles of system science (Harkin, 2010). This is defined as follows:

1. The market economy is a dynamic network system composed of millions of interacting units that show certain behavioural patterns.
2. Like all such systems, it is driven by positive and negative feedback: processes that tend to either amplify or attenuate themselves.
3. Those processes that tend to restore equilibrium are forms of negative feedback.
4. Those that tend to drive the system away from equilibrium are forms of positive feedback.
5. The system as a whole is driven by a mixture of positive and negative feedback, with each being dominant under different circumstances.
6. Harkin in his book also gives simple examples of positive and negative feedback, for instance burning of a piece of paper. This can be linked to a dynamic system in the following way: fire, here requires heat, fuel (in this case, paper) and oxygen. But it also produces heat, while it consumes fuel and oxygen. This is a runaway process of positive feedback which leads to bursting into flames, however, eventually both fuel and oxygen, or either one run short and the fire flickers and dies-this is negative feedback; a process where a given change sets in train consequences that tend to reverse that change, in that case restoring the absence of flame.
7. An interplay of positive and negative feedback must unavoidably determine economic events. If it were just negative feedback, then nothing would ever change. And, if it were just positive feedback, economic variables would
either quickly collapse to zero or forever explode towards infinity.

8. Because humans are social animals, we have interconnected networks, with feedback loops, including both positive and negative feedback loops.

9. Both among individuals and institutions, bounded rationality is a reality, and looking at microfoundations of institutional behavior is as or perhaps more important than individual behavior in order to define the dynamics which may impact a region's long run growth process.

1. Introducing a new perspective of building an emerging South Asia with special reference to cases from rural Gujarat.

2. We can learn from some micro-cases on Gujarat that, an approach which emerges from a more nuanced deep rooted and localised focus on building institutions and developing deep rooted inter-linking community networks with business ties spanning the range of different strata in society can be a model for an emerging South Asia.

- The first case which this paper takes up is based on a newly released book by present Author, “Estimating Marketed and Marketable Surplus of Food Grains in Gujarat, Exploring New Vistas”, (Alagh, 2016). This book explores Gujarat’s agriculture in a thread are manner and specifically tries to uncover the mystery of what exactly is found in wanting to move towards a more inclusive, foolproof and geographically equitable growth process in Gujarat. It asserts that as a political and bureaucratic system we have not yet achieved our aim, irrespective of what some commentators claim regarding Gujarat agriculture being a lighthouse for other states (Tushaar Shah, et al, 2009).

The book puts Gujarat’s agricultural development in a realistic perspective. First, the positive context: The period, 2002-7 was recorded as a golden period in Gujarat’s agriculture. Specifically, wheat yields went up due to Sardar Sarovar; and diversification towards commercial crops as well as horticulture made Gujarat’s agriculture get a facelift, with even dryland regions like Saurashtra and Kachchh being fed with micro-irrigation and power schemes. Effective seed distribution by district agricultural office has been arranged throughout the state. Online market yards, especially large ones like Unjha are doing a good job of market sales of farmer harvest, as well as have good godowns within the yard for storage.

Contract farming with reform in APMC Act has led to a distinct modernisation with direct sale of vegetables to private firms, apart from horticulture for exports, BT Cotton has been doing well in this period although shaky signs are seen recently between government and farmers, also mulch cattle with dairying has emerged as a secondary occupation.

Certain commentators claim however that the spike between 2002-07 was due to the initial impact of SSP and has since ebbed. Small and marginal farmers in some districts like Anand do well enough with commercial crops having high marketed surplus but other areas, with food grains production are having
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negligible marketed surplus. Traders exploit small farmers, who for their sowing take a huge loan and has to generally sell to trader below MSP. Online computer facilities work only in the bigger urban district centres. Marketed surplus for food grains in Gujarat is close to 70% unlike 100% in Haryana/Punjab, FCI is absent and machinery and tractors are not so widespread, MSP awareness-only 25% farmers, sale in distant market by 40% farmers. Gandhian cooperatives are absent except for lending. Transaction cost of government schemes is high. Labour costs are rising due to factories. Family labour is lost to factory.

Overall despite all the claims and publicity to agricultural transformation in Gujarat, its agriculture is still dependent on the Monsoon. The uncertainty for the farmer is made worse by implementation concerns. The probability of the outcome of politicians putting in effort in investing their support to marginal and small farmers, particularly in food grains, is absolutely uncertain.

What Gujarat’s agriculture most definitely needs is a dedication towards systematic reforms in the long run, with focus on developing Institutions which covers the last mile. And the political economy conclusion emerges is that such an effort must be made not in a piece meal way but by the whole system.

In that sense, this above mentioned book acts as a model for South Asia, as to how inequity and exclusivity can be removed with networking at the local governance level and ties which integrates the system with local, regional or country specific concerns.

The second model taken up is described in my forthcoming book by Academic foundation “Supermarket for Rural Customers: A Study of a Community-Oriented Social Enterprise in Gujarat”.

The book is a study of Hearty Mart - a Shia Muslim community retail super market network in North and Central Gujarat, 12 franchisees of Cheliya (Shia Momin Jafri) community, led by the community business leader Nadim Jafri. Shia Chileyas are practical minded businessmen generally the owners of trusteeship based restaurants like Kabir and Topaz in Ahmedabad. With regards to the village level franchisees they are practical, business minded but conservative and not well educated. The dilemmas which are faced by the community are of balancing the community trust ethic with a modern competitive liberalized market motto. The community and its leadership observed in personal interviews are slow to respond the change. Bounded rational satisficing is often the norm in community organizations. Why risk spilling the milk goes the logic? In the current business entrepreneurship environment in the country: values, ethics and morals are often considered expendable. So, certain hypocrisy can come in to the system when intentions and results diverge.

Philosophically, David Hume offers the perspective of subjectivism (Hume, 2001). According to him, moral values vary from person to person. There is another theory introduced in the 18th century by philosopher Immanuel Kant (Kant, 1998), who argued for making oneself the repository of reason, “a law into
oneself”. Hearty Mart system involves working with patience, trust, cooperation with community leaders and a pride in the Chilea community and its values represented by Nadim and his family. Here, conundrums arise, such as whether to differentiate business and community or be influenced by religion and community in day to day problems. A solution based on a simultaneous acceptance of the nuances of the Gujarati Shia business community ethic, but avoiding the straight jacket of community rules will help develop the community to merge itself with the national mainstream. This is also a possible role model for community and institutions in South Asia as we move ahead, neither being tied down in a perspective of a rigid moral code, nor being misguided by subjective bias in issues regarding business and cultural inclusiveness or exclusivity. The rationale presented is that what will work in developing integrated inclusive institutions in South Asia today is micro level developmental leadership attempting to change the basic structure of the system through a 360 degree shift in attitude. Leadership needs to embrace technology and knowledge and should attempt a shot in the dark.

But why should any community, religious or political leader attempt such revolutionary tactics, literally a shot in the dark? Yes, they should because the returns will be large. There is a possibility to bring about a great energy from within the social institutions and organisations. But who will bell the cat? Maybe nobody ever will, but I still throw this institutional leadership model open for academic and general discussion as a testable hypothesis for the social change….

**A road map for entrepreneurial institutions to aim for integrated, inclusive growth in South Asia**

For thinking about such a road map for entrepreneurial institutions in an integrated South Asia, let us begin by understanding how the scholars historically developed the implications of politics in entrepreneurship theory.

McCarfey, Salerno, (2011) adapt the Cantillon-Knight-Mises theory of the entrepreneur to state production and explain the political entrepreneurship as a diversion of the structure of production away from what it would have been in an unrestricted market. They also show that the judgment in allocating resources employed by the political entrepreneurs potentially yields a revenue stream not previously identified and which is subject to uncertainty. Another useful aspect of their theory is that it does not require any assumptions about the values of political entrepreneurs, and thus applies to all persons who meet the definition. Whereas, political entrepreneurship is either defined as rent seeking or alertly gaining profit from the political system or as new institutionalists describe: shaping political institutions. Political entrepreneurship can also involve market changing investments which are subject to uncertainty.
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Factors from Gandhian models for possible adaptation in South Asia

Gandhian concept of Swaraj envisages a form of independence which includes freedom from both within and without, with an emphasis on the within. Following are the elements of a Gandhian Model, which South Asia may adopt (Nadkarni M V, ed, 2011):

1. **Sarvodaya-welfare of all**: A community can be led and coordinated by appealing to its inherent belief system and its simple daily way of life. It is possible in the modern world to organize, coordinate and motivate businessmen by appealing to their basis simple rural way of life.

2. **Decentralisation and self contained villages**: rural development for South Asia.

3. **Swadeshi**: trust in such a community based system is easy to develop because of repeated interactions between agents, unlike the anonymity of capitalism, self-dependence and being rooted in the indigenous culture of South Asia is encouraged.

4. **Morality and ethics**: While allowing a community to be rooted in its ethos, encouraging moving away from blind faith through nayi talim is important.

   “Generalisation of field observations and philosophical hypothesis regarding individuals Generalised to Nations and their people!” limitations of this study underlined:

In the research proposal attached above, attempt has been made to relate the specific case of a community perspective to institutions within the context of how conservative bounded rational communities deal with such issues in complex and uncertain environments to a broader neo classical growth model which includes a perspective on institutions. Starting with the case of an individual community retail franchising model incorporating bounded rationality, flexible contracts and information asymmetry, we are building an economywide approach to development planning for inclusive growth with a strategy of building an institution based developmental model which uses knowledge and ideas seeking to unite the diverse communities and perspectives of South Asia.

Such an exercise involves generalizing, it is needed to analyse whether such an exercise is at all valid or not. The institutions and community models in Gujarat are being studied. But can we draw more general inferences from our data? Are the results of such a study valid only for the study of the specific sample (of the Chilea Community) but for the population (of community initiatives in South Asia at large) on which the research question wanted to make statements? The formulation of more general statements is only possible by abstraction. This conclusion is called induction. The general formulation can be linked with other, formerly developed general formulations to a network of statements, a theory. This
conclusion is called deduction. This exercise generally involves picking up any number from three to ten of the cases, in present case six franchisees are being studied and developed broad conclusions from them (Mayring, 2007).

The purpose should be to add to knowledge, so merely linking the Hearty Mart case of an Islamic community with a broader developmental model involving implications for the entire South Asia, by itself cannot be an aim, i.e., generalisation for the sake of establishing a wider domain for the study; cannot be the aim, the need is to discover meaning and understanding about the communities in present study, and that must to be the purpose. Polit and Beck, 2010 and Myers et al, 2000 before them stress on the importance, in qualitative research on a rich understanding of human experience through an intensive study of cases, not merely generalisation.

Ali and Yusof, (2011) focus on the subject of qualitative judgement of qualitative research the specifically: validity, reliability and generalisability. The fact, that our research is qualitative in nature, cannot by itself become a point of achievement, the need is to appraise it qualitatively. Particularly, internal validity refers to the treatment which the relation at hand has to face at the hands of the researcher, or what you do with the problem at hand, then we have external validity; the generalisability of results; reliability, the extent to which the findings can be replicated; objectivity, the extent to which the findings are free from bias. Typically, the word “generalizability” is defined as the degree to which the findings can be generalized from the study sample to the entire population. This is the factor which most appraisals of qualitative research focus on. Finally, the important focus is on credibility or confirmability of the study.

Thorne and Derbyshire 2005, in their provocative and clever paper designed to inspire improvements in qualitative health research, noted a number of tendencies of qualitative researchers that undermine analytic generalization: enthusiasm for artificial coherence, usually generated by linking superficial similarities within the data; forms of premature closure such as saturation claim as a convenient stopping point; while the present does not go into such issues of methodology, it is noted that such limits needs to be considered and avoided if possible.

Over recent years, several somewhat promising approaches to the synthesis of qualitatively derived knowledge have emerged, each of which orients us to particular techniques through which distinct pieces of qualitatively derived information might be combined to generate more complex, comprehensive, and robust conceptualizations of various study phenomena. Typically referred by the general term “qualitative metasynthesis” the available array of methodological options is quickly expanding. Thorne, (2009).

The limited objective through the above referencing on methodology is to make the reader aware of the limitations of generalisation of qualitative observations to applicable models to approximately one fourth of the humanity (Wikipedia, 2016).
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Humanistic road map for the road ahead - some thoughts

The rationale is that neither traditional Gandhian models nor solely Neo classical capitalist market models, nor Marxist models of community leadership are going to work in this transitory phase in South Asia.

There is a need of a system working across all the communities and institutions in India which ensures whole hearted efforts towards achieving a reasoned view of community and institutions and allows for long term economic growth irrespective of the ideology of the ruling elite in different parts of India and Pakistan.

This is very relevant to the subjectivities inherent in subjective bias ridden political and social climate in South Asia.

Learnings:

- Boundedly rational satisficing is often the norm in community relations in South Asia.
- However, no conventional growth model or political leadership has seen growth and cooperation in modern South Asia.
- What will work for that is a growth model based on changing the quality of Institutions.
- At a philosophical level in relation to leadership of communities with regard to morals and community rules what’s needed is a system which encourages unbiased application of reasons for South Asia’s social communities and institutions rather than stressing on the religious determinism or elite’s authority.

This is thus, simply a presentation of a case for moving towards a system of a more integrated South Asia, it must be followed up by arguing detailed specifics of such an agenda, but that’s the problem of the policy makers not of an academic. In the present research it is simply attempted to set the cat among the pigeons, keeping the control of the social scientists research method, figuratively “A pail of water”- in hand, so as to ensure a rational, reasoned inquiry, at the very least.

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