First Draft: August 2001

Institutional Development in Developing Countries in a Historical Perspective

- Lessons from Developed Countries in Earlier Times

This paper was initially presented at
the European Association of Evolutionary Political Economy (EAEPE) Annual Meeting
8-11 November 2001
Siena, Italy

Ha-Joon Chang*
Faculty of Economics and Politics
University of Cambridge

*An early version of the paper was prepared for the Department for International Development of the UK Government. Much of its contents now form a part of my forthcoming book, *Kicking Away the Ladder? – Policies and Institutions for Economic Development in Historical Perspective* (Anthem Press, London, 2002). I have benefited greatly from the comments by Wolfgang Drechsler, Michael Ellman, Stanley Engerman, Peter Evans, Ben Fine, Ilene Grabel, Charles Kindleberger, William Milberg, Peter Nolan, Erik Reinert, James Putzel, Howard Stein, Lance Taylor, and Peter Temin. The following people have also given me useful comments: Duncan Green, John Grieve Smith, Jonathan di John, Richard Kozul-Wright, Sandra Pepera, Bob Rowthorn, Jang-Sup Shin, Roger Wilson, and Tianbiao Zhu.

Abstract

The issue of institutional development, especially under the slogan of “good governance”, has recently come to occupy the centre stage of development policy debate. The present paper attempts to shed new light on this debate by looking at institutional development in the developed countries when they were “developing countries” themselves.

The paper first charts the evolution of the following institutions, which are widely regarded as essential components of a “good governance” structure, in the developed countries during earlier times, focusing on the period between the early 19th century and the early 20th century. These include: (i) democracy; (ii) bureaucracy and judiciary; (iii) property rights (especially intellectual property rights) institutions; (iv) corporate governance institutions (generalised limited liability, modern bankruptcy law, requirement for company audit and disclosure, and competition law); (v) financial institutions (banking; central banking, securities regulation, and public finance institutions; (vi) social welfare and labour institutions.

Based upon this historical examination, the paper makes the following points. First of all, the developed countries in earlier times were institutionally *less* advanced compared to today’s developing countries at similar stages of development, not to speak of meeting the even higher “global standards” that the latter countries are forced to conform to these days. Second, despite this, the developed countries in their earlier times grew much faster than the

developing countries over the last two decades, during which the latter countries have presumably improved their institutions. This suggests that, contrary to what is assumed in the "good governance" discourse, many institutions follow, rather than lead, economic development. Third, it took the developed countries long time to develop institutions in their earlier days of development. Thus seen, it will be argued, the currently popular demand that developing countries should adopt "global standard" institutions right away, or after very short transition periods, is unrealistic.

An alternative approach to the issue of institutional development will be presented. This will argue that we need to be: (i) more careful in identifying exactly which institutions are "necessary" for which developing countries; (ii) more aware of the costs involved in setting up and running complex institutions; (iii) more realistic about the possible speed of institutional development in the developing countries; and (iv) be more humble and sensitive to the issue of historical justice in demanding high institutional standards from developing countries.

1. Introduction

The issue of institutional development, especially under the slogan of "good governance", has recently come to occupy the centre stage of development policy debate. During the last decade or so, the international development policy establishment (which I define to include, among others, the developed country governments, the IMF, the World Bnak, and the WTO) have come to recognise the limitations of their earlier emphasis on "getting the prices right" and have accepted the importance of the institutional structure that underpins the price system. Especially following the recent Asian crisis, which has been widely interpreted as a result of deficient institutional structure, the international development policy establishment (IDPE) have started to put emphasis on "getting the institutions right" and attach what Kapur & Webb (2000) call "governance-related conditionalities" to their loans and grants.

On the offensive these days are those who believe that every country should adopt a set of "best practice" institutions (unfortunately often implicitly equated with US institutions), with some minimal "transition" provisions for the poorest countries – various agreements in the WTO being the best example. And backing up such claim is a rapidly growing body of literature, especially from the World Bank and its associates, trying to establish statistical correlation between institutional variables and economic development, with the supposed causality running from the former to the latter (for a review of these studies, see Aron, 2000).[1]
Exactly which are the institutions that go into the "good governance" package differ across recommendations, but frequently included in this package of "best practice" institutions are: democracy; clean and efficient bureaucracy and judiciary; strong protection of (private) property rights (including intellectual property rights); good corporate governance institutions (especially information disclosure requirements and bankruptcy law); well-developed financial institutions (see Kaufmann et al., 1999, and Aron, 2000). Less frequently included but still important are good public finance system (La Porta et al., 1999) and good social welfare and labour institutions providing "safety nets" and protecting workers' rights (Rodrik, 1999).
Critics argue that, apart from the fact that the IMF and the World Bank do not have the official mandate to intervene in most of these "governance" issues (e.g., Kapur & Webb, 2000), the institutions of developed countries can be too demanding for developing countries in terms of financial and human resource requirements. Some of them also argue that some of these institutions may go against social norms and "cultural" values of some of the countries concerned. Many of these critics emphasise the difficulty of institutional transplantation and warn against the attempt to impose a common institutional standard on all countries with different conditions.
These critics have an important point to make, but in the absence of some idea as to which institutions are necessary and/or viable under what conditions, they are in danger of justifying whatever institutional *status quo* that exists in developing countries. Then what is the alternative?
One obvious alternative is for us to find out directly which of the "best practice" institutions are suitable for particular developing countries by transplanting them and seeing how they fare. However, as the failures of "structural adjustment" in many developing countries and of "transition" in many former Communist economies show, this usually does not work and can be very costly.
Another alternative is for the developing countries to wait for spontaneous institutional evolution. It may be argued that the best way to get the institutions that suit the local conditions is to let them evolve naturally, as indeed was the case with many developed

[1] The institutional variables are often represented by various "indexes" constructed by consulting firms and research institutes based on surveys of experts or businessmen (for the details on these indicators, see Kaufmann et al., 1999).

countries when they were developing. However, such spontaneous evolution may take a long time. Moreover, given the nature of the evolutionary process, there is no guarantee that what you get through such process will be the best possible institutions, even from the national point of view.

These, then, point us to a third, and my preferred, alternative, which is to learn from history. Why not look at the developed countries when they were "developing countries" themselves and see how they have developed their institutions? In other words, we could draw lessons from the *history*, as opposed to the *current state*, of developed countries. This way, developing countries can learn from the experiences of developed countries without paying all the costs involved in developing new institutions (one of the few advantages of being a "late-comer"). This will also help the donors that (rightly or wrongly) want to encourage the adoption of particular institutions by the recipients of their aids to decide whether particular "we're-not-ready-yet" kinds of argument put to them by some recipient country governments are reasonable or not. Finally, at the theoretical level, this exercise will allow us to develop more informed theories of institutional change.

Despite the obvious advantages of the historical approach, there is surprisingly little work along these lines, and the present paper is intended to fill this rather important gap.[2]

2. The History of Institutional Development in the Developed Countries

2.1. Democracy

There has been a particularly heated debate on the relationship between democracy and economic development.[3] In the early postwar period, there was a popular argument that developing countries cannot "afford" democratic institutions that are too "expensive". Today, the dominant view in the IDPE is that democracy helps economic development and therefore has to be promoted as a precondition for development. However, there are still others who point out that democracy is more of an outcome, rather than a precondition for, development, and therefore not really a "variable" we can manipulate, whether or not we think it is "good" for development.

No attempt is made here to settle this difficult and long-standing debate. However, the historical experience of the developed countries in this regard tells us an interesting story that will make the readers pause before they readily buy into the current orthodoxy that democracy is a precondition for development.

When voting was first introduced in the now-developed countries (NDCs), it was confined to a very small minority of property-owning males (usually above 30), often with unequal number of votes according to the scale of property, educational achievement, or age. It was not until 1848 when France introduced universal male suffrage that even limited forms of democracy began appearing among the NDCs. As we see in table 1, most NDCs introduced universal male suffrage between the mid-19th century and the first couple of decades of the 20th century. However, even this process was not without reversals.

For example, during the late 19th century, when an electoral victory by the Social Democratic Party became a possibility at least in local elections, Saxony abandoned universal male suffrage that had been adopted earlier and moved over to the Prussian-style three-class voting system (which Prussia itself used during 1849-1918) (Ritter, 1990, Kreutzer, 1996). In this

---

[2] Crafts (2000) is a notable exception, but it only covers the UK experience and is focused on financial and corporate governance institutions.

[3] Bardhan (1993) is a concise review. Rueschmeyer, Stephens & Stephens (1992) provides a comprehensive review. Also see Przeworski & Limongi (1993).

system, each of the three classes (classified according to income) elected the same number of delegates to the parliament, which meant that the top two classes (each accounting for 3-5% and 10-15% of the population) could always outvote the poorest class.
In the USA, black males were allowed to vote in 1870 following the Fifteenth Amendment to the Constitution (Garraty & Carnes, 2000, p. 445). However, subsequently the Southern states disenfranchised them again between 1890 (Mississippi) and 1908 (Georgia) by introducing measures like poll tax requirement and property requirements (which also disenfranchised some poor whites) as well as literacy test (which was extremely leniently applied to illiterate whites) (Foner, 1998, p. 154; Garraty & Carnes, 2000, p. 473; Kruman, 1991, p. 1045).

Table 1. Introduction of Democracy in the NDCs

Country	Universal Male Suffrage	Universal Suffrage
Australia	1903[1]	1962
Austria	1907	1918
Belgium	1919	1948
Canada	1920[2]	1970
Denmark	1849	1915
Finland	1919[3]	1944
France	1848	1946
Germany	1849[2]	1946
Italy	1919[4]	1946
Japan	1925	1952
Netherlands	1917	1919
New Zealand	1889	1907
Norway	1898	1913
Portugal	n.a.	1970
Spain	n.a.	1977 (1931)**
Sweden	1918	1918
Switzerland	1879	1971
UK	1918[5]	1928
USA	1965 (1870)*	1965

Sources: Therborn (1977) and Silbey (1995) for democracy indicators. Additional information from Foner (1998) on the USA and Carr (1980) on Spain. For some more details on the introduction of universal suffrage, see table 3.2.

[1] With racial qualifications
[2] With property qualifications
[3] Communists excluded
[4] With restrictions
[5] All men and women over 30
*Universal male suffrage was introduced in 1870, but reversed between 1890 and 1908 through disenfranchisement of the blacks in the Southern states. It was restored only in 1965. For further details, see the text.
**Universal suffrage was introduced in 1931 but reversed by the military coup of General Franco in 1936. It was restored only in 1977, following Franco's death in 1975. See the text for details.

In Spain, when the introduction of universal suffrage in 1931 resulted in a series of left or centre-left Republican governments, conservative forces reacted against it with a military coup in 1936, thus suspending democracy until the end of Franco dictatorship in 1977 (Linz, 1995; Carr, 1980).

Although male universal suffrage at least amongst the majority (white) population was attained in most NDCs by the end of the First World War, these countries could hardly be called democracies even in the purely formal sense of the word, because women and ethnic minorities were disenfranchised. It was not until 1946 that the majority of the 19 NDCs featured in table 1 attained universal suffrage.
Australia and New Zealand were the first countries to give women votes (1903 and 1907 respectively), although Australia did not enfranchise non-whites until 1962. In many other countries, women were given votes only after the Second World War (for example, Germany, Italy, Finland, France, Belgium). In the Swiss case, female suffrage was granted about hundred years after the introduction of universal male suffrage (1879 vs. 1971). Some countries also had restrictions based on political creed – Finland banned Communists from voting until 1944. In countries with significant non-white minority groups, there were racial restrictions. As mentioned above, Australia did not give voting rights to non-whites until 1962 and the blacks in parts of the USA got enfranchised only in 1965 (see above; also see Therborn, 1977; Silbey, 1995).

Even when the NDCs achieved formal democracy, its quality was often very poor, as in the case of many modern-day developing countries. We already have mentioned the "quality" problem relating to selective enfranchisement according to race, gender, and property ownership. But that was not all.
First of all, even secret balloting was not common until the 20th century. Norway, which was relatively advanced in terms of democratic institution by the standard of the time[4], introduced secret balloting only in 1884 (Nerbørvik, 1986, p. 125). France introduced voting envelope and voting booth only in 1913 – several decades after the introduction of universal male suffrage – and Prussia introduced secret ballots only in 1919 (Kreutzer, 1996).
Second, vote buying and electoral fraud were also very widespread. Bribery, threats, and promise of employment to voters were widespread in British elections at least until the 1883 Corrupt and Illegal Practices Act (Searle, 1979-80, and Howe, 1979-90). There were numerous cases in the USA until the early 20th century involving the use of public officials for party political campaign (including forced donation to electoral campaign funds), electoral fraud, and vote-buying (Cochran & Miller, 1942, pp. 158-9; also see Benson, 1978).
With such "expensive" elections, it was not a big surprise that elected officials were corrupt. In the late 19th century, legislative corruption in the US, especially in state assemblies, got so bad that the later US president Theodore Roosevelt lamented that the New York assemblymen, who engaged in open selling of votes to lobbying groups, "had the same idea about Public Life and Civil Service that a vulture has of a dead sheep" (Garraty & Carnes, 2000, p. 472).

Thus seen, the road to democracy in the NDCs was a really rocky one. It was only through several decades of political campaign (e.g., campaigns for feamle or black suffrage) and electoral reforms that these countries acquired even the basic trappings of democracy – universal suffrage and secret ballots – and even then its practice was filled with electoral fraud, vote-buying, and violence.

[4] For example, already in 1814, about 45% men were able to vote in Norway (Nerbørvik, 1986, p. 119). Compare this with the figure for the UK, which was economically far more advanced (see table 3.7), that we cited above (18% in 1832).

2.2. The Bureaucracy and the Judiciary

A. The Bureaucracy

Few people, even those who are generally sceptical of state activism, would disagree that an effective and clean bureaucracy is crucial for economic development (World Bank, 1997, ch. 6, sums up the current debate on this from the IDPE's point of view). Of course, there is currently a serious debate on how exactly we should define bureaucratic effectiveness and cleanliness, and on how we design the incentive system to attain these characteristics (see Hughes, 1994, and Hood, 1995 and 1998). Despite this debate, there seems little dispute that that developing country bureaucracies first need to attain some basic "Weberian" attributes: meritocratic recruitment; long-term, generalist, and closed career path; and corporate coherence maintained by rule-bound management (Evans, 1995, ch.2; Rauch & Evans, 2000).

It is well known that at least until the 18th century, open sales of public offices – sometimes with widely-publicised price tags – was a common practice in most NDCs (see Kindleberger, 1984, pp. 160-9). In Prussia, before the extensive bureaucratic reform under Frederick William I (1713-1740), although offices were, although not formally sold, very often given to those who are willing to pay the highest amount for the tax that was customarily imposed on the first year's salary (Dorwart, 1953, p. 192).

Partly because they were openly bought and sold, public offices were *formally* regarded as private property in many of these countries. For example, in France, it was very difficult to introduce disciplinary measures for bureaucrats until the Third Republic (1873) because of this reason (Anderson & Anderson, 1978). In Britain, prior to the reform in the early 19th century, government ministries were "private establishments" unaccountable to the Parliament, paid their staff by fees (rather than salaries), and kept many obsolete offices as sinecures (Finer, 1989).

The "spoils" system, where public offices were allocated to the loyalists of the ruling party, was a particularly serious problem in US politics between the emergence of the two-party system in 1828 (with the election of President Jackson) and the Pendleton Act of 1883 (Cochran & Miller, 1941, pp. 156-160; Garraty & Carnes, 2000, pp. 253-4, p. 472, pp. 581-3; Finer, 1989). Italy and Spain continued the spoils system throughout the 19th century (Anderson & Anderson, 1978).

There was widespread nepotism. For example, Feuchtwanger (1970) argues that, even after the extensive bureaucratic reform under Frederick William I (see below), "nepotism was still rife and many offices were virtually hereditary" (p. 45). Given that Prussia had the most modernised bureaucracy at the time, it is not hard to imagine how things were in other countries.

With the sales of offices, spoils system, and nepotism, it is not a surprise that professionalism was conspicuously lacking in the bureaucracies of most NDCs at least until the late 19th century. The Jacksonians in the US had a contempt for expert knowledge and was against the professionalisation of the bureaucracy on the ground that the largest possible number of citizens should be able to participate in the act of government (Garraty & Carnes, 2000, p. 254). Even after the 1883 Pendleton Act, which set up the Civil Service Commission to administer competitive recruitment to the federal bureaucracy, only about 10% of civil service jobs were subject to competitive recruitment (Garraty & Carnes, 2000, p. 583). The Italian bureaucrats in the late 19th century had "no legal, or even conventional, guarantees on tenure, dismissals, pension, etc., and no recourse to the court" (Clark, 1996, p. 55). Even in Belgium, which was the second most industrialised country after Britain in the 19th century, the civil service was not fully professionalised until 1933 (Baudhuin, 1946, pp. 203-4).

It was only through a long drawn-out process of reform that the bureaucracies in the NDCs were modernised. The pioneer in this regard was Prussia. An extensive bureaucratic reform was implemented by Frederick William I from 1713. The key measures included: centralisation of authorities scattered over two dozen separate territorial entities and overlapping departments; transformation of the status of the bureaucrats from private servants of the royal family into servants of the state; regular payments in cash (rather than in kind as before) of adequate salaries; introduction of a strict supervision system (for further details, see Dorwart, 1953, Feuchtwanger, 1970, and Gothelf, 2000). Thanks to these measures and the additional measures introduced by his son, Frederick the Great (1740-86), by the early 19th century Prussia could be said to have installed the key elements of a modern (Weberian) bureaucracy – entrance examination, hierarchical organisation, pension systems, disciplinary procedure, and security of tenure (Anderson & Anderson, 1978; also see Blackbourn, 1997, pp. 82-4).

In Britain, sinecures were eliminated through a series of reform between 1780 and 1834. Bureaucratic remuneration was changed from a fee-based system to a salary system in the first half of the 19th century. It was also only around this time that the status of government ministries in Britain was changed from “private establishments” to government ministries in the modern sense. All in all, it was only after 1860 that the British Civil Service was substantially modernised (Hobsbawm, 1999, p. 209). The US made some important progress with professionalisation of the bureaucracy in the last two decades of the 19th century, as the proportion of federal government jobs subject to competitive recruitment rose from 10% at the introduction of the Pendleton Act in 1883 to nearly 50% by 1897 (Benson, 1978, p. 81, and p. 85).

B. The Judiciary

In the present “good governance” discourse, there is a strong emphasis on a politically independent judiciary administering “rule of law” (see Upham, 2000, and Ohnesorge, 2000 for a critic of the “rule of law” rhetoric). However, we have to be somewhat careful in embracing this “independent judiciary” rhetoric.

It may be argued that a judiciary that is politically independent to a very high degree (e.g., the German and the Japanese judiciaries) is not necessarily desirable, as they lack democratic accountability.[5] Thus seen, we need to understand the quality of the judiciary not simply in terms of its “political independence”. Its quality should be seen in terms of a number of dimensions – professionalism of the judicial officials, quality of their judgments (not simply from a narrow “rule of law” point of view but also from a broader societal point of view), and the cost of administering the system – although each of us may give different weights to each of these dimensions.

Like their counterparts in modern-day developing countries, the judiciary in many NDCs suffered from excessive political influences and corruption in appointments (or elections where applicable) until at least the late 19th centuries and often beyond. It was also frequently filled with men from a narrow privileged social background with little, if any, background in law, with the result that justice was dispensed often in biased and unprofessional ways.

In the UK, even the anti-corruption laws of 1853-4 and 1883 did not affect the election of Coroners, which was subject to widespread corruption and party political manoeuvring (Glasgow, 1999). Germany made an impressive progress towards “rule of law” during the late

[5] This is why some countries have elected some of its judicial officials – the US of today (Upham, 2000) and the UK in the past (see below) being the best-known examples. In the UK, the boundary between the judiciary and the legislative is also blurred, since its highest judges sit in the House of Lords, but few people argue that this is a major problem.

19th century and gained a largely independent judiciary by the end of the century. However, there was still lack of equality before law, with military and middle-class crimes getting less diligently brought to the court and less severely punished. This problem of "class justice" equally dogged other NDCs at the time – the UK, the USA, and France (Blackbourn, 1997, p. 384). In Italy, at least until the late 19th century, judges did not usually have background in law, and "could not protect themselves, let alone anyone else, against political abuses" (Clark, 1996, p. 54).

2.3. Property Rights Regimes

In the "good governance" discourse, the "quality" of property rights regimes is regarded as crucial, as it is believed to be a key determinant of investment incentives and thus wealth creation. However, measuring the "quality" of a property rights regime is not easy, because it has numerous components – contract law, company law, bankruptcy law, inheritance law, tax law, and laws regulating land use (e.g., urban zoning laws, environmental standards, and fire safety regulations), just to name a few.

In many empirical studies, this "aggregation problem" is got around by asking survey respondents to give a numerical value to the overall quality of the property rights institutions (e.g., "security of contract and property rights" or "enforcement of contracts or property rights"; see Aron, 2000, table 1, for some examples). Unfortunately, even this highly inadequate "solution" to the problem is not available for historical comparison that we are attempting in this paper.

Therefore, in this section, we only look at one aspect of the property rights system that lends itself to this kind of analysis, which is that of intellectual property rights, defined by a small number of clearly identifiable laws (e.g., patent law, and to lesser extents, copyright law and trademark law). Before we do that, however, some general theoretical comments on the role of property rights in economic development (with some historical references) are in order.

A. Some Misconceptions about Property Rights and Economic Development

In the orthodox discourse of today, it is widely believed that the stronger the protection of property rights is, the better it is for economic development, as it encourages wealth creation. While it may be reasonable to argue that persistent uncertainty about the security of one's property rights is harmful for long-term investments and growth, security of property rights cannot be regarded as something good in itself. There are many examples in history where the preservation of certain property rights proved harmful for economic development and where the violation of certain existing property rights (and the creation of new property rights) was actually beneficial for economic development.

The best known example is probably the Enclosure in Britain, which violated existing communal property rights by confiscating the commons but contributed to the development of woolen industry by promoting sheep farming on the land thus confiscated. De Soto (2000) documents how the recognition of squatter rights in violation of the existing property owners was crucial in developing the American West. Land reform in Japan, Korea, and Taiwan after the Second World War violated the existing property rights of the landlords but contributed to the subsequent development of these countries. The examples could go on, but the point is that what matters for economic development is *not* the protection of all existing property rights regardless of their nature, but which property rights are protected under which conditions. With this general point in mind, let us take a detailed look at intellectual property rights institutions, as I promised earlier.

B. Intellectual Property Rights

The first patent system was invented in Venice in 1474 (it granted ten years' privileges to inventors of "new arts and machines"). The British patent law came into being in 1623 with the Statute of Monopolies, although many researchers argue that it did not really deserve the name of a "patent law" until its reform in 1852 (e.g., McLeod, 1988). France adopted its patent law in 1791, the USA in 1793, and Austria in 1794. Most of the other NDCs established their patent laws in the first half of the 19th century.[6] These countries established other elements of their intellectual property rights regimes, such as copyright laws (first introduced in Britain in 1709) and trademark laws (first introduced in Britain in 1862), in the second half of the 19th century.

At this point, it should be noted that all of these early intellectual property rights (IPR) regimes were highly "deficient" by the standards of our time.[7] Patent systems in many countries lacked disclosure requirements, incurred very high costs in filing and processing patent applications, and afforded inadequate protection to the patentees. Most patent laws were very lax on checking the originality of the invention. For example, in the USA, before the 1836 overhaul of the patent law, patents were granted without any proof of originality. This not only led to the patenting of imported technologies but encouraged racketeers to engage in "rent-seeking" by patenting devices already in use ("phony patents") and by demanding money from their users under threat of suit for infringement (Cochran & Miller, 1942, p. 14). Few countries allowed patents on chemical and pharmaceutical substances (as opposed to the processes) – a practice that has continued well into the last few decades of the 20th century in many NDCs but has been "outlawed" by the TRIPS (trade-related intellectual property rights) agreement in the WTO, except for the poorest countries (but only until 2006).[8]

Especially in relation to the protection of foreign IPR, these laws accorded only very inadequate protection. In most countries, including Britain (before 1852), the Netherlands, Austria, and France, patenting of *imported invention* by their nationals was often explicitly allowed. The cases of Switzerland and the Netherlands in relation to their patent laws deserve even greater attention (Schiff, 1971, for further details).

The Netherlands abolished its 1817 patent law in 1869, partly due to the rather deficient nature of the law (even by the standards of the time)[9], but also having been influenced by the anti-patent movement that swept Europe at the time (Schiff, 1971). This movement, closely related to the free trade movements, condemned patents as being no different from other monopolistic practices (Machlup & Penrose, 1950, and Penrose, 1951).

Switzerland did not acknowledge any IPR over inventions until 1888, when a patent law protecting only mechanical inventions ("inventions that can be represented by mechanical models"; Schiff, 1971, p. 85) was introduced. Only in 1907, partly prompted by the threat of trade sanction from Germany in retaliation to the Swiss use of its chemical and pharmaceutical inventions, a patent law worth its name came into being. However, even this had many

---

[6] Russia (1812), Prussia (1815), Belgium and the Netherlands (1817), Spain (1820), Bavaria (1825), Sardinia (1826), The Vatican state (1833), Sweden (1834), Württemberg (1836), Portugal (1837), Saxony (1843) (Penrose, 1951, p. 13). Japan established its first patent law in 1885 (Doi, 1980).

[7] I put quotation marks around the term "deficient", because what is deficient at least partly depends on one's viewpoint. For example, some people believe that product patents on chemical and pharmaceutical substances should not be allowed, while others argue that they are desirable.

[8] Chemical substances remained unpatentable until 1967 in West Germany, 1968 in the Nordic countries, 1976 in Japan, 1978 in Switzerland, and 1992 in Spain. Pharmaceutical products remained unpatentable until 1967 in West Germany and France, 1979 in Italy, and 1992 in Spain. Pharmaceutical products were also unpatentable in Canada into the 1990s. For details, see Patel (1989, p. 980).

[9] The 1817 Dutch patent law did not require a disclosure of the details of patents. It allowed the patenting of imported inventions. It nullified national patents of inventions that acquired foreign patents. And there was no penalty on others using patented products without permission as far as it was for their own business (Schiff, 1971, pp. 19-20).

exclusions, especially the refusal to grant patents to chemical substances (as opposed to chemical processes) until 1978 (Patel, 1989, p. 980).

With the introduction of IPR laws in an increasing number of countries, the pressures for an international IPR regime naturally started growing from the late 19th century (see Penrose, 1951, Shell, 1988, and Chang, 2001, for further details). Finally, the Paris Convention of the International Union for the Protection of Industrial Property was finally signed by 11 countries in 1883.[10] The Convention covered not just patents but also trademark laws (which enabled patentless Switzerland and Netherlands to sign up to it despite not having a patent law). In 1886, Berne Convention on copyrights was signed.

However, despite the emergence of an international IPR regime, even the most developed NDCs were still routinely violating the IPR of other countries' citizens well into the 20th century. We already mentioned that until this time, Switzerland and the Netherlands did not have a patent law. It is also interesting to note that the USA, a strong advocate of patentee rights even then, did not acknowledge copyrights of foreigners until 1891.[11] And as late as in the late 19th century, when Germany was about to technologically overtake Britain, there was a great concern in Britain with German violation of its trademarks (Williams, 1896, provides many interesting details; also see Landes, 1969, p. 328).[12] On the other hand, exactly at the same time, the Germans were complaining about the absence of a patent law in Switzerland and the consequent "theft" of German intellectual property by Swiss firms, especially in the chemical industry.

The above discussions show how "deficient" the IPR regimes of the NDCs were when the latter were developing countries themselves by the standards that are demanded of today's developing countries. Especially when it came to protecting the IPR of foreigners, there were widespread and serious violations at least until the late 19th century even by the most advanced NDCs.

2.4. Corporate Governance

A. Limited Liability

These days, we tend to take the principle of limited liability for granted. However, for a few centuries after its invention in the 16th century for highly risky large-scale commerical projects (the British East India Company being the best-known early example), it was regarded with great suspicion. Many people, including Adam Smith and the influential early 19th century economist John McCulloch believed that it leads to excessive risk-taking (or what today we call "moral hazard") on the part of both the owners and the managers (Gillman & Eade, 1995). It was also believed, with some justification, to be an important cause of financial speculation.

[10] The original signatories were Belgium, Portugal, France, Guatemala, Italy, the Netherlands, San Salvador, Serbia, Spain, and Switzerland.

[11] The US did not fully conform to the Berne Convention on international copyright (1886) until 1988, when the country finally abolished the requirement that copyrighted books had to be printed in the US or typeset with US plates (Sokoloff & Khan, 2000, p. 9).

[12] Britain first introduced a trade mark law in 1862 (the Merchandise Mark Act), which banned "commercial thievery", such as the forging of trademarks and the labeling of false quantities (Williams, 1896, p. 137). In the 1887 revision of the Act, mindful of German (and other foreign) infringement of the British trademark law, the British Parliament specifically added the place or the country of manufacture as a part of the necessary "trade description". However, the Germans employed a range of measures to get around this Act (Williams, 1896, p. 138). They placed the stamp for the country of origin on the packaging instead of the individual articles, so that once the packaging was removed customers could not tell the country of origin of the product (said to be common amongst the imports of watches and files). They also sent some articles over in pieces and had it assembled in England (a method said to be common in pianos and cycles). They would also place the stamp for the country of origin where it is practically invisible.

Britain banned the formation of new limited liability companies on this ground with the Bubble Act in 1720, although it was allowed again in 1825 with the repeal of the Act.
However, as it has been repeatedly proven over the last few centuries, limited liability provides one of the most powerful mechanisms to "socialise risk", which has made investments of unprecedented scales possible (Rosenberg & Birdzell, 1986). And that is why, despite its potential to create "moral hazard", all societies have come to accept it as a foundational principle of modern corporate governance (Chang, 2000).

In many European countries, limited liability companies – or joint stock companies as they were known in those days – had existed under *ad hoc* royal charters since the 16th century (Kindleberger, 1984, p. 196). However, it was not until the mid-19th century that it began to be awarded as a matter of course, rather than as a privilege.
Generalised limited liability was first introduced in Sweden in 1844. England followed this closely with the 1856 Joint Stock Company Act, although limited liabilities for banks (1857) and insurance companies (1862) were introduced somewhat later. Various German states (Saxony, 1861; Württemberg, 1862; Prussia, 1868-9), France (1867) and Belgium (1873) introduced generalised limited liability in the following two decades (Millward & Saul, 1979, p. 416, on Germany; Bury, 1964, p. 57, on France; Dechesne, 1932, pp. 381-401, on Belgium). In Spain, joint-stock companies (*Sociedades Anónimas*) started emerging from as early as 1848, but it was only in 1951 that generalised limited liability was fully esablished (Voltes, 1979, pp. 32-5, p. 46). In the USA, as late as the 1860s, most manufacturing was done in unincorporated companies (Garraty & Carnes, 2000, pp. 231-2), and there was still no federal law granting generalised limited liability (p. 362).

B. Bankruptcy Law

Bankruptcy laws have attracted an increasing amount of attention over the last two decades or so. The large-scale corporate failures that followed various economic crises during this period have made people more aware of the need for effective mechanisms to reconcile competing claims, transfer of assets, and preserve employment. The industrial crises in the OECD countries in the 1970s and the 1980s, the collapse of the Communism and the miserable failure of "transition" since the late 1980s, and the 1997 Asian crisis were particularly important in this regard.
While the debate is still on as to what is the best bankruptcy law – the debtor-friendly US one, the creditor-friendly UK one, or the employee-protecting French one? – there is little disagreement that an effective bankruptcy law is desirable (see Carruthers & Halliday, 1998, and Carruthers, 2000, on the current state of the debate, especially in relation to the US, the UK, and East Asia).

In the pre-industrial age Europe, bankruptcy law was mainly regarded as establishing the procedures for the creditors to seize the assets of and to punish the "dishonest" and "profligate" bankrupt businessmen. In the UK, the first bankruptcy law was introduced in 1542, but became consolidated only with the 1571 legislation. However, the law was very harsh on the bankrupt businessmen, as all their future property was liable for former debts (Duffy, 1985, pp. 7-9).
With industrial development, there came an increasing acceptance that business can fail due to circumstances beyond individual control, and not just out of dishonesty or profligacy. And as a result, the bankruptcy law began to be seen also as a way of providing a clean slate for the bankrupts to try for a second chance. This transformation of bankruptcy law was, together with generalised limited liability, one of key elements in the development of mechanisms to "socialise risk" that allowed greater risk-taking necessary for modern large-scale industries.

However, bankruptcy law in the UK still remained highly deficient by modern standards until at least the mid-19th century. Until then, bankruptcy remained the privilege of a very small class of wealthy businessmen, the responsibility for prosecuting laid entirely with the creditors, and the system was not uniform throughout the country (Duffy, 1985, pp. 16-7; Hoppit, 1987, pp. 35-7). There were also problems involved in the granting of "discharge" as it was granted by the creditors and not by courts, which prevented many businessmen from making a fresh start (Hoppit, 1987, pp. 32-3). There were also lack of professionalism and corruption among bankruptcy commissioners (pp. 33-5).

The Victorian age saw a series of reforms of the bankruptcy law, starting with the establishment of the Bankruptcy Court in 1831. In the 1842 amendment, discharge became the right of courts, not creditors, making it easier for bankrupts to get a second chance (Duffy, 1985, pp. 52-3). However, the coverage was still limited until 1849, when the law became applicable to anyone who earned their living by "the workmanship of goods or commodities" (Marriner, 1980).

In the US, the early bankruptcy laws were modeled on the early (pro-creditor) English law and administered at the state level. However, only few states had bankruptcy laws and they varied from each other until the late 19th century (Coleman, 1974, pp. 6-16). There were a number of federal bankruptcy laws introduced during the 19th century (1800, 1841, and 1867), but they were all short-lived due to their defective nature (respectively repealed in 1803, 1841, and 1878) (Coleman, 1974). It was only in 1898 that the Congress was able to adopt a lasting federal bankruptcy law.

C. Audit, Financial Reporting, and Information Disclosure

The importance of financial auditing and disclosure has attracted great attention after the recent crisis in the Asian economies. Many foreign lenders blamed the opacity of company accounts and lax regulations about their auditing and disclosure in the crisis countries for their bad loan decisions. One obvious problem with this argument is that, even before the crisis it had been well-known that company-level information in these countries had such problems. In such situation, the natural course of action for a prudent lender would have been not to lend to these companies. Thus seen, the "lack of information" argument made by international lenders seems largely self-serving (for more details, see Chang, 2000).

Having said that, there seems to be little dispute that institutions that improve the quality and disclosure of corporate information are desirable. However, even then we need to set the human and financial resource costs of developing such institutions against their benefits, especially in developing countries which lack in such resources.

Looking at the history of NDCs, we are struck by the fact that institutions regulating company financial reporting and disclosure requirements were still very poor even well into the 20th century.

The UK made external audit of companies a requirement through the 1844 Company Act, but this was made optional again by the Joint Stock Company Act of 1856 (Amsler et al., 1981). It was only with the introduction of the 1900 Company Act that external audit was made compulsory. However, there was no explicit requirement for firms to prepare and publish annual accounts for shareholders, although there was an implicit requirement for this as the auditor had the duty to report to shareholders. It was only through the 1907 Company Act that the reporting of a balance sheet was made compulsory. Even then, many companies exploited a loophole in the Act, which did not specify the time period for this reporting, and filed the same balance sheet year after year. It was only in 1928 that this loophole was closed (Edwards, 1981). However, until the Companies Act of 1948, disclosure rules were still poor.

In Germany, it was only through the company law of 1884 that regulation regarding the listing of companies in the stock markets was started (Tilly, 1994). In Norway, it was only with the

legislation in 1910 that it was made the duty of companies to report their budgets and earnings twice a year (Norwegian government website: http://www.lovdata.no). The USA made the full disclosure of company information to investors in relation to public stock offerings compulsory only after the 1933 (Atack & Passell, 1994; Garraty & Carnes, 2000, p. 750; see section 2.5.C for further details). In Spain, audit of accounts by independent auditors was made mandatory only as late as 1988 (Newton & Donaghy, 1997, p. 251).

D. Competition Law

Contrary to what is assumed in much of the current literature, corporate governance is not simply a matter internal to the corporation. Actions by very large firms with significant market power can have unintended consequences for the whole economy (e.g., their bankruptcy can create financial panic) or undermine the basis of the market economy itself (e.g., "socially harmful" exploitation of monopoly position). And thus seen, corporate governance becomes a matter for the whole society, and not just for the shareholders of the company.

Moreover, corporate governance in this (social) sense does not simply involve company-level laws (e.g., those specifying the duties of the board of directors to the shareholders). It also involves a wide range of other regulations (e.g., sectoral regulations, regulations on foreign trade and investments) and informal norms that govern the behaviour of the companies practices (e.g., conventions regarding the treatment of subcontractors).

In this section, we review the evolution of the most easily identifiable institution of "societal" corporate governance, namely, competition law (anti-monopoly and/or anti-trust legislation) in a number of NDCs. Of course, it should be emphasised, there is no presumption in my discussion that US-style anti-trust policy is what the developing countries of today need, as the current orthdoxy has it (see Singh & Dhumale, 1999, for a criticism of this orthodox view).

France adopted Article 419 of the Penal Code as early as 1810 that outlawed coalitions of sellers that result in raising or lowering prices above or below those under "natural and free competition" (Cornish, 1979). However, the law was unevenly implemented according to the judge in charge of the case and gradually fell into disuse by the 1880s.

The USA was the pioneer in "modern" competition law. The country introduced the Sherman Antitrust Act in 1890, although the Act was crippled by the Supreme Court in the notorious Sugar Trust case in 1895. Until 1902 when President Theodore Roosevelt used it against J.P. Morgan's railways holding company, Northern Securities Company, the Act was in fact mainly used against labour unions, rather than against large corporations (Brogan, 1985, p. 458 and p. 464; Garraty & Carnes, 2000, p. 518 and p. 613). An effective anti-trust law was introduced only with the Clayton Antitrust Act in 1914, which also banned the use of antitrust legislation against the unions (Garraty & Carnes, 2000, p. 614 and p. 622).

The German state initially strongly supported cartels and enforced their agreements during the early period of their existence (i.e., late 19th century and the early 20th centuryFrom the First World War, cartelisation became widespread and became tools by which the government planned economic activities. The cartel law of 1923, which gave the court the power to nullify cartels, was the first general competition law in Europe (Bruck, 1962, pp. 196-7; Gerber, 1998, p. 115). However, the law remained ineffective (Gerber, 1998, pp. 129-131, p. 134).

Although it had some regulations on monopoly pricing before the Second World War, Britain adopted a proper anti-trust legislation only in 1956 (Mercer, 1995). In Norway, a Trust Law was first introduced in 1926, but the trust board in charge of it operated on the basis of the belief that it should monitor but not categorically prevent monopolistic behaviour (Hodne, 1981, pp. 514-5). The Danish competition law of 1955 (the Monopolies and Restrictive Practices Act) operated on the same principle of "publicity and control" (Dahl, 1982, p. 298).

2.5. Financial Institutions

A. Banking and Banking Regulation

With a marked increase of banking crises across the world, but especially in developing countries, during the last two decades or so, establishing a good system of banking regulation has become a major theme in the push for institutional development by the IDPE. In the history of the NDCs, however, the establishment of institutions to regulate banking became an issue rather late, as development of banking itself was a slow and uneven process, possibly except for Britain.

The banking system got established only slowly in the NDCs (the details in the paragraph are from Kindleberger, 1984, unless otherwise specified). Even in England, a country with the most advanced banking system at least until the mid-20th century, a complete financial integration was achieved only in the 1920s, when deposit rates became uniform for town and country. In France, the development of the banking system was even more delayed, with widespread use of bank notes emerging only in the mid-19th century (as opposed to the 18th century in Britain) and with 75% of the population without access to banking until as late as 1863. In Sweden, banks appeared only in the late 19th century, and got fully established only in the 1890s (Chang & Kozul-Wright, 1994, p. 872).
In the NDCs, banks became professional lending institutions only after the early 20th century. For example, throughout the 19th century, the US banks lent the bulk of money to their directors, their relatives, and those they knew (Lamoreaux, 1994).[13] Scottish banks in the 18th century (Munn, 1981) and the English banks in the 19th century (Cottrell, 1980) were basically self-help associations for merchants wanting credit rather than banks in the modern sense.

Banking regulation was highly inadequate, with the USA permitting “wildcat banking”, which were “little different in principle from counterfeiting operations” (Atack & Passell, 1994, pp. 103). Although overall cost of failures of unregulated banks at the time is estimated to have been small, bank failures were widespread (p. 104). Even during the prosperity during the Coolidge presidency (1923-9), 600 banks failed in a year (Brogan, 1985, p. 523).
In Italy, there was a huge scandal in the late 19th century (1889-92), where the bankruptcy of one of the six note-issuing banks, Banca Romana, revealed a web of corruption (extension of credits to important politicians and their relatives, including two former prime ministers), defective accounting system, and “irregular” issue of bank notes (e.g., duplicate notes) in the heart of the country’s banking industry (Clark, 1996, pp. 97-9). In Germany, direct regulation of commercial banks was introduced only in 1934 (Tilly, 1994). And in Belgium, banking regulation was first introduce only in 1935 (Van der Wee, 1987, p. 56).

B. Central Banking

Today, the central bank – with its note monopoly issue, money market intervention, and lender-of-last-resort function – is regarded as a foundational institution for a stable capitalist economy. As it is well known, there is a heated debate on how politically independent the central bank should be, as well as on its appropriate goals, targets, and instruments (see Grabel, 2000, and Helleiner, 2001, for some critical reviews of this debate). Heated the debate

[13] However, Lamoreaux (1994) argues that, given the high degree of competition and low leverage level prevailing in the US banking industry, this practice was beneficial.

may be, few people today would dispute the need for a central bank (Hayek being the best known exception). However, this was not the case in the early days of capitalism.

From as early as the 18th century, in times of financial crises, dominant banks (e.g., Bank of England or the large New York banks) were forced to play the role of lender-of-last-resort. The increased ability to deal with systemic financial panic in the short run and the consequent stabilising effect of such ability in the long run that follows from the existence of lenders-of-last-resort naturally pointed to the creation of a full-fledged central bank.
However, many people at the time believed that creating a central bank would encourage excessive risk-taking by bailing-out imprudent borrowers in times of financial turmoil (or what we these days call "moral hazard").[14] This sentiment is best summed up in the remark by Herbert Spencer when he argued that "[t]he ultimate result of shielding man from the effects of folly is to people the world with fools" (quoted in Kindleberger, 1996, p. 146).[15] As a result, the development of central banking itself – never mind its political independence, effectiveness, or quality – was a very slow and halting process in the NDCs (for further details, see Kindleberger, 1984, and Cameron, 1993).
The Swedish Riksbank was nominally the first official central bank in the world (established in1688) (Kindleberger, 1984, p. 50), but it could not function as a proper central bank until 1904 because it did not have, among other things, monopoly over note issue (Larsson, 1993, pp. 47-8; Swedish Central Bank website: http://www.riksbank.se).
The Bank of England, the first full-fledged central bank, was established in 1694 and started assuming the role of the lender of last resort from the 18th century (although in some people's view only in the first half of the 19th century). However, it only became a full central bank in 1844 (Kindleberger, 1984, pp. 90-92; pp. 277-280). The French central bank, Banque de France, was established in 1800, but gained monopoly over note issue only in 1848. (Plessis, 1994). The same story applies to all European central banks. As we can see from table 2 below, many of them were established in the early- to mid-19th century, but it was not until the late-19th and the early-20th century that they acquired note issue monopoly (see Chang, forthcoming, ch. 3 for further details).

Table 2. Development Central Banking in the NDCs

	Year of Establishment	Year when Note Issue Monopoly was gained
Sweden	1688	1904
UK	1694	1844
France	1800	1848[1]
Netherlands	1814	After the 1860s
Spain	1829	1874
Portugal	1847	1891[2]
Belgium	1851	1851
Germany	1871	1905
Italy	1893	1926
Switzerland	1907	1907
USA	1913	After 1929[3]

1 Controlled by the bankers themselves until 1936.
2 Legally note issue monopoly was established in 1887, but *de facto* monopoly was achieved only in 1891 due to the resistance of other note-issuing banks. The bank is still 100% owned and cannot intervene in the money market.

[14] And indeed this is the line taken by Friedrich von Hayek, when he proposes the scrapping of central banks and argues for free competition among note-issue banks.
[15] The original source is H. Spencer, "State Tampering with Money and Banks" in *Essays: Scientific, Political, and Speculative* (London: Williams & Northgate, 1891), vol. 3, p. 354.

3 65% of the banks accounting for 20% of banking assets were outside the Federal Reserve System until 1929.

In the US, the development of central banking was even slower. The two earlier attempts (in 1791 and 1816) to introduce even a limited degree of central banking failed quite spectacularly (Atack & Passell, 1994; Brogan, 1985, p. 266 and p. 277; Garraty & Carnes, 2000, p. 423). The US Federal Reserve System came into being only in 1913. Until 1915, however, only 30% of the banks (with 50% of all banking assets) were in the system, and even as late as 1929, 65% of the banks were still outside the system, although by this time they accounted for only 20% of total banking assets (Cochran & Miller, 1942, p. 295).
As we can see in table 2, the majority of the 11 countries in the table nominally had a central bank by the late 1840s. However, it was not until the early 20th century that these banks became "true" central banks in the majority of the countries. It was only in 1891, with the establishment of note issue monopoly for the Bank of Portugal that the majority of the 11 central banks in the table gained such monopoly.

C. Securities Regulation

In the current phase of financial globalisation led by the US, stock market has become the symbol of capitalism. Of course, since the 1980s, there has been a heated debate on the relative merits of the stock-market-led financial systems of the Anglo-American countries and of the bank-led systems of Japan and the Continental European countries (e.g., see Zysman, 1983; Cox (ed.), 1986; Hutton, 1995; Dore, 2000). However, the orthodoxy remains that a well-functioning stock market is a key institution that is necessary for economic development (Singh, 1997, provides a powerful critique of this view).
Whatever importance one accords to the stock market and other securities markets, establishing institutions that effectively regulate these markets in developing countries is an important task, as they have recently become an extra source of financial instability. Then how did the NDCs manage the development of such institutions?

The early development of securities market in Britain led to an attempt at securities regulation as early as in 1697 (Banner, 1998, pp. 39-40). In 1734, the Parliament passed the Barnard's Act, which tried to limit the more speculative end of the securities market by banning options, prohibiting parties from settling contracts by paying price differentials, and stipulating that stocks actually had to be possessed if the contracts that had led to their sales were to be upheld in courts (pp. 101-5). However, the law remained ineffective and was finally repealed in 1860 (pp. 109-110).

Except for the Banking Companies (Shares) Act, which forbade short-selling of bank shares (but not those of other companies) in 1867, which remained ineffective anyway (Pennington, 1990, p. 31), there were few attempts at securities regulation after the repeal of the Barnard's Act in 1860 until 1939, when the Prevention of Fraud (Investments) Act was legislated. The Act introduced a licensing system for individuals and companies dealing with securities (pp. 38-41). However, it was only with the 1986 Financial Services Act that the UK introduced a comprehensive securities regulation (brought into force on 29 April 1988).[16]

In the US, organised securities market dated from the 1770s. The early attempts at regulation were directed against insider trading (Banner, 1998, pp. 161-3). Securities regulation was left to individual states, but not all states had laws regulating securities transaction (Pennsylvania, one of the most economically important states of the time, being the best example). And what laws there existed were weak in letters and even weaker in enforcement

[16] This Act required official listing of investments on the stock exchange and the publication of particulars before any listing, and established criminal liability of those who gave false or misleading information. It also prohibited anyone from conducting investment business unless authorised (Pennington, 1990, pp. 54-5).

(Banner, 1998, pp. 174-5). Fraud in securities transaction was made a property fraud in the mid-19th century, but full information disclosure was still not mandatory until the 1933 Federal Securities Act (Atack & Passell, 1994; Garraty & Carnes, 2000, p. 750).

D. Public Finance Institutions

Continuing fiscal crisis in many developing countries has been a great obstacle to development at least since the 1970s (Toye, 2000, provides a very illuminating up-to-date survey on this issue). The nature of the fiscal problem in developing countries is understood by the IDPE as that of profligacy, but in most cases the deeper problem is the incapacity to tax (di John & Putzel, 2000). This argument is also supported by the fact that, in proportional terms, budgetary outlays in developing countries are much less than those in the developed countries, whose governments spend a lot more but are able to tax a lot more too.

The ability to tax, at the deepest level, requires the ability to command political legitimacy, both for the government itself and for the particular taxes concerned. However, ensuring the political legitimacy of the regime and of individual taxes is not enough to increase tax collection capability. It also requires developing the requisite institutions – such as new taxes and the administrative mechanisms for better tax collection. How did the NDCs then manage this process?

In the early days of their development, the NDCs suffered from very limited fiscal capabilities, probably even more than what most developing countries suffer these days. Their political power and administrative power to tax was so limited that tax farming was widely accepted as a cost-effective means to raise government revenue in the 17th and the 18th century.[17]

Overall, government finance, especially local government finance, in many NDCs was in a mess during most of the period that we are looking at. A most telling example is the defaults by a number of US state governments on British loans in 1842. After these defaults, the British financiers put pressure on the US federal government to assume the liabilities (which reminds us of the events in Brazil following the default of the state of Minas Gerais in 1999). When this pressure came to naught, the *Times* poured scorn on the US federal government's attempt to raise a new loan later in the year by arguing that "[t]he people of the United Sates may be fully persuaded that there is a certain class of securities to which no abundance of money, however great, can give value; and that in this class their own securities stand pre-eminent" (cited in Cochran & Miller, 1942, p. 48).

What especially exacerbated the problems in public finance of the time was the combination of frequent wars, which required a large extra public financing, and the inability to collect direct taxes, especially income tax (di John & Putzel, 2000). The absence of income tax (some countries had property tax and/or wealth tax from relatively early on) partly reflected the political under-representation of the poorer classes but also the limited administrative capability of the bureaucracy. This limited bureaucratic capacity was indeed one reason why tariff, which is the easiest tax to collect, was so important as a source of revenue in the NDCs in earlier times (and indeed for many poorest developing countries of today).

Income tax was initially used only as an emergency tax intended for war financing. Britain was the first country to make income tax permanent, which happened in 1842. However, as late as 1874, abolition of income tax was a major plank of Gladstone's election platform that year, although he lost the election (Hobsbawm, 1999, p. 213). Denmark introduced a permanent progressive income tax in 1903 (Mørch, 1982, pp. 160-1). In the US, federal income tax was adopted only in 1913 (Baack & Ray, 1985). However, the tax rate was only 1% for taxable

---

[17] See Kindleberger (1984) for Britain and France (pp. 161-170) for France. See 'T Hart (1997, p. 29) and Kindleberger (1996, p. 100) for the Netherlands.

net income above $3,000, rising to 7% on incomes above $500,000 (Carson, 1991, p. 540). In Sweden, despite its later fame for the willingness to impose high rates of income tax, income tax was first introduced only in 1932 (Larsson, 1993, pp. 79-80).

2.6. Social Welfare and Labour Institutions

A. Social Welfare Institutions

With the progress in liberalisation and deregulation that can bring about a large-scale economic dislocation, and with the increasing frequency of economic crises, there is a greater concern with providing livelihood for those who are worst affected by this processes in developing countries. Even the IMF and the World Bank, which used to be against the introduction of what they regarded as "premature" social welfare institutions into developing countries (especially given their preoccupation with budget deficits), are now talking about the need to provide a "safety net".

Social welfare institutions are, however, much more than "safety nets", and can enhance efficiency and productivity growth, if carefully designed and implemented (see Chang & Rowthorn, 1995, ch. 2; Rodrik, 1999, shares a similar view). Cost-effective public provision of health and education can bring about improvements in labour force quality that can, in turn, raise efficiency and accelerate productivity growth. Social welfare institutions reduce social tensions and enhance the legitimacy of the political system, thus providing a more stable environment for long-term investments. Intertemporal smoothing of consumption through devices like unemployment benefit can even contribute to dampening business cycle. And so on.

All these potential benefits of social welfare institutions, fo course, have to be set against their potential costs. First, there are their potentially corrosive effects on work ethic and the sense of self-worth held by the recipients of benefits. Second, apparently technical issues can seriously affect the effectiveness and the legitimacy of these institutions. These include issues such as whether the benefit and contribution levels are adequately set, whether the administration of the system is seen as fair and efficient, whether there is an effective mechanism to check frauds in the system, and so on. Third, trying to raise more taxes in order to finance a social welfare programme in a context where its political legitimacy is not firmly established may lead to "investment strikes" – or even support for a violent reversal, as in the case of Chile under Allende – by the rich.

Whatever the exact benefits and costs of a particular social welfare institution may be, the fact that (almost) all NDCs have developed a common set of social welfare institutions over time (except for the persistent and disturbing absence of comprehensive health care in the USA) suggests that there are some common needs that have to be addressed across countries. However, it is important to note that the development of these institutions started quite late in the development of the NDCs.

Institutions that take some (if not a very good) care of the weaker sections of the society have always been necessary to guarantee social peace in any human society. Before industrialisation, this care was provided by extended families, local communities, and religious organisations. However, before the 1870s, social welfare institutions in the NDCs were very poor, with the English Poor Law-type legislation at their core (Pierson, 1998, pp. 106-7).

As we can see in table 3, social welfare institutions in the NDCs started to emerge only in the late 19th century. This was spurred by the increasing political muscle-flexing of the popular classes after the significant extension of suffrage during the time and by union activism. Germany was the pioneer in this area. It was the first to introduce industrial accident insurance (1871), health insurance (1883), and state pensions (1889), although France was the first country to introduce unemployment insurance (1905) (Pierson, 1998, p. 105, table 4.2).

Table 3. Introduction of social welfare institutions in the NDCs

	Industrial Accident	Health	Pension	Unemployment
Germany	1871	1883	1889	1927
Switzerland	1881	1911	1946	1924
Austria	1887	1888	1927	1920
Norway	1894	1909	1936	1906
Finland	1895	1963	1937	1917
UK	1897	1911	1908	1911
Ireland*	1897	1911	1908	1911
Italy	1898	1886	1898	1919
Denmark	1898	1892	1891	1907
France	1898	1898	1895	1905
New Zealand	1900	1938	1898	1938
Spain	1900	1942	1919	n.a.
Sweden	1901	1891	1913	1934
Netherlands	1901	1929	1913	1916
Australia	1902	1945	1909	1945
Belgium	1903	1894	1900	1920
Canada	1930	1971	1927	1940
USA	1930	No	1935	1935
Portugal	1962	1984+	1984+	1984+

Sources: Pierson (1998), p. 104, Table 4.1. The information on Spain is from Voltes (1979), Maza (1987), and Soto (1989). The information on Portugal is from Wiener (1977) and Magone (1997).
Notes:
The countries are arranged in the order in which they introduced industrial accident (starting with Germany in 1871). If it was introduced in the same year, we list the country that introduced health insurance earlier first.
The figures include schemes which were initially voluntary but state-aided as well as those that were compulsory.
*Ireland was a UK colony in the years mentioned.
+Although some social welfare institutions were introduced in Portugal from he 1960s, they remained a very fragmented system consisting of partial regimes regulating social insurance of certain social groups until 1984.

Social welfare institutions made impressive progress in the NDCs during the half-century period between the last quarter of the 19th century and the first quarter of the 20th century. In 1875, none of the 19 countries listed in table 4 had any of the four welfare institutions covered in the table, except for industrial accident insurance introduced in Germany in 1871. However, by 1925, 16 had industrial accident insurance, 13 had health insurance, 12 had pension, 12 had unemployment insurance.

B. Institutions Regulating Child Labour

Child labour has generated particularly heated debate since the early days of industrialisation. However, more recently the debate has taken on a new international dimension. Now, there is a demand that developed countries should put pressure on developing countries to eliminate child labour. Particularly controversial is the proposal to reduce child labour by imposing trade sanctions through the WTO on countries that violate "international labour standards", including especially those concerning child labour.[18]

---

[18] Basu (1999a) provides a comprehensive and sophisticated review of the debate. Basu (1999b) is a more user-friendly version. Engerman (2001) provides a comprehensive review of the history of this issue.

Many people are concerned that such sanctions will impose institutional standards on developing countries that cannot afford them, although what is exactly "affordable" is difficult to establish. Some others are worried that such measures may be abused as covert "unfair" protectionist measures. Still others argue that, whatever its merits, an issue like child labour regulation should never be internationally sanctioned. Some commentators point out that it is unreasonable to expect a swift eradication of child labour in today's developing countries, when it took the NDCs centuries to achieve it.

Child labour was widespread in the NDCs during the earlier days of their industrialisation. In the 1820s, it was reported that the British children were working between 12.5 and 16 hours (Hammond & Hammond, 1995, p. 169). Between 1840 and 1846, children under 14 accounted for up to 20% of the factory workforce in Germany (Lee, 1978, p. 466). In Sweden, as late as 1837, children as young as 5 or 6 could still be employed (Montgomery, 1939, pp. 219-222). In the USA, child labour was very widespread in the early 19th century (in the 1820s, about half of cotton textile workers were under 16).[19] As late as 1900, more children under 16 in the US were working full time (1.7 million) than the whole membership of the American Federation of Labour (AFL), the country's then main trade union (Garraty & Carnes, 2000, p. 229 and p. 600).

In Britain, the first attempts to introduce institutions regulating child labour met with stiff resistance. The earlier laws (1802, 1819, 1825, and 1831) remained largely ineffective, partly because the parliament would not vote for the money needed for its implementation (Marx, 1976, p. 390). For example, the 1819 Act secured only two convictions by 1825 (Hammond & Hammond, 1995, p. 153-4).
The first serious attempt to regulate child labour in Britain was the 1833 Factory Act, but it covered only cotton, wool, flax, and silk industries (the following details are from Marx, 1976, pp. 390-1 unless otherwise specified; also see Mathias, 1969, pp. 203-4, for further details). The 1847 Factory Act (the "Ten Hours Act") reduced the working day of children between 13 and 18 to 10 hours from the previous 12 hours. Between 1853 and 1867, child labour in a series of other industries were brought under regulation (Hobsbawm, 1999, p. 103), although the mines were brought under the Factory Act only in 1872 (p. 634).
In Germany, Prussia introduced the first law on child labour in 1839. This law forbade the "regular" employment of children under 9 and illiterate children under 16 in factories and mines (Lee, 1978, p. 467). In 1853-4, factory inspection was instituted with the legal minimum age raised to 12. However, it was only in 1878, when the law strengthened inspection, that child labour under 12 finally became illegal (p. 467).
In Sweden, a law was passed in 1846 to ban labour by children under 12 and a law in 1881 restricted children's working day to 6 hours (Hadenius et al., 1996, p. 250). However, these laws were widely violated until a special supervisory agency was established to enforce them in 1900, a year when the maximum working hours for children between 13 and 18 were reduced to 10 hours (Montgomery, 1939, pp. 225-6).
In the USA, some states introduced regulation on child labour as early as the 1840s – starting with Massachusetts in 1842 (Engermann, 2001, table 5). However, it was not until World War One that nearly every state had introduced laws banning the employment of young children and limiting the hours of older ones, and even then they remained poorly enforced (Garraty & Carnes, p. 607). A federal legislation banning child labour had to wait until 1938 when the Fair Labour Standard Act was introduced (p. 764).

[19] At the time, it was very common for families to be hired as a unit. So, for example, in 1813, a cotton manufacturer advertised in a New York state provincial paper, *Utica Patriot*, that "[a] few sober and industrious families of at least five children, each over the age of eight years are wanted at the Cotton Factory" (Garraty & Carnes, 2000, p 227, f.n. 1).

Table 4 provides a summary of the information presented above (and more, which is contained in Chang, forthcoming, ch. 3) regarding the evolution of child labour regulation in the NDCs during the 19th and the early 20th century. Obviously, the information contained in the table is highly incomplete and the dating of events highly subjective, but it seems clear that it was not until the mid-1870s that even a cosmetic legislation on child labour existed among the majority of the 15 countries listed in the table. And it was only in the early 20th century that we see at least "reasonably serious" child labour regulation prevailing in the majority of the NDCs.

Table 3.5. Introduction of child labour regulation in the NDCs

	First Attempt at Regulation (mostly ineffective)	First "Serious" Regulation	Relatively Comprehensive and Well-enforced Regulation
Austria	1787	1842?	?
UK	1802	1833	1878
Prussia	1839	1853-4	1878
France	1841	?	?
USA	1842*	1904-14	1938
Sweden	1846	1881	1900
Saxony	1861	?	?
Denmark	1873	1925	?
Spain	1873	1900	?
Holland	1874	?	?
Switzerland	1877	?	?
Belgium	1878	1909	1914?
Norway	1892	?	?
Italy	1902	?	?
Portugal	1913	?	?

Source: Chang (forthcoming, chapter 3).
* When Massachusetts introduced its state regulation.

C. Institutions Regulating Adult Working Hours and Conditions

Institutions that regulate the working hours and conditions of adult workers certainly do not excite people as much as those regulating child labour do. However, the substantive issues that are involved in their implementation are essentially the same in both cases.

In most NDCs, extremely long working hours were common throughout the 19th century. In the UK, the normal working day exceeded 12 hours before the 1844 Factory Act. In the USA, until as late as the 1890s, only a small number of enlightened employers were willing to go below the customary 10-hour working day (Cochran & Miller, 1942, p. 245). Many recent immigrant workers worked for up to 16 hours a day throughout the 19th century (p. 65). In Germany, the average workweek was 75 hours between 1850 and 1870, 66 hours in 1890, and 54 in 1914 (Lee, 1978, pp. 483-4). The workday for bakers in Norway until the 1880s lasted up to 16 hours (Pryser, 1985, pp. 194-5).
Despite these extremely long hours, legislations regulating the working hours of the adult workers did not come into being until the mid-19th century. One of the earliest attempts to control adult working hours was the 1844 Factory Act in Britain, which restricted the working hours of women (over 18) to 12 hours and banned night-work for them (Marx, 1976, p. 394; the citations in the rest of the paragraph are from the same source unless otherwise specified). Although not legally stipulated, the socially-acceptable working hours of adult *male* workers

also came down to 12, following this Act (p. 395). The 1847 Factory Act (came into force in 1848) restricted the working day for women (and children) to 10 hours (p. 395; also see Hobsbawm, 1999, p. 102). However, various legal loopholes were exploited by many employers to minimise the impact of such legislation (pp. 398-9). For example, many employers did not allow mealtimes during the working day – between 9am and 7pm.
In the US, restrictions on working hours were first introduced at the state level. Massachusetts introduced a pioneer legislation in 1874, which limited the working day of women and children to 10 hours a day (Garraty & Carnes, 2000, p. 607; all the information in the rest of the paragraph comes from the same source). It was not until the 1890s that such legislation became common across the states. However, before 1900 "the collective impact of such legislation was not impressive", especially because many conservative judges tried to limit its application (p. 607). For example, in 1905, the US Supreme Court declared in the famous Lochner vs. New York case that a ten-hour act for the bakers introduced by the New York state was unconstitutional because it "deprived the baker of the liberty of working as long as they wished" (p. 607).
On the whole, even minimal regulations on adult working hours and conditions did not come about in many NDCs until the late 19th century or even the early 20th century. None of the Scandinavian countries had laws regulating hours of adult female labour before the start of World War One (Engerman, 2001, appendix one). In Italy, female working day was restricted to 11 hours only in 1902, and a compulsory weekly rest day was introduced only in 1907 (Clark, 1996, p. 137). In Spain, it was not until 1904 that the rest day (Sunday) was established (Soto, 1989, p. 591). Belgium also introduced the rest day in industrial and commercial enterprises only in 1905 (Dechesne, 1932, p. 496).
It was only well into the 20th century that we are beginning to witness "modern" regulations on working hours. In Spain, the 8-hour working day was introduced at regional levels relatively early (given its level of development) in 1902, but this was only generalised in 1919 (Soto, 1989, pp. 585-6). In Sweden, the 48-hour workweek was introduced in 1920 (Norborg, 1982, p. 61). Denmark also made the 8-hour workday compulsory in 1920, but agriculture and the maritime industry, which together employed about 1/3 of the labour force, was exempt from the law (Mørch, 1982, pp. 17-8). Belgium introduced the 48-hour workweek in 1921 and the 40-hour one in 1936 (Blanpain, 1996, pp. 180-2). It was only with the Fair Labour Standards Act in 1938 that the maximum workweek of 40 hours was implemented in the USA (p. 764).

3. Institutional Development in Developing Countries Then and Now

Given our discussion in this chapter, what can we say about institutional development among the now-developed countries (NDCs) in the early days of their development? I realise that a generalisation in this context is hazardous given the paucity of historical records (especially for the smaller countries) and the differences across countries. However, such generalisation may not be unacceptable for the purpose of the present paper, and therefore in this section, I try to answer this question.
We do this by first providing snapshot pictures for 3 points at different stages of development in the NDCs (section 3.1). We look at: (i) 1820 for the early days of industrialisation even in the most advanced NDCs; (ii) 1875 for the height of industrialisation in the more advanced NDCs and the beginning of industrailisation in the less developed NDCs; and (iii) 1913 for the beginning of industrial maturity in the more developed NDCs and the height of industrialisation in the less developed NDCs. In the following section, we point out that the process of institutional development in the NDCs have been slow and uneven (section 3.2). And then we compare the levels of institutional development in the NDCs in earlier times and those that are found in the developing countries of today (section 3.3). We

conclude that contemporary developing countries actually have much higher levels of institutional development than did the NDCs at comparable stages of development.

3.1. A Bird's Eye View of Institutional Development in the NDCs in Earlier Times

A. 1820 – Early Industrialisation

In 1820, none of the NDCs had even universal *male* suffrage. Only men with substantial property (often over 30) could vote, if anyone was allowed to vote at all. In all these countries, nepotism, spoils, sinecures, and sales of office were common in bureaucratic appointments. Public office was often *formally* treated as private property, and salaried professional bureaucracy in the modern sense did not exist in most countries (Prussia and some other German states being notable exceptions).

Especially in new countries like the USA, existing property rights had to be routinely violated to make room for new property rights. Only a handful of countries had patent laws (UK, USA, France, and Austria) and their qualities were still very low, with virtually no check on the originality of the inventions for which patents were sought. The emergence of what even approximated the "modern" patent law had to wait another decade and half (the 1836 revision of the US patent law).

Limited liability was not a generalised institution in any country. Even the countries with the then most developed corporate financial systems did not have regulations requiring external audit or full information disclosure. Bankruptcy laws, if they existed, covered only a limited class of business and were still limited in their ability to "socialise risk" by "wiping the slate clean" for the bankrupts. Competition law was all but non-existent, a limited and poorly-enforced example being the Clause 419 in the French Penal Code legislated in 1810.

Banks were still a novelty except perhaps in parts of Italy (Venice and Genoa, among others), the UK, and to a lesser extent the USA, and none of the countries had a proper central bank with monopoly over note issue and the lender-of-last-resort function. Securities market regulation existed in few countries, was highly inadequate, and was rarely enforced. None of the countries had income tax except as an "emergency" measure during wars.

None of the NDCs, in addition, had social welfare institutions or labour regulations on working hours, child labour, or health and safety at work – except for one or two minimal and ineffective laws regulating child labour in a few textile industries (but not generalised) in the UK (the 1802 law and the 1819 law) and the restriction of legal working age to 9 in Austria, introduced in 1787.

B. 1875 – Industrialisation in Full Swing

By 1875, with the progress of industrialsiation, the NDCs experienced considerable institutional development, but the quality of their institutions were still well below what we expect from the developing countries of today at comparable levels of development (see section 3.3 for this comparison).

None of them had universal suffrage, although a few of them achieved universal male suffrage, at least formally (France, Denmark, and the USA, where it was subsequently reversed). Even in the latter countries, however, some basic institutions of democracy such as secret balloting were missing and electoral fraud was widespread. Bureaucracies barely acquired key modern features (e.g, meritocratic recruitment, disciplinary measures) only in a few pioneer countries, especially Prussia and Britain (but not, for example, in the USA), and spoils system was still widely used in many countries.

Most of the NDCs may have instituted patent laws by this time (Switzerland and the Netherlands being the notable exceptions), but the quality of these laws was still low. Partly

because there was no international intellectual property rights system in place, protection of foreigners' intellectual property rights was particularly poor.
Generalised limited liability may have come into being in a number of countries (Sweden, Britain, Portugal, France, and Belgium), but even these countries did not have regulations regarding auditing and information disclosure of limited liability companies. It had been barely 3 decades since the UK established a relatively "modern" bankruptcy law allowing some chance of "fresh start" to the bankrupts (1849), and the USA still did not have a federal bankruptcy law. Competition laws were still non-existent, despite the rapid rise of large firms and trust activities (by this time, the Article 419 of the French Penal Code of 1810 had fallen into disuse).
Banks were still new institutions in many NDCs, and many of these countries still did not have a central bank (e.g., Italy, Switzerland, and the USA). Even in countries which nominally had a central bank, there effectiveness was highly limited because they did not have monopoly over note issue (e.g., Portugal, Sweden, Germany). Banking regulation was still a rarity, with widespread "cronyistic" lending and frequent bank failures. Even the UK, the country with the most developed securities market, did not have a proper securities regulation. As a result, insider trading and price manipulation abounded in securities markets. A permanent income tax, which was introduced first in Britain in 1842, was still a novelty.
None of the NDCs had modern social welfare schemes at the time, the only exception being the industrial accident insurance introduced in Germany in 1871. Institutions regulating child labour now existed in a number of countries (e.g., the UK, Prussia, Sweden), but were usually very poorly enforced. There was still no restriction on adult male working hours in any of the NDCs, although some countries now had restriction on female working hours (but even then set at the relatively high 10-12 hours). Workplace safety laws, if they existed, were virtually un-enforced.

C. 1913 – The Beginning of Industrial Maturity

Even as late as 1913, when the richest of the NDCs reached the level of the richer developing countries of today (say, Brazil, Thailand, Turkey, Mexico, Colombia), from whom these days "world standard" institutions are expected, the NDCs had low quality institutions by such standards.
Universal suffrage was still a novelty (Norway and New Zealand), and even a genuine male universal suffrage in the sense of "one adult man one vote" was not a common institution. For example, the USA and Australia had racial qualifications, and the Germans had different numbers of votes according to property, education, and age. Secret ballots were just introduced in France (1913) and Germany still did not have them. Bureaucratic modernisation had progressed quite a lot, especially in Germany, but spoils system was still widespread in many countries (e.g., USA, Spain) and bureaucratic professionalism was only just emerging even in countries like the US (it had barely been three decades since even a minimal degree of competitive recruitment was introduced in the US federal bureaucracy in 1883).
Even in the UK and the USA, corporate governance institutions fell miserably short of modern standards. For example, the UK introduced compulsory auditing for limited liability companies just over a decade earlier (1900), but due to a loophole in legislation, companies did not have to provide up-to-date balance sheets. Both in the UK and the USA, full disclosure to investors on public stock offering was still not compulsory. Competition law was non-existent except in the USA (the Sherman Act, 1890), but even the USA had wait for another year (the 1914 Clayton Act) to have an antitrust law worth its name. Europe had to wait for another decade before it got the first competition law (the 1923 cartel law in Germany).
Banking was still underdeveloped, with branch banking still not allowed in the USA. Banking regulation was still patchy in most countries. Central bank was becoming a common institution, but US central bank was barely born (1913) and covered only 30% of the banks in

the country while the Italian central bank was still fighting for monopoly over note issue. Insider trading and stock price manipulation was still not properly regulated. Neither the UK nor the US, the two countries with the then most-developed securities markets, had a securities regulation (they had to wait until 1939 and 1933 respectively). Income tax was still a novelty.

Possibly the only area where the NDCs did rather well compared to the currently developing countries at comparable levels of development is social welfare institutions, which had seen quite impressive developments since the 1880s. Many labour legislations regarding working hours, workplace safety, female labour, and child labour were also introduced by this time, but the standards were rather low, the coverage limited, and enforcement poor. For example, in the USA, even a 10-hour working day was fiercely resisted by the employers and conservative judges, and it would be another quarter century before child labour was banned at the federal level (1938). No country attained even a 48-hour workweek (not to mention the 40-hour week) until this time.

3.2. The Long and Winding Road to Institutional Development

Our discussion shows that it typically took the NDCs decades, if not centuries, to develop institutions from the time when the need for them had been perceived (at least by some people). It should be also pointed out that the NDCs frequently experienced reversals in this process. Let us provide some examples to illustrate this point.

Democracy took long time to develop. Just to give a couple of examples, it took France and Switzerland almost 100 years (1848 to 1946 and 1879 to 1971, respectively) to move from universal male suffrage to universal suffrage. The need for modern professional bureaucracy was widely perceived at least from the 18th century, but it was only in the late 19th century that such bureaucracy was instituted in many NDCs. The value of limited liability institutions was already recognised in the 16th century, when royal charters permitting limited liability was granted to big, risky ventures (e.g., the British East India Company), but it was not generalised until the mid-19th century even in the most advanced countries. The need for central banking was perceived at least in some circles from at least the 17th century, but the first "real" central bank, the Bank of England, was instituted only in 1844. The US felt the need for at least some degree of central banking from the very early days of its existence, as can be seen in the establishment of the (short-lived) First Bank of the USA in 1791, but it was only in 1913 that the Federal Reserve System was put in its place (even then its coverage was still highly limited). And so on.

The diffusion of new institutions from the "innovator" country to the rest of the NDCs also took considerable time. Our discussion shows that it took anything between 20 years (e.g., state pension, unemployment insurance) and one-and-half centuries (e.g., modern central banking) between an institutional innovation and its adoption by the majority of the NDCs (for further details, see Chang, forthcoming, ch. 3, table 3.6). When it comes to the time period between an institutional innovation and its adoption as an "international standard" among the NDCs (i.e., all or nearly all of them adopting it), we are talking in units of generation, and not even in units of decade.

More detailed historical knowledge and theoretical advancement will be required in order to explain why a particular institution did not get adopted in a particular country at a particular time, and this is no place to engage in such discussion (for some discussion on this issue, see Chang, forthcoming, ch. 3). However, what seems clear from our discussion is that institutions typically have taken decades, if not generations, to develop. Thus seen, the currently popular demand that developing countries should adopt "world standard" institutions right away, or at least within the next 5-10 years, or face punishments seems to be at odds with the historical experiences of the NDCs.

3.3. Comparison with Currently Developing Countries

We have just seen that institutional development in the NDCs in earlier times was typically a long and winding process. What is even more relevant for the subject of the present paper than this is the fact that, in general, the NDCs were institutionally much *less* advanced in those times than today's developing countries at similar stages of development.

To make this point, we first need to compare the levels of development between the NDCs when they were developing and the currently developing countries. For this purpose, I have used the PPP income estimates in 1990 dollars compiled by Maddison (1995). Obviously, this comparison is only a very rough-and-ready one, as there are well-known problems with using income figures to measure a country's level of development, especially when it involves historical statistics over two centuries.

The comparison (details can be found in Appendix Table) shows that, in the 1820s, most of the NDCs were, roughly speaking, at the level of development between Bangladesh ($720 per capita income) and Egypt ($1,927 per capita income) of today – a grouping that includes countries like Burma (Myanmar), Ghana, Cote d'Ivoire, Kenya, Nigeria, India, and Pakistan. By 1875, most of them have moved beyond the Nigeria-India level of income, but even the richest ones (the UK, New Zealand, Australia) were at the level of today's China ($3,098) or Peru ($3,232). And the rest of them (including the USA, Germany, and France) at the level between Pakistan ($1,642) and Indonesia ($2,749). By 1913, the richest of the NDCs (the UK, the USA, Australia, and New Zealand) reached the level of the richer developing countries of today (e.g., Brazil, Mexico, Colombia, Thailand). However, the majority of them (from Finland to France and Austria) were still at the level of middle-income developing countries of today (the Philippines, Morocco, Indonesia, China, and Peru). Further income figures can be found in the Appendix Table.

When we match these income comparisons with the three historical snapshots of the NDCs that I provided above (section 3.1), we immediately realise that the NDCs in earlier times had relatively low levels of institutional development compared to the developing countries of today that are at comparable levels of development.

For example, in 1820, the UK was at a somewhat higher level of development than that of India today, but it did not even have many of the most "basic" institutions that India has – universal suffrage (it did not even have universal *male* suffrage), a central bank, income tax, generalised limited liability, a "modern" bankruptcy law, a professional bureaucracy, meaningful securities regulations, and even minimal labour regulations (except for a couple of minimal and hardly-enforced regulations on child labour in a few industries).

For another example, in 1875, Italy was at a level of development comparable to that of Pakistan today, but did not have universal male suffrage, a professional bureaucracy, an even a remotely independent and professional judiciary, a central bank with note issue monopoly, and competition law – institutions that Pakistan has had for decades. Democracy is an obvious exception in this regard, but despite frequent suspension of electoral politics, suffrage in Pakistan, when allowed, has remained universal.

For still another example, in 1913, the US was at a level of development similar to that of Mexico today. However, its level of institutional development was well behind that we see in Mexico today. Women were still formally disenfranchised and blacks and other ethnic minorities were disenfranchised in many parts of the country. It had been just over a decade since a federal bankruptcy law was legislated (1898) and it had been barely two decades since the country recognised foreigner's copyrights (1891). A highly incomplete central banking system and income tax literally only just came into being (1913), and the establishment of a meaningful (not to speak of being "high quality") competition law (the Clayton Act) had to wait another year (1914). Also, there was no regulation on securities trading or on child labour, with what few state legislations that existed in these areas being of low quality and very poorly enforced.

These comparisons can go on, but the point is that in the early days of their economic development, the NDCs were operating with much less developed institutions than what exist in today's developing countries at comparable levels of development. It is needless to say that the level of institutional development in the NDCs fell well short of the even higher "global standards" that today's developing countries are told to conform to.

4. Conclusion

Our discussion so far makes us conclude that the current push for "good governance" by the IDPE is highly problematic in a number of ways. We believe that the following points have to be taken into account before the IDPE pushes this agenda even further.

First of all, we need to be careful in deciding which of the institutions promoted by the "good governance" discourse are really necessary for which developing countries. Our discussion suggests that many of the institutions that are currently being promoted as being "necessary" for development emerged after, and not before, economic development in the NDCs. Of course, this does not allow us to rule out the possibility that, even if not "necessary", these institutions could still be "good" for the developing countries. However, given that institutions are costly to establish and run, demanding the developing countries to adopt institutions that are not strictly necessary has serious opportunity cost implications.[20]

Second, our discussion suggests that, even when we agree that certain institutions are "necessary" even for developing countries, we have to be careful in specifying their exact shapes. So, for example, we may agree that a "good" property rights regime is necessary in early stages of development, but this regime cannot be equated with a regime providing strong protection of whatever property rights that exist (see section 2.3.A). For another example, we may all agree that a "good" bureaucracy is necessary for development, but it is debatable exactly which type of bureaucracy is good for which type of developing countries (see section 2.2.A).

Third, regardless of the exact kinds and quality of institutions that we want from developing countries, we should accept that institutional development takes a long time and be more "patient" with the process. Our paper shows that it took the NDCs decades, if not centuries, to develop institution from the time when the need for them had been perceived, and that there were frequent setbacks and reversals in the process. Seen from this perspective, the 5-10 years' transition periods currently given to the developing countries to bring their institutional standards up to the "global standard" are highly inadequate. This, of course, should not necessarily mean that they should adopt standards of the last century nor should it make us accept whatever "we-are-not-ready-yet" argument that is put forward by developing country governments. However, it is clear that there should be a keener recognition of the limit to the speed with which institutional development can be achieved.

Fourth, given that the developing countries of today are already institutionally more advanced than the NDCs at comparable levels of development, asking these countries to install a range of new "global standard" institutions and radically improve the quality of their existing institutions seems unrealistic. It could even be argued that, in demanding from developing countries standards that they themselves never had achieved at comparable levels of development, the NDCs are effectively adopting double standards or even trying (if only unwittingly) to hurt the developing countries by imposing "expensive" and often "unnecessary" institutions on them that they neither need nor can afford.

---

[20] For example, if the developing countries need to train a large army of world-class lawyers or accountants in order to have "gloabal standard" property rights and corporate governance institutions, which after all may not be very necessary at their stages of development, they will inevitably have less money (their own or the donors') to spend on training schoolteachers or industrial engineers, who may be more necessary given their stages of development.

Thus seen, in pushing for the "good governance" agenda, the IDPE needs to be more careful in identifying which institutions are "necessary" for which developing countries, be more aware of the costs involved in setting up and running such institutions (especially when they may not be so "necessary"), be more realistic about the possible speed of institutional development in these countries, and have more humility and be more sensitive to the issue of historical justice given the historical records of the NDCs.

The present paper has tried to show that the currently dominant agenda for "governance reform" and "institutional development" needs a serious re-examination. The historical experiences of the now-developed countries show how some institutions that we take for granted (even for the developing countries of today) are products of lengthy processes of institutional development involving political struggles, ideological battles, and legal reforms. While some degree of institutional copying is possible and desirable, institutions are often not things that can be easily copied by every country regardless of their conditions, and therefore recommendations for institutional development have to be made with great caution.

Unless there is a complete change of perspective among the proponents of the "good governance" agenda in its present form, the push for "global standards" will at best remain highly ineffective in addressing the development failure of many developing countries and at worst be harmful for their development – and indeed harmful for the developed countries themselves, given that the continued developmental failure in the developing countries will reduce the demand for their exports, increase illegal immigrants, and intensify international economic instability.

Appendix Table. Where were the Now-Developed Countries
when they were developing? **(per capita income in 1990 dollars)**

Per Capita Income Band (dollars)	Now-Developed Countries (1750)	Now-Developed Countries (1820)	Now-Developed Countries (1875)	Now-Developed Countries (1913)	Developing Countries (1992)
Below 1,000	France (921)	Japan (704) Finland (759) Canada (893) Ireland (954)			Ethiopia (300) Bangladesh (720) Burma (748)
1,000-1,500	UK (1,328)	Norway (1,002) Spain (1,063) Italy (1,092) Germany (1,112) Sweden (1,198) France (1,218) Denmark (1,225) USA (1,287) Belgium (1,291) Austria (1,295)	Finland (1,176) Norway (1,469)	Japan (1,334) Portugal (1,354)	Ghana (1,007) Kenya (1,055) Cote d'Ivoire (1,134) Nigeria (1,152) India (1,348)
1,500-2,000		Australia (1,528) Netherlands (1,561) UK (1,756)	Italy (1,516) Canada (1,690) Sweden (1,835) Austria (1,986)	Greece (1,621)	Pakistan (1,642) Egypt (1,927)
2,000-3,000			Denmark (2,031) France (2,198) Germany (2,198) USA (2,599) Belgium (2,800) Netherlands (2,829)	Finland (2,050) Spain (2,255) Norway (2,275) Italy (2,507) Ireland (2,733)	Philippines (2,213) Morocco (2,327) Indonesia (2,749)
3,000-4,000			New Zealand (3,707) UK (3,511)	Sweden (3,096) France (3,452) Austria (3,488) Denmark (3,764) Germany (3,833) Netherlands (3,950)	Peru (3,232) China (3.098)

4,000-5,000			Australia (4,433)	Belgium (4,130) Switzerland (4,207) Canada (4,231)	Turkey (4,422) Thailand (4,422) Brazil (4,862)
5,000-6,000				UK (5,032) New Zealand (5,178) USA (5,307) Australia (5,505)	Mexico (5,098) Colombia (5,359)

Source: Maddison (1995). The 1750 figures are extrapolated from 1820 data, with annual growth rate taken as 0.4% for both the UK and France. 0.4% is the weighted average of estimates by economic historians of England (de Vries, 1984). It is widely accepted among economic historians that the French growth rate of the time was similar to that of England (Crouzet, 1967).

References

Amsler, C., Bartlett, R. & Bolton, C. 1981. Thoughts of Some British Economists on Early Limited Liability and Corporate Legislation, *History of Political Economy*, vol. 13, no. 4.

Anderson, E. & Anderson, P. 1978. Bureaucratic Institutionalisation in 19th Century Europe", in A. Heidenheimer et. al., *Political Corruption: A Handbook*, New Brunswick, Transaction Publishers.

Armstrong, J. 1973. *The European Administrative Elite*, Princeton, Princeton University Press.

Aron, J. 2000. Growth and Institutions: A Review of the Evidence, *The World Bank Research Observer*, vol. 15, no. 1

Atack, J. & Passell, P. 1994. *A New Economic View of American History*, 2nd ed., New York, Norton.

Baack, B. & Ray, E. 1985. Special Interests and the Adoption of the Income Tax in the United States, *Journal of Economic History*, vol. 45, no. 3.

Banner, S. 1998. *Anglo-American Securities Regulation: Cultural and Political Roots, 1690-1860*, Cambridge, Cambridge University Press.

Bardhan, P. 1993. Symposium on Democracy and Development, *Journal of Economic Perspectives*, vol. 7, no. 3.

Basu, K. 1999a. Child Labor: Cause, Consequence and Cure with Remarks on International Labor Standards, *Journal of Economic Literature*, vol. 37, no. 3.

Basu, K. 1999b. International Labor Standards and Child Labor, *Challenge*, September/October 1999, vol. 42, no. 5.

Baudhuin, F. 1946. *Histoire Economique de la Belgique, 1914-39*, vol. 1, 2nd edition, Bruxelles, Etablissements Emile Bruylant.

Benson, G. 1978. *Political Corruption in America*, Lexington, Lexington Books.

Blackbourn, D. 1997. *The Fontana History of Germany, 1780-1918,* London, Fontana Press.

Bollen, K. 1995. Measuring Democracy, *The Encyclopaedia of Democracy*, London, Routledge.

Briggs, R. 1998. *Early Modern France 1560-1715*, 2nd ed., Oxford. Oxford University Press.

Brogan, H. 1985. *The Penguin History of the United States of America*, London, Penguin.

Bruck, W. 1962. *Social and Economic History of Germany from William II to Hitler, 1888-1938*, New York, Russell & Russell.

Cameron, R. 1993. *A Concise Economic History of the World*, 2nd ed., Oxford, Oxford University Press.

Carr, R. 1980. *Modern Spain, 1875-1980*, Oxford, Oxford University Press.

Carruthers, B. & Halliday, T. 1998. *Rescuing Business – The Making of Corporate Bankruptcy Law in England and the United States*, Oxford, Oxford University Press.

Carruthers, B. 2000. Institutionalising Creative Destruction: Predictable and Transparent Bankruptcy Law in the Wake of the East Asian Financial Crisis, a paper presented at the UNRISD (United Nations Research Institute for Social Development) conference, "Neoliberalism and Institutional Reform in East Asia", 12-3 May, 2000, Bangkok, Thailand.

Chang, H-J. 2000. The Hazard of Moral Hazard – Untangling the Asian Crisis, *World Development*, vol. 28, no. 4.

Chang, H-J. 2001. Intellectual Property Rights and Economic Development – Historical Lessons and Emerging Issues, *Journal of Human Development*, vol. 2, no. 2.

Chang, H-J. forthcoming (2002). *Kicking Away the Ladder? – Policies and Institutions for Economic Development in Historical Perspective*, London, Anthem Press.

Chang, H-J. & Rowthorn, B. (eds.) 1995. *The Role of the State in Economic Change*, Oxford, Oxford University Press.

Clark, M. 1996. *Modern Italy, 1871-1995*, 2nd ed., London and New York, Longman.

Cochran, T. & Miller, W. 1942. *The Age of Enterprise: A Social History of Industrial America*, New York, The Macmillan Company.

Coleman, P. 1974. *Debtors and Creditors in America*, Madison, State Historical Society of Wisconsin.

Cornish, W. 1979. Legal Control over Cartels and Monopolisation, 1880-1914: A Comparison in N. Horn & J. Kocka (eds.), *Law and the Formation of Big Enterprises in the 19th and the Early 20th Centuries*, Göttingen, Vandenhoeck & Ruprecht.

Cottrell, P. 1980. *Industrial Finance, 1830-1914*, London, Methuen.

Cox, A. (ed.) 1986. *State, Finance, and Industry in Comparative Perspective*, Brighton, Wheatsheaf Books.

Crafts, N. 2000. Institutional Quality and European Development before and after the Industrial Revolution, a paper prepared for World Bank Summer Research Workshop on Market Institutions, 17-19 July, 2000, Washington, D.C..

Crouzet, F. 1967. England and France in the 18th Century: A Comparative Analysis of Two Economic Growths, as reprinted in P.K. O'Brien (ed.) (1994), *The Industrial Revolution in Europe, Vol. 2*, Oxford, Blackwells.

Dahl, B. 1981. Antitrust, Unfair Competition, Marketing Practices, and Consumer Law in H. Gammeltoft-Hansen, B. Gomard and A. Phillips (eds.), *Danish Law: A General Survey*, Copenhagen, G.E.C. Gads Publishing House.

Daunton, M. 1998. *Progress and Poverty*, Oxford, Oxford University Press.

Deane, P. 1979. *The First Industrial Revolution*, 2nd ed., Cambridge, Cambridge University Press.

De Soto, H. 2000. *The Mystery of Capital*, London, Bantam Books.

De Vries, J. 1984. The Decline and Rise of the Dutch Economy, 1675-1900, *Research in Economic History*, Supplement 3, pp. 149-89.

di John, J. & Putzel, J. 2000. State Capacity Building, Taxation, and Resource Mobilisation in Historical Perspective, a paper presented at the conference, "New Institutional Economics, Institutional Reform, and Poverty Reduction", 7-8 September, 2000, Development Studies Institute, London School of Economics and Political Science.

Dorwart, R. 1953. *The Administrative Reforms of Frederick William I of Prussia*, Cambridge, Massachusetts, Harvard University Press.

Duffy, I. *Bankruptcy and Insolvency in London during the Industrial Revolution*, New York, Garland Publishing.

Edwards, J. 1981. *Company Legislation and Changing Patterns of Disclosure in British Company Accounts, 1900-1940*, London, Institute of Chartered Accountants in England and Wales.

Elections since 1945, London, Longman.

Engerman, S. 2001. The History and Political Economy of International Labour Standards, mimeo., Department of Economics, University of Rochester.

Evans, P. 1995. *Embedded Autonomy – States & Industrial Transformation*, Princeton, Princeton University Press.

Feuchtwanger, E. 1970. *Prussia: Myth and Reality – The Role of Prussia in German History*, London, Oswald Wolff.

Finer, S. 1989. Patronage and Public Service in Britain and America in A. Heidenheimer et. al., *Political Corruption: A Handbook*, New Brunswick, Transaction Publishers.

Foner, E. 1998. *The Story of American Freedom*, New York, W.W. Norton & Company.

Garraty, J. & Carnes, M. 2000. *The American Nation – A History of the United States*, 10th edition, New York, Addison Wesley Longman.

Geisst, C. 1997. *Wall Street: A History*, Oxford, Oxford University Press.

Gerber, D. 1998. *Law and Competition in the 20th Century Europe*, Oxford, Clarendon Press.

Gillman, M. & Eade, T. 1995. The Development of the Corporation in England, with emphasis on Limited Liability", *International Journal of Social Economics*, vol. 22, no. 4.

Glasgow, G. 1999. The Election of County Coroners in England and Wales, c. 1800-1888, *Legal History*, vol. 20, no. 3, pp. 75-108.

Gothelf, R. 2000. Frederick William I and the Beginning of Prussian Absolutism, 1713-1740 (chapter 2) in P. Dwyer (ed.), *The Rise of Prussia, 1700-1830*, Harlow, Longman.

Grabel, I. 2000. The Political Economy of 'Policy Credibility': The New-classical macroeconomics and the Remaking of Emerging Economies, *Cambridge Journal of Economics*, vol. 24, no. 1.

Hadenius, S., Nilsson, T. and Åselius, G. 1996. *Sveriges Historia*, Stockholm, Bonnier Alba.

Hammond, J. and Hammond, B. 1995. *The Town Labourer*, Oxford, Alan Sutton Publishing.

Helleiner, E. 2001. The South Side of Embedded Liberalism: The Politics of Postwar Monetary Policy in the Third World, mimeo., Department of Political Science, Trent University, Canada.

Hobsbawm, E. 1999. *Industry and Empire*, new edition, London, Penguin Books.

Hodne, F. 1981. *Norge Økonomiske Historie, 1815-1970*, Oslo, J.W. Cappelen Forlag.

Hood, C. 1995. Emerging Issues in Public Administration, *Public Administration*, vol. 73, Spring 1995.

Hood, C. 1998. *The Art of the State: Culture, Rhetoric and Public Management*, Oxford, Clarendon Press.

Hoppit, J. 1987. *Risk and Failure in English Business, 1700-1800*, Cambridge, Cambridge University Press.

Howe, J. 1979-80. Corruption in British Elections in the Early 20th Century, *Midland History*, vol. V.

Hughes, O. 1994. *Public Management and Administration*, New York, St. Martin's Press.

Kapur, D. & Webber, R. 2000. Governance-related Conditionalities of the IFIs, G-24 Discussion Paper Series, no. 6, Geneva, UNCTAD.

Kaufmann, D., Kraay, A. and Zoido-Lobaton, P. 1999. Governance Matters, Policy Research Working Paper, no. 2196, Washington, D.C., World Bank.

Kennedy, W. 1987. *Industrial Structure, Capital Markets, and the Origins of British Economic Decline*, Cambridge, Cambridge University Press.

Kent, S. 1939. *Electoral Procedure under Louis Philippe*, New Haven, Yale University Press.

Kindleberger, C. 1984. *A Financial History of Western Europe*, Oxford, Oxford University Press.

Kruezer, M. 1996. Democratisation and Changing Methods of Electoral Corruption in France from 1815 to 1914, in W. Little & E. Posada-Carbo (ed.), *Political Corruption in Europe and Latin America*, London and Basingstoke, Macmillan.

Kruman, M. 1991. Suffrage in E. Foner & J. Garraty (eds.), *The Reader's Companion to American History*, Boston, Houghton Mifflin Company.

La Porta, R., Lopez-de-Salinas, F., Shleifer, A. & Vishny, R. 1999. The Quality of Government, *Journal of Law, Economics, and Organisation*

Lamoreaux, N. 1996. *Insider Lending*, Cambridge, Cambridge University Press.

Landes, D. 1969. *The Unbound Prometheus – Technological Change and Industrial Development in Western Europe from 1750 to the Present*, Cambridge: Cambridge University Press.

Larsson, M. 1993. *En Svensk Ekonomisk Historia, 1850-1985*, 2nd edition, Stockholm, SNS Fölag.

Lee, J. 1978. Labour in German Industrialisation in P. Mathias & M. Postan (eds.), *Cambridge Economic History of Europe, Volume II*, Cambridge, Cambridge University Press.

Linz, J. 1995. Spain, *The Encyclopedia of Democracy*, London, Routledge.

Maddison, A. 1995. *Monitoring the World Economy*, Paris, OECD.

Machlup, F. & Penrose, E. 1950. 'The Patent Controversy in the Nineteenth Century, *Journal of Economic History*, vol. 10, no. 1.

Marriner, S. 1980. English Bankruptcy Records and Statistics before 1850, *Economic History Review*, vol. 33, no. 3.

Mathias, P. 1969. *The First Industrial Nation*, London, Methuen & Co..

Marx, K. 1976. *Capital, Vol. 1*, London, Penguin Books.

McLeod, C. 1988. *Inventing the Industrial Revolution: the English Patent System, 1660-1800*, Cambridge, Cambridge University Press.

Mercer, H. 1995. Constructing a Competitive Order: The Hidden History of British Antitrust Policy, Cambridge, Cambridge University Press.

Montgomery, G. 1939. The Rise of Modern Industry in Sweden, London, P.S. King & Son Ltd..

Mørch, S. 1982. *Den Ny Danmarkshistorie: 1880-1960*, Copenhagen, Gyldendal.

Munn, C. 1981. Scottish Provincial Banking Companies: An Assessment, *Business Hisotry*, vol. 23, pp. 19-41.

Nerbørvik, J. 1986. *Norsk Historie, 1870-1905: Frå jordbrukssamfunn mot organisasjonssamfunn*, Oslo, Det Norske Samlaget.

O'Leary, C. 1962. *The Elimination of Corrupt Practices in British Elections, 1868-1911*, Oxford, Clarendon Press.

Ohnesorge, J. 2000. Asia's Legal Systems in the Wake of the Financial Crisis: Can the Rule of Law Carry any of the Weight?, a paper presented at the UNRISD (United Nations Research Institute for Social Development) conference on "Neoliberalism and Institutional Reform in East Asia", 12-14 May, 2000, Bangkok.

Patel, S. 1989. Intellectual Property Rights in the Uruguay Round – A Disaster for the South?, *Economic and Political Weekly*, 6 May 1989.

Pennington, R. 1990. *The Law of the Investment Markets*, Oxford, Basil Blackwell.

Penrose, E. 1951. *The Economics of the International Patent System*, Baltimore, The Johns Hopkins press.

Pierson, C. 1998. *Beyond the Welfare State – The New Political Economy of Welfare*, 2nd edition, Cambridge, Polity Press.

Pryser, T. 1985. *Norsk Historie, 1800-1870: Frå standssamfunn mot dlassesamfunn*, Oslo, Det Norske Samlaget.

Przeworkski, A. & Limongi, F. 1993. Political Regimes and Economic Growth, *Journal of Economic Perspectives*, vol. 7, no. 3.

Rauch, J. & Evans, P. 2000. Bureaucratic Structure and Bureaucratic Performance in Less Developed Countries", *Journal of Public Economics*, no. 75.

Ritter, G. 1990. The Electoral Systems of Imperial Germany and Their Consequences for Politics", in S. Noiret (ed.), *Political Strategies and Electoral Reforms: Origins of Voting Systems in Europe in the 19th and 20th Centuries*, Baden-Baden, Nomos Verlagsgesellschaft.

Rodrik, D. 1999. Institutions for High-Quality Growth: What They Are and How to Acquire Them, a paper prepared for the IMF conference on Second-Generation Reform, Washington, D.C., 8-9 November, 1999.

Rosenberg, N. & Birdzell, L. 1986. *How the West Grew Rich*, I.B. Tauris & Co. Ltd., London.

Rueschemeyer, D., Stephens, E. and Stephens, J. 1992. *Capitalist Development and Democracy*, Cambridge, Polity Press.

Schiff, E. 1971. *Industrialisation without National Patents – the Netherlands, 1869-1912 and Switzerland, 1850-1907*, Princeton, Princeton University Press.

Searle, G. 1987. *Corruption in British Politics, 1895-1930*, Oxford, Clarendon Press.

Silbey, J. 1995. United States of America, *The Encyclopaedia of Democracy*, London, Routledge.

Singh, A. & Dhumale, R. 1999. Competition Policy, Development, and Developing Countries, T.R.A.D.E. Working Paper, no. 7, Geneva, South Centre.

Sokoloff, K. & Kahn, B.Z. 2000. Intellectual Property Institutions in the United States: Early Development and Comparative Perspective, a paper prepared for World Bank Summer Research Workshop on Market Institutions, 17-19 July, 2000, Washington, D.C..

'T Hart, M. 1997. The Merits of a Financial Revolution: Public Finance, 1550-1700 in M. 'T Hart, J. Jonker, J. van Zanden (eds.), *A Financial History of The Netherlands*, Cambridge, Cambridge University Press.

'T Hart, M., Jonker, J. & van Zanden, J. 1997. Introduction in M. 'T Hart, J. Jonker, J. van Zanden (eds.), A Financial History of The Netherlands, Cambridge, Cambridge University Press.

Therborn, G. 1977. The Rule of Capital and the Rise of Democracy, *New Left Review*, No. 103, May-June.

Tilly, R. 1994. A Short History of the German Banking System in M. Pohl (ed.), *Handbook of the History of European Banks*, Aldershot, Edward Elgar.

Toye, J. 2000. Fiscal Crisis and Fiscal Reform in Developing Countries, *Cambridge Journal of Economics*, vol. 24, no. 1.

Upham, F. 2000. Neoliberalism and the Rule of Law in Developing Societies, a paper presented at the UNRISD (United Nations Research Institute for Social Development) conference on "Neoliberalism and Institutional Reform in East Asia", 12-14 May, 2000, Bangkok.

Williams, E. 1896. *'Made in Germany'*, London: William Henemann, the 1973 edition with an introduction by Austen Albu, Brighton: The Harvester Press.

World Bank 1997. *World Development Report, 1997 – The State in a Changing World*, New York, Oxford University Press.

Zysman, J. 1983. *Governments, Markets, and Growth*, Oxford, Martin Robertson.