Studying institutional change regardless of whether it is focused on transitional or developing economies, may prove most fruitful when focused on its structuring of the means of production—land, labour, and capital. This book does exactly that: it singles out land as an object of study and places it in the context of one of the world’s largest and most populous countries undergoing institutional reform, the People’s Republic of China. The book argues that private property protected by law, the principle of ‘getting-the-prices-right’, and the emergence of effectively functioning markets can not be imposed, but are the outcome of a society’s historical development and institutional fabric. In other words, the creation of institutions that are trusted and perceived as ‘credible’ in the eyes of social actors hinges in part on choice and timing in relation to the constellation of socio-economic and political parameters. It is demonstrated that disregarding these might result in the establishment of ‘empty institutions’ that have little effect on social actors’ actions, and can even cause rising inequality, bad land stewardship, and social conflict. The book concludes that the key to understanding China’s successes in rural reforms lies in the state’s hands-off approach and upholding an intentional institutional ambiguity that allowed for local, credible institutions to arise.

Summary and Conclusions

Mark Casson

in Enterprise and Competitiveness: A Systems View of International Business
The concluding chapter of the book argues that adopting a systems view in analysing production is helpful in understanding the new division of labor, and that identifying the physical aspects, particularly the spatial aspects, may be analysed to the firm's advantage. It also looks at differentiating high-level entrepreneurship from low-level entrepreneurship, and other such issues regarding entrepreneurship and the processes and behaviors of agencies in production. Most importantly, it argues that the systems view has enabled us to view the importance of social mechanisms of co-ordination. Mutual trust among agencies is deemed essential in entrepreneurship and in international business because, as in joint ventures, it does not only minimize risks but it also lowers transaction costs for firms.

Chapter Chapter Market Innovations to Better Allocate Generational Risk
Salvador Valdés-Prieto

in Restructuring Retirement Risks

Published in print: 2006 Published Online: September 2006
Item type: chapter

Mandatory old-age benefit programs tend to require periodic adjustments as a result of demographic and economic shocks. However, such discretionary adjustments create political risk for workers and beneficiaries, and raises taxpayer risk. An alternative way to handle such shocks is to use rule-based adjustment, which can be adopted in an unfunded system without incurring transition costs and without increasing public debt. This chapter explores an approach to this problem that would endow the Social Security Trust Fund with property rights over the revenue of a (much reduced) residual payroll tax paid by future workers. This revenue would be securitized and the resulting securities priced in financial markets. The new securities created in the process would allow beneficiaries to obtain safe real pensions protected from investment risk.

Reciprocity
Ken Binmore

in Natural Justice

Published in print: 2005 Published Online: January 2007
Item type: chapter
The folk theorem shows that cooperative behavior can be sustained as a Nash equilibrium in indefinitely repeated games — a phenomenon known as reciprocal altruism. The same theorem offers a solution to various other social mysteries. Who guards the guardians? How are authority, blame, courtesy, dignity, envy, friendship, guilt, honor, integrity, justice, loyalty, modesty, ownership, pride, reputation, status, trust, virtue, and the like to be explained as emergent phenomena? How do beliefs that many people privately know to be false survive?

Financial Ethics
George A. Aragon

Published in print: 2010 Published Online: January 2011
Publisher: Oxford University Press
DOI: 10.1093/acprof:oso/9780195305968.001.0001
Item type: book

This book provides a framework for the study of financial ethics built on a broad review of research published in finance and economics journals. This book demonstrates that ethics is already an important part of financial research, and therefore the approach taken here is more of a “rediscovery” of the ethical dimension of financial economics. The book adopts a positivist framework for the field of financial ethics within which it is proposed that many “finance” problems are actually “ethics” problems; and that many economic phenomena can be explained as mechanisms for controlling moral risks. The text discusses several examples in which an ethics-centered approach to understanding economic phenomena is similar in spirit to other frameworks which have been applied in positive financial research including: the framework used for understanding corporate governance mechanisms as devices for mitigating agency costs and “moral hazards” in contractual relationships; the transaction “governance structure” framework that can explain the existence of hierarchies relative to markets when opportunistic behavior is assumed; and the roles of reputation and corporate culture in making credible commitments of trust in exchange. The book argues that these “financial ethical technologies” are not mutually exclusive but, rather, mutually enriching ways to deepen our understanding of the same economic phenomena. They are financial technologies because they enhance economic value; and, they are ethical technologies because their value enhancing contributions are produced by mitigating moral risks in exchange.
The Age of the Trusts (1880–1910)
Charles R. Geisst

in Wall Street: A History

Published in print: 1999 Published Online: November 2003
Item type: chapter

The development of trusts and the popularity of trusts as investments. Introduction of the Sherman Act, the consolidation of industry, merger creating U.S. Steel, Andrew Carnegie & Morgan, Panic of 1894, Panic of 1903, Panic of 1907, Morgan's role in averting panic, and the development of the money trust among New York banks. Dow Jones average begun.

Kinship, Familiarity, and Trust: An Experimental Investigation
Abigail Barr

in Foundations of Human Sociality: Economic Experiments and Ethnographic Evidence from Fifteen Small-Scale Societies

Published in print: 2004 Published Online: January 2005
Item type: chapter

The Trust Game and the Ultimatum Game were used to look at the effects of kinship ties, familiarity, and trust on social interaction among the Shona of Zimbabwe. The study described made a behavioural comparison between two groups: a group of new villages that were set up in 1997 as resettlements consisting almost entirely of unrelated households (in which there could be a persistent erosion of trust), and a control group of non-resettled villages made up almost exclusively of kin. The behaviour observed in resettled and non-resettled villages in both games is first briefly summarized and discussed before outlining the experimental design used and presenting and analyzing the results in detail. In general, the results were consistent with there being no differences in socially transmitted behavioural rules between resettled and non-resettled villages, and with the hypothesis that resettled villagers are neither more nor less altruistic or loyal towards their co-villagers than non-resettled villagers. However, they are also consistent with the hypothesis that resettled villagers behave more cautiously when in strategic situations with their co-villagers; this lower level of trust might be due to the lower density in kinship ties, which in turn leads to less familiarity with other people's behavioural characteristics.
CCPs and CSDs
Ruben Lee

This chapter presents a series of case studies illustrating how some specific central counterparties (CCPs), and central securities depositories (CSDs) have been governed in particular contexts. The following institutions and contexts are described in turn: the relationship between the Canadian Depository for Securities’ owners, its users, and board directors from the company’s inception to 2008; the establishment of European Central Counterparty Limited by Depository Trust and Clearing Corporation over the period 2000–2002; the creation of Clearstream International by Deutsche Börse over the period 1999–2002; some aspects of how Euroclear was governed regarding its creation, ownership, and board structure up until 2006; and the creation of LCH.Clearnet and some difficulties it faced over the period 2003–6. A few brief general lessons from each case study are also identified.

Introduction
Gordon L. Clark, Adam D. Dixon, and Ashby H. B. Monk

This introductory chapter provides an overview of sovereign wealth funds (SWFs). It begins with a discussion of how policymakers of all stripes, from democracies to autocracies, have all come to see SWFs as important buffers against global market forces that threaten domestic institutions and policies. It then details the rise of SWFs; the effort to build trust through the voluntary Generally Accepted Principles and Practices, known as the Santiago Principles, developed by the International Working Group of SWFs with the support of the International Monetary Fund; the institutional form and function of SWFs; and the new geography of finance. It argues that SWFs represent the high-water mark of financialization and the next installment of capitalist development following Clark’s (2000) pension fund capitalism.
This chapter takes some steps toward integrating endogenous political reform into the core model. A general finding is that forces that lead to political stability generally reduce the motives of ruling groups to undertake political reforms toward greater cohesiveness. It sketches some micropolitical foundations for the main macropolitical parameters in the core model, political cohesiveness, and (peaceful) political turnover, and tried to relate them to real-world tangible political institutional rules and regulations. As in the case of tax compliance in Chapter 2, it notes that cohesiveness in political life may reflect not only formal institutions, but also informal rules of behavior, trust, and social norms. This is in line with studies that focus on the role of social capital. The chapter also considers political reform in a predatory state and gives reasons for resistance toward reforms that promote common-interest politics. This discussion reinforces the observation that reform may be particularly problematic in such states.

The Politics of Poverty Reduction

Paul Mosley, Blessing Chiripanhura, Jean Grugel, and Ben Thirkell-White

The aim is to understand the political processes which determine why poverty has been on a falling trend in some countries and not in others. The focus is on the developing world and on the period since 1980, although some country case studies cover a longer historical period going back to the beginning of the twentieth century. The analysis is based partly on comparisons across all developing countries and partly on case studies of nine of them. Often, it is found, pro-poor policies have been brought in not with progressive intentions, but out of fear that the state will fall apart unless pro-poor elements are incorporated into government, and the most effective regimes in reducing poverty have seldom been the kindest and most benevolent. Ability to provide the poor with access to key markets, in particular for labour and capital, is crucial, and this in turn requires fiscal strength. In the poorest countries, two
crucial additional elements in the story are the ability to frame labour-intensive policies (given that labour is often the only thing which poor people are able to sell) and the design of pro-poor tax and expenditure policies. In these countries, aid donors can make a key contribution, partly through reinforcing recipients’ fiscal capacity, but much more through providing technical support of the right kind.

The Prisoner's Dilemma
ROBERT V. DODGE

in Schelling's Game Theory: How to Make Decisions

This chapter focuses on the best-known game in game theory, the prisoner's dilemma. It begins with the development of the game at the RAND Corporation. Classical economics is based on the idea that the greatest good is achieved by pursuing individual self-interest and this simple two-by-two game demonstrates that the “rational” choice could be to behave in a seemingly non-rational way; that the superior outcome could be achieved through cooperation. The standard story developed by Albert Tucker that gave the game the name “prisoner's dilemma” is described. The basic prisoner's dilemma matrix is presented and the ranking of utility payoffs is listed along with the names for the payoffs used by Sugden and many others: the “trust” payoff, the “nasty” payoff, the “sucker” payoff. Examples of the prisoner's dilemmas from everyday life and international relations are given, as is Schelling's struggle against the prisoner's dilemma of the Cold War arms race, where he worked to achieve gains in arms control. The final part of the chapter mentions references to the prisoner's dilemma in recent journalism from around the world, showing its wide acceptance as a term for situations in which individual self interest harms group benefit.

Global Private Banking
Roy C. Smith, Ingo Walter, and Gayle DeLong

in Global Banking
Private banking caters to wealthy individuals who, like other investors, base asset-allocation choices on their relative preferences for risk and return. There is value in diversification across individual assets, asset classes, political-economic environments, and other asset allocation categories. The lower the correlations across asset buckets, the greater the power of diversification. Like everyone else, wealthy people are explicitly or implicitly looking for “efficient” portfolios that minimize risk for a given target rate of return or maximize total returns for a given level of portfolio risk. They are different from nonwealthy people in that they have a lot to preserve, so that they often tend toward relatively conservative asset-allocation approaches. They are also sensitive to confidentiality, trust, and service quality.

Building blocks in a poverty strategy

Paul Mosley

in The Politics of Poverty Reduction

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Item type: chapter

Two of this study’s building-blocks stem from elements of the political environment mentioned in Chapter 1 – firstly, the ability and motivation of government to form partnerships with pro-poor interest groups, and secondly, the existence of political stability. The other three are actions which reallocate resources between interest-groups – thirdly, pro-poor fiscal and other policies (in particular those favouring labour-intensive sectors of the economy, fourthly, pro-poor institutions, and, finally, support from international financial institutions, which has fluctuated over time as described in the previous chapter. Primitively, it can be said that if the political environment is pro-poor and effective pro-poor actions are taken, this should result in a pro-poor outcome – poverty should fall over the long term. Building on the experience of nine case-study countries, which are introduced here, this chapter develops a simple social-contract model which blends together these five building blocks. Depending on the decisions which are taken in the fields of public expenditure and institutions by two groups which are labelled ‘elite’ and ‘people’, the result may be a trust equilibrium, or political instability and decapitalisation. Critical to the outcome is whether the public expenditure decision is seen by the low asset (‘people’) group as fair and just. The model is used to generate a set of hypotheses which are tested in later chapters.
Especially in poorer countries and regions, international financial institutions (multilateral, bilateral, and increasingly international NGOs) have been important in financing the implementation of the pro-poor ideas, policies, and structures described in previous chapters. They have attempted to make their aid more effective – and since the 1990s more pro-poor – by attaching policy conditions to their aid, which is achieved through a combination of liberalization, good governance, and commitment to poverty reduction. This idea forms the basis of the Washington institutions’ Poverty Reduction Strategy documents. However, as this chapter shows, what really matters in practice is not adherence to formal conditionality but trust between international financial institutions and recipients; and this is determined more by personal relationships than by technical performance criteria. In spite of this personalization of the aid relationship, this chapter finds that aid does influence policy (for example, the level of the PPE and PPI indices developed in Chapters 5 and 6) and thereby, in the poorer countries, plays a significant part in reducing poverty. Indonesia, Ghana, Uganda, and Bolivia, and outside the study’s sample also Sri Lanka, Bangladesh, and India, would have had totally different poverty trajectories in the absence of support from the international financial institutions.

Four African case studies: Ghana, Uganda, Kenya, and Zimbabwe

Sue Bowden and Paul Mosley

This chapter investigates the historical roots of poverty, with particular reference to the experience of Africa during the twentieth century. The chapter argues that the difference in poverty trajectories in Africa reflects the influence of policies on institutions and thence on levels of income distribution and poverty. It argues this thesis, using mortality rates as a proxy for poverty levels, with reference to two settler colonies
Zimbabwe and Kenya – and two peasant export colonies – Uganda and Ghana. The findings suggest that in Africa, settler-type political systems tended to produce highly unequal income distributions and, as a consequence, patterns of public expenditure and investment in human capital which were strongly biased against smallholder agriculture and thence against poverty reduction, whereas peasant-export type political systems produced more equal income distributions whose policy structures were less biased against the poor. Indeed, in Uganda and Ghana mortality rates were falling from the 1920s onward, rather than the 1950s as in the settler economies and much of the developing world. As a consequence, liberalisation during the 1980s and 1990s produced asymmetric results, with poverty falling sharply in the ‘peasant export’ and rising in the settler economies.

Chapter Chapter Looking Backward, Looking Forward: Where is Pension Policy Headed?

James A. Klein

in Reinventing the Retirement Paradigm

In the future, the retirement paradigm will be reinvented because people and entities directly engaged in designing and sponsoring plans, as well as those benefiting from plans, will make countless decisions about their immediate and long-term needs. They will adjust retirement plan programs, and retirement practices themselves, to accommodate those needs. This chapter identifies four elements that may help in the development of a paradigm suitable for the next thirty years. These are the key role of trust in a regulatory scheme; the importance of balancing objectives in pension policy; the key importance of recognizing expectations; and the need for retirement policy champions.

Common Property Resources: Economic Analytics

Partha Dasgupta

in Promise, Trust and Evolution: Managing the Commons of South Asia
The subject of common property resources (CPRs) has generated enormous academic interest in recent years. Offering an alternative to impersonal markets and coercive states, the communitarian institutions built around CPRs have looked attractive to scholars in the humanities and social sciences. Oddly, economic theory has been missing from almost all discussions on CPRs, making it difficult to judge the status of empirical works, which, in the case of CPRs, have mainly been case studies. This chapter presents a fairly complete economic theory of CPRs. The theory not only identifies circumstances which engender trust and credibility, allowing communitarian institutions to function well, but also shows when those institutions could be expected to unravel. Recent empirical evidence on the fragility of CPRs and viability of privatization in some contexts is cited to display the robustness of the theory. The theory identifies a dark side of communitarian institutions, namely, their capacity to permit one group to exploit another within long-term relationships. The incentives parties may have for carrying out their respective promises are explored.

The Money Trust (1890–1920)
Charles R. Geisst
in Wall Street: A History
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The money trust and the development of the Federal Reserve. The central role of Wall Street power brokers in the country and the increasing sophistication of the exchanges. The Pecora hearings in Congress, revealing the inner workings of the money trust, the death of Pierpont Morgan, World War I financing, Liberty Bonds, and the role of bankers again as central figures in the power structure of the country.

External Relationships
Geoffrey Jones
in Merchants to Multinationals: British Trading Companies in the Nineteenth and Twentieth Centuries
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Publisher: Oxford University Press DOI: 10.1093/0199249997.003.0008
This chapter examines the external relationships of the trading companies. There were close and often long-term relationships with banks and shipping and insurance companies, although agency agreements with manufacturers tended to be more contractual. Many relationships were based on trust, in which the advantages derived from the ongoing relationship were greater than was expected gains from opportunistic behaviour.