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The clan and the corporation: Sustaining cooperation in China and Europe[☆]

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ABSTRACT

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Over the last millennium, the clan and the corporation have been the loci of cooperation in China and Europe respectively. This paper examines – analytically and historically – the cultural and institutional co-evolution that led to this bifurcation. We highlight that groups with which individuals identify are basic units of cooperation. Such loyalty groups influence institutional development because intra-group moral commitment reduces enforcement cost implying a comparative advantage in pursuing collective actions. Loyalty groups perpetuate due to positive feedbacks between morality, institutions, and the implied pattern of cooperation. *Journal of Comparative Economics* 45 (2017) 1–35. Stanford University and Bocconi University, United States.

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1. Introduction

Although we often take it for granted, the state as we know it is a relatively recent institution. How was society organized when the state was much weaker or nonexistent? What social organizations substituted the state in the provision of public goods? These general questions are important not just for historical reasons, but also for understanding the functioning of the modern state and how it evolved from previous organizations.

In this paper we contrast two social organizations that emerged in pre-modern China and Europe respectively: the clan and the corporation. Roughly speaking, the clan is a kin-based organization consisting of patrilineal households that trace

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their origin to a (self-proclaimed) common male ancestor.¹ The corporation is a voluntary association between unrelated individuals established to pursue common interests. The foremost historical example is the independent city, others are guilds, communes, and business associations.

The clan and the corporation performed similar functions: they sustained cooperation among members, regulated interactions with non-members, provided local public or club goods, and coordinated interactions with the market and with the state. Yet, they were built on very different criteria and operated quite distinctly. Cooperation inside a clan exploits reciprocal moral obligations and personal interactions, whereas corporations rely on generalized – and thus weaker – moral obligations supplemented by impersonal enforcement procedures.²

What explains the emergence, expansion, and perpetuation of different social organizations in these two parts of the world? How did they influence the evolution of state institutions, and how did they interact with the market? These are the questions addressed in this paper. Our main insight concerns the mutual reinforcement of cultural traits, social organizations, and institutions. Distinct initial conditions in cultural traits, at a critical historical juncture, facilitated the emergence of different social organizations. Their subsequent proliferation reinforced their distinct cultural traits and fostered the development of complementary private and public order institutions. This contributed to a divergence of culture and institutions between China and Europe that persists in modern times.

The wide scope of our analysis forces us to examine long periods of time and to compare broad social systems. For this reason, we rely on a mix of theory, quantitative evidence, and historical narrative. With the help of the theory, we identify key features of social organizations and cultural practices, and derive specific predictions about their equilibrium interactions. We then turn to history to examine when the bifurcation began, why, and to what extent.

To quantify the origin and diffusion of clans through time, we created a database from the recently published and most comprehensive genealogy register (Wang, 2008) of more than 50,000 genealogies. The major undertaking of creating the database was taken by Prof. Hongzhong Yan (Shanghai University of Finance and Economics) with the assistance of George Zhijian Qiao (Stanford University). It is a pleasure to acknowledge their valuable contribution to this project. The dataset is described below.

Our theoretical approach rests on three central ideas. First, social organizations are important because they constitute basic units of cooperation. Second, social organizations are also held together by mutual moral obligations and group-specific morality, not just by economic interests or other common attributes. Third, although very persistent, the forces that glue individuals to a group are not immutable. Individuals tend to vote with their feet and join or abandon a group, and the institutional and cultural foundations of social groups evolve endogenously over time. These central ideas can be used to explore a variety of settings, and not just the institutional development of China and Europe.

The distinguishing and novel feature of the theory is to jointly study group formation and group identity. Individuals with given preferences choose which group to join. But individual preferences (group identity) evolve over time, reflecting group membership. Thus, in equilibrium the partition of individuals amongst groups and their group identity are jointly determined. Here groups refer to social organizations, but similar forces may be at work in other settings.

Specifically, we formulate a simple model in which individuals with given but different cultural traits choose their social affiliation, to their clan or to a city (the foremost corporation). Both organizations supply public goods, but they rely on different enforcement methods.³ The equilibrium size of these organizations reflects the diffusion of cultural traits, since different traits (loyalty to kin versus generalized morality) confer a comparative advantage to one or the other organization. We then study the dynamic evolution of culture and organizations. Overtime the distribution of cultural traits across individuals reflects their social affiliation: we assume that the children of individuals affiliated with clans are more likely to be loyal to their clan and to its collective identity, while individuals born in a city tend to share notions of generalized morality and universal respect for individuals who are not their kin. These dynamic complementarities imply multiple steady states that can only be reached from different initial conditions. Two otherwise identical societies that differ only in the initial distributions of moral traits could evolve along different self-reinforcing trajectories of value systems, organizational forms, and enforcement institutions. Initial diffusion of kin-based morality leads to a steady state where clan loyalty and collectivism is widespread, the clan provides public goods, the share of the population organized in a corporation is small, and intra-organization institutions are weak. Conversely, if generalized morality and individualism are initially widespread, the organization of society moves to an opposite steady state, where independent cities (or other corporations) are the main providers of public goods.

Succinctly, when applied to explain China vs. Europe, the model thus predicts the following differences in social organizations and value systems:

¹ This definition is much broader than that common in the literature on China (see below). Clans in this literature are restricted to take the form common in the South of China where clans are rural, reside in uni-clan villages and holding property in common. The analysis here focuses on clans as kin-based social unit of cooperation regardless of its place of residence, property, or location.

² We avoid using the terms formal and informal here because these terms are subjective and often anachronistic. By personal enforcement we mean enforcement based on leveraging the overlapping layers of social, economic, cultural, and coercive relations among specific individuals. Impersonal enforcement, in contrast, is based on motivating compliance regardless of lack of personal relationship among the individuals involved. The Western legal system is one manifestation of effective impersonal enforcement. See discussion in Dixit (2004) and Greif (2006a).

³ We generically use the term “enforcement” to refer to the social means used to induce behavior (e.g., legal punishments, social pressure, economic sanctions, etc. We differentiate among these means below as required. See discussion in Greif (2006a, chapter 2)).

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