Family Structure, Institutions, and Growth:
The Origin and Implications of Western Corporatism

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2005

Prepared for an AEA session on:
The Family, Institutions, and Economic Growth

There is a vast amount of literature that considers the importance of the family as an institution. Little attention, however, has been given to the impact of family structures on institutions, their dynamics, and the ability to change them. This limits our ability to understand distinct institutional developments – and hence growth – in the past and the present. This paper illustrates this by highlighting the importance of the European family structure in one of the most fundamental institutional changes in history.

This change has been the emergence of economic and political *corporations* in late medieval Europe.[1] 'Corporations' are defined here, consistent with their historical meaning, as intentionally created, voluntary, interest-based, and self-governed permanent associations. Guilds, fraternities, universities, communes and city-states are some of the corporations that dominated Europe in the past. Businesses and professional associations, business corporations, universities, consumer groups, republics and democracies are some of the corporations in modern economies.

Providing institutions through corporations is a novelty. Historically, the institutions that secured one's life and property and mitigated problems of cooperation and conflicts were initially provided by large kinship groups. Subsequently, such institutions that rely on this family structure were complemented or replaced by those provided by self-interested rulers. Corporation-based institutions can substitute for those provided by both kinship groups and self-interested rulers. When they substitute kinship-based institutions, corporations are complementary to a different family structure, namely, the nuclear family structure. For an individual, corporations reduce the

[1] This paper draws on Greif (2006, chapters 8, 9, and 12).

benefits from belonging to a kinship group while a nuclear family increases the benefits from being a member of a corporation.

In tracing the origins of the European corporations this paper focuses on their complementarity with the nuclear family structure. It presents why large kinship groups (i.e., clans, lineages and tribes) declined in medieval Europe (section 1) and why the resulting nuclear family structure, along with such factors as individualism and the interest of the Church, were fundamental to the rise of corporations (section 2). European economic growth in the late medieval period was based on an unprecedented institutional complex of corporations and nuclear families (section 3). Subsequent European history suggests that this institutional complex was conducive to long-run growth and growth-enhancing institutions. Yet we know surprisingly little regarding the reasons for this or why it is so difficult to transplant this complex to other societies. The paper concludes by reflecting on these issues (section 4).

I. The Evolution of Family Structures in Europe

The conquest of the Western Roman Empire by Germanic tribes during the medieval period probably strengthen the importance of kinship groups in Europe. Yet, the actions of the Church caused the nuclear family – constituting of husband and wife, children, and sometimes a handful of close relatives – to dominate Europe by the late medieval period.

The medieval church instituted marriage laws and practices that undermined large kinship groups.[2] From as early as the fourth century, it discouraged practices that enlarged the family, such as adoption, polygamy, concubinage, divorce, and remarriage. It severely prohibited marriages among individuals of the same blood (consanguineous marriages), which had constituted a means to create and maintain kinship groups throughout history. The church also curtailed parents' abilities to retain kinship ties through arranged marriages by prohibiting unions in which the bride didn't explicitly agree to the union.

European family structures did not evolve monotonically toward the nuclear family nor

[2] This dogma was self-serving by increasing, for example, the likelihood that an individual's bequest would be given to the church. Mitterauer and Sieder (1982); Goody 1983; Ekelund et. al. (1996).

was their evolution geographically and socially uniform (Herlihy 1969; Greif 2006, chapter 8). However, by the late medieval period the nuclear family was dominate. Even among the Germanic tribes, by the eighth century the term family denoted one's immediate family, and shortly afterwards tribes were no longer institutionally relevant. (Guichard and Cuvillier, 1996.) Thirteenth-century English court rolls reflect that even cousins were as likely to be in the presence of non-kin as with each other. (Razi 1993).

The practices the church advocated, such as monogamy, are still the norm in Europe. Consanguineous marriages in contemporary Europe account for less than one percent of the total number of marriages. In contrast, the percentage of such marriages in Muslim, Middle Eastern countries, where we also have particularly good data, is much higher - between twenty to fifty percent. (Bittles 1994.) Among the anthropologically defined 356 contemporary societies of Euro-Asia and Africa, there is a large and significant negative correlation between Christianization (for at least 500 years) and the absence of clans and lineages; the level of commercialization, class stratification, and state formation are insignificant. (Korotayev 2003.)

II. Incorporation as a Function of Family Structure

The decline of large kinship groups in Europe transpired during a period in which the state was also disintegrating there. At the same time, individualist cultural beliefs hindered the rise of social networks for diffusion of information and lowered expectations for collective, informal enforcement. (Greif 1994.) To solve problems of coordination and enforcement, a new solution was required and the medieval economic and political *corporations* constituted this solution.

These corporations were intentionally created, voluntary, interest-based, and self-governed permanent associations. Participation was voluntary in the sense that one had to be induced to be a member and to achieve that corporations had to cater to the interests of their members. Corporations were self-governed in the sense that their members specified the rules that regulated their activities and they often did so without being established by a state. Power was shared and the corporation's leaders were held accountable for their actions. Corporations were permanent in the sense that whether one was established for an indefinite or a finite length of time, its perpetuation didn't depend on the participation of any particular member. The corporations had often acted as having a legal personality, their property, rights, and obligations of corporations were distinct from those of the members. The lack of effective states, however, implied that they often could not be sue and be sued in a state court.

Although the weakness of the state and the nuclear family structure were important to the rise of corporations, this rise was not determined by these factors. A multiplicity of outcomes could have prevailed given the rules of the game spanned by these factors. Where power was asymmetrically distributed, as was the case in Eastern Europe, local rulers established themselves. Where power was more equally distributed, anarchy and the strengthening of large kinship family structures sometime were the result. More often, in such cases, the European political culture and legal heritage made corporations a focal point. Political organization among equal and free individuals governed by their laws under leaders who were first among equals is central to the Greek, Roman, and Germanic political traditions. Similarly, the Roman, Germanic, and Christian legal heritage provided precedents to corporate bodies (Kuhn 1912; Berman 1985).

The actions of the late medieval Church were rendered corporations focal point. During the eleventh century, the Church incorporated itself to deflect threats to its independence and property from secular rulers and its own agents. To this end, the papacy formulated a corporation law that drew on Roman, Germanic and Christian legal principles. It rejected the view that royal permission was required to establish a corporation, asserted that any corporation had taxation rights, legislative and judicial jurisdiction over its members, and placed the corporation's agents under the authority of the corporation's members. (Berman 1983). This codification bestowed legitimacy on self-organized and self-governed corporations in general, created a related moral code, and provided a legal code for coordinating expectations.

III. Europe Inc. and Late-Medieval Growth

By the late medieval period, economic and political corporations dominated Europe. We still lack a micro-analysis of their internal governance but we know how they fostered growth. They promoted growth by securing private property rights (from the grabbing hand of the state, pirates and each other), providing public goods, supporting markets, fostering innovation and training, and mobilizing armies to advance their economic interests. Indeed, from circa 1050 to 1348, Europe experienced its longest, post-Roman period of economic growth.

Corporations, such as monasteries, fraternities and mutual-insurance guilds, provided social safety nets against famine, unemployment and disability. The majority of the population belonged to such corporations, at least in England (Richardson 2005). By providing social safety nets, corporations enabled individuals to better align their economic decisions with their preferences. Individuals could make such economic decisions as those about marriage, childbearing, investment, migration, and risks without interference by members of a larger kinship group.

Craft guilds regulated production, training, and the protection of brand names. Guilds, universities and monastic orders developed and distributed scientific and technological knowledge (Mokyr 1990; Epstein 1998). Corporations, particularly merchant guilds and communes, provided the institutional foundations of markets. They protected property rights at home and abroad, secured brand names, and provided contract enforcement in exchange. Corporations such as city-states, the German Hansa and military orders mustered armies to advance their economy. (Greif, Milgrom, and Weingast 1994; Greif 2004; Greif, 2006, chapters 8, 10; Gonzalez 2004; Richardson 2004a,b.)

Many late medieval corporations, as is well recognized regarding the Italian city-states were political in the sense that they had independent legal, administrative, and military capabilities. Yet, most European cities west of the Baltic Sea in the north and the Adriatic Sea in the south were also political corporations known as *communes*. In England alone there were about 500 hundred of them (Beresford and Finberg 1973). Political corporations also prevailed among west European peasants (Reynolds, 1984, ch. 4-5; Brenner 1987).

Because these corporations often preceded the state in Europe, they provided these nascent states with indispensable services such as tax collection, administration of the law, and mustering armies. Self-interested rulers were therefore constrained from adopting policies hindering these corporations' economic interest. (Greif 2005.) These corporations' importance is reflected in the European rulers' responses to the increasing burden of financing warfare. By the thirteenth century, all European principalities had representative bodies to approve taxation and in all of them communes were represented (Ertman 1997). Their military and economic strength and their administrative importance probably rendered their concession to taxation indispensable.

IV Corporations, Nuclear Families and Development

To the modern period, corporations and nuclear families constituted a distinguishing feature of the particularly European institutional foundations of markets, polities and knowledge.[3] Europe's economic ascendancy began after nuclear families and corporations began to dominate its society, economy and polity and since then growth prevailed particularly when and where corporation-based institutions reigned. Why?

Relative to the kinship family structure, the nuclear family has both growth-enhancing and growth-retarding properties. For example, while the nuclear family enhances flexibility in economic decision-making, kinship groups can better provide social safety nets than the nuclear family. European corporations, however, enabled non-kin to benefit from safety nets while retaining the nuclear family structure. In the contemporary west, the state – a corporation – fulfills this role.

We know, as discussed above, *how* the European corporations fostered growth, but we know surprisingly little about *why* the interests of the corporations were aligned with growth. After all, corporations aimed at benefiting their members rather than pursuing growth. History is rich with examples of even initially growth-enhancing economic corporations that became means for rent seeking, redistribution, or control by the state. Some political corporations degenerated into oligarchies and conflicts within others facilitated the rise of despotism. Contemporary developing countries provide many examples of growth-inhibiting corporations.

Yet, comparing historical and contemporary experiences suggests several reasons why European corporations overall effect was to foster growth. In Europe, corporations preceded the rise of relatively effective rulers who had – due to the nature of world economy – to draw on domestic resources while facing inter-state military competition. Rulers' dependence on domestic corporations sometimes constrained their arbitrary powers. At the same time, rulers often constrained growth-inhibiting inter-corporation military competition forcing corporations to compete economically. The overall beneficial impact of European corporations may well be due to the luck of having locations, such as the Dutch Republic and England, where these conditions persisted. (Greif 2005.)

In contrast, developmental policy by the end of colonization emphasized first establishing

[3] Greif (1994, 2006); Kuran (2005); Jabar and Dawod (2003); Hamilton (1991)

an effective state with an administrative and military monopoly. International capital markets and international corporations made rulers less dependent on the cooperation and resources of their citizens. Domestic corporations were therefore more likely to become instruments for redistribution and patronage.

The lack of a complementary nuclear family structure seems to have been a source for the limited success of fostering growth by transplanting corporations, including the western modern state, in developing countries. Indeed, in the past and present, large kinship groups resisted the expansion of a corporative state that threatened to undermine them and their power. (Greif 2006, chapter 8.)

Last and not least, centuries of corporations and nuclear families in Europe seem to have created cultural heritage which is absent from developing countries. Corporations and nuclear families embody and reinforce a culture of self-governance, cooperation among non-kin, the legitimacy of majority rule, respect for minority rights, the accountability of leaders, and individualism. The finding in cross-country regressions that history matters to the stability of the democratic – corporative – form of government and growth (Persson and Tabellini 2005), may well reflect the cultural heritage of the late medieval corporations.

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