

# **Institutional and Cultural Bifurcation**

## **The Great Divergence between China and Europe**

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# Our approach

Integrate the *social organization* of cooperation in comparative economics and politics

- In distant past, most local public goods were provided by social organizations, not by the state
- Different organizations emerged in China and Western Europe.
- Why ? And how did they influence economic outcomes and institutional evolution?

# Outline

- Prevailing social organizations: clans vs corporations
- Implications for Great Divergence
  - In political institutions
  - In state capacity
  - In economic outcomes

# Social organizations as Social Networks

Which social networks? It depends on prevailing *homophily criteria* (value system)

People interact with *similar* individuals. But similar in what ways?

## **China:**

Strong Kinship Ties; Extended family; Communitarian values => Kin based organizations

## **Europe:**

Weaker Kinship Ties; Nuclear Family; Universalistic values => Associations of unrelated individuals

Initially small differences amplified by subsequent (endogenous) cultural and institutional evolution

# Initially prevailing values

## Confucianism in China

- Until 3rd century: Confucianism (Kin-based morality, ancestor worship, patrilineal descent)

“The Governor ... said to Confucius, ‘In our village there is a man nicknamed ‘Straight Body’. When his father stole a sheep, he gave evidence against him.’

Confucius answered, ‘In our village those who are straight are quite different. Fathers cover up for their sons, and sons cover up for their fathers. Straightness is to be found in such behavior.’”

*Analects, XIII, 18*

- 4th-7th century (Tang dynasty): Buddhism (Universalistic values) along with Confucianism
- 8th century on: Neo-Confucianism & Chino-Buddhism (emphasize kin-based relationships)

Shifts reflected strategic / economic incentives of rulers

Eg: Emperors confiscated wealth of Buddhist organizations

# Initially prevailing values

## Christianity in Europe

- Church policy (500-1000)
  - Monogamy, Prohibition of incest, Consensuality, No adoption (Goody, 1983; Henrich, 2020; Schulz, 2022; Mitterauer 2010)
- The European Marriage Pattern:
  - Neolocality; Bilineal descent; Late age of marriage; Celibacy; Women emancipation
- Universalistic Values:
  - Charity towards extensive community; Individualism and individual (as opposed to group) property
- *Result*: Decline of extended kinship in Europe and the emergence of nuclear families as the basic social unit.

# Social Organizations in China & Europe



*Ancestral Hall, Hong Kong*



*Guild House, Brussels*

## **Clans:**

Kin-based organizations

Multipurpose

Hierarchical

Could belong to only one

## **Corporations:**

Interest-based organizations

Single purpose

Inclusive

Could belong to several

**Spread mostly after 10<sup>th</sup> century to provide local public goods:**

# Chinese Clans

- Clans functions evolved over time:
  - Initially burial ceremonies, ancestor worship
  - Then risk sharing, protection, education
  - As economy evolved, commercial and economic role of clans: land ownership, business organization, trade infrastructures
  - Involved in local administration: settlement of disputes, tax collection
- Spread from 10<sup>th</sup> century, particularly during Song dynasty (960-1279)
- Bottom up process
- Period of territorial expansion – migration – where state was weak or absent
  - Migration: North => East & South
  - Clans: mainly originated in East & South
- Clan based migration: individual settlements with clan and migration of whole clans

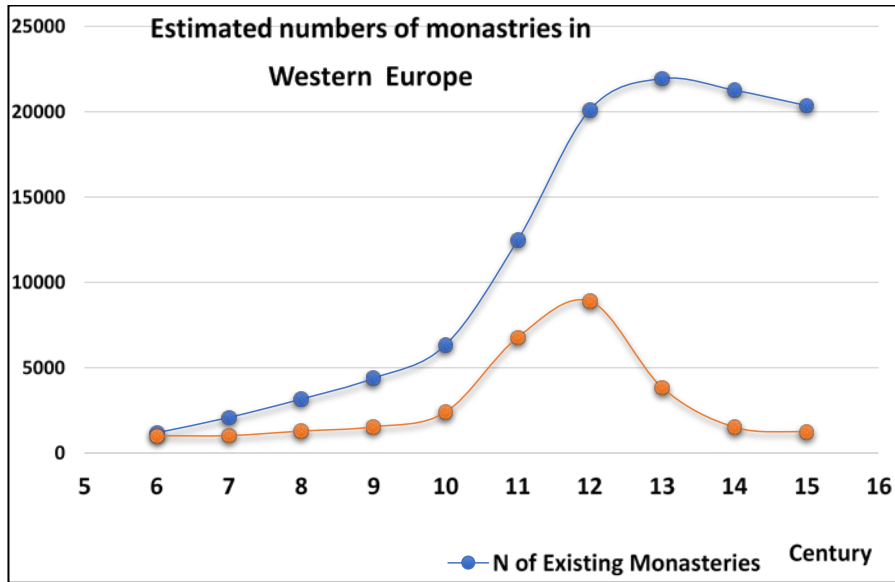


# European Corporations

- Spread after turn of 1<sup>st</sup> millennium, when state was weak or absent, often in association with *individual* migration
  - Bottom-up origin
- Single purpose associations of unrelated individuals:
  - Religious: Monastic orders (Parishes)
  - Individual protection and risk sharing: Fraternities
  - Trade associations: Guilds
  - Education: Universities
  - Local administration: Independent cities
  - Business corporations: eg East India companies (early 1600)

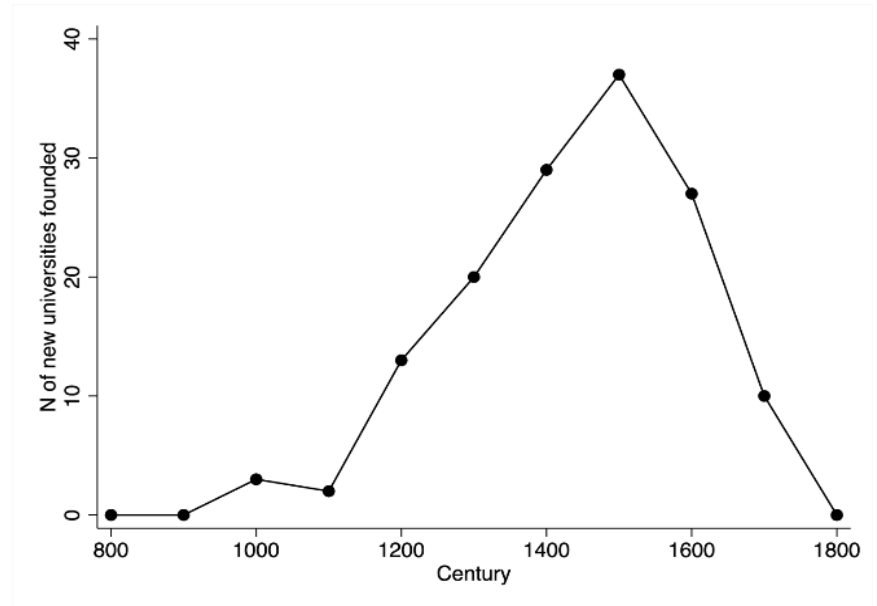
# Monasteries and Universities

Figure 6.1 Monasteries in Western Europe



Source: Buringh and van Zanden (2006)

Figure 6.2 New Universities Founded in Europe

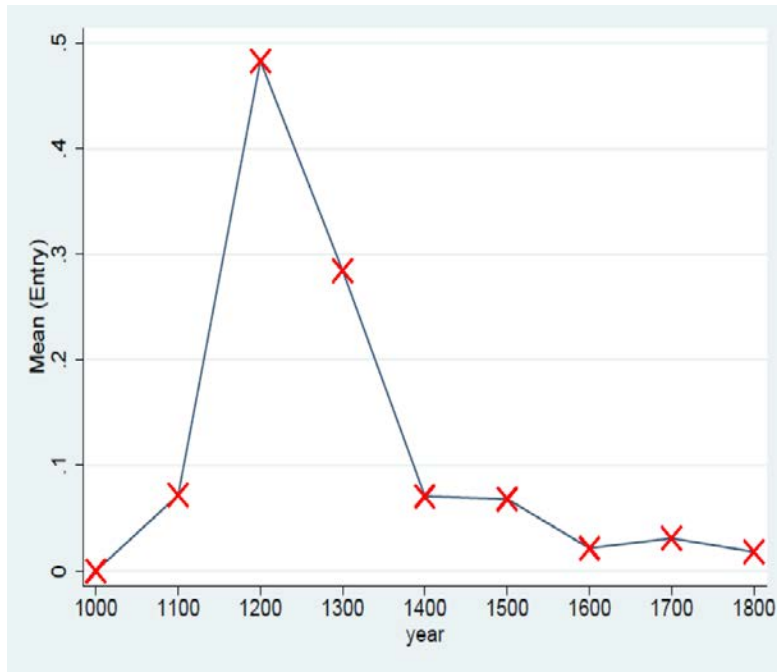


Source: De la Croix et al. (2020)

# Independent Cities

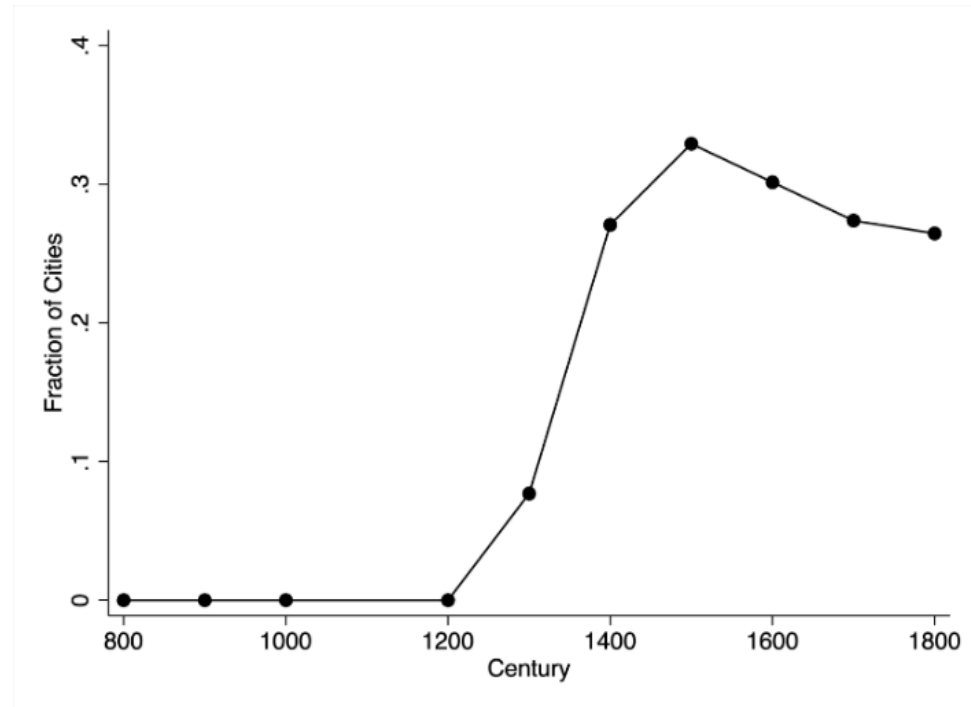
## European cities that became Commune

Bosker et al. (2013)



## Fraction of cities with Guild representation in city Council

(Northern Europe) Wahl (2016)



# Chinese cities

- Large cities in China too – although more so early on

	Europe	China	Europe	China
	>10k		>40k	
1000	0	3.1	na	na
1500	5.6	3.8	1.9	na
1600	7.6	4	3.5	1.7
1700	9.2	na	5.2	1.9
1800	10	3.8	5.6	1.7

Share of population living in cities > 10K or 40K inhabitants

*Source: Greif and Tabellini (2017)*

- But city status in China was mostly due to their role in state administration (Bai & Jia 2020) - not to their economic role
- No (formally) self-governing cities

# Clans vs Corporations

## Differences: a) Membership rules

### *Corporations:*

- Voluntary & non-exclusive
- Multitude of overlapping associations => Practice of competition and cooperation

### *Clans:*

- Ascriptive & exclusive
  - Caveat: occasionally lineages could be fabricated
- Partition of society in non-overlapping groups => more conflict, less cooperation

# **b) Enforcement & Governance**

## *Corporations*

- Formal enforcement procedures + coercion
  - Cities adopted codes of law, guilds & cities collected fees + taxes

⇒ Demand for legal enforcement by external bodies (the State)
- Highly regulated collective decisions, specifying rights of members
- Business corporations: separation of ownership and control

# b) Enforcement & Governance

## *Clans*

- Informal enforcement
    - Clans rules as moral compass, seldom specifying punishment
    - Arbitration by the elders
    - Public goods financed by voluntary contributions
- “Regulation by clan is better than by state, because it is not based on coercion but on morality”* – Chinese state bureaucrat around 1700
- Hierarchical, based on seniority
    - Zhang (2017): wealth less important than seniority within clans and in local administration
  - Separation of ownership and control came later than in Europe, and had weaker formal recognition

# Outline

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# Divergence in Political Institutions

- China was never ruled by democratic institutions. Europe was the birthplace of democracy. Why?
- **Emerging Consensus** (Stasavage 2020, Scheidel 2019, Fukuyama 2011):
  - China achieved unification & built central state administration early on
  - Europe remained politically fragmented (internally and between countries) for much longer

# Our Perspective

- Internal organization of society amplified the effects of early unification / fragmentation
- European social organizations influenced the evolution of political institutions:
  1. Power relations & emergence of national parliaments
  2. Evolution of legal systems & practice of rule of law
  3. Transplantation of governance practices
- Origin of political bifurcation in 11th-14th centuries, when first European state institutions took shape.

# 1. Social Organizations => Power Relations

- In both China and Europe: decentralized administration relied on local organizations
  - Tax collection, soldiers, dispute resolution, infrastructures
- But social organizations controlled the territory in Europe, not in China => more powerful & eventually gained political representation

# Europe

- Self-governing towns transformed & strengthened National Parliaments as representative of corporate / territorial interests, and not just assemblies of powerful individuals
  - 12<sup>th</sup>-13<sup>th</sup> centuries, started sending delegates to National Assemblies
  - Self-governing cities fought to strengthen prerogatives of parliaments (Angelucci et al. 2021)
- Parliaments convened by sovereign when weak or in need (eg. Wars), or after transition
  - But urban representatives in Parliaments only if towns were self-governing (Cox et al. 2023)

# China

- No territorial control by organized groups in China
  - Feudalism disappeared under Qin dynasty (220 BC)
    - No landed élites (lack of primogeniture)
  - Clans shared territory with other clans
  - No (formally) self-governed cities
  - Civil service exam => Top bureaucrats did not represent external vested interests

# 2. Social Organizations

## => Legal Institutions (Europe)

- Bottom-up origin of European legal system
  - Formalization & standardization of existing practices  
(Also influenced by Roman Law and Canon Law )
- Corporations recognized by legal system, influenced its evolution
  - Demand side: External enforcement
  - Supply side: Profession of legal scholars, judges, administrators
- European judicial institutions emerged before political institutions (and before modern wars)
  - First state functions (XII-XIII centuries): internal protection and administration of justice as courts of appeal
- Primacy of rule of law
  - existing body of law constrains sovereign and new legislation
  - principle (if not practice) of equality before the law

# Social Organizations

## => Legal Institutions (China)

- Top-Down origin of Chinese legal system
  - State law: Administrative / Criminal (Tang Code of 653, Ming Code of 1397)
  - Civil law more loosely defined
- Civil / commercial disputes mostly resolved by clans (arbitration)
  - Smaller role of the state in enforcing private contracts
  - State drove litigations away from courts
  - Confucian doctrine: harmony to be achieved through voluntary cooperation and good behavior
- Authority based on power relations, not on the law.
  - Rule *by* law vs rule *of* law

# 3. Social Organizations

## => Political Institutions (Europe)

- European civil law & corporate governance rules => Constitutional principles
  - Legal provisions
  - Sources of legitimacy and political expectations
- Awareness of conceptual similarities between Corporations and political bodies
  - Church, Communes, Parliaments as Corporations
  - Eg. Monastic order of Cluny => Church organization
- Principles adapted from Corporations to Political Institutions
  - Principle of representation and “plena potestas”
  - Right of Consent + consensual practices
  - Majority principle rather than unanimity (Guilds => Communes => Parliaments)
  - Canon law of model corporation => checks & balances
  - State as legal entity => public officials could be sued



# The Church and the Papal Revolution

Separation of ecclesiastic / secular authorities

Late XI century

- Universalistic values, supremacy of divine (natural) law
- Weakened imperial authority and prevented theocracy
  - Reinforced state fragmentation
  - Favored communal institutions (Schulz 2019)
- Plurality of competing jurisdictions => relevance of judicial controversies
  - Emergence of class of professional lawyers / administrators
  - Reinforced concept of rule of law
- Church organization as example of first modern state
  - Church as a “fictitious person” – “*The Mother of all Corporations*”
  - Civil law => Church law => Constitutional principle

# Value systems

## *Europe:*

1. Voluntary subordination (German tradition) => Contractual reciprocity + Right of resistance

2. Universalistic values and individualism

- All men are equal in front of God
- Individual responsibility

⇒ Individual rights (economic, civil, political) – cf. city charters

## *China:* Kin based morality and collectivism

- Respect for hierarchy and ancestor worship
- Differentiation based on age, kinship, office
- Collective responsibility (prosecution for crimes of relatives)

⇒ Absolutist state with Emperor as head of enlarged family  
(although constrained by Confucian morality / bureaucracy)

# Summary

## Causes of institutional bifurcation

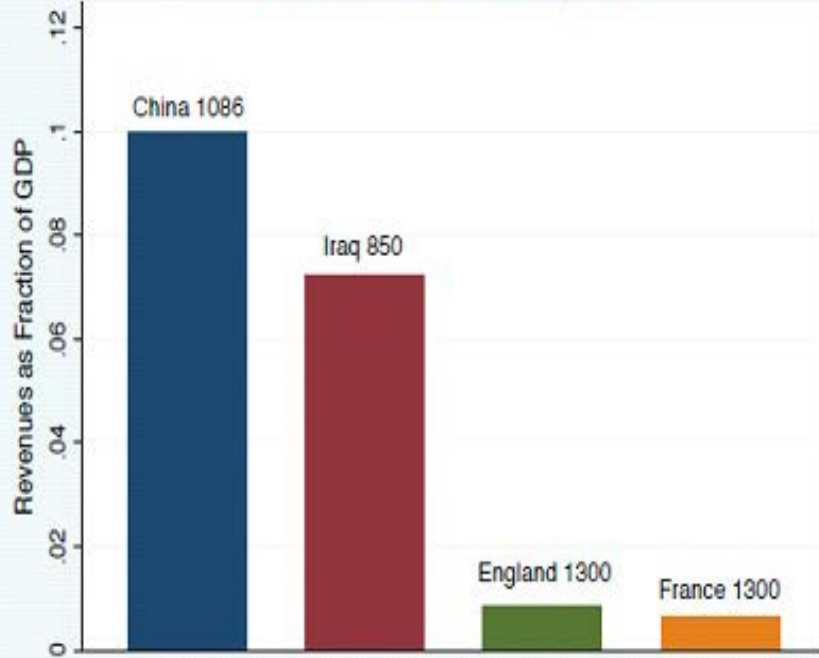
1. Initial fragmentation vs centralization
  
2. Social Organizations
  - Control of the territory and representation in Parliament
  - Evolution of legal systems
  - Corporate principles => Constitutional principles
  
3. The Church
  
4. Value systems

# Outline

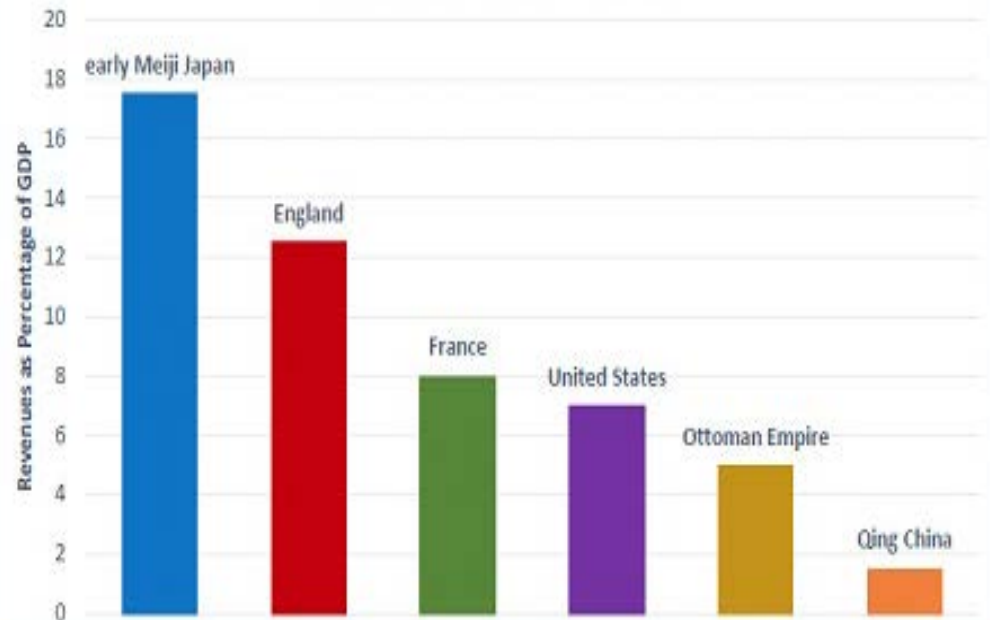
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# Tax Capacity

Fiscal Extraction in Four Early States

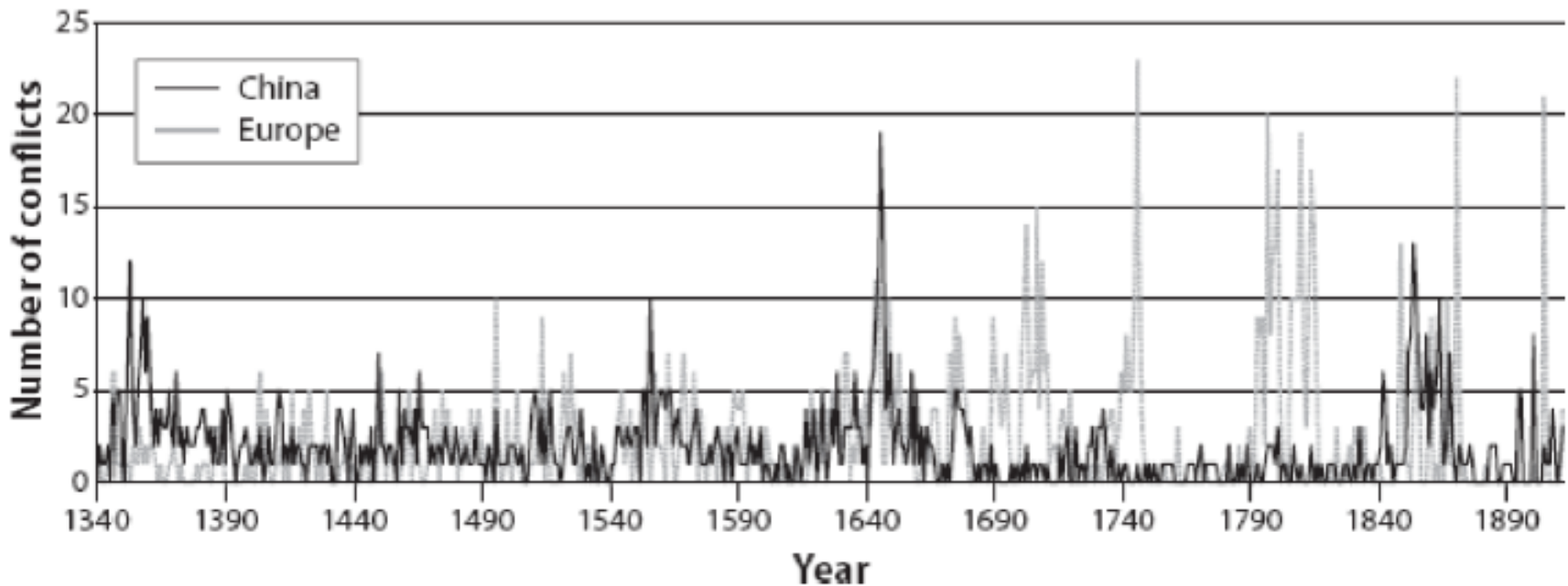


Fiscal Extraction c. 1800



# But why? More wars in Europe? Not really

**Figure 1 Warfare by year in Western Europe and China**



*Source: Andrade (2016), Appendix 2*

# Political institutions and social organizations

Social organizations involved in local tax collection, both in Europe and in China

## *Europe*

Political rights in exchange for tax revenues

⇒ Corporate groups acquired a say on how revenue was used  
(Levy 1988)

## *China*

Tax collection enforced with the help of local clans and local “gentry” or *jinshe* (local gentlemen-scholars), who had no say over the uses of tax revenues by central administration

Agency problems much bigger in China than in Europe, ineffective policies against corruption and fraud (Censurate).

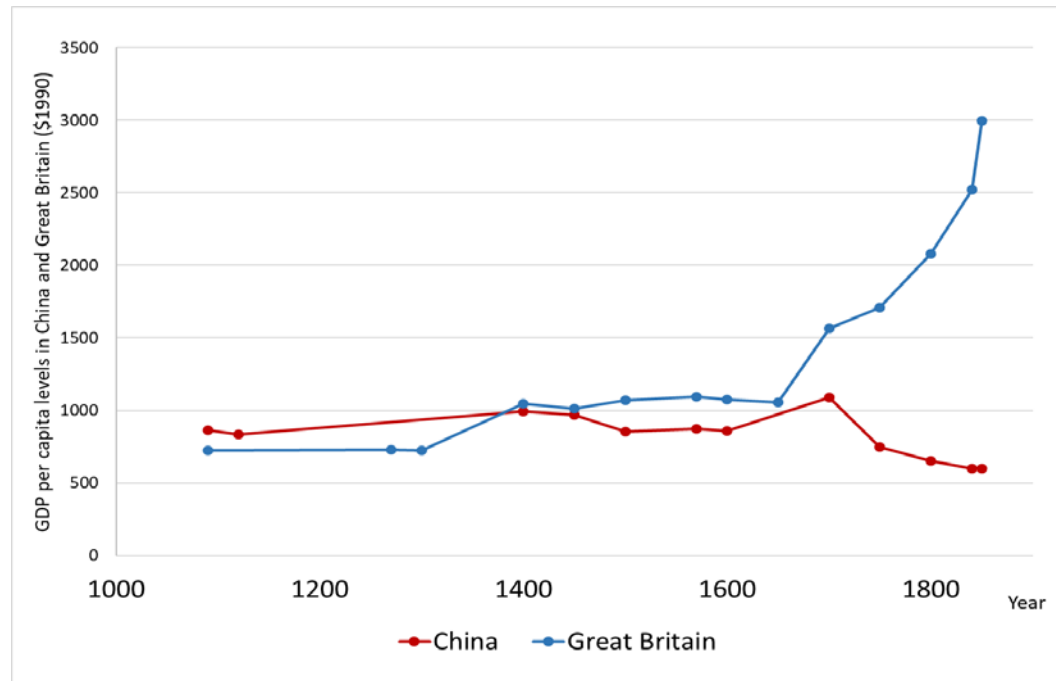
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# Economic Divergence

## GDP p.c. in China and great Britain



Source: Broadberry (2018)

Why did the Industrial Revolution occur in Europe and not in China?

# Innovation

## *Europe*

- Corporations at the heart of creation of knowledge, with limited role from the State
  - Monasteries, Universities, Scientific Societies, Republic of Letters
- Competition between polities => intellectual freedom
- Open political institutions => creative clusters
  - Serafinelli-Tabellini (2021)

## *China*

- State control over knowledge accumulation and dissemination
- Exam for selection of bureaucrats => wrong kind of knowledge

## Reversal: Random vs Scientific innovation

- Learning by doing vs Specialized knowledge & planned experimentation

# Organization of Production

## Households vs firms

### *Europe*

- Corporation => capitalist firm
  - Owner of K, not L, controls the firm
  - Residual claimant of returns from investment
  - Strong incentives to invest + innovate

### *China*

- Only a few exclusive wage earner (5-10% of pop)  
Weaker incentives to invest and innovate

# Market institutions

## Financial Markets

### *Europe:*

- Credit and Insurance since late Medieval period; diffusion of partnerships; arms-length financing of major trade & business ventures;
- Corporation could be easily scaled (East India co. in 1600)

### *China:*

- First credit instruments appear in XVIII century
- Commercial + Trade activities, but few capitalist firms

## Political influence

- Business interests more powerful in Europe
- Seniority more important in China

# Modern China

Two important elements of continuity with history

- Re-emergence of Kin-based networks, which acted as substitutes for weak economic institutions
  - Protection against political abuse
  - Sources of finance and know how
  - Chinese diaspora as intermediary towards globalization
- System of government (Decentralized Authoritarianism)
  - Decentralized administration
  - No local accountability, but strong control from the Center
  - Meritocratic selection

Deng changed priorities and opened up China to the world

- Mostly catch-up growth. Can China sustain innovation based growth?

# Summary

- Different Social Organizations (SO) emerged in China and Europe to provide local public goods
- Emergence of different SO was due to different initial value systems & family structures (religions)
- Subsequent cultural and institutional bifurcation, with profound implications for:
  - Political institutions, Legal systems, State capacity, Market institutions,
  - => Innovation and Economic Development

# Concluding remarks

Most societies have found ways to sustain cooperation  
*locally*

Key challenge in state formation: scaling up cooperation  
from local to national level

Universalistic values and corporations facilitated that task  
in Europe

- Generalized trust & civil society
- Several overlapping associations

But scaling up of cooperation took centuries in Europe.  
How can this process be accelerated?

**Thank You !**



# Dynastic distribution of clans' origin

## Clan ancestor in each genealogy

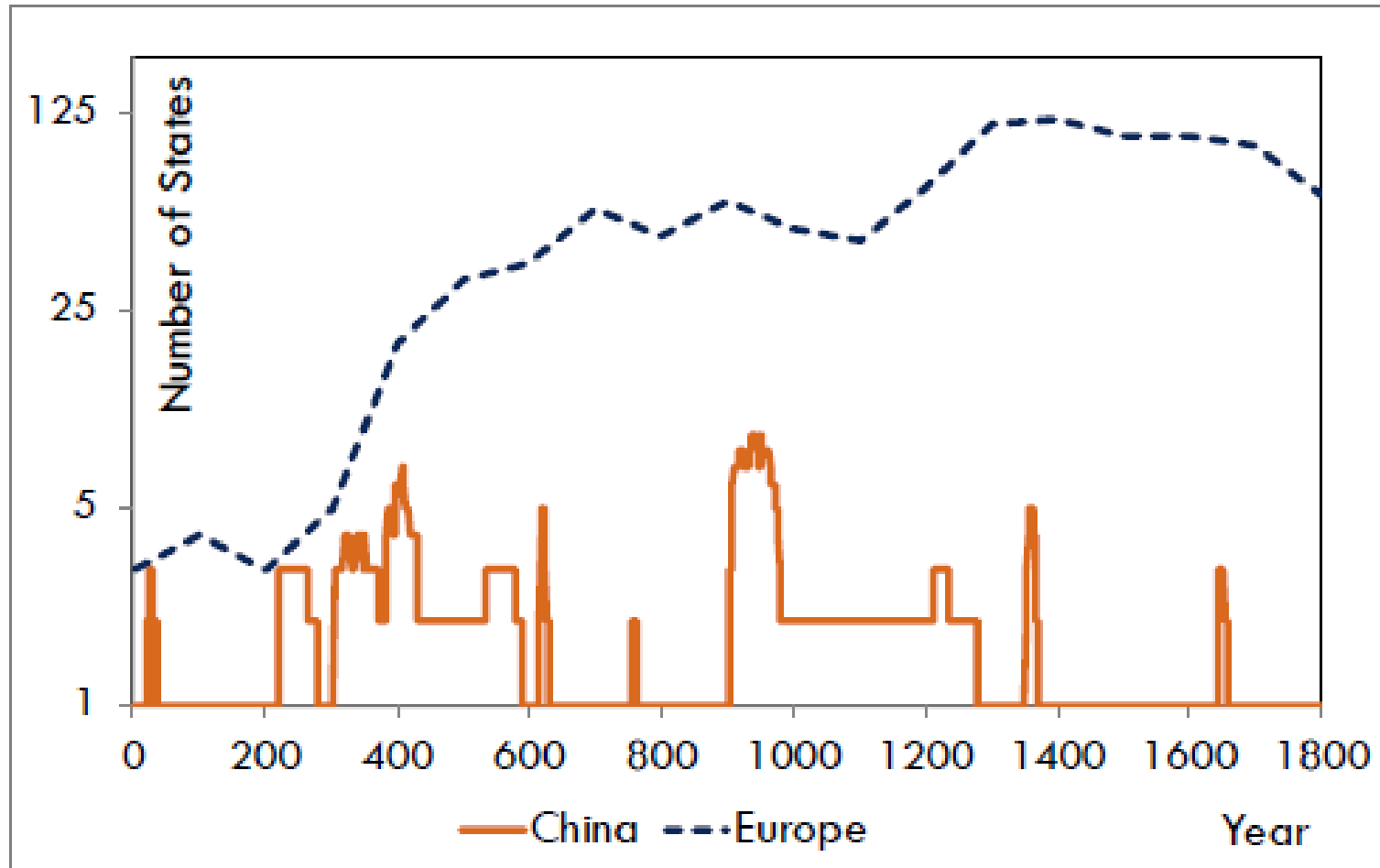
	Ancestors		
	Total	Total	Decade avg
Pre Tang	220	2%	
Tang	2252	21%	78
Five Dyn	481	4%	93
Song	3857	36%	121
Yuan	1060	10%	119
Ming	1778	16%	64
Qing	1204	11%	45
Total	10852	100%	

# Clan emerged via migration where state was weaker

Dynasty	Region of origin				Total
	East	North	South	West	
Pre Tang	0.56	0.20	0.18	0.06	122
Tang	0.42	0.17	0.39	0.02	221
Song	0.57	0.17	0.25	0.01	286
Yuan	0.48	0.11	0.42	0.00	84
Ming	0.34	0.17	0.47	0.02	126
Quing	0.65	0.25	0.10	0.00	40
<b>Total</b>	0.49	0.17	0.32	0.02	879
<b>Population Shares</b>					
Tang (742)	0.20	0.56	0.11	0.13	9.14 M hh
Quing (1842)	0.34	0.36	0.27	0.03	390 M pep

Sources: 10% sample, Parkins (2015), p. 195, Table A.1 and Chen (1923), p. 5, Table 1.

# Number of States in China & Europe

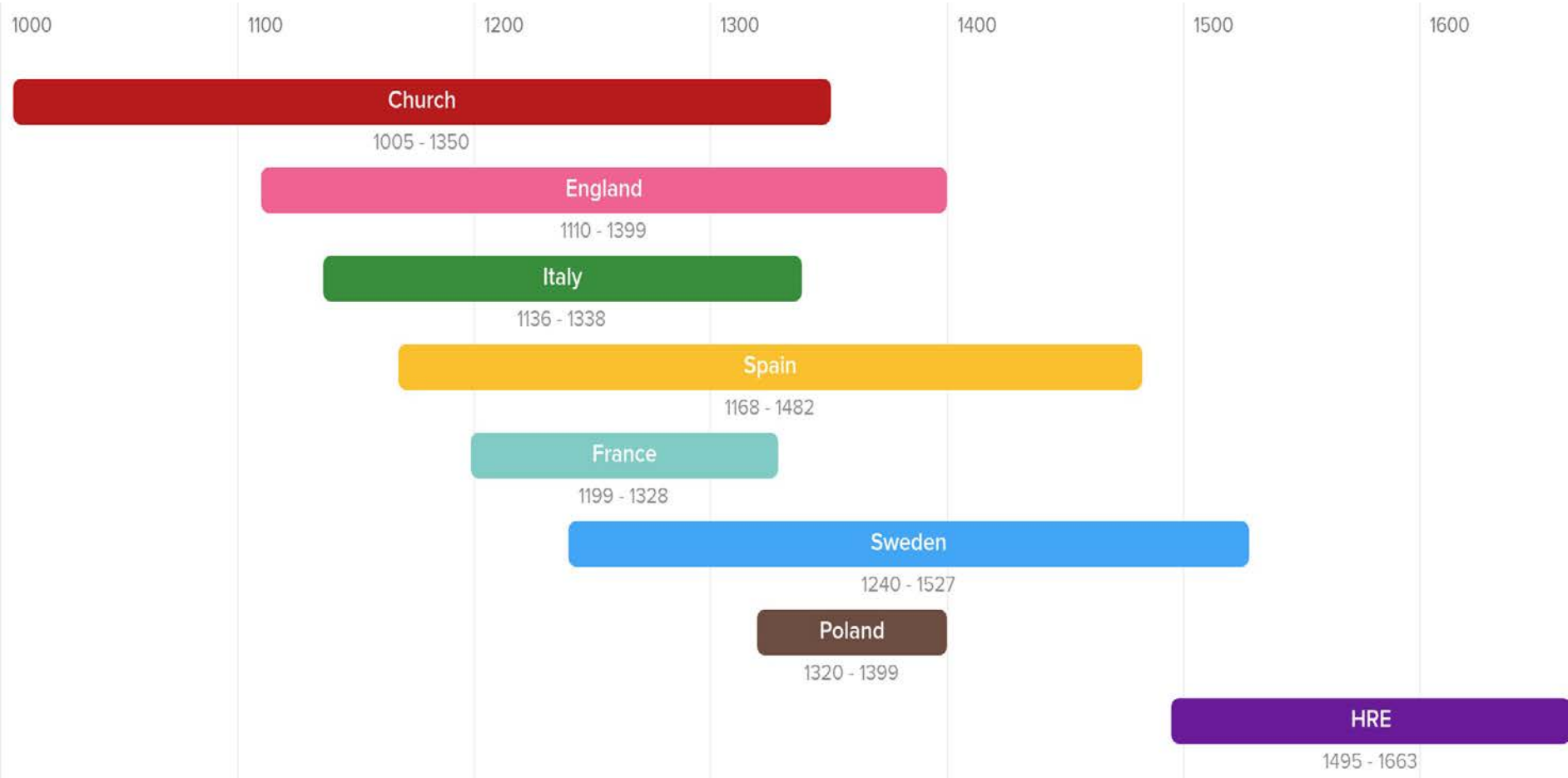


Source: Qian & Sng (2021)

# Political Fragmentation

- Collapse of Rome (Scheidel 2019)
    - Protracted process with huge disruptions
    - Settlement of different tribes in different areas
    - No polity had a head-start
- ⇒ Fragmentation *between competing sovereigns*, and *internal fragmentation*
- China became unified much earlier and with a stronger center
    - More centralized bureaucracy early on (Stavasage, 2020)
    - Geography and military technology (cavalry)
- ⇒ Power relations more asymmetric in China

# The Emergence of State Institutions



Source: Gryzmala-Busse (2022)

# The Chinese Legal System, ca. 19<sup>th</sup> century

The Great Qing Code		Clan Rules (151 clans, 316 rules)		
Issues	Articles	Issues	Rules	
Punishment	148	Intra family	906	
Revenues	81	Intra-clan	901	
War	70	Extra-clan	408	
Names & general	46	Beliefs and values	246	
Gov. personal	37	Common property		
Rites	26		Yes	249
Gov. Workers	12		No	67

Sources: Jones (1994), Liu (1959).

# Tax capacity

*Panel A: International comparison of per capita tax revenue (grams of silver)*

	<b>China</b>	<b>France</b>	<b>Spain</b>	<b>England</b>	<b>Dutch Republic</b>
<b>1650 – 1699</b>	7.0	46.0	35.8	45.1	
<b>1700 – 1749</b>	7.2	46.6	41.6	93.5	161.1
<b>1750 – 1799</b>	4.2	66.4	63.1	158.4	170.7
<b>1800 – 1849</b>	3.4			303.8	
<b>1850 – 1899</b>	7.0			344.1	

*Panel B: Per capita revenue expressed in days' wages for unskilled urban workers*

	<b>China</b>	<b>France</b>	<b>Spain</b>	<b>England</b>	<b>Dutch Republic</b>
<b>1650 – 1699</b>		8.0	7.7	4.2	13.6
<b>1700 – 1749</b>	2.26	6.7	4.6	8.9	24.1
<b>1750 – 1799</b>	1.32	11.4	10.0	12.6	22.8
<b>1800 – 1849</b>	1.23			17.2	
<b>1850 – 1899</b>	1.99			19.4	

*Source: Brandt, Ma, and Rawski (2014)*