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Family Structure, Institutions, and Growth: The Origins and Implications of Western Corporations

By AVNER GREIF*

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 the family structure and its dynamics on institutions. This limits our ability to understand distinct institutional developments—and hence growth—in the past and present. This paper supports this argument by highlighting the importance of the European family structure in one of the most fundamental institutional changes in history and reflects on its growth-related implications.

What constituted this change was the emergence of the economic and political *corporations* in late medieval Europe. Corporations are defined as consistent with their historical meaning: intentionally created, voluntary, interest-based, and self-governed permanent associations. Guilds, fraternities, universities, communes, and city-states are some of the corporations that have historically dominated Europe; businesses and professional associations, business corporations, universities, consumer groups, counties, republics, and democracies are examples of corporations in modern societies.

The provision of corporation-based institutions to mitigate problems of cooperation and conflict constituted a break from the ways in which institutions had been provided in the past. Historically, large kinship groups—such as clans, lineages, and tribes—often secured the lives and property of their members and provided them with social safety nets. Institutions were also often provided by states and governed by customary or authoritarian rulers and by religious authorities. Private-order, usually undesigned, institutions also prevailed.

Corporation-based institutions can substitute

for institutions provided in these ways. When they substitute for kinship groups and provide social safety nets, corporations complement the nuclear family. An individual stands to gain less from belonging to a large kinship group, while the nuclear family structure increases its gains from membership in such a corporation.

In tracing the origins of the European corporations, we focus on their complementarity with the nuclear family. We present the reasons for the decline of kinship groups in medieval Europe and why the resulting nuclear family structure, along with other factors, led to corporations. European economic growth in the late medieval period was based on an unprecedented institutional complex of corporations and nuclear families, which, interestingly, still characterizes the West. More generally, European history suggests that this complex was conducive to long-term growth, although we know little about why this was the case or why it is difficult to transplant this complex to other societies. We draw on Greif (2006); due to space limitation, most references were omitted. For complete references, see www.ssrn.com.

I. The Evolution of Family Structures in Europe

The conquest of the Western Roman Empire by Germanic tribes during the medieval period probably strengthened the importance of kinship groups in Europe. Yet the actions of the church caused the nuclear family—consisting of a 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 kinship groups. Its dogma was self-serving in that it increased, for example, the likelihood that an individual would make a bequest to the church (Jack Goody, 1983). The church discouraged practices that enlarged the family, such as adoption,

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polygamy, concubinage, divorce, and remarriage, and restricted marriages among individuals of the same blood (consanguineous marriages), which had historically provided one means of creating and maintaining kinship groups. It also curtailed parents' abilities to retain kinship ties through arranged marriages by prohibiting unions that the bride didn't explicitly consent to.

European family structures did not evolve monotonically toward the nuclear family, nor was their evolution geographically or socially uniform (Greif, 2006, chap. 8). By the late medieval period, however, the nuclear family was dominant. 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. Thirteenth-century English court rolls reflect that even cousins were as likely to be in the presence of nonkin as with each other. The practices the church advocated (e.g., monogamy) are still the norm in Europe. Consanguineous marriages in contemporary Europe account for less than 1 percent of the total number of marriages, in contrast to Muslim and Middle Eastern countries where such marriages account for between 20 and 50 percent per country (Alan H. Bittles, 1994). Among the anthropologically defined 356 contemporary societies of Euro-Asia and Africa, there is a large and significant negative correlation between the spread of Christianity (for at least 500 years) and the absence of clans and lineages; the level of commercialization, class stratification, and state formation are insignificantly correlated (Andrey V. 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 and the church's secular authority was diminishing. Individualist, cultural beliefs also hindered the rise of effective private-order institutions based on collective punishment (Greif, 2006, chap. 9). A new solution was needed to solve problems of conflict and cooperation, and people got together to form corporations.

These corporations were voluntary, interest-

based, self-governed, and intentionally created permanent associations. In many cases, they were self-organized and not established by the state. Participation was voluntary in the sense that one had to be attracted to be a member and, therefore, corporations had to cater to their members' interests. Corporations were self-governed in that their members participated in specifying the rules that regulated their activities; power was shared and leaders were held accountable for their actions. They were permanent in the sense that whether one was established for an indefinite or finite length of time, its perpetuation didn't depend on the participation of any particular member; and their property, rights, and obligations were distinct from those of each individual member. This implied that corporations could sue and be sued.

The nuclear family structure and the weakness of the state and church contributed to the rise of corporations, but those weren't the determining factors. Multiple outcomes could have prevailed given the rules of the game spanned by these factors. Where power was distributed relatively symmetrically, anarchy or the strengthening of large kinship groups occasionally prevailed. Yet the European political culture and its legal heritage made corporations a cognitively feasible, focal, and normatively accepted outcome. Organization among free individuals governed by their laws, under leaders who are first among equals, are central concepts to Greek, Roman, and Germanic political traditions; and their (and the Christian) legal codes provide precedents to corporate bodies.

The actions of the late medieval church (i.e., the papacy) also contributed to the rise of corporations. During the eleventh century, the church became a corporation to deflect threats to its independence and property from secular rulers and the church's agents. To this end, the papacy formulated a corporate 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 has the right to tax its members over whom it also has legislative and judicial jurisdiction, and placed a corporation's agents under the authority of its members (Harold J. Berman, 1983). This codification bestowed legitimacy on self-organized and self-governed corporations in

general, created a related moral code, and coordinated expectations.

III. Europe Inc. and Late-Medieval Growth

By the late medieval period, economic and political corporations dominated Europe. We know *how* they fostered growth, although we still don't have microanalyses of their internal governance. Corporations provided safety nets, secured property rights (from the grabbing hand of the state, pirates, and each other), provided public goods, supported markets, and fostered innovation and training. Indeed, from circa 1050 to 1348, Europe experienced its longest post-Roman period of economic growth.

Monasteries, fraternities, and mutual-insurance guilds provided social safety nets against famine, unemployment, and disability. The majority of the population belonged to such fraternities and guilds, at least in England. Because corporations provided social safety nets that were alternatives to those provided by kinship groups, they enabled individuals to take risks and make other economic decisions without interference by members of such groups. Relative to a society dominated by kinship groups, the nuclear family structure increased capital per worker by encouraging later marriages and fewer children, and it led to a more efficient distribution of labor and knowledge by facilitating migration.

Craft guilds regulated production, training, and the protection of brand names. Universities, monastic orders, and guilds developed and distributed scientific and technological knowledge. Merchant guilds and communes protected property rights at home and abroad, secured brand names, and provided contract enforcement in exchange. Corporations, such as the Italian city-states and military orders, mustered armies to expand the European resource base.

Many late medieval corporations were political; they had their own legal systems, administrations, and military forces. The Italian city-republics were literally independent, but most European cities west of the Baltic Sea in the north and the Adriatic Sea in the south were also political corporations (*communes*). Political corporations also prevailed among Western European peasants. Because such corporations

preceded the pre-modern European states, they often provided these states with indispensable services, such as tax collection, law and order, and an army. Self-interested rulers were constrained in adopting policies that hindered these corporations' economic interests or abusing their property rights (Greif, 2005). Indeed, by the thirteenth century, most European principalities had representative bodies to approve taxation and communes were represented in all of them. Economic corporations, therefore, had the ability to impact policies and, in the long run, they were influential in transforming the European state into a corporation in the form of a democracy.

IV. Corporations, Nuclear Families, and Development

Until the modern period, corporations and nuclear families constituted a distinguishing feature of the particularly European institutional foundations of markets, polities, and knowledge.¹ There is still much to learn about the contributions corporation-based institutions made to European growth. Yet it is informative to note that Europe's economic ascendancy started after corporations began to dominate. Since then growth has prevailed, particularly when and where corporation-based institutions have reigned. Corporations have been in the forefront of the late medieval commercial revolution, the subsequent global commercial expansion, imperialism, colonization, industrialization, and the development of modern science and technology.

Although we know *how* particular European corporations contributed to growth, we know very little about *why* their overall impact seems to have been growth-enhancing. After all, corporations seek to benefit their members rather than to foster growth. History is rich with examples of even initially growth-enhancing economic corporations that later became a means for rent seeking, redistribution, and control. Many political corporations degenerated into

¹ Although associations with corporation-like features were not unknown elsewhere (Greif, 2006; Timur Kuran, 2005; Faleh Jabar and Hosham Dawod, 2003; Gary G. Hamilton, 1991).

oligarchies or collapsed due to violent internal conflicts. Contemporary developing countries similarly provide many examples of growth-inhibiting corporations.

Comparing historical and contemporary experiences suggests why the European corporations advanced growth. Unlike modern developing countries, an emerging, pre-modern European state faced interstate military threats and had to draw on domestic resources to confront them. Theoretically, in this context, corporations advance economic growth and prosperity when a ruler is strong militarily but has an ineffectual administration (Robert Bates et al., 2002). An ineffectual administration implies that the ruler depends on the services domestic corporations provide, which limits arbitrary use of his power against them. Administrative incapacity also limits corporate rent seeking. There is no point in paying for a monopoly that the state can't enforce. Finally, a militarily strong ruler who is dependent on corporations is able and motivated to protect them from the local predatory elites. Furthermore, he is able and motivated to limit intercorporation military competition, forcing corporations to compete economically, and not militarily, with each other. The overall beneficial impact of European corporations may be attributable to the luck of having some areas, such as Flanders and England, where these conditions persisted and forced other competing states to promote growth (Greif, 2005).

More generally, Europe's long experience with corporations implied a social and cultural heritage that was conducive to the development of growth-enhancing institutions. Successful economic and political corporations undermined large kinship groups. Indeed, in the past and present, these groups resisted growth-promoting institutions such as the democratic state, fearing their power would be undermined (Greif, 2006, chap. 8).

Furthermore, successful corporations fostered the beliefs and norms that justify and support self-governance, the rule of law, the legitimacy of majority rule, respect for minority rights, individualism, and trust among nonkin. Indeed, cross-country regressions indicate that a country's growth and the stability of its democracy increase the longer its historical democratic experience has been

(Torsten Persson and Guido Tabellini, 2005). Different sets of beliefs and norms evolve in a corporation-based society than would otherwise be the case. Hence, whenever European states emerged from absolutism and despotism, they built on this heritage. Many developing countries, however, share another heritage, one implied by institutions based on large kinship groups and autocratic (often colonial) rulers.

Whatever the implications of corporation-based institutions may be, the relationship between their emergence and the nuclear family structure suggests that we have more to learn regarding distinct institutional—and, hence, growth—trajectories and their persistence by examining the dynamic interplay between family structures and institutional development.

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