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**WHY DO POOR COUNTRIES CHOOSE LOW HUMAN RIGHTS ?
Some Lessons from Burma**

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Abstract

Theoretical explanations about human rights or democracy and economic development have long been dominated by the so-called Lipset-hypothesis, in which whereby the levels of democracy and human rights is are a function of prosperity. However, cross-country evidence seems to indicate that multiple equilibria are more probable than a simple linear relationship.

The This paper explains the occurrence of low human rights equilibria as the result of a collective choice, where individual's take into account (conform to, or weigh?) the prevailing consensus in society. This This consensus is based on specific cognitive models and the related conceptions of justice.

Modern societies are structured by debtor-creditor relationships in a monetary economy, while traditional societies are dominated by a safety-first principle rooted in the subsistence economy. Modern society requires a system of rights, including human rights, to ensure protection of the individual against interference by the collective. By contrast, the subsistence ethics of traditional societies privilege a holistic approach in which the collective guarantees the survival of the individual. {{* In this context, the validity of human *rights* rights (which are distinct from human dignity) is less apparent. A collective choice of low human rights can be seen as an adverse selection by risk-averse agents, or as an insurance premium against individual precarity.

}}

*Stefan: I would either take out “which are distinct from human dignity” or define the difference between rights and dignity.

Traditional societies are dominated by a safety-first principle rooted in the subsistence economy, while modern societies are structured by debtor-creditor relationships in a monetary economy. As a consequence, modern society requires a system of rights, including human

rights as the protection of the individual against interference by the collective. By contrast, the subsistence ethics of traditional societies privileges a holistic approach where the collective guarantees the survival of the individual. In this context, the validity of human *rights* (which are distinct from human dignity) is less apparent. A collective choice of low human rights can be seen as an adverse selection by risk-averse agents or as an insurance premium against individual precarity.

These conclusions were derived from an analysis of Burma's society and economy. A In general, the transition to a sustainable democratic regime with better respect for human rights would require a profound restructuring of the economy with a properly functioning monetary economy. Are these global conclusions? The second sentence makes it sound like you're only talking about Burma. Maybe you could say, "Globally, the transition of traditional societies into sustainable democratic regimes....."

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CONTENTS

ABSTRACT.....	222222
INTRODUCTION.....	4
<i>I- CHOOSING DEMOCRACY AND ECONOMIC DEVELOPMENT: THE MACRO VIEW</i>	8777797
THE POSSIBILITY OF MULTIPLE EQUILIBRIA	9777797
EMPIRICAL EVIDENCE OF MULTIPLE EQUILIBRIA IN THE COLLECTIVE CHOICE OF DEMOCRACY ...	1311111111311
COLLECTIVE UTILITY AND SOCIAL CONSENSUS	18161616161916
A CHOICE BETWEEN GROWTH AND DEMOCRACY ?	2422222222522
II- THE DYNAMICS OF CONSENSUS SHIFTS AND MULTIPLE HUMAN RIGHTS EQUILIBRIA	26242424242724
EPISTEMOLOGICAL FOUNDATIONS OF CONSENSUS	27252525252825
A FORMAL MODEL OF MULTIPLE EQUILIBRIA	29272727273027
III- THE ECONOMIC RELEVANCE OF JUSTICE AND HUMAN RIGHTS: MICRO FOUNDATIONS	34313131313431
MODERN RIGHTS.....	35323232323532
TRADITIONAL ETHICS.....	41373737374037
UNIVERSALITY OF HUMAN RIGHTS.....	45414141414541
MONEY, CREDIT AND THE NORMS OF MORAL ECONOMIES	46434343434642
THE LOGIC OF CHOOSING LOW HUMAN RIGHTS	49454545454844
IV- MOVING FROM LOW TO HIGH HUMAN RIGHTS EQUILIBRIA.....	53494949495248
BURMA AND THAILAND: TWO MODELS OF DEVELOPMENT	54505050505450
THE CREDIT ECONOMY IN BURMA.....	59545454545854
POVERTY AND HUMAN RIGHTS	62575757576157
V- CONCLUSION	65595959606359
BIBLIOGRAPHY	67626262626660

Figures

Figure 1: Democracy and Wealth	9
Figure 2: Index of political rights	10
Figures 3: Statistical Distribution of Democracy Index.....	12
Figure 4: Statistical Distribution of Human Rights Index.....	13
Figure 5: Welfare Maxima.....	23
Figure 6: Multiple Human Rights Equilibria	29
Figure 7: Monetary Economy and Democracy	51
Figure 8: Burma: GDP per capita Growth Rate.....	53
Figure 9: Monetary and Financial Aggregates.....	55
Figure 10: Democracy and Poverty	59

Tables

Table 1: Pay-off matrix from human rights under uncertainty	46
Table 2: Standard deviation of per capita growth rate	57
Table 3: Regressing Democracy on Poverty and Uncertainty.....	59

WHY DO POOR COUNTRIES CHOOSE LOW HUMAN RIGHTS ?

Some Lessons from Burma

Economics is often considered to be based on the principle of a self-interested and acquisitive *homo economicus*, who seizes any and every opportunity for his own benefit. It implies that in market exchange, the interests of others are excluded from consideration.¹ In this world, altruism seems to have, at best, only a marginal impact on preferences, and considerations of human rights seem to be irrelevant.² Yet, preferences and tastes play a crucial part in virtually all fields of economics and they depend on social interactions and cultural influences (Becker, 1996). Furthermore, the concept of rights is often evoked in economics and the basic economic notions of endowment, exchange, contract, etc. all involve various types of rights (Sen, 1987, p.49). Coase (1960) explained that what we trade on markets are not physical entities but the rights to perform certain actions, and the rights which individuals possess are established by the legal system. The importance of property rights in economic analysis and performance has become prominent in New Institutional Economics (NIE). But if these rights matter, why not human rights? I will argue that they are at least as important as property and have little to do with altruism.

Yes. Economics only deals with property rights, not individual or Human rights. The whole point of my paper is to introduce them to economic reasoning. Therefore I think the old line of argument is more appropriate, but maybe the language is not. Yet, preferences and tastes play a crucial part in virtually all fields of economics and they depend on social interactions and cultural influences (Becker, 1996). Furthermore, the concept of rights is often evoked in economics and the basic economic notions of endowment, exchange, contract, etc. all involve various types of rights (Sen, 1987, p.49). Coase (1960) explained that what we trade on markets are not physical entities but the rights to perform certain actions, and the rights which individuals possess are established by the legal system. The importance of property rights in economic analysis and performance has become prominent in New Institutional Economics (NIE). But if these rights matter, why not human rights? I will argue that they are at least as important as property and have little to do with altruism.

¹ Buchanan and Tullock, 1962 p. 12.

² See for example Lal (1998), p. 177. For the opposite approach see Sen (1999).

Besides these rather fundamental considerations, there are at least two other reasons why economists may find an interest in studying human rights. Firstly, there is the vexing riddle of varying different performances of economies over long periods of time. Rich, developed countries seem to have a higher respect for human rights better than poor, less-developed ones. Yet, the persistent divergence between economies (and societies) contradicts standard neoclassical models. With free competition and zero transaction costs, convergence should be the rule.

North theory (1990, p.6) explains this puzzle by the role of institutions in society. Given that human rights are certainly an institution of a fundamental nature, they must explain at least part of the divergence in economic performance. Burma is an example for such divergent development. This country had a higher standard of living than Thailand or Korea in the 1950's and a reasonably functioning democratic State. After the military coup by Ne Win in 1963, economic development stagnated. Today, per capita income in Thailand is US\$ 7742 against US\$ 1130 for the Union of Myanmar (UNDP, 2000).

Secondly, in recent years human rights have emerged as a new conditionality for development aid. Occasionally conditionality is seen as a tool to penalise and punish bad performers or, alternatively, as an instrument to strengthen increase the the pressure to improve for improving the respect of human rights (Tomaševski, 1993). The linking of aid and human rights goes back to the mid-1970s., when it was when it was pushed by the Carter Administration in the US Administration in the United States. In the 1980s, this concern was increasingly overshadowed by the need for "structural adjustment" in many developing countries, and Realpolitik seemed to dominate human rights concerns. However, after the Cold War, the 1990s saw unprecedented concern about human rights issues in international relations. Burma has been most prominent in the limelight of human rights institutions and activists since the military crack-down in 1988, the suppressed elections in 1989, and the award of the Nobel Peace Prize to Aung San Suu Kyi in 1990. However, some Asian observers, however, have argued that human rights is a Western concept, not fully applicable to Asian society. Neighbouring countries have urged *constructive engagement* aimed at changing the nature of the Burmese military regime, while most Western industrialised countries have imposed sanctions. In this context, the question of cause and

effect arises: if countries have a record of human rights abuses because they are poor, then development aid should help to improve on both accounts issues, and making conditionality would be counter-productive. If, however, their dictatorial nature prevents development, aid is useless. Thus, the proper relationship between aid and human rights remains open and controversial.

The issue of human rights and aid has often been approached from different perspectives, sometimes giving placing more emphasis toon democracy and free elections (so- called political liberties), sometimes at other times focusing more on the quality of government (World Bank, 1998) and civil liberty. A growing body of empirical analysis demonstrates that the extent of these liberties affects economic performances - from life expectancy (Friedman, 1988) to prosperity (Hanke and Walters, 1997), investment and growth (Barro, 1997), or the success of World Bank projects (Pritchett and Kaufmann, 1998). The indicators most frequently used to evaluate most frequently used indicators evaluating political regimes are those of Freedom House (2000, and Gastil, 1988), but Hanke and Walters show that several other indicators are reasonably well correlated withto them. They Hanke and Walters did not evaluate the Humana (1992) index for human rights, which is derived from the different international human rights covenants. However, when this indicator is regressed on the Freedom House index (in its Barro-transformation with values between 0 and 1), the expected mapping is nearly 1:1, although the fit is rather loose.³ This could be explained by the fact that the Freedom House index evaluates democracy in 7 discrete steps, while Humana's is closer to a continuous value range. The main difference in the two indicators seems to lie at the lower end, where the Freedom House index yields numerous zero-values, while the Humana-index give 0.1 as lowest value. The regression result does, however, allow us to be somewhat casual about the two notions.

Throughout this paper, the term *human rights* refers primarily to the so-called first generation rights of civil and political liberty. They are imbedded in the Freedom House and Humana indices.⁴ However, I will argue at the end of this paper that second generation rights

³ Regressing the ratio of Barro's actual democracy index to the log of GNP on the ratio of the Humana human rights index to Ln(GNP) yields: $y = 0,0023 + 0,9264x$ with $R^2=0,2999$.

⁴ Out of 40 questions, only 3 refer to the International Covenant of Economic, Social and Cultural Rights in the Humana (1992) index.

corresponding to the protection of economic, social and cultural rights may be necessary to support respect for freedom rights.⁵

We will look at the qualitative relation between democracy and human rights in section III. But, at least since at least the end of communism, democracy and human rights cannot be viewed seen independently of the economic system. Burma is an interesting case as it is marked by many of the structural phenomena related to the symptoms of widespread human rights abuses: long -lasting dictatorship, low per capita income, ethnic conflict, civil war, rigid social structures and alternating periods of generous development aid versus total cut-off have stifled the economy for nearly 40 years. Thus, we cannot exclude the possibility that the lesson learned in Burma may be adaptable in other corners of the world.

This paper is organised as follows: Section I looks at examines the collective choice of economic growth and democracy. Section II gives a formal model of multiple human rights equilibria and the dynamics in shifts between them. Section III shows that different that different concepts of justice can explain the stability of low and high human rights equilibria. Section IV, finally, looks at strategies to move from low human rights-development in Burma to higher equilibria, based on the Burmese experience. Section V concludes.

I- Choosing Democracy and Economic Development: the Macro View

Adam Smith was one of the first economists who saw a link between "civil government" (Smith, 1976, p 710), property rights and economic growth. By "civil government" he meant a sovereign whose power is constrained by what we call today "human rights". However, the relationship was not linear. While in his view both democracy and aristocracy led to economic stagnation and only monarchy stimulated growth, heSmith also distinguished the value of Liberty as a characteristic only of democracy, with the two others regimes expressing either social cohesion or nihilism (Fitzgibbons, 1995). As a student of Plato and Cicero, Smith claimed that each political constitution contained within itself the seed for its own destruction. To overcome this cycle, he sought to combine these three political forms to take advantage of the positive benefits that each offered. To such idealism, Marx (1972, p. 778) would reply that "Revolutions were not made by law". What mattered for individual

⁵ For the distinction between different generations of rights see Davidson, 1993.

freedoms were the productive relations in society. In the *Communist Manifesto* (1848) he wrote that their improvement pulled even the "most barbaric nations into civilisations". Subsequently, Althusser (1975) has shown that the Marxian (1974) dialectical model of an economic basis and a legal/moral superstructure did not establish a one-to-one relation but was over-determined. In the jargon of modern economists, it implied the possibility of multiple equilibria.

The possibility of multiple equilibria

Such subtleties were forgotten by the literature of the 1950s and 60s. Modernisation theory postulated a causal link between economic development and the overall transformation of society which, in turn, would lead to political change in favour of democracy (Hadenius, 1992, chap. 5). Sometimes the link is called the Lipset-hypothesis. It was believed that in the process of development, greater literacy and media exposure would broaden people's outlook, increase their tolerance and their capacity to "make rational electoral choices" (Lipset, 1960). With increased prosperity, a growing middle-class would subject the traditional elite of landowners and the military to increased competition for power. Hence, by supporting countries to develop economically through development aid, it was thought that freedom and democracy would follow later.

But from this idea, it was only a small step to also accepting and tolerating authoritarian regimes (Menzel, 1993, p.23). It was argued that benevolent dictatorships could accelerate economic growth if they proved able to reduce the propensity of poor people to consume, and of redirecting savings into productive investment. By contrast, "bad" or despotic dictators would waste resources for the benefit of a small elite. Economically successful dictatorships, such as in Asia, were therefore justifiable.

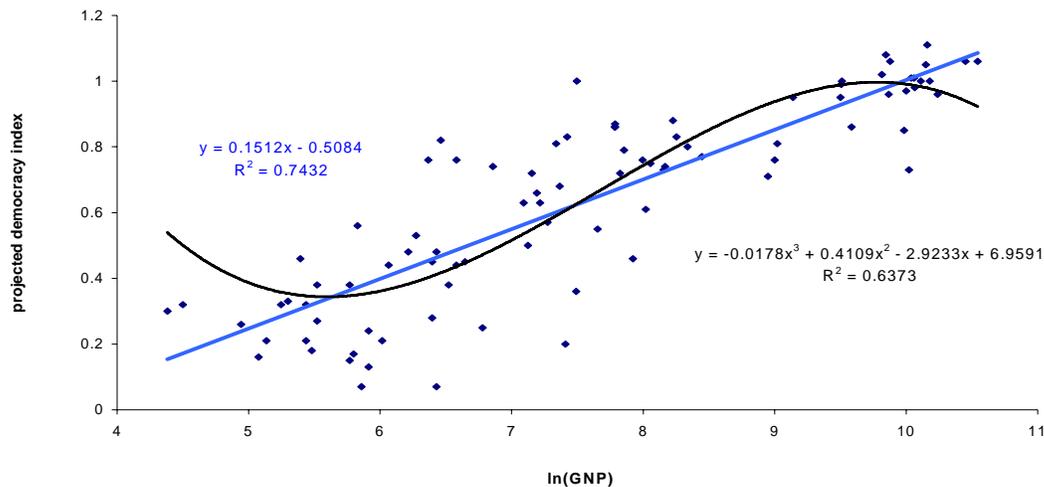
The "good" dictator theory was useful in the context of the Cold War. However, the argument must also apply to Stalin or Mao Zedong, and to Burma's Ne Win.⁶ In fact, the

⁶ Shwe Lu Maung (1989, p.77) reports that the topic that "there is a need of strong dictatorship to develop a country like Burma where there is no political stability, no discipline, no sense of responsibility and no sense of duty" was "much talked about and discussed in the tea-shops and cold-drink stalls and lunch and dinner part ours" in Burma after Ne win took over power.

concept of good dictators resonated with a long tradition in Burmese-Buddhist culture, where the *min-tara*, the just king, is legitimised by the morals, traditions and customs of society (Yawnghwe, 1995). Ne Win modelled his *Burmese Way to Socialism* on this cultural background (Taylor, 1987). Yet, as we know, sustained development did not take off, nor did human rights gain any meaningful role. The optimism of modernisation theory also soon vanished in the Western dominated part of the world, when Africa and many parts of Latin America stagnated under authoritarian regimes. In fact, the concept of development dictatorship was flawed from the start. As Przeworski and Limongi (1993) observe: "it seems strange to argue that a benevolent dictator would starve the population to achieve long-term growth".

Recently the Lipset-hypothesis has been revived in a more sophisticated form. In search for of missing explanations for long-running economic trends, endogenous growth theory has discovered political variables such as the rule of law, democracy and political liberty. Barro (1997) has found a well-established empirical regularity between various measures of the standard of living and a gradual rise in democracy.

Figure 1: **Democracy and Wealth**



Sources: Barro, 1997 and World Development Indicators, 1999

Figure 1 shows the relationship between his projected equilibrium values of the democracy index⁷ and the log of GNP per capita in 1994. A clear linear relation appears. This can be seen as a confirmation of the Lipset-hypothesis, whereby prosperity stimulates democracy. However, we also cannot totally discard the alternative possibility of a range of values between a ceiling and a floor. Deutsch (1961) and Neubauer (1967)⁸ previously This idea was previously discussed this ideaby Deutsch (1961) and Neubauer (1967)⁹. Deutsch had thought that only when economic development had reached a certain threshold (floor), would it transform political practices. On the other end, Neubauer saw a significant impact of the economy on democracy at the lower level of development, but very little thereafter. Thus, there are increasing returns at low levels of development and diminishing returns at high levels, so that the relation is curvilinear. In the context of figure 1, these early theories would imply a range of values between ceiling and floor with a general tendency for democracy to increase with wealth. However, they say nothing about possible equilibria in this correlation.

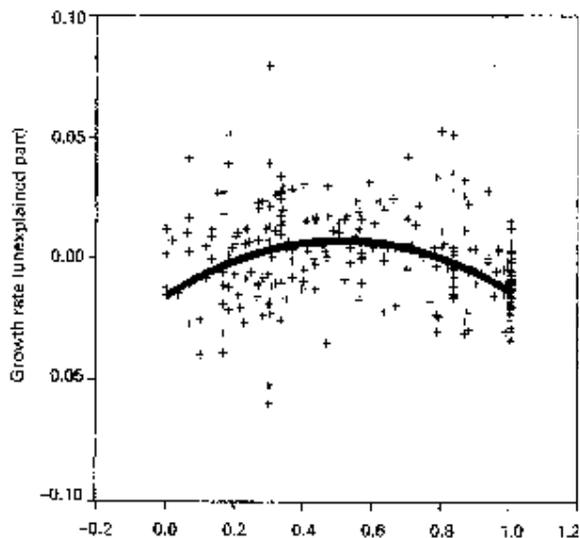
This is different in Barro's work. By isolating a number of variables that contribute to growth, he found a quadratic relationship between the unexplained residual of economic growth (alternatively the investment ratio) and democracy. This implies, of course, a cubic function between income and freedom. Barro's estimate described an optimal relation between democracy and growth, and one could expect that its maximum reflects reflects a single and stable equilibrium for society. Given that these results are obtained from cross-country analysis, we can interpret the estimated function in figure 2 as a typical production-possibility frontier, i.e. as the sustainable relationship between growth and democracy. The estimates show the maximum growth contribution at 0,511 for an index of democracy between 0 and 1 (see figure 2). More democracy raises growth when political freedoms are weak but depresses growth when a moderate amount of freedom is already established. However, this poses normatives questions. Barro implies that growth maximisation should be the main objective of society.

Figure 2: **Index of political rights**

⁷ The index is derived from the Gastil-index for political rights, transformed into a scale from 0 (lowest) to 1 (highest). See Gastil, 1988 and Barro, 1997, p.52. The index is based on a checklist related to specific rights with answers weighted and averaged. See freedom House, 2000.

⁸ For a discussion see Hadenius, 1992, p.82.

⁹ For a discussion see Hadenius, 1992, p.82.



Source: Barro, 1997

Of course, by removing "worst" dictatorships, growth and investment would indeed accelerate and living standards would rise. Clearly, this would be the case in a country like Burma, where Barro's democracy index is zero and the Humana index for human rights is 0.18. It is possible might also be that too overly rapid political liberalisation would be counter-productive, as many of Burma's Asian neighbours argue. It is also true that countries with low levels of development do not seem to be able unable to sustain democracy. Based on these observations, Barro (1997, p.59) claims that "political liberalisation in Chile, Korea or Taiwan has probably gone beyond the point of growth maximisation", and he concludesing that "good" dictatorships expand economic freedoms and "bad" ones "use their power to steal a nation's wealth and carry out non-productive investments".¹⁰ Yet, by equating good dictatorship with growth maximisation, Barro makes an unusual normative claim. He must believeimplies that freedom is a free good and has no value in the utility function of mankind. Listening to the wretched of the earth would teach him something else.¹¹ **Welfare is more than consuming apples and pearscommodities. Stefan: This sentence is confusing: what do you mean by 'apples and pears'? It's not a common reference, if you intended it to be. Do you mean that welfare is more than providing the basic necessities? It also relates to peace and security, to living with dignity. The standard of living is also dependent on values and

¹⁰ Amongst the first he includes Pinochet, Fujimori and the Shah of Iran, amongst the second many governments in Africa, several Latin Americans regimes and Marcos in the Philippines. Without doubt Burma would belong to the later but one could argue that with *constructive engagement* Burma's military rulers could move from the class of "bad" to "benevolent dictators".

¹¹ He might also read Sen (1987, 1999).

social norms (Sen et al., 1987). Even a single-minded *homo economicus* should be able to see this. In fact, the choice is not between growth and democracy, but between different standards of living, i.e. feasible social states in the growth-democracy space. The implicit logic of figure 2 is simply that poor, undemocratic societies can have their cake and eat it, too, if they democratise. There must be a range of social states where in which economic wealth and human rights are complements in the definition of the standard of living -, supposedly no. HOW ABOUT "POSSIBLY"? possibly because of externalities, or simply because they are kept in a Pareto-inefficient state¹². However, beyond the maximum point there is a range of negative trade-offs between wealth and freedom.¹³ But if externalities exist, multiple equilibria between growth and democracy are also possible.

Empirical evidence of multiple equilibria in the collective choice of democracy

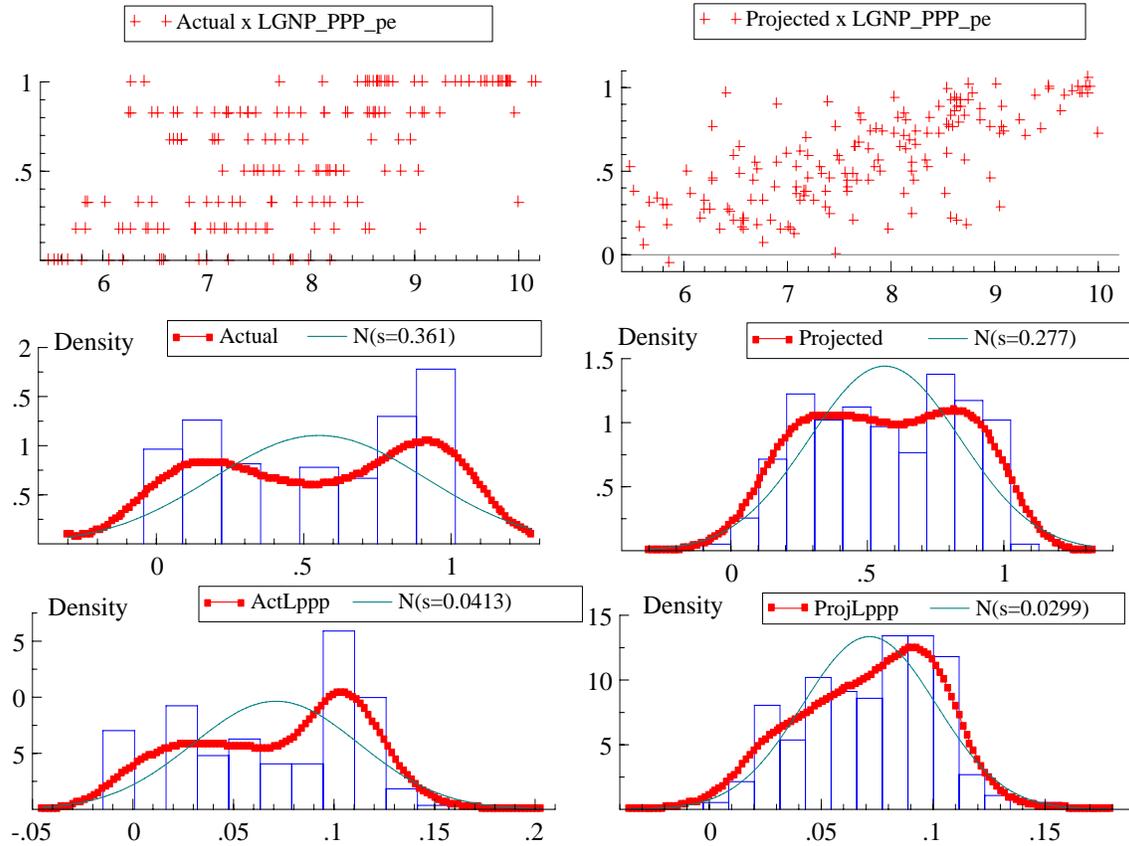
Given that Barro (1997) produced one of the most sophisticated studies on the Lipset hypothesis to date, we may return to his data to look for evidence of revealed public preferences. If we could find evidence of the existence of a unique equilibrium between prosperity and democracy, Barro's normative claim of a growth maximising objective function would be substantiated, if we could find indications for the existence of a unique equilibrium between prosperity and democracy. Otherwise, we should conclude that different social preferences must yield different social results.

Figures 3: **Statistical Distribution of Democracy Index**¹⁴

¹² North (1981) develops a model to explain this discrepancy by the structure of property rights which keep the structural production frontier below the economy's technical production frontier. See also Eggertsson, 1990, p. 319.

¹³ Sen et al (1987, p.2-3) has called the first set below the maximum point "constitutive plurality" and the set to the right of the maximum "competitive plurality".

¹⁴ Actual = Gastil / Barro index for democracy Projected = Barro's calculated equilibrium index
 LGNP = Ln (GNP) at purchasing power parity ActLppp = Actual/LGNP
 ProjLppp = Projected/LGNP



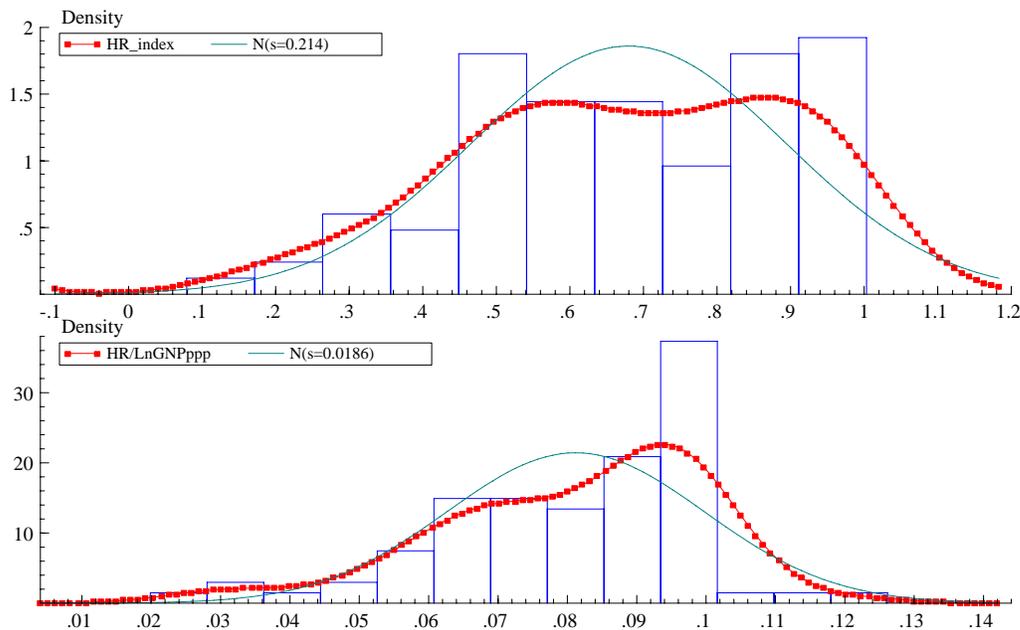
Source: Barro (1997), World Development Indicators (1999)

Figure 3, based on 99 countries, shows the density function for the democracy index in 1995. based on 99 countries. The first set gives the actual index values, derived from Gastil (1988), which are given in 7 discrete steps, and Barro's "projected values", which correspond to the equilibrium values of his regression analysis. The second set gives the density of these values. If the world knew only one single only one equilibrium, the data should be normally normally distributed around the mean defined by Barro's maximum point. But this is not the case. The highest number of countries is found around the index number 1, i.e. at the degree of democracy corresponding to that of developed, Western style westernised countries. At the lower end we also have a The cluster of countries at the lower end , which might may indicate a local maximum. These features are more apparent in Barro's projected equilibrium values for 1995 than in the actually observed data, but. However, if we would were to include his values for 1975 into the sample, the existence of two peaks is even more striking.

RESTRUCTURE SENTENCE}One could argue that if democracy and national income are correlated and if that if global wealth in the world is not normally distributed, the observed skewed distribution should be expected.

Therefore the third set of graphs in figure 3 shows the distribution of the ratio of the democracy index to the log of per capita GNP per capita. Under the assumptions of the linear Lipset- hypothesis , as shown in figure 1, most values should be concentrated in the range between 0.05 and 0.1. Again, it is clear that this is not a normal distribution. A similar picture appears when we use the Humana (1992) human rights index (figure 4).

Figure 4: Statistical Distribution of Human Rights Index



Sources: Humana, 1992; World Development Indicators, 1999

It is easy to Democracy's marginal contribution to growth explains the high frequency of observation on the right side of Barro's maximum. by the marginal contribution of democracy to growth. The riddle lies in the local maximum at the low end of the index is more perplexing. Why would a country get stuck under dictatorship? Three explanations are commonly advanced: dictatorship as either a social disequilibrium, as a lack of consensus or as a cultural equilibrium¹⁵.

First, a common argument states that "evil dictators" oppress "poor people" due to because of their superior violence potential. The violence of a repressive, totalitarian regime keeps everyone its people in fear and produces immobility. This is suggested by Aung San Suu Kyi suggested (1991, p. 175): "Intimidation and propaganda work in a duet of oppression while the people, lapped in fear and distrust, learn to dissemble and to keep silent." However, she immediately recognises that: "And all the time the desire grows for a system which will lift them from the position of rice-eating robots to the status of human beings who can think and speak freely and hold their heads high in the security of their rights." This observation is puzzling: why does an ever-growing desire for democracy not produce any change? [Who is practising the intimidation and propaganda without being part of the people?] Why is it that people either *do not claim* the rights that they desire or, if they do, why are their claims not recognised as sufficiently legitimate to mobilise support for a regime change? The argument of violent repression reflects the hypothesis of a social *disequilibrium*¹⁶. It is doubtful, however, that it could fully explain long-lasting disrespect for human rights. However, in fact, violent repression dispenses "the poor people" from their own responsibility and may therefore actually contribute to sustained dictatorship. For example, it has often been said that Auschwitz did not happen not because of Germans, but because of "crazy" Hitler. And in Burma, the generals are the evil. Goldhagen (1996) has made it clear that things were the Holocaust was never that simple: Hitler was not without some legitimacy in German society. Nor are is this the case of Burma's generals entirely without support. Not surprisingly, in both cases, political resistance remained weak in both cases.

A second explanation assumes that political actors are locked into a *prisoner's dilemma*. This means meaning that social consensus has broken down. The prisoner dilemma is useful to explain in explaining Burma's *ethnic conflicts why italics???*. Numerous ethnic minorities have waged civil war against the Burmese military rulers since the early 1960s. For many years, their they had a violence potential matched that of that was a match to the Burmese generals, and the ethnic-cultural divide was so substantial that the resulting high cost of information made cooperative solutions unattainable. Elsewhere, Kachin and Karen guerrilla groups in the 1990s were forced into a cease-fire Only under external constraints,

¹⁵ The term is from Lal, 1998.

¹⁶ John Muellbauer (in Sen et al, 1987, p. 43-45) formulates a model where restrictions on the opportunity set *could* be interpreted as an equilibrium - but at the price of postulating a cultural bias against the tastes (utility function) which would lead to the disequilibrium. His model is therefore more in line with my explanation of the low human rights as a cultural equilibrium.

in particular pressure from China and Thailand under Chinese and Thai pressure, were Kachin and Karen guerrilla groups in the 1990s forced into a cease-fire. It was then then became possible to negotiate a new and more cooperative equilibrium, which they which the guerrillas minorities clearly regarded as a Pareto-improvement¹⁷. However, with respect to Burma proper, the prisoner dilemma model seems less adapted applicable to the case of Burma proper. The violence potential of the Burmese civil society has manifested itself in urban riots aton four occasions since the 1960s - each time as a consequence of a serious economic crisis (see figure 8). At all other times ordinary people have surrendered to dictatorship and cooperated with the military regime.

Finally, a third answer explanation is derived derives from the Lipset-hypothesis: democracy is low, because GNP per capita is low. But then However, Barro shows that, at least at the very low end, where we find the long tail of the density distribution, growth would accelerate if these countries democratised with democratisation. Why do these countries they not follow such Pareto-efficient strategy?

It is tempting to suggest that countries or societies make different choices about democracy. For example, North (1990, p.83) explains institutional change by "changing relative prices or preferences". A low index value would signal a *revealed preference* for less democracy. Common parlance often describes this approach by the saying "every people have the government they deserve". The idea that thea *revealed preference* for little freedom may reflect an equilibrium is evidenced by receives support from the evidence of the very slow political change in some countries. Again Burma is, again, a prime example, with unmoveable military rule for over 35 years. In Asia, authoritarian Authoritarian governments in Asia, have justified their rule with reference to the dominant consensus by referring to their specific "Asian culture". True, New Institutional Economics has argued that a whole set of customary rules and ideological believes beliefs could constrain human behaviour and give rise to an "individual taste for some forms of cooperation" (Eggertson, 1990, p. 299). But this would mean that the revealed preference for low human rights and low income in Burma must be the

¹⁷ This transpired from numerous conversations by the author with ethnic leaders. It is interesting that in line with game theoretic claims, a group of foreign observers facilitated this process as "independent witnesses". The Lehrer-Wagner (1981) model on consensus requires a "chain of positive respect" as a necessary condition for consensus. If ethnic tensions interrupt such chain, it could be re-established if each side accords some respect to outsiders. Recently, a similar argument has been made with respect to the statement between Aung San Suu Kyi

consequence of cultural differences, or (tastes). If this were so true, we would still require an explanation of such a low taste for democracy or related ideologies.¹⁸ On the other hand, Aung San Suu Kyi's above-mentioned statement indicates that the "cultural taste" for dictatorship is not unanimously shared. I will explain below that individual and collective preferences are formed in the context of specific cognitive models and that social consensus is compatible with differing subjective utilities. Thus, it is possible that dictatorship is sustained by *public consent*, despite *individual dissent*. Furthermore, I will show in section III that one does not even have to assume different utility functions in order to arrive at this result. Simple risk-averseness alone is sufficient.

Collective utility and social consensus

The question of the sustainability of democracy - or dictatorship - is important. Based on historical evidence, Elster (1993) has observed that despotism, when overthrown, may give rise to new forms of despotism. In Burma, one often encounters doubts, even by well-meaning well-meaning observers, about the likelihood for that a democratic government can last. The question is how can a society move from despotism to democracy, or: what determines a society's position on the global growth/democracy transformation curve? Economists would normally answer that it must be the result of a collective choice. However, while it is fairly uncontroversial to explain the revealed preferences for private goods by individuals' utility calculations, this is not necessarily the case for collective choices cannot necessarily be measured in the same manner. Social welfare functions have provided insight into how collective decision *ought* to be made and the implications that these considerations have for actual democratic choice processes (Mueller, 1989). But when the choice is about the degree of democracy or human rights, most of the usual methods of utility aggregation¹⁹ take the *result* of the collective choice for democracy as

and the Generals and it was suggested that *conflict resolution* approaches could help. Based on the arguments of this paper, I remain sceptical that this would lead to a lasting improvement.

¹⁸ As North (1990, p. 84-85) notes: "we know very little about sources of changing preferences or tastes. It is clear that changing relative prices play some role in changes in taste. (...) To account for the complex changes in norms of behaviour (...) in terms of relative price changes alone, however, is a vast over-simplification of a complex and still little understood aspect of human behaviour. Changing relative prices are filtered through pre-existing mental constructs that shape our understanding of those price changes. Clearly ideas, and the way they take hold, play a role here. The exact mix of the two - price-changes and ideas - is still far from clear."

¹⁹ See Arrow (1951), Samuelson (1947), Harsanyi (1955), Buchanan and Tullock (1962).

a *precondition*. They thereby reflect a Western cultural bias which that follows modern economists' rational commitment to individualistic methodology.²⁰

By definition, a social welfare function that grossly violates individual preferences does not deserve the name "welfare". Therefore the "public choice" of a low degree of human rights and democracy could not really be modelled by traditional social welfare functions. One could be tempted to circumvent this problem in the context of the Buchanan-Tullock (1962) model, whereby in which only individuals alone have preferences and collective choices are made through specific rules of decision-making. Revealed collective preferences would then "reflect individual choices only as they are embodied in the decision-making rules" (p. 36). Hence, if the rule is that the dictator decides according to his preferences, society will end up at the lower end of the democracy scale, even if individual preferences would lead to a different result with under a different rule. Therefore, the Buchanan-Tullock approach yields a tautology: democracy does not exist because of dictators. The authors effectively avoid this conclusion by postulating unanimity as the rule for writing constitutions. However, the problem with dictatorships is precisely that of dissent. In fact, the definition of a dictatorial social welfare function is that it ignores the preferences of all others but the dictator (Arrow, 1951, p. 30). One could argue, of course, argue, making with reference to Hirschman (1970), that ultimately there must be consensual backing for the dictatorial decision-making rule,. for otherwise, revolutions would get rid of dictators. Or alternatively, if dissenting voices were suppressed, people would exit flee (if needed, by "voting with their feet") and the remaining population would show loyalty to the regime. However, this reasoning also leads to a homogeneity of preferences that is inconsistent with the social reality of dissent under dictatorship.

The difficulty with the usual collective choice approach applied to democracy results from the amalgamation of individual *preferences* ,(which may diverge), and individuals' *commitment* to some principles which allow them to establish that lead to rational consensus.²¹ From this consensus, collective Collective choices and actions are derived from this consensus, and not from private preferences alone. Consensus requires both, a cognitive model whereby by

²⁰ See Lehrer and Wagner (1981, p. 8-12) on the role of consensual rationality in science and Sen (1997) on methodological foundations of social choice theory.

²¹ The above mentioned quotation by Aung San Suu Kyi demonstrates this dilemma: personal preferences ("desire") for democracy may grow, but it remains rational to cooperate with the military.

which society processes information, and a method to arrive at conclusions which that are rationally binding for all persons who share the agreement. Therefore, "a rational consensus should summarise what is known, and those who know more should, accordingly, influence the consensus more strongly than those who are less knowledgeable" (Lehrer and Wagner, 1981, p.11). Under this approach, collective preferences reflect a consensual assignment which that is the weighted average weighted average of individual assignments derived, after an iterative process of communication, from the available information in a given society. This theory allows us to pose the question about the sustainability of democracy in the context of specific cognitive models, and to base preference changes on the social interactions which that transform the content and the processing of information.

By placing By putting preferences into their cognitive framework, we go beyond the positivism of neoclassical economics. Because they are In confounding the *commitment* to the rationality of a precept or proposition, (which depends on social consensus,) with its *correctness*, (which may not depend on consensus), neoclassical economists do not distinguish between the validity and the realisation of norms. This leads, as we will see below, to the concept of an exogenous State where the normative content of rules and rights is irrelevant, and human rights have no role to play. While wWelfare economics takes into account at least weighs the consequences of social of social decisions in terms of individual utilities, so that where an independent State guarantees rights in order to promote welfare,. tThe libertarian procedural approach, however, denies even that. In normal "game forms", liberties and rights are defined by specifying a subset of permissible game strategies from the set of all possible moves. OIn this account, there is no need to evaluate the resulting state of affairs or to examine what states' individuals would prefer (Sen, 1997, p.25). What is The permissible is determined by the exogenously given exogenously given processes and procedures of collective decision making.²² However, Sen (1997) rightly insists on the need for that rights and procedures to must be "acceptable" in actual societies. What people think matters. Therefore, a *collective choice approach to human rights and democracy based on preferences* is not only legitimate, but also methodologically correct. What is required, however, is a social welfare function which that is based on consensus, not unanimity.

²² Its paradigmatic foundation is legal positivism. See Dworkin, 1977. Ultimately it leads to such delicious comments as when Chinese PM Zhu Rongji offered his support to Pakistan's military coup leader with the words: "We respect the choice of the Pakistani people" (Far Eastern Economic Review, Feb. 3, 2000).

Harsanyi (1977 b) has formulated the choice between two different standards of society in terms of moral value judgements. He distinguished between *personal preferences*, which guide everyday behaviour, and *moral preferences* which preferences, which describe rational behaviour in the service of the common society's interests of society as a whole.²³ The latter implies maximising the average (expected) utility level of all individuals in society and assigning the *same weight* (respect) to all individuals' interests. Thus social utility is then the arithmetic mean of all individual utilities. However, while this approach, like Kant's categorical imperative, may be intuitively convincing, like Kant's categorical imperative, real life often reveals counterfactual evidence. Dictators do not behave ethically, in the sense of giving equal weight to their own and their opponents' preferences. Hence therefore, moral judgements are not sufficient to establish social consensus. What is missing lacking is the commitment to the a rational consensus that structures people's behaviour. Lehrer and Wagner (1981) have taken Harsanyi's approach further by showing that consensus reflects neither the single weighted average of individual preferences, nor their equiprobable mean, but rather the expected value of each individual utility weighted by *consensual weights*. How can these weights be found determined? As Harsanyi, Lehrer and Wagner start from the assumption that members of a consensual group do not only have their own preferences, but are also aware of the preferences of others. They Group members also have opinions about the dependability, reliability and rationality of other members. In the process of gathering information about an issue, they listen to others²⁴ and re-examine the probability that their own or other people's judgements are right. Accordingly, they will change the weights they attach to themselves and others, but not necessarily their own subjective preferences. They do so, not for altruistic reasons, but because of the requirement to be efficient in society. This is particularly true with respect to social facts whose existence depends exclusively on social consensus (Searle, 1995).

Because social facts are based on some kind of collective intentionality, the individual changes of opinion are tending tend to move towards to a consensual equilibrium, for which and Lehrer and Wagner provide thean algorithm for finding it. Thus, if we consider the choice of a person *i* about itshis preferred social states in the growth-democracy space, before before

²³ The need to distinguish between private and public preferences has also been argued forcefully by Kuran, 1995. I do, however, dislike his term *preference falsification* as it easily hides the rational foundation of such "falsification".

²⁴ As Sen (1982, p. 9) remarked: "Much of economic theory seems to be concerned with strong, silent men who never speak!".

he or she have has looked at available information and communication took place WHAT DO YOU MEAN BY “BEFORE COMM. TOOK PLACE?”}, each state would at first be evaluated by the *personal* utility function²⁵:

$$(1a) \quad U_i(g, D) = \sum_{j=1}^n a_{ij} u_j(g, D) \quad \left| \quad a_{ij} \text{ in } [0,1] \text{ and } \sum_{j=1}^n a_{ij} = 1 \right.$$

where g stands for growth, D for democracy, and $u_j(g, D)$ is the subjective utility function of each member of the society (including i), and a_{ij} is the weight given by person i to the subjective value judgement by each j of society's n members, including herself. Alternatively, we can write (1a) in matrix notation:

$$(1b) \quad U_i = A_o \mathbf{u}$$

where U_i is the vector of personal (non-consensual) utilities, A_o is the matrix of personal (non-consensual) weights {before communication took place}, and \mathbf{u} is the vector of individual subjective utilities. We I will explain the formation of \mathbf{u} in section III.

The personal utility index $U_i(g, D)$ does reflect not only person i 's subjective utility $u_i(g, D)$, but also the utility and opinion of all²⁶ other members of society, valued by subjective weights. This behaviour is not justified by altruism (although that might be an argument in attributing a specific weight to a given person's preference), but because people are not *rational fools* (Sen, 1977). In an {interactive???) society, it is rational to consider not only one's own interests, but also those of others. However, as long as different people give different weights to the subjective utilities and preferences of each member of society are given different weights by different people, these assessments remain purely subjective. In order to establish the objectivity of social facts, it is necessary to establish consensual weights. Lehrer and Wagner (1981) show that it is rational for members of a group to converge to the same weight given to each person $a_{i,j} = \bar{a}_j$ through a process of iteration, if they use and exchange all available information and if there is a chain of respect from person i to person j . {In other words, the original matrix of weight A_o gets is adjusted according to people's assessment as to what which opinions are right, or which preferences may prevail.

²⁵ I use the notion of *utility* to assign a ranking to social states which are to be compared to others. A *preference* reflects the total of diverse reasons why a person would rather have or live in one state than in another (de Jasay, 1991, p. 62). Utility is therefore more than simply the sum of pleasures and pains as utilitarianism would claim.

ARE YOU EQUATING OPINIONS AND PREFERENCES?} Consensus is established when they agree on what is right. This adjustment can be modelled by a Markov process where the vector of each person's *a priori* utility weights (the row vector in matrix A_o) converges to a *consensual state vector* where every individual i attaches the same weight to person j . Thus:

$$(2) \quad \mathbf{a}_{t+1} = M \mathbf{a}_t$$

where \mathbf{a} is the weight vector $\mathbf{a} = [a_{i1} \ a_{i2} \ \dots \ a_{in}]$ of person i in the matrix \mathbf{A} at time t and $t+1$, respectively, and M is the transition matrix. The transition matrix reflects the weight that each individual i assigns to the probability that the views expressed by person j are "right" i.e. that they will objectively prevail. As is well known IS THIS CLAUSE NECESSARY?}}, over time such Markov processes converge to an eigenvector that reflects the consensual steady state equilibrium where all members of the consensus group assign the same weights to the opinions and preferences of each.²⁷ That is to say, in In the consensual welfare function, every person i assigns the same consensual weight \bar{a}_j to a given person j . The weights and probabilities attached to different representations of the world are then summarising the relevant information in the context of the prevailing cognitive model of the society, and the group members are committed to this consensus. Of course, different people may receive different consensual weights. For example tThe president, for example, may receive a higher weight than the opposition leader. But there is a rational consensus, shared by everyone, about the collective utility of a given social state. Hence, the *consensual collective utility function* is:

$$(1c) \quad U(g, D) = \sum_{j=1}^n \bar{a}_j u_j(g, D)$$

where \bar{a}_j is the consensual weight given by any person i to the utility of j . The transition matrix M , often called a stochastic matrix, is crucial for the emergence of a consensual equilibrium. It is often called a stochastic matrix. Hence, consensus building is a stochastic process and the disturbance term in the process is an indicator for social dissent. WHAT IS INDICATOR? MATRIX??}}

²⁶ Unless the weight a_{ij} given to some of them equals zero.

²⁷ Thus, interestingly, Marx's (1985) definition of Socialism as a society in which "the free development of each will be the condition of the free development of all" describes nothing else but a consensual society.

Equation (1c) is in the tradition of John Harsanyi, who derived his social welfare function from the weighted sum of individual expected utilities. The difference between Harsanyi and Lehrer/Wagner lies in the weight assignment: Harsanyi assigns gives each person an equal weight through a *Gedankenexperiment* that resembles Rawl's veil of ignorance (Mueller, 1989, p. 427), while Lehrer and Wagner ground their theory in efficient communication. Equation (1c) clarifies one important point: the collective preferences depend on both, the subjective utilities (u_i) as well as the process of social consensus building, as described by the Markov process. The specific form of M depends on a number of factors, such as how convincing an argument appears in the context of the existing cognitive model, how free (unrestricted) the presence or absence of restrictions in public debate is, the ability of communication technology, etc. However, there is also a mass- phenomenon: if several individuals all share an identical utility assessment of a given (expected) state of the world $[u_i(\cdot)]$, their individual weights ($\sum_i^j a_{ij}$) add up to a higher relative weight of their utility, which and this is likely to affect the transition matrix M . We will see below that this mass or crowd phenomenon can be an important factor in the determination of multiple equilibria.

A choice between growth and democracy ?

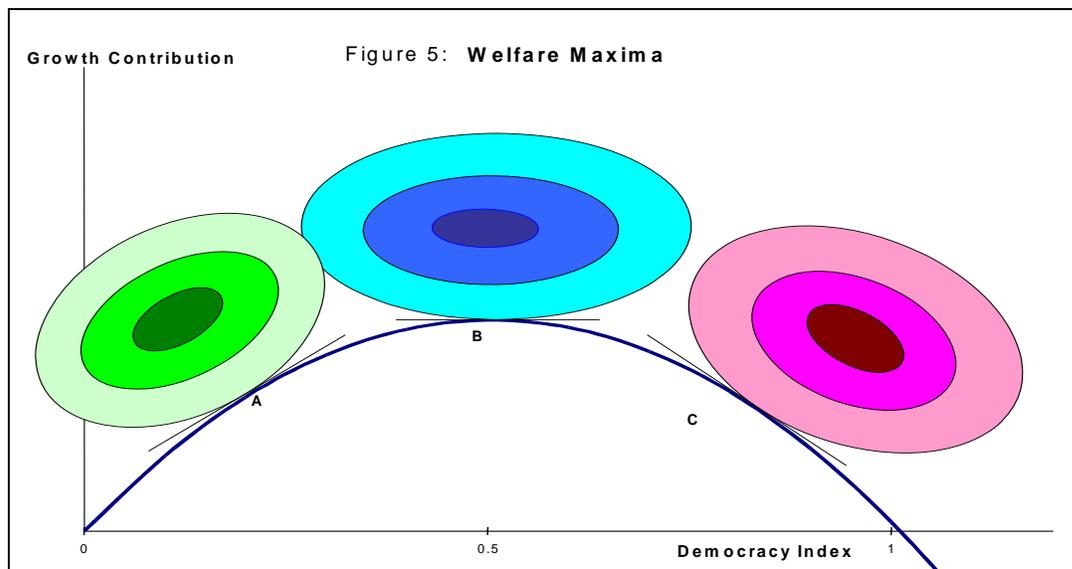
We may now use (1c) as the social welfare function to determine the collective choice of a given point on the growth/democracy transformation curve. Applying economists' conventional instruments, maximum *welfare* is obtained for a given society is obtained at the democracy index at which the marginal rate of substitution between growth and democracy equals the ratio of marginal utility of political freedom to the marginal utility of economic growth. In other words, the price of freedom in terms of growth depends on the marginal utility functions of these two welfare arguments. Formally, let the objective function be represented by the utility function (1c), with the usual {well- behaved} characteristics. Take the non-linear growth equation estimated by Barro (1997) as the welfare constraint:

$$(3) \quad g = x + aD - bD^2$$

where x stands for the effect of all others variables, g for economic growth and D for the democracy index between 0 and 1. The first order maximum condition implies the solution:

$$(4) \quad \frac{U_D}{U_g} = a - 2bD$$

The level of democracy is determined by the relative marginal utilities of the two welfare arguments and depends on the form of the utility function. Its slope can be positive, so that where growth and democracy are complements, or negative, implying a trade-off between the two. A priori, the unconstrained maximum could be anywhere in the (g,D) -space. The constrained maximum obtains is obtained where the slope of the utility indifference curve equals the slope of the growth-democracy transformation curve (figure 5). Such point must be interpreted as an equilibrium resulting from consensual choice. It would explain the frequency distributions observed in figures 3 and 4 around points A and C.



Given that Barro's estimated coefficients for $a = 0,09$ and $b = 0,088$, we get the maximum at $D = 0,511$, which implies implying that at point *B* the marginal utility of democracy must be zero in order to be efficient. Not surprisingly, this is where Barro perceived "good dictators". For by definition, a dictator is "good", if people do not desire any additional utility from increased freedom. Alternatively, the same result obtains is obtained if the marginal utility of growth tends towards infinity. However, according to equation (3), democracy makes a

positive contribution to growth ($g-x > 0$) as long as the index is below $\frac{a}{b} = 1.023$, which is higher than the defined maximum of 1. In other words, over the whole range of possible democracy values, there is a positive contribution to growth. Democracy is always good for economic development. Assuming that the marginal utility of growth is positive, convergence to the welfare maximum requires a continuous expansion of political liberty. Barro's thesis of "counterproductive democratisation" and "good dictators" is based on shaky ground.

Equation (4) implies that only to the right of Barro's maximum point (such as C where $D > 0,511$) do we obtain a negative trade-off between growth and democracy. At this point, society attaches a significant degree of utility to democracy, because the unconstrained welfare maximum lies to the right of Barro's maximum democracy index. There is a substitutive relationship between the utility of growth and human rights.²⁸ However, to the left of the maximum point (for example at A) there is no trade-off: the slope is positive. Here the two arguments in the utility function are complementary: higher growth is obtained by increasing human rights. However, compared in comparison to point C , the situation in A looks as if higher social utility could be obtained by lowering democracy.²⁹ In section III I will explain that this view follows from a misspecification of the utility function. The proper arguments are *income* and democracy (human rights), not *growth*. Strategic complementarity is then a plausible assumption, and this implies the existence of multiple equilibria.

II- The Dynamics of Consensus Shifts and Multiple Human Rights Equilibria

Having exposed the possibility of multiple equilibria, we turn now to equilibrium shifts when consensus changes. This is important in understanding the passage from low to higher human rights equilibria. North (1990) found two aspects of human behaviour which contradict neoclassical assumptions of *homo economicus* and could lead to multiple equilibria. First, if individuals are not only wealth-maximisers but also have altruistic inclinations and are subject to self-imposed constraints, considerations of justice and fairness enter their utility function. We have seen that this argument applies not only does not only apply to altruism,

²⁸ The substitutive relationship has also been observed by North (1990, p. 22): "The evidence we have with respect to ideologies, altruism, and self-imposed standards of conduct suggests that the trade-off between wealth and these other variables is a negatively sloped function. That is, where the price to individuals of being able to express their own values and interests is low, they will loom large in the choices made..."

but to all kinds of social consensus. Human rights considerations will affect the relative price of democracy versus wealth. Yet, a second aspect is against this stands a second aspect: the difficulty of human beings' difficulty in deciphering in deciphering their environment. {{From Simon (1986) we know that the knowledge and the computational power of decision-makers are severely limited, due to because of limited capacities and the complexity and incompleteness of information. I DON'T UNDERSTAND THIS SENTENCE}} In our "fumbling efforts to decipher the world" (North, 1990, p 23) we develop cognitive models or systems that help us to make choices by forming our preferences. We frequently give higher weights to the opinions of experts than to our own or we value the utility of those that are close to us (family, friends, ethnic groups, nations) higher than that of strangers. Through the consensual weights we are committed to a specific cognitive model. But these models are not necessarily "true" descriptions of the world in the sense that any perceived gap between the model and reality would lead to model correction, as assumed by rational choice theory. Especially with respect to social or institutional facts, it is possible that such gaps lead to "reality correction". Before we look at shifts in consensus, it is therefore useful to establish the epistemological foundations of consensus.

Epistemological foundations of consensus

In the neoclassical model, the environment is given and equilibrium is obtained when self-seeking agents learn nothing new about their environment it (Lal, 1998, p.7). The equilibrium will be disturbed if the environment changes. As a consequence Consequently, rational agents would abandon their past theories as these would now be they became systematically falsified. Although this analysis may have validity with respect to regarding man's physical environment and issues related to technological progress³⁰, it does not necessarily apply to social reality. Searle (1995) has shown that institutional facts are not objectively given in the same way objectively given as mountains, rivers, or other "brute facts". They are "observer-relative" in the sense that they only exist only relative to the attitude of observers (p.11). In order to become an objective social reality, a phenomenon needs to must be assigned a status or function by what Searle calls the *collective intentionality* of individuals. This assignment is described by *constitutive rules*. Thus, institutional or social facts only exist as a result of

²⁹ The gradient is $\nabla u(g^*, D^*) = (U_g(g^*), U_D(D^*))$ which is negative in the second argument when $D^* < 0,511$.

implicit or explicit collective human agreements within a system of constitutive rules, i.e. meaning they are consensus dependent.³¹ In other words, the consensual theories of rational agents create their social environment. Therefore, social change, then, cannot be the result of informational feedback `WHAT DO YOU MEAN BY FEEDBACK??` between a subjective or tentative explanatory model and observer-independent reality. Rather it is a function of a subjective model and an observer-dependent, rule-based reality.

[But the subjective models of the world, however, are based on the same constitutive rules as social facts. because this is how the world of institutions and social facts works. I THINK THIS REQUIRES FURTHER EXPLANATION}. People reproduce these rules by behaving in such a way that the objective reality of institutions is also reproduced. This is also the reason, why subjective preference weights are adjusted in the Markov process, as discussed in the previous section. What we now discover is that the values of the Markov matrix depend on people's understanding of society's rules. By behaving in accordance with consensus, people sustain both - the consensus and their social environment. Such behaviour is perfectly rational, even if a different social reality, based on different constitutive rules, would allow Pareto-improved outcomes.

Of course, consensus does not require that everyone thinks the same way³². Hahn (1987, p 324) observed this when he wrote: "there is a continuum of theories that agents can hold and act on without ever encountering events which lead them to change their theories". Lal has called such social environments *cultural equilibria*. Based on different rules, different different social forms of consensus{what is the plural of consensus, she asked??} must lead to different cultural equilibria. Thus, actors in a society like such as Burma may operate from cognitive models that lead them to a different meanings of freedom, justice, or

³⁰ Kuhn (1962), however, described that even in natural sciences the progress of knowledge is not that straight forward.

³¹ Searle's *constitutive rules* have similarity with Dworkin's (1977) *legal principles* from which rights are derived (p. 90) because both have a sense or direction. Thus, Searle (1995, p. 7) defines "intentionality as a technical term meaning that feature of representations by which they are *about* something or *directed* at something. Beliefs and desires are intentional in this sense because to have a believe or desire we have to believe that such and such is the case or desire that such and such be the case". Dworkin (1977, p. 26) writes: " A principle (...) states a reason that argues in one direction but does not necessitate a particular decision". As a consequence, principles can "intersect" and conflict must be resolved by taking into account the relative importance of each. However, such judgement or weighting requires some common measure and this is "collective intentionality" i.e. the fact that people "share intentional states such as beliefs, desires, and intentions" (Searle, 1995, p. 23). Hence, collective intentionality describes our consensual equilibrium.

³² The subjective utilities $u_i(.)$ may be rather diverse, as long as the weights attached are consensual.

democracy unlike those of than, say, Western countries. This would then be reflected in the relative stability of low measures for democracy. and explain It may also explain why too overly rapid advances in democracy rarely seem to be sustainable, as Barro observed and as the history of decolonisation amply documents. Following this theory, It would mean that if the Burmese opposition leader Aung San Suu Kyi came to power tomorrow, her reign may not last for long, and human rights abuses may would not necessarily end. Instead, our theory would explain that a heterogeneous society that operates with different constitutive rules, -- say for economic, religious or ethnic reasons, for example -- is likely to experience a high degree of dissents, frustrations and possibly the break-down breakdown of social consensus.

However, institutions also can and do change. North (1990, p. 86) explains institutional change by relative price changes which that lead economic or political actors to *perceive* that some of them would be better off with an altered agreement or contract. Because such contracts are nested in a hierarchy of rules, the re-negotiation of existing arrangements may also require restructuring to a higher set of rules as well. The resources necessary for this process will only be allocated to a regime change if the return on this investment is sufficient, and agency relationships or free-rider problems are solved. This is a valid model. If we interpret relative prices as our consensual weights, institutional change results from a redefinition of the Markov matrix, i.e. the weights people assign to the probability that the views of someone else are "right". Of course, in order to be right, the constitutive rules have to be changed as well; - otherwise, the consensus is not sustainable. I will argue below that expanding the monetary economy at the expense of the subsistence sector leads to such change in the collective intentionality. However, for the initiation of change the *perceptions* of economic and political actors, i.e. their *cognitive model*, are crucial initiators to change.

A formal model of multiple equilibria

We can describe the dynamic relationship between personal views and social consensus by a simple formal model, based on Cooper and John (1988)A simple formal model, based on Cooper and John (1988), can describe the dynamic relationship between personal views and social consensus³³. Let us assume that society consists of many identical, individual agents which who evaluate the world according to their subjective model, but also by taking but who

also take into account the cognitive context of the society they live in. On their his own, an individuals may wish to choose a particular human rights or democracy index (h_i), but the outcome of the collective choice takes the value H . I will discuss the personal choice considerations of h_i in the next section. Here it suffices to note that an individual's commitment to or choice of human rights is not independent from the prevailing degree of freedom. Choosing a high h_i while H is low may send you one straight to prison. Therefore, an individual may give a low weight to his own subjective preference for human rights. His or her personal utility (U_i) will will take into account both subjective and collective preferences, as discussed above. Because social consensus does not happen instantaneously, but but over takes time (the iterative adjustment through the Markov-matrix), personal preferences do not necessarily coincide with collective choices. Furthermore, we introduce in introducing the Lipset-hypothesis into the model, we make by making the preferences for human rights dependent on income (y). Thus, we can characterise the personal utility of human rights by the following objective function³⁴:

$$(5a) \quad U_i = V(h_i, H, y).$$

Assuming this function to be homogeneous, continuously differentiable with diminishing returns ($V_{11} < 0$), (5a) can be transformed into:

$$(5b) \quad \frac{U_i}{y} = v\left(\frac{h_i}{y}; \frac{H}{y}\right)$$

Where a person's preference for human rights, given society's income level, is dependent on just only two arguments, his subjective utility and the prevailing level of collectively accepted rights. We will assume that there are diminishing returns from deviating for deviations from

social consensus, hence thus $v_{11} < 0$. Next, let $v_i^*\left(\frac{H}{y}\right)$ denote the representative agent's

reaction function, which which optimises his choice of h_i/y given H/y . This reaction function may be understood as a representation of the Markov matrix., with Eequilibrium holdsing

when $v_i^*\left(\frac{H}{y}\right) = \frac{H}{y}$. In this situation, the personal utility of each individual coincides with the

social consensus, i.e. there is no gap between the individual's personal perceptions of the right

³³ See also Romer, 1996, pp 294-297 and Benassi, Chirco and Colombo, 1994, chap. 9.

³⁴ This is a version of equation (1a), although the arguments have been changed.

degree of human rights and consensual social reality. The occurrence of such equilibria depends on the shape of the reaction function and, more specifically, its slope:

$$(6) \quad \frac{d \frac{h_i}{y}}{d \frac{H}{y}} = - \frac{v_{12}}{v_{11}}$$

A *negative* slope implies *strategic substitutability*, meaning that if agent i opts for a value h_i/y , all others choose the opposite movement ($v_{12} < 0$) and only one equilibrium is possible. But this is unlikely, unless a dictator imposes the collective preference, as described by Arrow (1951). But even then, it is not clear why the dictator would systematically choose the opposite preference of all other members of society. On the other hand, if the decision maker's rationality is bounded by limited knowledge and uncertainty, strategic substitutability may reflect a local equilibrium. In this case, the decision maker reacts to a disequilibrium of personal preferences and collective consensus by *model correction*, i.e. by changing preferences. If the slope is *positive* ($v_{12} > 0$), the situation reflects *strategic complementarity*, i.e. meaning that a change in the individual's preference induces a change in the same direction by any other typical agent and, therefore it follows, of the collective aggregate. In this case, *reality correction* will follow result because the social consensus changes. Strategic complementarities are common in social mass dynamics, and such positive externalities or spill-over effects are a necessary condition for multiple equilibria. Can I COMBINE THESE TWO SENTENCES??} In their presence, a society may be trapped at low human rights positions that which could be Pareto-improved if democrats could overcome their coordination failure to coordinate.

Figure 6 shows a hypothetical reaction function:

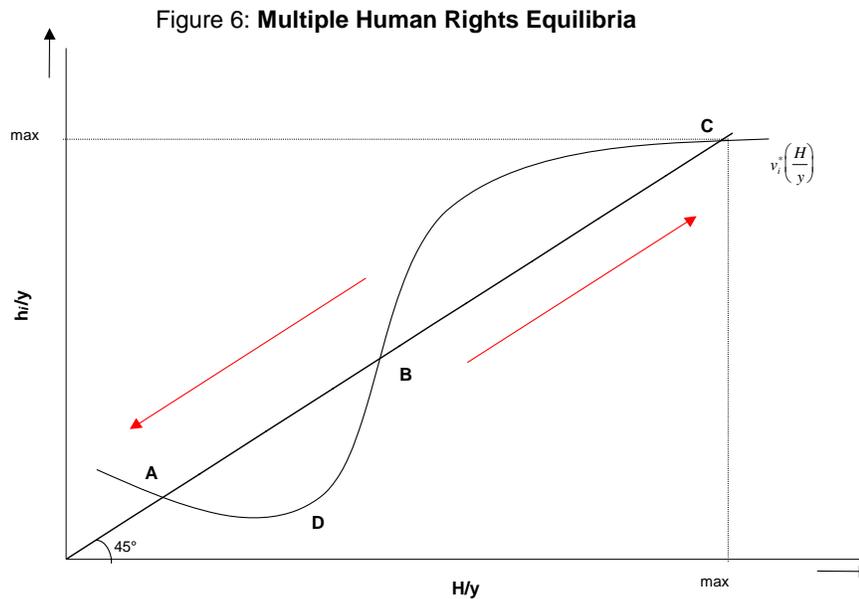


Figure 6 shows comparative-static equilibria. There are three equilibria where the reaction function curve cuts the 45° -line, but only points A and C are stable. These points reflect, as in figure 5, low-liberty and high-liberty development paths with two stable relationships of between human rights to and prosperity. . . At the higher end, point C represents we have the human rights model of fully developed democracies (point C). At the lower end, (point A) we have the shows the low- income, low- human rights equilibrium. {{Figure 6 shows comparative-static equilibria MOVE THIS SENTENCE}}. However, in a dynamic setting, we may redefine a "good dictator" as one who would allow a gradual and controlled extension of freedom as the economy prospers, keeping the ratio H/y stable and low at point A. We may call this the *low-human rights development path*. By contrast, Aa "bad dictator", by contrast, would restrict the widening of liberties and thereby also constraining the potential for economic growth, because higher prosperity without freedom pushes H/y to the left. Individuals (in fact, it is usually the middle class) would claim more rights and the following crack-down ensuing crackdown would reduce reduce prosperity. This is a *low-human rights stagnation path*.

Both low-human rights paths reflect an equilibrium because, given the prevailing consensus, individuals do not sufficiently desire a change in the constitutive rules of their society. If a new ruler were to come came to power and extended to extend freedom without greater

prosperity, people would wish for a to return to their traditional ways, and the democratic regime would be unsustainable (the reaction function lies below the 45°-line). However, if H/y increases, say because of due to a reduction in y (economic crisis), for example, and the index shifts above point D , demand for democracy will start to increase rapidly. This has happened occurred frequently in Burma (see figure 8). North (1990, p. 90) has called this disequilibrium "discontinuous change", which is often unsustainable "because coalitions essential for the success of revolutions tend to have a short after-life. The glue of ideological alienation and a common opponent is replaced by the dissolving solvents of ideological differences and conflicting payoff demands". In fact, the problem is that the cognitive model has not been adapted to the new constitutive rules, or that the iterative process of communication and consensus building is too slow. The possibility of a regime shift exists only if the social consensus on human rights is extended beyond point B . In this case spill-over effects from changing collective intentionality would reinforce individual preferences for human rights and push the society on a high-liberty development path. We will see below (section III and figure 7) that this this has happened been the case in Thailand, but not in Burma.

In this context, the economic foundations of revolutions are of interest. Early Marxist thinkers expected that economic crisis would lead to democratic revolutions. That rarely happened. Our model would explain this failure if economic shocks are were not sufficiently hefty significant to shift the H/y ratio beyond the point B . A regime shift is more likely to occur after short and intensive wars which that destroy prosperity but do not lead to the disintegration of a base of democratic values.³⁵ A new constitution can then lift the protection of human rights to a higher level. On the other hand, in the case of a severe economic crisis, H/y may approach point B from the left. The rapid increase of individual demands for democracy after point D has been crossed is a consequence of rapid reassessment of consensual weights. It creates a pre-revolutionary atmosphere which that the dictator, in order to survive, would have to crush in order to survive by making a regime change too costly for the "silent majority". But once point B is reached, he is deposedOKout. The regime shift may then allow for the improvement of for both human rights and wealth to improve until the new equilibrium at C is asymptotically reached.

³⁵ Tin Maung Maung Than (1997, p. 170) noted that World War II devastated the Burmese economy but it also created political opportunities for the anti-Japanese resistance movement to transform itself into a legitimating factor for those aspiring to lead the post-independence State.

Our model could explain why the revealed preference for human rights may exhibit multiple equilibria., because The reason is that personal preferences do not only take into consideration subjective utilities, but also as well as the social context. Furthermore, and the adjustment to consensual weights takes time. If the stochastic adjustment process is slow, personal preferences will converge to the dominant consensus. The stability of low-income, low- democracy countries depends to a large degree on the shape of the reaction function in the range from A to B. I would will argue that this is determined by the cognitive model from which individuals operate in society. These cultural determinants now need further explanation.

III- The Economic Relevance of Justice and Human Rights: Micro Foundations

As many philosophers before him, Rawls (1973) has emphasised that "justice is the first virtue of social institutions" (p.3) and laws and institutions must be reformed or abolished if they are unjust. Revealed preference theory would conclude that when an undemocratic country, like Burma, does not reform, it is "effectively regulated by a public conception of justice" (p. 5). Hence, there must be a Burmese conception of justice which that has sustained the military regime for nearly 40 years. It is this conception of justice³⁶ that we need to must understand, particularly - and why it prevents institutional change. My conjecture is that ideas about justice are part of a given cognitive model which that determines not only the constitutive rules and consensual weights in a people's social utility function, but also affects their subjective utility as well. The concept of justice takes different forms in modern and traditional societies, assigning and assigns different roles to the concept of rights. The idea of human rights is a constitutive part of modern society, but not of the traditional cognitive model that dominates subsistence economies.³⁷ To avoid any misunderstanding, I must

³⁶ Following Dworkin (1977, p. 134-135) we may distinguish between the *concept* of justice that appeals to what justice means in general and a specific *conception* of justice which reflects a particular interpretation of the concept.

³⁷ De Jasay (1991, p. 12) gives a beautiful example of how the concept of freedom can be expressed through rather different conceptions. He quotes a Russian literary critic of the Zarist period who wrote: "Our people understand freedom as *voilia*, and *volia* for it means to make mischief. The liberated Russian nation would not head for the Parliament but it would run for the tavern to drink liquor, smash glasses and hang the *dvoriane* who shave their beards and wear frock-coats...". In a similar vein, Burma's Generals have claimed "human rights means women lying with naked breast at the beach".

emphasise that I am here addressing that we deal with issues of the legitimacy of rights, i.e. their validity, not with their factual enforcement.³⁸

Modern rights

While Bentham called inalienable rights "nonsense upon stilts"³⁹, for neoclassical economists (and legal positivists) *rights* matter to neoclassical economists and legal positivists, as because they determine the level of welfare through the efficient allocations of resources, at least in the presence of positive transaction costs.⁴⁰ New Institutional Economics has paid attention to regarded *property rights* considerations as an essential rule in to the determination of economic structures, although the concept is not always clear. For Libecap (1989, p. 1) property rights "are the social institutions that define or delimit the range of privileges granted to individuals to specific assets.". Eggertsson (1990, p. 33) refers to "the rights of individuals to use resources" as property rights. In these definitions, rights are seen as *freedom to act* (Seidl, 1996), and property is not distinguished from possession. In this perspective, property rights are rules to exclude others from the use of scarce resources. This, of course, poses the problem of enforcement: a right is invalid if it is never implemented.⁴¹ Hence Therefore, the State is perceived as an exogenous institution to define and enforce property rights (Barzel, 1997). Neoclassical economics here mirrors here legal positivism. For example Austin⁴², for example, thought that that "in each political community one will find a sovereign - a person or a determined group whom the rest obey habitually, but who is not in the habit of obeying anyone else". {Thus, the neoclassical State appears to stand above historical ???stand above moral or ethical norms.

Yet, the whole problem of dictatorial regimes is that they are *not* beyond the social norms derived from concerns for justice, nor. Nor are they beyond the law determined by the

³⁸ Sen (1999, chapter 10) has distinguished three critiques expressed about the concept of human rights: the legitimacy of demands of human rights, the coherence critique related to who is the agent that has a duty to respect them, and the cultural critique that questions their universality. I consider these as three critiques of the validity of human rights.

³⁹ Bentham, J. (1824) *Anarchical fallacies*

⁴⁰ Dworkin (1977, p. ix) shows that the normative part of Bentham's general theory of law is based on economic analysis: "Economic analysis provides standards for identifying and measuring the welfare of the individuals who make up a community (though the nature of these standards is much in dispute) and holds that the normative questions of a theory of legitimacy, legislative justice, jurisdiction and controversy, as well as deference and enforcement, must all be answered by supposing that legal institutions compose a system whose overall goal is the promotion of the highest average welfare amongst these individuals".

⁴¹ At least this is what legal positivism claims. See Dworkin, 1977, p. 40-41.

⁴² Austin, J. (1832) *The Province of Jurisprudence Determined*, quoted in Dworkin, 1977 p.18.

international covenants on human rights. Even the sovereign is bound by moral principles and should obey them. Governments must be constrained in their actions. However, if, however, - as in the neoclassical and positivist model - human rights are subsumed under included among subsumed under legal rights, and with governments acting as guarantors, human rights abuses are simply a matter of the government's legitimacy. These theories deny that legal rights can pre-exist any form of legislation, and neglect the fact that . But even legitimate governments do not necessarily respect human rights. For example, U Nu's government (1948-62) in Burma was democratically elected, controlled by an independent judiciary and a relatively free press, but its authoritarian tendencies, ethnic discrimination and religious intolerance created an environment where minorities were pushed into open rebellion (Smith, 1991; Yawngwe, 1995).

The problem with the legalist's focus on enforcement is that *obligation* as the binding counterpart of a right is no longer perceptible apparent.⁴³ Rights reflect not only relations between people and resources, but, - more importantly, - between human beings. This is why rights are based on moral norms. The *economic* relevance of property rights is derived derives from the fact that, by determining ownership as well as the benefits and costs of *resource use* and the allocation thereof, rights also structure the incentives for economic behaviour and performance. The *social* relevance of these pProperty rights have a *social* relevance results from the fact in that they give sense and direction to individual and collective intentionality by specifying which acts in a set of possible options are permissible. They, thereby provideing a normative foundation for constitutive rules, ori.e. a moral to society. They also define the set of *economic actors*, by assigning the authority to decide how to use specific resources and thereby they establishing the nature of claims between these actors. However, if the State defines property rights exogenously, it also determines the range of its own authority. Hence Consequently, the power of government's power would be limitless, unless a different set of rights was was to restrains its authority. This check is the function of human rights. They are fundamental, moral rights that individual members of society have against society as a whole (Dworkin, 1977, p. 199), or protective claims by individuals against the State that create normative obligations. Human rights are fundamental rights.

⁴³ See also de Jasay (1991, p. 35): "Creating rights means creating obligations that must either be discharged or remain outstanding." On human rights and obligation see Sen, 1999.

They Human rights trump other considerations such as formal legal rights or informal conventions⁴⁴. It follows, then, that human rights are hierarchically superior to property rights. : bBecause individuals need an independent authority to define and enforce rules for making claims against other individuals, the authority itself needs to must be constrained and private individuals effectively have a claim against the public authority. Society in the form of the State, government or other rules has the *obligation* to respect these claims.⁴⁵ Therefore, the critique that the human rights are not coherent consistent with the need to specify whose duty it is to guarantee the fulfilment of these property rightsrights is pointless.⁴⁶ The counterpart to individual human rights is the collective agent.

This approach to human rights and property follows J. S. Mill's (1859) views on liberty⁴⁷ and Hume's (1740) tradition which links of linking property to *rights* and *obligations*, i.e. contracts.⁴⁸ One person's right is someone else's obligation, and both they are bound by contract. The Humean approach emphasises the role of justice, values, norms, etc. as *constitutive rules* for consensual institutions. These rules create *rationally binding* obligations. In line with Hume's arguments, and by taking into account the dimension of time, it can be shown that institutions of property emerge spontaneously as the unintended consequence of individual actions (see Hargreaves Heap et al, 1992, p. 193-5). Thus, our approach is different This approach differs from neoclassical explanations of property rights, which that focus on rules for *access to resources*, and effectively deal with *possession rights*, rather than *property rights*. What matters in neoclassical thought is the utility of assets, not the disutility [???] of liabilities. Therefore, it must complement the contractual side of rights and obligations withby power and hierarchy.⁴⁹ Not surprisingly, itneoclassical thought also opened the way door to the justification of for justifying development dictatorships.

⁴⁴ See also Howard, 1992.

⁴⁵ We are referring here to a logical priority. Historically, property rights seem to have proceeded human rights. (See Muldrew, 1998). This is not without relevance for the transition from traditional to modern societies.

⁴⁶ See Sen, 1999.

⁴⁷ For Mill, liberty meant not only protection against "the tyranny of the magistrate" but also against "the tyranny of the prevailing opinion and feeling".

⁴⁸ Hume defined: "A man's property is some object related to him. This relation is not natural but moral and founded on justice" (p. 491).

⁴⁹ Riese (1990, p. 78) has put this in the context of a monetary economy: "Die autoritäre Lösung der neoklassischen Ökonomie zeigt sich somit daran, daß sie die Zentralbank an die Stelle des Vermögensbesitzers setzt. Damit aber wiederholt ihre monetäre Version das Defizit der Gütermarkttheorie, nur Besitz, nicht aber Eigentum zu kennen: An die Stelle der Verfügung über eine Erstausrüstung alias eines Besitzes an Ressourcen

In this paper, I emphasise the moral foundation of rights. But not all moral norms coincide with rights. Rights are related to *individuals*. As Dworkin (1977, p. xi) formulated: "Individuals have rights when, for some reason, a collective goal is not a sufficient justification for denying them what they wish, as individuals, to have or to do, or not a sufficient justification for imposing some loss or injury upon them". In fact, rights [redifine??/empower??]createcreate the individual as a social institution, implying by defining their freedom to enter into contracts or not. The formal capacity to say yes or no also bestows the norm of *equality* on individuals.⁵⁰ Free individuals become liable once engaged in have a choice about contracting liabilities, but once they have agreed to a a contract, but they are free to refuse contracting such liability. they are liable. HenceTherefore, rights allow for the possibility of express contractual relations between individuals, while possession refers to the potential utility derived from resources.⁵¹ Economically, property the two rights and possession can coincide when assets are highly liquid, as in the case of money, but not usually in the case of property is not usually as lliquid liquid as possessions.. in most cases property is not very liquid and should be distinguished from possession.

The most universal application of a contractual property relation is the creditor-debtor relationship in a monetary economy.⁵² For mMoney, is the liability of financial institutions, is created. It only comes into existence when banks make loans and the central bank transforms non-liquid, long term credit into safer, and more liquid debt titles (Moore, 1988).⁵³ Muldrew (1993) has therefore rightly described the normative foundations of modern society as the *ethics of credit*. Therefore, as we will see in more details below, the development of a monetary economy is the basis for a vector which that develops and expands the normative validity of society's rights-based values. Of course, the validity of these norms remains distinct from their enforcement; therefore, and I do, therefore, not claim that in society is the

tritt die Verfügung über Geld als eine Erstaussstattung alias einen Besitz, den die Zentralbank zur Verfügung stellt."

⁵⁰ Marx, of course, was quick to point out that formal equality did not translate into material equality. See also de Jasay, 1991, chap 2; Sen, 1984; Dworkin, 1977.

⁵¹ Seidl (1996) has distinguished *simple rights* that can be exercised without encroachment on someone else's right to act from *contingent rights*, that can be exercised only contingent upon other parties' choice of matching actions. From this perspective, possession reflects simple and property contingent rights.

⁵² See also Riese (1990) p. 80: "Der [neoklassischen] Asymmetrie setzt die monetäre keynesianische Ökonomie eine Symmetrie von Schuldner und Gläubiger gegenüber. Dabei fungiert der Gläubiger als Eigentümer, der Schuldner als Besitzer von Geld. Symmetrie von Aktiv- und Passivgeschäft bedeutet dabei, daß neben der Besitzfunktion auch die Eigentümerfunktion zum Moment einer monetären dezentralen Ökonomie wird."

development of a monetary economy, (although the economic system, of course, does not would guarantee their factual realisation). The monetary economy is a necessary, but not a sufficient condition for the collective respect of rights, in general, and ultimately for human rights and democracy.⁵⁴

The institution of rights and obligations can be reframed [redefined??/rethought??] reframed in the context of the *theory of agency*. According to Eggertsson (1990, p. 40-41) "an agency relationship is established when a principal delegates some rights - for example, user rights over a resource - to an agent who is bound by a contract to represent the principal's interest in return for payment of some kind". Thus, the agent controls possessions of resources and contracts obligations to the principal, while the principal obtains a claim. Given that claims are only indirectly linked to the objects of possession, the rights on which the claims are based can also be transferred. That is to say, they are If, then, rights are *transferable*, and this requires that they must be also well--defined under a rule of impartiality. Modern rights, therefore, also imply a necessitate a concept of *impartial justice*.

When property rights are well- defined, ownership becomes one kind of entitlement relation within a given legal structure (Sen, 1981). In a market economy, different sets of ownership are connected by rules of legitimacy that specify the set of exchange entitlements, and can be exchanged.. These rules specify the set of exchange entitlements. This has two consequences. First, the transferability of rights has opened the domain of personal freedom, because individuals could an always refuseavoid certain contractual obligations by not agreeing to a contractif they found a party willing to exchange them against others. Thus, w With the emergence of modern transferable rights, individuals could were able to withdraw from certain collective obligations. As a cConsequencetly, other claims which that are by nature not transferable, such as the right to life, were had to be shifted into the domain of inalienable "natural rights" (Grant, 1987). The collective non-exit clause applied then to the fiction of a social contract, where the collective or its agent has effectively has an obligation to the

⁵³ Muldrew (1998) remarks that in England modern bank money did not exist before the creation of the Bank of England and "secure accumulation was only possible if someone hoarded coins, a practice considered unsociable and miserly" (p.4).

⁵⁴ See also Muldrew, 1998, p. 318: "while the expansion of the market led to a relative swelling of the ranks of the poor, because of credit it also led to the expansion of a contractual legal culture [...]. The powerful justificatory force of contract did nothing to address the increasing inequality of accumulation, but it did give the poor equality of *access* to right. This equality of right was one of the most important foundations of natural law theory.

individual. Human rights fall into this [contract?/?/category?/] are in this domain. . Second, if the exchange entitlement set is insufficient with respect to certain minimum standards of living or food, the definition of ownership rules also determines whether an individual falls into poverty or starvation. Especially tThe so-called second generation human rights, in particular, are defining exchange entitlements that complement shortfalls in market exchange entitlements.

In the described agency relationship, information is distributed asymmetrically, giving which gives rise to the possibility of opportunistic behaviour and the need tofor a incur costly monitoring system. Institutions aim to reduce such cost. Human rights can also be interpreted as an institution a tool for reducing the transaction costs which occur when society delegates the management of its collective interests to a ruler (government, State). As we saw, collective choices always carry the a danger thatof the majority will violate violating individual preferences and rights by superimposing collective preferences. With respect to our consensus function (Ic), the concept of human rights implies that certain individual preferences must be given consensual weights equal to 1.⁵⁵ This also implies that the value zero is assigned to opinion changes on human rights in the Markov matrix, so that the social consensus appears to be as exogenously given as nature. This is why human rights may also be called natural rights.⁵⁶ Furthermore, protecting the freedom of an *individual* requires protection against collective decisions, regardless of whether they are "democratically legitimised", or taken by an arbitrary dictator. HenceTherefore, insofar as human rights constrain collective choices, they are negative rights. They do not establish how collective choices are to be made, but they stipulate which choices are *cannot* to be made.⁵⁷ Therefore, hHuman rights, then, are the ultimate set of rules in a rights based society.⁵⁸

⁵⁵ That is to say when human rights are positively defined, such as "Everyone has a right to life...". If they are negatively formulated ("No one shall be held in slavery") then of course the slaveholder's preference gets $\bar{a}_i = 0$.

⁵⁶ Finnis, 1980, p. 118 uses the terms *natural* and *human* rights synonymously: " 'Human Rights' being a contemporary idiom for 'natural rights' ".

⁵⁷ Human rights are *constitutive rules* in the sense of Searle (1995), but not *constitutional* rules in the sense of Buchanan/Tullock (1962).

⁵⁸ Dworkin (1977, p. 19) describes this fact by the distinction of primary from secondary rules: "Primary rules (...) grant rights or impose obligations upon members of the community. (...) Secondary rules (...) stipulate how, and by whom, such primary rules may be formed, recognised, modified or extinguished".

Traditional ethics

In the context of a democratic society, all this may seem fairly obvious. However, these constitutive rules do not exist in more traditional societies. This is not to say that such a society's members –for example, the Burmese -- people, say in Burma, are unfit for political responsibility, or unsuitable unsuited for democracy, or . Nor that they do not long for good government. My contention is simply that the criteria for a "good life" or a "good society" in traditional and modern societies are based on different consensual conceptions of justice because they operate from different constitutive rules. As a consequenceConsequently, their cognitive models do not interpret the world in the same manner as modern societies fashion, and social facts, such as human rights, do not carry the same meaning. [weight??].

Scott (1976) has shown that pre-capitalist peasant societies are dominated by a "*safety first*" principle, which is the normative root of what he calls "subsistence ethics" and peasant politics. Living close to near the subsistence margin and being subject to the vagaries of weather and outsiders' claims from outsiders, peasant households have little scope [need?/?incentive?/]understanding for of the profit- maximising calculus of neoclassical economics. Their behaviour is risk-averse, minimising the subjective probability of the maximum loss. This leads to a natural conservatism with "a preference for what is more assured and more predictable than the alternative which has a greater element of risk" (Hendry, 1964 quoted by Scott, 1976, p. 22). In cognitive terms, risk aversness averseness can explain the the bounded rationality of local equilibria. In economic terms, it reflects high *liquidity preference*. Here, possession dominates property. These economic survival considerations pervade all normative aspects of life, including political views. The subsistence ethics of pre-capitalist peasant societies is also opposed to the modern concept of "rights". Scott shows that peasants create institutions that insure the weakest against ruin by making certain demands on better-off villagers. : "The position of the better-off appears to be legitimised only to the extent that their resources are employed in ways which meet the broadly defined welfare needs of (all) villagers" (p. 41). This means that those who possess wealth do not have fixed claims on their resources, because resources, because they can always be over-ruled overruled by considerations of need. The "safety first" principle implies that all members of the community are entitled to a *living* from out of the local resources within the village (Scott, 1976, p. 5). Every member also has the obligation to contribute to

the survival of the hardest hit., and Justice is based on reciprocity. But the collective goal of survival is always sufficient for denying to deny members of the collective of any excessive, individual wishes what they may wish individually. what they may wish individually. Therefore, traditional entitlements are inherently discretionary and arbitrary. There is a "fuzziness"⁵⁹ in traditional entitlement relations that is incompatible with modern market economies. These entitlements are not *rights* in the modern sense. Modern rights are of *individual* rights. But if society's In a society whose wealth -creating capacities are so low that *everyone's* contribution is needed to guarantee the survival of everyone, all members must be bound no one can be allowed *not to be bound* by by this social survival contract. Hence, no one can refuse the is exempt from his social obligation, and ; no one has an individual right against society.

The traditional principle of reciprocity establishes the fairness of the "safety first" principle, but this form of justice is very different from the impartiality of modern law. Any claim on peasants by elites or the State would not conform to their understanding of justice werehen it to infringes on subsistence needs.⁶⁰ Hence, in peasant societies, Ccontractual property rights, as defined by the modern State, are then morally less justified justifiable than traditional norms of reciprocity and discretionary patronage. Not surprisingly, peasant rebellions were often the response when to colonial regimes' introduction of ed rights-based claims into traditional societies.⁶¹ Based on their cognitive models, traditional societies have little understanding offor the individual-based concept of human rights because they are primarily concerned with collective survival consider their survival to be at stake. Therefore, Tthe task of explaining multiple human rights -equilibria boils down to explaining the choice between traditional social contracts, where the "safety first" principle dominates, and those where individuals enter the modern, rights-based agreements between individuals.

⁵⁹ Sen, 1981, p. 49.

⁶⁰ Scott, 1976, p. 33. See also Sen (1984, p. 311) who found that "famines occurred precisely because of shifts in entitlements resulting from exercises of rights that are perfectly legitimate. The legitimacy referred to here is, of course, of the legal type rather than that of being supported by a given moral system...".

⁶¹ See Scott, 1976, p. 8: " On the land in Lower Burma and in the Mekong Delta these "new free man" faced an increasingly implacable class of land-owners whose claims on the harvest varied less with the needs of their tenants than with what the market would bear. What had been a worsening situation throughout the early twentieth century became, with the onset of the world depression, a zero-sum struggle based as much on coercion as on the market. Peasants resisted as best as they could and, where circumstances permitted, they rebelled.

The state was as much an actor in this drama as were the owners of the scarce factors of production. Not only did it provide the legal and coercive machinery necessary to ensure that contracts were honoured and the market

Subsistence ethics also shapes the form of the agency relationship in traditional societies, where in which the patron fulfils patron fulfils insurance functions as an agent. In Burma, this is reflected in the Buddhist concept of *Mahasammata*, a ruler named by unanimous consent of the people., of which Aung San Suu Kyi (1991, p. 170) writes: "The agreement by which their first monarch [the *Mahasammata*] undertakes to rule righteously in return for a portion of rice crop represents the Buddhist version of government by social contract." However, "righteous rule" does not mean "rule by rights", because the ruler as an agent of the collective is to make discretionary decisions based on the wisdom of his life- experience. Although the agency problem of opportunistic behaviour by patrons is a permanent reality in traditional peasant societies, it is not solved by the institution of rights, i. e. *individual* claims and entitlements, but by reference to what Lal (1998) calls "cosmological beliefs".⁶²

Aung San Suu Kyi has argued that traditional Burmese cultural norms are not unsuited for democracy. She observes (1991, p. 170): "because the *Mahasammata* was chosen by popular consent and required to govern in accordance with just laws, the concept of government elective and *sub lege* is not alien to traditional Burmese thought." However, even though Burmese-Buddhist principles express a profound sense of human dignity, they do not provide the foundations for human rights. This is because bBy definition the patron or ruler is legitimised by the collective welfare function., and Arrow (1951) has provided the formal proof that such a ruler *has* to be a dictator. By contrast, rights reflect two contradictory standpoints that are overcome by consensus and formalised by contracts. But the traditional peasant is not free to avoid entering *not* to enter a patron-client relationship - or to exit it - if the patron turns out to be an unreliable protector⁶³. [In fact, the personal tie between client and patron often inverts the strict agency relationship when the client is tied to his landlord by personal deference and a sense of obligation (Scott, 1976, p. 45)I'M CONFUSED. THIS

economy retained, but the state was itself a claimant on peasants resources. Much of its administrative effort had been bent to enumerating and recording its subject and their land for tax purposes."

⁶² For example in Burmese-Buddhist believe, the *law of Karma* is considered as the iron law of causality which has the inexorable and uniform tendency that all actions of sentient beings produce sooner or later like results in the life of these beings (King, 1964). Other traditional Burmese-Buddhist moral principles like *alobha* (non-greed), *adosa* (non-hatred), *amoha* (non-disillusion) and *metta* (loving kindness), *Karuna* (compassion) and *mudita* (rejoicing in other's joy), *ahimsa* (non-violence) are also easily understood as normative constraints in hierarchical, traditional societies against opportunistic behaviour of life saving patrons.

⁶³ Scott (1976, p. 27) writes: "Although clients often do what they can to cast the relationship in moral terms - since their sheer bargaining power is often minimal - patronage is more to be recommended for its resources than for its reliability".

HAPPENS IN MODERN SOCIETY?]. The principal is to woo the agent wooing for benefits from the agent - a behaviour that appears as corruption to the rights-based observer, while it seems "normal" in the traditional context.

This agency relationship structures traditional societies as hierarchies. Positions of status complement each other in their functional assignments to the collective. The constitutive rules of such societies do not emphasise the role of equal individuals and rights, but of society as a whole and the hierarchical positions in it. Dumont (1980) has stylised these differences between traditional and modern society in the concepts of "homo economicus" and "homo hierarchicus". *Homo economicus* considers society as the means, and life of each individual life as its end. By contrast, in the traditional cognitive system emphasis is placed on society as a whole in the traditional cognitive system. *Collective man, or homo hierarchicus*, sees the societal organisation of society as the end -(for this alone allows his survival)- and individual life as the contribution he has to make from his own place in the global order. Thus, he is preoccupied with considerations of status, order, rank and hierarchy.

However, the dichotomy between modern and traditional societies is never that clear cut. It only has the pedagogical purpose of stylised facts. In reality, East and West, old and new, have met. The modern concept of rights-based justice was introduced by the colonial regime into the peasant societies of Burma and elsewhere, where and it clashed with the dominant subsistence ethic. Scott (1976, p.65) shows that the very statuses of landlord, tenant and wage labours were artefacts artefacts created by the colonial integration of Southeast Asia into a capitalist legal order and world market. The relationship of landowners to their tenants and labourers lost much of its protective, paternalistic content and became more impersonal and contractual. What had often been a diffuse and flexible relationship that provided subsistence insurance in poor years grew more explicit and rigid, and was blind to good and bad harvests. Hence, the colonial State's militia and courts enforced contracts that violated the moral economy of the peasantry. Simultaneously, Therefore the fight against colonialism was simultaneously a became a struggle for a "traditional" understanding of justice. Instead of an impartial "rule of law", traditional client-patron relationships seemed a more natural way for the functioning of society's institutions, even if it led ultimately to the appearance of "corrupt government" and "crony capitalism". Thus, it is not surprising, then, that after Independence, nationalism alone proved insufficient to justify the continued exactions of the

modern State. Government, even a democratic one, stood exposed as "an immoral and perhaps even exploitative instrument of a narrow ruling group" (Taylor, 1987, p. 283). In this context, the totalitarian regime set up by Ne Win after the 1962-coup must have found some legitimacy. Its backward-looking, nationalist ideology must have sounded as an echo with backers of the to the previous anti-colonial struggle for independence and justice. But in In reality, the military dictatorship in Burma is a totalitarian distortion⁶⁴ of the traditionalist view. This latter view is still preserved in relatively pure forms in the local societies of Burma's ethnic minorities, but much less in Burma proper.

Universality of human rights

We have now come to a point where we need to deal with a crucial question. If the cognitive model of traditional societies is so radically different from modernity, are rulers in Burma and elsewhere justified to reject and abuse in rejecting and abusing human rights? Put differently, the question is: are human rights universal? In other words, are human rights universal? In this context it is useful to We must distinguish between the two complementary concepts of human *dignity* and human *rights*. Dworkin (1977, p. 198) defined human dignity as the idea "that supposes that there are ways of treating a man that are inconsistent with recognising him as a full member of the human community, and holds that such treatment is profoundly unjust." However, we saw have seen that conceptions of justice may vary. Howard (1992) therefore correctly pointed at "human dignity as the *particular* cultural understandings of the inner moral worth of the human person and his or her proper relation with society"⁶⁵. Hence, interpretations of human dignity are always *relative* to the dominant culture. For example, the above aforementioned Buddhist principles describe different forms of human dignity than, say, Western feminism, although both are equally valid in their respective environments.

By contrast, every human being ought to have deserves human rights simply by virtue of being human and for no other reason, regardless of status or achievement. This is because hHuman rights entitle human beings to the protection of their dignity. This concept is *absolute* and *universal in reach* because every human has dignity, and deserves its protection.

⁶⁴ Dumont (1985, p. 21) explains totalitarianism as the "attempt to subordinate individualism to the primacy of society-as-totality in a society where individualism is already profoundly rooted and predominant".(my translation)

⁶⁵ Emphasis added.

This is true, even if the cognitive model dominant in a given society may have present difficulties in recognising the dignity derived from other conceptions of justice. The distinction between human rights and human dignity is important, as rights only alone establish the abstract universal claim to legitimately recognised norms, while the *specific* concept of human dignity defines the norm itself. As a consequence, there can and must be cross-cultural debates about the definition of human dignity as the interpretative content element of human rights, but not about their universal validity.

Historically, it seems to appear that the recognition of dignity norms is more difficult when they transcend the confinements of a given community with its specific cognitive model. For example, according to Maung Maung Gyi, in pre-colonial Burma the Karen in pre-colonial Burma were treated by the Burman majority "no better than wild animals" by the Burman majority (Yawngwe, 1995, p. 182). This is because social status and consensus weights are always assigned by communication *within* a social context, and an alien society is necessarily outside this context. [Thus, the modern attempt of Burman nationalists to relegate "ethnic minorities" to lower rank could only occur after colonialism had established a sense of the "Union of Burma". I'M UNCLEAR AS TO WHAT YOU MEAN BY UNION] But this also means that the validity of human rights for non-dominant ethnic groups can only be perceived after a modern cognitive model has established the principle of universal equality of rights for individuals. Burma's problem, as that of all developing societies, is how to transform the old cognitive model. This task requires establishing a new set of social practices that will simultaneously restructure at the same time the constitutive rules under which society operates.

Money, credit and the norms of moral economies

The normative framework of a society also structures its economy. One manifestation of different conceptions of justice and the related cognitive models in societies is the relation between human beings and objects. In traditional societies, man-to-man relationships dominate man-to-object relations (Dumont, 1985; p.13). The reason is that from the point of view of subsistence ethics, access to life-saving resources is obtained through the patron-client relationship, while in a rights-based society, property gives access to possessions. These relations reflect the constitutive rules by which a society's economy is organised. In

this respect, money is a crucial institution, for it requires the *ethics of credit* as its normative foundation. It is my conjecture in this paper that it is the a culture of credit, as discussed by Muldrew (1998), which that generates the social relationships and their and interpretations that ultimately sustains the normative validity of human rights.⁶⁶ To understand this point, it is useful to we must look at the function of money.

It is generally understood that in traditional societies, money simply serves as a *means of exchange*, and wealth is held in the liquid form of liquid possessions, not rather than property. Livelihood is more important matters more than surplus which, when it exists, and, if a surplus exists, it is distributed by gifts and reciprocity rules or as gifts and is ultimately consumed (Sahlins, 1974). By contrast, in modern societies, by contrast, money fulfils the function of *means of payment*⁶⁷ and is based on the same constitutive rules that establish private property (as distinct from possession). An individualist society requires the institution of formal contracts to keep the atomistic system coherent, and money is the accepted asset by which claims from debt contracts over possessions are settled and discharged (Keynes, 1930; Riese, 1990). In other words, in the modern world, money is *credit money* or *inside money* in the modern world. It is created when a firm takes credit from its bank to finance investment and the bank sells the credit to the central bank in order to obtain the settlement asset. In a credit economy, money as the settlement asset gains its prominence as *a measure for monetary prices* and as an *instrument to communicate trust*, - not as a means of exchange (Muldrew, 1998 p. 101-102). On the level of [IN?]On the aggregate level of society, money does not constitute wealth (an asset), but a claim on wealth (a liability). Its specificity is that it is highly liquid, meaning which means that it approaches the quality of possessions. However, since debt contracts are *promises* to pay on which debtors may default, the separation of possession from property or of liquid assets from financial claims is a source of institutional uncertainty and personal anxiety for wealth owners. Because of Due to the debtor-creditor chains of assets and liabilities, default does not only carry carries not only the risk of material loss of possessions, but also the social loss of one's reputation. The creation of inside loans, i.e. debt by private agents to each other, is therefore an indicator of agents' for their willingness to assume this moral risk, with and creditors require requiring interest

⁶⁶ Muldrew, 1998, p. 332 insists that it is not the nature of the market but the relationship between the institutions of credit and the "self" which is constitutive of social modernity.

⁶⁷ See Nitsch, 1995; Renger, 1995. One may, however, question whether means of exchange which that are not simultaneously means of payment should be called "money". See also Heinsohn, 1995.

payments as a compensation for accepting to hold their wealth in the form of risky, non-liquid claims.⁶⁸ But this This implies, then, that the a borrower has to must produce a surplus by the efficient allocation of resources in order to service his debt. Investment requires a return to pay for interest.

As a consequenceConsequently, modern market economies are structured around the production and the exchange of goods and commodities *in exchange for money*, with a high concern for degree of concern placed on productivity and efficiency. In a monetary economy, tThe driving force for growth and development is the need to service debt, and not the postponement of consumption. The classical virtues of capitalism - hard work, shrift and accumulation - were only derived from the need to keep up maintain one's trust and reputation. Governments, on the other hand, normally service public debt titles by imposing taxes.On the other hand, if governments issue public debt titles, they normally⁶⁹ service them by imposing taxes. This reduces consumption, but does not increase production. As the Ricardian equivalence theorem has stated, government debt is not net wealth. Thus, the modern credit economy's with its drive for capital accumulation requires that two conditions to be met. First, wealth owners must be willing to hold their wealth as financial claims rather than in non-interest bearing, liquid assets. This is called the monetization of capital (Tobin and Golub, 1998, p. 129). The greater the extent of monetized capital, the greater is the aggregate demand for real for real capital and, consequently, economic growth. In other words, a successful development strategy requires an economic environment where wealth owners are willing to monetize capital. Second, the constitutive rules of a monetary economy need to be followed. nNo one would be willing to hold financial claims and monetize capital, if human rights are not were not respected, property rights are uncertain, or if the value of money is were not secure due to high inflation, frequent depreciations or administrative controls. In other words, the constitutive rules of a monetary economy need to be followed.

We now perceive the implications of moral norms for economic development. Property is the foundation for the accumulation of surplus, and human rights are the indispensable protection of individuals and their contracts against collective claims by the sovereign, however

⁶⁸ In fact, in Europe's traditional society the concept of *interest* referred to compensation for loss of a debt, while *usury* meant the fee charged for a loan. It was not until Elisabeth's reign in England that the charge for lending came to be termed an interest rate rather than usury. See Muldrew, 1998, p. 113-114.

⁶⁹ In Burma *forced labour* also plays a prominent role.

legitimate his power may be. Thus the same constitutive rules that create institutions, such as property rights and money, also create human rights and economic growth.

The logic of choosing low human rights

The transformation of a society's cognitive model and social consensus requires a simultaneously a profound restructuring of the economy. In this context, the existence of multiple human rights equilibria is to be expected. Based on different constitutive rules, traditional and modern societies operate with different sets of moral norms. The resulting cognitive systems lead to alternative and sometimes- contradictory interpretations of the world. As a consequence, the utility of rights in general, and of human rights and property rights in particular, is not evaluated in the same way. In a society where a large portion of the population is poor and living close to the subsistence level, the safety- first principle would be more highly valued higher than individual rights.⁷⁰ Such a risk-averse society would reveal a preference for liquidity over financial assets, for possession over property. That is a normative context where human rights would seem to have little legitimacy. [At the same time, such a society is denied of the most powerful [force ANOTHER WORD MAY BE MORE APPROPRIATE] of behind wealth accumulation: the need to produce a surplus in order to service credit contracts. Therefore, interpreting social reality through traditional cognitive models leads to both, low human rights and low wealth. By contrast, modern society is based on individual contracts and rights, impartiality of justice and the accumulation of financial wealth. It is economically more dynamic, but also existentially less secure. Especially in the early phases of the a transition to a more developed economy, those living close to the subsistence level must perceive the impartial rights of modern economy with its impartial rights as a threat to their survival. They would prefer a society based on patronage and redistributive justice. Therefore mMore human rights and democracy would appear to increase wealth, but also insecurity. Society must choose a preferred The choice of society is about the standard of living that takes into account wealth, freedom and security.

⁷⁰ This was also observed by Sen (1984, p.312): "The question I am asking is this: if results such as starvation and famines were to occur, would the distribution of holdings still be morally acceptable despite their disastrous consequences? There is something deeply implausible in the affirmative answer. Why should it be the case that rules of ownership, etc., should have such absolute priority over life-and death questions?"

[BUT IN A LOTTERY, YOU DON'T HAVE A CHOICE BETWEEN OUTCOMES; YOU EITHER WIN OR LOSE. IS THERE AN ECONOMIC SENSE OF THE TERM THAT I DON'T KNOW?} We can model this logic as a choice between two lotteries. If we perceive life as a lottery between good years and bad years, and if human rights affect the outcome in the two states, the choice between high and low human rights-development paths implies comparing the expected utilities of two lotteries. This evaluation determines the subjective utility of individuals in our consensual welfare function as described above.⁷¹ Let us assume that a peasant's real income depends on a stochastic variable such as rainfall. If rain is less than normal, income is also less and inversely also reduced. Furthermore, assume that the peasant has a contractual obligation to transfer a fixed amount of his income to a landlord, government or debtor. In a traditional society, he may negotiate with his patron to reduce the transfer in bad years in order to safeguard his livelihood. In a modern society, the impartiality of justice will not allow for such discretionary exemption of legal claims, so and therefore he will have less disposable income his disposable income will be less. On the other hand, if rainfall is plentiful, the peasant may have to transfer more of his income to the traditional patron (possibly the local military commander), so that the increase in disposable income is only moderate. By contrast, modern rights-based claims would allow him to reap full benefits from windfall crops. Thus, disposable income is a function of rainfall (R) and of the model of society reflected by the human rights index (H):

$$(7) \quad y = y(R, H), \quad y_R, y_H > 0 \quad y_{RR}, y_{HH} \leq 0, \quad y_{RH} > 0$$

We assume that both marginal products are positive with diminishing, constant or increasing returns. Furthermore, an increase in human rights will also increase the marginal income from rain because of lower claims by the patron, or also because the safety of contracts stimulates investment. Thus, assuming for simplicity constant returns, the disposable income matrix may look like this⁷²:

⁷¹ Ng (1984) has established the equivalence between von Neumann-Morgenstern utility indices and subjective utility indices.

⁷² Our production function is of the form: $y = x + R(1 + \alpha H)$, where x stands for normal or deterministic income, R is the stochastic shock from rainfall and α is a coefficient that reflects the redistributive impact of the rights system. A linear function is compatible with figure 1, although not with Barro's estimate of a quadratic function for the marginal product of democracy.

Table 1: Pay-off matrix from human rights under uncertainty

$x=10, \alpha=5$	Rainfall (R)		Expected income
Human Rights	no rain (R=-1)	rain (R=1)	
Low (H=0)	$y_{01}=9$	$y_{02}=11$	$E(y_0)=\pi_1 y_{01} + \pi_2 y_{02} = 10$
High (H=1)	$y_{11}=5$	$y_{12}=15$	$E(y_1)=\pi_1 y_{11} + \pi_2 y_{12} = 10$
probability (π)	$\pi_1=0.5$	$\pi_2=0.5$	

Under each human rights regime, expected disposable income is the probability weighted outcome under the two states of nature. Because we assumed the impact of rights to be symmetric ($\alpha=5$), expected income is identical in high and low human rights regimes, and both represent a fair gamble. Under risk-neutrality, the peasant would be indifferent between the two regimes. However, if he is influenced by the spread of possible outcomes because his real income is close to the subsistence or poverty line, the peasant's commitment to human rights will depend on his preferences over their regarding their expected consequences for impact on his living standard. That is, he will choose the row of the disposable income matrix with the highest expected utility:

$$(8) \quad \max E [U(y) / H] = \pi_1 v (y_{H1}) + \pi_2 v (y_{H2})$$

The risk-averse peasant will commit himself to human rights, if and only if:

$$\pi_1 v (y_{01}) + \pi_2 v (y_{02}) < \pi_1 v (y_{11}) + \pi_2 v (y_{12})$$

The function $[v(\cdot)]$ ARE YOU MISSING SOMETHING HERE? is a preference scaling defined over income. Assuming risk averseness (concavity) and that needs are the same in all states (identical $v(y)$) and risk --averseness (concavity), it is clear that differences in the subjective utility of human rights result from differences in disposable income. However, table 1 indicates that although good plentiful rain and high human rights are always preferable are always the preferred combination, low human rights are preferred when there is no rain. The reason is that Because the cross-partial derivative in (7) is positive ($y_{RH} > 0$):, a negative weather shock would lower the absolute income level,; buthowever, by reducing the human rights commitment, the marginal product of rainfall isis also reduced as well. Consequently, awith lower level of human rights reduces the absolute fall in income is less.

Given that the subsistence level of income or poverty is defined in absolute terms, a low human rights commitment to low human rights is effectively an insurance against destitution. This explanation is in line with Sen's (1981) entitlement approach, whereby in which the exchange of entitlements (sets of alternative bundles of commodities) depends on "legal, political, economic and social characteristics of the society in question" (p. 46) in the case of bad weather. A move from subsistence ethics to credit ethics would then represent an unfavourable shift in the exchange entitlement mapping, with the consequential A the risk of starvation as a consequence.

Our model would explain the apparent paradox observed in section 1. Barro's estimated non-linear correlation between economic growth and democracy corresponds to the marginal product of human rights ($y_H = x + aD - bD^2$) which yields first yields first increasing and then diminishing returns. However, the estimate does not take into consideration consider the stochastic shocks to income and the behaviour toward risk.⁷³ As a consequence, This explains why point A in figure 5 seemed to imply negative marginal utility for democracy, while equations (7) and (8) would clearly indicate positive marginal utility for human rights. In fact, the utility function must not be formulated in terms of growth, but in terms of income, as in (7). The (marginal) impact of human rights on growth is then positive, but the inability of risk-averse agents to foresee shocks leads still leads them to make some kind of *adverse selection*.

Thus, subsistence ethics leads to choosing a lottery with low risk and low return, because holistic collectivism seems to guarantee survival in case of need, though simultaneously preventing but it also prevents wealth wealth accumulation. The problem of multiple equilibria in human rights can then be reduced to the St. Petersburg Paradox⁷⁴: why do people not choose social contracts where in which the expected utility is maximised by providing wealth *and* freedom, as welfare economics would assume? In risk-averse, poor societies, Because poor societies are risk-avers and to them the utility of subsistence- ethics-based

⁷³ It might be of interest to re-estimate Barro's equation under the assumption of a multiplicative error term:

$$y_{H,t} = x + aD_t + bD_t^2 + (\alpha + \beta D)\varepsilon_t.$$

⁷⁴ The St. Petersburg paradox, first mentioned by N. Bernoulli in 1713, concerns a game where a coin is tossed n times until the first head appears; 2^n coins are then paid out. Paradoxically the mathematical expectation of gain is infinite although common sense suggests that a fair price to play the game should be finite. The paradox could be solved by replacing the mathematical expectation by a concave expected utility function à la Von Neumann-Morgenstern, that is by risk-avers behaviour. See Dutta, 1999, p. 438.

collectivism seems to be higher than the utility of rights-based individualism. This basic choice permeates all aspects of social and political culture. It must also be a crucial determinant in the formation of consensual weights in the collective utility function. Therefore, Our final question is therefore, : how to can a society move from a low to a high human rights equilibrium.

IV- Moving from Low to High Human Rights Equilibria

What are the factors of social change that allow for a shift the passage from low to high human rights development paths ? North (1990) claims that changes in relative prices are the most important source of institutional change. In the framework of our analysis, this implies a change in either different consensual weights or different perceptions of the expected utility of human rights, both of which . Both depend on specific cognitive systems. Changing the cognitive system of a society, then, would change its commitment to human rights. Given that the adverse selection of human rights is a form of insurance, one may be tempted to provide social security by the state as an entitlement protection against poverty (Sen, 1981). Indeed, this This might indeed reduce the element of risk -averseness in the collective utility function. It is probably no coincidence that socialist ideologies flourish at early stages of the transition from traditional to modern societies. However, insofar as social security entitlements represent rights, they presuppose already a rights-based society. Hence, social Social security, or more generally, second- generation human rights for social, economic and cultural claims⁷⁵, can contribute to the *sustainability* of a human rights culture. But, they are not insufficient to establish it. This The creation of a high human rights culture requires as a necessary condition the transformation of the traditional social consensus, and a simultaneous at the same time the diffusion of new social practices and, ultimately, different new constitutive rules.

Such a This switch would take place when economic agents move from the subsistence to the monetary economy. This is, first of all, because First, a monetary economy requires the concept of contractual rights as the foundation for debtor-creditor relationships. Second,

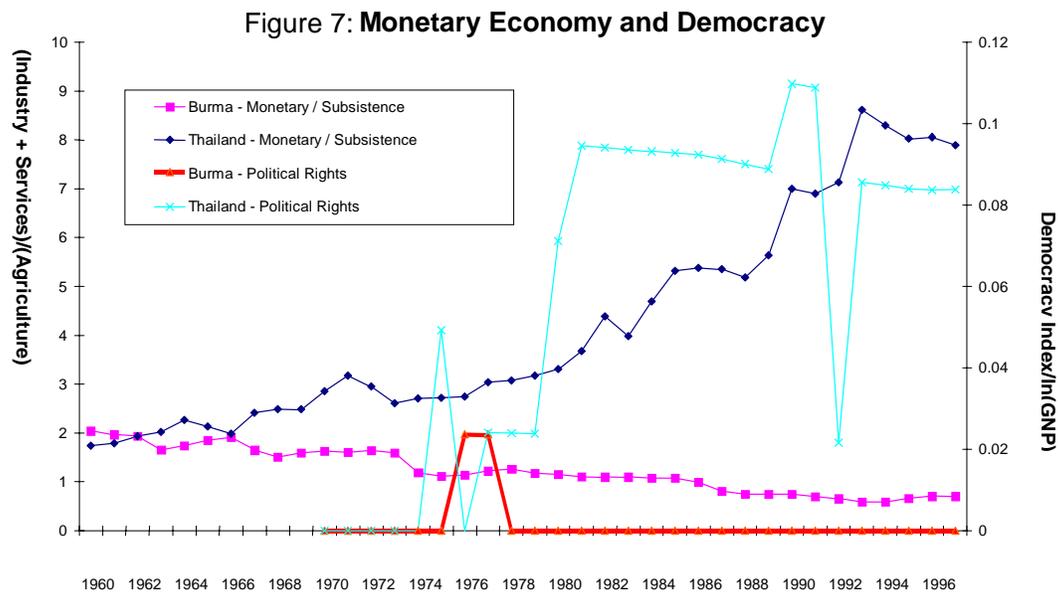
because average prosperity progresses more rapidly in a monetary economy, risk-averseness with respect to poverty would decrease, provided the distribution of poverty remains unchanged (possibly as a consequence of social security programmes). Both factors contribute to a higher subjective utility of human rights, as perceived by individuals, and also to higher weights in the collective utility function. In addition, the sociological transformation that goes with accompanies such economic restructuring also gives an "objective" dimension to these social weights, because it has an important impact on the Markov matrix in social consensus building. From our model of multiple equilibria in figure 6, we know that the stability of a given development path requires that individual and collective intentions about human rights coincide. We would expect that low human rights equilibria represent subsistence economies and that high human rights levels correspond with to monetary economies. A change in collective preferences would then reflect a change in economic structures. To the degree that the monetary economy expands relative to the subsistence sector, economic agents become rights-conscious individuals. Thus, they would give great weight to individualistic values and their personal human rights human rights index (h_i/y) would increase. This would also lift the collective human rights- index, unless a dictatorial government repressed democracy, and thereby pushed pushing economic agents back into the subsistence sector. This - as has happened frequently in Burma.

Burma and Thailand: two models of development

An empirical verification of this hypothesis is not easy, given that reliable data on the subsistence economy economies are not compiled systematicallydo not exist on a systematic basis. However, we may obtain some [sketchy PARTIAL??] evidence from comparing the performance of Burma with Thailand. Both countries had fairly similar backgrounds, climatically, economically, culturally and even politicall backgroundsy. In the 1960s, both countries were run by military dictatorshipsmilitary dictatorships ran both countries. Thailand was ruled by Generals Generals ruled Thailand with few interruptions until the late 1970's; , Burma's continuously since military rule began in the early 1960s to present dayand continues today. The main difference between both consisted in their different was their respective experiences ofwith colonialism. While Burma was a British colony from the mid

⁷⁵ See for example art. 11 (1) of the International Covenant on Economic, Social and Cultural Rights which "recognizes the right of everyone to an adequate standard of living for himself and his family, including

1800's until 1947, Thailand (the Land of the Free) managed to keep its independence. As we have seen above, the struggle for independence lend legitimacy legitimised to the traditional values of Burmese society. However, given that because the colonial regime had introduced new rules which were coherent with a more modern monetary economy, the resulting backlash led to the *totalitarian distortion* (Dumont, 1985) of the traditional value system. In Thailand, the relatively enlightened Chakri- dynasty opened the country to Western reforms which that were pursued even by military dictators after the demise of absolute monarchy. As a consequence Consequently, Thailand became increasingly open to Western influences, which began that started to transform the economy and established a properly functioning monetary economy. By contrast, while Ne Win's *Burmese Way to Socialism* took the country into isolation and destroyed the existing monetary market economy.



Sources: World Development Indicators (1999) and Freedom House

Figure 7 takes the weight of agriculture in GDP as a proxy for the subsistence sector. It shows that the ratio of the monetary sector (industry and services) to agricultural output increased rapidly in Thailand in the 1980's, while it was on a persistently declining path in Burma. Before Ne Win's coup in 1963, Burma's monetary economy was more developed than Thailand's. This advantage was quickly inverted, partly as a consequence of *Burmese Socialism*, partly because due to Thailand's monetary sector expanded expansion under with increasing American influence during and after the Vietnam warWar. Politically, however,

adequate food, clothing and housing".

both countries stayed on a low human rights development path until the late 1970s: Burma under Ne Win, Thailand first under Sarit's "Despotic Paternalism" (1958-1963) and then under the Three Tyrants. However, in Thailand, the student uprising in 1973 led to greater political freedom even though it was again restricted in 1976-79. The democracy index⁷⁶ increased dramatically after Prem Tinsulanonda became prime minister in March 1980. Thailand subsequently went through a remarkable period of political and economic reform, opening paving the way for democracy and an emerging market economy (Wright, 1991). The violent, but short-lived coup in 1992 seems to be the exception that confirms the rule. It is possible may well be that the progress in individual liberties for personal liberty in of the early 1990s went too quickly to fast for the established consensus, in what was still a largely rural society. Yet, it is interesting that the dictatorship under Suchinda was also not sustainable.⁷⁷ As figure 7 indicates, the level of democracy in Thailand has apparently attained an equilibrium that coincides with a relative stability in [the share of UNCLEAR TO ME] the monetary economy in total activity.

Across the border, Burma has kept a stifling military dictatorship for nearly 40 years, and the democracy index stayed has remained at zero. [The only break in this pattern exception was are the two years following the reconstruction of the banking system in 1976, and a and an apparently short-lived short period of a more relaxed political environment.⁷⁸ I COULDN'T TELL IF THESE WERE TWO SEPARATE EVENTS. I GUESSED AND COMBINED THEM] However, over an agitated history of economic upheavals, the monetary economy has persistently lost importance relative to the subsistence sector. The military coup of 1962 was followed by widespread nationalisations, including that of all banks, and an inward-looking development strategy with emphasis on that emphasised self-reliance, isolation and

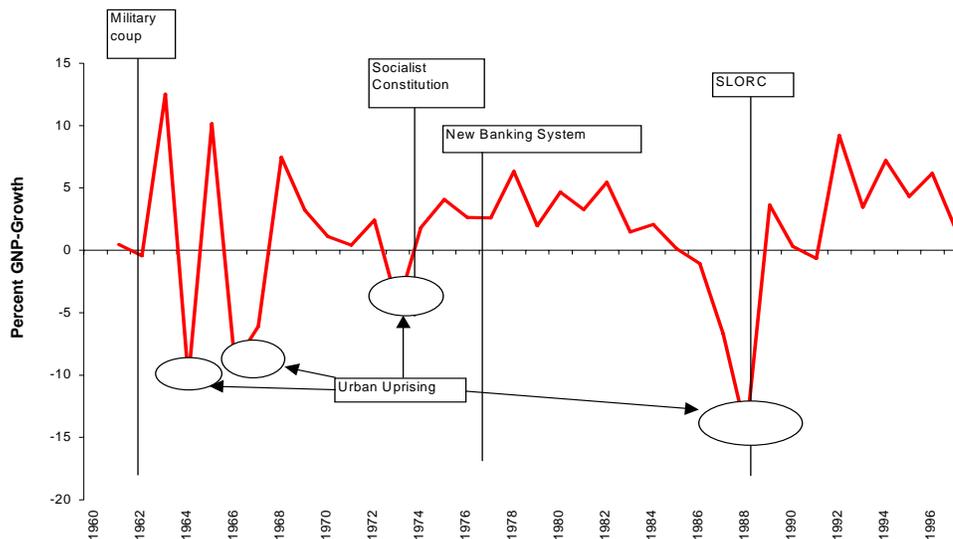
⁷⁶ The Freedom House (2000) political rights index rebased to the Barro-scale between 0 (worst) to 1 (best) divided by the log of GNP.

⁷⁷ Soraj Hongladarom (1998) describes the changing consensus in Thailand: "The Thai word for human rights - *Sithi Manussayachon* - still rings an unfamiliar sound. For most Thais, the word simply conjures up the image of someone who disregards the traditional pattern of compromise and harmonization of social relations; someone, that is, who is quite out of touch with the traditional Thai mores. However, the mores themselves are changing. As the country is surging toward industrialization, and as the people are ever estranged from the traditional way of living, more Thais are beginning to realize the need for human rights. This is well attested by the Black May incident of 1993, when scores of Thais lost their lives fighting for democracy against the army. The discourse of Thai people is beginning to presuppose the basic premises of human rights, even though these are not spelled out explicitly. The situation is that of a dynamic where traditional mores are being left behind and the people are groping for a new one."

⁷⁸ The democracy bip in 1977 is recorded by Gastil (1988) but not explained. It does not correspond to any significant political event in Burma. It may therefore misrepresent reality, particularly as Gastil (p. 53) states: "It

strict neutrality in foreign policy. Per capita income stagnated. In line with our model in section II, we find a clear correlation between economic growth, money and political unrest. When ever per capita income fell by over more than 5 percent, hunger riots and rural insurgencies broke out. Invariably, the government changed its policies after following such upheavals, but always in a framework that maintained the totalitarian distortion. After the mid-1960s, the regime opted for Eastern- European-style industrialisation. Financial structures were transformed into a monobank system (Myat Thein, 1990), which did not allow for the development of contractual debt-creditor relations. The strategy turned out to be a disaster, and a huge an enormous black market developed (Mya Than and J.Tan, 1990). In 1974, negative growth again sparked anti-government riots at the occasion of UN General Secretary U Thant's burial (Smith, 1991, p. 268-9), followed provoking by new policy changes. A new constitution was introduced in 1974the same year, although the fundamental nature of military power was not affected. In the economic field, some certain barriers to foreign investment were lifted, and the government invited and external assistance was invited. A new banking system was set up established in 1976. After Following these reforms, economic growth resumed, this time largely supported by loans from international donors and agencies.⁷⁹

Figure 8: Burma: GDP per capita Growth Rate



Source: World Development Indicators, 1999

should be noted that changes in information and judgement since 1973 make rating not strictly comparable from year to year." However, the Freedom House (2000) index has even extended it to 1976.

⁷⁹ ODA-loans were roughly twice the volume of grants between 1974-86 (Khin Maung Nyunt, 1990).

Some observers argue that economic growth only began started after Myanmar began started to accept Overseas Development Aid (ODA)⁸⁰. However, the "boom" of the late 70's and early 80's was unsustainable. The monetary economy continued to loose importance relative to the subsistence economy. Private investment practically disappeared; from. During 1982-85, it amounted accounted for only to only 3.8% of GDP. Public investment (13.9%) was concentrated into in import-substituting industries, which were protected by high tariffs and quantitative import controls (U Tun Wai, 1990). Exports fell, partly due to the world recession in the early 80s, but also, more importantly, because of the grossly overvalued official exchange rate. Competitive exports went illegally over crossed the border into neighbouring countries, and the government started began to loose foreign currency reserves rapidly at a rapid rate. At first, the economic deterioration was masked by substantial foreign borrowingsubstantial foreign borrowing masked the economic deterioration.⁸¹ Then But two new demonetization measures in 1985 and 1987 wiped out almost all of the country's liquid savings in the country, and most financial claims to wealth lost their validity. Per capita income fell by 22% from 1986 to 1988. KIn keeping with the previously observed pattern, this deterioration in living standards, coupled with the loss of property rights, again led to widespread public riots. However, tThis time, however, it also brought the emergence of a powerful democracy movement also emerged, though. After few month, it was repressed a few months later in a bloodya bloody coup by the newly-formednewly formed SLORC.⁸² This new government was immediately considered an outcast by the world communityThe world community immediately treated this new government as an outcast, and ODA was stopped. The SLORC, despite its fundamental xenophobia, was then forced to open its economy in order to attract private foreign investment., despite its fundamental xenophobic attitude. Although these new capital flows provided some temporary financial relief, the growth rate quickly fell back regressed after the initial up-shot.⁸³

Thus, there is a repetitive pattern in Burma's economic development: short periods of unsustainable economic growth are followed by stagnation and crisis. Shocks to output and negative growth frequently lead to popular unrest. These observations provide support for our

⁸⁰ Hashimoto, 1988.

⁸¹ Khin Maung Nyunt, 1990; World Bank, 1995. Burma's foreign debt rose from US \$1 billion in 1979 to over US \$4 billion in 1988 and \$5.5 billion in 1994.

⁸² For a detailed description of the events, see Lintner, 1989.

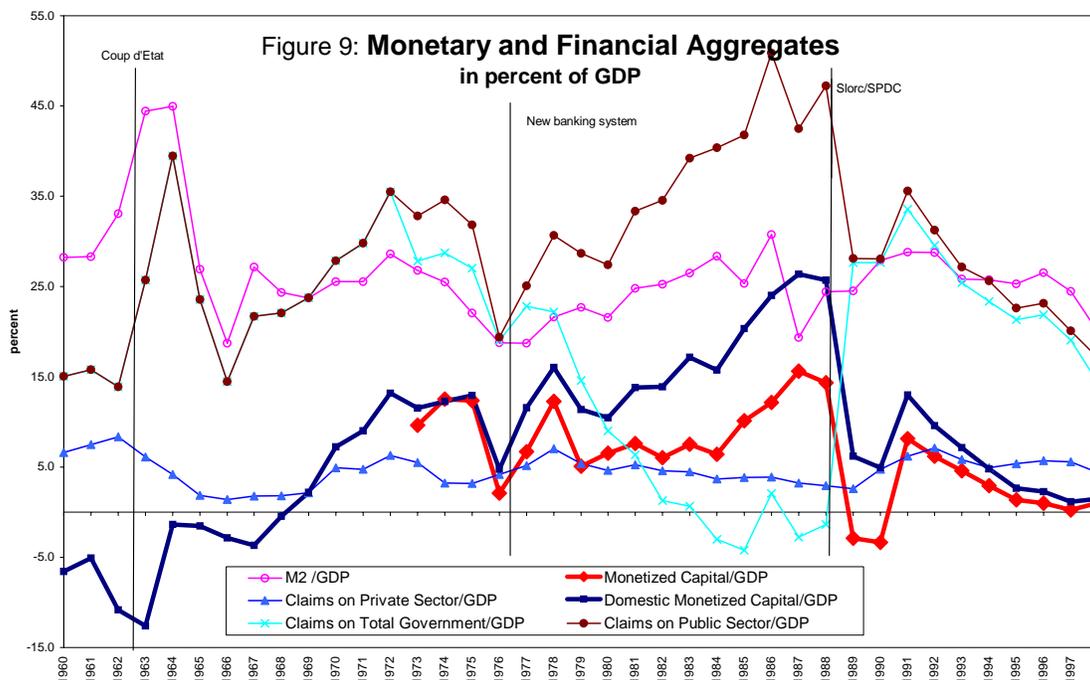
⁸³ For a more detailed analysis of these changes, see Collignon, 1994.

model of multiple equilibria.: Burma is a "bad" dictatorship insofar as political repression prevents economic development. It is caught on a *low human rights stagnation path*. It is also clear that foreign aid did not contribute to the development of Burma; instead of contributing to the development of developing a a culture of rights and contracts, foreign aid it helped to bail out the dictators. Economic agents were pushed forced to take refuge in the subsistence economy, and to keep liquid possessions.

The credit economy in Burma

Over a longer a longer period, there is no evidence of a fundamental break in the growth dynamics in Burma.⁸⁴ This also emerges clearly emerges when we look at the accumulation of financial claims by the private sector in the Burmese economy. As we saw above, economic development requires the accumulation of private debt titles, i.e. the creation of non-liquid property. However, the Burmese economy did not provide the conditions for such development. Figure 9 shows the evolution of some major financial aggregates. The ratio of *M2* to GDP is fairly stable, although the four demonetisations of bank notes in 1964, 1965, 1985 and 1987 are clearly recognisable. Claims by the banking system on the private sector have been minimal, averaging: they averaged 4.4 percent of GDP between 1960-1988 and 5.2 percent under the SLORC. *M2* corresponds closely to the evolution of domestic credit given to the government, reflecting the fact that the printing press finances the government (Collignon, 1997).

⁸⁴ In order to verify this statement, I tested the log of the per capita income series econometrically (using Pc Give 9.0). I ran an AR-3 OLS-regression with a SLORC-dummy after 1988. The series was (weakly) stationary and recursive estimation techniques, including the break-point Chow test, showed that parameter constancy could not be rejected.



Monetized capital (MC)⁸⁵ shows the degree to which private wealth owners are willing to finance the accumulation of capital. Most of the time Usually, the Burmese ratio of MC to GDP remains below under 8 percent. In 1988 and 1989, capital flight was so important significant that monetized capital actually became negative. Given that When foreign aid and most direct foreign investment stopped, the SLORC turned to domestic sources to mobilise capital, while the State enterprise sector was dismantled. However, the ratio of monetized capital to GDP fell again, from 8.1 percent in 1991 to 0.3 percent in 1997. In comparison, Thailand had ratios of 14-26 percent for Thailand; the United States, and 14-20 percent for the United States; during the same period. Thus, under the SLORC's rule, conditions for economic development have actually worsened, and not improved.

Monetized capital measures the rate at which private wealth owners accumulate financial capital at home. However, given that Burma's net foreign assets are always negative, capital accumulation is actually higher than wealth accumulation. To obtain a sense of proportions, I have also calculated *domestic monetized capital* (DMC)⁸⁶ which indicates the monetized capital created by residents before taking into account foreign liabilities. Unfortunately, data

⁸⁵ Monetized capital was calculated as net foreign assets plus domestic credit minus money (M2).

for claims on State owned enterprises before 1973 prior to are not available, therefore so that the figures before that date reflect claims on government alone.⁸⁷ We find that until Burma opened its doors to overseas development aid and direct foreign investment, MC and DMC hardly seemed to differ. After 1976, foreigners build built up financial claims on the Burmese economy, thereby becoming owners of an increasing share of Burma's wealth. It is ironic Ironically, that this happened occurred under one of the most xenophobic regimes in the [world EVER, OR DURING THAT PERIOD?]. Following the withdrawal of foreign aid in 1988, the gap between MC and DMC closed again. The SLORC-government was obliged forced to obtain credit from tap domestic sources for credit. However, this development was not sustainable. Wealth owners preferred to keep their assets liquid, unwilling . They do not trust the Burmese social realities sufficiently to be willing to invest in interest- bearing domestic financial assets given Burmese social realities.

[STOP FRIDAY]

We must conclude that Burma is far from having a properly functioning monetary economy. At the same time In the past, this fact must have prevented the emergence of a social consensus where in which human rights would gain significance and legitimacy. The low quality [VALUE?]of the Burmese currency, and the lack of secure human and property rights, are the major economic obstacles to sustained economic growth. Hence, a transformation of the Burmese economy must start begin with monetary reform. This would imply call for a realistic exchange rate, bringing a decrease in inflation down from its current from its 20-30 percent range, and especially restructuring a restructuring of the government sector. A pProfound fiscal reform would also eliminate a permanent source of human rights abuses, as I have argued elsewhere (Collignon, 1994, 1997, 2000). Once a properly functioning monetary economy has had been established, the constitutive rules for social consensus in Burma's society would change. and Thethe context for a "culture of democracy"⁸⁸ would would be created. The vector which that develops and expands the normative validity of human rights is the development of a monetary market economy. The essential contribution that foreign aid could make to move a country from a low equilibrium to higher wealth and human rights is the enforcement ofEnforcing these constitutive rules. is the essential contribution that foreign aid could make to moving a country from a low equilibrium to higher wealth and human

⁸⁶ Claims on public and private sector minus M2.

⁸⁷ The data are from IMF International Financial Statistics (1999). They have been updated in 1999, so that figure 9 is a more comprehensive picture than the data I was able to use in Collignon (2000.).

⁸⁸ The term is from Campbell, 1999.

rights. But this This form of conditionality, however, differs greatly from so-called *constructive engagement*.

Poverty and Human rights

Our comparison has revealed a significant differences in the cases of between Burma and Thailand. How can we explain this divergent development? We have seen that the cognitive models by which people would interpret their social reality have been formed by very different experiences of colonialism and modernisation. We would expect that risk-aversion is higher in Burma than in Thailand. Reducing A reduction in the monetary sector would then be an attempt to subjectively lower the risk- exposure. This seems to be revealed by volatility data on per capita income growth. Table 2 shows that overall income volatility was nearly twice as high in Burma as in Thailand over the last four decades. Thus, even with similar risk -averseness, the traditional *value system* (not the traditional *economy*!) must have seemed to offer the Burmese greater protection in Burma. However, if we subdivide the period, taking and take 1973-1974 as the turning point, we find that income uncertainty fell in Burma with the elimination of the monetary economy. In Thailand, it rose with the country's integration into the world economy, although it is still only half of Burma's.

Table 2: Standard deviation of per capita growth rates

Period	Burma	Thailand
1960-97	5.14	2.61
1960-73	6.04	2.13
1974-97	4.89	2.71

The occurrence of shocks Shocks isare not the only only criteria occurrences that affects affect attitudes to risk. The vulnerability to poverty must also have a major impact. Unfortunately, data on absolute poverty are not available for Burma. In Thailand 0.1 percent of the population lived on less than 1\$ a day between 1984-94, and 13 percent lived below the national poverty line. The UNDP Human Poverty Index measures the degree by to which people are denied the most basic choices and opportunities, such as long, healthy and creative life, lives; knowledge,; and a decent standards of living. [In Thailand this applies to 11.9 percent of the population, in Burma to 27.5 percent (UNDP, 2000). Thailand ranks in the

group of High Human Development, where on average 17 percent of the population lived on less than a dollar a day, while Burma belongs to the Low Human Development group, where 43.8 percent of the population lived under in absolute poverty in between 1989-94. Poverty, then, is a real issue, and its associated risks may partially explain people's reluctance to switch to a rights-based society where human rights would have more meaning. [Thus, poverty is a real issue and we would not be surprised, if the associated risks of poverty were a serious argument why people are remain reluctant to switch to a rights-based society where human rights become meaningful. YOUR POINT UNCLEAR TO ME AS WELL]. Further evidence that poverty is an obstacle to human rights and democracy is obtained when we look at the correlation between the UNDP- Human Poverty Index and the Freedom House democracy index. The UNDP index is of particular interest, providing as it provides an alternative to GNP in assessing the living standard. Figure 10 shows that, on average, democracy is lowest when poverty is highest, and the inverse is true inversely. However, the relationship is not, however, linear. The best fit is obtained for a cubic function with a local minimum close to a democracy index of 0.25. This is also where we also found the local maximum in the density function of figure 3.⁸⁹ The absolute poverty minimum is, of course, at perfect democracy, again coinciding which coincides again with figure 3. This means that there is a local a local low human rights equilibrium, where people assume to minimise poverty. The cognitive system establishes the bounds of rationality. One could reduce poverty further, if, of course, bring poverty further down, if one introduced full democracy was introduced, but that would require [THE WILLINGNESS?] the willingness to [PERHAPS?] go through a period of higher poverty. This *individual* fear of a possible reduction in living standards prevents the *system's* to move from the a low to a high human rights equilibrium, as we showed shown in section II.

⁸⁹ The two data sets are largely identical.

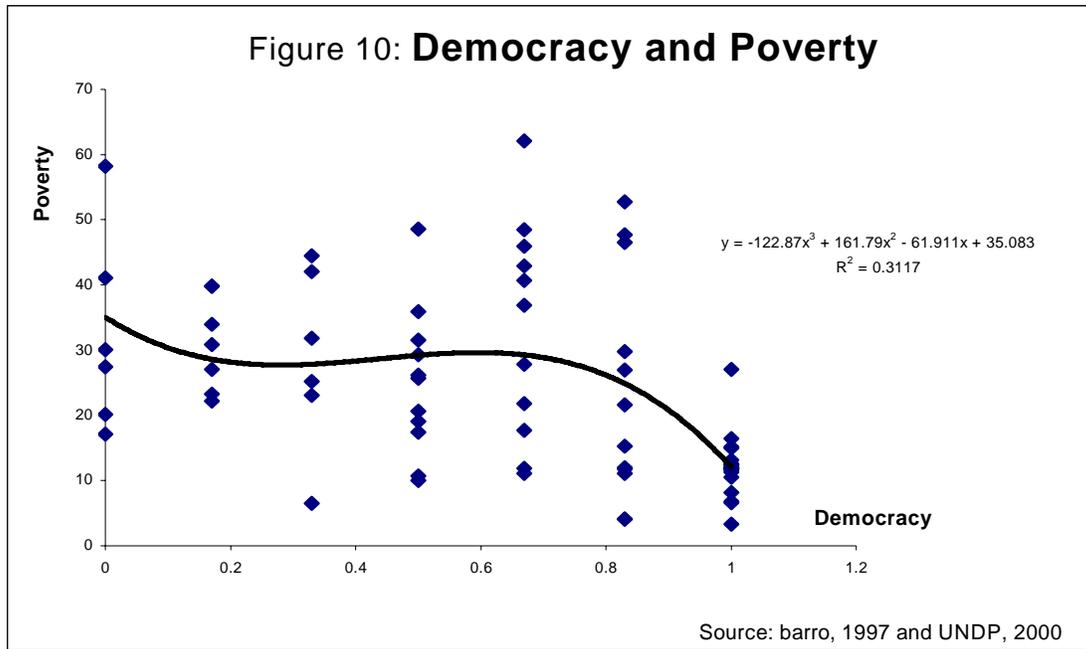


Figure 10 is, of course, sketchy evidence. But it is supported by table 3, which explains the degree of democracy in 1994 as a function of the democracy in 1994 as a function of the democracy index in 1975, supports the theory. , uncertainty Uncertainly is here measured as the standard deviation of GNP Pper capita growth between 1991-97,, the log of per capita GNP in US-dollars in 1994, and a third order polynomial of the UNDP Human Poverty Index (1995). The estimate was obtained as the found to be the best fit, after checking quadratic and linear relation as well. It shows that democracy converges slowly over time to an equilibrium which that is positively affected by the income level (the Lipset hypothesis) and negatively by uncertainty of income. The equation confirms the cubic relationship of poverty and human rights. The impact is always negative although in varying degrees. Within the observed range of Human Poverty Index values, the worst impact of poverty on human rights seems to arise when countries have reduced poverty. Because of Due to the collinearity multicollinearity [between OF?] of poverty and income, this is presumably the case for emerging economies, where the normative transformations are most rapid.

Table 3: Regressing Democracy on Poverty and Uncertainty

Modelling DEMa94 by OLS (using PC Give 9.0)
The present sample is: 1 to 71

Variable	Coefficient	Std.Error	t-value	t-prob	PartR^2
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Constant	0.4785	0.35118	1.363	0.1778	0.0282
DEMa75	0.33941	0.1064	3.19	0.0022	0.1372
SDgnppc 1991-97	-0.017514	0.013113	-1.336	0.1864	0.0271
LGNPpc94	0.052889	0.033967	1.557	0.1244	0.0365
HPI95	-4.1096	2.0629	-1.992	0.0506	0.0584
HPI^2	12.409	7.4944	1.656	0.1026	0.0411
HPI^3	-9.8814	7.9931	-1.236	0.2209	0.0233

$R^2 = 0.511169$ $F(6,64) = 11.154$ [0.0000] $\sigma = 0.234484$ $DW = 2.28$
 RSS = 3.518881405 for 7 variables and 71 observations

V- Conclusion

Here is not the place to design a reform program for Burma or other countries on low human rights- development paths. However, we may draw a few lessons from our analysis.

1. We have established the constitutive link between human rights and economic development, which that consists of the normative foundations of a liberal economy. The relationship is not simple, as development theories of the 1960's assumed. Rather More in line with earlier economic thinkers, we found evidence for multiple equilibria between growth/wealth and democracy/human rights.
2. The choice of a given society for the preferred degrees of human rights and wealth is determined by social consensus. However, consensus is a result of communication. Therefore, the cognitive model people use to decipher the world is crucial for the acceptance of the normative context of democracy. Because social consensus between rational people converges on validating the constitutive rules according to which society functions, the norms of the economic system are at the basis of a society's cognitive system.
3. In a traditional society, the concept of justice is based on subsistence ethics and the discretionary wisdom of patrons, who are agents charged with the community's survival of the community. In modern society, entitlements rights over objects have substituted claims on the collective. In poor societies, The related the modern concept of impartial justice is not perceived to provide the same insurance against the vagaries of life in poor societies as traditional subsistence ethics. For risk-averse agents, this reduces the attractiveness of contract-derived concepts like human rights.

4. The norms of a contract society, where rights are the counterpart to obligation, do not only open the domain for field to individualism, but they also permit the distinction between property and possession that is quintessential to a monetary economy and the its related credit ethics. However, the credit economy also creates uncertainty for wealth owners for which they require demand to be compensated. Thus, Ddebt service becomes the an engine of capital accumulation. Thus, Tthe constitutive rules of modern society establish both, the normative foundations of human rights and the economic foundations of growth.
5. Countries, like Burma, who are saddled with stuck with low human rights- levels and low prosperity, often suffer from distorted monetary economies. By reforming their fundamental economic systems, they lay not only the foundations for higher wealth , but also forand better higher respect of for human rights. Development aid should focus on these systemic issues of a monetary economy, rather than supporting projects in a distorted environment. In particular, aid it must be part of a *coherent* strategy to develop the monetary economy. This is the essential difference with *constructive engagement*, as propagated exercised by Burma's neighbours. Developing business deals with generals and their cronies is not sufficient to transform an economy, nor a society.
6. In order to overcome the risk averseness of the poor that inhibits the development of rights-based norms, the development of the monetary economy needs to be complemented by strategies to combat poverty and institutions of social welfare. This is the logic behind linking second-generation social human rights with first-generation political and civil liberties.

Finally, let me be clear about one point: although our economic analysis has emphasised the important role of credit and money, money is not everything. ItMoney is simply a very general application of contractual social arrangements, and therefore it structures and it structures people's behaviour and understanding perceptions of the world. Through these individualistic individual contracts, people become aware of their rights and require protection against arbitrary interference by the sovereign. In this sense, human rights are the formal guarantee that each human being can live in dignity.

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