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 levels of democracy and human rights are a function of prosperity. However, cross-country evidence seems to indicate that multiple equilibria are more probable than a simple linear relationship.

This paper explains the occurrence of low human rights equilibria as the result of a collective choice, where individuals take into account the prevailing consensus in society. 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 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. 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.

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WHY DO POOR COUNTRIES CHOOSE LOW HUMAN RIGHTS ?
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Economics is often considered to be based on the principle of a self-interested and acquisitive *homo economicus*, who seizes each 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.

Besides these rather fundamental considerations, there are at least two other reasons economists may find an interest in studying human rights. First, there is the vexing riddle of varying performances of economies over long periods of time. Rich, developed countries seem to have a higher respect for human rights than poor, less-developed nations. 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 (1990, p.6) explains this puzzle by the role of institutions in society. Given that human rights are an institution of a fundamental nature, they must explain at least part of the divergence in economic performance. Burma is an example of 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


Second, 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 increase the pressure to improve human rights (Tomaševski, 1993). The linking of aid and human rights goes back to the mid-1970s, when it was pushed by the Carter 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 in the limelight of human rights institutions and activists since the military crackdown in 1988, the suppressed elections in 1989, and the award of the Nobel Peace Prize to Aung San Suu Kyi in 1990. 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 both issues, making conditionality 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 placing more emphasis on democracy and free elections (so-called political liberties), 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 political regimes are those of Freedom House (2000, and Gastil, 1988), but Hanke and Walters show that several other indicators are reasonably well correlated to them. Hanke and Walters did not evaluate the Humana (1992) index for human rights, which is derived from the different

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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 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 since at least the end of communism, democracy and human rights cannot be viewed 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 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 concepts of justice can explain the stability of low and high human rights equilibria. Section IV, finally, looks at

\(^3\) 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.

\(^5\) For the distinction between different generations of rights see Davidson, 1993.
strategies to move from low human rights development 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, Smith also distinguished the value of Liberty as 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 "Revolution were not made by law". What mattered for individual freedoms were the productive relations in society. In the *Communist Manifesto* (1985) 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 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 accepting and tolerating authoritarian regimes (Menzel, 1993, p.23). It was argued that benevolent dictatorships could accelerate economic growth if they proved capable of reducing poor people's high propensity 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. In fact, the 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. 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 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.

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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.
Figure 1 shows the relationship between his projected equilibrium values of the democracy index\(^7\) 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 discussed this idea. 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

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

\[^8\text{For a discussion see Hadenius, 1992, p.82.}\]
(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 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

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 that 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 seem 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", concluding that "good" dictatorships expand economic freedoms and
"bad" ones "use their power to steal a nation's wealth and carry out non-productive investments". Yet, by equating good dictatorship with growth maximisation, Barro makes an unusual normative claim. He implies 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 something else.

Welfare is more than consuming commodities. It also relates to peace and security, to living with dignity. The standard of living is also dependent on values and 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 in which economic wealth and human rights are complements in the definition of the standard of living, possibly because of externalities, or simply because they are kept in a Pareto-inefficient state. However, beyond the maximum point there is a range of negative trade-offs between wealth and freedom. 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. Otherwise, we should conclude that different social preferences must yield different social results.

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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).

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 alt (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".
Figure 3, based on 99 countries, shows the density function for the democracy index in 1995. 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 equilibrium, the data should be 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 a degree of democracy corresponding to that of developed, westernised

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

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

**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**
countries. The cluster of countries at the lower end may indicate a local maximum. These features are more apparent in Barro's projected equilibrium values for 1995 than in the actually observed data. However, if we were to include his values for 1975 into the sample, the existence of two peaks is even more striking. One could argue that if democracy and national income are correlated and that if global wealth 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. 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

Democracy’s marginal contribution to growth explains the high frequency of observation on the right side of Barro’s maximum. 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, a lack of consensus or a cultural equilibrium.\footnote{The term is from Lal, 1998.}

First, a common argument states that "evil dictators" oppress "poor people" because of their superior violence potential. A repressive, totalitarian regime keeps its people in fear and produces immobility. As 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 "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.\footnote{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.} It is doubtful, however, that it could fully explain long-lasting disrespect for human rights. 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 happened not because of Germans, but because of "crazy" Hitler. And in Burma, the generals are the evil. Goldhagen (1996) has made it clear that the Holocaust was never that simple: Hitler was not without some legitimacy in German society. Nor are Burma's generals entirely without support. Not surprisingly, in both cases, political resistance remained weak.

A second explanation assumes that political actors are locked into a prisoner's dilemma, meaning that social consensus has broken down. The prisoner dilemma is useful in explaining Burma's ethnic conflicts. Numerous ethnic minorities have waged civil war against the Burmese military rulers since the early 1960s. For many years, their violence potential matched that of 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, in particular pressure from China and Thailand. It was then possible to negotiate a new and more cooperative equilibrium, which the minorities clearly regarded as a Pareto-improvement. However, the prisoner dilemma model seems less applicable to the case of Burma proper. The violence potential of the Burmese civil society has manifested itself in urban riots on 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 explanation is derived from the Lipset-hypothesis: democracy is low because GNP per capita is low. However, Barro shows that, at least at the very low end where we find the long tail of the density distribution, growth would accelerate with democratisation. Why do these countries 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 a revealed preference for little freedom may reflect an equilibrium is evidenced by the very slow political change in some countries. Burma is, again, a prime example, with unmoved military rule for over 35 years. 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 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 consequence of cultural differences, or tastes. If this were true, we would still require an

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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 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.
explanation for such a low taste for democracy or related ideologies. On the other hand, Aung San Suu Kyi's aforementioned 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. 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, even well-meaning observers doubt the likelihood 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 revealed preferences for private goods by individuals' utility calculations, 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 aggregation take the result of the collective choice for democracy as a precondition. They thereby reflect a Western cultural bias that follows modern economists' rational commitment to individualistic methodology.

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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).
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, in which 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 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 but the dictator (Arrow, 1951, p. 30). One could argue, making reference to Hirschman (1970), that ultimately there must be consensual backing for the dictatorial decision-making rule. Otherwise, revolutions would get rid of dictators. Alternatively, if dissenting voices were suppressed, people would 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 that lead to rational consensus. Collective choices and actions are derived from this consensus, not from private preferences alone. Consensus requires both a cognitive model by which society processes information, and a method to arrive at conclusions 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 that is the

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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 question the sustainability of democracy in the context of specific cognitive models, and to base preference changes on social interactions that transform the content and the processing of information.

By placing preferences into their cognitive framework, we go beyond the positivism of neoclassical economics. 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. Welfare economics at least weighs the consequences of social decisions in terms of individual utilities, where an independent State guarantees rights in order to promote welfare. The 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. In 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). The permissible is determined by the exogenously given processes and procedures of collective decision making. However, Sen (1997) rightly insists that rights and procedures 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 methodologically correct. What is required, however, is a social welfare function that is based on consensus, not unanimity.

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 describe rational behaviour in the service of

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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.

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).
Why Do Poor Countries Choose Low Human Rights?

society’s interests as a whole. The latter implies maximising the average (expected) utility level of all individuals in society and assigning the same weight (respect) to all individuals' interests. Social utility is then the arithmetic mean of all individual utilities. However, while this approach, like Kant's categorical imperative, may be intuitively convincing, real life often reveals counterfactual evidence. Dictators do not behave ethically, giving equal weight to their own and their opponents' preferences. Therefore, moral judgements are not sufficient to establish social consensus. What is lacking is the commitment to 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 determined? 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. 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 others 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, individual changes of opinion tend to move towards a consensual equilibrium, for which Lehrer and Wagner provide an algorithm. Thus, if we consider the choice of a person i about his preferred social states in the growth-democracy space, before he or she has looked at available information, each state would at first be evaluated by the personal utility function:

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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!".

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

where \( g \) stands for growth, \( D \) for democracy, \( u_j (g,D) \) 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:

\( (1b) \quad U_i = A_o u \)

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 \( u \) is the vector of individual subjective utilities. I will explain the formation of \( u \) in section III.

The personal utility index \( U_i (g, D) \) reflects not only person \( i \)'s subjective utility \( u_i (g, D) \), but also the utility and opinion of all 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, 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 \( a_{ij} = \bar{a}_j \) through a process of iteration, if they use and exchange all available information and there is a chain of respect from person \( i \) to person \( j \). [In other words, the original matrix of weight \( A_o \) is adjusted according to people's assessment as to which opinions are right, or which preferences may prevail. 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 \textit{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:

\( (2) \quad a_{i+1} = M a_i \)

\[26\] Unless the weight \( a_{ij} \) given to some of them equals zero.
where \( \mathbf{a} \) is the weight vector \( \mathbf{a} = [a_{i1} \ a_{i2} \ldots \ a_{in}] \) 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 \}, 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.\(^{27}\) 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. The 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. Hence, consensus building is a stochastic process and the disturbance term in the process is an indicator for social dissent.

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 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

\(^{27}\) 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.
appears in the context of the existing cognitive model, the presence or absence of restrictions in public debate, 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 \([u_i()]\), their individual weights \(\sum_i a_{ij}\) add up to a higher relative weight of their utility, which 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 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:

\[
g = x + aD - bD^2
\]

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:

\[
\frac{U_D}{U_g} = a - 2bD
\]

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, 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 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 Barro’s estimated coefficients for $a = 0.09$ and $b = 0.088$, we get the maximum at $D = 0.511$, 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". By definition, a dictator is "good" if people do not desire any additional utility from increased freedom. Alternatively, the same result 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. 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. Yet, in comparison to point C, the situation in A looks as if higher social utility could be obtained by lowering democracy. In section III I will explain that this view follows from a misspecification of the utility function. The proper arguments are income and human rights, not growth. Strategic complementary 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 to altruism, but to all kinds of social consensus. Human rights considerations will affect the relative price of democracy versus wealth. Yet, a second aspect is human beings’ difficulty in deciphering their environment. From Simon (1986) we know that the knowledge and computational power of decision-makers are severely limited, due to limited capacities and the complexity and incompleteness of information. In our "fumbling efforts to decipher the world" (North, 1990, p 23) we develop cognitive models or systems that help us 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.

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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...".

29 The gradient is $u'(g^*, D^*) = (U_g(g^*), U_D(D^*))$ which is negative in the second argument when $D^* < 0.511$. 
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 it (Lal, 1998, p.7). The equilibrium will be disturbed if the environment changes. Consequently, rational agents would abandon their past theories as they became systematically falsified. Although this analysis may have validity regarding man's physical environment and issues related to technological progress, it does not necessarily apply to social reality. Searle (1995) has shown that institutional facts are not objectively given in the same way as mountains, rivers, or other "brute facts". They are "observer-relative" in the sense that they only exist relative to the attitude of observers (p.11). In order to become an objective social reality, a phenomenon 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 implicit or explicit collective human agreements within a system of constitutive rules, meaning they are consensus dependent. In other words, the consensual theories of rational agents create their social environment. Social change, then, cannot be the result of informational 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.

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

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.
The subjective models of the world, however, are based on the same constitutive rules as social facts. People reproduce these rules by behaving in such a way that the objective reality of institutions is also reproduced. For the same reason, 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 think the same way. 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 social forms of consensus must lead to different cultural equilibria. Thus, actors in a society such as Burma may operate from cognitive models that lead them to meanings of freedom, justice, or democracy unlike those of Western countries. This would then be reflected in the relative stability of low measures for democracy. It may also explain why overly rapid advances in democracy rarely seem sustainable, as Barro observed and the history of decolonisation amply documents. Following this theory, if the Burmese opposition leader Aung San Suu Kyi came to power tomorrow, her reign may not last for long, and human rights abuses would not necessarily end. Instead, our theory would explain that a heterogeneous society that operates with different constitutive rules -- economic, religious or ethnic reasons, for example -- is likely to experience a high degree of dissents, frustrations and possibly the breakdown of social consensus.

However, institutions can and do change. North (1990, p. 86) explains institutional change by relative price changes 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 renegotiation of existing arrangements may also require restructuring to a higher set of rules. 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, the perceptions of economic and political actors, i.e. their cognitive model, are crucial initiators to change.

A formal model of multiple equilibria

A simple formal model, based on Cooper and John (1988), can describe the dynamic relationship between personal views and social consensus. Let us assume that society consists of many identical, individual agents who evaluate the world according to their subjective model, but who also take into account the cognitive context of the society they live in. On his own, an individual may 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 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 take into account both subjective and collective preferences, as discussed above. Because social consensus does not happen instantaneously, but over time (the iterative adjustment through the Markov-matrix), personal preferences do not necessarily coincide with collective choices. Furthermore, in introducing the Lipset-hypothesis into the model, we make preferences for human rights dependent on income \( y \). Thus, we can characterise the personal utility of human rights by the following objective function:

\[
U_i = V(h_i, H, y).
\]

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

\[32\] The subjective utilities \( u_i(.) \) may be rather diverse, as long as the weights attached are consensual.
\[33\] 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.
(5b) \[ \frac{U_i}{y} = v\left(\frac{h_i}{y}, \frac{H}{y}\right) \]

where a person's preference for human rights, given society's income level, is dependent on only two arguments, his subjective utility and the prevailing level of collectively accepted rights. We will assume that there are diminishing returns for deviations from social consensus, thus \( v_{11} < 0 \). Next, let \( v_i\left(\frac{H}{y}\right) \) denote the representative agent's reaction function, 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 equilibrium holding 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 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:

\[ \frac{d}{d\frac{h_i}{y}} \left(\frac{H}{y}\right) = -\frac{v_{12}}{v_{11}} \]

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. This is unlikely, however, unless a dictator imposes the collective preference, as described by Arrow (1951). 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, meaning that a change in the individual’s preference induces a change in the same direction by any other typical agent and, it follows, of the collective aggregate. In this case, reality correction will 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. In their presence, a society may be trapped at low human rights positions that could be Pareto-improved if democrats could overcome their failure to coordinate.

Figure 6 shows a hypothetical reaction function:

![Figure 6: Multiple Human Rights Equilibria](image)

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 stable relationships between human rights and prosperity. At the higher end, point C represents the human rights model of fully developed democracies. At the lower end, point A shows the low-income, low-human rights equilibrium. 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, a "bad dictator", would restrict the widening of liberties thereby 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 ensuing crackdown would 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 to power and to extend freedom without greater prosperity, people would wish for a return to traditional ways, and the democratic regime would be unsustainable (the reaction function lies below the 45°-line). However, if $H/y$ increases, 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 occurred frequently in Burma (see figure 8). North (1990, p. 90) has called this disequilibrium "discontinuous change", 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 has 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 were not sufficiently significant to shift the $H/y$ ratio beyond the point $B$. A regime shift is more likely to occur after short and intensive wars that destroy prosperity but do not lead to the disintegration of a base of democratic values. 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 that the dictator, in order to survive, would have to crush by making a regime change too costly for the "silent majority". But once point B is reached, he is deposed. The

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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.
regime shift may then allow for the improvement of both human rights and wealth until the new equilibrium at C is asymptotically reached.

Our model could explain why the revealed preference for human rights may exhibit multiple equilibria, because personal preferences take into consideration subjective utilities as well as the social context. Furthermore, 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 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 that has sustained the military regime for nearly 40 years. It is this conception of justice that we must understand, particularly why it prevents institutional change. My conjecture is that ideas about justice are part of a given cognitive model that determines not only the constitutive rules and consensual weights in a people's social utility function, but affects their subjective utility as well. The concept of justice takes different forms in modern and traditional societies, assigning 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.

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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 voilita, and volita 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".
misunderstanding, I must emphasise that I am here addressing the legitimacy of rights, i.e. their validity, not their factual enforcement.38

Modern rights

While Bentham called inalienable rights "nonsense upon stilts"39, rights matter to neoclassical economists and legal positivists 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 regarded property rights considerations as essential 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 never implemented.41 Therefore, the State is perceived as an exogenous institution to define and enforce property rights (Barzel, 1997). Neoclassical economics here mirrors legal positivism. Austin42, for example, thought 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 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 are they beyond the law determined by the international

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.
covenants on human rights. Even the sovereign is bound by moral principles and should obey them. Governments must be constrained in their actions. If, however, - as in the neoclassical and positivist model - human rights are subsumed under legal rights, 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 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 apparent. 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 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. Property rights have a social relevance in that they give sense and direction to individual and collective intentionality by specifying which acts in a set of possible options are permissible, thereby providing a normative foundation for constitutive rules, i.e. a moral to society. They also define the set of economic actors, assigning the authority to decide how to use specific resources and 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. Consequently, the government's power would be limitless, unless a different set of rights was to restrain 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.

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.
Human rights trump other considerations such as formal legal rights or informal conventions. It follows, then, that human rights are hierarchically superior to property rights. Because individuals need an independent authority to define and enforce rules for making claims against other individuals, the authority itself 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. Therefore, the critique that the human rights are not consistent with the need to specify whose duty it is to guarantee the fulfilment of these property rights is pointless. 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 liberty and Hume's (1740) tradition of linking property to rights and obligations, i.e. contracts. One person's right is someone else's obligation, and both 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). This approach differs from neoclassical explanations of property rights, which 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 with power and hierarchy. Not surprisingly, neoclassical thought also opened the door to the justification of development dictatorships.

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44 See also Howard, 1992.
45 We are referring here to a logical priority. Historically, property rights seem to have preceded human rights. (See Muldrew, 1998). This is not without relevance for the transition from traditional to modern societies.
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 Gütermarktheorie, nur Besitz, nicht aber Eigentum zu kennen: An die Stelle der Verfügung über eine Erstausstattung alias eines Besitzes an Ressourcen tritt die Verfügung über Geld als eine Erstausstattung alias einen Besitz, den die Zentralbank zur Verfügung stellt."
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 create the individual as a social institution 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. Free individuals become liable once engaged in a contract but they are free to refuse contracting such liability. Therefore, rights allow for the possibility of contractual relations between individuals, while possession refers to the potential utility derived from resources. Economically, property rights and possession can coincide when assets are highly liquid, as in the case of money, but property is not usually as liquid as possessions.

The most universal application of a contractual property relation is the creditor-debtor relationship in a monetary economy. Money, the liability of financial institutions, is created when banks make loans and the central bank transforms non-liquid, long term credit into safer, more liquid debt titles (Moore, 1988). 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 vector 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, I not claim that the economic system would guarantee their factual realisation. The monetary economy is a necessary but not sufficient condition for the collective respect of rights, in general, and ultimately for human rights and democracy.

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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.


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
The institution of rights and obligations can be 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. If, then, rights are *transferable*, they must be also well-defined under a rule of impartiality. Modern rights, therefore, also 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. This has two consequences. First, the transferability of rights has opened the domain of personal freedom, because individuals could avoid certain contractual obligations if they found a party willing to exchange them against others. Thus, with the emergence of modern transferable rights, individuals were able to withdraw from certain collective obligations. Consequently, other claims that are by nature not transferable, such as the right to life, 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 effectively has an obligation to the individual. Human rights fall into this category. 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. The 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 rise to the possibility of opportunistic behaviour and the need for a costly monitoring system. Institutions aim to reduce such cost. Human rights can also be interpreted as a tool for 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.
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 a danger that the majority will violate individual preferences and rights by superimposing collective preferences. With respect to our consensus function \((1c)\), 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. Therefore, 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 cannot to be made.\(^{57}\) Human rights, then, are the ultimate set of rules in a rights based society.\(^{58}\)

*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 -- are unfit for political responsibility, unsuited for democracy, or 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 are based on different consensual conceptions of justice because they operate from different constitutive rules. Consequently, their cognitive models do not interpret the world in the same manner as modern societies, and social facts, such as human rights, do not carry the same meaning.

\(^{55}\) 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 \(a_i = 0\).

\(^{56}\) 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".
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 near the subsistence margin and subject to the vagaries of weather and outsiders' claims, peasant households have little understanding of the profit-maximising calculus of neoclassical economics. Their behaviour is risk-adverse, 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 averseness can explain 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 villagers" (p. 41). This means that those who possess wealth do not have fixed claims on their resources, because they can always be overruled by considerations of need. The "safety first" principle implies that all members of the community are entitled to a living from the local resources (Scott, 1976, p. 5). Every member has the obligation to contribute to the survival of the hardest hit, and justice is based on reciprocity. The collective goal of survival is always sufficient to deny members of the collective what they may wish individually. Therefore, traditional entitlements are inherently discretionary and arbitrary. There is a "fuzziness" in traditional entitlement relations that is incompatible with modern market economies. These entitlements are not rights in the modern sense of individual rights. 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 by this social survival contract. Hence, no one 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 were it to

infringe on subsistence needs. Contractual property rights, as defined by the modern State, are then morally less justifiable than traditional norms of reciprocity and discretionary patronage. Not surprisingly, peasant rebellions were often the response to colonial regimes’ introduction of rights-based claims. Based on their cognitive models, traditional societies have little understanding of the individual-based concept of human rights because they are primarily concerned with collective survival. Therefore, the task of explaining multiple human rights equilibria boils down to explaining the choice between traditional social contracts, where the "safety first" principle dominates, and the modern, rights-based agreements between individuals.

Subsistence ethics also shapes the form of the agency relationship in traditional societies, in which the 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. 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".

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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 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.
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. By 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 a patron-client relationship - or to exit it - if the patron turns out to be an unreliable protector. In fact, the personal tie between client and patron often inverses the strict agency relationship when the client is tied to his landlord by personal deference and a sense of obligation (Scott, 1976, p. 45). The principal is to woo the agent for benefits - 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 individual life as its end. By contrast, emphasis is placed on society as a whole in the traditional cognitive system. Collective man, or homo hierarchicus, sees societal organisation 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.

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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".
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 it clashed with the dominant subsistence ethic. Scott (1976, p.65) shows that the very statuses of landlord, tenant and wage labourers were 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, 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, the fight against colonialism 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". 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 previous anti-colonial struggle for independence and justice. In reality, the military dictatorship in Burma is a totalitarian distortion 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 in rejecting and abusing human rights? In other words, are human rights

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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)
universal? 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 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". Hence, interpretations of human dignity are always relative to the dominant culture. For example, the 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 deserves human rights simply by virtue of being human and for no other reason, regardless of status or achievement. Human 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. This is true even if the cognitive model dominant in a given society may present difficulties in recognising the dignity derived from other conceptions of justice. The distinction between human rights and human dignity is important, as rights alone establish the abstract universal claim to legitimately recognised norms, while the specific concept of human dignity defines the norm itself. Consequently, there can and must be cross-cultural debates about the definition of human dignity as an interpretative element of human rights, but not about those rights’ universal validity.

Historically, it appears that the recognition of dignity norms is more difficult when they transcend the confinements of a given community and its specific cognitive model. For example, according to Maung Maung Gyi, the Karen in pre-colonial Burma were treated "no better than wild animals" by the Burman majority (Yawnghwe, 1995, p. 182). This occurred 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 the "Union of Burma". 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

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65 Emphasis added.
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 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). 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, requiring the ethics of credit as its normative foundation. It is my conjecture in this paper that it is a culture of credit, as discussed by Muldrew (1998), that generates the social relationships and interpretations that ultimately sustain the normative validity of human rights. To understand this point, 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 form of liquid possessions rather than property. Livelihood is more important than surplus which, when it exists, is distributed by reciprocity rules or as gifts and is ultimately consumed (Sahlins, 1974). In modern societies, by contrast, money fulfils the function of means of payment 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, 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

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 that are not simultaneously means of payment should be called "money". See also Heinsohn, 1995.
the settlement asset gains 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 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 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. Due to the debtor-creditor chains of assets and liabilities, default 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’ willingness to assume this moral risk, with creditors requiring interest payments as compensation for accepting to hold their wealth in the form of risky, non-liquid claims.68 This implies, then, that a borrower must produce a surplus by the efficient allocation of resources in order to service his debt. Investment requires a return to pay for interest.

Consequently, modern market economies are structured around the production and exchange of goods and commodities in exchange for money, with a high degree of concern placed on productivity and efficiency. The driving force for growth and development is the need to service debt, not the postponement of consumption. The classical virtues of capitalism - hard work, shrift and accumulation - were only derived from the need to maintain one’s trust and reputation. Governments, on the other hand, normally service public debt titles 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 drive for capital accumulation requires that two conditions 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 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. No one

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.
would be willing to hold financial claims and monetize capital, if human rights were not respected, property rights uncertain, or if the value of money were not secure due to high inflation, frequent depreciations or administrative controls.

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 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 simultaneous 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. Consequently, 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 than individual rights.\(^7^0\) 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 the most powerful force 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 existentially less secure. Especially in the early phases of a transition to a more developed economy, those living close to the subsistence level must

\(^6^9\) In Burma _forced labour_ also plays a prominent role.

\(^7^0\) 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?".
perceive the impartial rights of modern economy as a threat to their survival. They would prefer a society based on patronage and redistributive justice. More human rights and democracy would appear to increase wealth, but also insecurity. Society must choose a preferred standard of living that takes into account wealth, freedom and security.

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 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 does not allow for such discretionary exemption of legal claims, so he will have less disposable income. 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 \((H)\):

\[
y = y(R, H), \quad y_R, y_H > 0 \quad y_{RR}, y_{HH}, y_{RH} > 0, \quad y_{RH} > 0
\]

We assume that both marginal products are positive with diminishing, constant or increasing returns. An increase in human rights will also increase the marginal income from rain because of fewer claims by the patron, or because the safety of contracts stimulates investment. Thus, assuming for simplicity constant returns, the disposable income matrix may look like this\(^{72}\):

\(^{71}\) 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 \(\alpha\) 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.
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 regarding their expected impact on his living standard. That is, he will choose the row of the disposable income matrix with the highest expected utility:

$$\max \ E \left[ U(y) \mid H \right] = \pi_1 v\left(y_{01}\right) + \pi_2 v\left(y_{02}\right)$$

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

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

The function $v(.)$ is a preference scaling defined over income. Assuming risk averseness (concavity) and that needs are the same in all states (identical $v(y)$), it is clear that differences in the subjective utility of human rights result from differences in disposable income. However, table 1 indicates that although plentiful rain and high human rights are always the preferred combination, low human rights are preferred when there is no rain. Because the cross-partial derivative in (7) is positive ($y_{RH} > 0$), a negative weather shock would lower the absolute income level; however, by reducing the human rights commitment, the marginal product of rainfall is reduced as well. Consequently, a lower level of human rights reduces the absolute fall in income. Given that the subsistence level of income or poverty is defined in absolute terms, a commitment to low human rights is effectively an insurance against destitution. This

<table>
<thead>
<tr>
<th>x=10, $\alpha=5$</th>
<th>Rainfall (R)</th>
<th>Expected income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Human Rights</strong></td>
<td>no rain (R=-1)</td>
<td>rain (R=1)</td>
</tr>
<tr>
<td>Low ($H=0$)</td>
<td>$y_{01}=9$</td>
<td>$y_{02}=11$</td>
</tr>
<tr>
<td>High ($H=1$)</td>
<td>$y_{11}=5$</td>
<td>$y_{12}=15$</td>
</tr>
<tr>
<td>probability ($\pi$)</td>
<td>$\pi_1 =0.5$</td>
<td>$\pi_2 =0.5$</td>
</tr>
</tbody>
</table>
explanation is in line with Sen's (1981) entitlement approach, 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 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 \((y_{\text{H}} = x + aD - bD^2)\) which yields first increasing and then diminishing returns. However, the estimate does not consider the stochastic shocks to income and the behaviour toward risk.\(^3\) This explains why point A in figure 5 seemed to imply negative marginal utility for democracy, while equations (7) and (8) 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 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 wealth accumulation. The problem of multiple equilibria in human rights can then be reduced to the St. Petersburg Paradox\(^4\): why do people not choose social contracts in which the expected utility is maximised by providing wealth and freedom, as welfare economics would assume? In risk-averse, poor societies, the utility of subsistence ethics-based 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: how can a society move from a low to a high human rights equilibrium.

\(^3\) It might be of interest to re-estimate Barro's equation under the assumption of a multiplicative error term: \(y_{\text{H}} = x + aD + bD^2 + (\alpha + \beta D)e_t\).

\(^4\) 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.
IV- Moving from Low to High Human Rights Equilibria

What factors of social change allow for a shift 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 consensual weights or perceptions of the expected utility of human rights, both of which 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 might 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 a rights-based society. Social security, or more general, second-generation human rights for social, economic and cultural claims\textsuperscript{75}, can contribute to the sustainability of a human rights culture. But, they are insufficient to establish it. The creation of a high human rights culture requires as a necessary condition the transformation of the traditional social consensus, a simultaneous diffusion of new social practices and, ultimately, new constitutive rules.

This switch would take place when economic agents move from the subsistence to the monetary economy. 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 to higher weights in the collective utility function. In addition, the sociological transformation that accompanies such economic restructuring gives an "objective" dimension to these social weights, because it has an important impact on the

\textsuperscript{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 adequate food, clothing and housing".
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 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 index \((h/y)\) would increase. This would also lift the collective human rights index, unless a dictatorial government repressed democracy, thereby pushing economic agents back into the subsistence sector. This 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 subsistence economies are not compiled systematically. However, we may obtain some sketchy evidence from comparing the performance of Burma with Thailand. Both countries had fairly similar climatic, economic, cultural and even political backgrounds. In the 1960s, military dictatorships ran both countries. Generals ruled Thailand with few interruptions until the late 1970's; Burma’s military rule began in the early 1960s and continues today. The main difference was their respective experiences with colonialism. While Burma was a British colony from the mid 1800's until 1947, Thailand (the Land of the Free) managed to keep its independence. As we have seen above, the struggle for independence legitimised the traditional values of Burmese society. However, 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 that were pursued even by military dictators after the demise of absolute monarchy. Consequently, Thailand became increasingly open to Western influences, which began to transform the economy and established a properly functioning monetary economy. By contrast, Ne Win's *Burmese Way to Socialism* took the country into isolation and destroyed the existing monetary market economy.
Figure 7: Monetary Economy and Democracy

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 due to Thailand's monetary sector expansion under increasing American influence during and after the Vietnam War. Politically, however, 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. In Thailand, the student uprising in 1973 led to greater political freedom even though it was again restricted in 1976-79. The democracy index increased dramatically after Prem Tinsulanonda became prime minister in March 1980. Thailand subsequently went through a remarkable period of political and economic reform, 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 that the progress in individual liberties of the early 1990s went too quickly for the established consensus, in what was still a largely rural society. Yet, it is interesting that

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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.
the dictatorship under Suchinda was also not sustainable.\textsuperscript{77} As figure 7 indicates, the level of democracy in Thailand has apparently attained an equilibrium that coincides with relative stability in [the share of the monetary economy in total activity.

Across the border, Burma has kept a stifling military dictatorship for nearly 40 years, and the democracy index has remained at zero. The only break in this pattern was the two years following the reconstruction of the banking system in 1976, and an apparently short-lived period of a more relaxed political environment.\textsuperscript{78} 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 that emphasised self-reliance, isolation and 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 per capita income fell more than 5 percent, hunger riots and rural insurgencies broke out. Invariably, the government changed its policies 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 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), provoking new policy changes. A new constitution was introduced in the same year, although the fundamental nature of military power was not affected. In the economic field, certain barriers to foreign investment were lifted, and the

\textsuperscript{77} Soraj Hongladarom (1998) describes the changing consensus in Thailand: "The Thai word for human rights - \textit{Sitthi 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."

\textsuperscript{78} The democracy dip 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 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.
government invited external assistance. A new banking system was established in 1976. Following these reforms, economic growth resumed, this time largely supported by loans from international donors and agencies.\textsuperscript{79}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{Figure8.png}
\caption{Burma: GDP per capita Growth Rate}
\end{figure}

Some observers argue that economic growth only began after Myanmar started to accept Overseas Development Aid (ODA)\textsuperscript{80}. However, the "boom" of the late 70's and early 80's was unsustainable. The monetary economy continued to lose importance relative to the subsistence economy. Private investment practically disappeared; from 1982-85, it accounted for only 3.8\% of GDP. Public investment (13.9\%) was concentrated 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 illegally crossed the border into neighbouring countries, and the government began to lose foreign currency reserves rapidly. At first, substantial foreign borrowing masked the economic deterioration.\textsuperscript{81} But two new demonetization measures in 1985 and 1987 wiped out almost all of the country’s liquid savings, and most financial claims to wealth lost their validity. Per capita

\textsuperscript{79} ODA-loans were roughly twice the volume of grants between 1974-86 (Khin Maung Nyunt, 1990).
\textsuperscript{80} Hashimoto, 1988.
income fell by 22% from 1986 to 1988. In keeping with the previously observed pattern, this deterioration in living standards, coupled with the loss of property rights, again led to widespread public riots. This time, however, a powerful democracy movement also emerged, though it was repressed a few months later in a bloody coup by the newly formed SLORC.\footnote{For a detailed description of the events, see Lintner, 1989.}
The 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.\footnote{For a more detailed analysis of these changes, see Collignon, 1994.} Although these new capital flows provided some temporary financial relief, the growth rate quickly regressed after the initial upshot.\footnote{In order to verify this statement, I tested the log of the per capita income series econometrically (using PcGive 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.}

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 model of multiple equilibria. Burma is a "bad" dictatorship insofar as political repression prevents economic development. It is caught on a \textit{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 a culture of rights and contracts, foreign aid helped to bail out the dictators. Economic agents were forced to take refuge in the subsistence economy, and to keep liquid possessions.

\textit{The credit economy in Burma}

Over a longer period, there is no evidence of a fundamental break in the growth dynamics in Burma.\footnote{In order to verify this statement, I tested the log of the per capita income series econometrically (using PcGive 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.} This also clearly emerges when we look at the accumulation of financial claims by the private sector. 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 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).

![Figure 9: Monetary and Financial Aggregates in percent of GDP](image)

Monetized capital (MC)\(^{85}\) shows the degree to which private wealth owners are willing to finance the accumulation of capital. Usually, the Burmese ratio of MC to GDP remains under 8 percent. In 1988 and 1989, capital flight was so significant that monetized capital actually became negative. 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; the United States, 14-20 percent during the same period. Thus, under the SLORC’s rule, conditions for economic development have actually worsened, not improved.

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\(^{85}\) Monetized capital was calculated as net foreign assets plus domestic credit minus money ($M2$).
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 for claims on State owned enterprises prior to are not available, therefore 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 differed. After 1976, foreigners built up financial claims on the Burmese economy, thereby becoming owners of an increasing share of Burma's wealth. Ironically, this occurred under one of the most xenophobic regimes in the world. Following the withdrawal of foreign aid in 1988, the gap between MC and DMC closed again. The SLORC-government was forced to tap domestic sources for credit. However, this development was not sustainable. Wealth owners preferred to keep their assets liquid, unwilling to invest in interest-bearing domestic financial assets given Burmese social realities.

We must conclude that Burma is far from having a properly functioning monetary economy. In the past, this fact must have prevented the emergence of a social consensus in which human rights would gain significance and legitimacy. The low quality of the Burmese currency, and the lack of secure human and property rights, are the major obstacles to sustained economic growth. Hence, a transformation of the Burmese economy must begin with monetary reform. This would call for a realistic exchange rate, a decrease in inflation from its current 20-30 percent range, and a restructuring of the government sector. Profound 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 had been established, the constitutive rules for social consensus in Burma's society would change and the context for a "culture of democracy"\(^{88}\) would be created. The vector 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 of these constitutive rules. This form of conditionality, however, differs greatly from so-called *constructive engagement*.

\(^{86}\) 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).
Poverty and Human rights

Our comparison has revealed significant differences in the cases of Burma and Thailand. How can we explain this divergent development? We have seen that the cognitive models by which people 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. 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. However, if we subdivide the period, taking 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

<table>
<thead>
<tr>
<th>Period</th>
<th>Burma</th>
<th>Thailand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-97</td>
<td>5.14</td>
<td>2.61</td>
</tr>
<tr>
<td>1960-73</td>
<td>6.04</td>
<td>2.13</td>
</tr>
<tr>
<td>1974-97</td>
<td>4.89</td>
<td>2.71</td>
</tr>
</tbody>
</table>

Shocks are not the only occurrences that 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 to which people are denied the most basic choices and opportunities, such as long, healthy and creative lives; knowledge; and 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. Burma belongs to the Low Human Development

88 The term is from Campbell, 1999.
group, where 43.8 percent of the population lived in absolute poverty 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. 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 an alternative to GNP in assessing the living standard. Figure 10 shows that, on average, democracy is lowest when poverty is highest. 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 found the local maximum in the density function of figure 3.\(^{89}\) The absolute poverty minimum is, of course, at perfect democracy, again coinciding with figure 3. This means that there is 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 full democracy was introduced, but that would require the willingness to go through a period of higher poverty. This individual fear of a possible reduction in living standards prevents the system’s move from a low to a high human rights equilibrium, as shown in section II.

\[ y = -122.87x^3 + 161.79x^2 - 61.911x + 35.083 \]
\[ R^2 = 0.3117 \]

\(^{89}\) The two data sets are largely identical.
Choose Low Human Rights?

Figure 10 is, of course, table 3, in 1994 as a function of the democracy index in 1975. is here measured as the standard deviation of GNP per capita growth between 1991-97, dollars in 1994 and a third order polynom of the UNDP Human Poverty Index (1995). The estimate was best fit after checking quadratic and linear relation as well. It shows that democracy converges that is positively affected by the income level (the Lipset relationship of poverty and human rights. The impact is always negative although in varying poverty on human rights seems to arise when countries have reduced poverty. Due to the collinearity of where the normative transformations are most rapid.

Table 3: Regressing Democracy on Poverty and Uncertainty

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t value</th>
<th>-prob</th>
<th>PartR^2</th>
</tr>
</thead>
<tbody>
<tr>
<td>( \text{GNPpc94} )</td>
<td>0.33941</td>
<td>0.1064</td>
<td>0.0022</td>
<td>0.1372</td>
</tr>
<tr>
<td>( \text{LGNPpc94} )</td>
<td>0.4785</td>
<td>0.35118</td>
<td>0.1778</td>
<td>0.0282</td>
</tr>
<tr>
<td>( \text{HPI95} )</td>
<td>-0.017514</td>
<td>0.013113</td>
<td>1.336</td>
<td>0.0271</td>
</tr>
<tr>
<td>( \text{HPI^2} )</td>
<td>4.1096</td>
<td>0.033967</td>
<td>1.557</td>
<td>0.0365</td>
</tr>
<tr>
<td>( \text{HPI^3} )</td>
<td>-</td>
<td>7.9931</td>
<td>-1.236</td>
<td>0.2209</td>
</tr>
</tbody>
</table>

\( R^2 = 0.511169 \) \( \sigma = 0.234484 \) \( DW = 2.28 \)

\( RSS = 3.518881405 \) for 7 variables and 71 observations

V-

program for Burma or other countries on low human development paths.
1. We have established the constitutive link between human rights and economic development, which consists of the normative foundations of a liberal economy. The relationship is not simple, as development theories of the 1960's assumed. 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. In modern society, entitlement rights over objects have substituted claims on the collective. In poor societies, the modern concept of impartial justice is not perceived to provide the same insurance against the vagaries of life 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 field to individualism, but permit the distinction between property and possession that is quintessential to a monetary economy and its related credit ethics. However, the credit economy also creates uncertainty for wealth owners for which they demand to be compensated. Debt service becomes an engine of capital accumulation. Thus, the constitutive rules of modern society establish both the normative foundations of human rights and the economic foundations of growth.

5. Countries like Burma, saddled with low human rights levels and low prosperity, often suffer from distorted monetary economies. By reforming their fundamental economic systems, they lay the foundations for higher wealth and higher respect 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 must be part of a coherent strategy to develop the monetary economy. This is the essential difference with constructive engagement, as 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. Money is simply a very general application of contractual social arrangements, and it structures people’s behaviour and perceptions of the world. Through these 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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Why Do Poor Countries Choose Low Human Rights?


