8. Lindblad, *Bridges to New Business.*
9. Crouch, 'Generals and Business in Indonesia'.
10. Lindblad, *Bridges to New Business.*
11. Purwanto, 'Economic Decolonization and the Rise of Indonesian Military Business'.
12. Dick et al., *The Emergence of a National Economy.*
13. Interview Surabaya: August 2008.
14. *Utusan Nasional*, 2 August 1951.
15. *Waspada*, 17 June 1952.
16. *Waspada*, 19 April 1952.
17. Sunjoto, *Pradjurit Jon HN 008-LAPRIS Kodam XIV.*
18. *Waspada*, 24 April 1952.
19. *Pedoman Sport*, 3 January 1959; 23 May 1959.
20. Hawkins, 'Labour in Developing Countries: Indonesia': an ILO report on labour conditions in Jakarta in the mid-1950s mentioned that skilled labour received 10 to 20 rupiahs per day, while the daily wage of a skilled mechanic in Bandung was about 20 rupiahs. In the most populated urban centre of Jakarta, the daily payment of bakers and plumbers was 10 rupiahs; bricklayers and carpenters were paid 12.50 rupiahs per day. In the mid-1950s, the structural steel, electrical workers, garage mechanics and truck drivers received slightly higher payments, of about 15 to 18 rupiahs, or a maximum of 20 rupiahs per day, while unskilled labour was paid 5 to 6 rupiahs per day. But in some outskirt urban centres, there was a narrow differential between skilled and unskilled labour in daily payment. The skilled labour received on average 5.36 to 7.90 rupiahs, while the unskilled workers were paid an average of 4.15 to 5.22 rupiahs.
21. *Manifesto*, 17 May 1961; 20 May 1961.
22. *Haluan*, 24 March 1953.
23. *Angkatan Bersendjata*, 5 July 1965; Harian Operasi: 7 October 1968. See also Robison, *Indonesia: The Rise of Capital.*
24. *Berita Yudha*, 23 January 1963, 29 January 1969, 6 March 1969; Robison, *Indonesia: The Rise of Capital.*
25. Vickers, 'The New Order: Keeping Up Appearance'; Lindsey, 'The Criminal State. Premanism and the New Indonesia'.

10

From Tribes to Transaction Costs: How Two Anthropologists of Southeast Asia Anticipated the New Institutional Economics

David Henley

> If capital is to flow freely, if long-range planning is to be possible, and if merchants are to know what they have bought without constantly supervising others and inspecting goods, there must be mutual assurance that contracts will be fulfilled. For the many Javanese who deal with others who are neither kin nor neighbours, there is no effective social structure which can enforce the fulfillment of contracts.
>
> Alice G. Dewey (1962)[1]

> [T]he inability of societies to develop effective, low-cost enforcement of contracts is the most important source of both historical stagnation and contemporary underdevelopment in the Third World.
>
> Douglass C. North (1990)[2]

Towards the end of the twentieth century, the fields of economic history and development economics were revolutionized by the rise of the New Institutional Economics (or New Economic Institutionalism, NEI). This is a school of thought according to which the causes of sustained growth in some economies, and of persistent stagnation in others, are to be found in the realm of politics and law rather than science, culture or natural resource endowments. In the developed countries, market-supporting legal and political institutions have made possible long periods of sustained growth by decisively reducing the risks and costs of economic exchange. Wherever such institutions had not emerged, 'transaction costs'—the costs of negotiating prices and enforcing contracts—have remained too high to permit efficient market exchange, with persistent underdevelopment as a result. Economically inefficient institutions are often stable and persistent because those people who have the power to change them cannot do so without foregoing immediate benefits, or ceding wealth and power to rivals. It is this kind of historical *cul-de-sac* that Douglass North, the most influential exponent of the new approach, refers to as 'path dependence' or 'lock-in'.[3]

The systematic body of theory and knowledge assembled in the 1970s, 80s and 90s by scholars working in the NEI paradigm represented an historic achievement, and four of them—Douglass North, Ronald Coase, Elinor Ostrom and Oliver Williamson—were to receive a Nobel Prize. Yet none of the ideas involved was completely new. That Coase himself had pioneered the theory of transaction costs as early as 1937 (albeit *avant la lettre*—the term itself was not coined until the 1970s), in an article entitled 'The nature of the firm' in which he asked why some transactions were internalized by firms rather than left to markets, is well known.[4] Less well known is that the economic importance of transaction costs was also understood at an early date by anthropologists, not on the basis of speculation regarding the function of modern capitalist institutions, but on the basis of observations regarding the behaviour of individuals in pre-modern economic systems.

In the Southeast Asian context, anthropologists have traditionally paid little attention to economics and politics, other than in terms of the influence of *culture* on economic and political behaviour. Many present-day economic historians of Southeast Asia, by contrast, prefer to see economic and political decisions as rational responses to *institutional* conditions, frequently taking issue with the cultural interpretations of Clifford Geertz and other well-known anthropologists.[5] There are, however, exceptions to the rule that anthropologists of Southeast Asia have been preoccupied with cultural diversity. Two such exceptions are Roy Franklin Barton (1883–1947), who carried out wide-ranging ethnographic research among recently subjugated and pacified tribal societies in upland Luzon (the Philippines) between 1916 and 1941, and Alice Dewey (b.1928), who studied peasant marketing in Java in the 1950s.

Barton and Dewey resemble pioneers of economic and political anthropology such as Bronislaw Malinowski and E.E. Evans-Pritchard in their aspiration to relate their observations to universal principles rather than cultural specificities.[6] In different ways, Barton and Dewey also anticipated the New Institutional Economics to such a degree that their work can still readily be used to illustrate, and even extend, the insights of that school. By the same token, they can be viewed as precursors of today's economic historians of Southeast Asia. For reasons that will become apparent in the course of this chapter, the two will be discussed below in reverse chronological order, beginning with Dewey.

Alice Dewey and the Origins of Ethnic Commercial Specialization

A granddaughter of the philosopher John Dewey, Alice Greeley Dewey grew up in an American intellectual milieu, studied cultural anthropology and, from 1952 to 1954, took part in the now famous MIT-sponsored, Ford Foundation-funded social science research project in 'Modjokuto' (Pare, East Java) which also involved Clifford and Hildred Geertz, Robert Jay and Edward Ryan. The results of her Pare research were published in 1962 under the title *Peasant Marketing in Java.* An article summarizing her most important theoretical conclusions, 'Trade and social control in Java', appeared in the same year in the *Journal of the Royal Anthropological Institute.* Dewey went on to teach from 1963 to 2005 at the University of Hawaii, where she supervised many PhD students (including Barack Obama's mother, Ann Dunham) but apparently did not further develop the themes and ideas contained in *Peasant Marketing.*

Dewey's brief in Pare was to study 'the native markets' and the primary subjects of her ethnography were Javanese traders operating in the peasant market, or *pasar*, an old and important institution in Java but one previously ignored by both economists and anthropologists.[7] Contrary to common stereotypes, Dewey found Javanese market traders to be industrious, rational and materialistic in their pursuit of profit. That they nevertheless seldom managed to accumulate much capital, or expand the scale of their business operations beyond a petty level, was due mainly to an inability to obtain or extend credit.

Most loans are made with no security, for the people who need them have few possessions. Thus the lender can compensate for bad debts only by raising his interest rates. There are legal mechanisms for recovering bad debts if the debtor does have property, but many people are unaware of these or simply unused to resorting to court action to settle disputes. In any case, taking legal action would probably prove excessively expensive for most people.[8]

The costs and risks of economic co-operation being high, relations among Javanese traders in the *pasar* were characterized by distrust and individualism. Dewey contrasted this with the relatively co-operative patterns of economic exchange found in their own home villages, where common membership in a permanent community provided exchange partners with powerful informal incentives to behave in a trustworthy way:

The only social unit of traditional importance to a Javanese farmer is his own village [...]. He is [...] tied to the other members by kin and neighbourhood relationships which define a complex of reciprocal rights and duties between them all. The social, economic, and political structure of the village community supports these rights and obligations, as do the tangible and intangible rewards and penalties which follow from keeping or breaking the rules of conduct. [...] When a man does a day's labour on the fields of a neighbour he need not demand immediate payment or a written receipt. He is reasonably sure that in due course his debtor will do a day's work on his fields or make some other return which is traditionally acceptable. Occasionally the system breaks down, but the risk is low [...]. Within such rural communities deferred payment is part of the pattern of reciprocal duties and obligations. In fact no account is ever closed. It is assumed that an enduring relationship is set up among a stable group of people whose whole life will be spent in a cycle of exchanges.[9]

Dewey's sketch of the village as an economic system in which 'no account is ever closed' anticipates in exact terms the model of efficient but permanently localized exchange developed by later institutional economists, on the basis of game theory, to describe the economics of small, traditional, face-to-face communities:

The most likely and indeed empirically observable state in which contracts are self-enforcing is that in which the parties to exchange have a great deal of knowledge about each other and are involved in repeat dealings, as [...] with tribal and primitive societies and with small communities. Under these conditions, it simply pays to live up to agreements. In such a world, the measured costs of transacting are very low because of a dense social network of interaction.[10]

Again anticipating North, Dewey saw that the extension of exchange beyond the bounds of the local farming community into the realm of long-distance commerce demanded a new set of transaction-regulating institutions which villagers themselves were ill-equipped to provide:

In order to trade efficiently a rural Javanese must first shake off his obligations to his fellow villagers. Once he has done this his problems are just beginning. When he goes out into the extra-village trading sphere he finds he has not only left behind his obligations to others, but also their obligations to him. Once he starts to deal with people who are not from his village he has gone beyond the reach of his effective social unit and its supporting sanctions. It is the largely informal sanctions which reduce the risk element in credit and contractual relations. These sanctions do not reach out to control the actions of people who live in villages other than his own.[11]

The ultimate and most satisfactory solution to this problem, according to most of the NEI literature and implicitly also according to Dewey, is for the state to replace informal sanctions with a formal, impersonal and impartial system of legal contract enforcement—something which Indonesia had only very imperfectly succeeded in doing in Pare in the 1950s. However, Dewey also observed that there was a very effective alternative or intermediate solution, corresponding to the self-regulating merchant diasporas and trading guilds subsequently identified by North and colleagues as central to the early development of long-distance trade in Europe.[12] This was the management of large-scale commerce by a trade-specialized, diasporic minority group with its own internal social control mechanisms, adapted to minimize the costs of long-distance transactions.

In Java, and elsewhere in Southeast Asia, this economic niche was filled mainly by people of Chinese ethnic origin. But Dewey recognized that the overseas Chinese were only one example of a global category of commercially specialized ethnic minorities, particularly common in underdeveloped economies, which also included Jews in Europe, Indians and Lebanese in Africa, and Arabs in Indonesia itself. Indeed it was the universality of this phenomenon, more than the specificity of its manifestations in Indonesia, which informed Dewey's research, and beyond ethnography her higher goal was to explain the association between ethnicity and commerce in a way which might have universal applicability.[13]

The explanation she arrived at was that because Chinese immigrants in Java were long excluded by legal and other barriers from occupations other than trade, their whole system of social relations became intertwined with their commercial profession to the extent that bad behaviour in business came to mean both social isolation and economic destitution:

> I have indicated that the legal restriction forced most Chinese into commerce. This gave them a common occupational background. The concentration in trade led to their dispersal as they sought opportunities in the various trade centres. They were a small expatriate community against whom considerable dislike and discrimination was directed. [...] In all aspects of life, social, ritual, political, and economic, they had to look primarily to each other for help and protection. If a Chinese did not fulfill his obligations with acceptable regularity in one or more spheres of life he could be cut off from all kinds of support by the Chinese community. It would become difficult for him to find suitable spouses for his children. He would not be given credit. No one would come to his funeral [...]. A man who behaved badly in business could be cut off from all sorts of community activities. If he was cut out of commercial dealings with other Chinese this in effect meant he had been forced out of intermediate trade since it was dominated by Chinese. If he was forced out of the Chinese community this meant almost complete social isolation [...].[14]

The result of all this business-oriented social control in the Chinese community was a consistently high standard of adherence to business ethics. This lowered transaction costs enough to give its members a decisive advantage over Javanese competitors at the higher levels of the rural trading system, where capital and credit were essential for success:

> A merchant who has promised delivery of a certain amount and quality of goods on a particular date will make every effort to fulfill his commitment. Since the buyer is freed from uncertainty and the need for constant supervision of those he deals with, he can go ahead with the resale of the goods knowing they will be available when needed. A man who asks for credit normally gets it, and a man who gives it knows he will be repaid. The Chinese ethical code lowers costs, eliminates duplication of effort, frees the flow of capital, and reduces risks, each trader guaranteeing the others as do the members of a stock exchange.[15]

The hierarchical division of labour whereby co-operative Chinese traders dominated the capital-intensive wholesale business, and individualistic Javanese traders the labour-intensive, atomistic commerce of the *pasar*,

was in Dewey's view a rather stable equilibrium. The conditions of each sector suited its incumbents' skills and resources, while discouraging competition from the other group:

> In small scale marketing [...], labour-intensive methods are efficient and Javanese can adjust effectively to the marketing problems. In fact they have been so successful that they dominate market trade. Those advantages enjoyed by the Chinese—larger amounts of capital, and the possibility of using informal sanctions, do not give enough competitive advantage to overcome the lack of personnel with which to carry on labour-intensive operations. Hiring Javanese is unsatisfactory as the absence of controlling sanctions over them makes the risks high and supervision is time—and labour—consuming. At the time there is not enough need in small trading for capital and long term planning to stimulate the development of groups within the Javanese trading class which would be capable of imposing sanctions.[16]

Nevertheless, the situation was not immutable; if this was an example of what would later be called path dependence, then there was evidence that the Javanese path of subordination and poverty—which is what restriction to the lower levels of the trading system implied—could be redirected, both by accident and by design. Indeed, part of the rationale for Dewey's research in Java was that 'Javanese traders have developed more elaborate trading techniques, and handle a larger variety of goods in larger quantities, than do [non-Chinese] traders in Malaya, for example'.[17]

In two cases Dewey was able to document the emergence of new informal exchange-supporting institutions, where none had previously existed, among restricted groups of Javanese traders engaged in penetrating commercial sectors normally dominated by the ethnic Chinese. In the first case, groups of up to eight very experienced Javanese traders pooled their capital—a very rare and risky undertaking outside the Chinese community—to take advantage of an expanding opportunity in the wholesale marketing of onions, a valuable cash crop. Admission to these groups was based on rigorous screening for skill and honesty. Once admitted, traders found membership profitable enough to discourage any behaviour that might lead to expulsion and loss of reputation, so that a system of social control developed, which simulated that found among Chinese traders:

> Once the groups are established it is found that the risk of extending credit and making contractual arrangements with fellow traders is low in relation to profits. In order to continue in association with one's

> fellow traders [...] the separate traders [...] do their best to fulfill their contractual obligations [...]. The existence of this class of traders to whom special facilities were extended gave a basis for economic sanctions among the members of the group. To break faith with the group would probably mean exclusion from future groups [...]. This sanction grew most directly out of the commercial situation and not out of the whole social structure as did the sanctions used between Chinese traders.[18]

In the second such case described by Dewey, a successful class of relatively large-scale Javanese traders emerged after Chinese merchants and retailers were forced to leave rural areas during the Japanese occupation (1942–45) and national revolution (1945–49). Many small local traders and richer farmers soon rushed to take the place of those expelled. Although most were unsuccessful, some eventually managed to develop reputations for reliability, which enabled them to consolidate their businesses by obtaining crucial credit both from farmers and from urban Chinese traders.[19] If the case of the Javanese onion-trading partnerships shows that contract-enforcing institutions may evolve spontaneously in response to economic opportunity, the case of the successful usurpers is a reminder that economic history is nevertheless also a matter of brute politics. It is to the relationship between power, wealth and trade that the next part of the discussion turns.

Roy Franklin Barton and the Commercial Origins of the State

If Dewey was a child of the American intellectual establishment, Roy Franklin Barton was a maverick American autodidact and adventurer. Born in 1883, he trained as a schoolteacher and from 1906 to 1916 worked as a 'supervising teacher' in the colonial Philippines, first in the lowlands and later in the mountains of Luzon among the Ifugao and Kalinga, who had remained independent from the Spanish and were now in the process of pacification by the Americans. Returning to the US, Barton retrained as a dentist, practising dentistry there and in Manila while at the same time writing classic studies on *Ifugao law* (1919) and *Ifugao Economics* (1922). In 1930, for a mixture of political and personal reasons, he moved to the Soviet Union where he lived through the period of Stalin's purges, first continuing to work as a dentist before becoming attached to the Institute of Ethnology of the Russian Academy of Sciences

in Leningrad, where he obtained the equivalent of a doctoral degree in 1935. In 1937, using both US and Soviet funding, he conducted further fieldwork in the Philippines. In 1940 he fled the USSR and returned to the Philippines for the last time, just in time to be captured by the invading Japanese. In internment he suffered starvation, beriberi and an infected wound. Never fully recovered, he died in Chicago in 1947. In an obituary, Alfred Kroeber described him as having 'produced some of the most gifted ethnography ever written in English'.[20]

Barton had a humane, but unsentimental, interest in the possibility of order and justice under conditions of political anarchy. His ethnography, making much use of autobiographical reminiscences by elderly informants, takes us back into the violent world of the pre-colonial Philippines—a world in which a homicide record was an essential criterion of social status for men, and crimes (and indeed misunderstandings) sparked off bloody feuds and wars. At the same time, life in this pre-capitalist universe had a disconcertingly economic quality whereby everything, up to and including the life of a murdered relative, had its price. The anger of the bereaved could often be appeased, and vengeance averted, by paying to them an appropriate amount of blood money or 'weregilds' —an Anglo-Saxon term which Barton uses to remind his Western readers that their own ancestors once lived in something like the same way.

Barton's last and most mature work, published posthumously in 1949, is entitled *The Kalingas: Their Institutions and Custom Law*. Although the Kalinga were one of the more egalitarian peoples of Luzon (as well as one of the most violent), two different types of chiefly office existed among them: that of *pangat*, or 'man of rank', and that of *mangdon si budong*, or 'pact-holder'. *Pangat* were also called 'peacemakers' or 'right-determiners', and their main task consisted in the mediation and adjudication of disputes—a highly valued function given that disputes were both common and potentially lethal. Accordingly, one important qualification for the rank of *pangat* was a sense of fairness and an ability to see beyond the interests of one's own kin group—an unusual trait in a society where kinship was the dominant organizing principle. More important still, however, was the need for a *pangat* to be feared, to have 'a reputation as a dangerous man'.[21] This meant that among the Kalinga, the road to stoppage of homicide had to begin with homicide itself:

> The route to pangathood lay as follows: (1) the youth would kill someone in order to get his tattoo and a right to voice his opinions among men; (2) then, seeking dominance, he would kill more people and thus

> inspire fear among the folk; (3) he would intervene to settle disputes between kinship groups [...] and he would be successful because feared by the people; (4) if in these settlements he were fair and acted 'for the good of all the people', [...] then a few of the people would begin to call him pangat.[22]

Wealth was also an asset in this process, since it enabled the killer to pay weregilds to the relatives of his victims, many of whom were typically members of his own community, and in that way to avoid retribution and carry on killing.

Alongside the *pangat*, the second class of political leader among the Kalinga, and the one of greater interest in the context of Barton's relevance to modern institutional economics, was the *mangdon si budong*, or 'pact-holder'. Pact-holders were so called because their task was to enforce the terms of formal peace pacts which they had concluded with foreign regions on behalf of their own community. Essentially, a pact-holder was obliged to punish any inhabitant of his own region, including his own kin, who harmed any inhabitant of the foreign region to which his pact related. Conversely his counterpart in that other region, with whom he was linked by a kind of fictive brotherhood, was sworn to avenge any inhabitant of the first region killed or wounded by an inhabitant of his own. Once again this included his own relatives, to whom, at the ceremony of his inauguration as pact-holder, he addressed the following warning:

> Now that I am a pact-holder, it is an honor to you as well. But though you, my relatives, and you, the relatives of my wife, share the honor with me, you also share the responsibility of restraining anyone from unfriendly acts. [...] Being a pact-holder is a serious business, and I intend to enforce the pact fearlessly and preserve my honor, which is also your honor. You must consider it your duty to me and to our kinship groups to prevent the necessity of my having to resort to extreme measures, for be assured that I shall resort to them even against my own blood if necessary.[23]

Like the *pangat*, then, the pact-holders too were killers. But unlike the *pangat* they killed, and indeed were obliged to kill, only in specific contexts determined by the peace pacts of which they were the guarantors. If they fulfilled their duties properly, inhabitants of the one region travelling in the other would be entirely safe—safer, indeed, than they would have been in their own region.[24] And even if an individual traveller was

harmed after all, this still would not result in war between the regions because punishment would be metered out by the local pact-holder and his immediate kin group—which, of course, had to be a strong and feared one—rather than by avenging headhunters from the offended foreign region.

Barton understood the institution of the peace pact as a stage in the evolution of the state. By this, in turn, he understood not just a concentration of political power, but a qualitative shift from the blood tie to the territorial tie as the basis for political community and action. Unusually in a Philippine tribal context, punitive slayings by the Kalinga pact-holder were not acts of private vengeance by one kinship group against another, but 'legal executions' representing 'the police power of a budding state'.[25] The scope of this power was territorially defined. The first article of each standard eight-part Kalinga peace-pact agreement consisted of a precise determination of the geographical region for which each pact-holder was responsible:

> 1. Statement of the boundaries of each region. (These have to be defined whether the region be adjacent to or distant from each other, because they define the people for whom each pact-holder will be responsible.)
> 2. Each pact holder will be responsible for the acts of citizens of his region, and for all acts within his region, that affect citizens of the other region.
> 3. Neither region will pollute the soil of the other with foreign blood (each region will respect the neutrality of the other). [...]
> 4. Each pact-holder guarantees visitors from the other region shelter and food.
> 5. In the event of illness or of accident to citizens of one region within the bounds of the other, the pact-holder where this occurs will return the persons to their home region [...].[26]

With the political territoriality instituted by the peace pact came a concept of regional 'citizenship' and a perception, at least in the context of interregional relations, 'that the citizens of a place are "owned" by the pact-holders'.[27] Barton stops short of postulating a further development in which it is the pact-holders, and not the *pangat* or strongmen, who evolve into kings ruling over regional kingdoms. One reason for his caution on this point was probably that the institution of pact-holdership, as he acknowledges, is not attested to in the ethnography of other tribal peoples.[28] But Barton does note that among the Kalinga, the two types of leadership strongly overlap: the office of pact-holder 'is a road to the rank of pangat if one be not already a pangat, and it raises the pangat's prestige if he has already attained that rank'.[29] This raises the possibility that in other settings the two may not have been differentiated, and that the role of strongmen in maintaining interregional alliances may have been important to their evolution into ruling princes despite its relative invisibility in the historical and ethnographic sources.

Barton's account of the civilizing effect of the peace pact and its enforcers—who for all their ruthlessness served to enable strangers, in an otherwise violent and xenophobic society, to come together on the basis of 'detailed and humane treaties'[30]—offers a radical alternative to the predatory models of state formation often advanced by scholars of Southeast Asian history.[31] More important for the purpose of the present chapter, however, is Barton's account of the historical origins of the peace pact institution, which lay in interregional commerce.

Peace pacts were all about trade. Pairs of brother pact-holders were often individuals who, despite the dangers of travel in hostile regions, had already formed a trading partner relationship (called *abuyog*) with each other prior to the conclusion of the pact:

> Pikut [of Lubwagan], who holds the pact with Kabugao in the Subprovince of Apayao, six days' hike distant, was formerly a very rich and enterprising man. [...] In 1917 or thereabouts, having heard that precious beads were quite cheap in Apayao, he assembled a few kinsmen and, carrying 400 pesos, started for Kabugao, with which, at that time, Lubwagan had no pact. At Salegseg, which had a pact with Kabugao, he hired two men to accompany him in order that they might confer a degree of safety on the party. [...] Arrived at Kabugao, he stopped at the house of Sigon, a wealthy man. Sigon purchased beads for him advantageously; the two agreed to become trading partners. After that, five trips were made by one or another to the town of the other [...]. As happens frequently, the trading partners initiated a pact, with themselves as the pact-holders.[32]

If individual pacts originated in individual trading relationships, Barton believed that the peace pact as an institution had originated in a general category of commercial alliance, also found (unlike the peace pact itself) among the neighbouring Ifugao, whereby trading partners entered into a limited obligation to avenge harm done to each other as individuals:

> Among the Ifugao two men of distant regions sometimes enter into a highly formalized and ritualized pact which makes them *biyao*, trading partners, with definite obligations to each other. Each will trade with the region of the other through the other only. Each will avenge the killing of the other or his people accompanying him or sent by him if that killing occurs within certain limits agreed on.[33]

The Kalinga *budong* (peace pact) effectively extended the individual mutual protection of the *biyao* partners to include all traders originating from their respective regions. Among other things this meant first painstakingly negotiating the settlement, by means of weregilds, of all (or at least as many as possible) of the unavenged individual accounts outstanding between any inhabitants of the two regions.

With this accomplished, the way was open to intensive trade. The main economic incentive for an individual to take on the duties and risks of pact-holdership was that the establishment of permanent peace between their two regions was very good for trade, and that the pact-holders were in an advantageous—although seldom monopolistic—position to conduct that trade. In addition, whenever valuable heirloom goods changed hands across regional boundaries, the pact-holders received what was effectively a commission on the transaction.[34] Besides the five articles already listed, which deal in general terms with boundaries, travel and security, Kalinga peace pacts typically also included three further articles dealing specifically with trade:

> 6. Each pact-holder will assist traders from the other region. If requested, the pact-holder will appoint reliable agents to execute commissions for the visiting trader or will undertake them himself.
> 7. Money stolen from or lost by a citizen of the one region within the other region will be restored him by a collection from the citizens of the place where this occurred.
> 8. Pact-holders will facilitate the collection of debts owed citizens of the other region by citizens of his own and seizures (*taliwan*) to cover such debts.[35]

The Kalinga pact-holders, then, were not only guardians of the peace and order on which trade depended; they also provided business introductions and travel insurance for traders, and even served as contract-enforcers with respect to credit transactions entered into by traders with third parties. Their function, in other words, was to reduce transaction costs in the interests of unimpeded commercial exchange, and their concrete personal interest in doing so lay in the fact that they profited directly from that exchange, both as traders in their own right and as recipients of taxes levied on trade.

Viewed in the perspective of the New Institutional Economics, Barton's observations are quite remarkably prescient. Proceeding essentially from the language and concepts of his informants rather than from received theoretical precepts, he describes how Kalinga institutions serve to create both order out of anarchy, and economic interdependence out of isolation. In the process he formulates, however cautiously, a model of the origins of the state itself as an institutional means of reducing the costs and risks of trade. If there is one big surprise it is the ease with which, according to Barton's account, the problem of creating a system of impartial contract enforcement—which North describes as 'a major dilemma in the study of institutional evolution'—was apparently overcome by transparently rational means even in an institutionally simple society dominated by the kinship principle.[36]

Conclusion

The anthropological writings of Alice Dewey and Roy Franklin Barton, both written more than fifty years ago, contain striking anticipations of the New Institutional Economics literature in terms of their understanding of the centrality of transaction costs—determined in turn by institutional structures—to economic development. In Dewey's case, moreover, it is clear that these insights were by no means just her own: in the preface to *Peasant Marketing in Java* she shares the credit for them with leading British economic anthropologist Raymond Firth, without whose help the book 'could not have been written', as well as with economic historian B.S. Yamey and with her fellow Modjokuto researchers, who included the legendary Clifford Geertz.[37] Her advanced ideas, in other words, were part of the common property of the anthropological establishment of her day. In the case of the maverik Barton, whose ideas were above all his own (and those of his informants), this is less obviously the case. On the other hand, Barton's *The Kalingas*, with its startling illustrations of key NEI principles in relation to an obscure tribal institution, indicates the continuing value of the ethnography of that era as a source of empirical material with which to develop the field of institutional economics today.

The canonical texts of the New Institutional Economics were produced in the 1970s and 1980s, when the wealth disparity between rich and poor countries was great, and persistent enough to support the view that if institutional differences were to blame, then institutional change must be an intrinsically slow and difficult process. Today, now that many formerly poor countries are developing at unprecedented speed, this assumption is no longer so tenable. Like North and his colleagues, Barton and Dewey both understood that economically inefficient institutions could be politically stable and therefore resistant to change. But both also provided detailed accounts of how, in the presence of economic opportunity, people in pre-modern societies were capable of overcoming collective action problems to create new and more efficient institutions in strikingly rational ways. It is their insights into the amenability of institutions to deliberate and rapid modification which are perhaps their most valuable potential contributions to the development of the field in the twenty-first century.

Notes

1. Dewey, *Peasant Marketing in Java*, 42.
2. North, *Institutions, Institutional Change and Economic Performance*, 33.
3. Ibid.
4. Coase, 'The Nature of the Firm'.
5. Dick et al., *The Emergence of a National Economy*, 149–50.
6. Malinowski, *Argonauts of the Western Pacific*; Evans-Pritchard, *The Nuer: A Description of the Modes of Livelihood*.
7. Dewey, *Peasant Marketing in Java*, xiii.
8. Ibid., 92.
9. Dewey, 'Trade and Social Control in Java', 178, 183.
10. North, *Institutions, Institutional Change and Economic Performance*, 55.
11. Dewey, 'Trade and Social Control in Java', 180.
12. North, *Institutions, Institutional Change and Economic Performance*, 34–5, 55, 127.
13. Dewey, 'Trade and Social Control in Java', 177–8.
14. Dewey, *Peasant Marketing in Java*, 182–3.
15. Ibid., 47.
16. Dewey, 'Trade and Social Control in Java', 181.
17. Dewey, *Peasant Marketing in Java*, xxi.
18. Dewey, 'Trade and Social Control in Java', 187, 189.
19. Ibid., 188–9.
20. Kroeber, 'Roy Frankin Barton', 91.
21. Barton, *The Kalingas: Their Institutions and Custom Law*, 148.
22. Ibid., 148–9.
23. Ibid., 182.
24. Ibid., 64.
25. Ibid., 199.
26. Ibid., 185–6.
27. Ibid., 208.

28. Ibid., 168.
29. Ibid., 201.
30. Ibid., 146.
31. See for instance: Adas, 'From avoidance to confrontation'; Gullick, *Indigenous political systems of western Malaya*; Scott, *The art of not being governed.*
32. Ibid., 172–3.
33. Ibid., 144.
34. Ibid., 201.
35. Ibid., 186.
36. North, *Institutions, Institutional Change and Economic Performance*, 35.
37. Dewey, *Peasant Marketing in Java*, xvi.

III

TRADE AND ECONOMIC GROWTH UNDER CHANGING REGIMES