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ONE KIND OF POWER

By KAUSHIK BASU*

1. Introduction

THIS paper is about influence and power—concepts which are treated as peripheral in conventional economic theory but which, we know, are important in reality. This is a vast subject and it has received an enormous amount of attention from sociologists and political theorists (see Lukes, 1974, and references therein). The objective of the present paper is, however, a modest one: to enquire into the nature and consequences of one kind of power—that which works through ‘triadic’ relationships.

We begin with the standard economist’s assumption, that all individuals are selfish utility maximisers (to the extent that they are so in traditional neoclassical theory).¹ The idea is not to defend this axiom but to demonstrate that even without relaxing this axiom we can accommodate in our models concepts and results which have generally been left to the charge of other social scientists. The point of departure with standard economic theory lies in permitting the relation between two agents to be affected by and to affect each of their relations with others.

The significance of going from two-person to three-person relationships, that is, from the ‘dyad’ to the ‘triad’,² has been discussed in sociological writings—most emphatically in the works of Georg Simmel (Simmel, 1950; Caplow, 1968). Simmel argued that as soon as the direct relation between two individuals is appended by an indirect one, operating via a third person, there occurs a qualitative change from a formal sociological standpoint. Adapting somewhat to the context of *economic* analysis, the term ‘dyad’ will be used here to describe models where whether *i* agrees to trade with *j* or not does not affect his relation with *k*. Hence, a dyad is not a two-person society, but a society where individuals interact *pairwise*. The term ‘triad’ will be reserved for models which allow triangular and, more generally, multiple relations.

In economics our models are *generally* dyadic. “In previous models current transactions (so long as they are legal) do not result in changed relations with uninvolved parties in subsequent transactions”, argues

* I owe my broad interest in this subject to conversations with Sukhomoy Chakravarty and Mrinal Datta Chaudhuri. In writing this paper I have benefited from the comments of H. Leung, Jean-Phillipe Platteau and Nick Stern, and from seminars at the London School of Economics, the University of Warwick and the Institute for Advanced Study, Princeton. I am indebted to Steven Lukes for a very stimulating conversation and also for acquainting me with Vaclav Havel’s manuscript. This paper was written while I was a visitor at the University of Warwick.

¹ I qualify this because it is becoming increasingly clear that even traditional theory makes implicit use of ‘customs’ and ‘norms’ (see, e.g. Sen, 1983a; Williamson, 1983).

² These are the popular English translations for Simmel’s ‘zweierverbindung’ and ‘verbindung zu dreien’.

Akerlof (1976, p. 609), in setting out to construct his extremely insightful triadic model of caste relations. He goes on: “On the contrary in a caste society any transaction that breaks the caste taboos changes the subsequent behaviour of uninvolved parties towards the caste-breakers”. Once triadic relations are allowed, we are able to explain many interesting social concepts within the bounds of our models. Caste is one of them. The first model in this paper (Section II) is based on Akerlof’s notion of caste equilibrium (which, as an equilibrium concept, need not have anything to do with caste). The second model (Section III) is of agrarian relations which demonstrates how a labourer may agree to an exchange with a landlord from which he gets negative utility. It is argued that what appears to be a voluntary exchange may be indirectly coercive. The third model (Section IV) is an attempt to explain the *modus operandi* of that ubiquitous personality, the so-called man of influence.

II. Power and loyalty

History has seen dictatorships where the rulers and the ruled have been “two socially defined and separate communities”³ with the former controlling and, perhaps, even tyrannising the latter. In such “classical dictatorships” power is concentrated on one side, on the side of the rulers, who devise methods of rewards and retributions to dominate the majority and sustain the regime. Such a dictatorship can be tyrannical but it is comprehensible, everyone can see who keeps it going. In some ways more frightening is what the Czech writer, Vaclav Havel, calls a “post-totalitarian system”. It may be more tyrannical or less. That is not its distinguishing mark. Its distinguishing mark is that it is faceless. In it power is diffused through society. The line which divides *society* in a classical dictatorship, “runs through *each person*” in a post-totalitarian system, in which “everyone is, in his own way, both a victim and a supporter of the system”.

I will return to the work of Havel later, in Section II.3. I will try to argue that Havel’s notion of a diffused dictatorship is a coherent concept which can be interpreted very precisely in terms of equilibrium notions. I give a sketch of this interpretation in this Section, develop it formally in Section II.1 and discuss its larger implications in II.2 and particularly, II.3.

Let us begin with a simple case of a “classical dictatorship”. Consider an unwanted ruler (or a ruling class⁴) who punishes whoever does not cooperate with him. Suppose that the agony of punishment is greater than the benefits a person gets from *individually* not cooperating. Then, even if it were true that *if everybody* chose noncooperation the ruler would get overthrown and everybody would be happier, no *individual* would choose

³ This and the following quotes in this section are from Havel’s (1978) manuscript.

⁴ In his classic essay, Mosca (1939) had argued that power never resides in an individual but in a ruling *class*. He had also argued that nor can it reside in the whole community. Both claims can be and have been contested, the latter—as we shall just see—for an interesting and intricate reason.

noncooperation and the ruler would survive to the misfortune of all. This is the Assurance Game—a variant of the classic Prisoner's Dilemma (Sen, 1982)—and this is the popular model of power.⁵

Consider an alternative model in which the direct punishment for disloyalty is small (causing k units of disutility to its recipient) and, in particular, smaller than the benefit an individual gets by noncooperation (say, n units), i.e. $k < n$. Then the above straightforward argument can no longer hold. However, given the following definition and two assumptions, the sustenance of the unwanted ruler is guaranteed. (Here, as above, I assume that there is a definite behaviour called “noncooperation”. What exactly that entails is not immediately relevant to us and, so, is left unspecified).

Definition: A person is considered *disloyal* to the king or the regime if either he does not cooperate or he maintains relations with someone who is disloyal.

Assumption 1: Everybody believes that no one else would be disloyal.

Assumption 2: $n - k - d < 0$, where d is the cost to an individual of being ostracized.

Consider an individual contemplating noncooperation. This will give him a joy of n units, a punishment of k units and, given his ‘conjecture’ about others (embodied in Assumption 1) he expects an additional cost of d units. These, given Assumption 2, add up to a negative number and so noncooperation is not worthwhile. Everybody reasons in this manner and the regime persists.

Note that Assumption 2 *could* be valid even with $k = 0$. This means that even if the direct punishment meted out by the ruler is non-existent individuals would cooperate with the regime and thereby help its sustenance. The regime persists because of mutual suspicion between the people. Each person is worried about what the others will do to him and so they cooperate. And, of course, as a moments contemplation will show, there need not even exist a ruler in the system. ‘Cooperation’ could merely be the name of a certain mode of behaviour (which no one likes). The power that sustains this regime pervades the entire society. And everyone is—as Havel describes—“both a victim and a supporter of the system”.

This then is the essence of Havel’s “post-totalitarian system” with its “blind automatism”. No individual is at the helm; it is a “dictatorship of the ritual”. This is also, the model of Akerlof’s (1976) caste where everybody complies with the caste rules because not to comply is to risk ostracization. And of course those who do the ostracizing do so only because otherwise they would be risking their own ostracization!

⁵ This is what Crozier (1969) has in mind in his chapter, ‘Power through Terror’. Russell (1938) discusses several examples in his Chapter 6.

II.1. Model

Consider an economy with a set N ($\# N = n \geq 2$) of individuals. The number of goods is also n . Every $i \in N$ has an endowment of e (> 1) units of good i and no other goods.⁶ Every $i \in N$ has the same utility function:

$$U^i = x_1^i x_2^i \dots x_n^i = \prod_{j=1}^n x_j^i \quad (1)$$

where x_j^i is the amount of good j consumed by person i .

The general equilibrium of this exchange economy occurs at the price vector $p^* = [1, \dots, 1]$. This is easy to check. Given this price vector, the usual consumer maximization yields

$$x_j^i = \frac{e}{n}, \quad \text{for all } i, j.$$

Here, aggregate demand for good j equals e , which is also the aggregate supply of good j . Note that at equilibrium each person gets $(e/n)^n$ utils. This equilibrium will be referred to simply as the *Walras equilibrium*.

Now consider the same economy again, with a wicked king added to it. He does no good for the economy but charges from every individual one unit of his endowment. This the king uses for his own merriment and protection. The two essential elements in this model are a definition and a conjecture. These are as follows:

Definition: In this economy a person is described as *disloyal* (to the king) if (i) he does not give the king one unit or (ii) he trades with someone who is disloyal.⁷

Conjecture: Every $i \in N$ conjectures that no $j \in N \setminus \{i\}$ would be disloyal.⁸

This conjecture may, at first sight, convey the impression that i believes that others would be loyal under *all* circumstances. This need not be. Underlying the conjecture may be i 's belief that others would be loyal only under *some* circumstances and that the only circumstances that might prevail are a subset of these. In the light of this, it is possible and more

⁶ This may, conveniently, be thought of as a 'Parsee model': The Indian Parsees often have names like Fruitwallah, Topiwallah, . . . depending on what they (or their ancestors used to) trade.

⁷ This definition, though it generally conveys the right meaning, is not quite accurate since we can define arbitrary sets of people who are 'disloyal'. This definition should be treated as a quick reminder of a more precise definition, which is as follows. We first define 'k-disloyalty' recursively:

A person is k -disloyal if he trades with a $(k - 1)$ -disloyal person.

A person is 1-disloyal if he does not give the king 1 unit.

Now we can define disloyalty: A person is *disloyal* if there exists k such that he is k -disloyal.

⁸ On some occasions we will use a slightly more elaborate conjecture: "Every $i \in N$ conjectures that no $j \in N \setminus \{i\}$ who is currently loyal would want to be disloyal in other situations."

interesting to suppose that behind the formal and brief statement of conjecture above is the following: i conjectures that no j would be disloyal unless assured of general disloyalty and i also conjectures that each j lacks such assurance.

We shall suppose that whoever is disloyal ‘incurs the king’s displeasure’. This, in turn, could take any form. For instance, it could mean being debarred from the annual royal ball or being whipped. It is not necessary to specify this. We simply need to assume that everybody knows what ‘incurring the king’s displeasure’ entails. Let k_i (≥ 0) be the disutility to person i of incurring such displeasure. In other words, k_i is the direct cost to person i of being disloyal.

In this economy, the same price vector as before (that is, p^*), with everybody paying the king one unit, is an equilibrium, in the sense that, given their conjectures, no one expects to do better by altering his strategy. This equilibrium will be referred to as a *C-equilibrium* (to emphasize that its essence is the same as Akerlof’s ‘caste equilibrium’). Let us check that this is an equilibrium in this sense. If person i pays the king 1 unit, his disposable endowment is $e - 1$, and usual consumer utility maximisation yields

$$x_j^i = \frac{e - 1}{n}, \quad \text{for all } i, j.$$

Hence the aggregate demand for good j is $e - 1$ which is also the aggregate supply to the market.

What remains to be checked is that no individual expects to do better by not giving the king one unit. If i gives the king 1 unit, he buys $(e - 1)/n$ units of each good and so gets a total utility of $[(e - 1)/n]^n$. Suppose i does not give the king 1 unit. Then anybody who trades with him will be considered disloyal to the king. Hence i , given his conjecture, will not expect anybody to trade with him. Therefore, his utility from consumption of goods will be $0 \dots 0.e.0 \dots 0 = 0$. In addition, there is the direct cost of the king’s displeasure, i.e. k_i . So total expected utility from this strategy is $-k_i$. Since

$$\left(\frac{e - 1}{n}\right)^n > -k_i, \quad \text{for all } i, \quad (2)$$

it is not worthwhile for any i to deny the king one unit, and this establishes the equilibrium.⁹

⁹ One question which may be raised is: Could the *king* not do better? What I have implicitly assumed here is that a king is not a ‘rational agent’ in the conventional sense (an assumption that cannot be faulted for gross unrealism) and that his behaviour is exogenously given. An alternative strategy would be to exploit the fact that, as it stands, there is no *obvious* way for the king to improve his condition (For instance, if he tried raising the 1 unit demand to 2 units, this could disturb the conjectures, that is, some might start believing that given the larger cost of loyalty now, others might not mind being disloyal; and this could end up with no one paying the king anything.) By bringing in some extra assumptions, it may be possible to show that the king in fact cannot improve his welfare.

What is interesting is that (2) would continue to be valid even if $k_i = 0$ for all i . That is, even if individuals did not mind at all incurring the king's displeasure (for instance, because they are bold and hate to curry favour or because the displeasure takes the mild form of a snort from the king), they would continue to show loyalty and thereby help sustain the evil regime. And what is more, there need not even be a king. The act of loyalty could merely be a self-sustaining "ritual" of wasting one unit of endowment. Individuals are not worried about what the king will do to them but what the others will do to them. And it is this interpersonal suspicion which sustains the sub-optimal equilibrium.¹⁰

Of late, there has developed quite a substantial body of literature on oligopoly equilibria based on 'conjectures' of agents. An important question which has arisen in this context is whether the conjectures postulated in a model are 'consistent' or not? There are some game-theoretic difficulties with the concept of consistency and so we shall not delve much into this subject. The only matter of interest to us is to note that if $k > 0$ (no matter how small) and $n \geq 3$, then the C -equilibrium is an equilibrium with *consistent conjectures* (Bresnahan, 1981). A consistent conjectures equilibrium is basically an equilibrium where the conjectures of individuals would, *given a chance*, be borne out.

Let us spell out the conjecture in our model. What is relevant at the equilibrium is that i conjectures that if he does not give the king one unit then others will refuse to trade with him. We want to check whether this conjecture would actually be true. Without loss of generality, suppose that person 1 does not give the king his due, and let us see what 2 will do. If 2 trades with 1, then given 2's conjecture, he will expect no one else,¹¹ i.e. 3, 4, ..., to trade with him. Hence 2's utility would be $-k$ units. If he does not trade with 1, his utility will be zero. Hence he will not trade with 1, and therefore 1's conjecture is valid.¹²

II.2. *The caucus and the coalition*

This model raises an interesting ethical question. Normally, we castigate men who, by currying favour with an unwanted leadership, help sustain the

¹⁰ So there is obedience and, at the same time, the peoples' interest is in opposition to the king. Hence this could be thought of as one formalisation of Simmel's (1971) argument that there is "an intimate dual relation" (p. 103) between the ruler and the ruled. More explicitly, he argued, "... obedience and opposition are merely two sides or links of one human attitude which fundamentally is quite consistent" (p. 104). See, also, Goldhamer and Shils (1957, p. 135).

¹¹ This may be clearer if we think of the conjecture as stated in footnote 8.

¹² What this establishes is a kind of 'first-order' consistency of conjectures, because we are not showing that 2's conjecture (about what others will do to him if he trades with 1 who has refused to pay the king his due) would be true under perturbation. In a more convoluted way, Bresnahan's (1981) argument in the context of duopolies has the same problem. To establish complete consistency would probably require a backward induction argument of the kind used in Basu (1977) and Schick (1977).

regime. This model shows that people who do so may be, entirely a victim of their 'situation'. This can be elaborated by supposing that the economy has two provinces: the inner and the outer. The inner one is exactly like the economy described above. The outer one has a set M ($\# M = m$) of individuals, numbered $n + 1, n + 2, \dots, n + m$. Every $i \in M$ has an endowment of e units of good i and his utility function is:

$$U^i = \prod_{j=n+1}^{n+m} x_j^i$$

The only difference between these two provinces is that the people want to consume different kinds of goods. Let *disloyal* be defined in the same way and let the conjecture be the same. But it is more convenient to write it more elaborately, i.e. as in footnote 8. Hence, the conjecture is as follows:

Conjecture: Every $i \in N \cup M$ conjectures that no $j \in N \cup M \setminus \{i\}$ who is loyal to the king would be disloyal.

Assume that for all $i \in M$, k_i is such that

$$\left(\frac{e}{m}\right)^m - \left(\frac{e-1}{m}\right)^m > k_i \quad (3)$$

Finally, assume that if no one gives the king one unit, the king would get overthrown, and in the absence of a king the Walras equilibrium would be established.

This economy can now be shown to have a very interesting equilibrium, namely, one in which all prices are equal to one, and every $i \in N$ gives the king 1 unit and every $i \in M$ does not give the king 1 unit.¹³ Hence at equilibrium every $i \in N$ gets $\left(\frac{e-1}{n}\right)^n$ utils and every $i \in M$ gets $\left(\frac{e}{m}\right)^m - k_i$ utils. To show that this is an equilibrium we have to go through the same argument as in Section II.1. The only new thing to check is that no $i \in M$ can gain by giving the king 1 unit. If he gives the king one unit, given his conjecture, he will expect members of N to be prepared to trade with him (which they earlier would not have been willing). But this is of no consequence because there is nothing that $i \in M$ wants to buy from the members of N . Hence the only advantage of giving the king 1 unit will be that he will not have to incur the cost, k_i . Hence by giving 1 unit, he gets a net utility of $\left(\frac{e-1}{m}\right)^m$ utils. But this is less than what he was getting earlier, because of (3).

At this equilibrium, the set N will soon get to be labelled the 'caucus' around the king, who through their fawning and show of loyalty help sustain the regime, whereas the people of the outer province would allegedly be the

¹³ This equilibrium is, however, not unique.

courageous ones refusing to comply with the king's unfair demands. But of course what is clear to us from a distance is that the members of the caucus and the members of M could be identical human beings, in terms of their attitude to the king, merely caught in different 'situations'. It is interesting to note that the k_i 's for the elements of N could in fact be lower than the k_i 's of the members of M . That is, the members of N could be the ones who actually care less for the king's favours!

Finally, a comment on coalitions, which Akerlof (1976) showed, could break out of the grip of caste. Return to the C -equilibrium in Section II.1. Clearly if all n members decided to form a coalition and not to pay the king, they could establish the Pareto superior Walras equilibrium. Why do they not do this? There are, of course, the standard arguments in terms of transactions or organisation cost. There is however a more natural reason here. It seems reasonable to suppose that the definition of 'disloyal' (Section II.1) should include a third category: (iii) he tries to form a breakaway coalition. Now, if we assume that to have a breakaway coalition somebody has to make the first move and that individuals conjecture that the probability of others joining in is below a certain level, then a breakaway coalition would never get formed.

II.3. *A political analogue*

Václav Havel's (1978) scenario is Eastern Europe. He argues that the system there is not a "classical" dictatorship but a "faceless" one where society cannot be partitioned between the rulers and the ruled. He labels it a "post-totalitarian system" where totalitarianism permeates through society. In it, the same people who are strangled by power are the ones who constitute power. Havel's post-totalitarian system is a political analogue of the formal model above. This is brought out sharply in his perceptive account of a typical greengrocer.

"The manager of a fruit and vegetable shop places in his window, among the onions and carrots, the slogan: 'Workers of the world unite:'

"Why does he do it? . . . Is he genuinely enthusiastic about the idea of unity among the workers of the world?"

Havel argues that the answer to that is No. The greengrocer does it because everybody does it. The poster was delivered to him "from the enterprise headquarters along with the onions and the carrots. . . . If he were to refuse, there could be trouble . . . someone might even accuse him of disloyalty." He would then be persecuted and "his superiors will harass him."

That such things happen, we all know. Where Havel shows his insight is not in his analysis of the greengrocer but in his analysis of the superiors—those who harass the dissenting greengrocers. Why would they harass a greengrocer if he refused to put up the poster? Is it because they are, unlike the grocer, committed to the government? The answer once again is No, for

the superiors are, in turn, exactly like the grocer. “Most of those who administer these sanctions, however, will not do so from any authentic inner conviction, but simply under pressure from ‘conditions’, the same conditions that had once pressured the greengrocer to display the official slogans. . . . The executors, therefore, essentially behave just like everyone else, to a greater or lesser degree: as components of the post-totalitarian system, as agents of its automatism, as petty instruments of the social autototality”. Such is the web of interpersonal conjectures that no individual would try to deviate from the “rules of the game” if he does not “want to be excluded” and to “fall into isolation”.

In Havel’s system no individual is to blame. From the head of the state to the greengrocer, everybody is a “victim” of a situation. There is something almost “metaphysical” in this kind of power where the enemy cannot be identified. Individuals, innocently going about their daily chores, in their totality give rise to this power which then transcends them and acquires its own *raison d’être*.

The empirical accuracy of Havel’s description is not our concern here. What is of interest to us is the prior question of internal consistency. And indeed by recognising its obvious analogousness to a C -equilibrium we see that his post-totalitarian system is entirely plausible. It is possible to have dictatorships with no dictators. And the first step in controlling this latent (or not so latent) power in societies must be to recognise it and demystify it. That is precisely what the model in this section has tried to do.

III. Power and extortion in agrarian relations

In this section we turn to another kind of nondyadic relation—that which can arise in the ‘personalised’ rural markets in backward economies but has not been adequately captured in the large and growing literature on agrarian economic relations.

Rural landlords in less developed economies are supposed to be extortionate, and they have generally been modelled as such. Consider a case where the landlord is hiring labour. If we use w to denote wage and l the amount of labour that a labourer gives the landlord, we could think of the landlord as offering a labourer a package, (w, l) , that is, “if you work for me for l hours you will get w rupees per hour”. The labourer can take it or leave it. If the labourer leaves it, let \bar{U} be the utility that he gets, and if he takes it, his level of utility is U^* . Usually \bar{U} is referred to as the ‘reservation utility’. It is the utility that the labourer gets from the next best alternative open to him if he does not accept (w, l) . Many react to this by pointing out that in backward regions labourers often have *no* alternatives open to them. What they really mean is that often the only alternative open to labourers is starvation; and put in this way it is clear that there is no attempt in our model to deny this.

In this case, a worker will accept the package if $U^* \geq \bar{U}$. In the existing

literature, the *most* extortionate landlords are modelled as ones who offer packages (w, l) such that $U^* = \bar{U}$, that is, the labourers are given no more than the minimum they would accept (Braverman and Srinivasan, 1981; Braverman and Stiglitz, 1982; Basu, 1983a).¹⁴

This would indeed be valid if all relations were dyadic. But that is not the case in reality, where it is possible that a landlord in offering a package, (w, l) , gives—along with it—the threat that if he does not accept the package the landlord will ensure that a third person i will refuse to trade with him. If the landlord has the ability to influence i , the threat becomes a ‘credible’ one and the landlord may be able to offer a package which leaves the labourer with less utility than \bar{U} but which he, nevertheless, accepts.

A transaction which leaves one agent actually worse off can be explained in a model with rational agents only if we allow for triadic relationships. The sentiment that “It’s an awful deal he is offering but I’d better take it because he is a powerful man” captures this idea. Though the deal is bad, you might be willing to take it from a powerful man because being powerful he can hurt you in other ways—usually by affecting your relation with agents uninvolved in this transaction.

Having constructed a formal model along these lines, I shall try to argue that this is a case where the landlord may be described as ‘coercive’. ‘Coercion’ and ‘voluntariness’ are difficult concepts,¹⁵ though economists often taken them for granted. The model in the next section throws interesting light on the meaning of ‘voluntary choice’ in economics.

III.1. Model

There are three agents: labourer (agent 1), landlord (2) and merchant (3). Each of them have an initial cash endowment, in particular agent i has Y_i units. In addition the labourer possesses labour and the merchant has an endowment of G units of a homogeneous commodity. The labourer sells labour to the landlord and buys goods from the merchant. The merchant sells goods to both labourer and landlord. The landlord, therefore, buys labour and goods. He buys labour not for production but for consumption, that is, as domestic servants, masseurs etc. In this sense, the word ‘landlord’ is a bit of a misnomer, for he is really a member of Veblen’s leisure class.

Agent 1 has the following utility function:

$$U = Y_1 + wl - px_1 + \phi_1(x_1) - \phi_2(l), \quad (1)$$

$$\phi_1' > 0, \phi_1'' < 0; \phi_2' > 0, \phi_2'' > 0,$$

where w and p are the prices of labour and good, l the amount of labour

¹⁴ For more explicit discussions of power in the context of agrarian relations see Desai, 1984; Rudra, 1984; and also Newbery, 1975.

¹⁵ Nozick (1972) begins by taking a legalistic definition of coercion and proceeds by examining its loopholes and suggesting ways to circumvent these. The paper illustrates well the richness of the concept and the difficulty of a consistent definition.

sold and x_1 the amount of good bought by agent 1. $\phi_1(\cdot)$ is a function which gives the utility that he gets from consuming goods and $\phi_2(\cdot)$ the disutility from giving labour. Utility is, therefore, measurable in money terms and his utility function is additively separable. This simplifies the algebra but is not—as will soon be intuitively obvious—essential for what the model demonstrates.

Agent 2's utility function is

$$V = Y_2 - wl - px_2 + \Omega_1(x_2) + \Omega_2(l), \tag{2}$$

$$\Omega_1' > 0, \Omega_1'' < 0; \Omega_2' > 0, \Omega_2'' < 0,$$

where x_2 is his consumption of goods, and $\Omega_1(\cdot)$ and $\Omega_2(\cdot)$ are interpreted as in agent 1's case.

Agent 3 has the following utility function:

$$W = Y_3 + px + \psi(G - x), \left. \begin{array}{l} \psi' > 0, \psi'' < 0, \end{array} \right\} \tag{3}$$

where x is the amount of good supplied by him. Hence his consumption is given by $(G - x)$, and $\psi(G - x)$ is the utility from such consumption. Recall the merchant does not buy labour.

Since I want to focus attention on the labour market, it is convenient—though not necessary—to characterise the goods market very simply. In particular, it will be assumed that in the goods market all agents act as price-takers. Given a price p , we can find the labourer's demand for the good by differentiating U with respect to x_1 and setting it equal to zero. And, similarly for the landlord's demand and the merchant's supply. Hence, we get

$$\phi_1'(x_1) = p; \quad \Omega_1'(x_2) = p; \quad \psi'(G - x) = p \tag{4}$$

I am assuming the existence of interior solutions. The monotonicity of the partial derivatives allows us to invert these functions and we get our usual demand and supply curves:

$$\left. \begin{array}{l} x_1 = f(p), \quad f' < 0 \\ x_2 = g(p), \quad g' < 0 \\ x = h(p), \quad h' > 0 \end{array} \right\} \tag{5}$$

That $f' < 0$, $g' < 0$ and $h' > 0$ follow from ϕ_1'' , Ω_1'' , $\psi'' < 0$.

At equilibrium, price is such that aggregate demand equals aggregate supply, i.e.

$$f(p) + g(p) = h(p).$$

Let p^* be the equilibrium price and x_1^* , x_2^* , x^* be the corresponding demands and supply. It will be assumed that

$$x_2^* > x_1^* > 0, \tag{6}$$

that is, both agents consume goods and the landlord consumes more than the labourer.

Assume that equilibrium has been achieved in the goods market, and let us turn to the labour market. In a conventional analysis of a labour market, an agent who neither buys nor sells labour would have no role. The merchant in our model is such an agent. So, to start with, we could banish the merchant from the scene. Of course, he will soon have to be resurrected. That is, in fact, the essence of our model.

A standard notion of power is monopoly or monopsony power. Hence one characterization of a powerful landlord is one who is a *conventional monopsonist*, that is, given the labourer's supply curve, he chooses a price strategy to maximise his welfare. This assumption has been used in some recent works on rural usury (Bottomley, 1975; Bhaduri, 1977; Borooah, 1980; Basu, 1984a). In our model l 's supply curve of labour is derived by differentiating U with respect to l and setting it equal to zero. Hence

$$w = \phi'_2(l)$$

Hence, a conventional monopsonist landlord's objective is to

$$\text{Max}_{\{w,l\}} V$$

subject to $w = \phi'_2(l)$.

The solution in this market, w^* , l^* , in conjunction with the solution already derived in the goods market therefore describes a general equilibrium in our model.

What is, however, quite well-known is that the conventional monopsonist, of the kind just described, is not the most extortionate person. He could extract more out of the labourer by making 'all-or-nothing' offers. In a growing literature in agrarian economics this has been the standard assumption (see, e.g. Braverman and Stiglitz, 1982; Mitra, 1983; Basu, 1983a; also Basu, 1984b, and references therein).¹⁶ The *all-or-nothing monopsonist* is easy to characterise. Consider what would happen if the landlord had no transaction with the labourer, i.e. $l = 0$. In that case the labourer gets a total utility of \tilde{U} , which is defined as follows:

$$\tilde{U} \equiv Y_1 - p^*x_1^* + \phi_1(x_1^*) - \phi_2(0) \quad (7)$$

Note that the goods market is in equilibrium; hence p and x_1 have fixed values. In keeping with conventional usage, \tilde{U} will be referred to as the labourer's reservation utility *vis-a-vis* the landlord. Clearly, if the landlord offers a deal (w, l) which gives the labourer less utility than \tilde{U} , the labourer will not accept it. Hence the landlord's objective is to

$$\text{Max}_{\{w,l\}} V$$

¹⁶ Quite apart from agrarian economics, there are general microeconomic writings on all-or-nothing monopoly: see Burstein, 1960; Oi, 1971.

subject to

$$Y_1 + wl - p^*x_1^* + \phi_1(x_1^*) - \phi_2(l) \geq \bar{U} \quad (8)$$

Let the solution of this be (\bar{w}, \bar{l}) . At equilibrium the landlord will offer the labourer no more than his reservation utility, \bar{U} . This is easily proved by contradiction: Suppose the labourer gets more than \bar{U} at equilibrium i.e. (8) is a strict inequality. Hence it is possible to lower w so that the labourer will still accept the landlord's offer. But a lower w means (given (2)) a greater utility for the landlord. Hence the original situation could not have been an equilibrium. This establishes that in equilibrium (8) is a strict equality, and the labourer gets utility equal to \bar{U} .¹⁷ The landlord's utility is given by

$$Y_2 - \bar{w}\bar{l} - p^*x_2^* + \Omega_1(x_2^*) + \Omega_2(l^*) \equiv \bar{V}$$

It is easy to check that the all-or-nothing monopsonist does better than the conventional monopsonist and that under all-or-nothing monopsony the labourer gets a lower utility than he would if the landlord was a conventional monopsonist. Of course, that the labourer can do at least as well under conventional monopsony is obvious from the fact that the all-or-nothing monopsonist offers him the lowest he is willing to accept.¹⁸

At times, the all-or-nothing monopsonist, as just described, is referred to as von Stackelberg leader in his interaction with the labourer. This is so in the following sense. Note that the landlord offers deals (w, l) . The labourer can either take it (1) or leave it (0). Hence, the labourer's *reaction function* is a mapping from the set of all alternative values of (w, l) to the set $\{0, 1\}$. In the all-or-nothing monopsony case, we are essentially assuming that the landlord knows the labourer's reaction function; and taking that as given, he chooses (w, l) to maximise his own utility. The analogy with the Stackelberg leader in a duopoly is therefore clear.

In the literature on agrarian economic relations, all-or-nothing monopsony is treated as the case of maximum extortion. And since there is a belief that landlords usually extort as much as they can, landlords are increasingly being characterised as all-or-nothing monopsonists or monopolists. What is interesting is that in many situations the landlord can, in fact, exercise even greater power over labour and extort more. I shall label such a landlord an *extortionate monopsonist* and illustrate his behaviour with our model. It is useful to begin by spelling out a bit more what the all-or-nothing monopsonist does. He could be thought of as making an announcement:

- (a) If agent 1 does not accept my offer I shall not trade with him at all.

¹⁷ Strictly speaking the labourer will get a utility infinitesimally greater than \bar{U} . But it is harmless and mathematically neater to assume strict equality. Hence, we do so here and in similar situations below.

¹⁸ For a comparison of these two kinds of monopoly or monopsony see Basu (1984b, Chapter 11).

If this threat¹⁹ is known and believed, he can offer the labourer a deal, (w, l) , which gives the labourer \bar{U} utils. It may however be possible for the landlord to give a larger threat, namely one in which he assures that not only will *he* not trade with the labourer but neither will the merchant. The credibility of the threat clearly depends on the landlord's power over the merchant. What is interesting is that to give this larger threat the landlord has to do nothing qualitatively different from threat (a). He now has to simply make two announcements: (a) and, in addition,

- (b) If agent 1 does not accept my offer and despite that agent 3 trades with 1, then I will not trade with 3 at all.

As before, let us assume that these threats are known and generally believed. This in itself does not change anything unless threat (b) is *effective* on agent 3, that is unless 3 believes that it is better to comply with 2 rather than incur his threat. This will be true in certain parametric situations; and it is true in our model. In deciding whether to comply or not agent 3 will compute the utilities that he would get if he traded *only* with 1 and, alternatively, *only* with 2. These are, respectively,

$$Y_3 + p^*x_1^* + \psi(G - x_1^*) \equiv W^1$$

$$Y_3 + p^*x_2^* + \psi(G - x_2^*) \equiv W^2$$

If he trades with both, as in the normal goods-market equilibrium, his utility level is denoted by W^* . That is,

$$Y_3 + p^*x^* + \psi(G - x^*) \equiv W^*$$

Given assumption (6), it is easy to show that $W^2 > W^1$. Intuitively, this is easy to see. Ideally the merchant would like to sell x^* . If this is not permitted and he has to choose between x_1^* and x_2^* , both of which are less than x^* , he will obviously choose the larger, i.e. x_2^* . In everyday language, this simply means that given a choice between retaining *either* his larger customer *or* the smaller one, a merchant would opt for the former.²⁰ In the context of our model, this means that if the case of actually having to use threat (b) arises, that is, if 1 *does* turn down the landlord's offer, the merchant will immediately respond by cutting off trading links with 1. And it is the knowledge of this, which makes agent 1 realise that if he turns down the landlord's offer, (w, l) , he will not only have no trade with the landlord

¹⁹ The word 'threat' has been used in a variety of different senses in sociology, philosophy and game-theory (see, e.g. Lively, 1976; Nozick, 1972; Luce and Raiffa, 1957). I use it here simply as a statement of commitment by the landlord.

²⁰ Actually the answer depends on what the merchant conjectures will happen if he does not trade with some agent. Since this hypothetical situation does not arise in standard competitive models, there is no set answer to this. There are however two obvious strategies. We could assume that the merchant conjectures that if *i* does not trade with him (*A*) he will continue to trade with *j* at the rate and price level that prevailed in the original equilibrium, or (*B*) a new equilibrium will emerge to clear markets and he will trade at the rate and price level of this new equilibrium. Both strategies could be formalised and used. I have used strategy (*A*) here.

but he will also have no trade with the merchant.²¹ In the absence of any trade his utility is given by

$$U^0 \equiv Y_1 + \phi_1(0) - \phi_2(0) \quad (9)$$

An extortionate monopsonist is a person who gives out threats (a) *and* (b). Thus if 1 turns down the extortionate monopsonist's offer, (w, l) , 1 has to fall back on a utility level of U^0 . Hence, as long as this monopsonist offers him a deal, which gives agent 1 as much as U^0 , agent 1 will accept it. Hence, the monopsonist's objective is

$$\text{Max } V_{\{w, l\}}$$

subject to $Y_1 + wl - p^*x_1^* + \phi_1(x_1^*) - \phi_2(l) \geq U^0$.

Let the solution of this be w^0, l^0 . By the same argument as used in the case of the all-or-nothing monopsonist, it is clear that at equilibrium the labourer will be getting a utility of U^0 and no more. It is obvious that $\bar{U} > U^0$ (intuitively this simply means that agent 1 is better off if he is not allowed to trade with 2 than if he is not allowed to trade with 2 *and* 3²²). Hence, what we have established is that extortionate landlords would push the labourers onto a utility level (namely U^0) which is below what the standard model of agrarian economics would suggest.

There are three observations. First, note that the landlord in my model is doing qualitatively nothing different from the standard all-or-nothing landlord. In both cases he simply makes it clear that under certain situations he will exercise his freedom not to trade. In the standard case he tells agent 1 he would not trade with him under certain circumstances (namely, if 1

²¹ There is of course a general difficulty with threats. As Sen (1983b, p. 17) puts it: "The person who threatens to harm the other if the bargaining should fail does it at no direct advantage to himself (otherwise it won't be a "threat" but something he may do anyway, and will be thus reflected in the fall-back position). While it is plausible to try to get bargaining advantage out of a threat *during the process* of bargaining, once the bargaining has failed, the threatener has no obvious interest in carrying out the threat. But that recognition on the part of the threatened person would call into question the credibility of the threat itself." This is a general problem with the Nash equilibrium concept in the context of extensive games. However given that threats do occur in reality and competing equilibrium concepts, e.g. subgame perfection, do not allow for real threats, it is probably best to use the Nash equilibrium solution in the present context.

²² A formal proof is as follows:

$$\phi_1(x_1^*) - \phi_1(0) = \int_0^{x_1^*} \phi_1'(x_1) \cdot dx_1$$

Clearly

$$\int_0^{x_1^*} \phi_1'(x_1) \cdot dx_1 > \int_0^{x_1^*} \phi_1'(x_1^*) \cdot dx_1 = x_1^* \phi_1'(x_1^*),$$

since $\phi_1'' < 0$. Recall that, by definition, $\phi_1'(x_1^*) = p^*$. Hence we have proved that $\phi_1(x_1^*) - \phi_1(0) > p^*x_1^*$, which immediately implies that $\bar{U} > U^0$.

turns down the particular deal he is offering) and in my model he tells 1 the same and in addition tells 2 that he will not trade with 2 under certain circumstances.

Secondly, just as in the standard all-or-nothing monopsony case it is not assumed that the threat (a) is actually announced but is simply known, similarly we do not have to assume that (a) and (b) are announced. There are many subtle ways in which a landlord can make (b) well-known. He could, for instance, have a reputation for vindictiveness. In particular, he could have a reputation for cutting off relations with anybody who trades with a person who has slighted the landlord by rejecting his offer.

Thirdly, consider first the utility that the labourer gets if he does not trade with the landlord but trades with the merchant. This is given by \bar{U} . Now, suppose he begins to trade with the landlord at the equilibrium level of the extortionate monopsony case, i.e. he sells l^0 units of labour to the landlord and earns $w^0 l^0$. His utility level in that case is—as we have already seen— U^0 . Since $U^0 - \bar{U} < 0$, it is possible to argue that the transaction with the landlord, i.e. selling l^0 labour at wage w^0 , gives him a negative utility!

III.2. *Voluntary exchange*

The last observation above shows the ‘exploitative’ nature of the exchange between the landlord and the labourer. Not only are the gains from this exchange distributed very asymmetrically, the labourer actually gets a negative utility from the exchange! It is possible to respond at this point that this, however, does not entail a violation of the labourer’s freedom because the labourer goes in for this deal voluntarily. This is so because, thanks to the landlord’s use of triangular threat, the labourer does not face a choice between (i) trading with the landlord and (ii) not trading with the landlord. His choice is between (i) and (iii) not trading with anyone. And given this *choice* he *opts* for (i). Hence his choice is ‘voluntary’ indeed. What I want to argue here is that in an important sense his choice is *not* voluntary.

The exact meaning of ‘coercion’ is a matter of great controversy (see, Nozick, 1972, for a discussion). So the strategy I shall use is to construct an example where we would all agree that coercion has occurred and then I shall argue that the labourer’s exchange with the landlord is analogous to this example.

A is walking down a dark alley when he comes across *B* who pulls out a revolver and offers: “Either your watch or I kill you”. Confronted with this easy choice *A* parts with his watch. Is this transaction voluntary or not? It definitely is a utility-maximising act and if we look at *A*’s choice *from after the point he is accosted by B*, it is a voluntary act. But of course if we describe this exchange as voluntary, coercion becomes almost an impossibility. And fortunately almost all social scientists who have examined

similar situations agree that this is a case of coercion.²³ One important element which makes this a case of involuntary exchange is that once *A* has met *B* he can no longer return to his normal state. Let us suppose that *A*'s normal level of happiness—that is, with his life and watch intact—is 100. Without his watch this would be 90, and, alternatively, without his life this would be zero. As soon as *A* confronts *B*, the possibility of 100 vanishes from his feasible set; he can only choose between 90 and 0.²⁴ And it is in this sense that a transaction at Marks and Spencers is voluntary: if you wish, you can walk out to your normal state. It is not the case that *once* you enter the shop you are suddenly compelled to pay a fine if you do not make a purchase.

Turn back to the model. Suppose that the three agents live on three different islands and while the merchant trades with both 1 and 2, 1 and 2 have not met each other. In this case 1's utility level is

$$\tilde{U} = Y_1 - p^*x_1^* + \phi_1(x_1^*) - \phi_2(0).$$

As soon as 1 (the 'tribal') meets 2 (the 'civilized man'), 1's options change and he emerges in the end with U^0 utils which is less than \tilde{U} . *After the encounter* he makes a voluntary choice alright but the exchange in its entirety is involuntary in the sense of the example just discussed.

Why we do not immediately recognise the landlord-labour exchange as one of coercion as we do in the watch-mugging case is because in the landlord-labour model the landlord, in reality, always knows the labourer and to establish the analogy we need to go through the *hypothetical exercise* of what it would have been like if they did not know each other and compare it to what actually happens. (This is an instance of Lukes' third-dimensional power.)

Friedman and Friedman (1980) treat 'acting according to one's self-interest' and 'voluntary exchange' as two sides of the same coin. Our model demonstrates that that need not be because in our model every agent maximises his own utility but nevertheless there is coercion. Moreover, the concept of 'voluntary action' is by no means an obvious one. Friedman and Friedman (1980, p. 13) claim that the basic argument for *laissez-faire* is "misleadingly simple": "if an exchange between two parties is voluntary, it will not take place unless both believe they will benefit from it". I have tried

²³ Sociologists distinguish between the exercise of physical force and the threat of such an exercise. Thus a large man who ties up a lone walker and then snatches his watch, all without a word, exercises physical force, while our mugger who also ends up with the watch in his pocket, merely uses the threat of physical force. However, there seems to be general agreement that both cases engage a person in an involuntary act (see, e.g. Simmel, 1971, pp. 96–8; Lively, 1976; Blau, 1967, Chapter 5).

²⁴ In game theory, an analogous situation is a game where preplay negotiation far from being advantageous is actually harmful to one player. See Luce and Raiffa (1957, p. 110–11) for an example.

to demonstrate that this proposition is not “misleadingly simple” but misleading.

IV. On men of influence

Once the axiom of dyadic relations is eschewed and triadic and, more generally, multiple relations are allowed, we are better able to understand the *modus operandi* of the so-called ‘man of influence’ and also the reasons for his existence.

The concept of ‘influence’ has been subject to considerable sociological examination—at times as a notion indistinguishable from power (Dahl, 1957) and at times as a distinct category (Parsons, 1963). I will treat influence as a specific kind of power. For the limited purpose of this paper, we shall take a *man of influence* to be a person who, if he so wishes, can get people to do him favours, that is, he can get things done out of turn. This will be made more precise as we go along.

In most less developed economies—and even in many advanced countries—where bureaucratic norms are sluggish, there emerges in society, the man of influence (*M*). If you need a new telephone connection (which in Delhi, for instance, could take up to six years) and do not want to wait for too long, your best strategy would be to persuade *M* to do it for you. He can simply phone the chief of the telephone *bhavan* and get it done for you. He can also get you railway tickets out of turn and during rush seasons and can get your son admitted to a good school and can get you a gas connection, etc., etc. There are many people who have the reputation for being able to get such things done. They are popularly known as men of influence.

The question that will be briefly examined here is: what is the source of this man’s power? Why do bureaucrats agree to do him ‘favours’? In the light of the discussions in the earlier sections, the answer is straightforward: Every *individual* bureaucrat complies with *M*’s request because he *conjectures* that *M* is a man of influence and by complying with *M*’s request he will in the long-run benefit. When every bureaucrat makes this same conjecture, the conjecture becomes a self-fulfilling prophecy.

It is useful to formalise this a little bit before examining the phenomenon more closely.

IV.1. Model

I will construct here a very specific model to illustrate the main argument. Suppose there are k (≥ 3) bureaucrats in k different ministries. Each one has the authority to dispose of a certain number of licenses of a distinct type. In particular, bureaucrat j can dispose of n_j licenses of type j . ‘Licenses’ is a general term being used here to denote bureaucratic permissions: permissions to buy train tickets from some special quota, to get telephone connections, to get admissions to schools, etc. Strictly speaking the

bureaucrats are not supposed to trade these licenses for their own benefit and it will be assumed that they are honest to the extent that they would not do so 'directly'.

Assume that for all $j \in \{1, \dots, k\}$,²⁵ bureaucrat j needs one license of type $j + 1$ from which he gets a utility of ϕ units. He needs no other license. Every time j gives out a license of type j to a friend or as a 'favour' to someone (basically, gives it not strictly in accordance with the rules in the government's 'rule book') he feels a little guilty and this amounts to d units of disutility. It will be assumed that

$$3d > \phi > 2d.$$

M gets a positive utility from one license each of type j belonging to a non-empty set $S \subset \{1, \dots, k\}$.

'To ask a person for a favour' will be taken to mean 'asking the person to get a license'. An individual can ask anybody for any favour: he could ask bureaucrat j to get him a license of type t . It is just that he will be wasting his effort, if he asks a person who has no power or wish to comply.

Now suppose individuals $1, \dots, k$ and M have the following conjectures. Every $j \in \{1, \dots, k\}$ conjectures that M is a man of influence and M can and will do j any favour j asks for, as long as j gives M what M asks for. M conjectures that every j will give him (or to whoever M tells him to give to) a maximum of two licenses as long as M gives j what j asks for.

In this model an equilibrium exists and it is as follows. At equilibrium, every j will ask M to get him a license of type $j + 1$. M will ask every $j + 1$ to give a license of type $j + 1$ to person j . In addition, he will ask every j belonging to S to give him a license of type j . Every j will comply with M 's request. It is easy to check that through these exchanges every individual, $1, \dots, k$ and M , is better off²⁶ and, more importantly, *given their conjectures*, no one expects to do better by altering his strategy (i.e., e.g., no j would expect to be better off by not giving M the license he asks for). Hence, this is an equilibrium situation.

In reality these exchanges will not occur simultaneously but will be scattered over time. And it is this which allows each individual to believe that he is doing someone else a 'favour', while what he is actually doing is performing an extended exchange. In this model, M is the man of influence. Whenever he asks j to do a 'favour' for i , j complies. It is now easy to see why j complies. Precisely because j believes that M is a man of influence. What is interesting is that though M has no initial endowment (unlike the bureaucrats who can dole out licenses), he ends up collecting whatever

²⁵ If $j = k$, then $j + 1$ should be treated as equal to 1. In mathematics this would be described by saying that j belongs to a modular number system with mod k .

²⁶ Every $j \in S$ gets a utility of $\phi - 2d$. Every $j \in \{1, \dots, k\} \setminus S$ gets $\phi - d$. M gets the total utility of having one of each license of types belonging to S .

license he needs for himself (i.e. one of all the types in S). In this model M plays the role of money, he facilitates exchange. And just like money, he succeeds because everybody believes he will succeed.²⁷

One should be clear that this is a model which merely describes an equilibrium. How this equilibrium comes about, that is, how a particular person *establishes* himself as a man of influence, is a much more complex question, for which this paper offers no answer.

Some interesting insights can be gained by studying the conditions in which the man of influence would have no scope and, therefore, would not exist.

First, consider the case where there are no rules or social reasons not to dispose of licenses as the bureaucrat wishes. In this case the licenses would come to have prices and would be traded against money, like any other good. Money having entered, its surrogate—the man of influence—would have no role. Note that money, unlike the man of influence, does not in the process of exchange pocket some of the gains from trade. Hence, if both money and the influential man are there to perform a role, there would be a tendency for the former to displace the latter.

This has two corollaries. (1) Suppose there are rules (licenses for school admission should go to the poor, licenses to buy train tickets during rush periods are meant for the scheduled castes, etc.) but no proper enforcement machinery, and that bureaucrats are openly unethical. In that case once again the licenses will come to have prices; it is just that these will now be called ‘bribes’. (2) If there are rules and bureaucrats are meticulously ethical in their behaviour, once again there will be no scope for the man of influence, because who gets the licenses is then decided in advance by the rules.²⁸ The scope for the influential man, therefore, exists in that intermediate situation where individuals are not so unethical as to openly sell what they are not supposed to and not so meticulously ethical that they cannot convince themselves that they are doing a ‘favour’, and in its guise perform an indirect exchange.

Secondly, if the demand for licenses among the bureaucrats is pairwise compatible, that is, i needs what j can give and *vice versa* then, one would expect, over time every pair would develop mutual trust and do each other ‘favours’, thereby doing away with the need for a go-between.²⁹

²⁷ In our example if one bureaucrat refuses to comply the whole chain breaks and M loses his influence. In reality, instead of there being one large circle there will generally be several little interconnected ones—like e.g. the symbol eight or the olympic logo—and if one bureaucrat pulls out, one circle would collapse but not the entire system.

²⁸ It follows from this discussion that the influential man may or may not be socially desirable. In some situations he could be a desirable person activating a sluggish bureaucracy. But he could also in some cases be seen as a surrogate for bribery, diverting licenses, intended for certain socially disadvantaged groups, to the highest ‘bidders’ instead.

IV.2. *Social exchange*

A final comment on exchange. What the above model tries to show is that in some situations where all individuals claim to be doing ‘favours’, the favours can be grouped into pairs which balance out and therefore do not constitute favours at all but are really exchanges. Yet it would be wrong to claim that these exchanges are conventional market exchanges. They are indeed more akin to what sociologists refer to as “social exchanges”, that is, “voluntary actions of individuals that are motivated by the returns they are expected to bring and typically do in fact bring” (Blau, 1964, p. 91). At first sight there appears to be no difference between this and economic exchange. If the action is “motivated by the returns”, then that is exactly what economic exchange involves. That part of economic and social exchange is indeed common. The difference lies in the fact that in performing an economic exchange if one party does not fulfil his obligation we could consider it a breach of contract and the offended party could gather people or use the law to either get the other person to pay or recover what he has already paid or given. If on the other hand *A* gives *B* a gift and never gets a return gift, he can feel let down but he cannot ask for his gift back. He would simply have to decide not to give *B* a gift again.^{30,31} It is precisely for this reason that trust plays a much more important role in social exchange than in economic exchange.³² And it is for this same reason that the *reputation* of the man of influence as a man of influence is crucial in ensuring that the equilibrium in our model does not break down.

V. Conclusion

Power and influence are complex concepts, and it is quite likely that these concepts have so many facets and nuances that it will never be possible to

²⁹ There may be rare cases where demands are not pairwise compatible and yet all exchanges take place without a man of influence in the middle. Thus, considering the act of giving gifts within the family, Malinowski (1957, p. 82) points out that at first sight it appears that here there is no exchange, even indirect, involved. But that, he argues, is an error stemming from “not taking a sufficiently long view of the chain of transactions”; and once we do so we would discover “that the system is based on a very complex give and take and that in the long run the mutual services balance”. This kind of exchange is, however, distinct from the economist’s model, because individual behaviour cannot be explained in terms of utility maximisation, though the group ends up maximising utility.

³⁰ There can of course be “real” gifts, but what is being considered here is a gift which is a part of social exchange.

³¹ There is a more sophisticated way of reconciling gift-giving with utility-maximisation, following Akerlof’s (1983) model of honesty. Suppose gift-giving is a habit, which once acquired cannot be easily given up, and that the habit of gift-giving is something that an individual can choose to acquire or not. Then it is possible that individuals acquire the *habit* of gift-giving to maximise utility, though their each act of giving a gift cannot be explained as a utility-maximising act.

³² This is not to deny that trust has a role even in economic exchange (see Basu, 1983b). It ought to be emphasized that while economic and social exchanges are distinct concepts the dividing line between these is probably not a line at all but a hazy boundary.

capture these in a single definition. As Dahl (1957, p. 201) observed: “If so many people at so many different times have felt the need to attach the label power, or something like it, to some Thing they believe they have observed, one is tempted to suppose that the Thing must exist . . . and [a] more cynical suspicion is that a Thing to which people attach many labels with subtly or grossly different meanings in many different cultures and times is probably not a Thing at all but many Things”. Indeed the difficulty could be even more profound and Lukes (1977, p. 4) has argued: “I maintain that power is one of those concepts identified by Gallie as ‘essentially contested’, which ‘inevitably involve endless disputes about their proper uses on the part of their users’.”³³

Even if the concept is inherently contentious, at any point of time the actual contentions could be more than the inherent. Consequently, there is a case for trying to reduce the areas of actual contention. In a sense the large literature on power and influence is an attempt to do so.

The scope of this paper was limited to examining one kind of power. The focus was on power and influence which work through triadic and, more generally, multiple relations. In each of the three models there was some asymmetry between agents. In the models in Sections II and IV there is an agent, who, despite having no endowment of his own lives well and perhaps better than the others because of certain mutually reinforcing conjectures in the minds of agents. In Section III one agent extorts more from another agent than is witnessed in conventional theory because he threatens—explicitly or through a ‘reputation’ for vindictiveness—to destroy the latter’s relation with a third agent if he does not accept his offer. In this model, the labourer, in fact, gets a *negative* utility from his transaction with the landlord. To explain something like this, beginning with standard economic theory, at first sight it seems as if we need to give up the axiom of peasant rationality. What this model tries to show is that that is not necessary. We could get the same result by giving up the much more dubious assumption of economic relations being necessarily dyadic.

I have been content to illustrate the nature of power and influence by constructing some specific examples. No attempt has been made to pursue the popular line of trying to measure power or to give it a general definition. Those who are familiar with the literature that has tried this will have no difficulty in understanding why.

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³³ The subquotes are from Gallie (1955–6, p. 169). It may be worth noting that Gallie’s essentially contested concepts are required to be “appraisive”. Thus it may be questioned as to whether ‘power’ is essentially contested *in the sense of Gallie*. It is easier to agree that it is essentially contested in a primitive sense.

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