

The politics of order in informal markets: Evidence from Lagos

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Abstract

Property rights are important for economic exchange, but in much of the world they are not publicly provided. Private market organizations can fill this gap by providing an institutional structure to enforce agreements, but with this power comes the ability to extort from the group's members. Under what circumstances will private organizations provide a stable environment for economic activity? Using survey data collected from 1,878 randomly sampled traders across 269 markets, 68 market leaders, and 55 government revenue collectors in Lagos, I find that strong markets maintain institutions to support trade not in the absence of government, but rather as a response to active interference. I argue that organizations develop pro-trade institutions when threatened by politicians they perceive as predatory, and when the organization can respond with threats of its own. Under this balance of power, the organization will not extort because it needs trader support to keep threats credible.

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1 Introduction

Oke-Arin and Ladipo, two of the largest markets in Lagos, Nigeria, are similar in many ways. Both have around 1,000 traders, are ethnically homogenous, and focus on high-end products (wine in Oke-Arin and spare car parts in Ladipo). The private traders' associations that lead both markets are exceptionally strong, holding regular well-attended meetings and enforcing leaders' decisions about market management. But this is where the similarities end. Oke-Arin is a model of good governance. The association uses its strength to support and enforce a wide variety of pro-trade institutions, even when those impose short-run costs on members or leaders. They handle customer complaints impartially, sometimes confiscating sub-standard wine from traders' shops, and adjudicate disputes between traders to maintain order in the market. In contrast, the association in Ladipo, the spare parts market, uses its strength to extort from traders inside the market. They created a pernicious "toll gate fee" that customers and traders must pay every time they enter, and traders say the leaders "eat and eat," a reference to using these fees for personal benefit. The association spreads humiliating rumors about traders who threaten their policies. They turn traders against each other, creating a hostile and opaque business environment.

The underlying dynamics explaining divergent outcomes in these two markets are not obvious. Existing explanations for private good governance focus on the size and diversity of the group, but Oke-Arin and Ladipo are similar on these dimensions. In addition, both associations are strong in the sense that they are able to control the market's internal affairs. Yet one association uses its strength to promote trade and the other uses its strength to predate.

This puzzle speaks to an enduring question: how does economic activity take place in states where the rule of law is weak – states where laws are unclear and agreements unevenly and inefficiently enforced? A large literature spanning from the determinants of trade in medieval Europe to how prison gangs enforce illegal drug contracts argues that private groups can provide institutions that support contractual trade (Duggan, Forthcoming; Ellickson, 1991; Gambetta, 1996; Greif, 1993; Milgrom, North and Weingast, 1990; Richman, 2006; Skarbek, 2014). With the power to privately enforce agreements, though, comes the power to extort, and indeed many private groups predate on their members.

Under what conditions, then, will private groups use their power to promote trade? I approach this

question using original survey collected in hundreds of markets in Lagos, Nigeria. Lagos markets are uniquely well-suited to provide insight into these issues on a number of dimensions. First, Lagos State has a sizable population and 57 local governments. This means that there are a large number of markets and a great deal of local variation in factors affecting market governance, while macro conditions are held constant. Second, I am able to observe a sometimes elusive counterfactual – markets that fail – because many are on land that is designated for markets, and alternative use of the land is not normally possible, allowing bad markets to hold on longer than they might in other contexts. Third, some markets have associations that govern for life, while others have associations with term limits. This allows me to assess the role of a long time horizon, which has been theorized to align incentives between a group leader and group members (Olson, 2000).¹

In Lagos, I find hundreds of private market associations, both strong and weak. As the cases of Oke-Arin and Ladipo show above, however, strength does not necessarily translate into good governance. Instead, I find that private good governance arises from the interaction between a strong market association and an interventionist local government. I argue that interventionist governments – governments that aim to intervene in societal groups, typically to extract revenue – incentivize strong private associations – associations that can control the group’s internal affairs – to promote trade. In contexts where the rule of law is weak, groups perceive interventionist governments as predatory. In the face of this threat, an association’s ability to push back against the government is dependent on its ability to mobilize group members, which motivates it to support rather than extort from them. In addition, an interventionist government will incentivize an association to reduce internal disputes, as disputes provide opportunity for meddling public officials to involve themselves in market affairs. Associations limit disputes by preventing group member opportunism and ensuring group members avoid known dishonest individuals based outside the group, which supports trade.

This is not an argument about the state directly organizing the economy, nor is it an argument about the economy growing when the state stays out of market affairs. Rather I suggest the threat of the government involving itself in private groups compels groups to maintain order. In contrast to accounts of private order that suggest private institutions substitute for public institutions (e.g. McMillan and Woodruff, 1999), I

¹I use the terms “group association” and “group leaders” interchangeably.

argue that as the government grows, private institutions grow. Elinor Ostrom argues the government can help enable private ordering by offsetting the costs of monitoring shared resource usage (1990), and here I present an additional channel – government threats generating defensive pro-trade institutions – through which the government shapes group order.

The empirical tests of the argument involve analyzing original data from surveys of 1,878 market traders across 269 market associations, 68 market association officials, and 55 of the 57 local government revenue collectors in Lagos. Conventional wisdom suggests that less political interference would be better for market order in a developing country context, but my argument predicts the opposite. To assess these competing claims I compare market association institutions across more and less interventionist local governments, and across markets on land where public officials have varying rights to intervene. I present evidence that strong market associations are *less* likely to extort in the face of state interference. I show that group leaders who hold their position for life are no less likely to extort from traders than those who do not. Finally, I present evidence of the mechanism, showing that market associations that are more politically engaged are more likely to have private order institutions.

2 How threats of state interference sustain private order institutions

An association that governs a group – whether public or private – that is strong enough to protect property rights and enforce contracts is also strong enough to confiscate the wealth of its members, what Barry Weingast calls “the fundamental political dilemma of an economic system” (1995; p. 1). A large, diverse, and inter-disciplinary literature has described the characteristics that define successful self-governing organizations in the absence of impartial public institutions that protect property rights. However, this body of work rarely grapples with when, why, and how some groups succeed in developing these institutions while others do not. I address this gap in the literature by exploring what incentivizes an association to invest in pro-trade institutions, when alternatively, they could use their strength to predate.

The emergence of pro-trade institutions is not a foregone conclusion, for a variety of reasons. A novel

contribution of my argument is to highlight that the short-term costs of such institutions are substantial to an association. Specifically, two types of institutions matter for supporting contractual trade: information sharing and enforcement institutions. With strong information sharing institutions, group members will have information about the past behavior of potential trading partners and will be able to avoid entering into risky transactions with dishonest individuals (e.g. Greif, 2006; Milgrom, North and Weingast, 1990). Enforcement institutions enforce agreements (e.g. Milgrom, North and Weingast, 1990), punish dishonest outsiders (through boycotts), and punish opportunistic insiders through in-group policing (e.g. Fearon and Laitin, 1996; Habyarimana, 2009) impartially and efficiently, and these rulings have high compliance rates (e.g. Richman, 2006).

Both types of institutions have costs from the perspective of the leaders, who must either motivate members to share information about people who have cheated them – a difficult endeavor when group members are in competition with each other and individually have little incentive to share such information – or occasionally make rulings in disputes that go against the short-term interests of group members. I note these costs to emphasize that only under very specific conditions where benefits to a group association outweigh costs will these institutions be observed. Many studies either claim that group members are not in fact in competition with each other (Greif, 2006) or ignore the role of competition, focusing only on what happens once collective problems have been overcome.²

Further, the success of a group depends on internal governance. What prevents group leaders from simply extorting from their members? Under what conditions are group leaders incentivized to serve interests outside their own? When a group leader could punish an opportunistic group member for cheating an outsider, what prevents the leader from accepting a bribe from the member to not enforce the punishment? The literature leaves such important questions unanswered. The few studies that have tried to address this focus on private constitutions and internal systems of checks and balances (e.g. Leeson, 2007). But these explanations are incomplete. What limits internal collusion? What constrains a predatory leader from using the powers of incumbency to buy off or slander those who oppose her rule?

²An exception here is Frye (2000) who argues that low tax rates can facilitate information sharing within a group, as the consequences of a member sharing information with the government about another member's volume of trade are less severe.

In contrast to much of the existing literature on private groups which suggests that private institutions substitute for public institutions (e.g. Greif, 1993; Richman, 2006) I argue that interventionist governments can spawn and make more critical private good governance; private associations will predate without public institutions that force them to behave otherwise. I argue that two types of institutions, property rights institutions (which protect individuals from extortion), and contracting institutions (which enable contractual agreements between individuals) are most likely to be observed within organizations when the association is strong and confronted by threats of state interference.³

	Interventionist government	Non-interventionist government
Strong association	Private extortion: Low Pro-trade institutions: High	Private extortion: High Pro-trade institutions: Low
Weak association	Private extortion: Ambiguous Pro-trade institutions: Low	Private extortion: Ambiguous Pro-trade institutions: Low

Table 1: Predictions of the argument. This table shows predicted levels of private extortion and pro-trade institutions (e.g. information sharing).

I define strong associations as group leaders who can control internal group affairs. These are associations with the *de facto* right to adjudicate disputes that occur within the group. I make the assumption that these associations, composed of one or more leaders, are self-interested. They aim to maximize their income, which results from maintaining their position and power to tax group members.

Interventionist governments are those with a motivation to intervene in organized societal groups, typically to extract revenue from groups. This concept is distinct from concepts like government capacity which include components of social control, such as the state’s effectiveness in taxation, coercion, and appropriation of resources (e.g. Geddes, 1994; Migdal, 1988). The concept of government interventionism is unrelated to societal strength, which for the purposes of this study is a distinct explanatory variable. A government can be interventionist according to my definition even if it does not succeed in extracting revenue, which might be the case when up against a very strong association.⁴ In addition I make no assumptions about whether

³The distinction between property rights and contracting institutions was made by Acemoglu and Robinson (2005) and North (1981).

⁴Governments of course may aim to intervene in some types of societal groups but not others, but for simplicity in this paper I conceptualize governments as being interventionist or not.

politicians are predatory or not, which I use to mean extracting revenue that is not used to benefit the public (Evans, 1989), a process that is often (though not always) characterized by unpredictability (Shleifer and Vishny, 1993). The point is simply that in a context where governments do not have a developmental track record, groups perceive interventionist, activist, governments as predatory, and their goals as contrary to group interests. I further assume that these group and government attributes are relatively “sticky,” or slow to change.

I argue that mutual threats between the group and government enable group leaders to maintain order. Interventionist governments can threaten to increase group member taxes or even threaten group viability, perhaps by threatening the group’s ownership status over assets. When an organization is strong, these government threats motivate the associations to not extort and invest in other pro-trade institutions such as information sharing.

Why will these threats limit private extortion? A strong association wants to keep an interventionist government out of the group. The association’s threats against the state, however, are credible only if the association can mobilize members to protest or vote as a block or otherwise collectively sanction politicians (Bates and Lien, 1985). And mobilization requires support. To obtain this support, the *association* will not extort. This part of the argument has parallels to the state-building literature. For Tilly (1992), a group leader’s ability to push back against an external threat requires support from group members, incentivizing negotiation and exchange between the group leader and group members, and for Centeno (2003), only under certain conditions – some existing level of organizational capacity – will external threats promote institution building.⁵

Why will the threat of state interference encourage the association to facilitate information sharing? Interventionist governments motivate the association to keep its house in order. Disputes provide an oppor-

⁵The mutual threat argument has parallels to Oliver Williamson’s theory that two actors can provide each other with hostages to facilitate contractual trade (1983), and to arguments that a balance of power between the state and businesses can shape tax rates (Luong and Weintal, 2004) and constrain corruption (Kang, 2002). There are also parallels to Duggan (Forthcoming) who argues that private lending markets grew when the state could check their power, namely by preventing lenders from stealing from their clients. This led potential borrowers to trust lenders. This argument also builds on work that suggests external threats, such as police repression, can motivate group solidarity (Thachil, 2015).

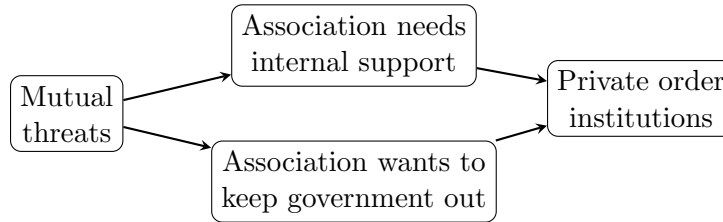


Figure 1: Two mechanisms that connect mutual threats with private order.

tunity for public officials to intervene in a group. For example, police might come into an area to deal with an altercation. If an association permitted opportunistic behavior, such as allowing a group member to sell sub-standard products, public officials could exploit a customer complaint as an opportunity to intervene in the market and extract revenue. By eliciting and sharing information about dishonest trading partners, the association limits disputes, limiting openings for government extortion, which can threaten the influence of group leaders. It is important to note, however, that association strength is a necessary condition. State interference will not lead to information sharing when the association is weak.

The argument rests on the assumption that group members aim to maximize their income, which results in part from whether they are part of a group that has pro-trade institutions. A potential criticism of the argument is that successful traders select into successful markets, and this explains the persistence of market order, not the mutual threat argument. I expect, however, that sorting into successful groups will be rare. This is because 1) group membership is relatively sticky, making it difficult for individuals to frequently switch group membership, and 2) outsiders have highly incomplete information about the conditions in the group before joining. These assumptions do not hold for all groups everywhere, but they do hold for many groups we care about in developing countries, such as trade unions or business associations. Another potential criticism is that variation in the social embeddedness of group members explains group outcomes (Granovetter, 1985). I argue, however, that in urban contexts group members are rarely socially embedded; that is to say interactions with fellow groups members outside of the group context are rare.

Existing theories primarily explain private group good governance as a function of group composition or structure. Shared ethnicity has been shown to facilitate cooperation (e.g. Habyarimana, 2009), but I suggest that strong associations can take advantage of these social ties to more easily exert control, and

not necessarily for socially desirable ends (Acemoglu, Reed and Robinson, 2014; Berman, 1997). Another explanation focuses on the time horizon of the leader. In many organizations group leaders hold their position for life. Why isn't this long time horizon sufficient to align incentives between the leader and group members as has been theorized by Mancur Olson (2000)? After all, if group leaders aim to maximize their income, which is a function of fees that are collected from group members proportional to the amount of wealth generated in the group, wouldn't greater group order increase group-derived leader profits over the long-term? In fact, a long time horizon may not be sufficient to constrain short-term temptations to extort. Leaders can have conflicts of interest, such as other businesses and income streams, that may encourage them to act on short-term opportunities at the expense of long-term group revenue growth (Ostrom, 1990). In my empirical analysis I am able to consider these explanatory variables directly. I show that they are not sufficient to explain variation in the presence of pro-trade institutions and that the explanatory power of the interaction between a strong association and interventionist government is robust to controlling for these factors.

In *Governing the Commons* Ostrom observes that collective action problems in water basin governance were overcome in the face of an external threat from the government – namely an impending lawsuit that threatened to alter the group's status quo (1990). But Ostrom ultimately focuses on the importance of public officials in offsetting the costs of common resource governance by assisting with resource use monitoring. I argue that in contexts where the rule of law is weak the government does not typically offset resource governance costs, and rather attention should be focused on the role of the state as an external threat (or not).

Ostrom, though, is one of few (along with Frye (2000)) who have considered the origins of private institutions. The vast literature on private governance describes only how these groups function, not what makes trade-promoting organizations more likely. My contribution is to show that in developing countries, even when the government is not offsetting the costs of group governance, politicians are still incentivizing the creation of such institutions. In short, this is an argument about the conditions under which a self-governing organization will 1) not itself extort, and 2) be incentivized to provide the costly and important services that enable trade.

3 Situating the case

In this section I first introduce the context in which I assess the argument, markets in Lagos. I then describe how the mutual threat argument works in Lagos, describing the types of threats a market can make against a local government, and vice versa. Last I explain how these threats motivate market associations to maintain pro-trade institutions inside their markets, and note the testable implications that result from this discussion.

3.1 Markets and politics in Lagos

I test the argument in Lagos, the commercial capital of Nigeria. Lagos has between 15 and 21 million residents,⁶ tens of thousands of traders, and dozens of local governments.

Lagos markets typically have a few hundred shops, selling products ranging from mobile phones to baby clothes to kitchenware. Most markets are located on land that is either privately held or owned by the local government. Some markets are headed by elected leaders who have term limits, and others are headed by leaders who hold their position for life, an institution that has existed in a subset of Lagos markets for over a century. Other markets are headed by the owners of the land the market is on, and these are similarly positions without term limits. Market associations collect fees from traders that are used for trash collection and security. They serve as the liaison between traders and government officials.

Nigeria has a federal system of government, with 36 states and over 800 local governments with (typically) democratically elected chairmen. One party, the All Progressives Congress party (APC), dominates all branches and levels of government in Lagos state.⁷ By far the most relevant level of government for markets is the local government, as it is constitutionally mandated to maintain and regulate markets and permitted to collect taxes from market traders. Power within a local government is concentrated in the chairman, who is directly elected by local government citizens and appoints the heads of departments within the local government (Barkan, Gboyega and Stevens, 2001).

⁶The exact population size is unknown as the national census is politicized. States with more people should in theory receive more money from the federal government, but because Lagos has historically been controlled by an opposition party the federal government has had an incentive to underreport the true population.

⁷Until local elections were postponed and caretakers were appointed to head local governments at the end of 2014, APC chairmen headed all of Lagos' 57 local governments.

Market associations are critical for promoting trade as courts in Lagos cannot be relied on to enforce contracts nor to enforce laws that protect property rights. Over the past 15 years Lagos state has implemented governance reforms that have increased protection of property rights, but these reforms are incomplete and unevenly enforced. For example, the average number of days to resolve a standard commercial dispute in a Lagos court has dropped to 447 days – below even the average for Cape Town, South Africa – but the average cost of resolution is 62% of the claim value, compared to 34% in Cape Town (World Bank, 2014). Independent state audits of local government accounts have been introduced to increase local accountability, but these reports still regularly reveal huge sums of unaccounted money (Office of State Auditor General, 2012). In 2011 a law was passed prohibiting street hawkers, a priority for many market traders who lose business to them, but four years later enforcement has waned and street hawkers are visible throughout the city. In short, despite some public institutional improvements, Lagos still falls within the scope condition of the theory as a city where the rule of law is weak.

3.2 How strong markets can sanction local governments

If a strong market association can mobilize traders, it can threaten politicians. Traders can be mobilized to perform highly visible acts of protest. Actions such as shutting down the market for the day and leading a protest to the state government get the attention of the state party, which has few other reliable ways of getting information about public (dis)satisfaction with the local government. Protests by traders have resulted in local chairmen losing their position in government. According to Bola Tinubu, a wealthy former Lagos state governor who is the *de facto* leader of the APC:

[T]raders act as reliable sources of information for the government and political parties...[and] serve as the crucial feedback mechanism needed by the government and policy makers to evaluate instituted and proposed policies.⁸

In the Nigerian context, where the party that controls the state government typically controls all local governments in the state, the most critical hurdle for aspiring local government chairmen is getting the

⁸Interview via email, Feb. 5, 2014

party's nomination, not the actual elections. Thus a clear protest action would hurt a chairman seeking renomination. According to the Lagos APC chairman Henry Ajomale:

Traders can prevent a chairman from getting renominated. We take cognizance of that. If we reappoint such a person we will run into trouble. In Alimosho [one Lagos local government] we picked someone, people protested, so we gave the nomination to someone else. This was before the election. We have done this so many times.⁹

When asked what constrained a local government from renovating a market – which would price out existing traders – one local government chairman told me he “negotiates with traders because they are voters. And some of them are party members; you don’t want public outcry.”¹⁰ It is not always the case that market traders could prevent an APC-nominated candidate from getting elected with their electoral power alone. But the APC wants organized societal groups to support their leadership, and protest is embarrassing for the APC and weakens the party’s credibility.

3.3 How local governments can sanction markets

Two factors shape whether local governments can credibly threaten markets: whether the local government chairman is politically ambitious, and whether the market is on public land. To understand the contextual conditions that make the emergence of an ambitious chairman more likely, I first describe the role of traditional ruling families in Lagos. I then discuss why local governments are more of a threat to markets on public land.

Political norms in Lagos are such that traditional ruling families have an outsized claim to head local governments in which their homes (physical palaces) are based. While the formal rules are constant across local governments – ward delegates vote for the nominee – this process is highly vulnerable to the influence of a man who is locally termed the *godfather*, Bola Tinubu, the patron of politicians in the region. In local governments with traditional ruling families, the godfather ensures the chairman will come from one of these families. When there is more than one family, typically a zoning system predominates, with the

⁹Interview, Jan. 20, 2014

¹⁰Interview, Jan. 12, 2013

families alternating in nominating one of their own each three-year term. Roughly half of the chairmen who come from traditional ruling families tend to be older, less politically ambitious, and plan to retire to their communities when leaving office. These chairmen lack incentives to make credible threats against markets and market leaders. The other half are younger and more ambitious.

In local governments with no traditional ruling families, the nomination process is competitive. Almost without exception, the winners hope ultimately to work for the state government or to become a representative in the state House of Assembly or even the National Assembly.¹¹ Their ability to obtain higher office depends almost entirely on whether they will receive support from the godfather. The godfather evaluates chairmen principally on three criteria, which are sometimes contradictory in practice: the extent to which they maintain public support throughout their tenure, how much revenue they are able to raise through taxes, and the extent to which they modernize their local government in line with “Megacity” ideals (de Gramont, 2014). Chairmen who come to office through this competitive process aim to excel on all fronts. Market leaders will rarely view efforts to increase taxes on traders as anything but a threat, and modernizing goals often translates as market renovation, which can price out current market leaders and traders. Interventionist chairmen not only have incentives to make these threats, but because the constitution allows local governments to tax and “maintain” the markets, the threats are made credible as they are backstopped by the constitution.

Local governments can pose a greater threat to markets on public land than markets on private land because they have more rights to intervene in public markets. It would be difficult for a local government chairman to threaten to demolish a market that is on land owned by a private individual, but they do have the right to demolish (and rebuild) a market on public land. While local governments are limited to a prescribed number of fees they can collect from traders on both types of markets, they collect rent from traders in public markets; intimations of raising rent are serious threats.

¹¹This claim is based on interviews with officials from ten local governments and the Ministry of Local Government and Chieftancy Affairs.

3.4 How mutual threats sustain trade-promoting institutions

How then do mutual threats enable contractual trade and limit private extortion? A strong market association needs internal support to mobilize against government threats. A first order step to earning trader support is to refrain from extorting from them. Market associations have much better information about the amount of trade taking place in the market than the local government, information which could be used to increase fees. Resisting this temptation is the first consequence of the association's aim to credibly threaten interventionist local governments.

The presence of contractual-trade promoting institutions are harder to explain by a market association's incentive to acquire and maintain trader support, as these institutions often go *against* traders' short-term interests. Associations will be motivated to create these institutions in the presence of an interventionist government because of the desire to prevent public officials from meddling in the market. A strong association will be able to incur the short-term costs of in-group policing, and will be able to elicit and spread valuable information about opportunistic suppliers and customers.

The following implications follow from this discussion:

1. Strong market associations that are in interventionist local governments will be less likely to extort and more likely to invest in contracting institutions than strong market associations in non-interventionist local governments.
2. Strong market associations that govern markets on public land – markets where the local government has more rights to intervene – will be less likely to extort and more likely to invest in contracting institutions than strong market associations that govern markets on private land.
3. Market association political engagement should be associated with less private extortion and the presence of contracting institutions.

4 Research Design

To test the argument I want data on both orderly and disorderly markets and the associations that govern them, across both interventionist and non-interventionist local governments. To do this, I collect survey data from markets throughout Lagos. I ask questions about market associations, a topic which is rarely pursued

in existing surveys, such as the World Bank Enterprise Surveys, but which is critical to understanding trade-related outcomes that scholars and policymakers care about.

The original survey data I analyze improves substantially on existing small business surveys in developing countries. The predominant approach in these surveys to generating a sample frame is to collect a list of firms from a national or municipal statistics agency, but of course these lists are censored to informal firms which definitionally do not register with the government. One approach used by the Enterprise Surveys that focus on informal traders is to sample only from well-known informal markets, but these markets could be unrepresentative on any number of dimensions (Benjamin et al., 2014). Another approach is to create sampling areas from city blocks (World Bank, 2010) – for example, start at the corner of a given block and approach the third shop – but using city blocks imposes a level of order that often does not exist in poor urban areas. I am able to create a market sample frame that includes the universe of markets in the key commercial areas in Lagos, resulting in two surveys that are more representative than almost all existing surveys of informal traders. In addition, for the second of the surveys I conducted I was able to direct enumerators to specific randomly sampled shops, greatly reducing opportunities for enumerator discretion, another challenge that has plagued existing surveys of informal traders.

4.1 Survey Sampling

I conducted two surveys. The first survey targeted mostly public markets and was administered between August and October 2013. 699 traders, 68 market leaders, and 55 local government revenue collectors were interviewed.¹² The second survey, which targeted mostly private markets, was administered to 1,179 traders between April and June 2015.¹³

The starting points for the sample frames were two lists of markets, public and private land markets, from the state trash agency. The public market list, with 452 markets, was cross-checked by having enumerators

¹²Enumerators were instructed to interview either a market mother, market father, secretary, chairman, vice chairman, treasurer, or public relations officer. It was not feasible for the market mother, for example, to be interviewed in all markets, as market leaders are difficult to convince to be interviewed. Even given the broad set of seven eligible leaders, 19 of the 68 interviews required two or more attempts to get an interview with any leader.

¹³The second survey was conducted in collaboration with [author name removed to anonymize this paper].

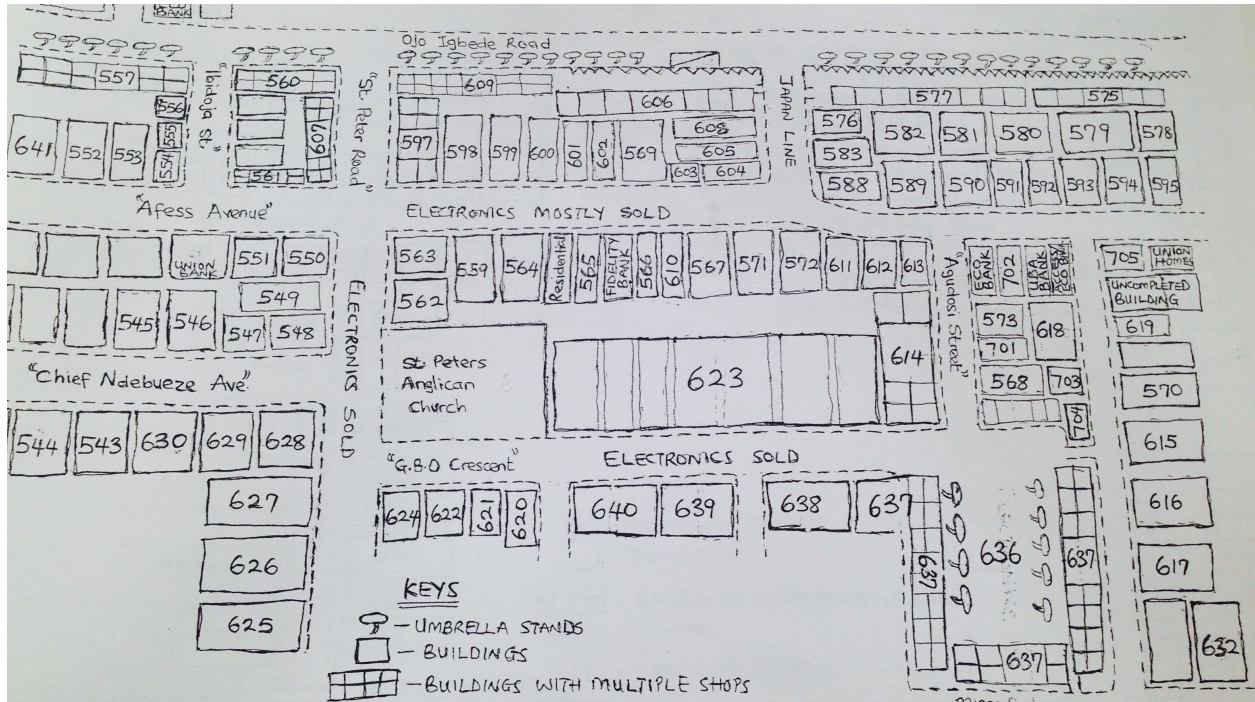


Figure 2: A map of one section of Alaba International Market created for sampling purposes. Aluko Abubakar Olanrewaju, a research assistant, drew this map. He and other research assistants counted the shops in each part of the market. Enumerators were then instructed (for example) to go to building 616 in Alaba International Market, walk up to the second floor, turn right, and find the third mobile phone shop.

ask each local government revenue collector for a list of markets under their control. I sampled the public markets using a stratified random sampling strategy, stratifying on market strength and local government strength.¹⁴ The trash agency's list of markets on private land was missing markets in a few key commercial areas, so research assistants were hired to improve the accuracy of the sample frame by mapping the markets in these parts of the city, resulting in a list of 502 markets. The market listing strategy explicitly ignores many types of informal traders, such as those whose business is operated out of their home.

Market associations keep accurate lists of traders in their markets, but these lists are among the most valuable and sensitive information market leaders possess. Market leaders want to understate the true number of traders to tax collectors, and prevent government officials from enumerating the market. Thus developing sampling frames for traders within markets was difficult. For the public markets, I developed a random walk strategy for enumerators to follow. For the private markets, research assistants were hired to

¹⁴For sampling purposes, these variables were measured using data from the local government revenue collector survey.

count the number and type of shops in every market, resulting in a listing of 45,085 shops. After removing shops that were vacant, closed during business hours, or provided services (such as a hair salon), a simple random sampling strategy was used to sample from the remaining 18,249 shops and direct traders to specific pre-chosen shops. This shop count resulted in a more complete sample frame than that used for almost any other survey of informal firms.

4.2 Measuring variables

In this section I describe how I measure variables in the survey. An online appendix lists the actual survey questions used.

4.2.1 Explanatory variables

Market association strength. Market association strength is defined as the ability of an association to control the internal affairs of the market. I measure it as an index averaging two variables. The first is whether traders report that the market association holds regularly scheduled meetings for traders. Control requires the clear communication of rules, and market meetings are the channel for this communication in Lagos markets. The second variable comes from a survey question where enumerators asked traders to name the main market association they belonged to. These associations were almost always physically-delimited associations, such as an association for the plaza or cluster of plazas, or an association for a more traditional market. In some cases, though, traders reported not belonging to any association. Enumerators were trained over two weeks of formal training (along with refresher trainings throughout survey implementation) on how to follow up on these responses, such as asking about to whom the trader pays trash collection fees. For traders in some markets the ultimate answer was that a landlord or caretaker association performs these functions. This second variable takes a 0 (weak) for these cases, and otherwise a 1 (strong).

This latter measure has advantages and disadvantages. The important advantage is low measurement error. Markets with traders who reported that the only association was a caretaker association are undoubtedly weak. The word caretaker itself implies a narrow sphere of control. It is possible for landlords to be strong, but strong landlords are typically called market presidents. The word landlord, in the Nigerian

market context, implies someone who is simply collecting rents and basic fees.

The disadvantage to this measure is that it captures perhaps not just weak associations, but also no associations. An association, however, is simply an entity that governs a group. Market landlords in the Lagos context perform this role. Landlords or caretaker associations might not be able to resolve disputes inside the market, but they are responsible for making sure bills get paid and that traders follow basic market rules, such as closing the shops around sunset. Indeed it is especially important to capture these exceptionally weak associations, as missing them would mean falling into the trap that many studies of private order fall into, namely focusing only on successful groups.

Local government interventionism. The theoretical concept I aim to capture here is the idea that some governments are engaged with communities, often trying to extract revenue, and others are not. Traditional measures of government capacity, though, are not appropriate here. Conventional measures look at service provision; Cleary (2007), for example, uses presence of potable water and sanitary sewerage. This is problematic for my purposes for three reasons. First, the tenure of chairmen is three years. No chairman has ever served more than three terms and 35% of the chairmen in 2014 were in their first term. It would be difficult to determine whether services existed before a chairman came to power. Second, looking at local government service provision at the market level is problematic, as this could be correlated with the political value of the market. Third, interventionist chairmen can be predatory and might not invest in any services.

As such, I measure local government interventionism by looking at whether the local government chairman involves himself in market disputes, a question that was asked in the survey of local government revenue collectors. The advantage of this measure is that it is *not* capturing a concept that is defined by the strength of societal groups. It is capturing whether the local government is motivated to involve itself in market affairs. Because there is great variation in market strength among markets in a local government, I am not worried that one strong market that prevents the chairman from interfering in their affairs would drive the response to this question.

Land type. For the 2013 survey, local government officials were asked what type of land markets were on. For the 2015 survey, traders were asked what type of land their market was on. For the latter survey I use the modal response to this question among traders in a given association. Among associations with more

than one respondent, the average variance in responding to this question is an acceptably low 0.19.

4.2.2 Outcome variables

Private extortion. Private extortion here means market association extortion of traders. I measure private extortion with a low-measurement error question: traders were asked whether they feel the market association accounts properly for fees it collects. This question was developed by listening to words traders used to talk about market association management. Associations that, for example, collect fees for electricity but pocket these funds would not be accounting properly. The main advantage to this question is that responses can be interpreted consistently across associations.

Other pro-trade institutions. I look at several other variables to capture the presence of pro-trade institutions. First, I look at whether traders report that the market association represents their interests, the closest approximation to market good governance in the absence of data about the particular issues facing each market. Second, I look at whether market leaders warn traders about opportunistic customers – customers who receive products on credit and do not repay. I focus on this outcome because it is equally valuable in all types of markets. Some of the other variables, such as whether the market association warns traders about opportunistic suppliers, are only relevant in markets where traders source their products domestically. The other advantage to focusing on information sharing about customers is that it is an example of a market institution that is costly in the short-term, where one would expect traders to *not* want to share information with their competitors about opportunistic customers. Third, I look at whether the market association helps to resolve disputes in the market. I wrote almost all of these as yes or no questions to reduce measurement error.

When I am not testing an argument that is explicitly about a certain type of institution I will use a market association good governance index. The index averages responses of traders in the association to questions about whether the association: 1) represents trader interests, 2) accounts honestly for the fees it collects, 3) warns traders about dishonest customers, and 4) helps to resolve disputes.

4.2.3 Controls, mechanisms, and alternative explanatory factors

I control for factors that have been shown to affect group cooperation. One of the more dominant alternative explanations focuses on diversity (e.g. Habyarimana, 2009). I develop a market ethnic heterogeneity variable by creating a herfindahl index of ethnic diversity based on the ethnicity of the traders interviewed in each market. I also control for the education level of traders in a market, whether market leaders hold their position for life, and whether market leaders are elected. These data come from both the 2013 and 2015 surveys.

Market association political engagement is measured with two variables. I take the average response among traders to each of two yes-or-no questions in the 2015 survey about 1) whether the market association provides information about politicians prior to elections, and 2) whether politicians come to the market.

4.3 Sources of exogenous variation

I operationalize exposure to government threats in two ways: a market being under the jurisdiction of an interventionist local government, or a market being on public land. In this section I address concerns that government threats might not be exogenous to the outcomes, and that there may be omitted variables shaping both exposure to threats and the outcomes.

There are two potential concerns about operationalizing threat as being in an interventionist local government. First, perhaps orderly markets make local governments more or less interventionist *in general*. However, qualitative interviews with officials in 11 local governments¹⁵ suggest that there are strong idiosyncratic factors unrelated to markets that affect who becomes chairmen.¹⁶ As discussed in section 3.3, local government interventionism is partially a result of whether the local government chairman comes from a traditional family or not. Chairmen from traditional families tend to be less ambitious and less interventionist. This would be concerning if local government areas with traditional families were systematically different

¹⁵The author interviewed officials at the following local governments between October 2012 and June 2015: Agbado/Oke-Odo, Amuwo Odofin, Apapa, Eti Osa West, Ifelodun, Ikeja, Ikoyi Obalende, Lagos Island East, Ojokoro, Onigbongbo, Orile Agege.

¹⁶See Frye and Yakovlev (2016) for another strategy for identifying exogenous variation in state-firm bargaining power.

than those without. In 2003, however, the number of local governments in Lagos more than doubled from 20 to 57. This was done by carving new local governments out of old local governments based on population. Some local governments ended up with traditional families – who stay in physical, permanent palaces – and others did not.¹⁷

Second, perhaps orderly markets are also more prosperous, and this attracts local government attention and threats toward their market *in particular*. This is a difficult possibility to address empirically, as I expect all orderly markets to be governed by strong associations, and strong associations should be more able to negotiate with the local government, making threats toward these associations hard to observe in equilibrium. (It is for this reason that I measure local government interventionism based on the assessment of the local government revenue collector about the local government chairman’s behavior toward markets in general.) However, looking at the 2015 survey, among the 5 market associations that score 0 on the strength index, 3 of these associations report that the local government sometimes makes surprise visits to the market to collect fees. (The remaining 2 said this never happened.) This suggests that local government threats are not targeted only at strong associations, though it is difficult to address this endogeneity concern fully.

Reverse causality is not a concern for assessing the effect of land type on market institutions. A market is on public land or private land. Nothing will change that. The concern for this operationalization is that markets on public land are different from markets on private land not just because of exposure to government threats but in other ways that could be directly affecting market institutions.

Table 3 showed that markets on private land are more likely to be ethnically homogenous than public land markets, but existing theories would suggest that would *increase* the likelihood of order. The data suggest that markets on public land are more likely to have leaders who hold their positions for life, and existing research would posit that leader time horizon, not the nature of state threats, would be driving the outcome. In section 6.3 I will introduce evidence, however, that a long time horizon is *not* sufficient for

¹⁷As noted earlier, powerful markets have occasionally prevented the APC from nominating certain chairmen. While traders can occasionally influence the individual who is nominated, they do not appear to be able to influence the type of local government chairman who gets elected (e.g. the interventionism of the chairman). For example, if a market prevents a non-interventionist candidate from a traditional family from being nominated, a different non-interventionist candidate from the traditional family will be nominated.

order.

A final concern is that perhaps private order is more likely on public land markets not because of threats of state interference, but because public markets are selling higher-end products or have more desirable locations, and the gains to pro-trade institutions are therefore greater. This type of argument is functionalist, but as a proxy for these two variables we can compare shop rent across public and private land markets. Table 2 shows that rent is about 15% *higher* in private land markets.

Table 2: Mean annual rent. This table uses data from the 2015 survey.

	Public	Private	p-value
Mean annual rent (USD)	\$1,710	\$1,964	0.04**
N	222	469	
<i>Note:</i>	*p<0.1; **p<0.05; ***p<0.01		

Market association strength is something that comes from idiosyncratic factors from often decades ago. For example, in one market diversity in ownership status of shops has created divisions over how to respond to increases in fees that would affect traders differently based on whether they are the shop owner, primary lease holder, or secondary lease holder. In this market, these divisions are salient and have prevented the market leader from effectively organizing traders. In another market, thugs harassed traders at the time an association formed. The association was able to mobilize traders around lobbying the local government to help deal with the thugs – the common enemy – and it was this effort, according to a market leader, that had positive path dependent implications for the association’s strength even since. Critically, market association strength is not something that changes year to year. These are associations that local people describe as having been strong or weak for a long time.¹⁸

In short, while I believe I have identified sources of exogenous variation in market association strength and the extent to which markets face government threats, it is likely there are some unusual situations where threat is a function of market attributes. My strongest claim in the findings that follow is that we see a surprising pattern – a correlation between threats of political interference and private pro-trade institutions. Existing research would predict the opposite. The empirical correlation is consistent with my argument, but

¹⁸This discussion is not meant to suggest that market association strength and local government interventionism have no effect on one another. I am arguing only that in this context exogenous factors typically are more important.

I cannot definitively rule out the possibility of reverse causation.

5 Survey Data Analysis

The first step in analyzing the data was to determine which traders belonged to the same market association, a sometimes difficult endeavor. If one trader reports belonging to the Balogun Traders Union on Lagos Island and another reports belonging to the Balogun Market Union on Lagos Island, are these the same association? Research assistants were hired to visit or call traders to reconcile ambiguous cases. Responses to questions about market attributes were then averaged at the market association level.

I then use OLS regressions to consider the relationship between private order institutions among strong market associations and 1) local government interventionism, and 2) the type of land the market is on. The private order institutions include private extortion and the presence of information-sharing institutions. I control for variables that existing theories expect should shape private order.

In the results that follow the market association sample size varies across models. This is because some questions were asked in one survey that were not asked in the other. Unless stated otherwise, I use all available data in all models.

6 Results

6.1 Attributes of market good governance are positively correlated

A first-order implication of the argument is that attributes of market association good governance should be positively correlated. Figure 3 shows that, indeed, when traders say the market association represents their interests or accounts honestly for the fees it collects the market association is much more likely to provide trade-promoting institutions like information sharing.

Statistic	N	Mean	St. Dev.	Min	Max	Mean public land	Mean private land
<i>Outcomes</i>							
Representative	258	0.69	0.25	0	1.00	0.70	0.66
Warns about customers	258	0.44	0.40	0	1.00	0.46	0.41
Helps resolve disputes	199	0.37	0.41	0	1.00	0.49	0.35
Honest accounting	241	0.81	0.30	0	1.00	0.83	0.78
<i>Explanatory variables</i>							
Assoc. strength (1)	264	0.59	0.45	0	1.00	0.46	0.66
Assoc. strength (2)	269	0.97	0.18	0	1	1	0.93
LGA interventionism	52	0.20	0.37	0	1		
<i>Controls</i>							
Education level traders	266	0.44	0.39	0	1.00	0.38	0.45
Elected leader	202	0.90	0.30	0	1	0.98	0.84
Leader for life	229	0.20	0.40	0	1	0.37	0.14
Market ELF	125	0.31	0.20	0	0.65	0.37	0.27

Table 3: Summary statistics by market association. The local government (LGA) interventionism variable is the only summary statistic in this table that is not by market. LGA interventionism measures whether the local government involves itself in market disputes. Market association strength 1 measures whether the market association holds regularly scheduled meetings for traders, and market association strength 2 measures whether traders report only a landlord/caretaker association (in which case the variable takes a 0). Markets on public land references markets on local government land. Markets on federal government land are included in overall summary statistics, but not in the two final columns.

6.2 Among strong market associations, the threat of state interference is associated with pro-trade institutions

Recalling that the theory offers clear predictions about the level of private extortion among strong market associations (table 1), in the first empirical test of the argument I assess the relationship between local government interventionism and pro-trade institutions *among strong market associations* (table 4). The results suggest that in this subset of the markets, association honest accounting (but not information sharing) is more likely in markets in interventionist local governments. Using model 2, the predicted value of honest accounting for strong market associations in interventionist local governments is 0.93 (sd=0.07), and 0.79 (sd=0.03) for these associations in non-interventionist local governments.

An additional way to measure the extent to which markets face state threats is to look at the type of land the market is on. In general, markets on public land face greater threats from the government. Traders in these markets typically pay rent to the local government, and the local government has more rights to intervene in market affairs.

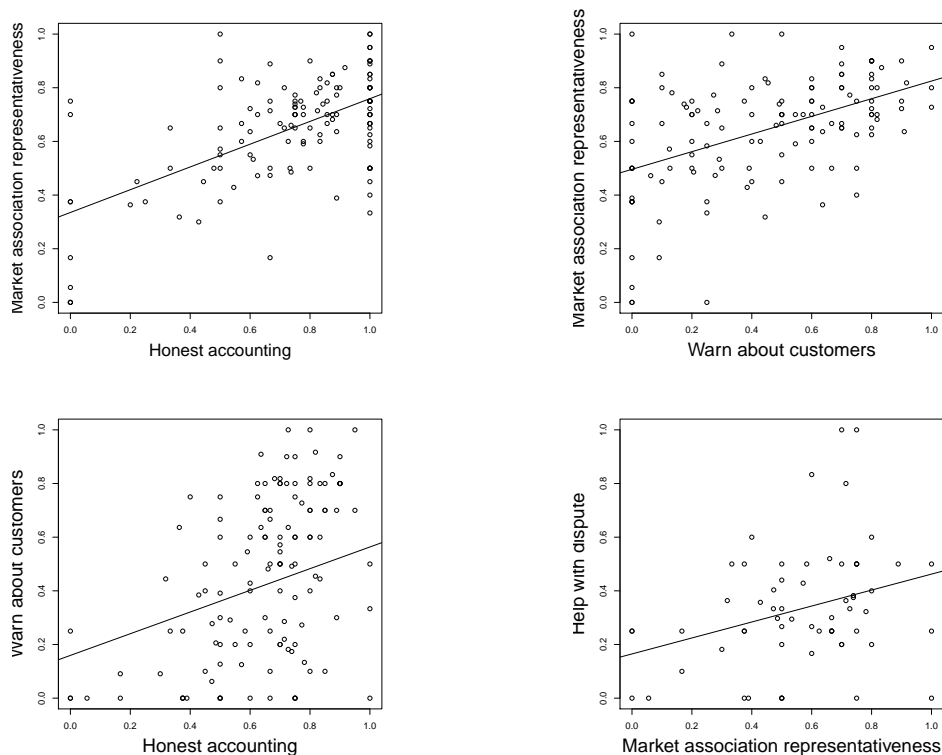


Figure 3: Attributes of good market governance are positively correlated. When traders perceive that the market association represents their interests and accounts honestly for the fees they collect, for example, traders are also more likely to say the market association warns traders about opportunistic customers. Each dot represents the mean response among traders in a market. I have subsetting the data to include only market associations with at least three respondents.

In table 5 I again subset the data to focus on strong market associations. We see suggestive evidence that is consistent with the theory’s predictions for these markets. Strong market associations on public land are more likely to facilitate information sharing about dishonest customers compared to strong market associations on private land. Though the coefficient on land type is not always statistically significant, the fact that it is not negative is surprising, as existing research would suggest that private order would thrive on *private* land. Using model 4, the predicted value of information sharing for strong market associations on public land is 0.54 (sd=0.03), and 0.49 (sd=0.43) for these associations on private land.

6.3 Long time horizons are not sufficient

A subset of markets in Lagos have leaders who are (mostly) elected, and then hold their position for life. In table 6 I compare market association good governance across markets where leaders hold their position

Table 4: For markets with strong associations, being in an interventionist local government is associated with traders being more likely to report that the association accounts honestly for the fees it collects. Controls include whether the market leader holds their position for life, market ethnic diversity, and the education level of traders in the market. The data is subsetting to 1) markets with associations that score greater than 0.5 on the association strength index, and 2) markets where I have interviews from 3 or more traders. Due to the small N of this subsetting dataset, it is not possible to incorporate local government fixed effects here.

	<i>Dependent variable:</i>			
	Honest accounting > 0.5 on strength index		Info sharing > 0.5 on strength index	
	(1)	(2)	(3)	(4)
Local govt. interventionism	0.161*	0.142*	-0.101	-0.066
	(0.085)	(0.078)	(0.102)	(0.100)
Constant	0.752***	0.778***	0.549***	0.618***
	(0.032)	(0.072)	(0.038)	(0.093)
Controls	No	Yes	No	Yes
LGA fixed effects	No	No	No	No
Observations	82	66	82	66
R ²	0.043	0.125	0.012	0.226

Note:

*p<0.1; **p<0.05; ***p<0.01

Table 5: For markets with strong associations, being in a market on public land is associated with the association being more likely to facilitate information sharing about dishonest customers. Controls include market ethnic diversity, and the education level of traders in the market. The data is subsetting to markets where I have interviews from 3 or more traders. The data do not include a small number of markets on federal government land. Due to the small N of this subsetting dataset, it is not possible to incorporate local government fixed effects here.

	<i>Dependent variable:</i>			
	Honest accounting > 0.5 on strength index		Info sharing > 0.5 on strength index	
	(1)	(2)	(3)	(4)
Land type (public = 1, private = 0)	0.0003	0.036	0.115*	0.085
	(0.054)	(0.056)	(0.064)	(0.064)
Constant	0.788***	0.846***	0.464***	0.579***
	(0.041)	(0.066)	(0.048)	(0.077)
Controls	No	Yes	No	Yes
LGA fixed effects	No	No	No	No
Observations	83	81	83	81
R ²	0.00000	0.073	0.038	0.148

Note:

*p<0.1; **p<0.05; ***p<0.01

for life and markets where leaders have terms and term limits. I find that markets with leaders who hold their position for life are more likely to facilitate information sharing about dishonest customers, but are no more likely to account honestly for fees or score higher on the good governance index overall (table 6). Why might this be?

I proposed earlier – as has been suggested by Ostrom (1990) – one factor that could mediate the relationship between a long time horizon and private predation: whether the group leader has outside business interests. Early data from the second round of 2015 survey suggest that 14 associations (out of 141 associations represented so far) have leaders with other businesses, and many of these businesses are substantial. One market leaders also sells cars. Another works as a clearing agent at the port. Another market leader owns gas stations.

Table 6: Market associations with leaders who hold their position for life are more likely to facilitate information sharing among traders, but are no more likely to account honestly for fees or score higher on the good governance index overall. Controls include market ethnic heterogeneity, and the average education level of traders in the market. All models look at the subsetted data that exclude markets with data from less than three traders.

<i>Dependent variable:</i>						
	Honest accounting		Info sharing		Private governance index	
	(1)	(2)	(3)	(4)	(5)	(6)
Leader for life	0.011 (0.045)	0.027 (0.056)	0.205*** (0.056)	0.174** (0.070)	0.002 (0.025)	-0.002 (0.031)
Constant	0.796*** (0.029)	0.792*** (0.064)	0.395*** (0.036)	0.457*** (0.080)	0.528*** (0.016)	0.561*** (0.036)
Controls	No	Yes	No	Yes	No	Yes
LGA fixed effects	No	No	No	No	No	No
Observations	98	96	98	96	98	96
R ²	0.001	0.004	0.121	0.137	0.00004	0.012

Note:

*p<0.1; **p<0.05; ***p<0.01

6.4 Market sorting is difficult and rare

If an association is extorting heavily from group members, why wouldn't the members relocate to another group? Wouldn't this constrain extortion? This would seem to be especially true in the case at hand:

traders' shops are quite small, and a trader could pack all of her wares into a taxi in one hour at most. Capital mobility should provide group members with more bargaining power *vis a vis* their leaders (Bates and Lien, 1985). In section 2 I argued that group member sorting – i.e. members identifying orderly groups and choosing to join those – should be difficult and rare. Here I look at the evidence.

First, market membership is sticky. Shop owners require two years rent up front from traders, which is the norm in Lagos (and many other West African cities) for residential leases as well. After these first two years, traders can pay the following one year's rent up front, which deters relocation, as a new lease would require two years rent up front. I calculate that two years of advance rent is N701,279 (\$2,910) for the average trader, which is a substantial amount of money.¹⁹ When asked how difficult it would be to move to another market, 66% of traders who responded said it would be difficult or very difficult.²⁰ If you include the respondents who said they did not know, which suggests they had never even considered moving, this figure rises to 73%.²¹ As further evidence of the difficulty of moving, the average trader has been in her market or plaza for 7 years.²²

It may be difficult to relocate, but can traders sort into pro-trade markets in the first place? Table 4 shows that while many traders were attracted to their plaza because it had a reputation for being a place where goods sold quickly, many traders made the decision about where to locate based on reasons that do not require knowing much about whether or not the market was conducive to trade. 10% of traders report being attracted to their plaza *only* because of its desirable location. This category encompasses reasons such as the market being in a busy area, close to the trader's home, and close to the trader's suppliers. 9% of traders report being attracted to their plaza *only* because the product they sell was sold in the plaza.

I argue this is at least partly due to imperfect information about internal market affairs. Even diligent traders will struggle to get reliable information about conditions in a market. One trader tries to do her own survey of traders before renting a shop. “But most times, even if the the market is bad, they won't tell

¹⁹Data from the 2015 trader survey.

²⁰This question was only asked in the 2013 survey.

²¹The 2013 survey asked traders “Imagine you wanted to relocated your shop to a different local government market, how difficult would this be?” and “Imagine you wanted to relocated your shop to a market that was on private land, how difficult would this be?” These summary statistics average responses across these two questions.

²²Data from 2015 survey.



Figure 4: Traders choose to locate in markets for many reasons, several of which do not require knowing if the market is conducive to trade. This figure shows responses to the question: “What attracted you to this plaza?” This was an open response question that was then coded. Grey bars are reasons that could be related to market conditions. Black bars are reasons that are not about market conditions. Data is from a pilot for the 2015 survey (N=196).

her,” her son said. “And if they know she wants to sell similar goods, they would even hoard information from her.”²³

It does, however, appear to be the case that traders stay longer in markets that are better governed. Table 7 shows that traders in markets that score highest on the good governance index (1) stay in their market on average three years more than traders in markets that score the lowest on the good governance index (0). It is striking, however, that traders in the worst governed markets stay on average for five years. This suggests that, at minimum, relocation is not frictionless.

Table 7: Better market governance is correlated with more time in market. Predicted values for average number of years traders have been trading in a market based on the market association’s good governance index score. These data come from the 2015 survey.

Good governance index score	Years in market
0	5.11
0.5	6.69
1	8.26

²³Interview with the son of a trader in Mile 12 market on June 13, 2016

6.5 Mechanism: Markets that are more politically engaged are better governed

The mechanism through which state threats promote good governance is that associations need the support of traders to fend off these threats. If the association extorts, it will not be able to mobilize traders for political ends, such as to vote as a block. One implication of this argument is that politically active markets should be better governed. After all, politicians will have little interest in associations that cannot mobilize traders to vote as a block.

Table 8 looks at the relationship between my two measures of market association political engagement, and association good governance. Markets that are more politically engaged – whether measured by the association providing traders information about politicians, or politicians coming to the market – are better governed. The predicted market good governance score for markets where all traders say the association provides information about politicians is 26% higher compared to markets where all traders say the association does not provide information about politicians.

Table 8: Markets that are more politically engaged – whether measured by the association providing traders information about politicians, or politicians coming to the market – are better governed. This table shows predicted values for associations where all traders report the association provides (or does not provide) information about politicians, and for associations where all traders report politicians do (not) come to the market.

Association political engagement	Good governance index score
Assoc. provides info about politicians	0.58 (sd=0.03)
Assoc. does not provide info about politicians	0.46 (sd=0.02)
Politicians come to market	0.55 (sd=0.03)
Politicians do not come to market	0.49 (sd=0.02)

7 Conclusion

While much attention has been devoted to the consequences of self-enforcing internal group dynamics that protect property rights and enable contractual trade, this paper has focused on the politics that sustain these institutions. Survey evidence from 292 market associations in Lagos supports the argument that strong associations – meaning associations that are able to control the internal affairs of their group – can use their strength to predate on group members or to promote order within the group. Strong associations are motivated to use their strength to promote order when they face the prospect of government intrusion.

Threats from the government motivate group order because 1) the association needs to minimize group disputes to reduce the likelihood of state intervention, and 2) the association needs the support of group members to mobilize against state threats. The argument, counter-intuitively, is that even when predatory politicians work directly against the interest of traders, they unintentionally motivate the private institutions that benefit the traders.

The results of this study affirm existing research showing that groups can enable economic exchange in contexts where the public institutional environment does not protect property rights. But I have argued that the fact that group members would benefit from private pro-trade institutions does not explain their existence. The institutions that can promote trade – such as information sharing about opportunistic outsiders – are costly in the short-term when group members are in competition with each other and benefit from the trader in the next store being cheated. I have introduced an argument about the conditions under which group associations will invest in these institutions to promote trade. When the government keeps its hands off the economy, group leaders extort. When the government threatens to intervene, leaders organize to resist.

There are some reasons to be pessimistic about the externalities of group order. Research on Medieval guilds suggests that guilds not only did *not* benefit non-group members, but impeded general economic growth by buying privileges from political elites that tilted the playing field (Ogilvie, 2014). But in the absence of strong rule of law, it is not clear that general economic growth is the counterfactual. Further, the beneficiaries of group order are many. In developing countries it is estimated that 41% of GDP comes from the informal sector (Schneider, 2005), and the associational structure of informal trade is a global phenomenon (e.g. Cross, 1998). This research has shed light on the inner workings of modern informal economies and introduced conditions under which we will observe pro-growth institutions in associations that govern informal trade, associations that encompass a vast amount of global economic output.

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