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How the State Shapes Private Governance  
Shelby Grossman  
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## The Politics of Order in Informal Markets

Property rights are important for economic exchange, but many governments don't protect them. Private market organizations can fill this gap by providing an institutional structure to enforce agreements, but with this power comes the ability to extort group members. Under what circumstances, then, will private organizations provide a stable environment for economic activity? Based on market case studies and a representative survey of traders in Lagos, Nigeria, this book argues that threats from the government can force an association to behave in ways that promote trade. The findings challenge the conventional wisdom that private good governance in developing countries thrives when the government keeps its hands off private group affairs. Instead, the author argues, leaders among traders behave in ways that promote trade primarily because of the threat of government intrusion.

Shelby Grossman is a Research Scholar at the Stanford Internet Observatory. She holds a Ph.D. in Government from Harvard University.

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## *How the State Shapes Private Governance*

SHELBY GROSSMAN  
*Stanford University, California*



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## Preface

Property rights are important for economic exchange, but in many parts of the world they are not publicly guaranteed. Private market associations can fill this gap by providing an institutional structure to enforce agreements, but with this power comes the ability to extort from group members. Under what circumstances do private associations provide a stable environment for economic activity? I examine original survey data collected from 1,179 randomly sampled traders across 199 markets in Lagos, Nigeria. I combine these results with market case studies and find that markets maintain institutions to support trade not in the *absence* of government, but rather in *response to* active government interference. I argue that associations develop pro-trade institutions when threatened by politicians they perceive to be predatory, and when the organization can respond with threats of its own; the latter is easier when traders are not competing with one another. In order to maintain this balance of power, the association will not extort because it needs trader support to maintain the credibility of its threats to mobilize against predatory politicians.

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In the summer of 2010 I was feeling sad that my original dissertation idea was not panning out. I wanted to study how Lebanese trading communities organized themselves in Nigeria, but struggled to get Lebanese businesspeople to agree to be interviewed. At the end of the summer, I visited Lagos for the first time and had the chance to wander around the markets. Nigerian traders – though often quite secretive as well – turned out to be more forthcoming than the Lebanese traders. I realized I could study trader organization with a different population.

I am grateful to all of the traders who spoke with me for this project. For very good reasons they are often loath to discuss both details about their business and politics, but so many traders chose to trust me. Listening to their stories about market politics and learning how savvy they were in managing their businesses kept me going throughout a year of otherwise lonely fieldwork. There were days when Lagos felt so overwhelming that I was tempted to not even leave my apartment. But if I succeeded in having just one conversation with a trader, I came home feeling like I had gained great insight into the world and couldn't imagine having spent the day doing anything else. In particular, I thank Edwin Nnamdi Onye and Alhaja Marsha, along with two traders from Ladipo Spare Parts Market, and a former market manager in Lekki. I hope they all feel that this book captures something approximating the realities of market governance in Lagos. I also so appreciate the many local and state government officials who spoke with me for this book.

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