

## Chapter 8

# The absentee ownership syndrome

The central theme of this book is the analysis of interactions in social systems. As a first (and perhaps easier) step we will study the consequences of a *lack of interaction* between social agents. For instance, what happens when there are no interactions between landowners and tenants, holding companies and employees, governments and subjects? These questions could seem fairly difficult, but fortunately we have got a good starting point because we can rely on the results of a famous experiment performed by Stanley Milgram in the 1960s.

First of all, to introduce the issue of the absentee ownership, we describe landownership in the Philippines and Japan as seen by General Douglas MacArthur.

### 1 Land reform in Japan under General MacArthur

After General MacArthur retook Luzon in March 1945, some of his officers suggested that he send a punitive expedition against the Huks who were waging a guerrilla war in Central Luzon to dispossess the landlords. He refused and justified his position in the following way (Manchester 1978, p. 420).

Tarlac [located 100 kilometers to the north west of Manila] marks the border between the sugar economy and the rice country. North of them the people grow rice and most of them own small areas of land. Did you notice how many schools there are up there, how the people dressed, looked happy? Do you see the hangdog look they have here, resentful poorly dressed? Most of this land is owned in Madrid or Chicago or some other distant place. This is really

*absentee ownership*. No pride, few schools, little participation in government. This is where organizations like the Hukbalahaps are born and get their strength. They tell me the Huks are socialistic, but I haven't got the heart to go after them. If I worked in those sugar fields I would probably be a Huk myself.

MacArthur had a first hand knowledge of the Philippines where he had spent 15 years in various positions. He was hardly a socialist and at some points of its career he aligned himself with the right wing of the Republican Party. Yet, as Supreme Commander of Japan he proved that his aversion for absentee ownership was not pure rhetoric. As a matter of fact, he initiated a sweeping land reform. Before that reform, power resided in a rural oligarchy of some 160,000 absentee landlords each of whom owned on the average 36 farms (Manchester 1978, p. 508). In December 1945, that is to say 3 months after the beginning of the occupation of Japan, MacArthur told the old Diet to pass a drastic land reform. However, the law which was passed by this assembly exempted 70% of the land from the reform. At MacArthur's insistence, a more effective land reform law was passed one year later by the first postwar Diet. All land held by absentee owners was subject to compulsory sale to the government or to the tenants. Because sale prices were set without taking into account the high inflation rate they were absurdly low which made it easy for the tenants to become the new owners. Characteristically, MacArthur made the comment that "since the Gracchi effort of land reform in the days of the Roman Empire, there has been nothing quite so successful"<sup>1</sup>. MacArthur's action was not limited to the farming sector. A total of 115 holding companies were dissolved. One can recall that a holding company does not produce goods or services by itself but controls or owns other companies by holding part of their stock or other financial assets.

The implications of the reforms initiated by MacArthur in terms of network connectivity and economic efficiency will be discussed later on in this chapter. In the

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<sup>1</sup>In fact, the reform initiated by Tiberius Gracchus (-162 to -133) and Gaius Gracchus (-154 to -121) took place more than a century before the Roman Republic became an empire. To MacArthur's credit it should be added that history tells us that land reforms have more often foundered than succeeded.

next section we describe the major discovery made by Stanley Milgram regarding the implications of an absence of interpersonal interactions.

## 2 How the strength of interpersonal interactions conditions human behavior

Stanley Milgram (1933-1984) was one of the most influential psychosociologists of the twentieth century. Two of his experiments are particularly famous: the small world experiment and his experiments on obedience to authority. In this section we describe the second. Carried out in the early 1960s the obedience experiments raised great interest in the general public because they seemed to “explain” the obedience attitudes that had been observed in Nazi concentration camps. However, this interpretation belittles the significance of Milgram’s experiments. Numerous historical episodes, from the repression of the Paris Commune in 1871 to the Katyn or My Lai massacres show that, under certain conditions (to be examined shortly) obedience to authority is a standard characteristic of human behavior. The fact of simply reproducing this behavior in a laboratory experiment would add little to our understanding. As a matter of fact, the purpose and significance of Milgram’s experiment is much deeper. He has shown that the weaker the interaction between two persons, the easier it is for one to harm the other. Through his experiments Milgram was able to give to this proposition a precise quantitative meaning. To understand how he formulated this result we need to know more about the experimental procedure.

The experiments involved three individuals (Fig. 8.1 a,b,c):

- The experimenter  $E$  who was, so to say, the supervisor
- The instructor  $I$
- The subject  $S$ .

Both  $E$  and  $S$  were members of the experiment team whereas  $I$  had been recruited through a newspaper advertisement and was paid \$ 4.50 for one hour work. At

the beginning  $E$  explains to  $I$  that the experiment is a scientific study about the role of punishment in learning.  $I$  is instructed to ask  $S$  a number of questions; if the answer is incorrect,  $I$  is supposed to deliver an electrical shock to  $S$ . The generator has 30 switches in 15 volt increments ranging from 15 up to 450 volts.  $I$  is supposed to increase the voltage each time  $S$  gives a wrong answer. In fact, there are no electrical shocks;  $S$  is an actor who, although never actually harmed, shows increasing manifestations of pain as the voltage is increased.

The experiment has been repeated in five different settings with respect to the closeness between  $I$  and  $S$  (Milgram 1974).

1) In the “remote” setting,  $S$  is placed in another room and no vocal complaint is heard from him. However, at 300 volts, the laboratory walls resound as if pounded by  $S$ . After 315 volts the pounding ceases and no further answers are given by  $S$  (Fig. 8.1a, situation 1).

2) In the “voice feedback” setting,  $S$  is again in an adjacent room but his complaints can be heard by the teacher (Fig. 8.1a, situation 2).

3) In this setting  $S$  is in the same room as  $I$  which gives the possibility of visual contact (Fig. 8.1b, situation 3).

4) In this situation  $S$  and  $I$  sit side by side. At the 150 volt level,  $S$  refuses to place his hands on the shock plates (schematized by the black rectangles in Fig. 8.1b (situation 4). The experimenter then orders  $I$  to force the subject’s hand on the plate. In this way, the experiment leads to a physical contact between  $I$  and  $S$ .

5) This setting is similar to the previous one except that  $E$  is no longer in the same room and gives his instructions by telephone (Fig. 8.1 c, situation 5).

Fig. 8.2 shows that the percentage of people who accepted to carry the experiment to its termination (i.e. 450 volts) decreases when the “proximity” between  $I$  and  $S$  increases. The experiments (especially 4 and 5) also suggest that there is a competition effect between the respective influences of  $E$  and  $S$  on  $I$ . This conflict is shown very

clearly at some critical junctures in the course of an experiment by the exchanges taking place between the three persons. Consider for instance the following dialog which occurs after a 190 volt had been delivered (Milgram 1974).

*S* (yelling): Let me out here. My heart is bothering me.

*E*: The shocks may be painful but they are not dangerous. Continue please.

*I*: You see he is hollering. No Sir, I'm not going to kill that man.

*E*: The experiment requires that you go on.

*S*: I absolutely refuse to answer anymore. Get me out.

*E*: If the subject does not answer in a reasonable time, about 4 or 5 seconds, consider the answer wrong. Continue, please.

The dialog indicates that *I* is torn between the pleas of *S* who wants him to stop and the demands of *E* who encourages him to continue. The experiment provides a way for estimating the respective strength of these links. As often in the social sciences the main problem is to minimize the “noise”. In this respect one must recall that the same instructor could not be used twice for after the experiment he (or she) is told about the real meaning of the experiment. As different instructors do not have the same reactions, the *ceteris paribus* condition can only be fulfilled on average for a sufficiently large set of instructors. Milgram indicates that 40 adults were studied in each of the settings schematized in Fig. 8.1<sup>2</sup>. It is because it is based on a large sample of experiments that the graphic in Fig. 8.2 is not completely obscured by variability and noise. If there had been only 5 experiments in each situation, the noise due to individual variations, would be too large to show any definite pattern.

There is one point which remains somewhat unclear, namely the exact signification of the horizontal scale in Fig. 8.2. In his book of 1974, Milgram labels this axis as showing “increasing proximity”. But how should the term “proximity” be un-

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<sup>2</sup>This means that  $5 \times 40 = 200$  experiments were carried out. If each experiment took about 3 hours (one hour for the experiment itself, one hour for the debriefing of *I* and one hour to record the results) this represents about 30 weeks of experiments. Moreover, the aspect considered in Fig. 8.1 was only one of the facets studied by Milgram's team. At that time Milgram was an assistant professor at Yale; it is remarkable that he got the funding to carry out such an ambitious project.

derstood exactly? The simplest interpretation would be spatial proximity. It is true that between situations 1 and 4 the distance between  $I$  and  $S$  decreases, but this is clearly not the main factor. The real difference is the fact that the interaction becomes stronger because it is channeled through more and more means of communication: (i) almost no audio contact (ii) audio contact (iii) audio and visual contact (iv) audio, visual and physical contact. However, in contrast to distance, these conditions cannot be expressed numerically. Thus, in a sense, the way the different situations are arranged on the  $x$ -axis relies to some extent on common sense knowledge. In physics the strength of an interaction can be expressed in joules. Fig. 8.2 is certainly a big step in the right direction but it does not provide a completely objective picture. In subsequent questions we give several historical illustrations of Milgram's law.

### 3 Effects of absentee ownership in Ireland

In mid-nineteenth century, during Queen Victoria's reign, Britain was the world's dominant power. British goods were shipped in British ships to all parts of the Empire as well as to the rest of the world. Yet, Ireland was in a state of backwardness which it is difficult to fathom nowadays. Alexis de Tocqueville describes Ireland in the following terms (Tocqueville 1835).

The bed of a torrent seemed to be the only street in the village. I could not help remarking what I had seen so many times in Ireland. All the houses were of sun-backed mud made into walls to the height of a man; the roofs were made of thatch that was so old that the grass which covered them could not be distinguished from the grass of the neighboring hillsides. The houses had neither windows nor fireplaces. Light came in and smoke went out through the door. Inside a tiny peat fire burned slowly between four flat stones.

In 1875 the literacy rate (ratio of pupils to population of the 5-14 age group) was 32% as compared to 75% in France and Germany (Flora 1983, p. 583,592,597). As

one knows the period from 1835 to 1880 was marked by a series of famines which through malnutrition, disease, evictions, and immigration reduced the population of Southern Ireland (that is to say the population which now forms the Republic of Ireland) from 6.53 millions in 1841 to 2.97 millions in 1926<sup>3</sup>. The demographic catastrophe may have been the consequence of a combination of several factors, but the state of backwardness can be traced back to the absentee landlord system. This statement is based on the fact that it produced similar results in all countries in which it dominated, e.g. Tsarist Russia <sup>4</sup>, British India, Spanish Latin America and in a general way most colonies. Why does the absentee landlord system produce poverty and stagnation? The poverty is brought about by the capital drain and the stagnation arises from the segmentation between ownership and management. An illustration of the first effect is provided by the capital drain in Ireland. As one knows the big landowners of Irish estates spent most of their time in England. The resulting annual capital drain between 1700 and 1773 was estimated at around one million pounds (Lecky 1892). To put this figure in perspective one should recall that in 1735 the public income of Great Britain was 5.6 million pounds (Mitchell 1971, p. 387).

The second effect is more subtle. As will be seen in the next section, the segmentation prevents the system from working properly and effectively.

## 4 Effect of segmentation on the effectiveness of a social system

By the expression “social system” we mean an organization which is set up to fulfill a given role. To begin with, we consider again the case of landowners and tenants. As the estates of absentee landlords are put in the hands of stewards it is not immediately obvious why this system should not work. After all the steward has the knowledge,

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<sup>3</sup>Some historians asserted that with a population of 6.5 millions, Southern Ireland was obviously overpopulated. However, at 95 people per square kilometer, its population density was smaller than the one in Northern Ireland (121 per sq kilometer) or of England and Wales (106 per sq kilometer).

<sup>4</sup>By a twist of irony, several revolutionaries were themselves absentee landlords. A case in point is Alexandra Kollontai who held important positions after the Revolution of 1917. Although she never set foot on her domain, it is thanks to its revenue that she was able to travel throughout Europe, devoting all her energy to the destruction of the social order on which her own livelihood rested.

the authority and capacity to carry out a sound management. Why should this kind of administration lead to stagnation? The following episode (Mingay 1956) gives an inkling of the kind of behavior which spoils the relationship between landowners and their stewards.

Sir Jacob's estates in Kent totaled 1,200 hectares and brought in some 1,000 pounds a year. Although he was an absentee landlord who spent most of his time in London, Sir Jacob nonetheless exercised a close supervision over the way his steward managed the estate. The steward was constantly instructed to inspect the farms, to keep down the rent arrears and on occasion to canvass those tenants who had the right to vote<sup>5</sup> in favor of the parliamentary candidates supported by Sir Jacob's faction. One episode gives an insight into Sir Jacob's damaging and inept interferences. The estate included the fishing town of Folkestone and in 1720, a February gale destroyed the harbor breakwater. Large rocks from the breakwater were washed on the beach preventing fishermen from launching and beaching their boats. Sir Jacob's response was to offer the fishermen a tub of strong drink if they would put the stones back themselves. This offer, the fishermen evidently regarded as utterly inadequate. Henry Barton, the steward replied that they were clamorous for more assistance and explained that the rocks could only be secured in position by large timbers. Sir Jacob received this opinion with indignation and felt that the tenants and the steward encroached on his sphere of authority as "the lord of the estate".

One might think that presenting one case is not sufficient for making the point. However, the bottom line is that for such a system to work well one must assume landowner and steward to behave in a way which is highly unlikely. The system could work if the landowner has total confidence in his steward and if the steward is totally honest and competent. However, in such a situation the steward is not subject to any control at all: there is no control from below because the tenants have no say anyway and there is no control from above because the landowner does not interfere.

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<sup>5</sup>By 1730 the effective number of voters in parliamentary elections represented about 1% of the population.



Observation shows that this is a very unstable equilibrium which can be broken by any exogenous factor for instance an opportunity to earn extra revenue.

It takes only a small stretch of imagination to draw a parallel between the previous situation and the one corresponding to Milgram's experiment. More specifically the correspondence would be as follows: Landowner  $\longleftrightarrow$  Experimenter, Stewart  $\longleftrightarrow$  Instructor, Fishermen  $\longleftrightarrow$  Subject. The experimenter's only objective was to carry out the experiment at all cost and he pursued it stubbornly. Similarly, Sir Jacob's only objective is to keep expenses down and to collect all the rent. Although in appearance he seems to have some control over the subject, the instructor is in fact pitifully powerless, squeezed as he is between the demands of the experimenter and the feelings inspired by the subject. Similarly we see that the steward is torn between the incessant but largely irrelevant demands of the landowner and the representations of the fishermen. The system does not work because the landowner has the power without the knowledge whereas the steward has some knowledge but little power; moreover, the tenants are poorly motivated because they have almost no say in their own affairs and know that very little of the money they may earn will remain in their hands anyway<sup>6</sup>.

It could be argued that the landlord in our example was particularly inept and that the system may work better with more sensible landlords. After all the landlord  $\longrightarrow$  steward  $\longrightarrow$  tenants hierarchical structure may seem similar to the command structure in an army. Is it not possible to consider the landowner as a colonel, the steward as a lieutenant and the tenants as soldiers? The following observations show that there are fundamental differences between the two situations.

- The colonel has superior knowledge of the tactics that should be used against the enemy. He knows their strength, fire power, means of observation. Moreover, in most armies, he started his career as a lieutenant. In some armies officers are even

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<sup>6</sup>For instance in Ireland the efforts of the tenants to increase the yield of their land were discouraged by the threat that any increase in yield and land value would bring about a rent increase.

required to serve as soldiers for a while. In short, the colonel has the capacity to give adequate and effective orders.

- On the contrary, the absentee landlord does not know anything about farming or fishing. The only language that he understands is in terms of expenditures, income, debt, profit, etc. The same observation holds for investment funds, the modern analogue of the absentee landlords. As of 30 June 2005 State Street Corporation owned 11.2% of the shares of Boeing<sup>7</sup> but State Street executives do not hold engineer degrees in aeronautics. One could argue that the ability to read Boeing's balance sheet is sufficient to implement the most cost effective options. That may be true as far as incremental innovations are concerned but not for major innovations. When Boeing started the 747 project in the 1970s it was a giant leap into the unknown. As one knows the project was an outstanding success, but the number of uncertainties (e.g. the price of oil, the rate of market development, the needs of passengers, etc.) was just too large to authorize definite predictions of success or failure.

- In the most effective armies the officers and even the generals lead their troops in battle. At the battle of Austerlitz (2 December 1805) 14 French generals were killed or wounded (1 killed, 13 wounded). At the battle of Waterloo (18 June 1815) 12 generals were killed or wounded (2 killed, 10 wounded) on the side of the Allies and 34 generals were killed or wounded (7 killed, 27 wounded) on the French side (Bodart 1908, p. 369, 487). These figures clearly show that the parallel between generals and absentee landlords is not correct.

## **5 Hardship as a side effect of absentee landlordism**

In the episode presented above, the landlord and steward do not harm the tenants directly. In Ireland, it was a completely different situation. It has been estimated that over 250,000 people were forcibly evicted between 1849 and 1854. While

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<sup>7</sup>In fact 67% of the shares were in the hands of investment funds; State Street Corporation was the largest shareholder but other funds such as AXA, Capital Research and Management or Barclays Global Investors were also important shareholders.

the 1850s marked the climax of the crisis, the evictions continued in subsequent decades. Between 1879 and 1881 there were annually 11,000 evictions. In 1880 the Irish Catholics owned less than 5% of the land while 48% was held by the 1% top landowners. The Gini coefficient  $g$ <sup>8</sup> of the concentration of land property was equal to 0.93, a level rarely seen elsewhere in the world (Guiffand 1989, Roehner and Rahilly 2002). The way the evictions were carried out is of interest from our perspective in this chapter. Under a law passed in 1847, called the ‘Gregory Clause’ no tenant holding more than half an hectare of land was eligible for public assistance. Once tenants were formally evicted, the standard practice of the landlord’s bailiffs was to level or burn the dwellings as soon as the tenants effects had been removed. As gesture of good will, the British Parliament passed a law which made it a misdemeanor to demolish a dwelling while the tenants were inside and prohibited evictions on Christmas Day and Good Friday (Campbell 1995, Donnelly 1995, Poirteir 1995). Usually, the evictions took place in the presence of a large number of Irish people and under the surveillance of a massive force of constabulary and military. The following excerpt from the *Times* (15 June 1887, p. 12) suggest the bitterness of the rift between the two parties.

The eviction involved a constabulary force of about 100 men preceded by a guard of Royal Welsh Fusiliers. Colonel Turner, the commanding officer, announced that he would deal very decidedly with any persons obstructing the police or throwing hot water on them.

Broken down by privation and exposure to the elements, the evicted people died by the roadside or tried to seek refuge in a work house. In an effort to “solve” the problem on his estates, Lord Palmerston resorted to forced emigration. In October 1847, his bailiffs put 177 of his tenants on a ship bound to Canada. The immigrants were so undernourished and poorly clothed that over a quarter of them died during

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<sup>8</sup> $g = 0$  corresponds to the case when all individuals own the same share of land while  $g = 1$  corresponds to the situation in which one landowner owns the totality of the land (with the remaining people being deprived of land). In 1880 the distribution of landownership in Ireland was remarkably close to this situation.

the voyage.

From top to bottom, government, Parliament, landlords, stewards, bailiffs, constabulary and military seem to have acted in a particularly ruthless way. Nowadays, such abuses would probably qualify as crimes against humanity. But, just as the instructors who inflicted 450 volt shocks in Milgram's experiment, this behavior can best be explained by a total lack of interaction between the Irish Catholics and the British. Although in England, the antagonism between Catholics and Anglicans had lost a good deal of its earlier bitterness, in Ireland the gulf between the two communities was wider than ever. This is shown in a qualitative way by numerous testimonies. In 1835, a lawyer in Dublin declared to Tocqueville: "Believe me when I say that I have dined only once in the house of a Catholic and that was by accident. Even for Catholics who become rich, Protestants cannot bear to see them on the same footing". It is remarkable that these lines were written almost a decade before the beginning of the great crisis. Other examples of an absence of interaction in similar situations can be found in Roehner and Rahilly (2002, p. 227-229).

## **6 The absentee landlord paradigm in history**

It is not possible within the limits of this chapter to give a systematic account of the role played by the absentee landlord paradigm. We will restrict ourselves to mentioning a few typical cases.

- Collectively, through its dignitaries and monasteries, the Church was a major absentee landlord. In France before the Revolution, the Church owned about 15% of the land, in Bavaria the monasteries were lords to 28% of all peasants. It is estimated that across Catholic Europe, monasteries owned about 10% of the land (Beales 2003, p. 3). Landownership by the Church was not specific to Catholic countries but was also common in Anglican countries particularly Britain and Canada (see Wade 1832), in Islamic countries (see Keddie 1981, Clot 1990) or in Buddhist countries (for the case of Japan see Mason and Caiger 1973).

- Dukes, counts, earls and other members of the high aristocracy possessed huge estates. In 1780 the estates of the Duke of Orléans who was the king's cousin, represented a total area of 24,000 square kilometers which amounted to 5% of the territory of France (Lever 1996, p. 237). These estates were a mosaic of lands which were acquired, sold or transferred (e.g. through inheritance or dowry purposes) together with their tenants.

- The absentee landlord system was to be found in most colonies, including in some parts of the Thirteen American colonies. For instance, the colony of Maryland was given to George Calvert, Lord Baltimore, by King Charles I in 1632. In addition to Maryland the colony also covered at that time a part of Delaware and Virginia. Frederick Calvert (1731-1771), the 6th Lord Baltimore, was proprietor of Maryland from 1751 until his death at Naples in Italy but never set foot on the soil of his American estate. In 1663, King Charles II gave a large track of land including present-day North Carolina to some of his friends: General George Munck, Sir George Carteret who was one of the wealthiest men in England, Sir William Berkeley who had been a ruthless governor of Virginia. Only William Berkeley ever set foot on Carolina soil.

- In Russia since Peter the Great all male members of the Russian nobility had to serve in the military or civil service without regard for individual preference; moreover, whatever their rank in the nobility they could not immediately obtain a high level position. During his 6-month reign (1762) abolished this service obligation; as a result, the the aristocracy became even more estranged from the rest of the society.

- The notion of absentee ownership can be extended to the case where foreign landlords control the financial resources of a region or of a whole country. For instance, in the second half of the nineteenth century the Chinese Maritime Customs revenues were collected by the British. The fact that many railroads were owned by foreign companies also contributed to the control of the economy by the different foreign powers who were granted economic privileges and concessions. As one

knows, this form of economic colonialism eventually led to a long period of civil wars in which warlords backed by competing foreign interests opposed one another. (Goetzmann and Ukhov (2001), Treat (1928)).

The fact for a landowner not to visit his estates cannot be regarded as an absolute proof of a lack of interest. In the next section we define another criterion which applies particularly to settler colonies.

## **7 Assessing interaction in settler colonies**

In the previous sections we argued that a lack of interaction between rulers and their subjects has two concomitant effects. (i) It makes the ruler insensitive to the suffering of the subjects (ii) It prevents the ruler from developing an understanding of the problems faced by his subjects. Previous historical examples suggested that, apart from the hardships suffered by the subjects, the most obvious consequence of this lack of interaction is technical stagnation and economic decline. So far, however, we did not offer an objective criterion for measuring the strength of interaction. This is difficult at the level of individual landlords but can be done for a large population of landlords which is why, in this section, we are mainly interested in settlement colonies. Such situations involve two different populations which makes it possible to use the criterion of intermarriage rates. A low intermarriage rate between settlers and the rest of the population points to a weak interaction and therefore signals a situation in which the absentee landlord syndrome may play a role. On the contrary, high intermarriage rates suggest a situation in which the settlers have been able to blend into the population. It is well known that in Ireland, due to the Penal Laws, marriages between Roman Catholics and Anglicans were almost impossible. In what follows we illustrate the application of the intermarriage criterion by examining two very different cases: the colonization of the French province of Normandy by the

Vikings and the colonization of Mexico by the Spanish<sup>9</sup>.

## 7.1 Colonization of Normandy by the Vikings

From the 8th to the 10th century, the Danes were known as Vikings. Together with Norwegians and Swedes, they colonized, raided and traded in all parts of Europe. The Vikings temporarily conquered parts of England, known as the Danelaw and France, giving name to the French region of Normandy (Normandy comes from the French word *Normands* which designates the Vikings). Their raids in the Seine valley lead them to Rouen and Paris. For instance, in 841 the city of Rouen was burnt down and important monasteries were looted, ransacked or held to ransom. In 845, Ragnar Lodenbrok besieged Paris with 120 ships and 5,000 warriors. The king Charles the Bald agreed to pay them 3,500 kilograms of silver in order to spare the city. Looting, burning and extorting ransoms is a standard behavior of invaders. Hernan Cortes's conduct in Mexico was not different<sup>10</sup>. After 880 the Viking presence in the Seine valley had become permanent. The monks had to flee from the region seeking refuge deep in the countryside. Other Viking groups had similarly settled in England or Ireland. In parallel with what happened in Latin America, the outcome could have been a Viking empire with its center in Copenhagen. In many respects the parallel makes sense. For instance the numbers of the Viking conquerors were of the same order of magnitude with respect to the population as in Mexico or Peru and they had an obvious military supremacy. Yet, this did not occur. All of a sudden, something rather unexpected happened. In 911, Rollon the leader of the Viking colony started negotiations with the king, Charles the Simple, in order to formalize his sovereignty which already existed de facto. This move resulted in the treaty of Saint-Clair-sur-Epte in which the king gave up to the Vikings a territory extending from Rouen down to the sea. In return Rollon accepted Christianity and agreed to

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<sup>9</sup>In so doing we follow once again the methodology of the extreme value technique introduced in an earlier chapter.

<sup>10</sup>Even more recently, the behavior of the Allied forces which invaded Peking during the Boxer War in 1900 was very similar.

marry the king's daughter Gisla. In 918 he married her in a Christian ceremony. Not only was his son Guillaume baptized and raised by clerics but even the children he had had from a previous marriage with a Viking wife were also baptized. In short, the Vikings blended with the natives and adopted their religion. Their customs and language got mixed with local usage. The Scandinavian linguistic influence is still to be found in numerous Norman place names with endings such as —tot (farm), —thuit (cleared area), —bee (stream), —hogue or —hague (hill) or in family names such as Burnouf, Thouroude, Yngouf.

## **7.2 Colonization of Mexico by the Spanish**

The conquest of Mexico by Hernan Cortes started very much in the same way as the conquest of Normandy by the Vikings. First, as we already mentioned, there was a phase of plunder. In a second phase Cortes took a native wife and learned the Aztec language. Several of his companions followed his example and intermarriage remained the rule until 1529. At this time, Cortes came back to Spain where, mainly for political reasons, he had to take a wife in the Spanish nobility. This marriage allowed him to keep his estates in Mexico but in 1542 the ownership of the domains of the conquistadors was transferred to the Crown. Many other things changed at the same time. The Franciscans who had been favored by Cortes and had developed fairly close ties with native people were replaced by the Dominicans who had a much more rigid approach; it should be remembered that the Dominican Order was closely associated with the establishment of the papal inquisition. Not only did Cortes never adopt the religion of the Aztec but on the contrary the Spaniards demanded that the idols be removed and that shrines of the Virgin Mary be set up in their place. In short, 23 year after the conquest of Tenochtitlan, the Aztec capital of Mexico, the country became dominated by absentee landlords.

The Spanish conquest of other Latin American colonies followed the same pattern. As a matter of fact, when Nikolaus Federmann (in Venezuela), Francisco Pizarro (in



Peru and Bolivia) and Hernan Cortes came into contact with the peoples of Latin America, they found vibrant civilizations characterized by impressive architectural achievements and whose craftsmanship made the admiration of Spanish courtiers when they discovered the magnificent items sent back by the conquistadors. Unfortunately, after the conquest the Inca and Aztec civilizations withered, regressed and eventually collapsed. The role played in this process by absentee ownership becomes more evident when one realizes that the main objective of Federmann, Pizarro or Cortes was not military conquest and settlement but, as stated in a letter of Charles V to Cortes dated June 26, 1523, “to extract rents from the new territories” (Duverger, 2001). Actually, the territory of New Granada which corresponds approximately to present-day Venezuela, was granted by Emperor Charles V to the Welsers, the great Augsburg banking firm to which he was heavily indebted. Federmann was an agent of the Welsers and their government was marked by ruthless exploitation of the Indians (Langer 1968, p. 529). These objectives were very different from the goals pursued by the Vikings in Normandy.

How can one explain that the behavior of the Spaniards was so different from the attitude of the Vikings? Perhaps the main reason is that the Vikings were not backed by a powerful state as were the Spaniards. In this respect it is striking to see that even as they were 5,000 kilometers away from their country, the conquistadors remained in contact with the king and the court. They appealed to the king to settle their disputes about borderlines, the king granted charters which set the respective rights of the conquistadors and of the king (both Pizarro and Cortes returned to Spain to seek more favorable charters). The conquest of the Philippines followed a similar pattern. This explains the remark made by General MacArthur about estates in the sugar region being owned by landlords in Madrid.

The explanation that we put forward may seem plausible, but the examination of other cases calls it into question. Nobody would deny that the Roman Republic and Empire were strong states. Yet, the policy of the Romans after their conquest of the

Gaul was very different from Spanish policy in Latin America. There is a famous speech made by Emperor Claudius in 48 AD in which he asks whether or not people from the provinces (i.e. from outside Italy) should be admitted to the Senate. It is reported by Tacitus (Book 11, chapters 23-24) in the following way.

You say: isn't an Italian senator preferable to a provincial one? If you consider all our wars, none lasted a shorter time than the one against the Gauls, and now that they have been assimilated by our customs, our culture and by intermarriage with us, let them bring their gold and wealth here. Look at that most splendid and prosperous colony of Vienne [a city in Gaul, 30 kilometers south to Lyons] and for how long it has supplied senators in this senate house. From this colony comes Lucius Vestinus, that adornment of the equestrian order [the equestrian order was somewhat similar to the British gentry that is to say a nobility which was based on merit as well as on birth].

Not only was intermarriage well accepted, but the Gauls were admitted in the highest ranks of the Roman nobility. On the contrary, in Latin America and in Ireland it is segregation which dominated. This is well illustrated by the Statute of Kilkenny (1367); the following excerpt is very explicit in this respect.

Now many English of the said land [Ireland] forsaking the English language, manners, mode of riding, laws and usages, live and govern themselves according to the manners, fashion and language of the Irish enemies. It is ordained and established that no alliance by marriage, gossipred [i.e. sponsoring a child at baptism], fostering of children [i.e. being brought up in the household of another family] or concubinage nor in any other manner, be henceforth made between the English and Irish. Is is agreed and established that no Englishman be governed by Brehon law. If any do the contrary, he shall be taken and imprisoned and adjudged as a traitor.

These sentences are really surprising. If the Statute is not a forgery (a possibility

that should not be discarded too quickly), it is really difficult to understand what motivated such a strong language. It can be noted that the first Penal Laws against the Catholics were enacted in 1559 (Act of Supremacy and Uniformity) that is to say more than two hundred years later. In a sense the Penal Laws continued the tradition set by the Kilkenny Statute with the difference that the Statute was based on ethnicity whereas the Penal Laws were based on religion. Of course, we do not know to what extent the Kilkenny status was enforced nor do we know whether the picture drawn by Claudius really reflected the reality. However, these records seem to reflect two very different and almost opposite conceptions.

## **8 Revolutions seen as a way to end absentee landlordism**

We already noted in a previous chapter that in a general way successful revolutions tend to increase social interactions in particular by removing major obstacles to the establishment of bonds between various categories of citizens. It is not surprising therefore that one of the main purposes of revolutions is to get rid of absentee landlords. This is illustrated by the following examples.

- In many countries the Reformation brought about major changes in the distribution of power and wealth in particular by the confiscation of ecclesiastical property. A list of cases for 10 European countries can be found in Roehner and Syme (2002, p. 119).
- A major outcome of the American Revolution was the confiscation of the property of Loyalists. It is true that not all Loyalists were absentee landlords, but probably all absentee landlords were Loyalists. As we have seen earlier, in 1772, members of the British aristocracy were in possession of vast estates.
- Two of the first moves of the French Revolution was to abolish rights of feudal lords and to confiscate the landed property of the Church.
- The insurrection which eventually led to the independence of Ireland marked the end of the power of the absentee landlords. It is true that there had been a land

reform in 1903 but it resulted in a long-term debt that tenants had to repay over several decades. After independence, the remaining debt was unilaterally canceled by the Irish government.

- The expropriation of Japanese absentee landlords after World War II was a landmark reform which probably would not have been possible without the support of the occupation forces; this is why it can be seen a revolutionary move.

In all these cases, ending the privileges of absentee landlords brought about more than social justice; it also improved economic efficiency and social cohesion.

## **9 Present-day manifestations of the absentee landlord syndrome**

Are there situations of absentee ownership in the industrialized countries of the twentyfirst century? We already mentioned the role played by investment funds as major shareholders in big corporations such as Boeing. The purchase of major industrial companies by investment funds brings us even closer to the standard absentee landlord situation. An example chosen almost randomly in the Wall Street Journal (29 Nov 2005, p. 2) is described in the following announcement.

The Danish telecommunication operator TDC is close to an agreement to be bought by a consortium of five private-equity funds [of which two are British and three are American] for roughly \$ 12 billion. The chairman of the TDC board declared that the bid was found very attractive by the shareholders.

Unions on the contrary, expressed their worries about the company's future. Many feared a scenario in which the consortium would break up TDC, set up separate subsidiaries and sell them (with a profit) to various telecommunication competitors.

As explained earlier, when companies are controlled by absentee owners incremental innovations are preferred to bolder and more risky ones. In some industries this can lead to satisfactory financial returns, but in the long-run it seems to be a good recipe

for technological stagnation. At present this is no more than a prediction. One will have to wait for further evidence to see if the lack of interaction will produce the same results than those described in this chapter.

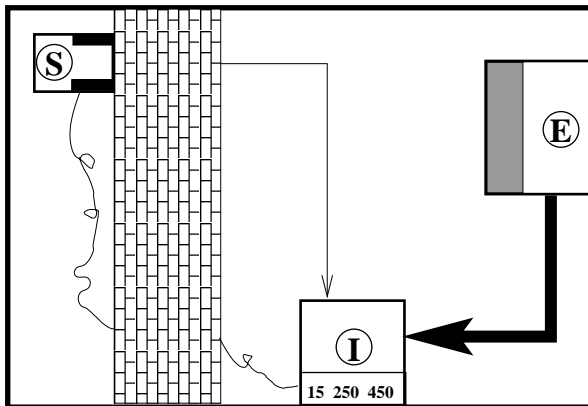
Different forms of the absentee landlord paradigm are summarized in Fig. 8.3. Establishing a connection between cases which at first sight seem to have little in common is a first step in proposing a comprehensive theory.

If one combines the mechanism described in the present chapter with the trend delineated in chapter 6 one gets the picture of more and more segmented countries and societies. In the age of globalization this may at first seem a paradoxical statement. Yet there are strong trends which point in this way: (i) The increasing remoteness, detachment and disconnection observed between ownership and employees, as documented in the present chapter. (ii) The fact that corporations are becoming less and less subject to oversight and accountability by the states (iii) The fact that, thanks to the growing role granted to tax havens<sup>11</sup>, the contribution of corporations to state income is dwindling. The normal outcome of these tendencies may be a kind of new Middle Age. It should be noted that the segmented structure of Europe in the Middle Age in fact favored globalization in particular through the dynastic connections which existed between members of the European aristocracy.

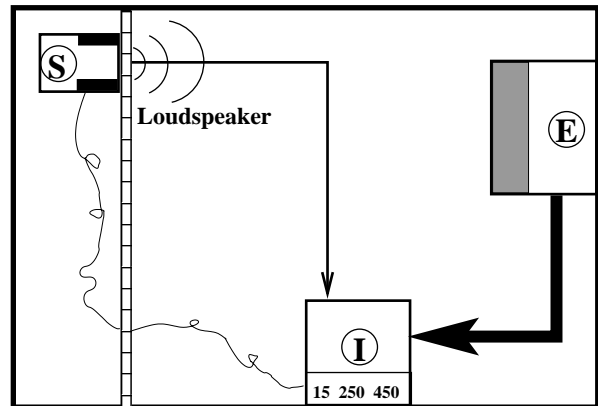
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<sup>11</sup>During the period 1980-2002 the volume of bank deposits held offshore has risen from virtually nothing to \$ 11,000 billion (Observer 17 Nov. 2002). By 2002 almost all major international transactions involved capital movements through tax havens for purposes ranging from confidentiality and secrecy to tax evasion.

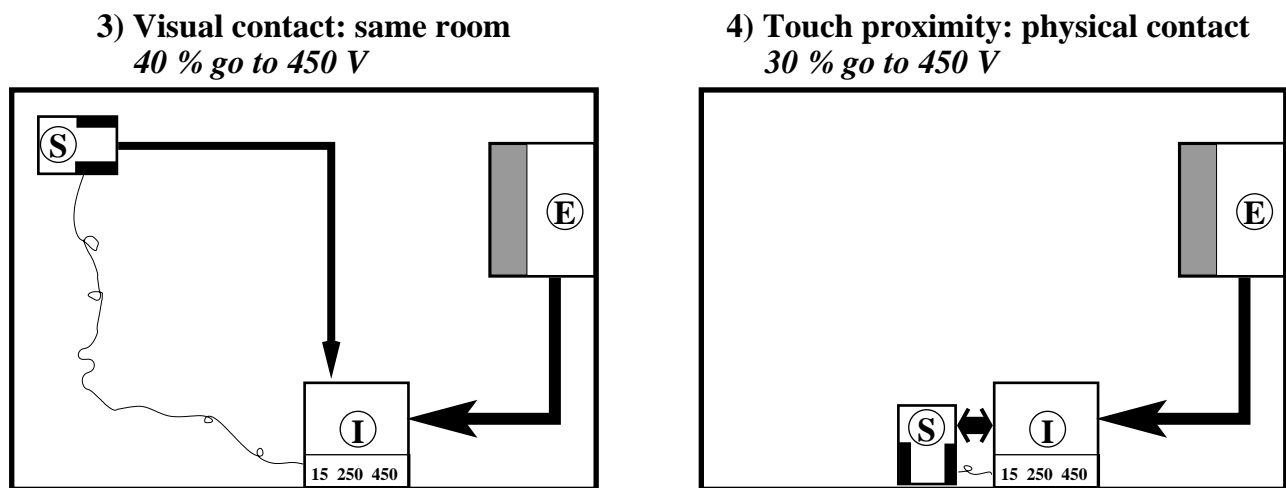
**1) Remote: no vocal complaint is heard**  
**65 % go to 450 V**



**2) Voice feedback**  
**62 % go to 450 V**

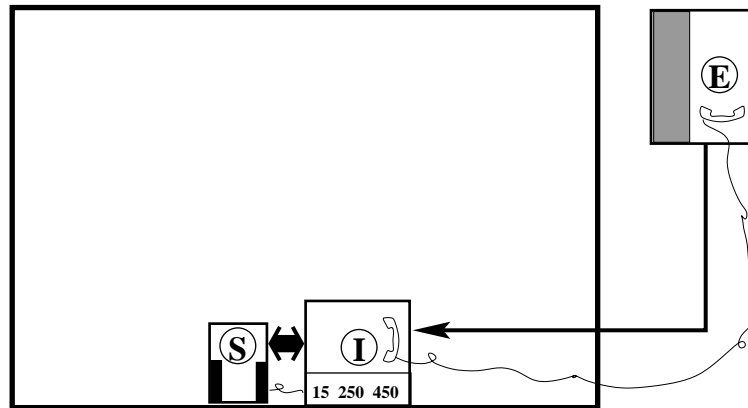


**Fig. 8.1 a Milgram's obedience experiment: situations 1 and 2** E: experimenter, I: instructor, S: subject. In situation 1, the instructor and the subject are in two completely separated rooms without any  $S \rightarrow I$  communication; the subject's answers are transmitted by an electric wire. In situation 2, they are also in separated rooms but  $I$  is able to hear the reactions of  $S$ . *Source: Milgram (1974)*



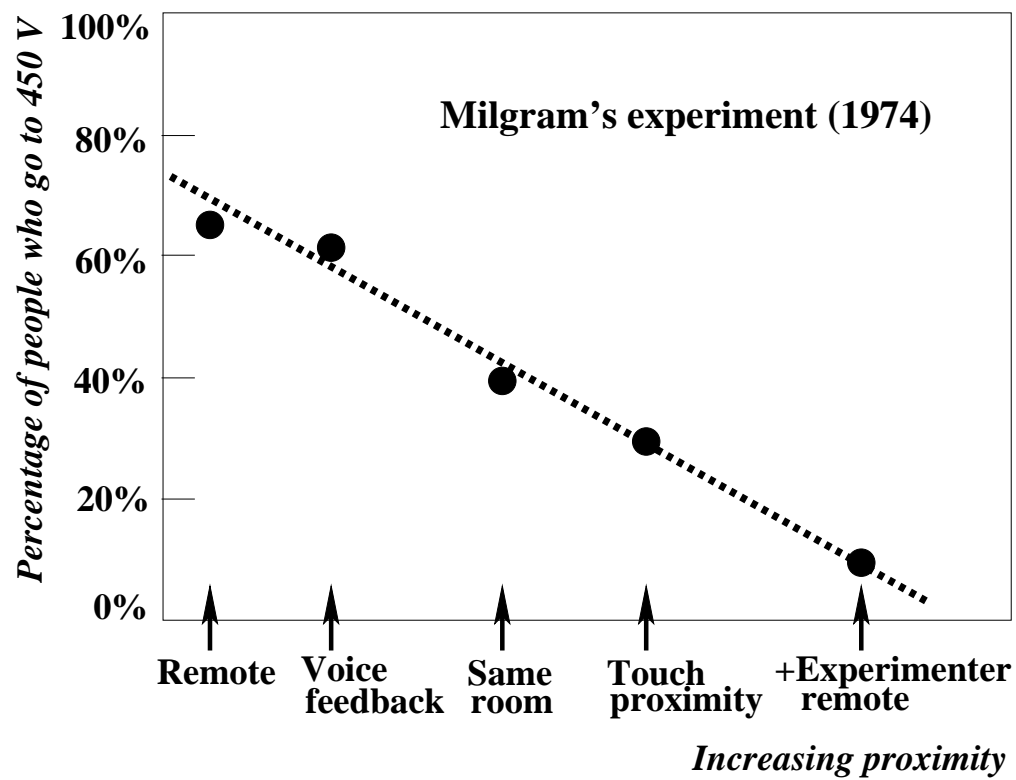
**Fig. 8.1 b Milgram's obedience experiment: situations 3 and 4** E: experimenter, I: instructor, S: subject. In situation 3, the instructor and the subject are in the same room but several meters apart. In situation 4, they are close enough to touch one another. *Source: Milgram (1974)*

**5) Touch proximity + experimenter remote**  
*10 % go to 450 V*

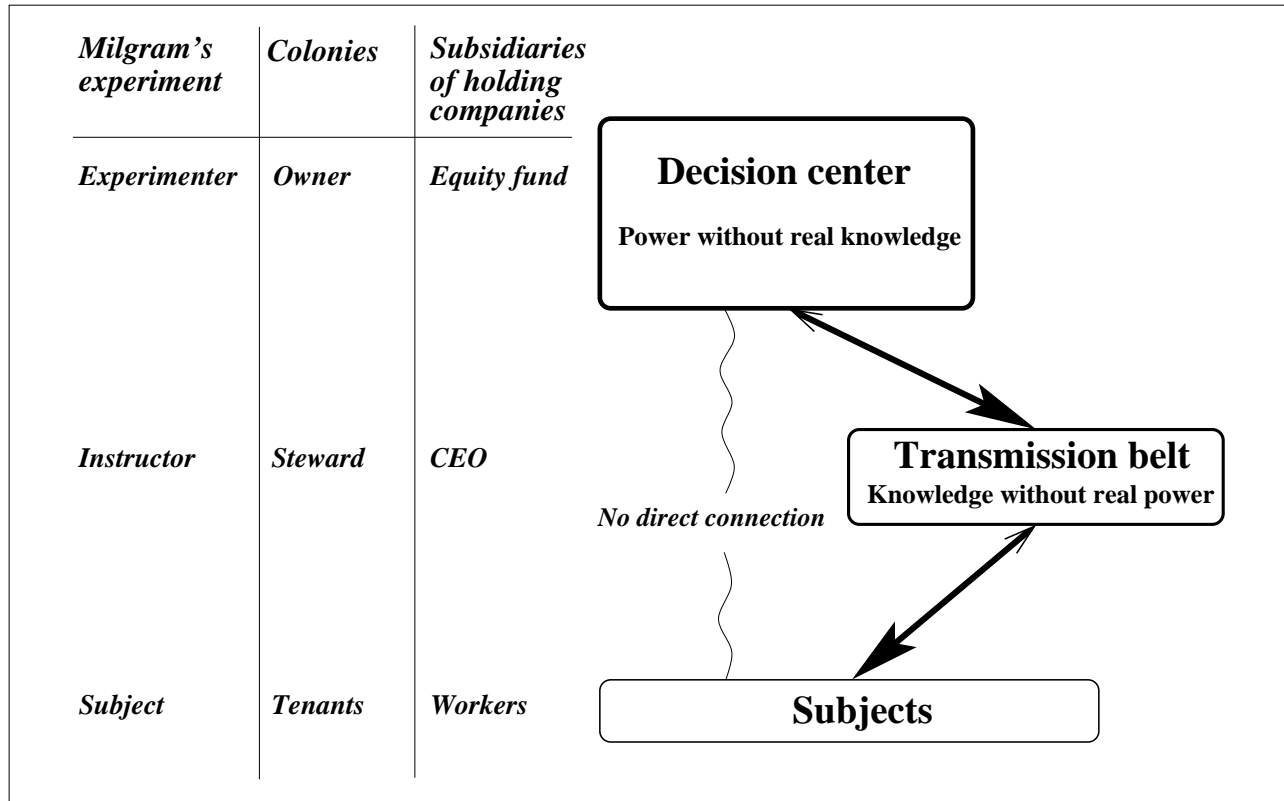


**Fig. 8.1 c Milgram's obedience experiment: situations 3 and 4** E: experimenter, I: instructor, S: subject. Situation 5 is identical to situation 4 except that the experimenter is in a separated room. Source: Milgram (1974)





**Fig. 8.2 Percentage of instructors who inflict 450 V shocks.** The five data points correspond to the five experimental settings described in Fig. 8.1a,b,c. For each situation the vertical scale gives the percentage (based on a sample of 40 different instructors) of those who pushed the experiment to its conclusion. *Source: Milgram (1974)*



**Fig. 8.3 Milgram's experiment and two different embodiments of the absentee landlord paradigm.** Milgram's experiment demonstrate that the remoteness between the decision center (experimenter and instructor) and the subject makes the former more indifferent to the suffering of the later. In addition, the absence of connection makes any bottom-up feedback impossible.