

POL201Y1: Politics of Development

Lecture 7:

Institutions

Institutionalism

Announcements

- Library session:
 - Today, 2-3.30 pm, in Robarts 4033
 - Attendance is mandatory
- Kevin's office hours:
 - Tuesday, 13th June, 1.30-2.30 pm, in either SS 3058 or PoliSci Lounge
- Volunteer notetakers needed by Accessibility Services

Recap

- ~~Modernization~~
- ~~Neoliberalism~~
- Geography
- History, including colonialism / imperialism →
- *Exploitation / dependency*

Recap

- Geography: why does it matter?
 - Easterly and Levine: “tropics, germs, and crops affect development through *institutions*”
 - Easterly, William, and Ross Levine. 2003. “Tropics, germs, and crops: how endowments influence economic development.” *Journal of Monetary Economics* 50 (1): 3-39.
- History: why does it matter?
 - *Exploitation* → *dependency / underdevelopment theories*
 - Institutions

Institutions

- "Stable, valued, recurring patterns of behavior"
 - Huntington, Samuel. 1968. *Political Order in Changing Societies*. New Haven: Yale University Press.
- "Humanly devised constraints that structure political, economic, and social interaction"
 - North, Douglass. 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.
- "*First*, an institution is a set of rules that structure social interactions in particular ways. *Second*, for a set of rules to be an institution, knowledge of these rules must be shared by the members of the relevant community or society."
 - Knight, Jack. 1992. *Institutions and Social Conflict*. Cambridge: Cambridge University Press.
- "Rules of the game"
 - North, Douglass. "Institutions and Credible Commitment." *Journal of Institutional and Theoretical Economics (JITE) / Zeitschrift Für Die Gesamte Staatswissenschaft* 149, no. 1 (1993): 11-23.

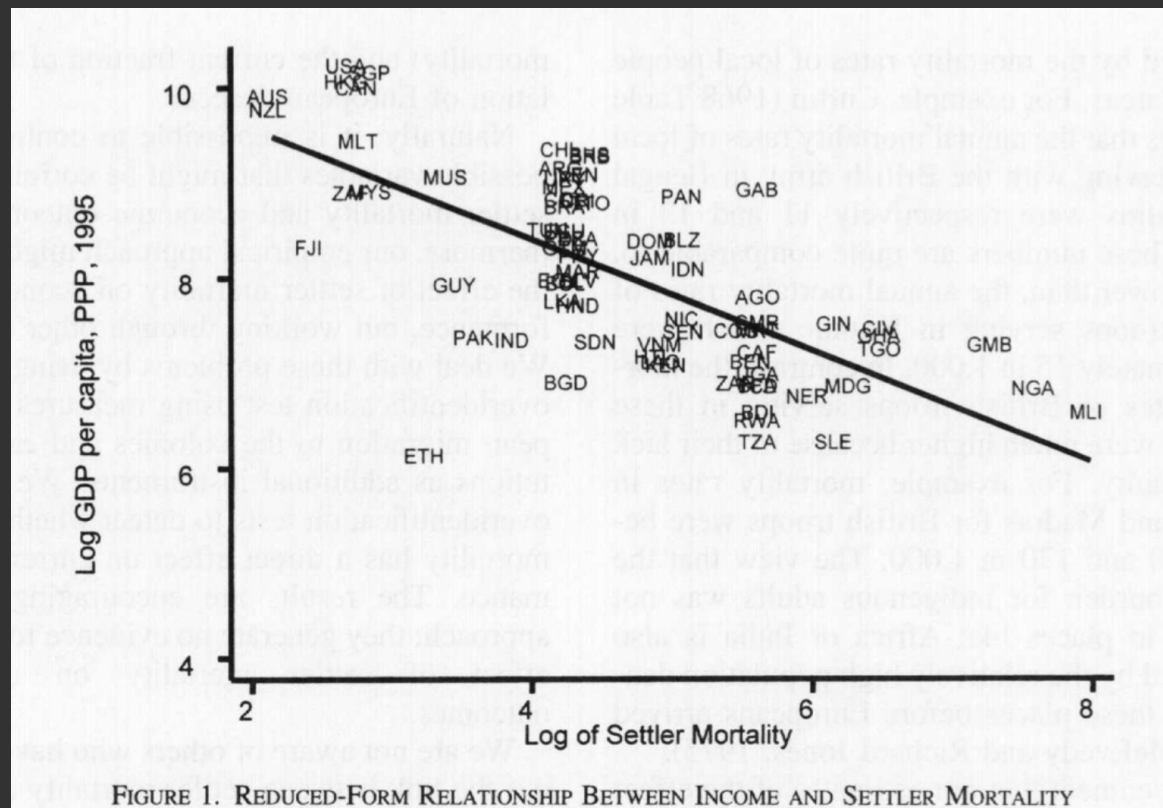
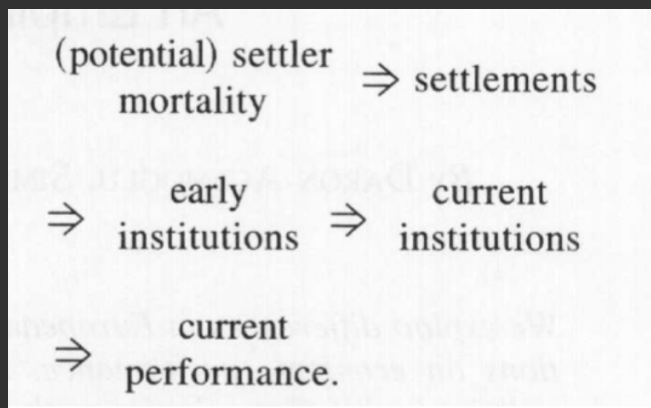
Types of institutions

- Formal:
 - E.g. rule of law, laws, courts, recognized rights (such as property rights), systems of contract enforcement
- Informal:
 - E.g. customs, norms, ideological consensus

Evidence that institutions matter: Acemoglu et al. (2001)

- Disease environment determined colonial policies, which in turn resulted in the establishment of different political regimes and divergent development trajectories.

- Acemoglu, Daron, Simon Johnson, and James A. Robinson. 2001. "The Colonial Origins of Comparative Development: An Empirical Investigation." *American Economic Review* 91 (5).



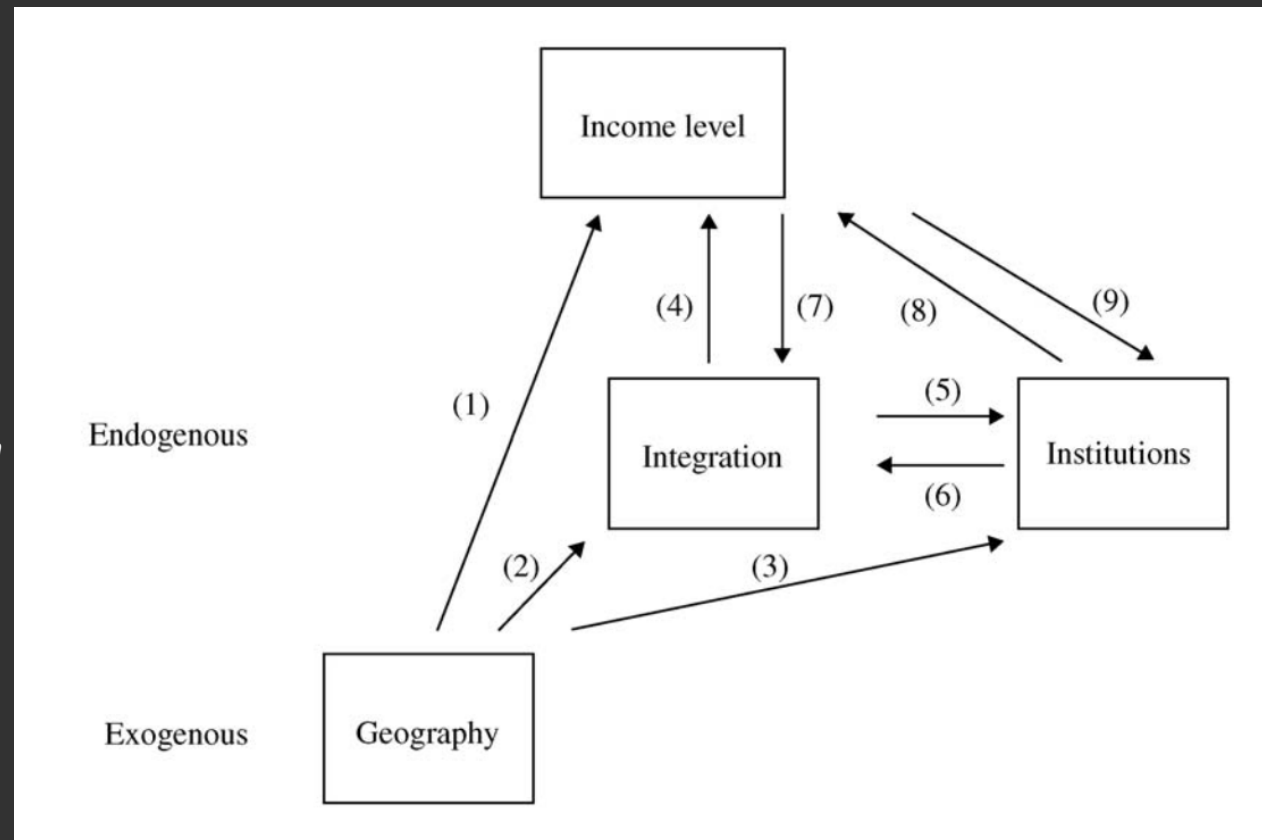
Evidence that institutions matter: Sokoloff and Engerman

- Latin America:
 - Large and concentrated factor endowments:
 - Brazil and the Caribbean: production of sugar and other highly valued crops (that required extensive use of slaves)
 - Mexico and Peru: rich mineral resources ->
 - Highly unequal distribution of wealth, elite persistence and stability ->
 - In the long term, low economic development
- Canada and the United States:
 - More limited factor endowments: production of grains and hays, based on labourers of European descent who had relatively high and similar levels of human capital ->
 - Relatively equal distribution of wealth ->
 - Large middle class, small elites ->
 - High economic development
 - Sokoloff, Kenneth, and Stanley Engerman. 2000. "History lessons: Institutions, factor endowments, and paths of development in the New World." *Journal of Economic Perspectives* 14 (3): 217-32.

Evidence that institutions matter: Rodrik et al.

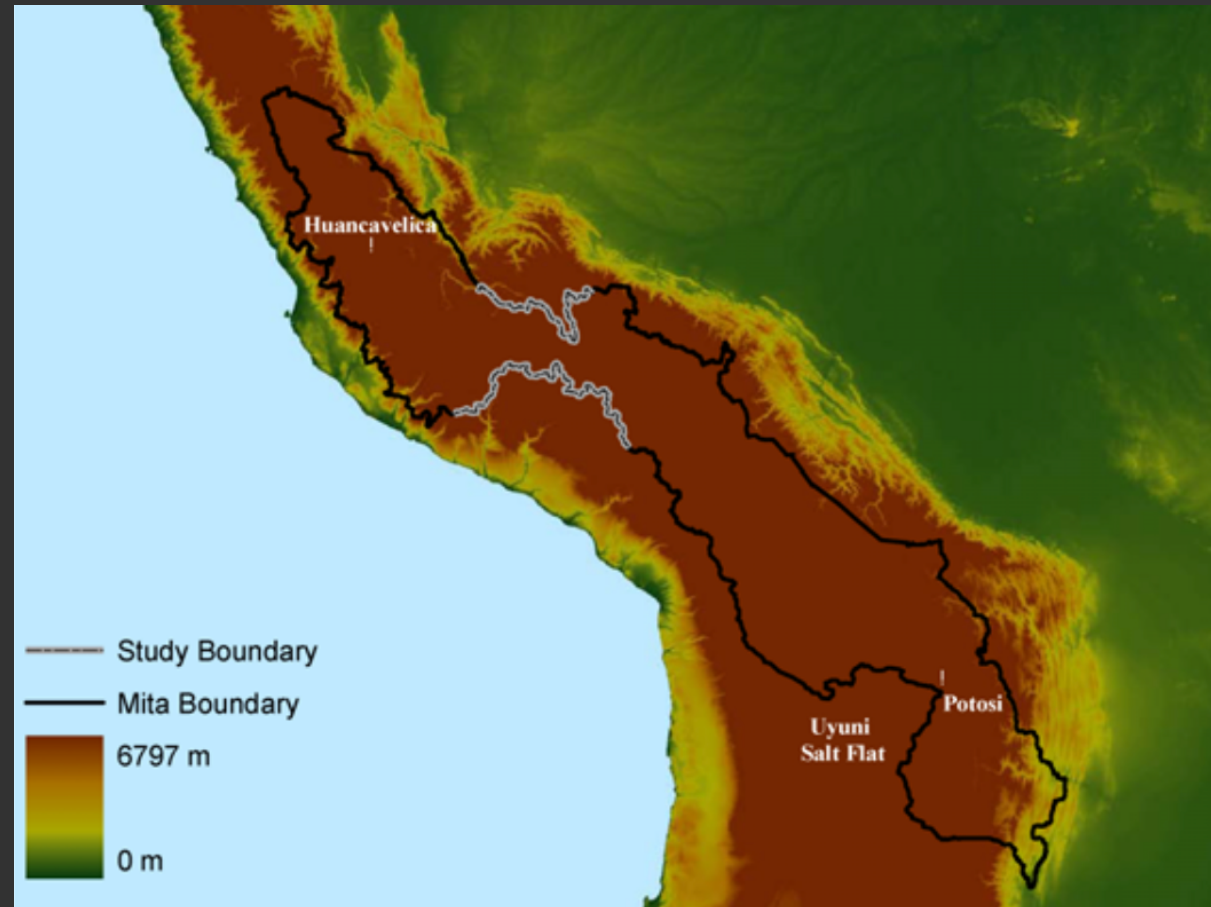
- Deep determinants of economic development:
 - Geography
 - Market integration
 - Institutions
- The quality of institutions contributes to income level much more than geography and trade

- Rodrik, Dani, Arvind Subramanian and Francesco Trebbi. 2004. "Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development." *Journal of Economic Growth* 9: 131-165.



Evidence that institutions matter: Dell

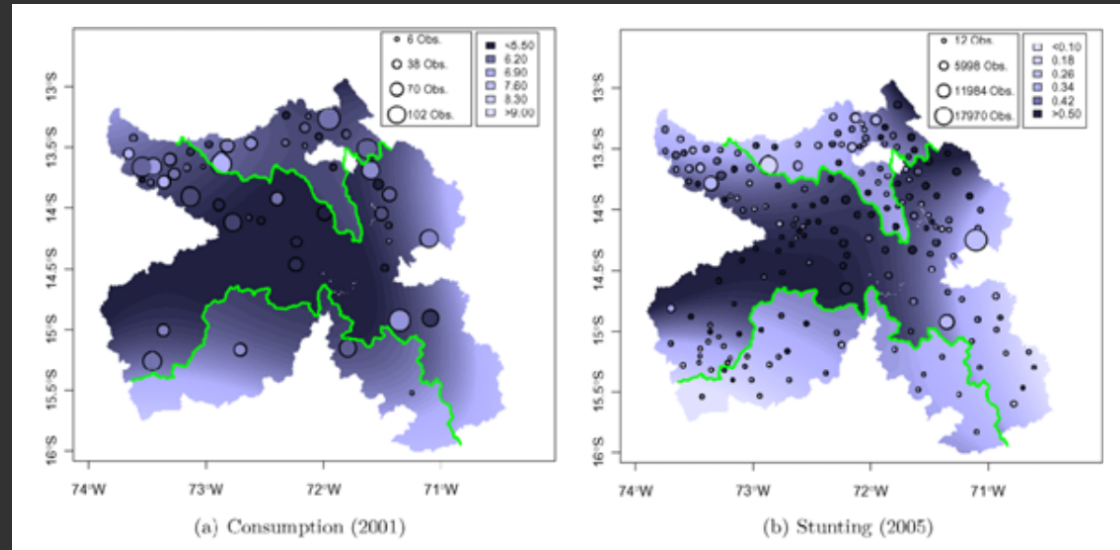
- *Mita*: forced labour system instituted by the Spanish government in Peru and Bolivia in 1573 and abolished in 1812
- 200 indigenous communities required to send one-seventh of their adult male population to work in the Potosí silver mines and Huancavelica mercury mines
- Elevation, ethnic distribution, etc. identical across the study (grey) boundary (natural experiment)



Evidence that institutions matter: Dell

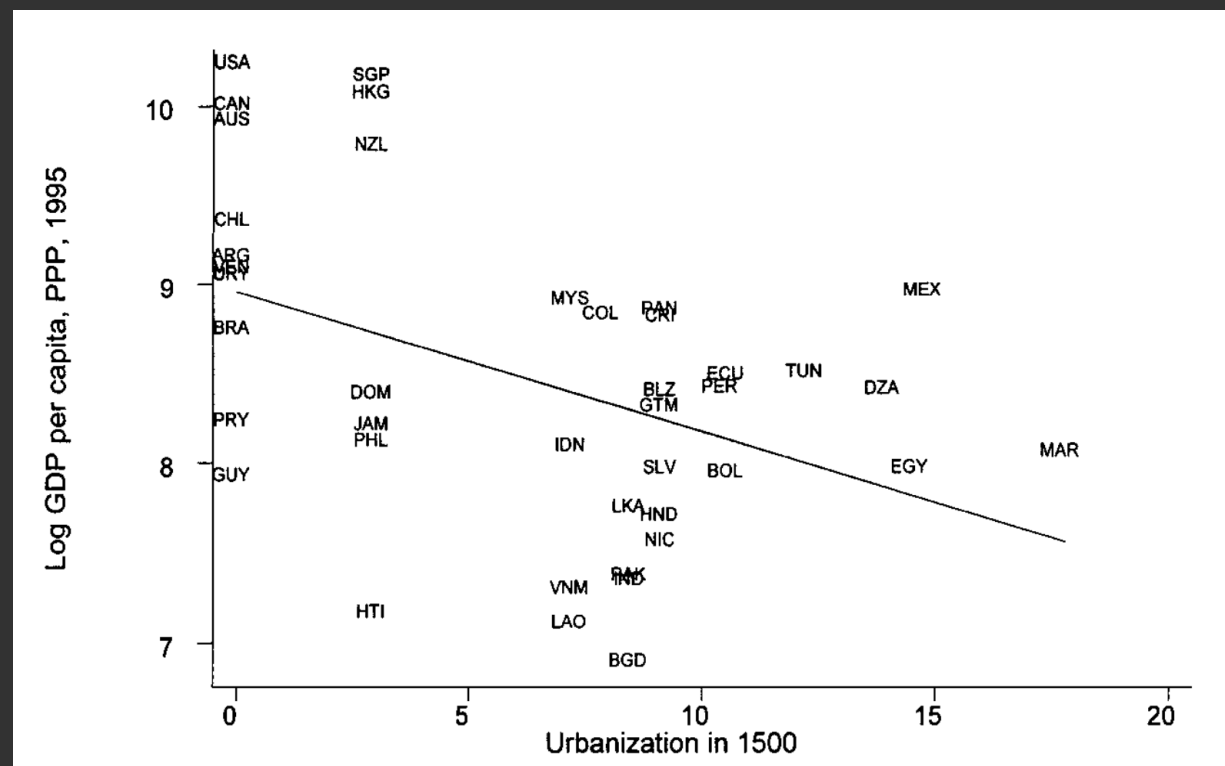
- Long-run *mita* effect:
 - 25% lower household consumption
 - 6% higher childhood stunting
 - Decreased integration into road networks
 - Increased prevalence of subsistence agriculture
 - Historically weaker property rights
 - Historically lower education attainment

- Dell, Melissa. 2010. "The Persistent Effects of Peru's Mining *Mita*." *Econometrica* 78 (6): 1863–1903.



Evidence that institutions matter: Acemoglu et al. (2002)

- “Reversal of fortune”:
 - In 1500, civilizations in Meso-America, the Andes, India, and Southeast Asia were richer than those located in North America, Australia, New Zealand, or the southern cone of Latin America
 - 500 years later, the reverse is true



Evidence that institutions matter: Acemoglu et al. (2002)

- Differential profitability of alternative colonization strategies in different environments:
 - Extractive institutions that concentrate power in the hands of a small elite in prosperous and densely settled areas (forced labour in mines and plantations, excessive taxation)
 - Institutions of private property (i.e. inclusive institutions) in previously sparsely settled areas that saw European settlement (encouragement of commerce, and industry through secure property rights)
- Institutional reversal → reversal in relative incomes
 - Acemoglu, Daron, James Robinson, and Simon Johnson. 2002. "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution." *Quarterly Journal of Economics* 117(4): 1231-1294.

But why do institutions matter?

Functions of institutions

- Reduction of costs of political and economic bargaining:
 - Bargaining / contestation as an integral component of both political action and economic exchange →
 - Contracts
 - Procedures that enforce compliance, detect deviations / violations, and reduce uncertainty
- Constraints on power:
 - "Humanly devised *constraints* that structure political, economic, and social interaction."
 - North, Douglass. 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.

Institutionalization

- Institutionalization: “the process by which organizations and procedures acquire value and stability”
 - Huntington, Samuel. 1968. *Political Order in Changing Societies*. New Haven: Yale University Press.
- Institutionalization != political development
- Political development: “change over time in political institutions.”
 - Fukuyama, Francis. 2014. *Political Order and Political Decay*. New York: Farrar, Straus, and Giroux.

Institutional emergence

- Path dependence and increasing returns / self-reinforcement
- Critical junctures
- Design vs. accident

Institutional emergence: design

- Interclan conflict in Genoa in the 12th century
- A series of civil wars
- Critical juncture: participation in imperial campaign to conquer Sicily offered considerable rewards if the Genoese could unite →
- 1194: decision to alter the existing political system (i.e. alter the rules of the Genoese political game) and appoint a *podesta*, a non-Genoese hired by the city to be its military leader, judge, and administrator for a short period of time (usually a year)
 - Greif, Avner. 1998. "Self-enforcing political systems and economic growth: Late Medieval Genoa." In Bates, Robert H., Avner Greif, Margaret Levi, Jean-Laurent Rosenthal, Barry R. Weingast (eds.). *Analytic narratives*. Princeton: Princeton University Press. 25-64.

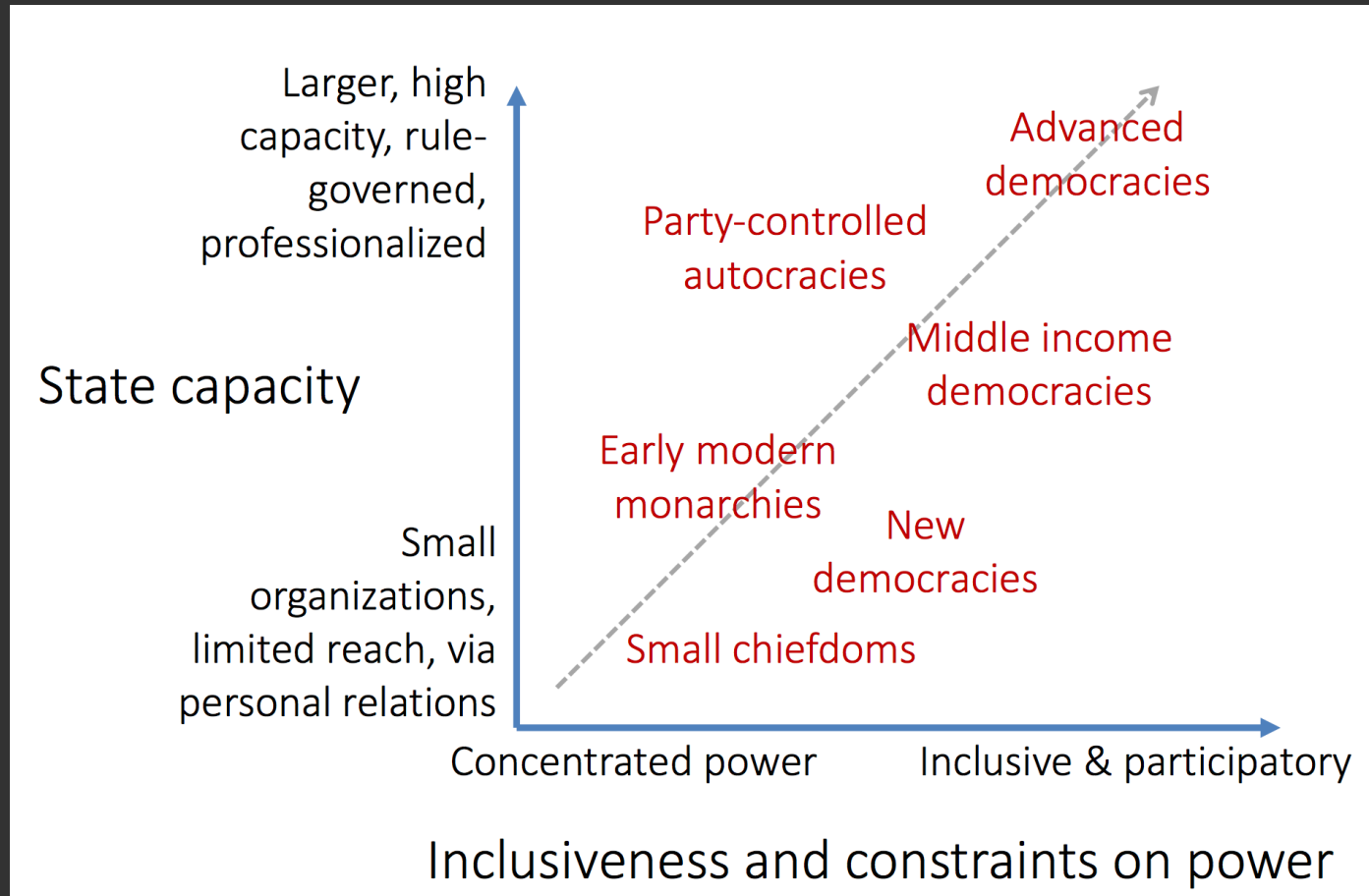
Institutional emergence: accident

- Long-term path dependent evolution →
- Increasing returns / self-reinforcement →
- Lock-in

Are institutions necessarily efficient?

- Institutions in New Institutional Economics: “A set of rules, compliance procedures, and moral and ethnical behavioral norms designed to constrain the behavior of individuals *in the interests of maximizing the wealth or utility of principals.*”
 - North, Douglass C. 1981. *Structure and change in economic history*. New York: Norton.
- “Extractive institutions, despite their adverse effects on aggregate performance, may emerge as equilibrium institutions because they increase the rents captured by the groups that hold political power.”
 - Acemoglu, Daron, James Robinson, and Simon Johnson. 2002. “Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution.” *Quarterly Journal of Economics* 117(4): 1231-1294.

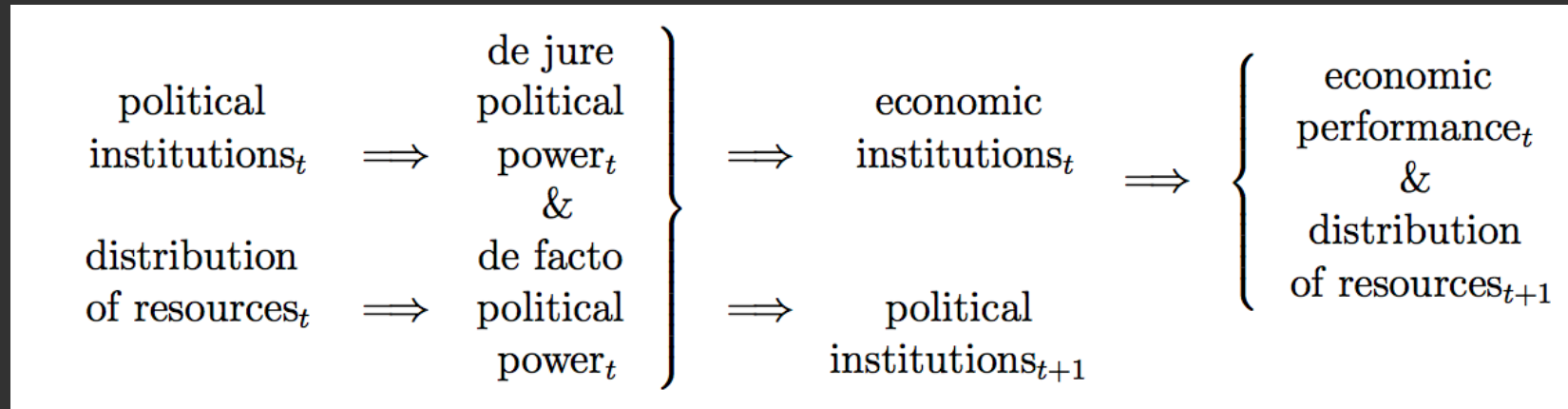
Institutions and states



From Chris Blattman, Order and Violence

Impact of institutions

- Institutions largely determine the nature of the state (including who controls it), relations between the state and society and, therefore, development outcomes.



Robinson, James A, Daron Acemoglu, and Simon Johnson. 2005. "Institutions as a Fundamental Cause of Long-Run Growth." *Handbook of Economic Growth* 1A: 386-472.

Can good institutions be fostered?

- Easterly and Levine: once institutions are controlled for, (macroeconomic) policies do not have an effect on incomes
 - Easterly, William, and Ross Levine. 2003. "Tropics, germs, and crops: how endowments influence economic development." *Journal of Monetary Economics* 50 (1): 3-39.
- Evans: the dangers of institutional monocropping vs. construction of local social-choice institutions
 - Evans, Peter. 2004. "Development as Institutional Change : The Pitfalls of Monocropping and the Potentials of Deliberation." *Studies in Comparative International Development* 38 (4): 30-52.

Problems with institutionalism

- Often overly general and imprecise
- (Usually) structural