

POLS 280:
Politics of Development
and Foreign Aid

Class 11:

Historical legacies 3—Institutions and institutionalism

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

What are 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.

What kinds of institutions are there?

Types of institutions

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

The importance of institutions in development according to Robinson



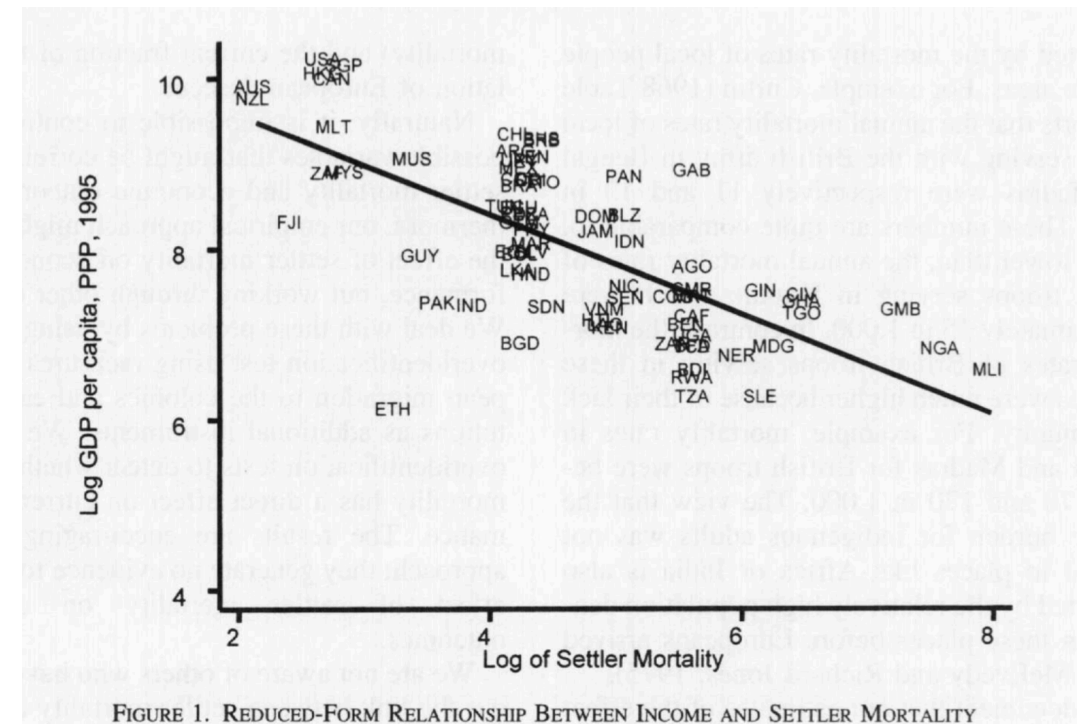
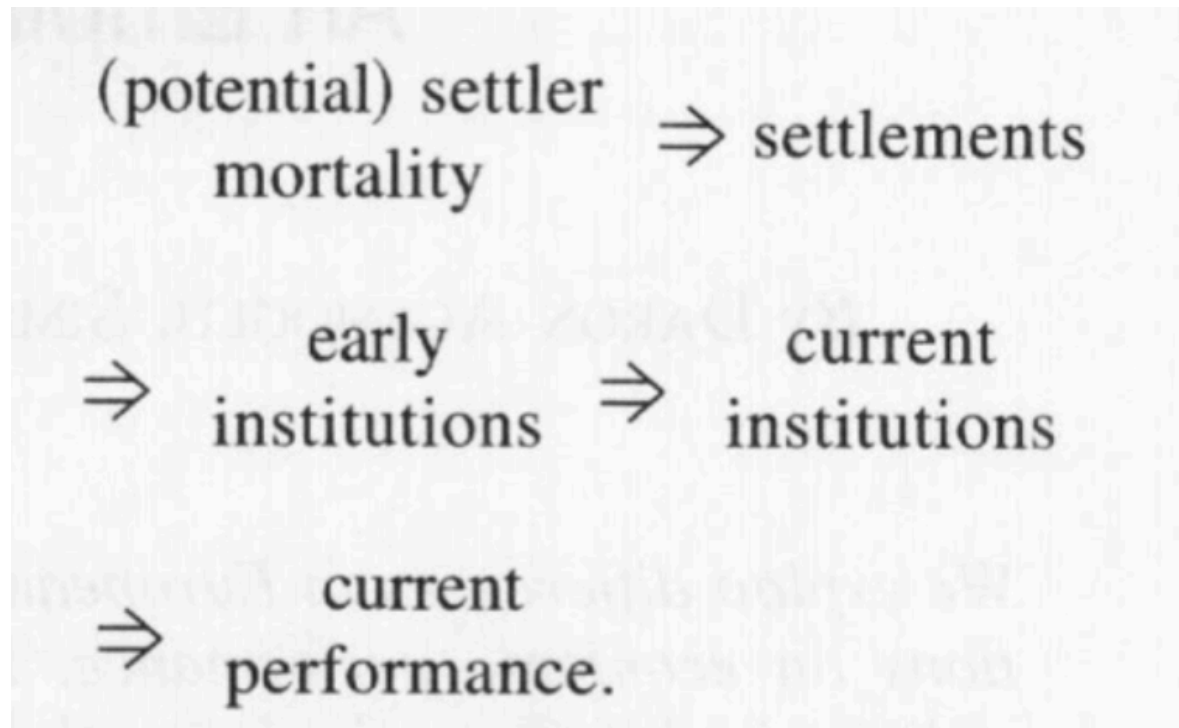
<https://www.youtube.com/watch?v=IYhJSdM2ffQ>

What evidence that institutions matter have we encountered in the course so far?

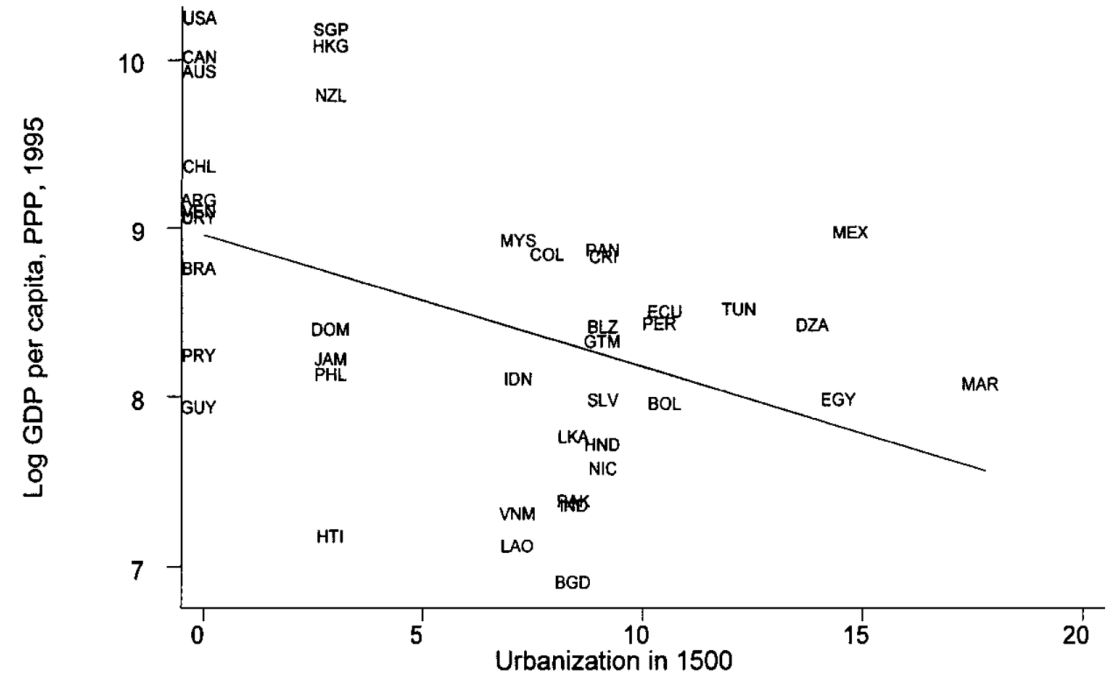
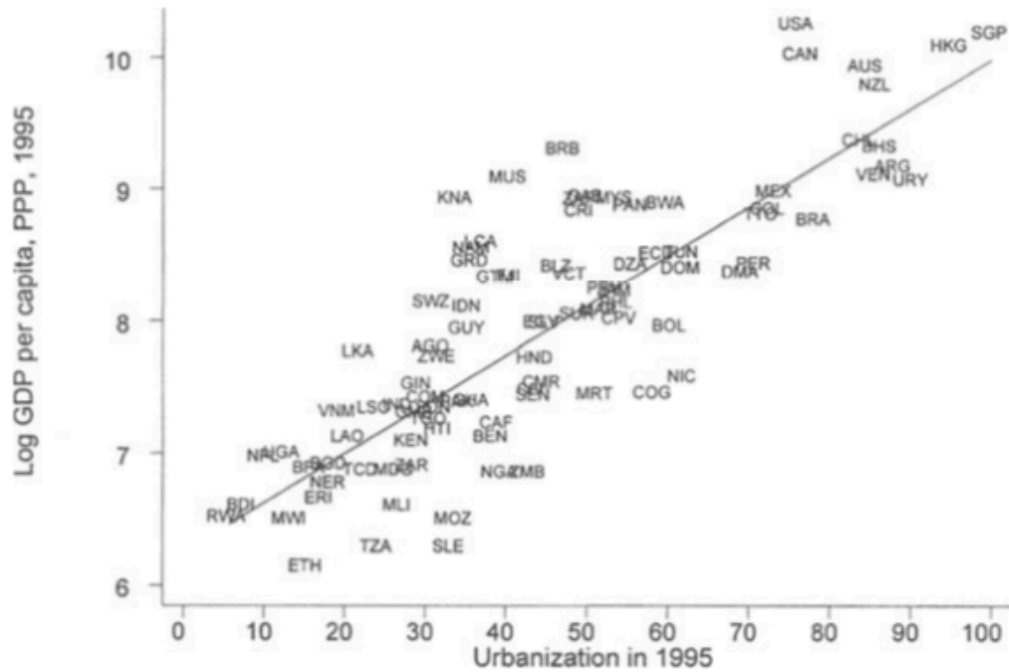
Evidence that institutions matter: Sokoloff and Engerman

- Latin America vs. Canada and the United States:
 - Endowments →
 - Distribution of wealth →
 - Middle class and elite size →
 - Economic development

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



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

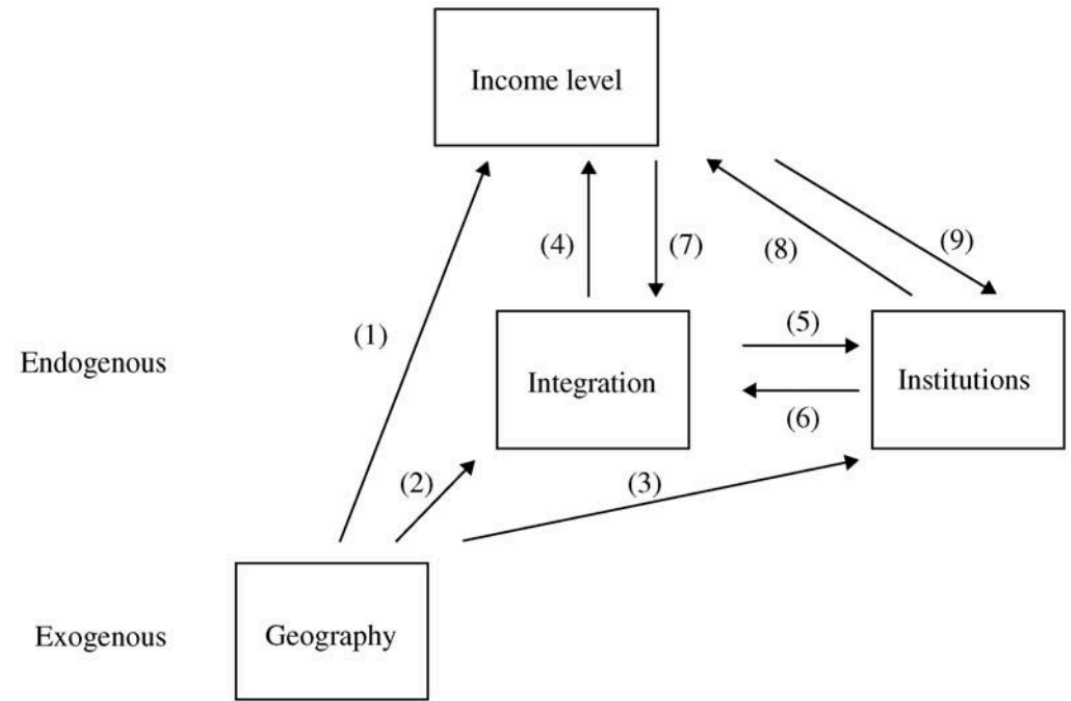


What evidence that
institutions matter do
Rodrik et al. provide?

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.



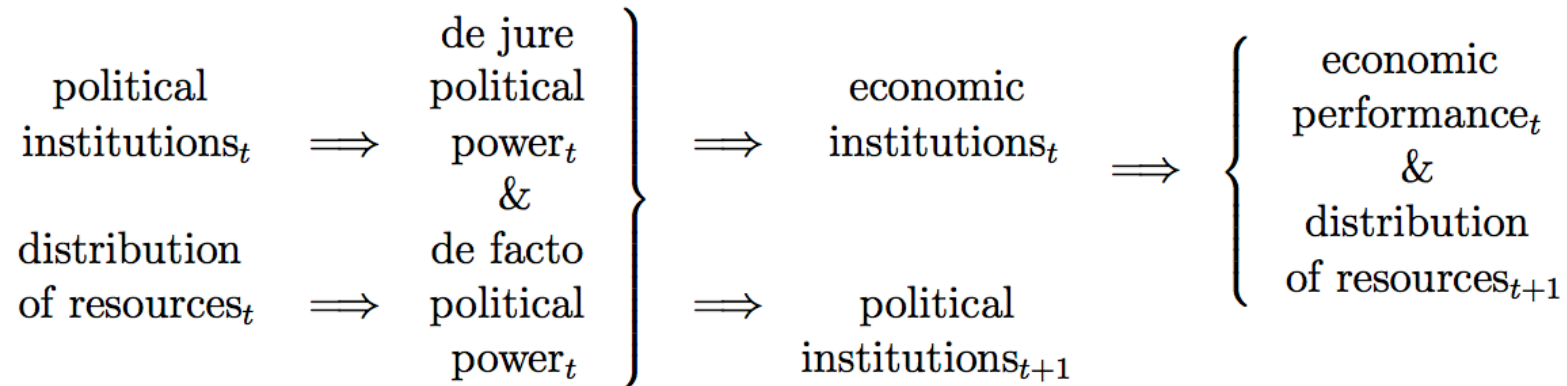
But why do institutions
matter?

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.

Impact of institutions

- Institutions →
- Nature of the state (including who controls it) →
- State-society relations →
- Development outcomes



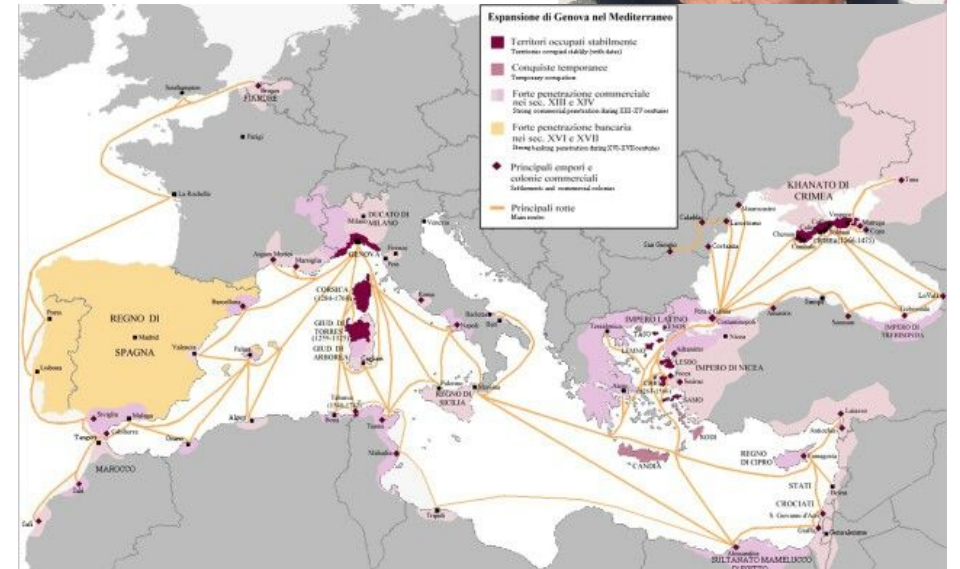
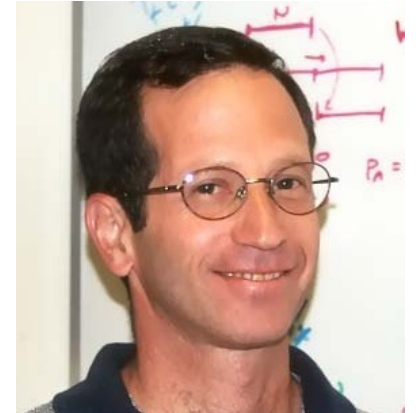
Where do institutions come from?

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 and appoint a *podesta*
 - 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

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.

Are institutions good for
development?

Are institutions good for development?

- Institutions in early 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.

Problems with institutionalism

- Often overly general and imprecise
- (Usually) structural