

PLS 341

Politics of Development

Week 5:

Historical legacies—institutions and institutionalism

Recap

- Influence of historical processes on development through:
 - Exploitation and international system —> underdevelopment and dependency theories
 - *Institutions* —> *institutionalism*

Plan for this week

- Institutions and institutionalism:
 - Developmental effects of institutions
 - Development-affecting institutions
 - Functions and origins of institutions
 - Problems with institutionalism

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.

Institutions and development

- Geography:

- 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:

- International system as an institution
- Colonial institutions

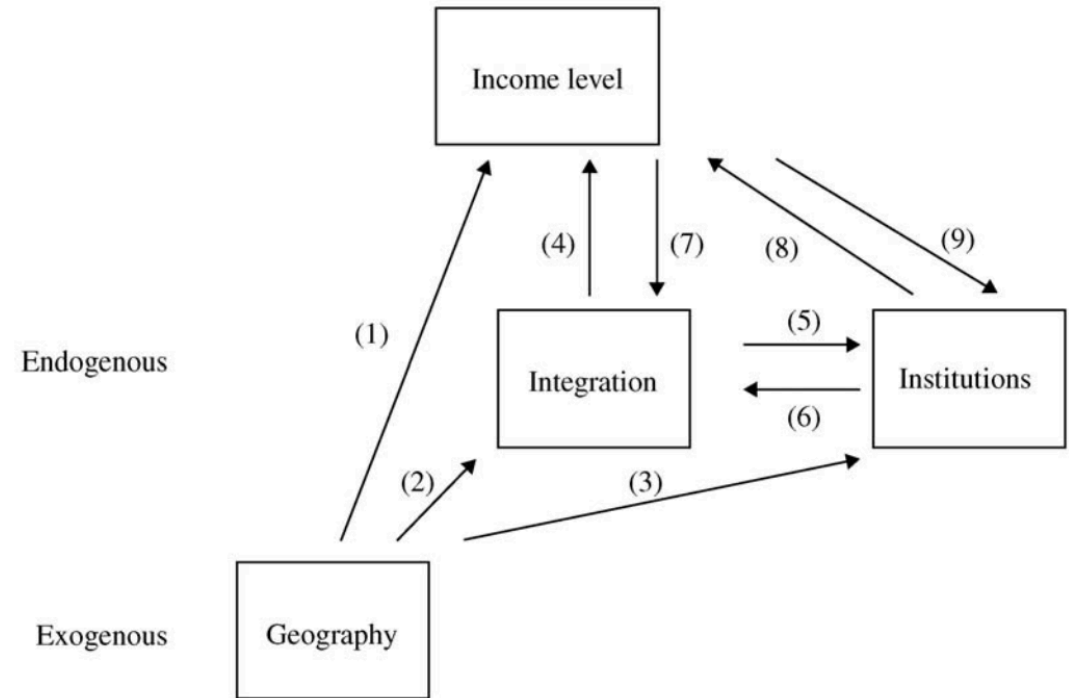
Institutions and development according to Rodrik et al.

- Deep determinants of economic development:

- Geography
- Market integration
- Institutions

- Stronger effects of quality of institutions compared to geography and integration

- 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.



Institutions and development according to Robinson



<https://www.youtube.com/watch?v=1YhJSdM2ffQ>

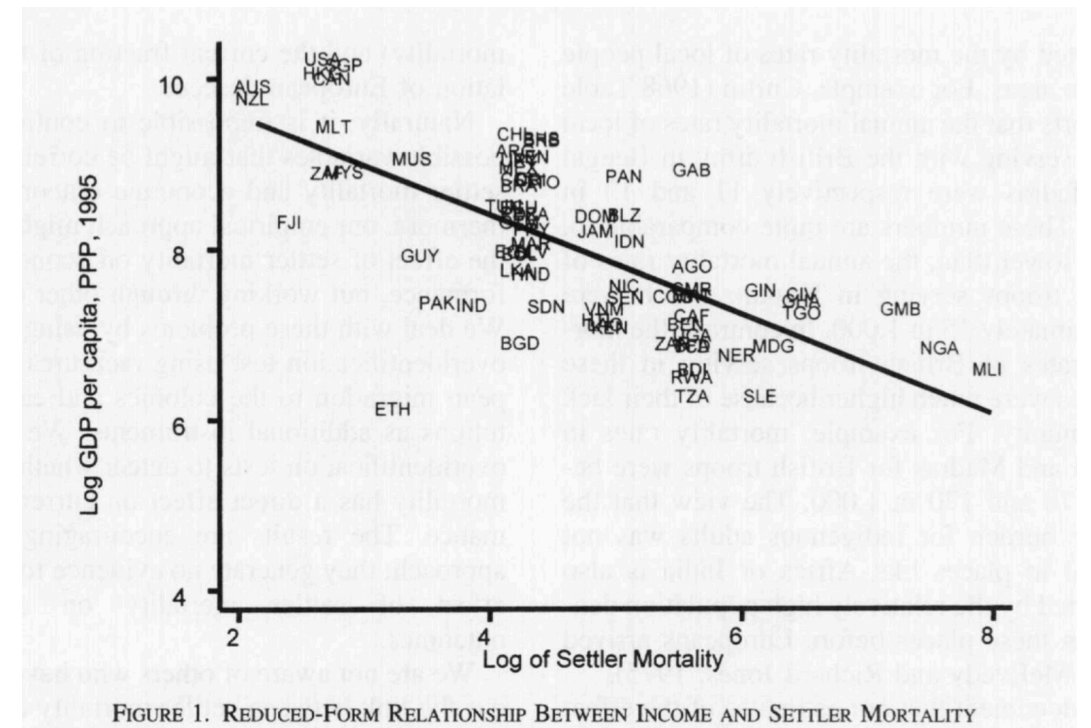
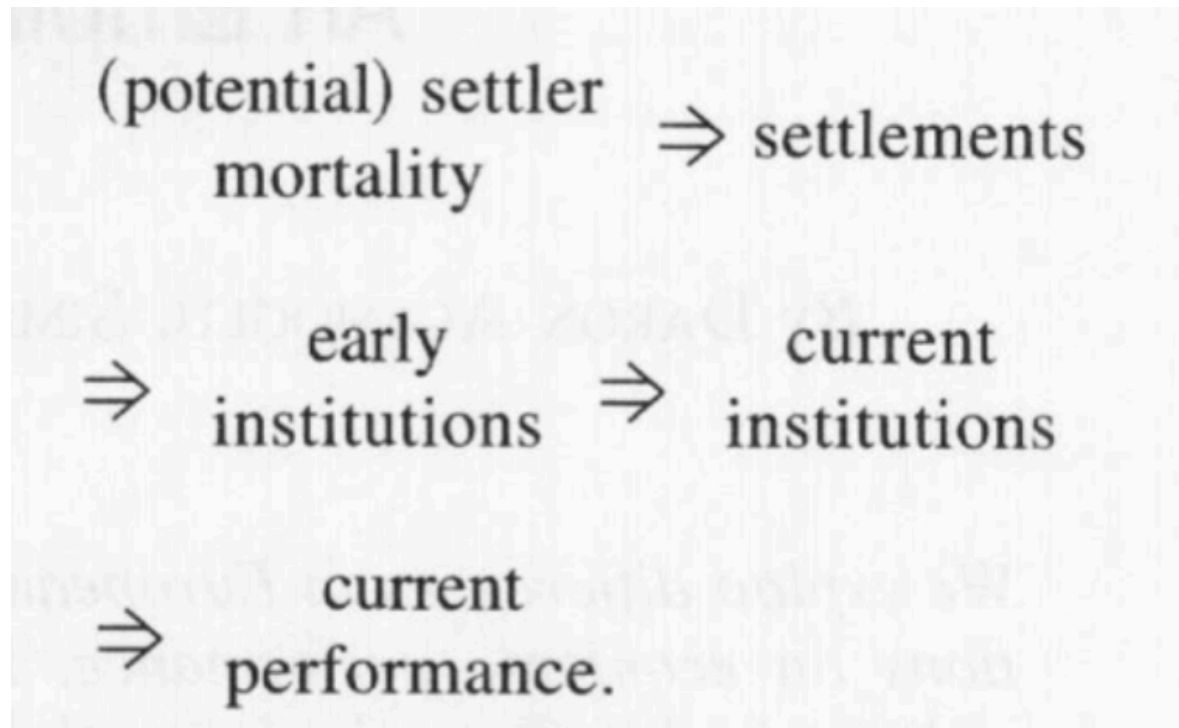
Institutions and development according to Sokoloff and Engerman

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

Institutions and development according to Acemoglu et al. (2002)

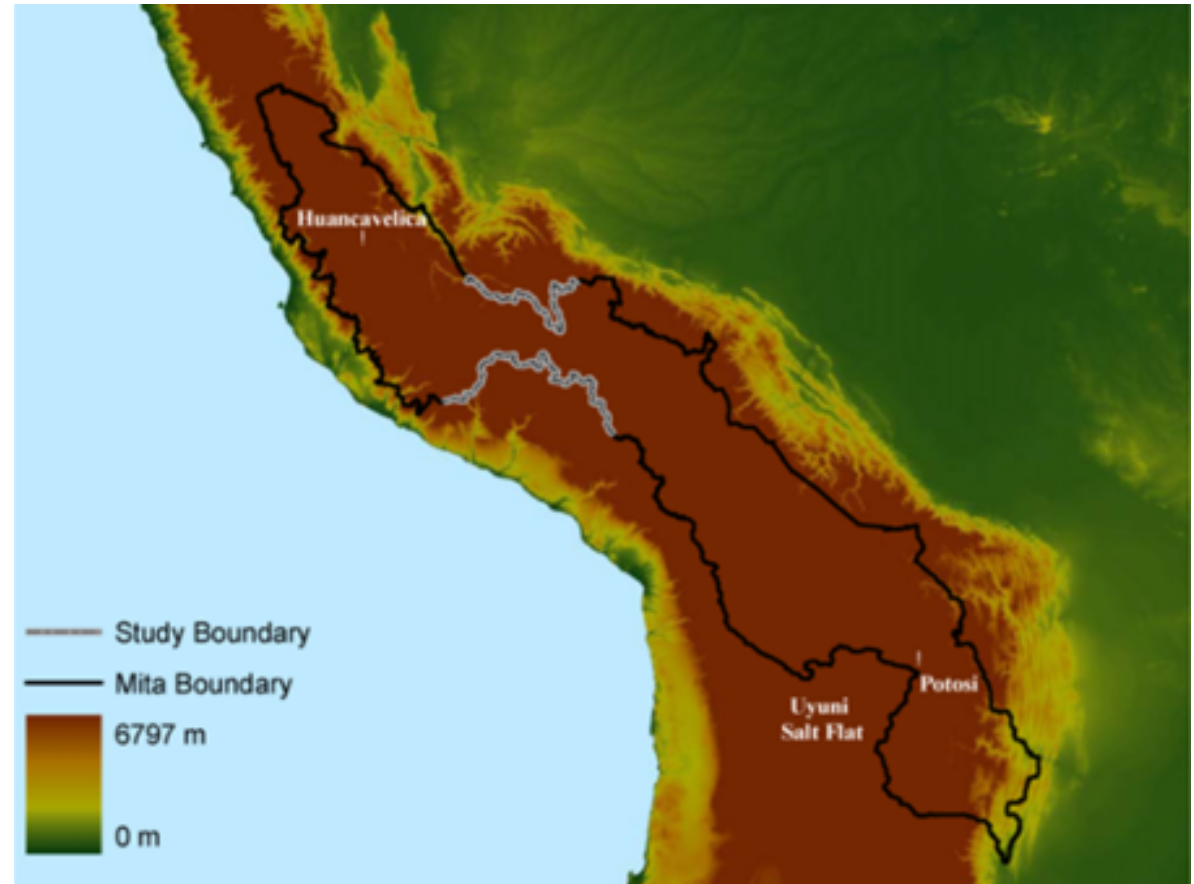
- Differential profitability of alternative colonization strategies in different environments:
 - Prosperous and densely settled areas —> extractive institutions
 - Sparsely settled areas —> institutions of private property (i.e. inclusive institutions)
- Institutional reversal —> reversal in relative 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.

Institutions and development according to Acemoglu et al. (2001)



Institutions and development according to Dell

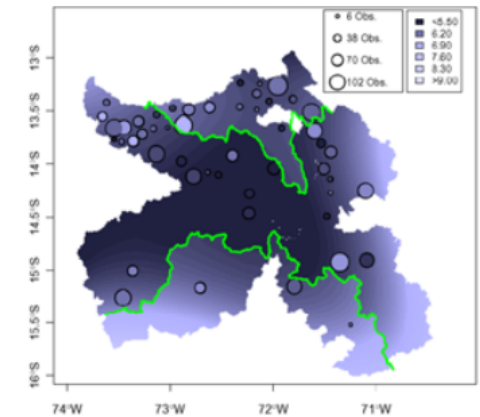
- *Mita*: colonial forced labor system in Peru and Bolivia (1573-1812)
- 200 indigenous communities required to send 1/7 of adult male population to work in Potosí and Huancavelica
- Elevation, ethnic distribution, etc. identical across the study boundary



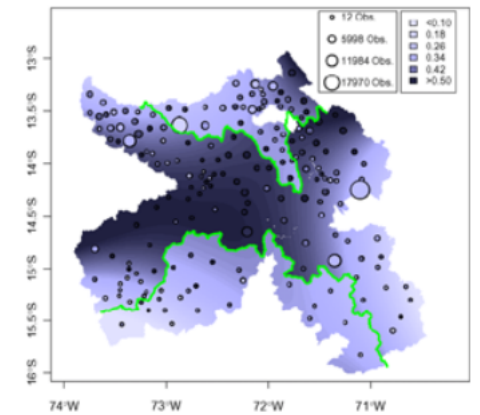
Institutions and development according to Dell

- Long-run effects of *mita*:
 - 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.



(a) Consumption (2001)



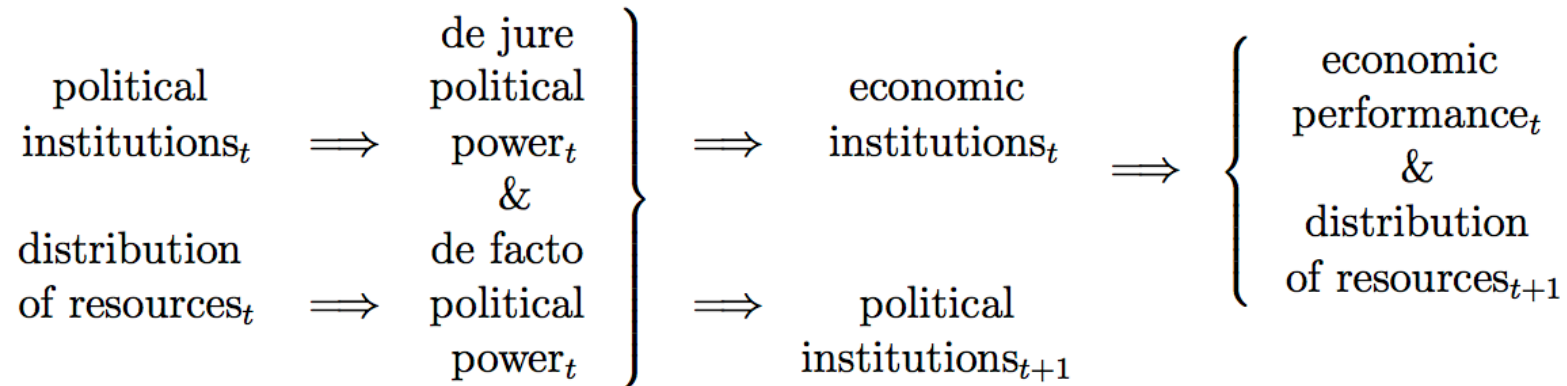
(b) Stunting (2005)

Institutions of development

- Distribution of power
- Accountability
- State capacity
- Rule of law
- Clientelism
- Regime type
- Social norms
- Labor regulations

Developmental effects of institutions

- Institutions:
 - Nature of the state (including who controls it) +
 - State-society relations \longrightarrow
- 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.

Functions of institutions

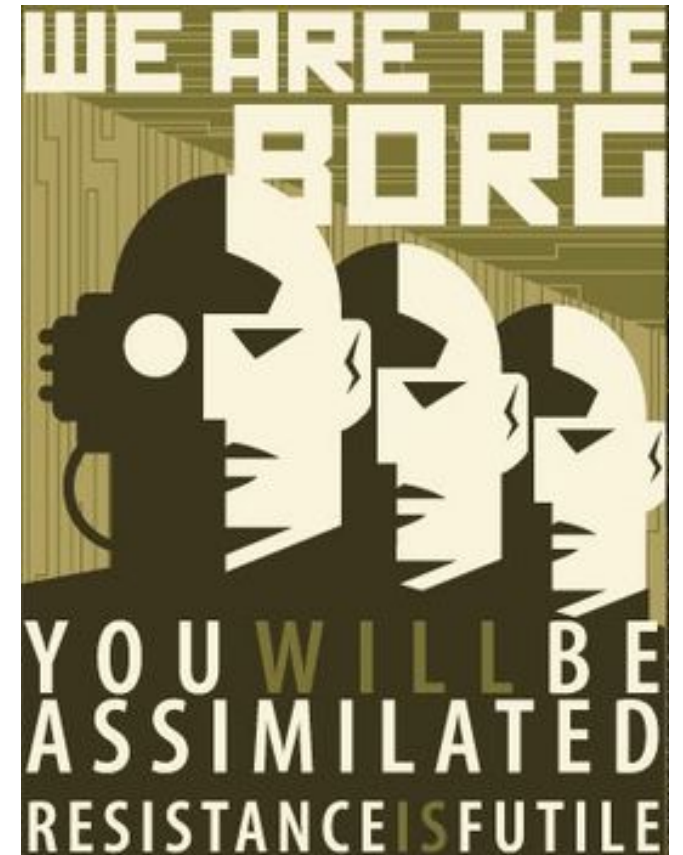
- Constraints on power:
 - “Humanly devised *constraints* that structure political, economic, and social interaction.”
 - North, Douglass. 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.
- Determination of costs of political and economic bargaining: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

Origins of institutions

- Design:
 - External:
 - Colonialism and 'reversal of fortunes'
 - Domestic
- Accident:
 - Long-term path dependent evolution —>
 - Increasing returns / self-reinforcement —>
 - Lock-in

Problems with institutionalism

- Explanatory Borg
- (Usually) structural
- Apolitical
- At times overly general and imprecise



Takeaways

- Institutions as crucial, but not only, drivers of development and integral components of any valid explanation of development or its many aspects