Persistence and Change in Institutions

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Introduction

- Standard economic explanations for development:
  - Physical capital differences (poor countries don't save enough)
  - Human capital differences (poor countries don't invest enough in education and skills)
  - "Technology"/TFP differences (poor countries don't invest enough in R&D and technology adoption, and don't organize their production efficiently)
  - Markets (markets don't function in poor countries).
  - Policies (poor countries have bad policies)
- But these are "proximate" causes.
- We need to understand why poor countries don't save enough, don't invest enough, don't innovate and use technologies, don't have functioning markets and don't have good policies
- Potential answer: differences in economic and political incentives.

Where do Incentives Come from?

- Adam Smith:

    "little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things."

- Potential answer: institutional differences.
- Institutions: organization of society, "rules of the game".
- To understand the comparative wealth of nations, we need to understand institutional differences.

What are Institutions?

- A broad cluster including many sub-levels:
- *Economic institutions*: e.g., property rights, contract enforcement, etc.
    - shape economic incentives, contracting possibilities, distribution.
- *Political institutions*: e.g., form of government, constraints on politicians and elites, separation of powers, etc.
- Not just about formal rules—the set of social arrangements affecting economic, social, and political life.

Institutional Persistence

- Institutions are not exogenous or historically pre-determined.
- But they often seem to persist for long periods of time.
- In England the Magna Carta signed (resentfully) by King John in 1215 subsequently shaped important parts of English Law.
- In former European colonies strong correlations between variables which shaped early colonial institutions, such as the density of indigenous population, mortality environment for Europeans, ability to grow sugarcane or cotton, and contemporary institutions.
- A different type of persistence: *"iron law of oligarchy"*—one bad ruler/regime followed by another.
    - Zimbabwe, Ethiopia, Haiti,...
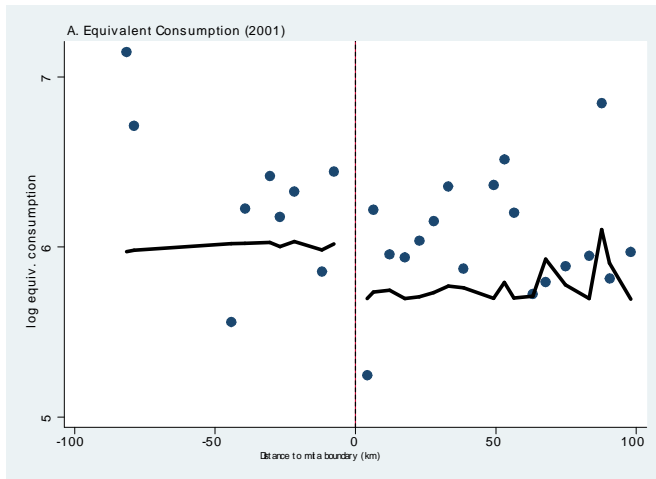
Institutional Change

- But institutions also change a lot!
- Economic institutions in Latin America designed to transfer rents from Amerindians to Spaniards—the *encomienda*, the *mita*—disappeared.
    - the *encomienda* was pretty much dead by the end of the 16th century
    - the most infamous *mita*, to the silver mines in Potosí in Bolivia, was abolished in 1820.
    - Indian tribute and slavery were abolished everywhere by the 1880s.
- More importantly, the colonial system in Latin America (and elsewhere) ended long ago.
    - After independence Latin American countries wrote constitutions.
    - The Dominican Republic had 15 different constitutions between 1844 and 1896, introduced (usually reluctantly) democracy, had coups, became federal, had revolutions.
- Uganda started at independence as a parliamentary system, switched to presidential, back to parliamentary, and then back to presidential again.

So What Persists?

- But still robust correlations between historical institutions and outcomes today.
  - Acemoglu, Johnson and Robinson (2001, 2002).
  - Banerjee and Iyer (2005).
  - Dell (2008).
- And persistence and change go hand-in-hand.
  - The *encomienda* replaced by the *hacienda*.
  - Similar corruption under parliamentary and presidential systems in Uganda.
  - Similar outcomes under the different constitutions of the Dominican Republic

Micro Evidence on Historical Persistence

- Regression discontinuity effects of *Mita* from Dell (2008).

A. Equivalent Consumption (2001)

The QWERTY Metaphor

- When economists and political scientists talk about institutional persistence they often have a (misleading) metaphor in mind.
- Particular circumstances give rise to a specific institution which then persists even though the circumstances that brought it about change.
  - Loose argument about "fixed costs" due to network externalities, or coordination problems.
- Example: Greif argues that the Maghribi trades kept enforcing contracts in the same way after the expansion of Mediterranean trade so that they lost out to the Genoese.
- But change takes place continuously, so that QWERTY metaphor inappropriate.
  - Moreover, it is often used without a specific microfoundation.
- A useful theory of institutional persistence should have microfoundations and allow for simultaneous persistence and change.

The US South before and after the Civil War

- In the antebellum period, the South run by plantation owners, and the system of slavery and labor-intensive cotton production.

- Relatively poor (about 70% of the national level of GDP per-capita). Little manufacturing industry, much lower urbanization and density of canals and railroads than the North.

- Civil War: major change in economic and political institutions; the abolition of slavery and the enfranchisement of the freed slaves.

- One might have anticipated a dramatic change in economic institutions.

- But what emerged was a labor-intensive, low wage, low education and repressive economy—just like the antebellum South.

Persistence of the Southern Equilibrium

- Despite losing the Civil War, traditional landed elites could sustain their political control of the South, particularly after Reconstruction ended in 1877 and the Union army was withdrawn.

- Blocking of economic reforms that might have undermined their power, such as the distribution of 50 acres and a mule to each freed slave.

- Were able to use their local political power to disenfranchise blacks and re-exert control over the labor force.

- Use of Black Codes, Vagrancy Laws, Ku Klux Klan and Jim Crow.

- What persists? Specific economic and political institutions changed, but the underlying distribution of political power did not and neither did the interests of the elite. They were able to use different institutions to achieve the same goal. The incentive environment for the mass of the population did persist.

Persistence of Elites in the South

Name	County	Real estate holdings[a]		
		1870	1860	1850
Minge, G.	Marengo	$ 85,000		30,000
Lyon, F.	Marengo	75,000	115,000	35,000
Paulling, William	Marengo	72,000	150,000	29,000
Hatch, Alfred	Hale	70,000	120,000	40,000
Alexander, J.	Marengo	69,000	38,000	10,000[b]
Whitfield, B.	Marengo	65,000	200,000[b]	100,000
Terrill, J.	Marengo	62,000	93,000	
Taylor, E.	Marengo	61,000		
Robertson, R.	Marengo	60,000		
Dew, Duncan	Greene	52,000	200,000[b]	41,000
Walton, Jhon	Marengo	50,000	250,000	25,000
Collins, Charles	Hale	50,000	201,000[b]	30,000
Hays, Charles	Greene	50,000	113,000	
Brown, Jhon	Sumter	50,000	69,000	13,000
Pickering, Richard	Marengo	50,000	42,000	15,000
Withers, Mary	Hale	50,000	40,000	75,000[b]
Jones, Madison	Hale	50,000	36,000[b]	27,000
Nelson, A.	Hale	48,000		10,000[b]
Taylor, J.	Hale	48,000		
Pickens, Wm.	Hale	45,000	210,000[b]	51,000
Reese, Henry	Marengo	45,000	52,000	24,000
Walker, R.	Hale	42,000	55,000	
Smaw, W.	Greene	42,000	32,000	
Blanks, E.	Marengo	41,000		
Walker, Morris	Marengo	41,000		

South Africa after Apartheid

- In 1994 South Africa made the transition from Apartheid to democracy and elected a government of the ANC.

- One would have anticipated large changes from this redistribution of political power towards the black majority and the abolition of the last few apartheid laws (others, such as the Colour Bar had been abolished in the 1980s).

- The ANC quickly abandoned radical economic policies and adopted prudent market friendly policies.

- Since 1994 GDP per-capita has grown, inequality has risen substantially, average real wages are falling.

- Remarkably like an earlier experience in South Africa...

Persistence after Apartheid

- Can this be explained by the persistence of institutions?
- In 1993 the financial services company Sanlam sold 10% of its stake in Metropolitan life to a black owned consortium led by Nthato Motlana a former secretary of the ANC´s Youth League and one-time doctor to Nelson Mandela and Desmond Tutu.
- Since then white firms have systematically formed links with prominent ANC politicians and their spouses/relatives, putting them on the boards of directors and selling discounted shares to consortia formed by then—*Black Economic Empowerment.*
- Initially aimed at securing property rights by giving the ANC a stake in capitalism, but clearly also creates a vested interest in a highly concentrated industrial structure and existing entry barriers and rents.
- What persists?

Instruments of Persistence?

- Afrikaner political elite lost out but the white capitalist elite are still there and have co-opted the ANC elite.

- Many aspects of Apartheid still remain, such as the spatial distribution of the population and low wages for large segments of the population.

De Jure Power

- **Approach based on joint work with James Robinson.**
- Distinguish between two components of political power, which we refer to as *de jure (institutional)* and *de facto political power*.
- Here de jure political power refers to power that originates from the *political institutions* in society. Political institutions, similarly to economic institutions, determine the constraints on and the incentives of the key actors, but this time in the political sphere.
- Examples of political institutions include the form of government, for example, democracy vs. dictatorship or autocracy, and the extent of constraints on politicians and political elites.

De Facto Power

- There is more to political power than political institutions, however. A group of individuals, even if they are not allocated power by political institutions, for example as specified in the constitution, may nonetheless possess political power.
- First, it depends on the ability of the group in question to solve its collective action problem, i.e., to ensure that people act together, even when any individual may have an incentive to free ride.
- Second, the de facto power of a group depends on its economic resources.

Political Institutions

- Societies transition from dictatorship to democracy, and change their constitutions to modify the constraints on power holders.
- Since, like economic institutions, political institutions are collective choices, the distribution of political power in society is the key determinant of their evolution.

Sources of Persistence

- There are two sources of persistence in the behavior of the system:
- Political institutions are durable, and typically, a sufficiently large change in the distribution of political power is necessary to cause a change in political institutions, such as a transition from dictatorship to democracy.
- When a particular group is rich relative to others, this will increase its de facto political power and enable it to push for economic and political institutions favorable to its interests. This will tend to reproduce the initial relative wealth disparity in the future.
- Despite these tendencies for persistence, the framework also emphasizes the potential for change. In particular, "shocks", including changes in technologies and the international environment, that modify the balance of (de facto) political power in society and can lead to major changes in political institutions and therefore in economic institutions and economic growth.

A Baseline Model

- Consider an infinite-horizon society in discrete time with a finite number L of citizens/workers and M elites.
- Assume that citizens are significantly more numerous than the elite:

Assumption 1 $L >> M$.

- Let $h \in \{E, C\}$ denote whether an individual is from the elite or a citizen, and $\mathcal{E}$ and $\mathcal{C}$ to denote the the set of elites and citizens, respectively.
- All agents have the same risk-neutral preferences given by

$$\sum_{j=0}^{\infty} \beta^j c_{t+j}^{h,i} \tag{1}$$

Production and Distribution: Competitive Markets

- Each citizen owns one unit of labor. Each member of the elite $i \in \mathcal{E}$ has access to a linear production function to produce the unique private good with constant marginal productivity of A.

- We consider production and distribution under two different sets of (reduced-form) *economic institutions*.

- In the first, labor markets are *competitive* and we index these institutions by the subscript c. When there are competitive labor markets, $\tau_t = c$, the wage rate (and the wage earnings of each citizen) is:

$$w_c \equiv A. \tag{2}$$

The return to a member of the elite with competitive markets is similarly

$$R_c \equiv 0. \tag{3}$$

Production and Distribution: Distorted Markets

- The alternative set of economic institutions favor the elite and are *labor repressive* ($\tau_t = e$).
- We parameterize the distribution of resources under labor repression as follows: $\lambda < 1$ denotes the share of national income accruing to citizens and $\delta \in [0, 1)$ is the fraction of potential national income, AL, that is lost because of the inefficiency of labor repression.
- This implies that factor prices under these economic institutions can be expressed as:

$$w_e \equiv \lambda \left(1 - \delta\right) A, \tag{4}$$

and

$$R_e \equiv \left(1 - \lambda\right) \left(1 - \delta\right) \frac{AL}{M}. \tag{5}$$

Factor Prices

- Factor prices can then be written as a function of economic institutions as $w_t = w(\tau_t = e) = w_e$, $R_t = R(\tau_t = e) = R_e$, $w_t = w(\tau_t = c) = w_c$ and $R_t = R(\tau_t = c) = R_c$. For future reference, let us also define

$$\Delta R \equiv R_e - R_c = (1 - \lambda)(1 - \delta)\frac{AL}{M} > 0, \qquad (6)$$

and

$$\Delta w \equiv w_c - w_e = (1 - \lambda(1 - \delta))A > 0 \qquad (7)$$

- Since the citizens are significantly more numerous, i.e., $L >> M$, (6) and (7) imply that $\Delta R >> \Delta w$.

Political Regimes and De Facto Political Power: The Elite

- There are two possible political regimes, democracy and nondemocracy, denoted respectively by D and N.

- At time t, the "state" of this society will be represented by $s_t \in \{D, N\}$.

- Political power is determined by the interaction of de facto and de jure political power. Both groups can invest to garner further de facto political power. In particular, suppose that elite $i \in \mathcal{E}$ spends an amount $\theta_t^i \geq 0$ as a contribution to activities increasing their group's de facto power. Then total elite spending on such activities will be $\sum_{i \in \mathcal{E}} \theta_t^i$, and we assume that their de facto political power is

$$P_t^E(s) = \phi^E(s) \sum_{i \in \mathcal{E}} \theta_t^i(s), \tag{8}$$

where $\phi^E(s) > 0$.

De Facto Political Power: The Citizens

- Citizens' power comes from three distinct sources. First, they can invest in de facto political power.
- Second, they may sometimes solve their collective action problem and exercise additional de facto political power.
- Finally, citizens will have greater power in democracy than in nondemocracy.
- The power of the citizens when $i \in \mathcal{C}$ spends an amount $\theta_t^i \geq 0$ is

$$P_t^{\mathcal{C}}(s) = \phi^{\mathcal{C}}(s) \sum_{i \in \mathcal{C}} \theta_t^i(s) + \omega_t + \eta I(s_t = D), \qquad (9)$$

where $\phi^{\mathcal{C}}(s) > 0$, ω_t is a random variable drawn independently and identically over time from a given distribution $F(\cdot)$,
$I(s = D) \in \{0, 1\}$ is an indicator function for $s = D$, and η is a parameter measuring citizens' de jure power in democracy.
$\rightarrow$In democracy, political power of the citizens shifts to the "right".

Assumptions for Interior Equilibria

Assumption 2 F is defined over $(\underline{\omega}, \infty)$ for some $\underline{\omega} < 0$, is everywhere strictly increasing and twice continuously differentiable (so that its density f and the derivative of the density, f', exist everywhere). Moreover, $f(\omega)$ is single peaked (in the sense that there exists ω^* such that $f'(\omega) > 0$ for all $\omega < \omega^*$ and $f'(\omega) < 0$ for all $\omega > \omega^*$) and satisfies $\lim_{\omega \to \infty} f(\omega) = 0$.

Assumption 3

$$\min\left\{\phi^E(N) f[0] \Delta R, \phi^E(D) f[-\eta] \Delta R\right\} > 1.$$

Timing of Events

At each date t, society starts with a state variable $s_t \in \{D, N\}$. Then:

1. Each elite agent $i \in \mathcal{E}$ and each citizen $i \in \mathcal{C}$ simultaneously chooses how much to spend to acquire de facto political power for their group, $\theta_t^i \geq 0$, and P_t^E is determined according to (8).

2. The random variable ω_t is drawn from the distribution F, and P_t^C is determined according to (9).

3. If $P_t^E \geq P_t^C$ (i.e., $\pi_t = e$), a representative (e.g., randomly chosen) elite agent chooses (τ_t, s_{t+1}), and if $P_t^E < P_t^C$ (i.e., $\pi_t = c$), a representative citizen chooses (τ_t, s_{t+1}).

4. Given τ_t, R_t and w_t are determined and paid to elites and citizens respectively, and consumption takes place.

Symmetric Markov Perfect Equilibria

- Suppose that all other elite agents, except $i \in \mathcal{E}$, have chosen a level of contribution to de facto power equal to $\theta^E(s)$ and all citizens have chosen a contribution level $\theta^C(s)$.

- Consequently, when agent $i \in \mathcal{E}$ chooses θ^i, the total power of the elite will be

$$P^E\left(\theta^i, \boldsymbol{\theta}(s) \mid s\right) = \phi^E(s)\left((M-1)\theta^E(s) + \theta^i\right).$$

- The elite will have political power if

$$P^E\left(\theta^i, \boldsymbol{\theta}(s) \mid s\right) \geq \phi^C(s)L\theta^C(s) + \eta I(s = D) + \omega_t. \qquad (10)$$

- Expressed differently, the probability that the elite have political power in state $s \in \{N, D\}$ is

$$p(s) = F\left[\phi^E(s)\left((M-1)\theta^E(s) + \theta^i\right) - \phi^C(s)L\theta^C(s) - \eta I(s = D)\right] \qquad (11)$$

Value Function of Elite in Nondemocracy

- The payoff of an elite agent i:

$$V^E (N \mid \boldsymbol{\theta}) = \max_{\theta^i \geq 0} \left\{ -\theta^i + p (N) \left(R_e + \beta V^E (N \mid \boldsymbol{\theta}) \right) \right.$$
$$\left. + (1 - p (N)) \left(R_c + \beta V^E (D \mid \boldsymbol{\theta}) \right) \right\}. \tag{12}$$

- FOC for elite agent i:

$$\phi^E f \left[\phi^E \left((M - 1) \theta^E (N) + \theta^i \right) - \phi^C L \theta^C (N) \right] \left[\Delta R + \beta \Delta V^E \right] \leq 1, \tag{13}$$

and $\theta^i \geq 0$, with complementary slackness, where
$\Delta V^E \equiv V^E (N \mid \boldsymbol{\theta}) - V^E (D \mid \boldsymbol{\theta})$.

Value Function of Citizens in Nondemocracy

- The value function for a citizen when the initial political state is nondemocracy is

$$
V^C \left(N \mid \boldsymbol{\theta} \right) = \max_{\theta^i \geq 0.} \left\{ -\theta^i + \left(1 - p \left(N \right) \right) \left(w_e + \beta V^C \left(N \mid \boldsymbol{\theta} \right) \right) \right.
$$
$$
\left. + p \left(N \right) \right) \left(w_c + \beta V^C \left(D \mid \boldsymbol{\theta} \right) \right) \right\}, \tag{14}
$$

- FOC

$$
\phi^C f \left[\phi^E M \theta^E \left(N \right) - \phi^C \left((L-1)\theta^C (N) + \theta^i \right) \right] \left[\Delta w + \beta \Delta V^C \right] \leq 1 \tag{15}
$$

and $\theta^i \geq 0$ with complementary slackness.

Value for Elite in Democracy

- The value function for the elite in democracy:

$$V^E\left(D\mid\boldsymbol{\theta}\right)=\max_{\theta^i\geq 0}\left\{-\theta^i+p\left(D\right)\left(R_e+\beta V^E\left(N\mid\boldsymbol{\theta}\right)\right)\right. \tag{16}$$

$$\left.+(1-p(D)\left(R_c+\beta V^E\left(D\mid\boldsymbol{\theta}\right)\right)\right\},$$

where $p(D)$: probability that the elite maintains power, given as above.

- FOC

$$\phi^E f\left[\phi^E\left((M-1)\theta^E\left(D\right)+\theta^i\right)-\phi^C L\theta^C(D)-\eta\right]\left[\Delta R+\beta\Delta V^E\right]\leq 1 \tag{17}$$

and $\theta^i\geq 0$.

- Value for citizens in democracy similar.

Who Will Invest in De Facto Power?

- Both FOCs for the elite and citizens cannot generally hold as equalities.
- '"Generically" only one of the two groups will invest to increase their de facto political power and this will be the one that has the highest gains from doing so.
- Recall that $L >> M$ implies $\Delta R >> \Delta w$.
- Consequently, it will be the elite that have more to gain from controlling politics and that will invest to increase their de facto power.

Lemma

Any symmetric MPE involves $\theta^C(D) = \theta^C(N) = 0$.

Equilibrium Invariance

- Let us first take the case in which de facto political power can be exercised equally effectively in democracy and nondemocracy, so that

$$\phi^E (N) = \phi^E (D) = \phi$$

- Then from Lemma 1:

$$p(N) \equiv F \left[\phi M \theta^E (N) \right] \text{ and } p(D) \equiv F \left[\phi M \theta^E (D) - \eta \right]. \quad (18)$$

- In symmetric MPE:

$$\phi f \left[\phi M \theta^E (N) \right] \left[\Delta R + \beta \Delta V^E \right] = 1, \quad (19)$$

and

$$\phi f \left[\phi M \theta^E (D) - \eta \right] \left[\Delta R + \beta \Delta V^E \right] = 1. \quad (20)$$

Main Result

Proposition

(Invariance) *Suppose $\phi^E(N) = \phi^E(D) = \phi$. Then there exists a unique symmetric MPE. This equilibrium involves $p(D) = p(N) \in (0,1)$, so that the probability distribution over economic institutions is non-degenerate and independent of whether the society is democratic or nondemocratic.*

Intuition for Result

- Striking result; the effects of changes in political institutions are totally offset by changes in investments in de facto power.
- The two equilibrium conditions can hold as equality only if

$$f\left[\phi M\theta^E\left(N\right)\right] = f\left[\phi M\theta^E\left(D\right) - \eta\right]. \tag{21}$$

- The fact that F is single peaked (cf. Assumption 2) combined with the second-order conditions implies that $M\theta^E\left(N\right) = M\theta^E\left(D\right) - \eta$, or in other words,

$$\theta^E\left(D\right) = \theta^E\left(N\right) + \frac{\eta}{\phi M}. \tag{22}$$

- Then

$$p\left(D\right) = p\left(N\right),$$

which is the *invariance* result

General Characterization: State Dependence

Proposition

(State Dependence) *Any symmetric MPE leads to a Markov regime switching structure where the society fluctuates between democracy with associated competitive economic institutions ($\tau = c$) and nondemocracy with associated labor repressive economic institutions ($\tau = e$), with switching probabilities $p(N) \in (0,1)$ and $1 - p(D) \in (0,1)$. Moreover, provided that $\phi^E(N) > \phi^E(D)$, $p(D) < p(N)$.*

Democracy as an Absorbing State

- Assumption 3 above ensures that investment in de facto power is always profitable for the elite.
- When this is not the case, democracy can become an absorbing state and changes in political institutions will have more important effects.

Proposition

(Democracy as an Absorbing State) *Suppose that (i) Assumptions 1 and 2 hold; (ii) there exists $\bar{\theta}^E(N) > 0$ such that*

$$\phi^E(N) f\left[\phi^E(N) M\bar{\theta}^E(N)\right] \left[\frac{\Delta R + \beta\gamma^E - \beta\bar{\theta}^E(N)}{1 - \beta F\left[\phi^E(N) M\bar{\theta}^E(N)\right]}\right] = 1;$$

and (iii) $\eta > -\underline{\omega}$. Then there exists a symmetric MPE with $p(N) \in (0,1)$ and $p(D) = 0$.

Comparative Statics

Proposition

(Comparative Statics) *Suppose that $\phi^E(N) = \phi^E(D) = \phi^E$. Then:*

1. $$\frac{\partial \theta^*(N)}{\partial \Delta R} > 0, \frac{\partial \theta^*(D)}{\partial \Delta R} > 0 \ and \ \frac{\partial p^*}{\partial \Delta R} > 0.$$

2. $$\frac{\partial \theta^*(N)}{\partial \beta} > 0, \frac{\partial \theta^*(D)}{\partial \beta} > 0 \ and \ \frac{\partial p^*}{\partial \beta} > 0.$$

3. $$\frac{\partial \theta^*(N)}{\partial M} < 0, \frac{\partial \theta^*(D)}{\partial M} < 0 \ and \ \frac{\partial p^*}{\partial M} < 0.$$

4. $$\frac{\partial \theta^*(N)}{\partial \eta} > 0, \frac{\partial \theta^*(D)}{\partial \eta} > 0 \ and \ \frac{\partial p^*}{\partial \eta} > 0.$$

5. $$\partial p^* / \partial \phi > 0.$$

Comparative Statics

- Small improvements in the "quality of democracy," η, may increase persistence and lead to a worse allocation of resources.
    - But not true when changes are "radical".

- Greater rents and greater cohesion within the elite also increase persistence.

But Sometimes

- There seem to be strong mechanisms of persistence at work in social systems even if change is also ubiquitous.

- But we also observe important transitions in institutions toward equilibria that lead to better economic performance and higher welfare.

Effective Reform

- The comparative statics of the model highlight what types of reforms may lead to better institutions.
- First, if democracy creates a substantial advantage for the citizens in the form of a large value of η, then this will end the cycle of institutional persistence and make the permanent consolidation of democracy and non-repressive labor markets an equilibrium.
- Second, if one of the following reforms is undertaken *simultaneously* with the switch to democracy, then the economy is less likely to switch back to nondemocracy and labor repressive economic institutions:
  1. a reduction in $\phi^E(D)$, so that the elite are more limited in their ability to control democratic politics;
  2. a *large* increase in $\phi^C(D)$ (so that the result in the lemma no longer holds);
  3. a *permanent* reduction in ΔR, for example, by means of an increase in λ, which will reduce the potential rents that the elite can obtain and discourage further investments in de facto political power.

Emergence of Good Institutions in England

- 17th Century saw a struggle between Parliament and the Stuart Kings, with the Civil War 1642-1651 and the Glorious Revolution of 1688 when after a brief struggle Parliament ejected James II and made William of Orange King.
- Political Reforms: Regular Parliaments for the first time, Parliament given power over fiscal policy.
- Economic Reforms: removal of ability of Crown to predate on society, abolition of Crown granted monopolies, creation of Bank of England.
- Development of state institutions of taxation (the fiscal-military state).

Origins of the Glorious Revolution

- Why did the Glorious Revolution happen? Why did it lead to better institutions?
- Stuart Kings did not benefit from good economic institutions. They preferred to predate on society, grant monopolies.
- Parliament. Large vested interest in more secure property rights, free entry into profitable lines of business.
- Rapid expansion of commercial and mercantile wealth after the 1620s greatly strengthened the power of Parliament. Also large changes in social structure—Rise of the Gentry. Change in balance of de facto power. Economic change increased costs of economic institutions favored by Stuarts.
- 1688 did not replace one form of absolutism with another (no "Iron Law of Oligarchy"). Balance of power between Parliament and Monarchy after 1688, checks and balances.
- Stakes from power relatively law—Common Law protected those who lost power.

Emergence of Good Institutions in the US South

- Starting in the 1940s rapid convergence of the Southern economy to US average takes place.
- End of isolation of the labor market.
- Abolition of institutionalized racial discrimination in labor markets and social life and re-enfranchisement of blacks culminating in the Voting Rights Act of 1965.

Reform in the US South

- What ended the "Southern equilibrium" was the juxtaposition of several forces including black migration to northern cities after WWII, the mechanization of cotton picking in the 1950s and 1960s, the collective action of the civil rights movement and a sequence of Supreme Court and government decisions, such as Brown versus Board of Education in 1954, the Civil Rights Act of 1964 and the Voting Rights Act of 1965.

- Black migration made the old labor intensive and repressive economy less and less feasible as did the mounting collective action of the civil rights movement.

- At the same time mechanization made it less necessary.

- Apart from these structural changes there is little doubt that federal policy interventions made a difference in undermining the instruments which had maintained the economic and political status quo.

Changes in Economic Conditions

Percentage of Cotton Harvested Mechanically, by State										
Year	Delta states[a]			Non-Delta states						
	AR	LA	MI	AL	GA	NC	SC	TN	TX	VA
1949	1	b	4	b	b	b	1	b	11	b
1950	1	3	3	b	b	b	b	b	12	b
1951	2	11	7	b	2	1	3	b	19	b
1952	2	13	7	1	3	1	1	1	22	b
1953	9	34	13	3	6	3	7	1	24	b
1954	16	28	11	2	3	3	4	1	21	b
1955	25	28	23	2	3	2	2	2	24	b
1956	27	31	25	3	2	3	4	4	25	b
1957	16	35	17	2	2	b	1	1	37	b
1958	22	43	19	1	2	1	1	4	35	b
1959	36	50	38	6	4	5	1	8	44	b
1960	42	49	40	8	14	12	6	19	58	1

Changes in Political Conditions

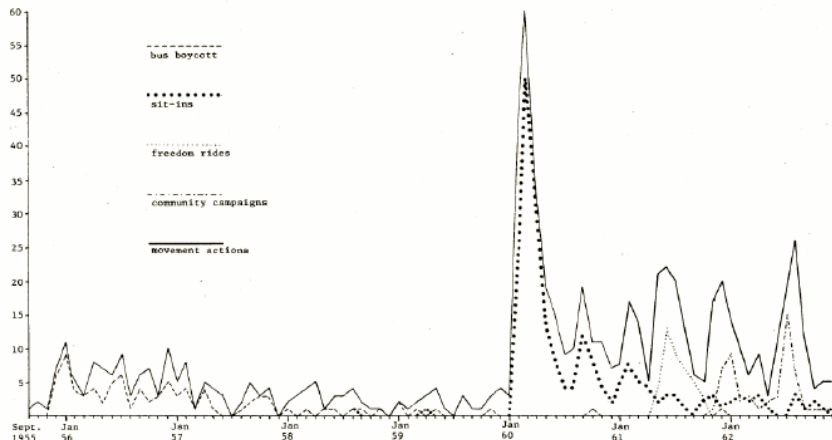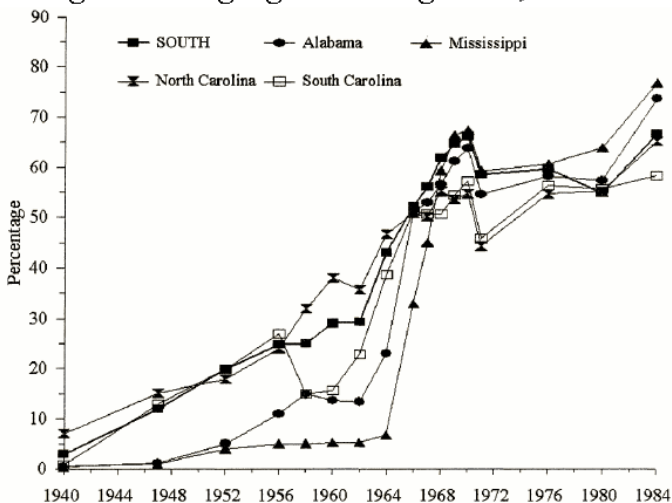Incidence of Different Types of Collective Action, 1955-62

Figure 2. Movement-Initiated Actions, September 1955 through December 1962

Source: *Annual Index* of the *New York Times*, 1955–1962.

End of the Foundations of the Southern Equilibrium

Percentage of Voting-Age blacks registered, Southern States

Observations and Questions

- We have seen a series of examples where despite the fact that there were changes in specific institutions, there is a well defined sense in which institution persist.
- This is because either the distribution of political power persists, or the nature of political incentives and political strategies persists.
- Since the economic institutions which determine economic incentives depend on the outcome of the political equilibrium, the incentive environment also persists.
- Incentives do not necessarily change when either specific institutions or the nature of elites change.
- Neither the idea that institutions are efficient nor the QWERTY metaphor seem helpful in understanding these examples.

Other Types of Persistence

- The model here about *persistence of elites*.
- But this is only one type of persistence of institutions.
- The alternative: *the iron law of oligarchy*.
- Consider the following four gentlemen.
- Is this a coincidence?

Four Rulers of the Congo: Just a Coincidence?
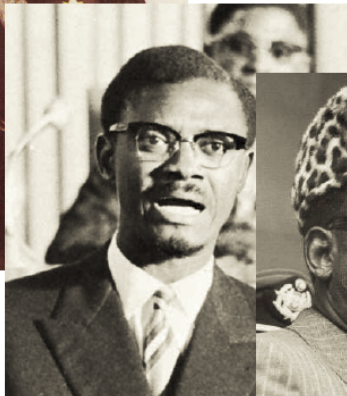
The End of the Solomonic Dynasty in Ethiopia

- In 1974 Haille Selassie who had ruled Ethiopia for 44 years was bundled from power by a military coup headed by the 'Derg'.
- Mengistu Haile Miriam emerged from this junta as the leader, moving into Haile Selassie's old palace and becoming more and more to resemble an autocrat.
- In 1991 the Ethiopian People's Revolutionary Democratic Front captured Addis Ababa and remain in power today with a de facto one party state under Meles Zenawi.

From Haile Selassie to Mengistu Haile Miriam and Meles Zenawi: New Emperors?
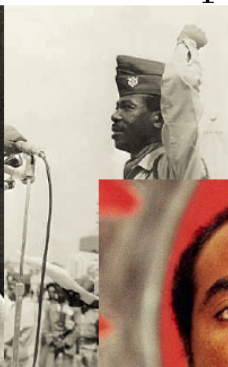
Latin American Examples

- Return to Latin America.
- There were Revolutions where clearly the identity of the elite changes, Mexico, 1910, Bolivia, 1952, Cuba, 1957, Nicaragua, 1979.
- But often disappointingly little real change.
- Persistence?
- *The Bolivian Revolution:* In 1952 a Revolution, masterminded by a political party, the MNR (Movimiento Nacionalista Revolucionario), overthrew the traditional political and economic system.

Persistence in Bolivia

- The three great families that owned the tin mines were expropriated and the mines nationalized. All of the great haciendas and landed elites were expropriated and the land distributed to the peasants. The coalition which had represented these interests in politics, know as La Rosca, was displaced, universal suffrage was introduced, the military disarmed and *pongueaje* (compulsory labor services—apparently the last specific colonial labor institution left in Latin America) abolished.

- Again different from the US South. Freed slaves did not get their 40 acres and a mule, but Bolivian peasants got their 40 hectares and an alpaca!

- By the end of the 1960s Bolivia's Polity score was back to where it had been before the Revolution as was its level of inequality. Economic growth was more or less zero.

- Was it persistence of something that generated this?

Bolivian Land Reform

LAND REFORM IN FOURTEEN LATIN AMERICAN SOCIETIES.[1]

Country[3]	Date program began	Number of families benefited	Number of hectares distributed or confirmed	Approximate percent of all farm families benefited[2]
Bolivia	1955	208,181	9,740,681	45
Brazil	1964	46,457	957,106	1
Chile	1965	15,800	2,093,300	4
Colombia	1961	91,937	2,832,312	6
Costa Rica	1963	3,889	60,055	3
Dominican Republic	1963	9,717	46,082	3
Ecuador	1964	27,857	152,115	6
Guatemala	1955	26,500	166,734	5
Honduras	1963	5,843	90,642	2
Mexico	1916	2,525,811	59,413,656	67
Nicaragua	1964	8,117	357,989	5
Panama	1963	2,594	37,339	3
Peru	1961	31,600	850,522	3
Venezuela	1959	117,286	4,605,594	25

Persistence of Bolivia Inequality
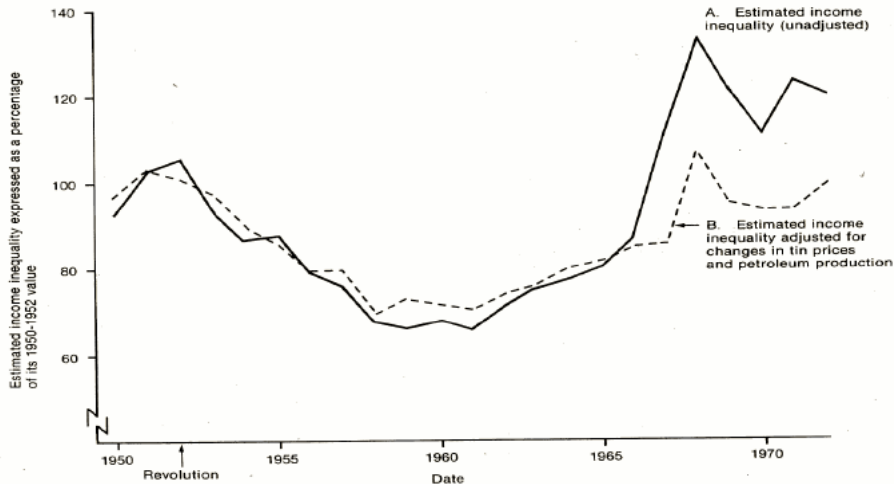
Other Mechanisms

- These examples suggest different (though related) mechanisms of persistence.

  1. *Fighting Fire with Fire: Persistence of Bad Rulers*
     - When faced with an unscrupulous leader opponents may be forced themselves to back an alternative who is unscrupulous because he may have a far higher chance of unseating the incumbent. But after winning such new leaders may be just like the old ones to little changes.

  2. *Iron Law of Oligarchy: Persistence of Bad Rules*
     - Dysfunctional institutions create incentives for their own re-creation.

Need for Theory and Next Lecture

- We do not currently have a good understanding of all of these social processes.
- Lack of models highlighting specific mechanisms.
- Lack of systematic framework.
- Next lecture: first steps towards a "general" framework