

Bob Bates:

Political institutions → Economic policies → Create incentives → Enhance economic performance
Thus, political institutions are what you need to focus on

Acemoglu and Robinson – Why Nations Fail

Chapter 1

Patent System/Intellectual Property Rights → Capital Market → Banks
Land granted generally in US, to elites in Latin America

Chapter 11

The Virtuous Circle:

Pluralism → Competition/Compromise → Rule of Law → Inclusive Economy → More Participants →
More Participants → More Support for Rule of Law

Leads to prevention of monopolies (too much power threatens other groups)

Leads to media, which also supports the system

Chapter 12

The Vicious Cycle

Extractive economies → Forced Labor → Less Participation → Less Rule of Law → More power
More power → More Extraction

Los Dos Nogales

Virtuous Cycle

Vicious Cycle

North and Weingast

Glorious Revolution sought:

Property Rights

Protection of Wealth

Elimination of Confiscatory Government

If these aren't protected:

Markets can't function

People won't innovate

No growth → Poor living conditions

Parliament had the power to replace the king, BUT:

Didn't work in the past

Could check the king

King accepted this outcome as well

Parliament's new taxes funded a popular war

King was shown to be vulnerable

Once rights were ceded to parliament, the virtuous cycle began

How could they make the king credibly commit to these things?

Reputation works sometimes, but not always

New sources of revenue mean you can renege on the old ones

Times of emergency

Institutions! The king was incentivized by taxes (Pincus and Robinson)

The King had to go through Parliament, who didn't want a powerful king

Bank of England primary lender to king

If no interest payments, no more loans

Earmarks and reserve set aside

Commitment!

Evidence:

More loans to the king

More money in circulation

More drawing accounts

North and Thomas

Chapter 1:

Property rights induce creativity and innovation

Institutions such as this are costly

Government institutions are sticky (costly to withdraw)

However, government institutions are the most efficient at protecting property rights

They solve the collective action problem

BUT: They are not always incentivized to maximize growth

Some leaders just want to make a quick buck

Property rights aren't **rational**

Yet somehow property rights came about: How?

Population growth led to feudalism → **Stability**

Population reduction led to scarce labor → **Competition**

More permanent use of property, beginnings of property rights

Netherlands

Population growth + advanced technologies (boats) + encouraged innovation + central markets:

= Highly prosperous Netherlands, despite being tiny and not having resources

Developed "capital markets" which allowed for more innovation

IOUs became transferable

Deposit accounts means stored capital

The one thing missing was intellectual property rights

The English took what the Dutch had, applied their extant property rights, and excelled

Problems to Overcome:

<u>Problem</u>	<u>Game</u>	<u>Solution</u>
Information:	Battle of the Sexes	Institutions
Commitment:	Dictator Game Ultimatum Game AS AN Institution	Institutions/Repeated Game
Collective Action:	Prisoners Dilemma	Institutions

Discussion Questions

Is the United States falling into a vicious cycle? Why do you think that? Does our pluralist heaven protect us? In what ways might the United States be different than the cases studied in the readings? What readings suggest we are just as susceptible to these forces? Do we have any extractive institutions in the US?

Do we buy the causal argument in North and Weingast? What are some other possible explanations for the change of power?

Should countries with historically poor institutions still strive for democratic governance? Are some countries fated to be successful and others not? What would this week's authors say?

What is the role of democracy in developing the institutions discussed this week? What are the roles of these institutions in forging a democratic society?

Does culture have any role to play in what institutions are successful? How does China fit into this scheme?

While many think that the United States is comprised of inclusive, rather than extractive, institutions, it has largely been the case that advanced nations, even when inclusive at home, have been extractive abroad. What kinds of institutions might we set up so that we are internationally, not just domestically, inclusive?