

Why some countries grow rich, and others don't

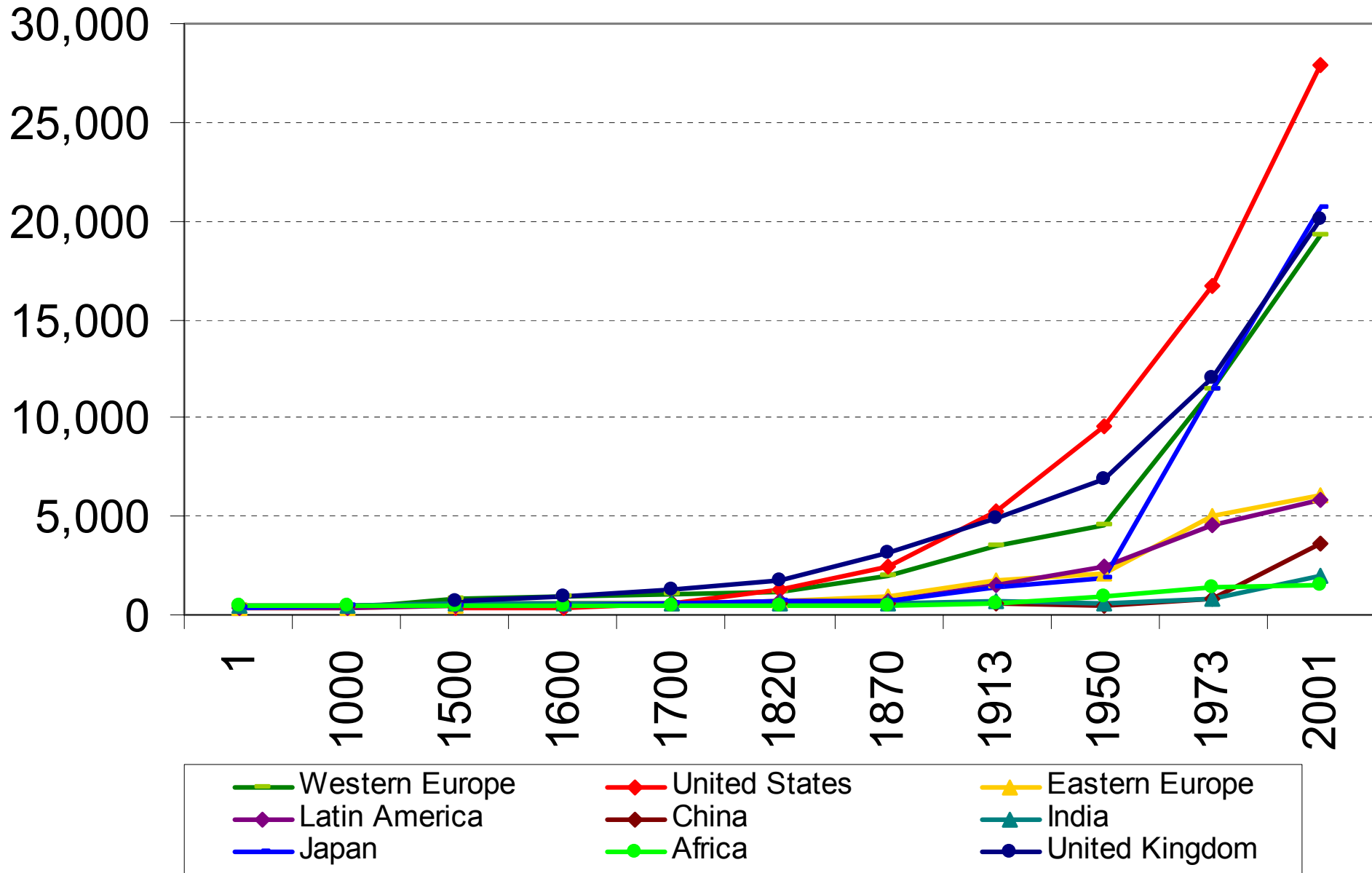
2008 Yan Fu Memorial Lecture

James A. Robinson
Harvard University

The Comparative Prosperity of Nations

- Vast differences in prosperity across countries today.
 - Income per capita in sub-Saharan Africa on average $1/20^{\text{th}}$ of U.S. income per capita
 - In Mali, Democratic Republic of the Congo, and Ethiopia, $1/35^{\text{th}}$ of U.S. income per capita.
- These differences emerged in the past 200-300 years starting in the early modern period.

Per-capita GDP (Maddison) The Great Divergence



The Pre-Modern World

- Before the modern period there was no tendency towards sustained increases in living standards.
- Long periods of economic success, such as the Greek city states, Rome, Carthage, or the Classic Mayan period, but followed by subsequent decline with little long-run change in income per-capita.

The Rise and Decline of Rome as measured by Shipwrecks

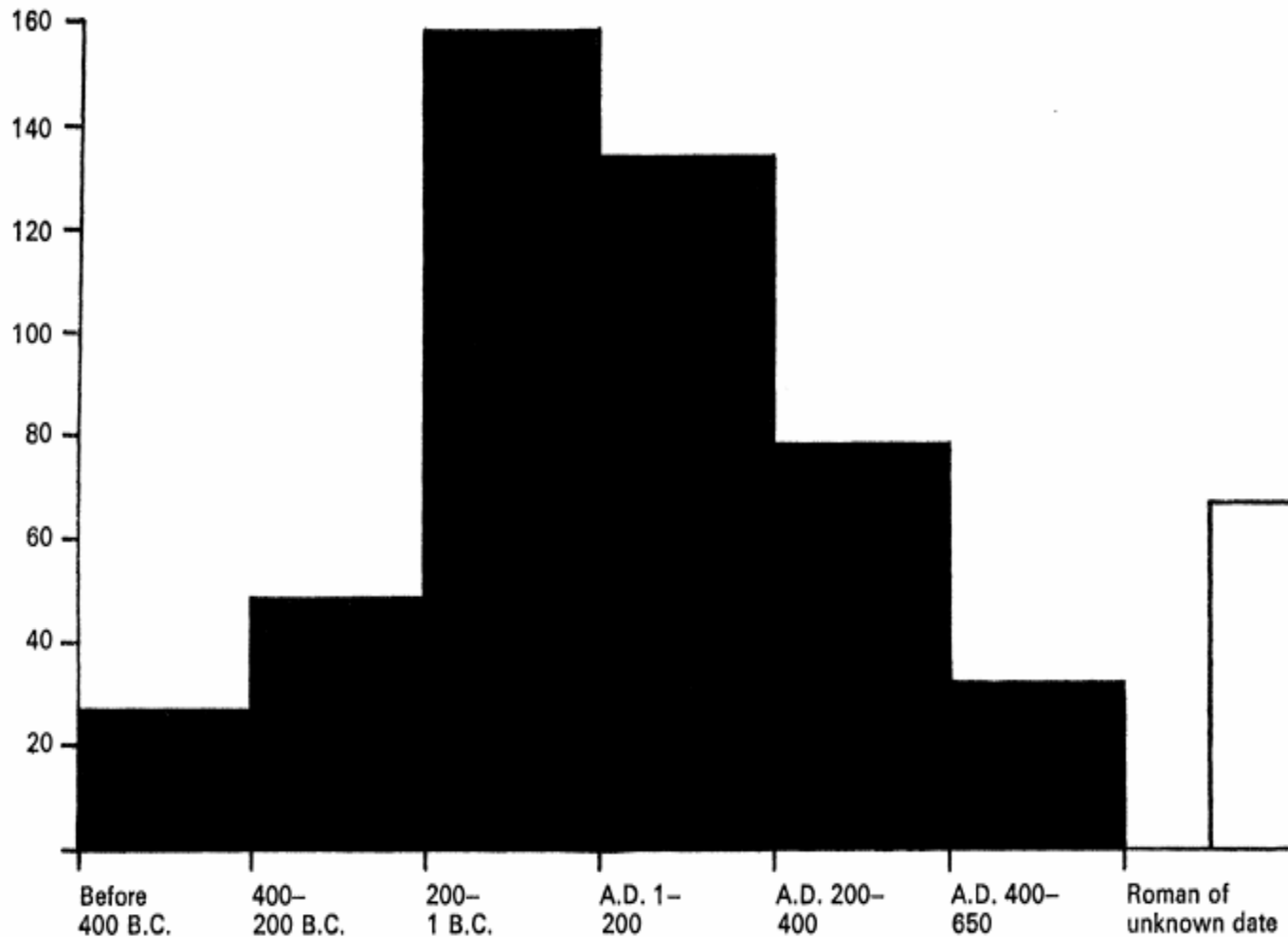


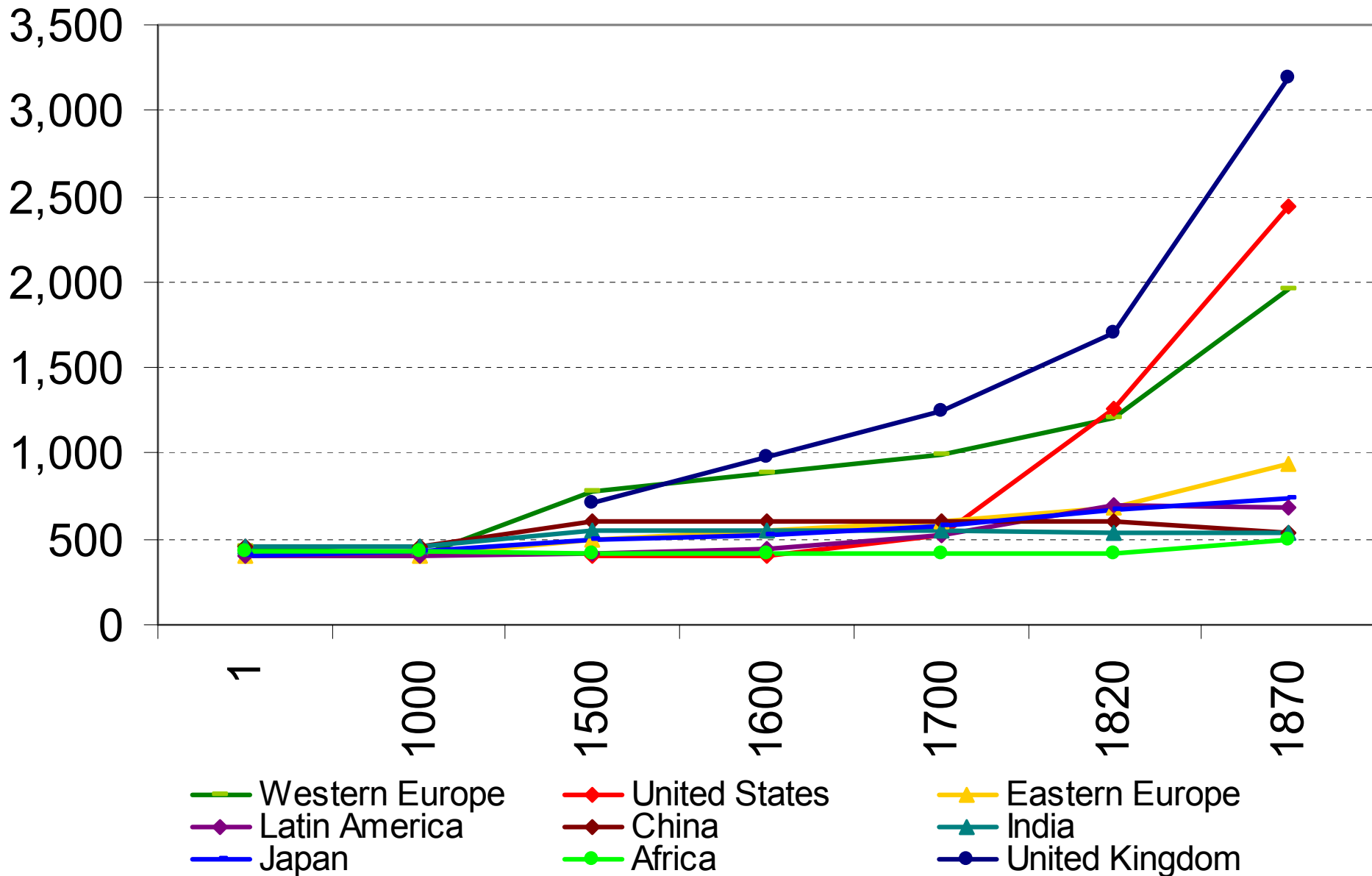
FIG. 1. NUMBER OF DATED ANCIENT SHIPWRECKS IN MEDITERRANEAN WATERS. See n. 15 for source.

Hopkins, Keith (1980) Taxes and Trade in the Roman Empire (200 B.C.-A.D. 400), *Journal of Roman Studies*, Vol. 70. (1980), pp. 101-125.

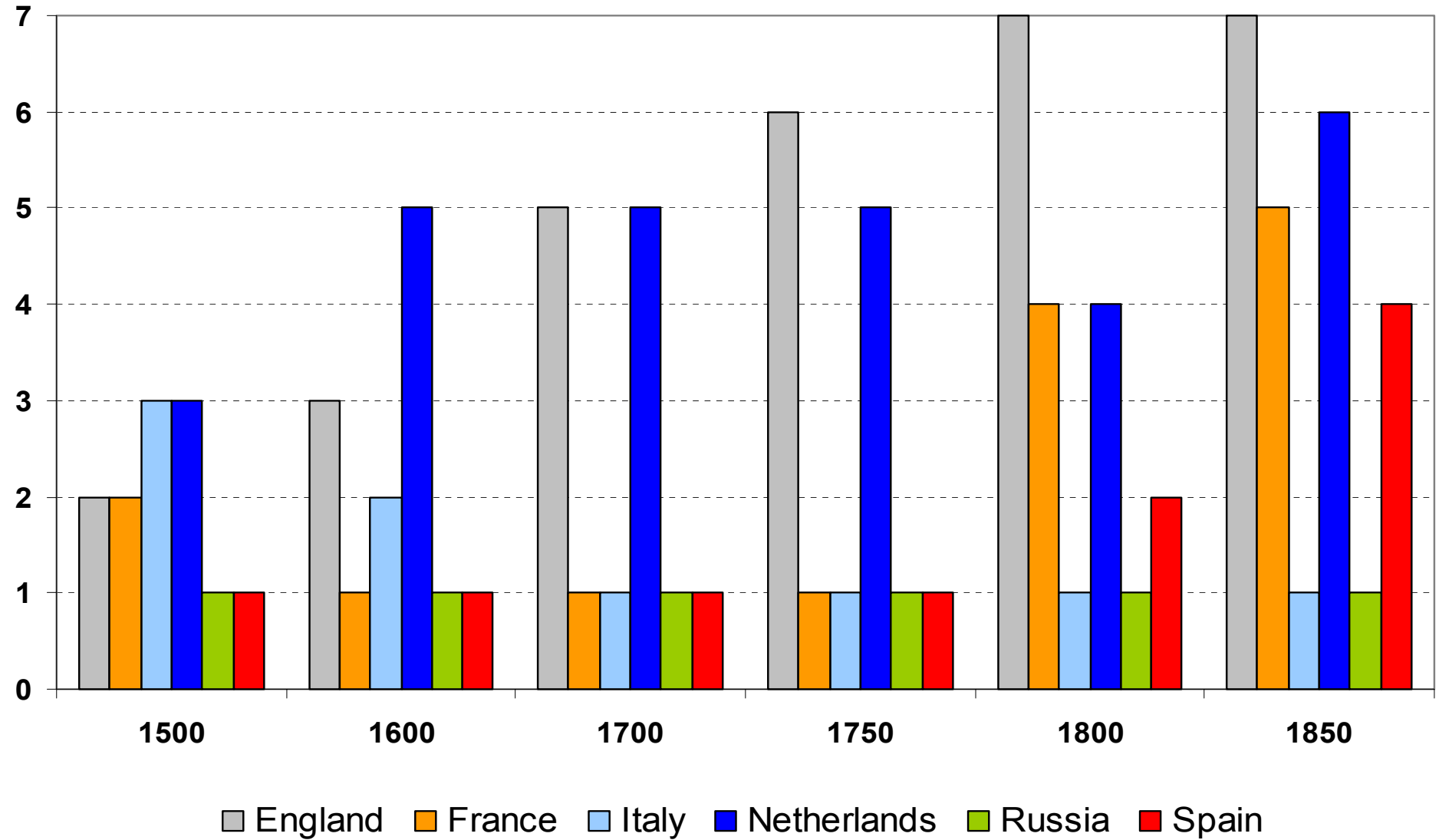
The Rise of the (Dutch and) British

- Initial emergence of sustained economic growth comes in the Netherlands in late 16th and Britain in 17th century.
- Change in development path correlated with institutional changes. The Dutch Revolt starting in the 1560s threw off Habsburg absolutism. The Glorious Revolution in Britain in 1688 removed the threat of Stuart absolutism. Parliament sat regularly for the first time and took control of fiscal policy.
- These changes in political institutions coincided with distinct changes in economic institutions. Greater security of property rights, abolition of monopolies and Crown granted rents.

Income per-capita up to 1870



Constraints on the Executive in Early Modern Europe



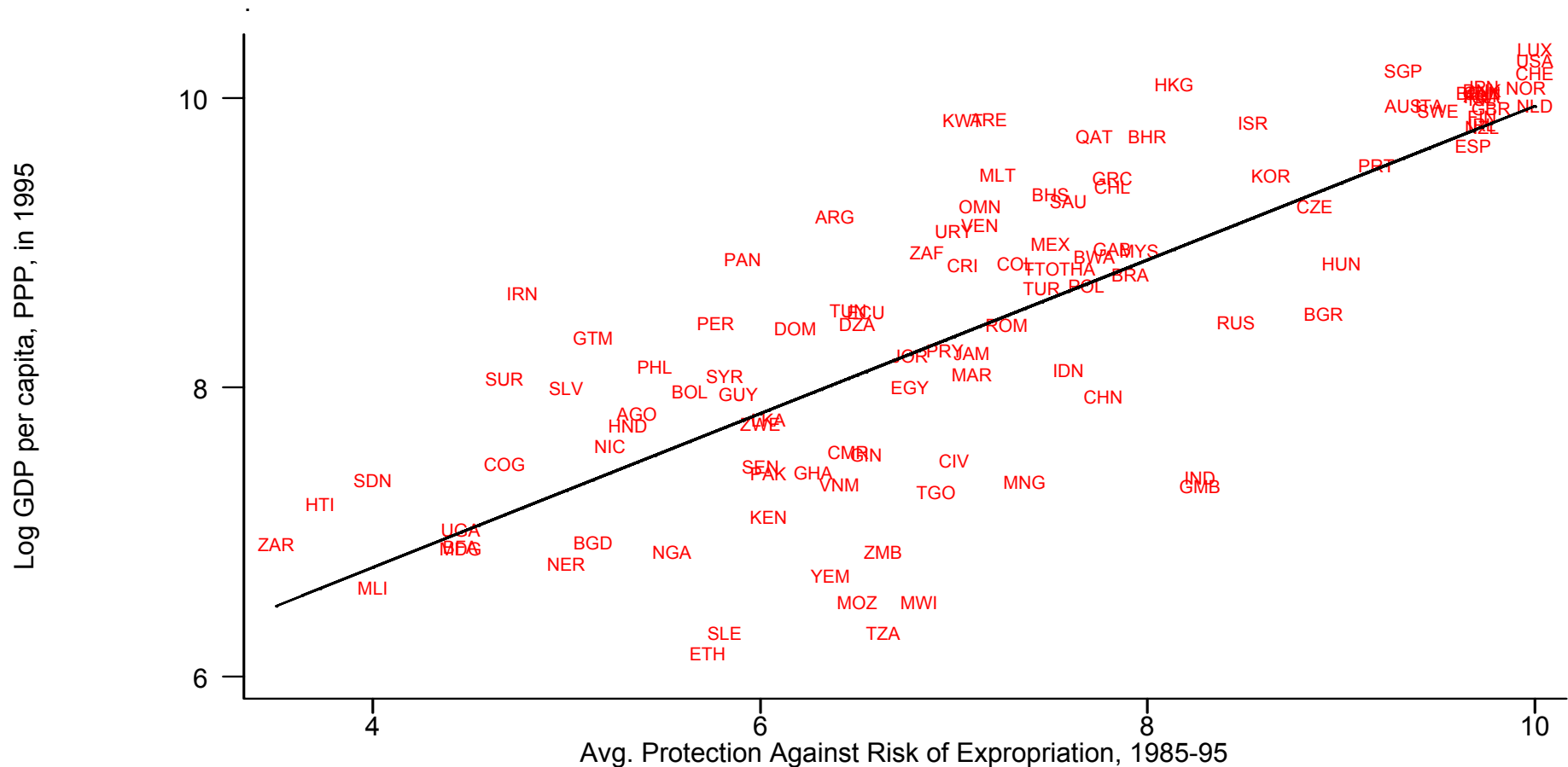
A Hypothesis about these Patterns

- The Dutch and British experience suggests that their economic success was a consequence of institutional innovation.
- Economic institutions were adopted which created incentives for innovation and investment and the efficient allocation of resources.
- Can we explain cross-national differences in incomes today and the Great Divergence by appealing to differences in institutions? In this lecture I will argue that we can.

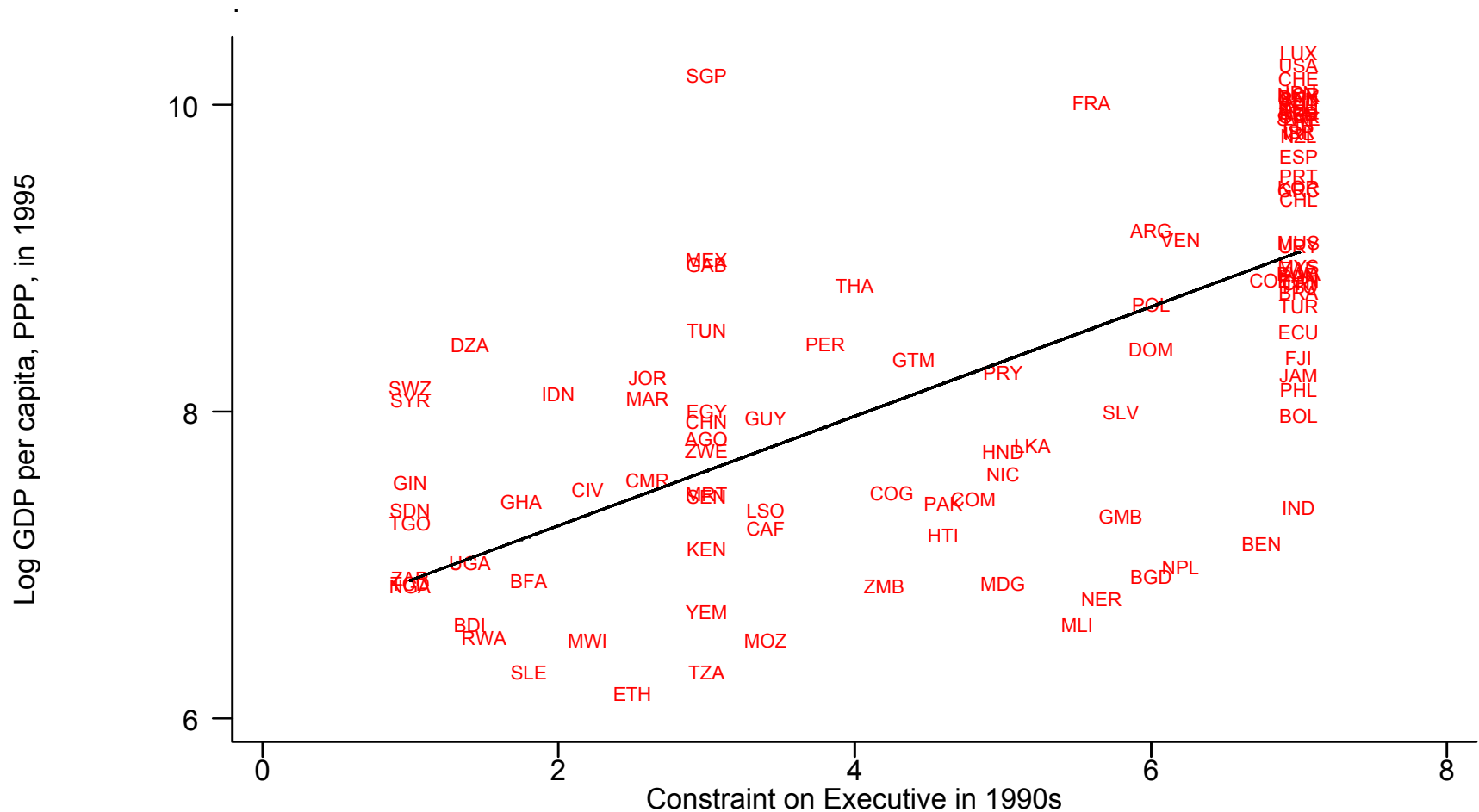
Institutions and Incomes today

- A great deal of empirical work in the last decade has focused on showing that differences in economic institutions today explain the preponderance of income differences between poor and rich countries (though there is much we still don't understand..).
- Simple correlations with respect to political institutions also suggest the Dutch/British story is generalizable.
- Economic institutions are better when there are more constraints on the executive.

Economic institutions (security of property rights) and economic performance



Political institutions (constraints on the executive) and economic performance

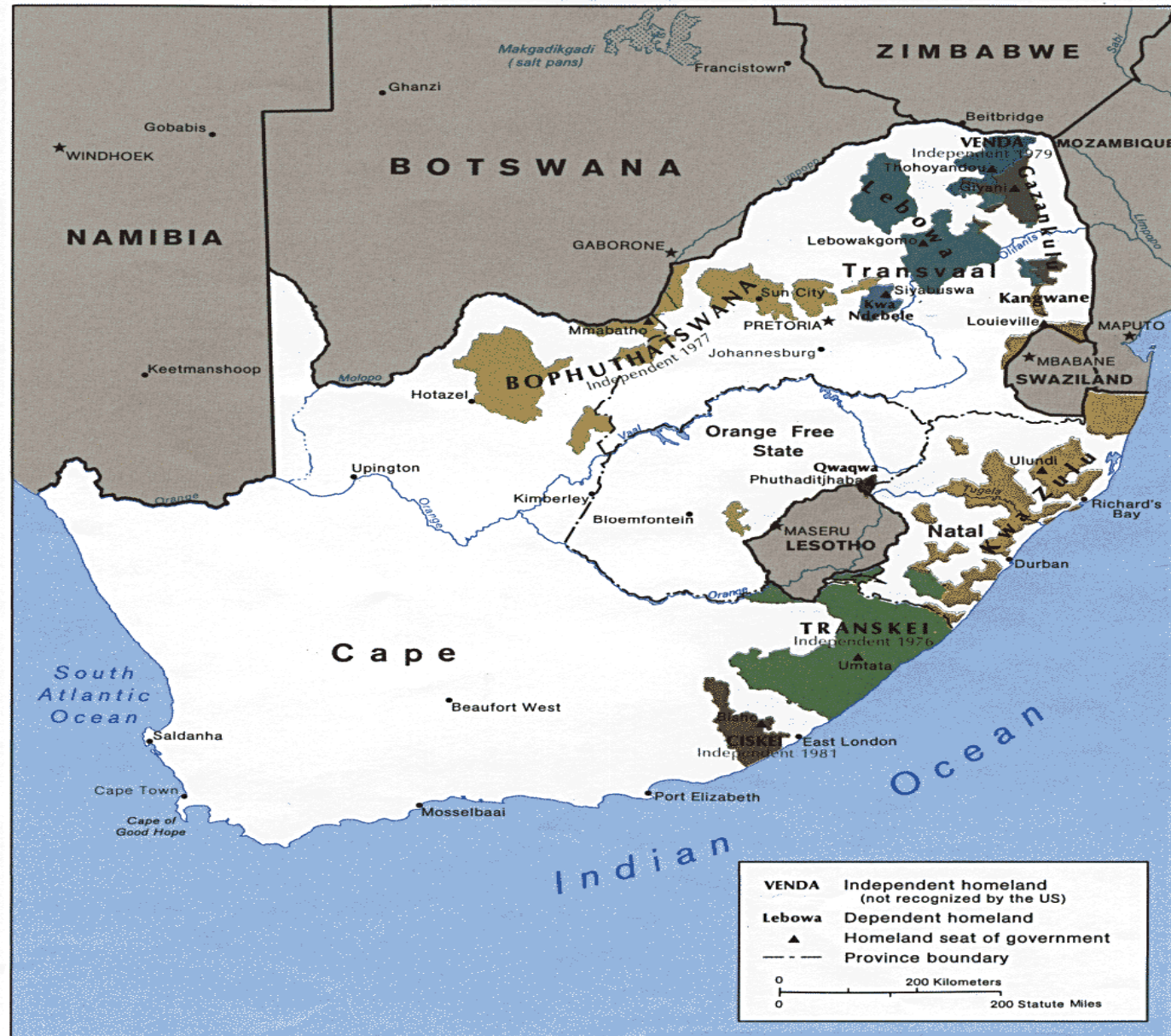


Institutional Origins and Variation

- To say that institutional differences are the main driving force behind income differences poses the problem of why institutions differ and why all societies don't adopt institutions that make them rich.
- Two main reasons that countries have economic institutions that do not promote development:
- Because bad institutions distribute income in particular ways.
- Because good institutions do not sustain the existing distribution of political power.

Structuring Institutions to Extract Rents

South Africa: Black Homelands



Blacks were banned from skilled professions

76

An Economic History of South Africa

Table 4.1. *1904 schedule of skilled trades and occupations reserved for European workers*

amalgamator	engineer	painter
assayer	engine-driver	patternmaker
banksman	fireman-overseer	pipeman
blacksmith	fitter	plasterer
boiler-maker	ganger	plate-layer
brass-finisher	ironmoulder	plumber
brassmoulder	joiner	pumpman
bricklayer	machine rockdriller	quarryman-overseer
brickmaker	machine sawyer	rigger
carpenter	machinist	sampler
clerk	mason	signaller
coppersmith	mechanic	skipman
cyanide shiftsman	mill	stonecutter
drill sharpener	millwright	timberman
driver of air	mine carpenter	timekeeper
or steam winch	mine overseer	tinsmith
driver of mechanical	mine storeman	turner
or electrical machinery	onsetter	wiresplicer
electrician	overseer ^a	woodworking machinist

^a In any capacity other than the management and control of labourers.

Source: Van der Horst, *Native labour*, p. 171.

Feinstein, Charles (2005) *An Economic History of South Africa*, New York: Cambridge University Press.

Whites incomes were (are) 10 times black incomes

South Africa in international perspective

11

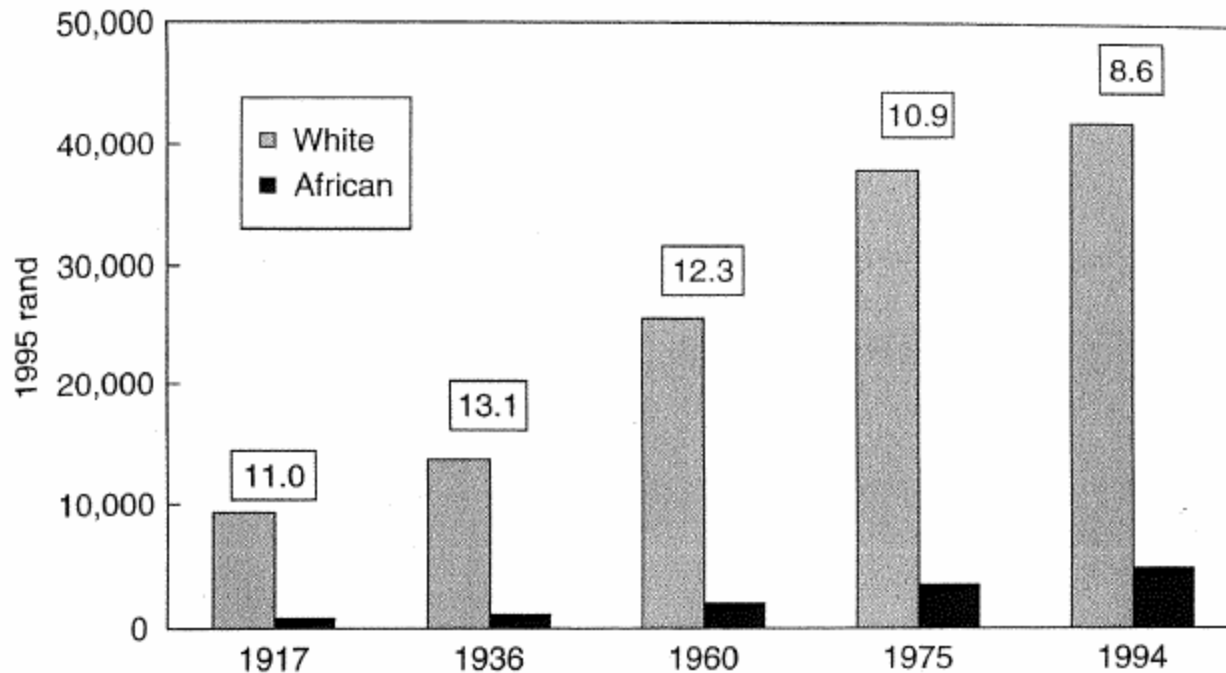
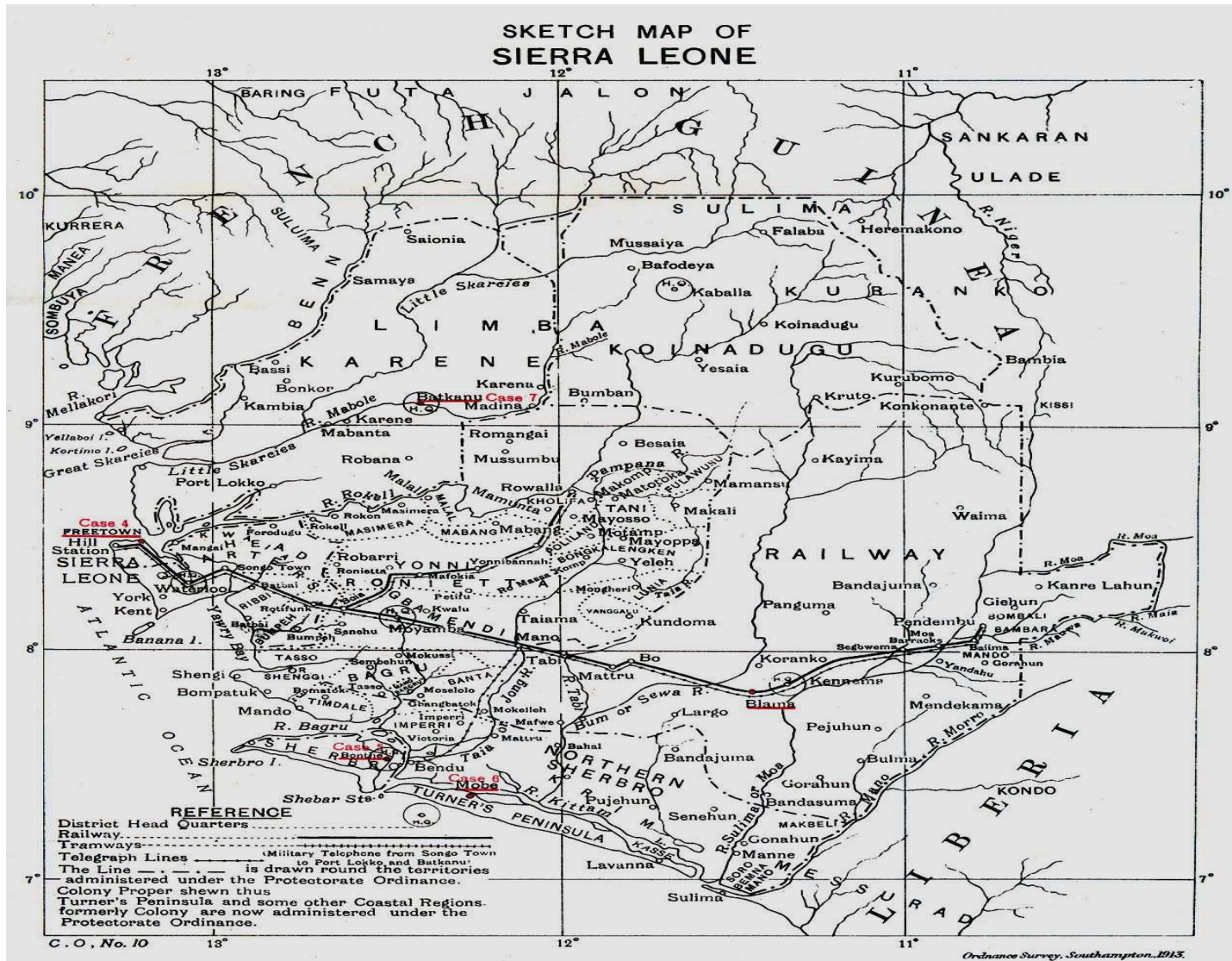


Figure 1.3. Per capita personal income, white and African, selected years, 1917–94

Note: Figure above bars is ratio of white to African per capita personal income.

Sierra Leone in 1913

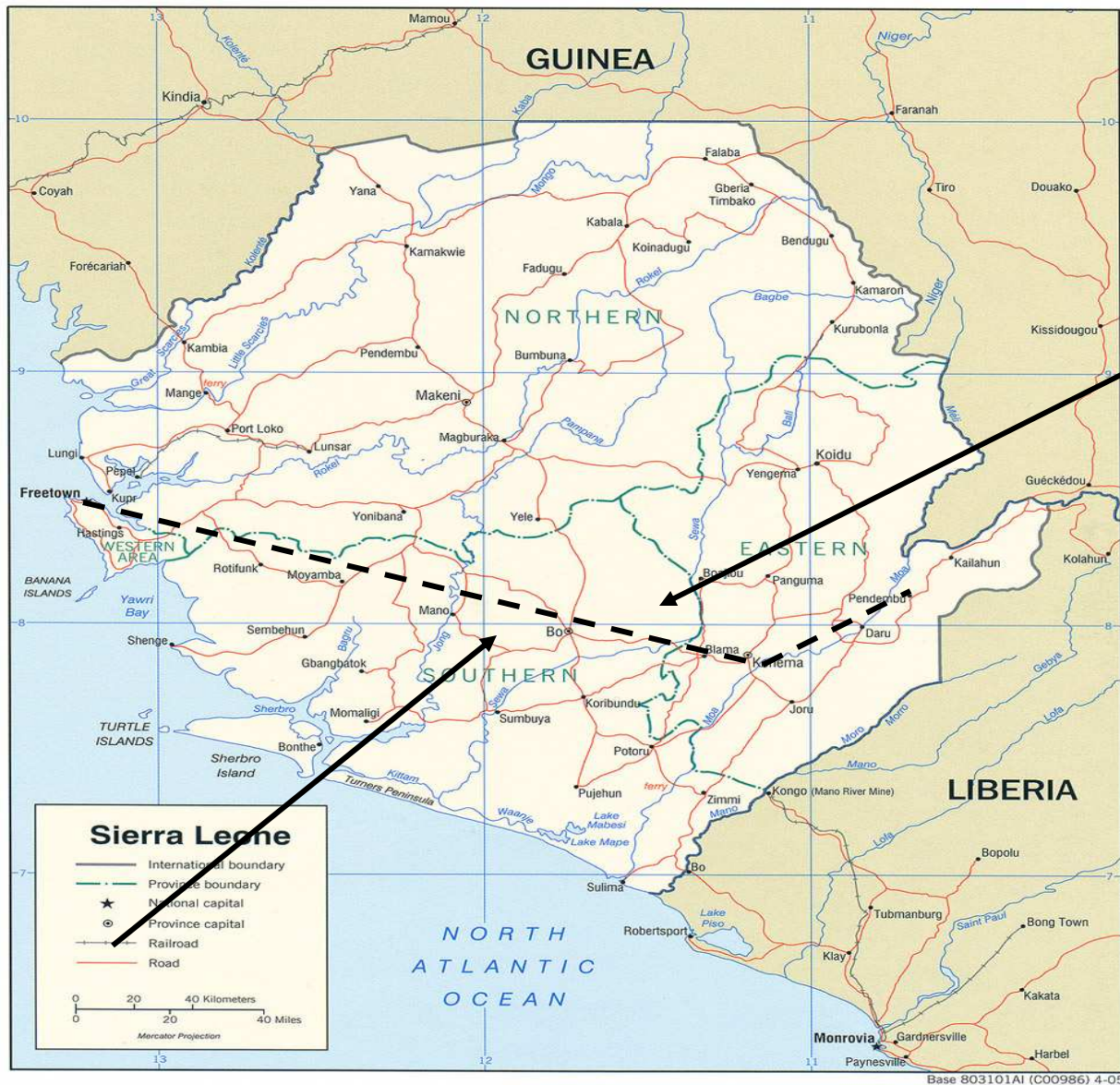


"Sketch Map of Sierra Leone" from Great Britain Parliament House of Commons Sesional Papers, Colonial Reports - Annual. No. 797, 1913

Sierra Leone in 2005 – Spot the Difference



Hint: Where did the Railway go?

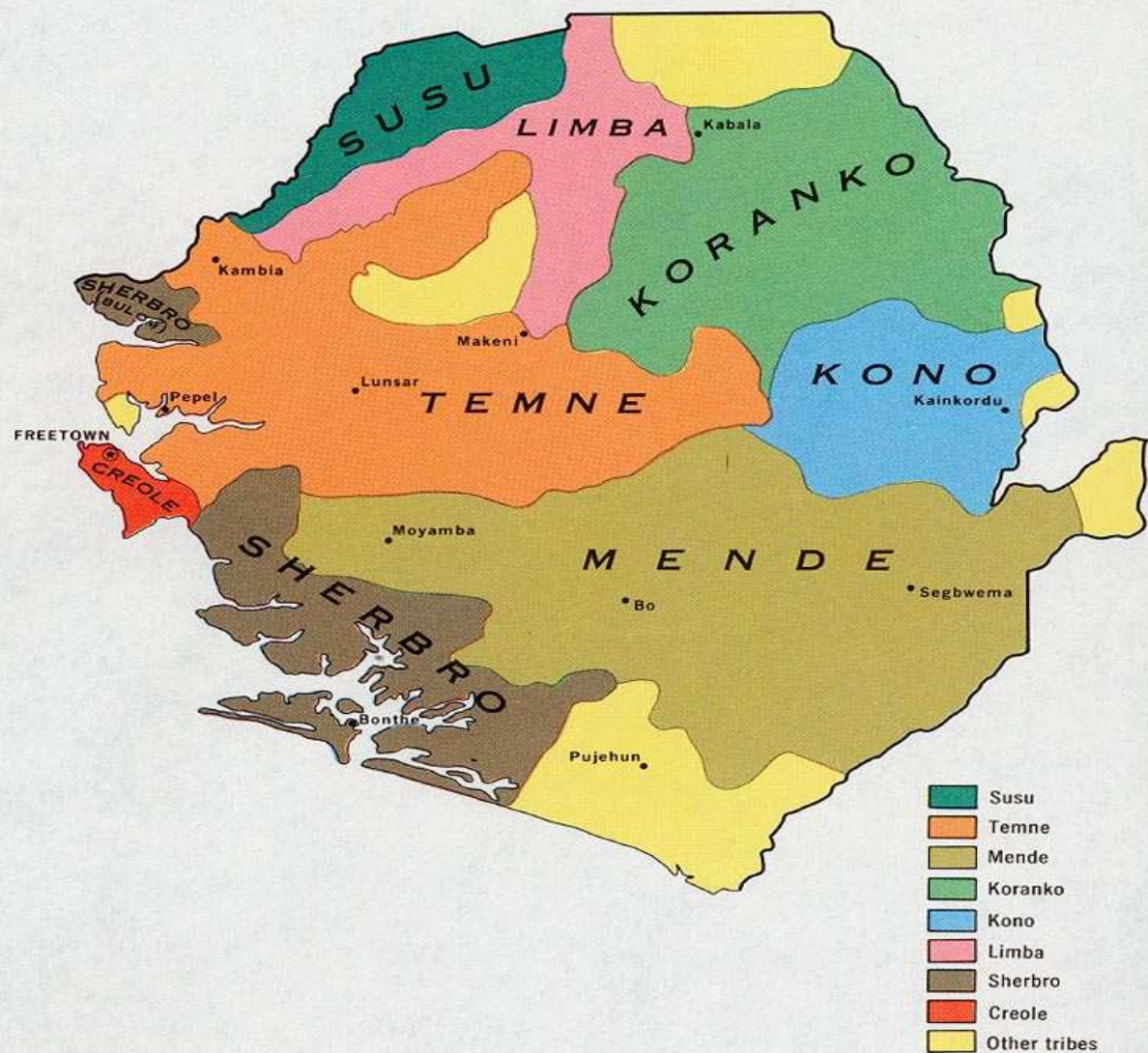


The line of
no rail?

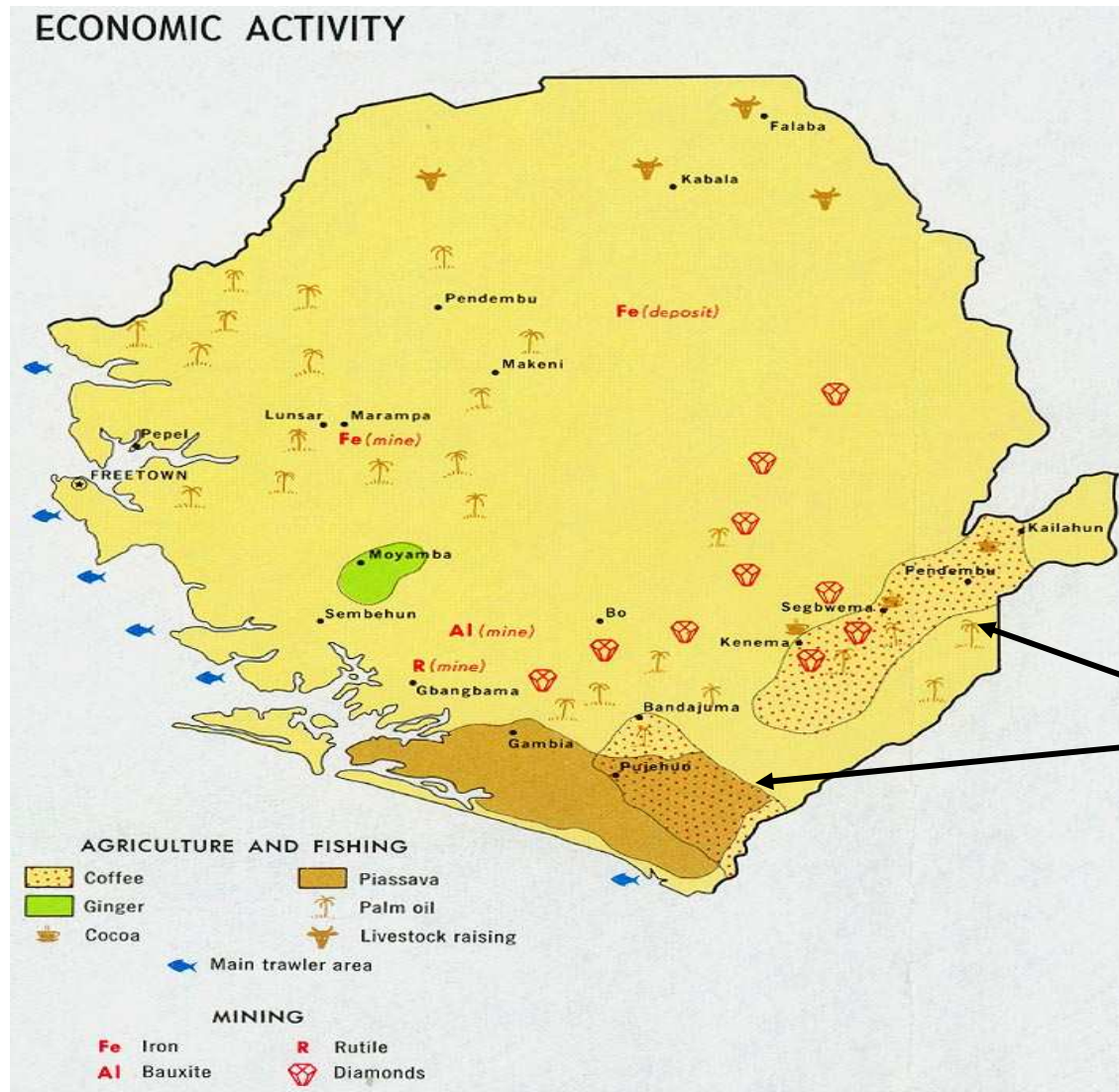
What Happened to the Railway in Sierra Leone?

- At independence in 1961 the British handed power to Sir Milton Margai and his Sierra Leone People's Party (SLPP) which attracted support primarily in Mendeland.
- In 1967 the SLPP narrowly lost a hotly contested election to Siaka Stevens' All Peoples Congress party (APC).
- One of Stevens' first acts was to pull up the railroad to isolate and undermine the economy of the East and the rural support for the SLPP.
- But this also crippled the coffee farmers.
- (After he retired in 1985 he remarked in a BBC interview that if he had his time again this is the one thing he would have done differently!).

ETHNIC GROUPS



Coffee in Mendeland



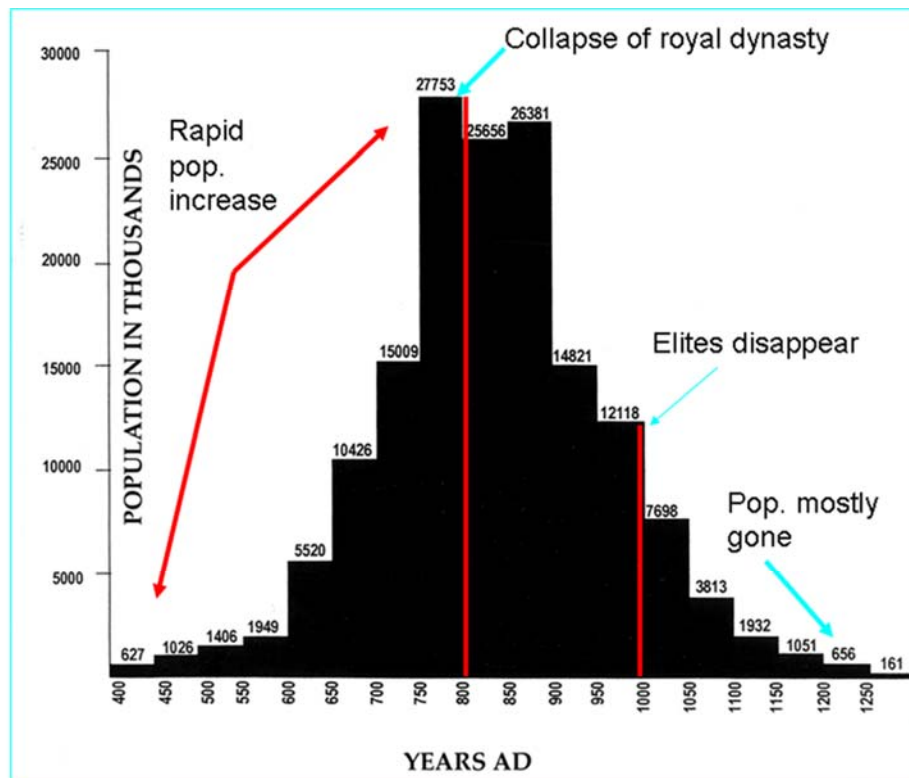
Coffee

Pre-Modern Stagnation

- Pre-modern economic successes coincided with the emergence of states which were able to provide public goods such as order, protect trade etc.
- But they were not sustained because they created rents and conflict and the states collapsed.

The Rise and Fall of Copán





POPULATION HISTORY OF COPAN WITH SUPERIMPOSED COLLAPSE PROCESS

British Political Development

- My argument about the origins of bad institutions emphasizes the interests of those with political power.
- If institutions were to get better, the distribution of power had to change, for example in the direction of those with a vested interest in better institutions (merchants). But political institutions also had to change (fewer rents).
- The British did not start with good institutions. But what is unique is the way the distribution of political power evolved in the century before 1688 as a result of economic and social change.

The Rise of the English Gentry

Table V *Distribution of landownership in England: percentages of cultivated land owned*

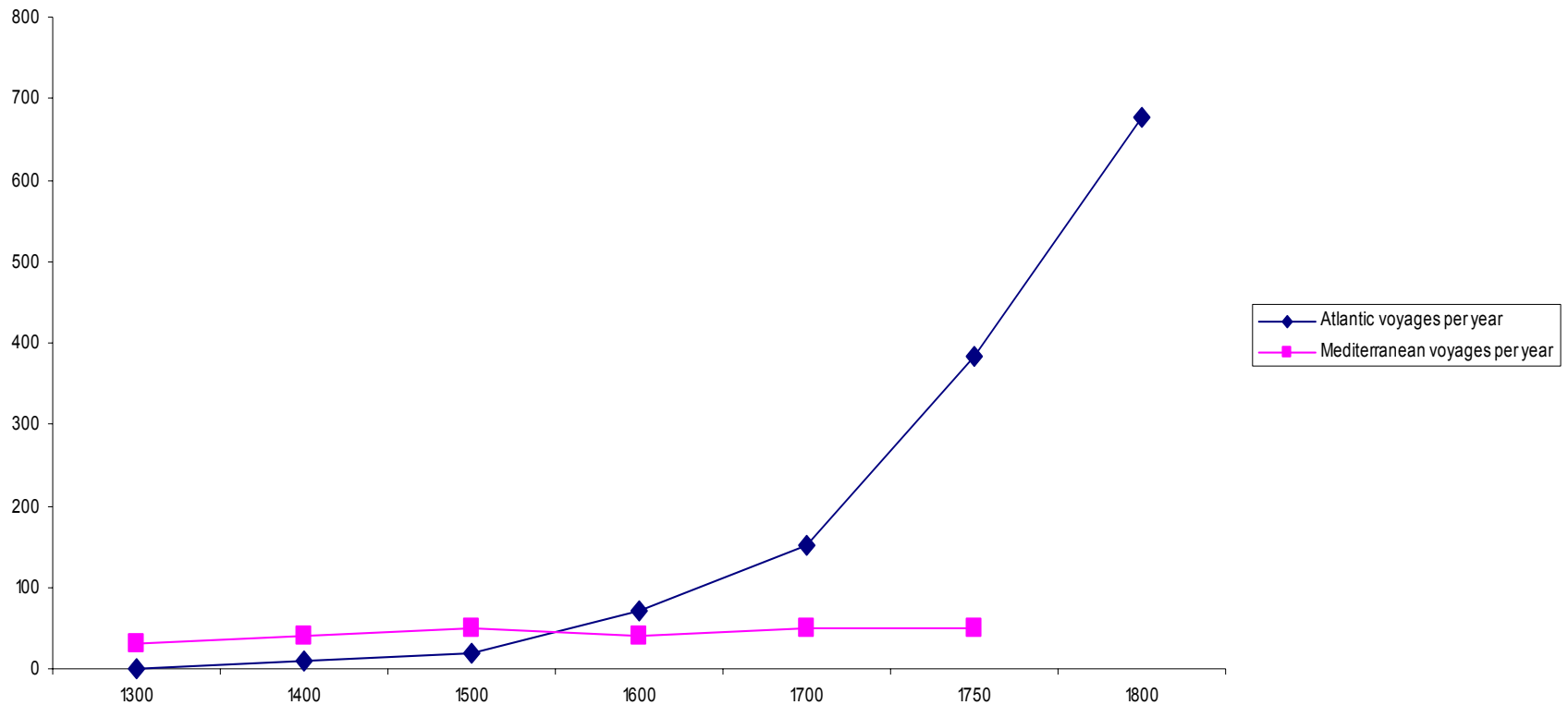
		Mid 15th century (1436)	Late 17th century (1688)
Aristocracy and gentry	Great magnates	15-20	15-20
	Middling and lesser gentry	25	45-50
Yeomen, family farmers and other small owners		20	25-33
Church		25-35	5-10
Crown			

Sources: Mingay, 1976, p. 59. Cooper, 1967.

Taken from Christopher Clay (1984) *Economic Expansion and Social Change: England 1500-1700*, Volume 1. p. 143.

Dramatic Expansion of Trade

Voyages per year: Atlantic Trade (to Americas, African coast and Asia via Cape), and Mediterranean (W.Europe, excluding Britain and Netherlands, to Levant)



Source: Acemoglu, Daron, Simon Johnson and James Robinson (2005) “The Rise of Europe,” *American Economic Review*.

Institutional Transition in Britain

- Power moved from the Stuart monarchs to those in Parliament which had a greater interest in socially efficient economic institutions.
- But 1688 did not replace one form of absolutism with another as the Civil War had (no *Iron Law of Oligarchy*). Britain not a democracy in the modern sense, but balance of power between Parliament and Monarchy after 1688, checks and balances.
- Stakes from power relatively low, Common Law protected those who lost power.

The Great Divergence

- Institutional change and economic growth in Britain had profound impacts on the rest of the World.
- Many similar processes in Western Europe spurred by inter-state conflict and the institutional innovations during the Napoleonic era. So rapid economic convergence.
- Huge gaps open up with the rest of the World.

Why did Africa Stagnate?

- African lagged historically in some respects (the Neolithic Revolution), but not in others (iron working).
- 1500 years ago the economic gap with Europe was small, but Africa did not undergo the types of institutional changes, particularly political development which Europe did.
- Institutional and economic stasis – reinforced by the external environment, slave trade (contrast with impact of Atlantic trade on Britain..) and then colonialism (recall South Africa..).
- No intrinsic reason for Africa to be poor as Botswana shows – a country which experienced a unique historical pattern of political development.

Aksumite oxen and plough technology, 400AD



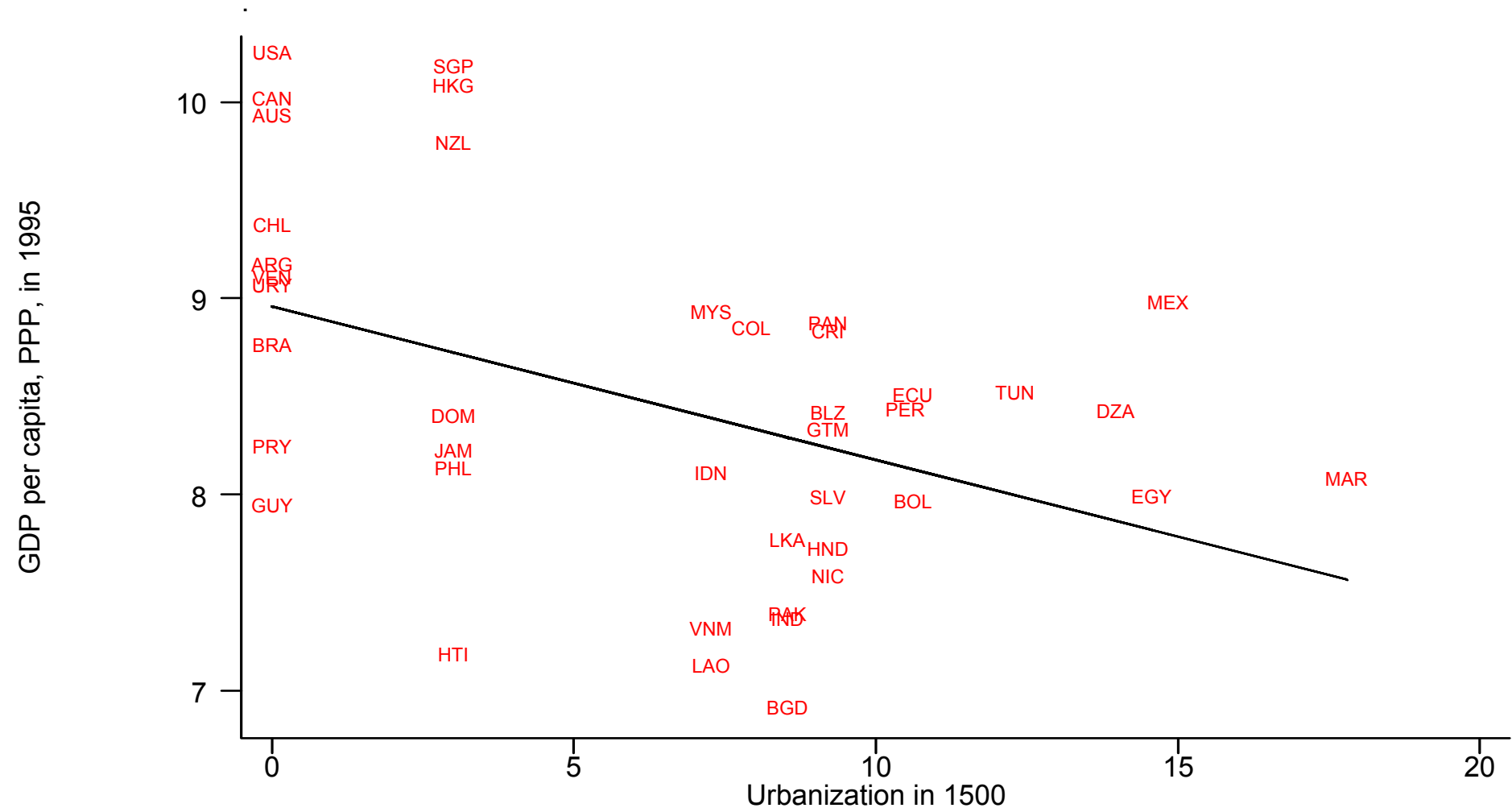
Tigray, June 2007



Why did Latin America Stagnate?

- In 1500 Latin America was richer than North America (at least measured by urbanization or population density). This is reversed today (a general pattern among European colonies).
- Reflection of the profound diverging impact of European colonialism.
- In Latin America societies emerged based on the extraction of rents from indigenous peoples and natural resources. Such a society was infeasible in North America: Atahualpa vs. Powhattan.

European colonies which were relatively rich in 1500 are today relatively poor



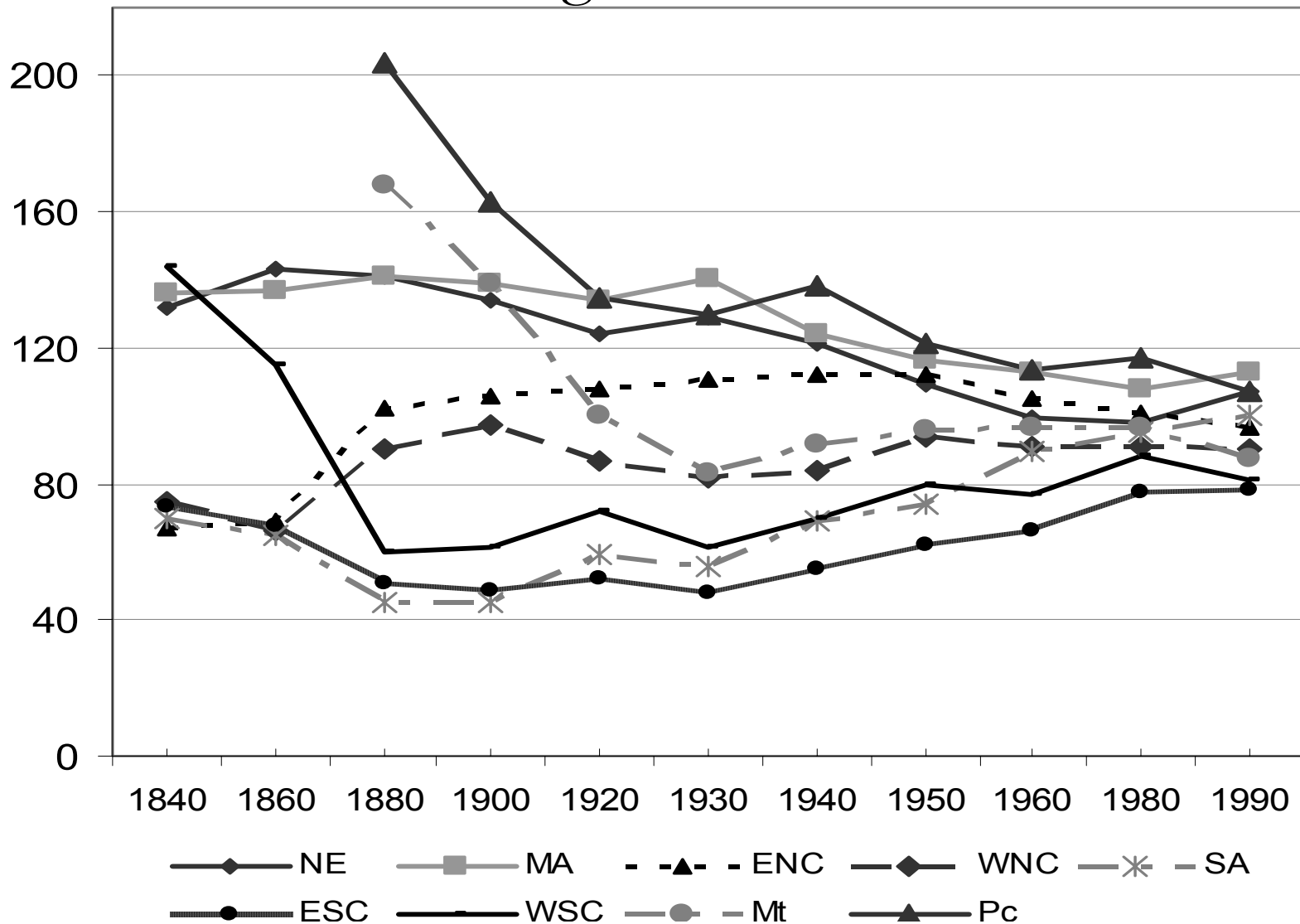
European colonies which were relatively rich in 1500 are today relatively poor



Persistence of Institutions

- How can such events which happened 500 years ago influence the development prospects of nations today?
- Once a set of institutions gets created it tends to be highly persistent.
- This can be true even if on the face of it there is change. Consider the case of the US South after the US Civil War of 1860-65.
- South was relatively backward and had bad economic institutions (slavery) which were abolished in 1865. It should have got richer, but did not.

Income per-capita Relative to the US Average in US Regions since 1840



Source: Easterlin (1960, 1961), Barro and Sala-i-Martin (1991).

The persistence of the landed elite in three “Black Belt” counties of Alabama

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, Morns	Marengo	41,000		
Number of planters		25	18	16
Percent present in 1870			72%	64%

^aRounded off to the nearest thousand; as reported in the U.S. Census of Population, manuscript schedules. To convert to constant gold prices, see p. 14, note 13.

^bWealth of father or husband

Source: Weiner (1978, Table 2, p. 12)

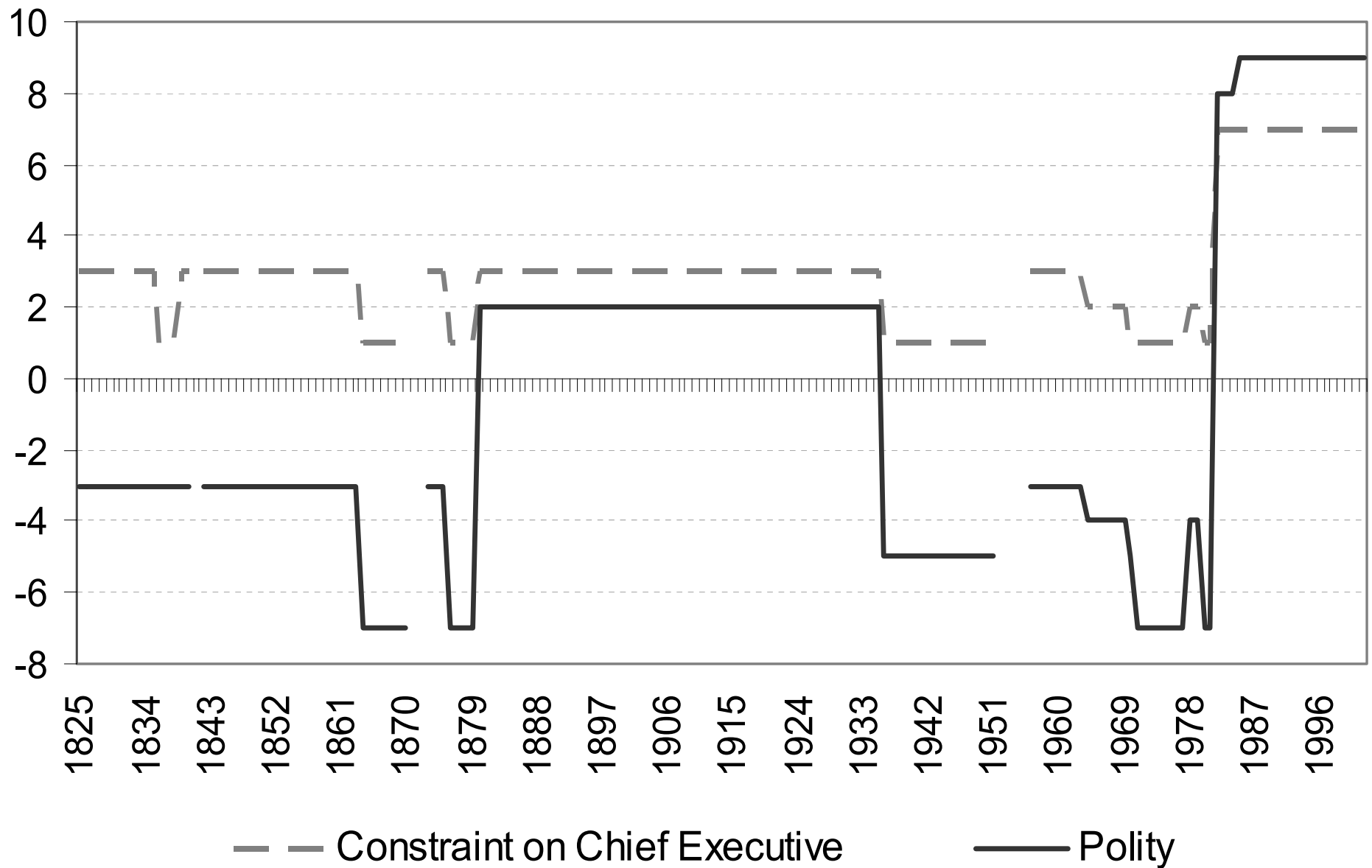
The Iron Law of Oligarchy

- In the US South the elite persisted and were able to use alternative instruments to extract rents from blacks. The details were different but the economic consequences were the same.
- This suggests that things would have been different if the elite had been expropriated (and freed slaves given their 40 acres and a mule as promised).
- But new elites may adopt the same strategies as existing ones – what Robert Michels called the *Iron Law of Oligarchy*, which makes the outcome of the Glorious Revolution even more surprising!

The Bolivian Revolution

- In 1952 a Revolution, masterminded by a political party, the MNR, overthrew the traditional political and economic system.
- The three families that owned the tin mines and all of the landed elites were expropriated and the land distributed to the peasants. Universal suffrage was introduced and *pongueaje* (compulsory labor services - apparently the last specific colonial labor institution left in Latin America) abolished.
- 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.

Democracy and Political Constraints in Bolivia



The Recreation of Inequality in Bolivia

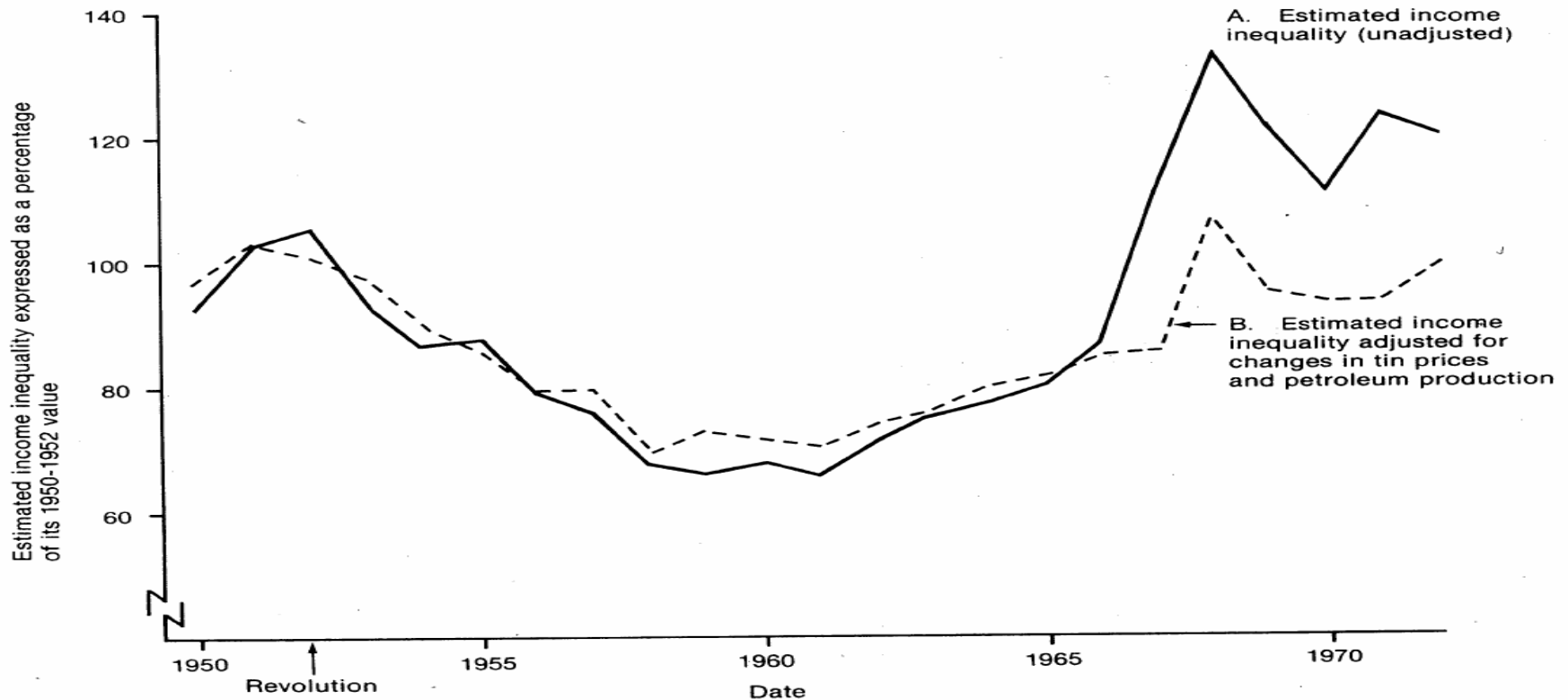


Figure 6.7 Estimated income inequality in Bolivia, 1950–1972. Inequality is measured by the standard deviation and expressed as a percentage of its 1950–1952 value. Alternative estimates with and without adjustments for changes in tin prices and petroleum production. *Source:* See the text and Appendix 5, section 2.

From: Jonathan Kelley and Herbert S. Klein (1981) *Revolution and the Rebirth of Inequality*, Berkeley; University of California Press.

But Eventually US South Changed

- Starting in the 1940s the South began to converge rapidly to US average income.
- Juxtaposition of several things which changed the political equilibrium.
- Black out-migration – loss of control of labor force.
- Mechanization of cotton picking – less need to repress large labor force.
- Blacks solve the collective action problem – civil rights movement.

The Mechanization of cotton picking

Percentage of Cotton Harvested Mechanically, by State										
	Delta states ^a			Non-Delta states						
Year	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

^a The term “Delta” status, used in some USDA publications, is given for convenience. This designation is flawed, however, since part of each of Arkansas, Louisiana, and Mississippi lies outside the Mississippi Delta subregion.

^b Less than 0.5%

Incidence of Different Types of Collective Action, 1955-62

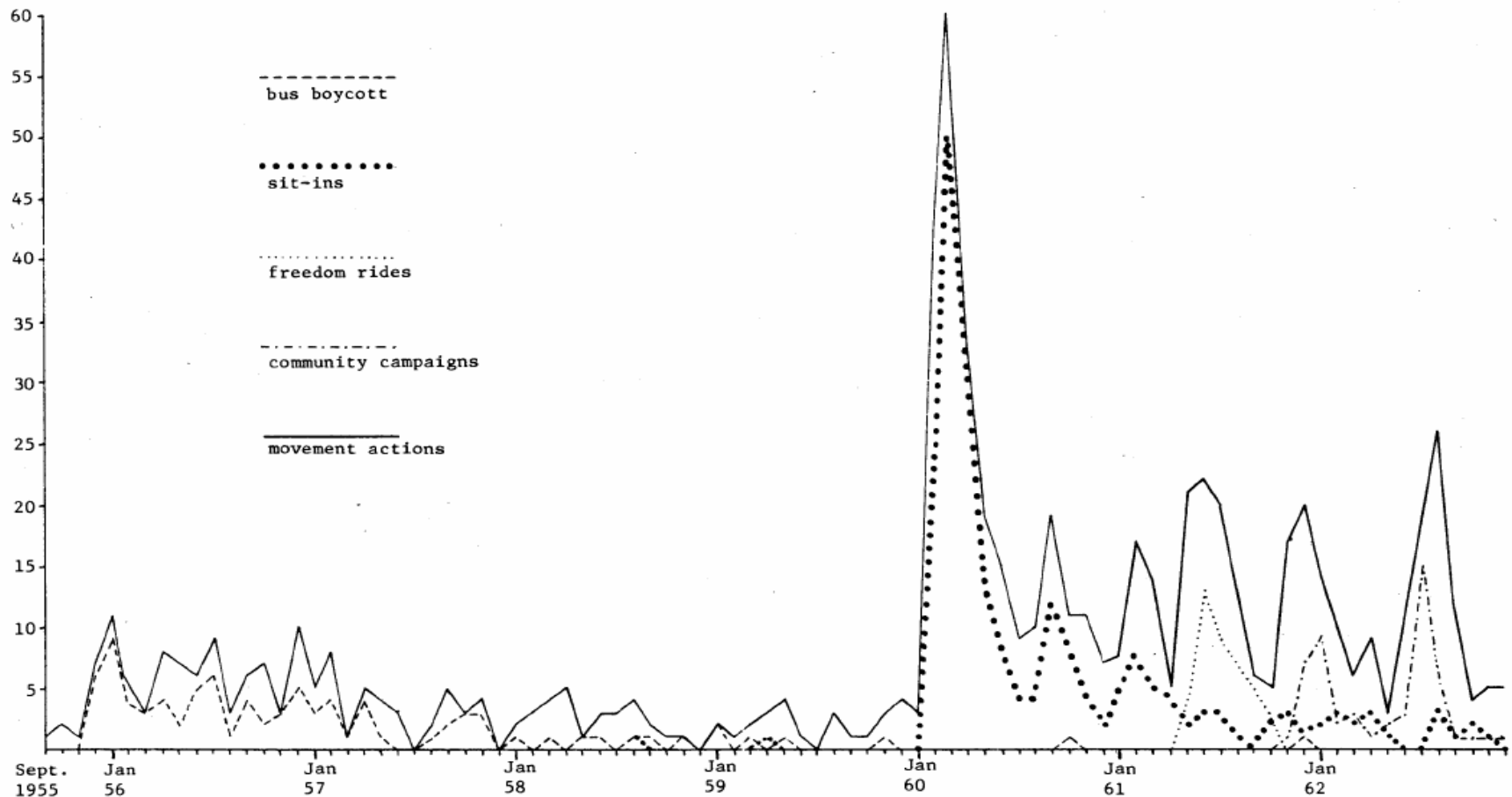


Figure 2. Movement-Initiated Actions, September 1955 through December 1962

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

Source: McAdam (1983)

Conclusion #1

- Though I emphasize there is much to learn, I tried to give an institutionalist narrative about comparative World development, inspired by the British experience of 1688 and consistent with the recent cross-country empirical work.
- Britain developed a set of political institutions which empowered those with a vested interest in good economic institutions, but also created checks and balances. We don't really understand why the Iron Law of Oligarchy did not apply.

Conclusion #2

- British and other experiences suggest that it is difficult to create a political equilibrium conducive to development. This is why there are so many poor people in the world.
- We need a better understanding of the forces that lead such equilibria to persist and change. To achieve that we need to study more experience of successful change, such as that in China since 1979...
- However, pro-development political equilibria in East Asia seem qualitatively different from those I have discussed. For instance, no example of “developmental dictatorships” in Africa or Latin America.