

Order & Violence (Political Economy of Development)



Week 4: Institutions
Chris Blattman

Week 4 objectives

1. Only a fairly small number of societies have developed strong states alongside constraints on power (institutions)
 - Why is the subject of huge numbers of books and articles
2. Whenever they emerged, these institutions would form a highly attractive and powerful form of political organization
 - Favored extraction of taxes
 - Favored capitalist growth (at least in last 500 years)
3. It's more important to understand some general principles than every specific argument
4. Most states for most of history have been elite groups forming a coalition or oligarchy and extracting rents
 - Institutions not designed to maximize good but to preserve power
5. The main purpose of institutions here is to entrench these elite privileges

Week 4 objectives (continued)

6. These institutions are incredibly persistent, or path dependent, because they are costly to change once developed and generally recognized
7. Elites and other groups are constantly competing to coopt these institutions, or at least get included in the ruling coalition
8. But there are also moments in history, or events, where new bargains can be struck—so-called “critical junctures”
9. More open institutions emerge when ruling coalitions get larger, by accident or design
 - Because more groups acquire and demand power
 - Because of chance decisions and events
 - Rarely because someone aimed for more inclusive, open institutions for their own sake
10. The process is incredibly messy and hard-to-understand
11. Most theories have some merit, but overstate their explanatory power and understate the role of chance

Part I: States, institutions, and development

Institutions

“ The rules of the game

—D. North (1994), *Institutions and Credible Commitment*

“ [Shared] rules that structure social interactions

— J. Knight (1992), *Institutions and Social Conflict*

“ A set of rules, compliance procedures, and moral and ethnical behavioral norms...

—D. North (1981), *Structure and Change in Economic History*

What do these rules do?

One answer: reduce the costs of political bargaining and economic transactions

- Political organization and economic exchange (trade and specialization) require bargains
- Implicit or explicit, these contracts must be defined and enforced, and the costs of doing so are transactions costs
- Uncertainty must be reduced and limited
- Need procedures to detect deviations from the rules, and enforce compliance
- Formal: Laws, courts
 - Can be expensive
- Informal: Customs, norms, and ideological consensus
 - Can be cheaper

A second common answer: Constrain power

“ 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.

—D. North (1981), *Structure and Change in Economic History*

Some examples of constraining institutions

- Hold political power accountable
 - Rule of law, constitutions, electoral rules, divisions of power
 - Could be formal (written) or informal (reputation, norms)
- Restrict ability to expropriate
 - Property rights
 - Systems of contract enforcement, rule of law
 - Could be formal (written laws) or informal (kin networks, customs)



British Magna Carta, 1215

So let's move away from a single continuum of state development and add a second institutional dimension

“Stateless”

Chieftoms, bands, and other small political units, often with informal systems of rule



“Early states”

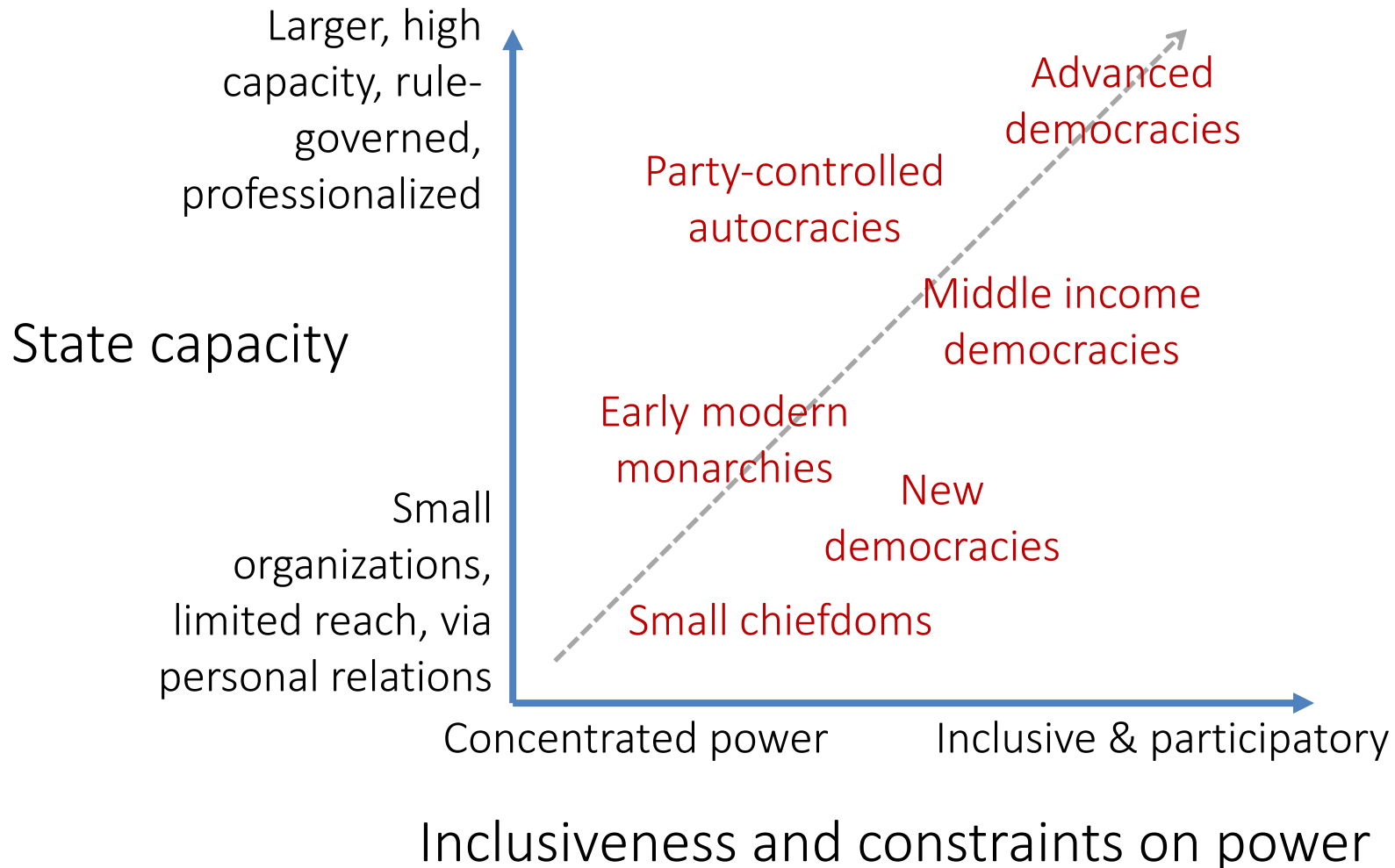
Larger, more hierarchical, often coercive political authority(ies) that may only loosely control the people



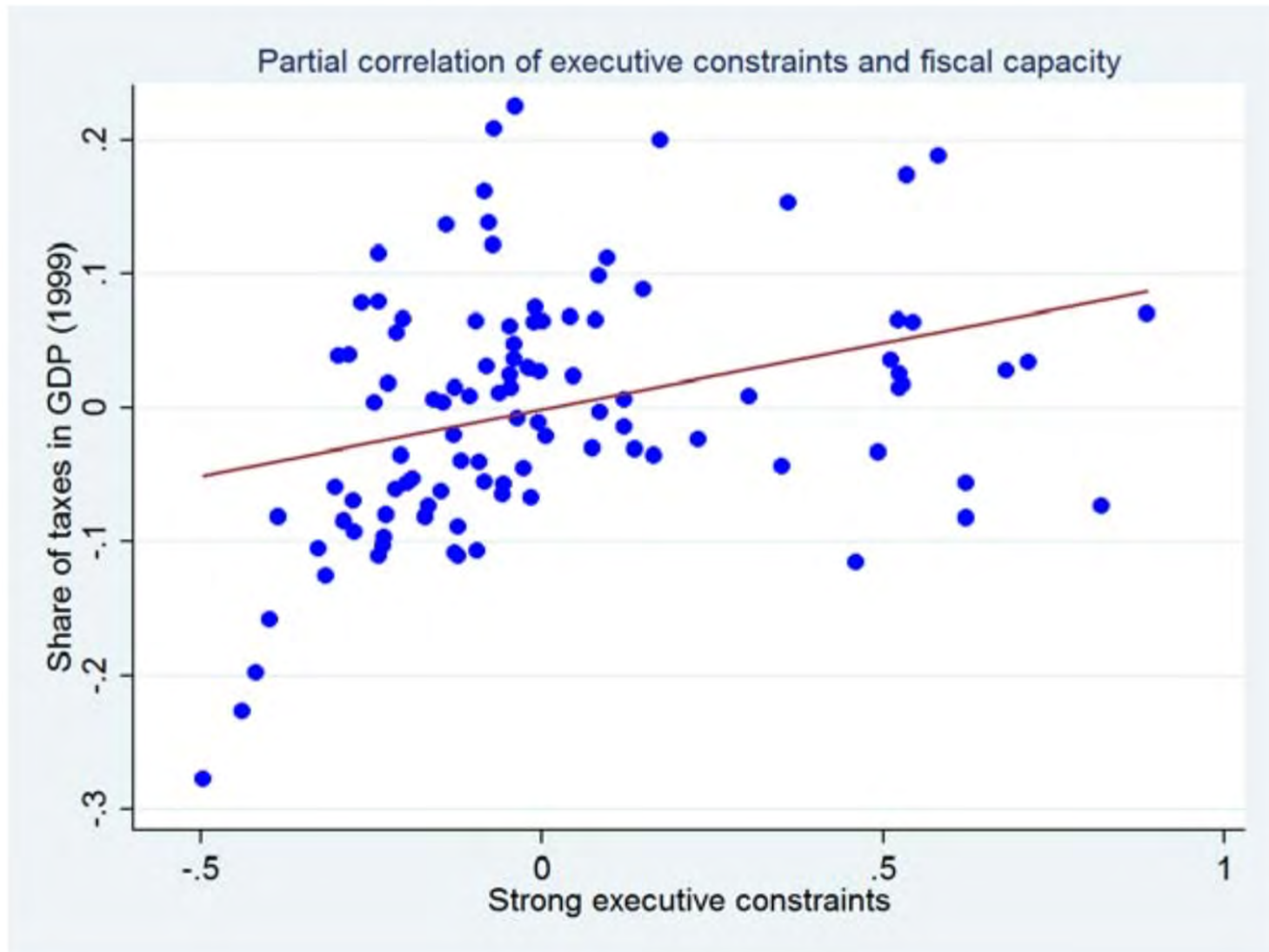
“Modern state”

More centralized, rule-governed, bureaucratic, depersonalized, political organizations with more social and sovereign territorial control

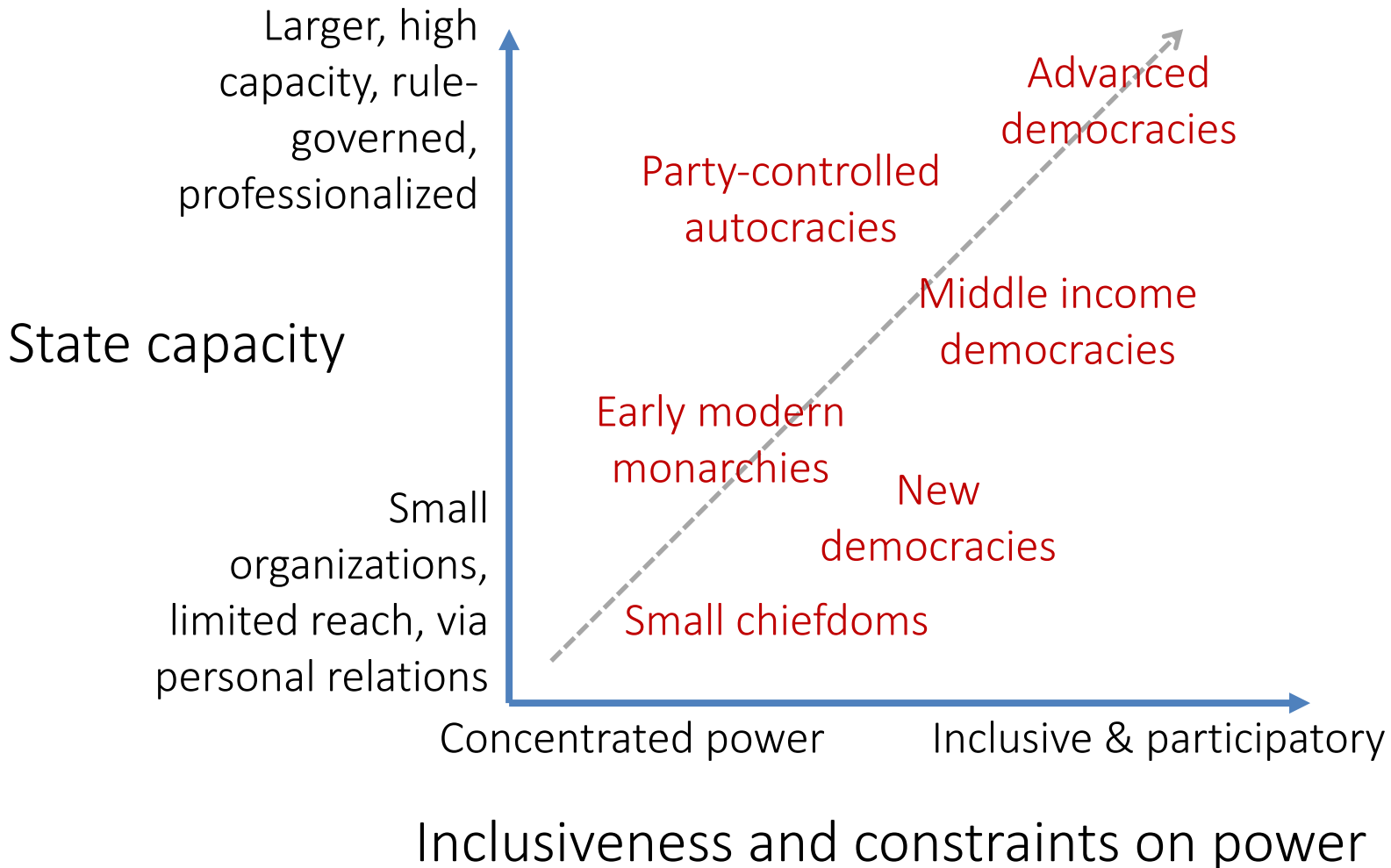
Institutional and state development are related but distinct



We can see this correlation in the data (and later will discuss why they are related)



Movements along both dimensions are not only ends in themselves (stability, equality, and freedom) but are associated with economic growth



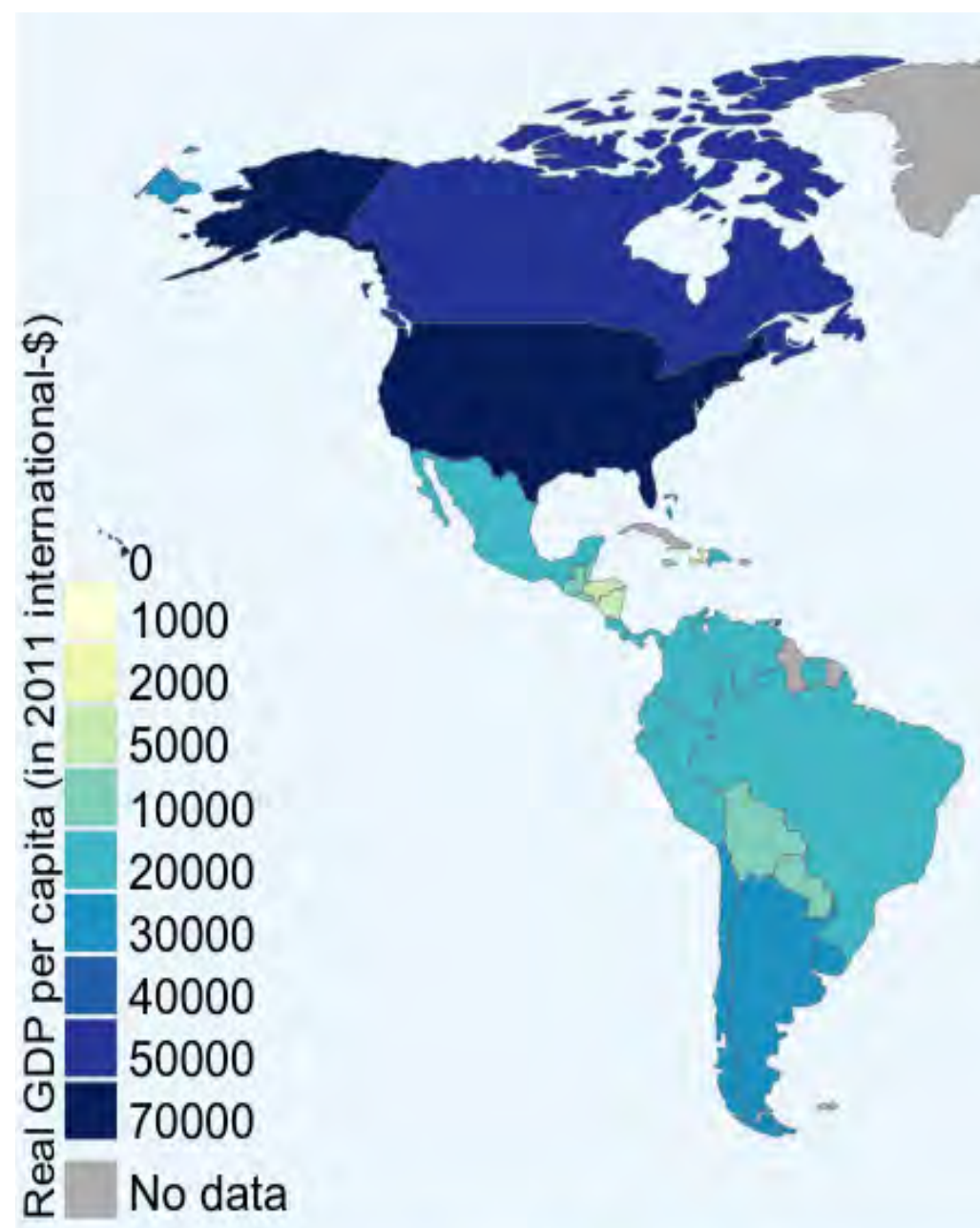
Why are institutions associated with growth?

States, formal institutions, and informal institutions are connected to economic growth because they change the risk and returns associated with investment in capital and innovation:

1. Reduced risk of disorder
2. Provide reasonable, predictable expropriation
3. Public goods provision
4. Lower transaction costs in economic exchange

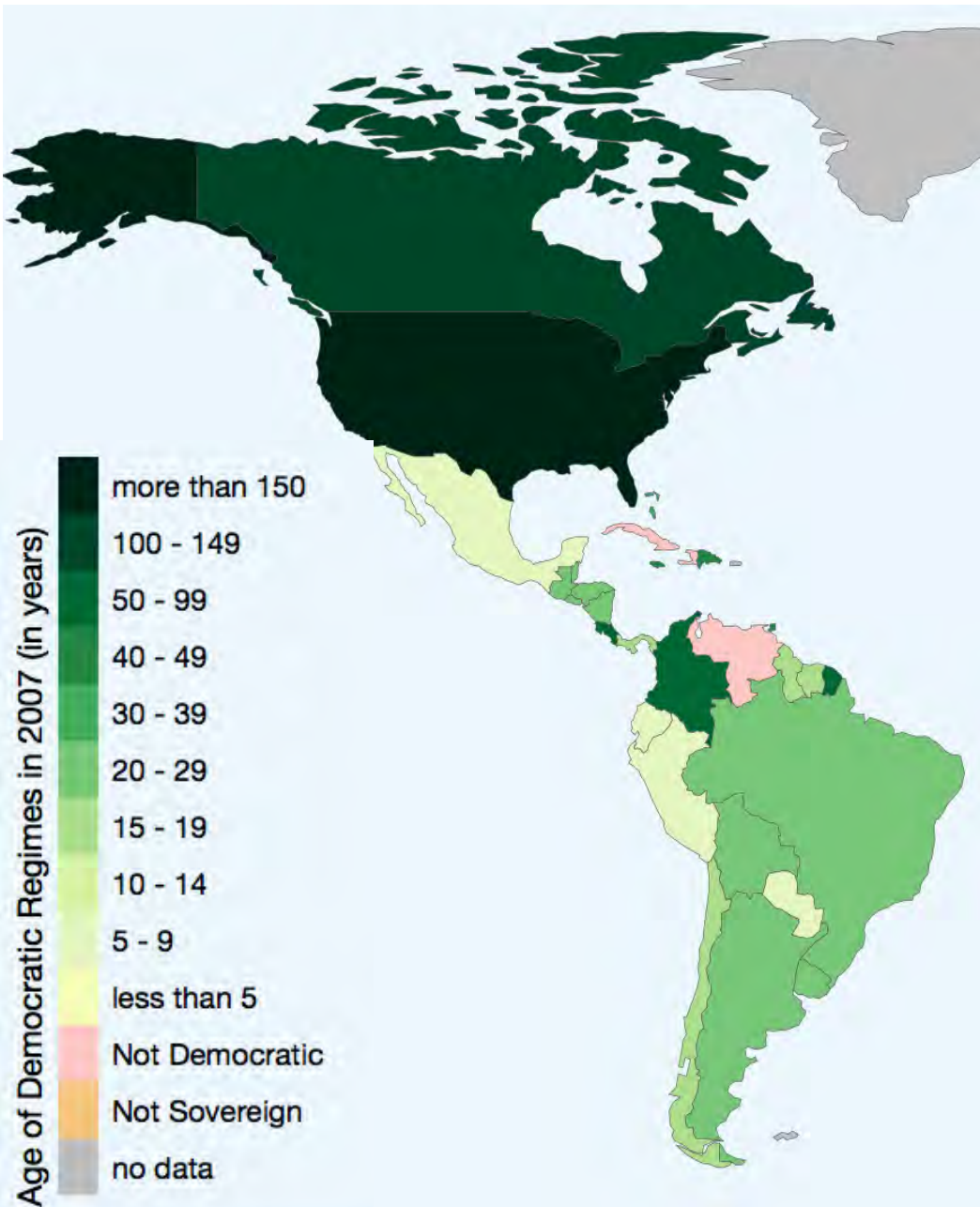
Part II: The Americas as an example of different paths of institutional and economic development

Real GDP per capita, 2014, in PPP terms



We see wildly different levels of economic development in the Americas today

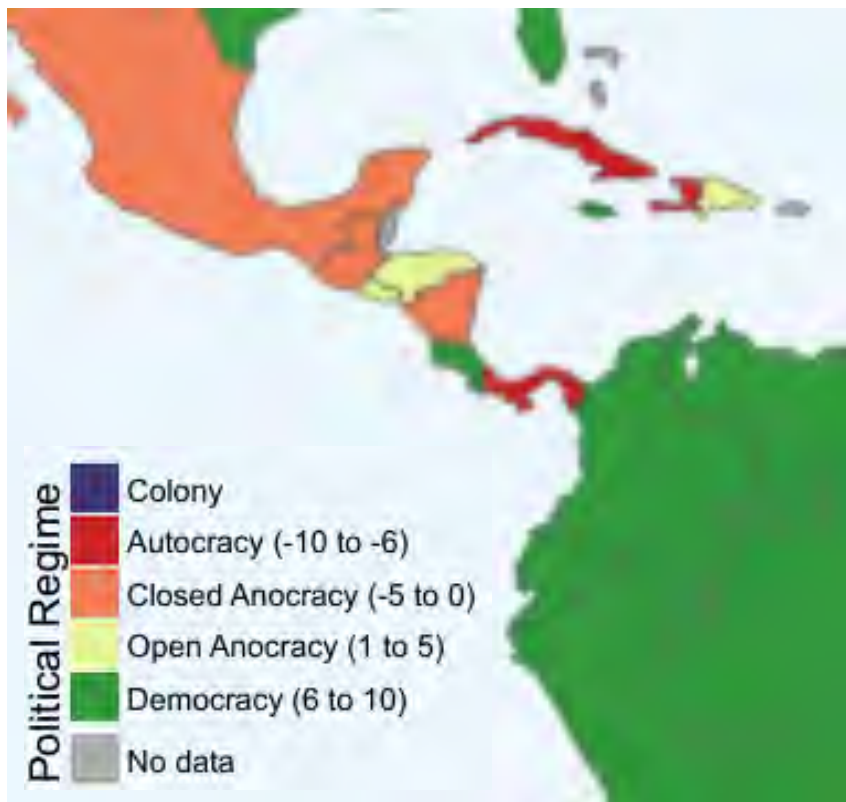
Age of democracy in years, since 2007



Likewise very different paths of political development

Even when we hold a remarkable number of factors constant we get some very different paths and outcomes

Political regimes, 1985



- This is why Central America is such a famous and common case
 - Similar climates
 - Similar geographies
 - Same colonial powers
 - Same crops produced
- Very different outcomes mid 1980s
 - Advanced democracies (Costa Rica, somewhat Colombia)
 - Repressive autocracies (Panama, Guatemala)

Some of the common explanations for institutional paths of development in the Americas

1. Initial conditions

- a. Population distributions
 - Large native populations (Engerman & Sokoloff, Mahoney, Paige)
- b. Types of commodity production
 - Crop suitability (Engerman & Sokoloff)
 - Types of minerals available (Dell, Engerman & Sokoloff)
- c. Migration and the disease environment (Acemoglu & Robinson)

2. Policy choices

- a. Degree of land concentration (Paige, Nugent & Robinson)
- b. Militarization of elites (Nugent & Robinson, Mahoney)
- c. Style of mining and agriculture to promote
- d. Degree of migration to allow

To understand different paths of political development, economic and political historians have often turned to how production was organized

Free smallholders?



Or coercive labor?



Choices were persistent: Coercion begat coercion, and competition begat competition

Places that began with more coercive labor systems

- Enriched an elite who controlled the labor and capital
 - Gave them incentives for them to entrench their power
- Tended to discourage competition
 - Less in-migration
 - Less enterprise
 - New technologies, processes and products a threat unless they could be co-opted
- Developed and entrenched a legal and police apparatus to enforce unfree labor

Places that began with freer labor systems

- Still enriched an elite, although potentially a broader elite
 - More difficult for a narrow elite to entrench their power
- Tended to encourage competition
 - More in-migration
 - New enterprise, products, trade
 - New technologies
 - Permitted creative destruction
- Fostered more capitalist-friendly, open and competitive institutions to encourage in-migration and investment

Some of the common explanations for institutional paths of development in the Americas

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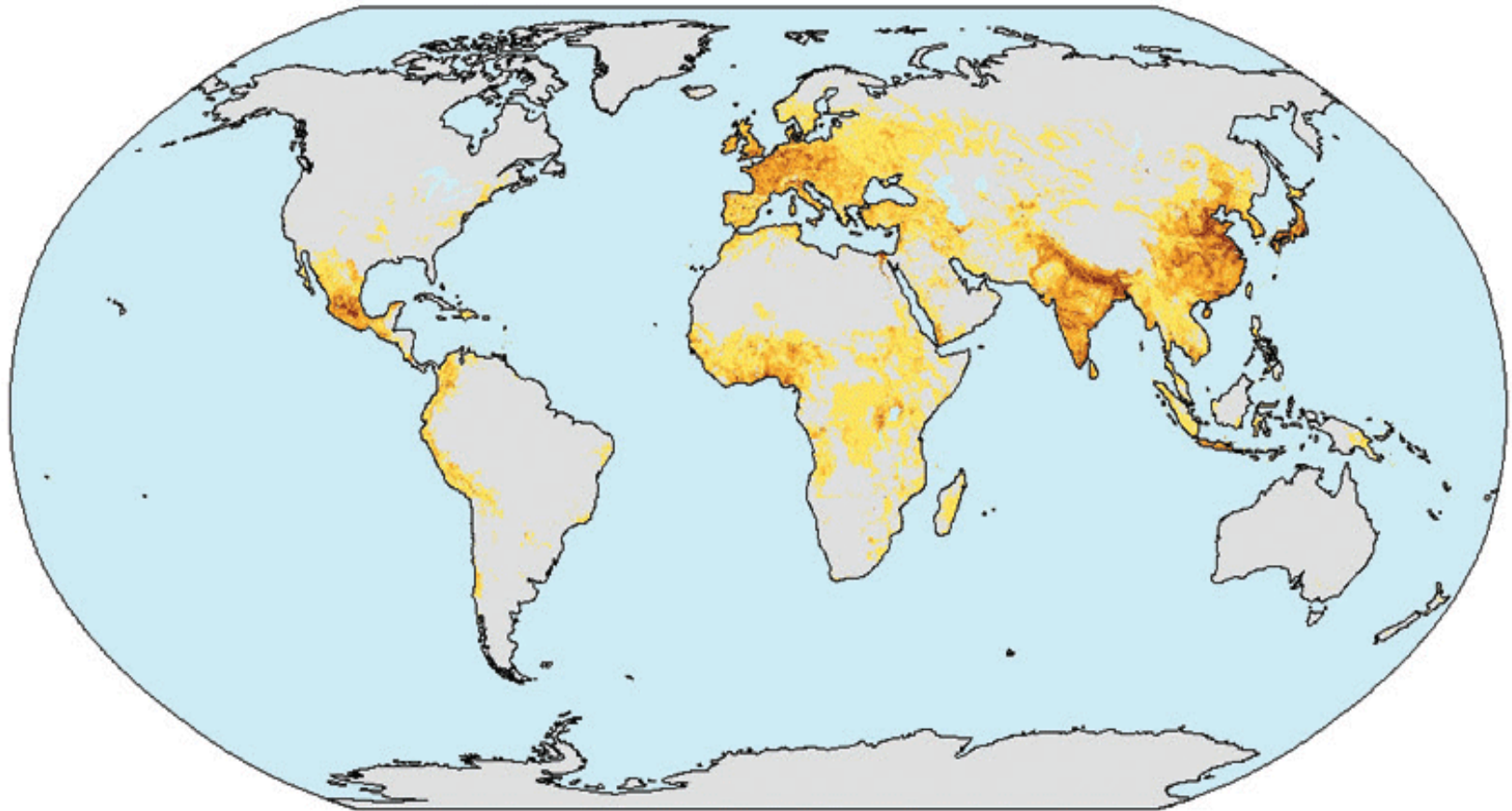
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1(a) Where did colonial invaders encounter large, dense, settled populations?

1500 A.D.



Why would settled populations lead to exploitation and the development of more coercive institutions?

- Clearly, Europeans had proved their willingness to enslave other races
- Plus the commodities Europeans could extract from these areas could use coerced labor profitably
 - Arguably, coerced labor was the most profitable way to extract minerals and tropical crops
- The densest places already had somewhat coercive states to be harnessed
 - Populations were only dense because they had developed states
 - Many of these states used some kind of coerced labor (even if less coercive)
 - Also, the presence of coercive states implies it may have been hard to run away



1(b) Why would some geographies favor coercive institutions?



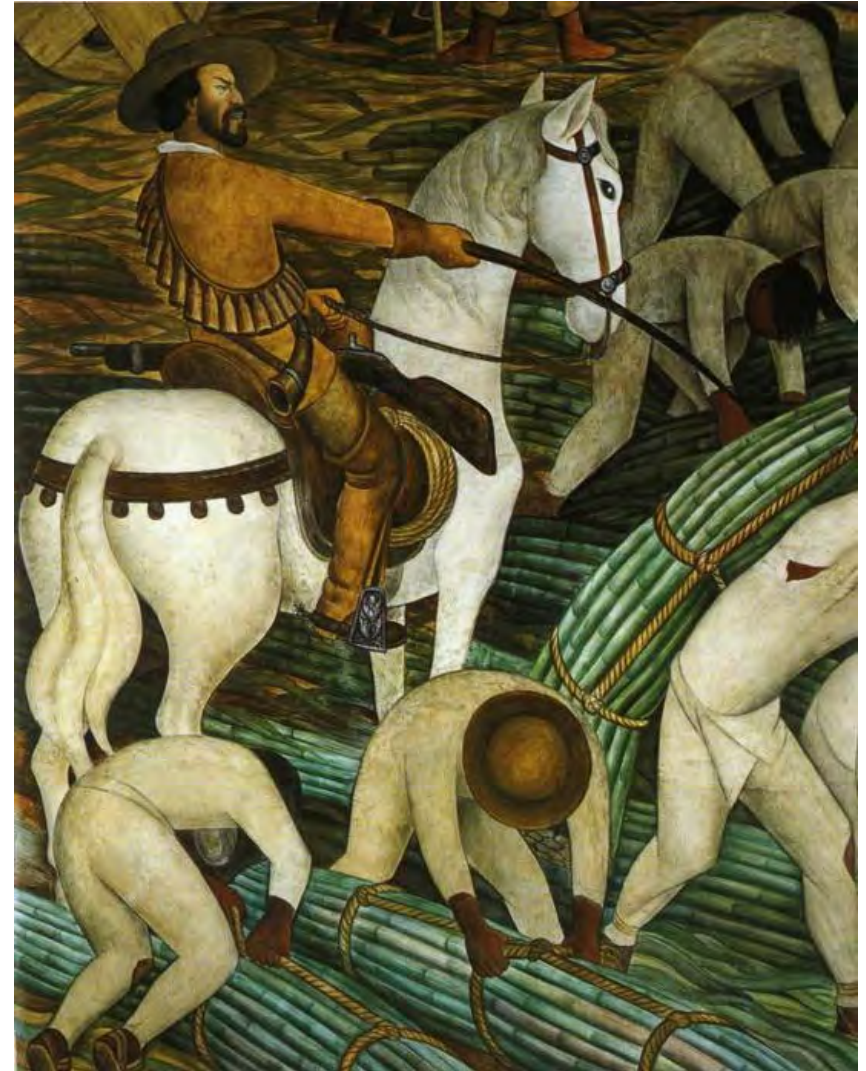
Mining in Potosí silver mines

What was it about valuable minerals that drove colonies to become unfree?

- Evidently, production with slaves was profitable
- Difficult to know, but coercion was arguably more profitable than free labor
 - As we will see, not true for all crops and commodities
- Advantages to concentrating ownership
 - There may be economies of scale in capital requirements , production, or transport
 - A coerced labor force is reasonably efficient
 - Easier for rulers (colonial powers) to tax concentrated producers

The latifundia agrarian economy (landed elites running slave plantations) is another common coercive system

- Argued that some crops are more profitably produced with coerced labor, e.g. Sugar, cotton
 - Labor-intensive
 - Natural economies of scale
- If there were no native populations to be enslaved, slaves could be imported from Africa



“Unlucky” Britain and France faced the question of how to extract the most from colonies with few natives to enslave and little suitability for plantation crops?

- Climate unsuited to sugar, cotton
- No known silver or gold deposits
- But could produce grains, furs, fish—commodities for which there was ample European demand
- These sectors favored some degree of smallholder production
- To promote smallholder production, colonial powers had incentives to:
 - Grant land
 - Improve property rights
 - Encourage immigrants
 - Commit to moderate taxation



1(c) Temperate colonies also had agricultural and disease environments conducive to European migration

Distribution of actual and potential malaria transmission stability

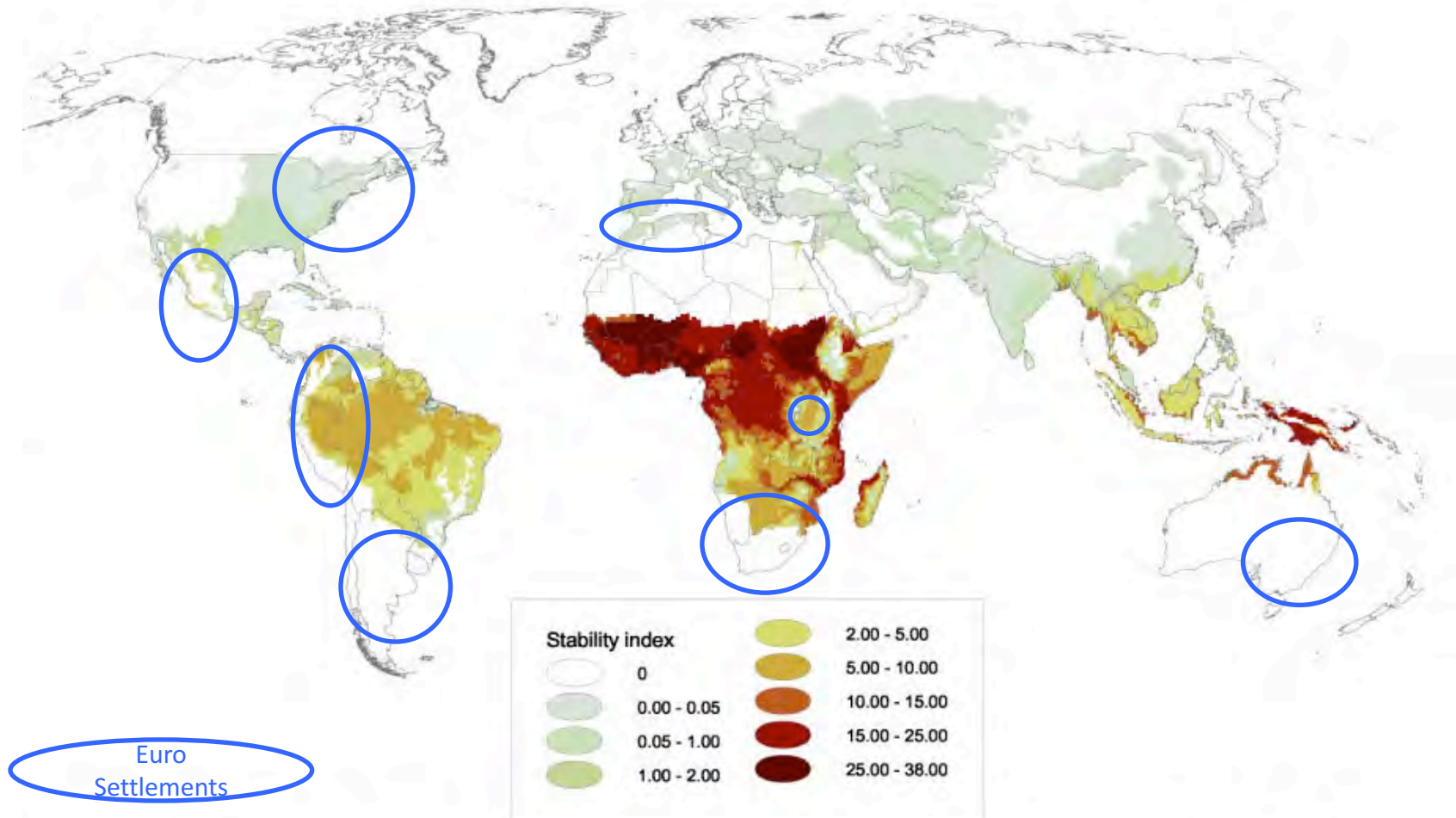


Figure 1 from Anthony Kiszewski, Andrew Mellinger, Andrew Spielman, Pia Malaney, Sonia Erlich Sachs, and Jeffrey Sachs. **A Global Index Representing The Stability of Malaria Transmission.** *Am J Trop Med Hyg* 2004 70:486-498.

Starting in 17th century, Europeans emigrated to temperate and highland areas friendly to their health and their traditional crops and production

- This increased the reliance of sub-tropical and tropical colonies on coerced labor
- European settlers brought skills and technologies favorable to smallholder production
- They also brought experience with freer ideas, cultures, and institutions
 - e.g. The rule of law
- Where the economic incentives to coerce were present, and few migrants would come voluntarily, these institutions and ideals could be forgotten



Boer traders accompanying the Klapprott family on their safari to the Uasin Gishu.

These initial conditions shaped colonial institutions and social, political, and economic organization

Mining and latifundia colonies

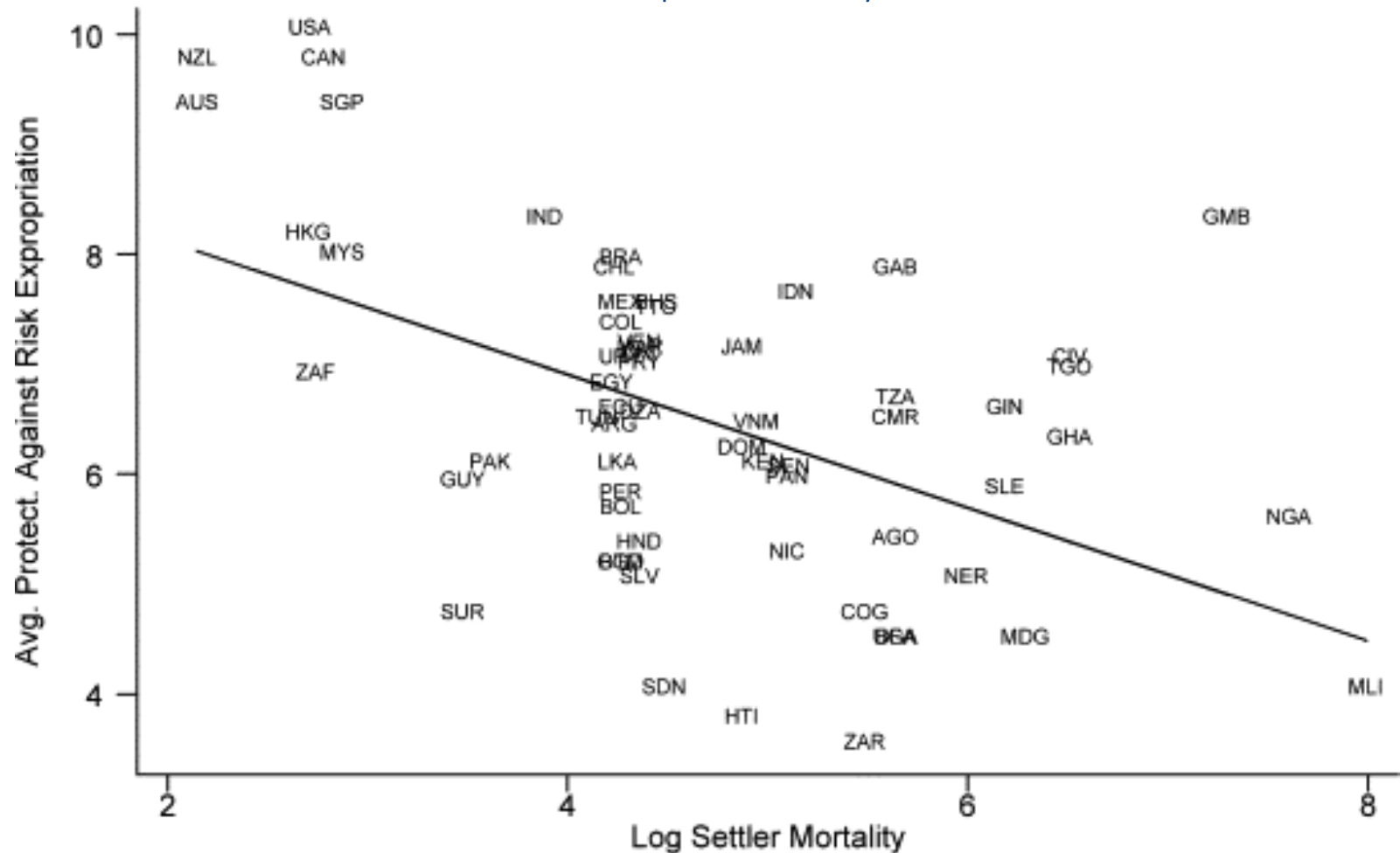
- Began with a more hierarchical and authoritarian power, high levels of inequality, and legal institutions designed to preserve coercion
- Merchants and middle class were fewer in number
- Overall the middle class and masses had limited ability to threaten the profits or security of elites or the colonial power

Smallholder-based colonies

- Began with more egalitarian distributions of wealth and more constrained and participatory systems of authority
- Merchants, middle class and smallholders were larger in number
- Overall the smallholders had considerable power to hurt the profits and security of elites or the colonial power

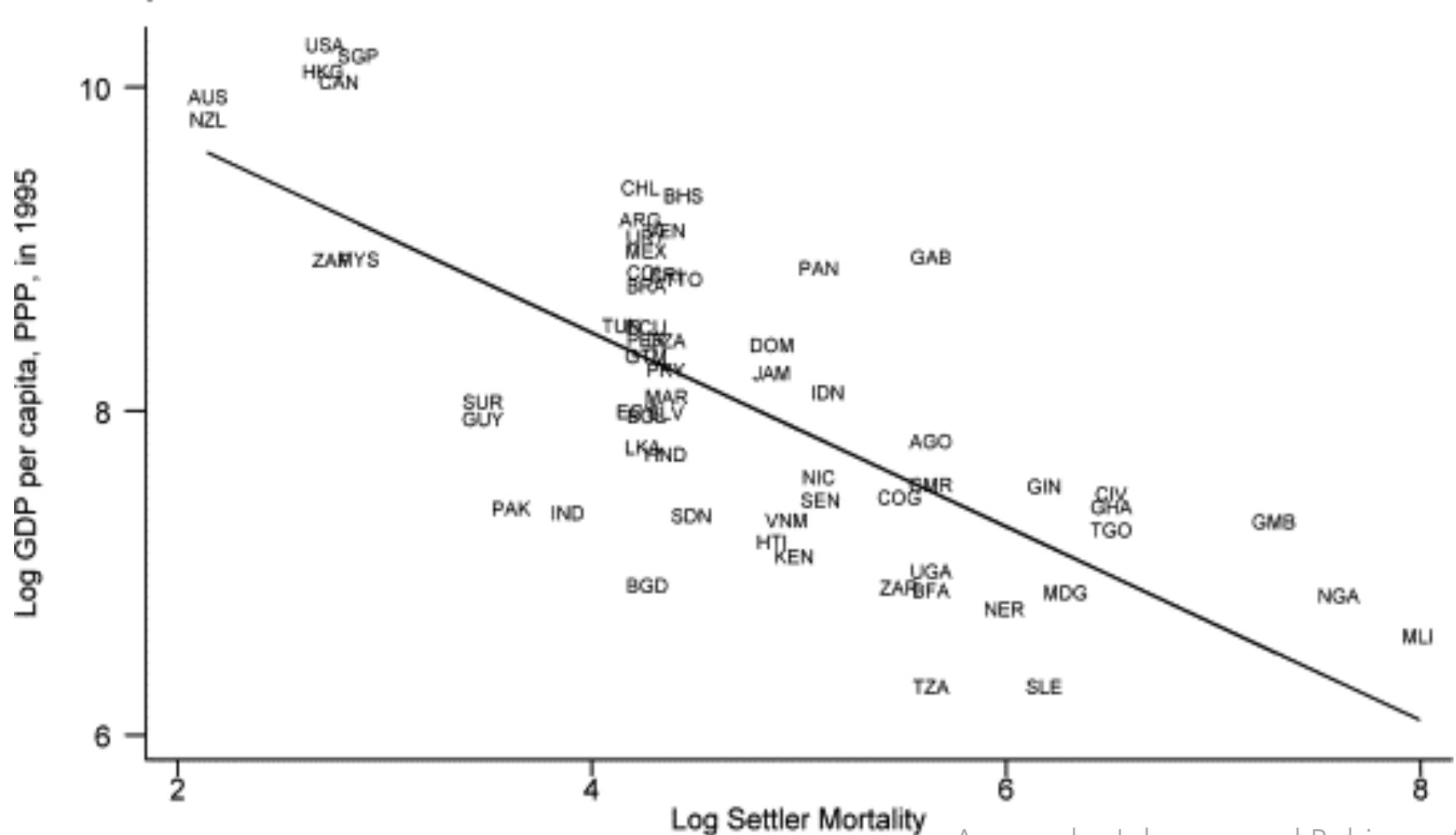
Initial conditions seem to have had persistent effects

Relationship between initial disease environment and present-day institutions



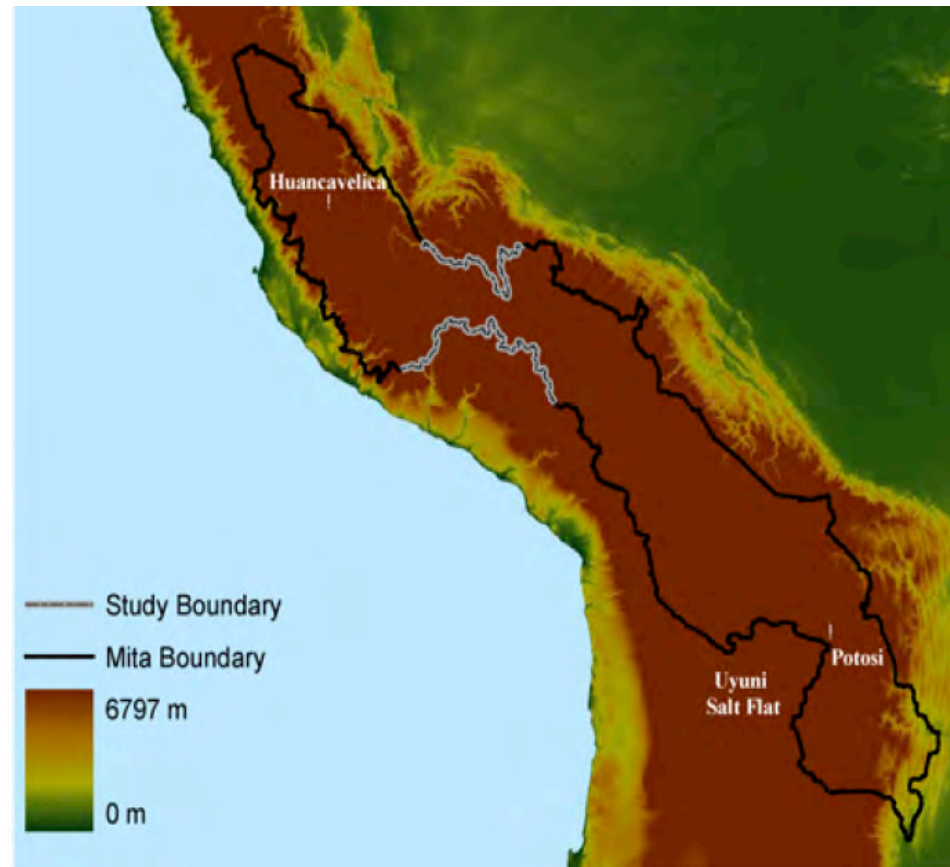
And these initial conditions and institutions help determine current income

Relationship between initial disease environment and present-day incomes



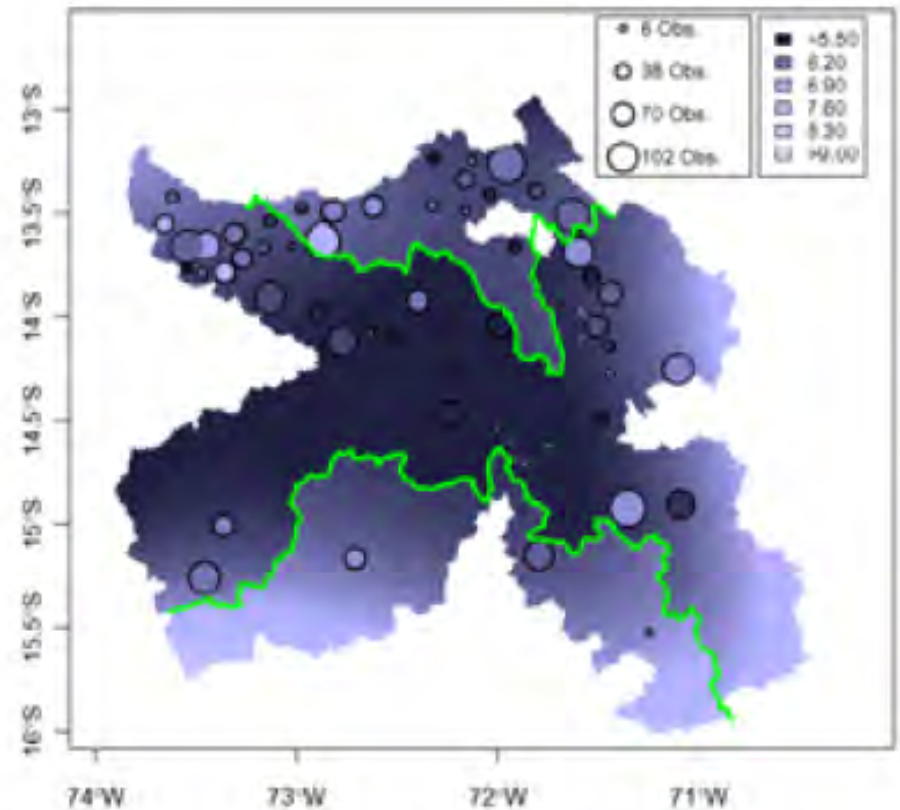
A micro-level: The persistent effects of Peru's mining mita (Dell)

- The mita was a Spanish forced labor system
- Required over 200 indigenous communities within a boundary to send 1/7 of adult male population to work in silver and mercury mines
- Beforehand, populations on either side of the boundary similar



Mita areas much poorer in long run, even compared to extractive plantation-style alternative

- In mita area
 - Fewer haciendas allowed
 - No public goods from large landowners
- Households in mita area today:
 - 25% lower household consumption
 - Greater childhood stunting



(a) Consumption (2001)

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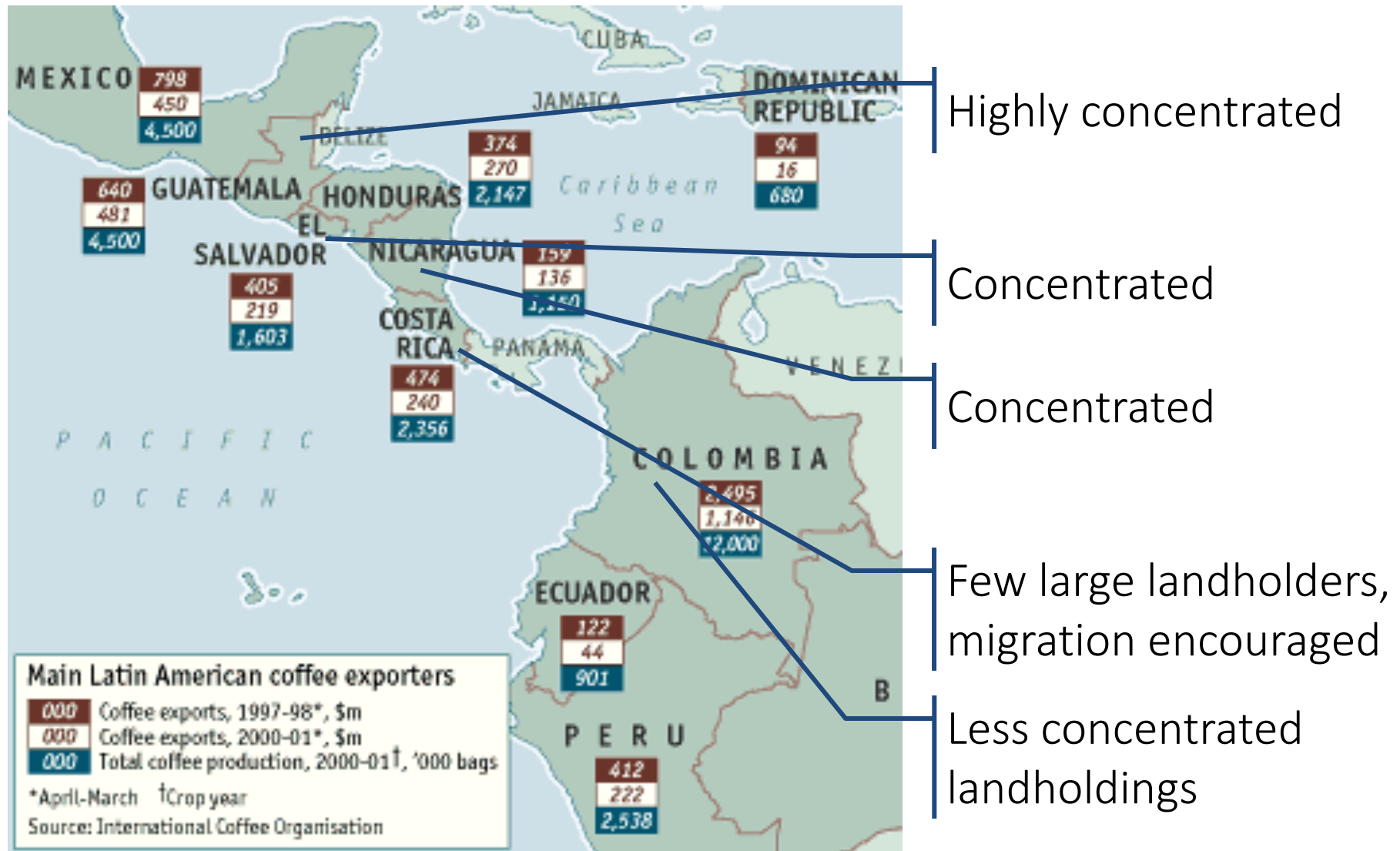
Coffee is a tropical crop that is efficiently produced at both smallholder and plantation scales



The late 19th century is a particularly opportune time for commodity exports

- Latin America at (relative) peace since unexpected Independence in 1820s
 - Can at last take advantage of global trade
- Booming European industry creates demand for raw materials and consumption goods
 - Coffee growing in popularity
- Increasing amounts of European capital available for commercial enterprise in the periphery
- Falling transport costs with steamships and railroad
- “The first era of globalization”

Former colonies with similar environments and colonial power chose different forms of organization



These 19th century political and economic choices shaped institutional and economic paths



Repressive authoritarian regime, among poorest country in Latin America

Militarized, semi-autocratic regime

Militarized, semi-autocratic regime

Democratic, relatively equal, higher-income

Democratic, relatively equal, medium-income

What factors shaped the degree of land concentration in coffee-producing Central America and Colombia?

(Mahoney, Nugent & Robinson, Paige)

- Large native populations who could be enslaved
 - Guatemala had, others did not
- Whether or not pre-globalization elites were landlords or not
 - In early 19th century El Salvador and Guatemala, elites already had large landholdings and turned to coffee production
 - In Costa Rica and Colombia, elites were more commercially focused (e.g. gold export in Colombia) and chose to monopolize finance and exportation, and were happy to encourage smallholder production and concede property rights to land
- Population density and historical levels of interest by Spain
 - Costa Rica and Colombia were comparatively less settled
- Historical external threats and degree of militarization
 - El Salvador and Guatemala elites had faced previous threats from one another (and other neighbors) and had developed powers of coercion

The point of this is not to argue that geography and land concentration are “deep” determinants of institutions

1. Initial conditions

- Geographic and environmental
 - The disease environment (Acemoglu & Robinson)
 - Crop suitability (Engerman & Sokoloff)
 - Types of minerals available (Dell, Engerman & Sokoloff)
- Population distribution
 - Large native populations (Engerman & Sokoloff, Mahoney, Paige)

2. Early colonial policy choices

- Degree of land concentration (Paige)
- Style of mining and agriculture to promote
- Degree of migration to allow

The particular historical choice or condition doesn't matter so much as what we learn from these examples about the process of institutional development and change.

Part III: Building blocks for a theory of institutional development

Building blocks for a theory of institutional change

1. Path dependence
2. Critical junctures
3. Order as bargains
4. Institutional change through social conflict and bargaining
5. Beware of “just so” stories, and get comfortable with chance

Building blocks for a theory of institutional change

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Path dependence



Business agglomerations



The QWERTY keyboard

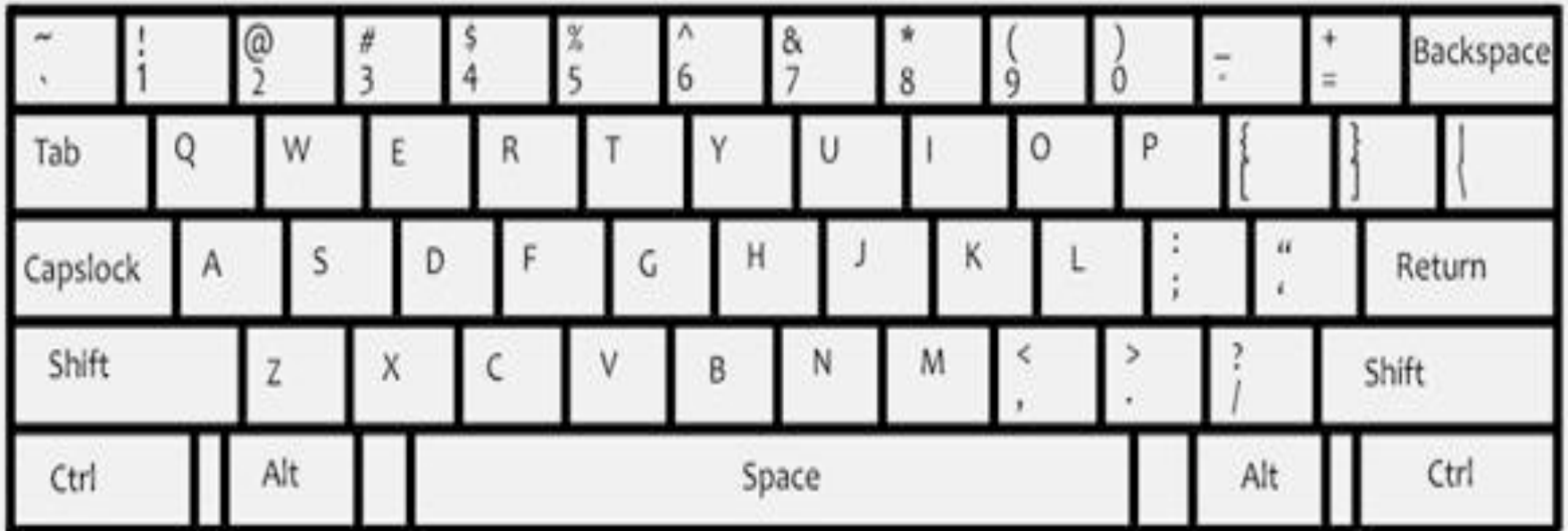
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“Path dependence”

- Steps in one direction induce further movement in that direction
- Small events can have large impacts on the outcome
- Allows a role for both chance and systematic forces.
- Specific patterns of timing and sequence matter
- Sometimes this leads inefficient outcomes
- Difficult to reverse, but not necessarily irreversible

Why was QWERTY path dependent?

- Positive externalities from standardization
 - In learning, manufacturing processes, etc.
- Has lasted in spite of claims of inefficiency



What drives path dependence? Some kind of “increasing return”

- Fixed costs of setting up = switching costs
 - Once you’ve paid it, costly to switch
- Learning effects = switching costs
 - Akin to a fixed cost of starting
- Spillovers and coordination
 - Positive externality from coordinating on one place, technology, organization, or institutions
- Self-reinforcing
 - Leads to complementary technologies, organizations, or institutions
 - Those who benefit have incentives to maintain advantage

Why might institutions be path dependent?

Why might institutions be path dependent?

- Most broadly: helps to have one set of “rules of the game”. Otherwise some rules are less useful.
 - Advantages to coordination, collective action
- Institutions are costly to develop, and it’s costly to re-coordinate, so switching costs are high
- Trying to defect from the status quo alone can be costly
 - e.g. Laws enforced by punishment, to deter free riders and defectors
- The accumulation of power can be self-reinforcing because of incentives of elites to preserve privilege

e.g. Property dispute resolution in West Africa

- Communities need mechanisms for enforcing contracts, resolving disputes
- Communities have incentives to coordinate on particular forums and rules for dispute resolution
 - Lowers transactions costs
- Once established, costly to deviate



Political power can also be self-reinforcing

- Informal institutions of dispute resolution are not necessarily equal
- e.g. In Ghana, chiefs and their kin have better property rights protections
 - And hence invest more
- Entrenched elites have a stake in preserving this power and distribution of rents
- Means institutions might persist even when underlying conditions have changed



Building blocks for a theory of institutional change

1. Path dependence
2. Critical junctures
3. Order as bargains
4. Institutional change through social conflict and bargaining
5. The commitment problem

The colonial era is full of major decision points
 e.g. Design of coffee cultivation in first era of globalization



Highly concentrated

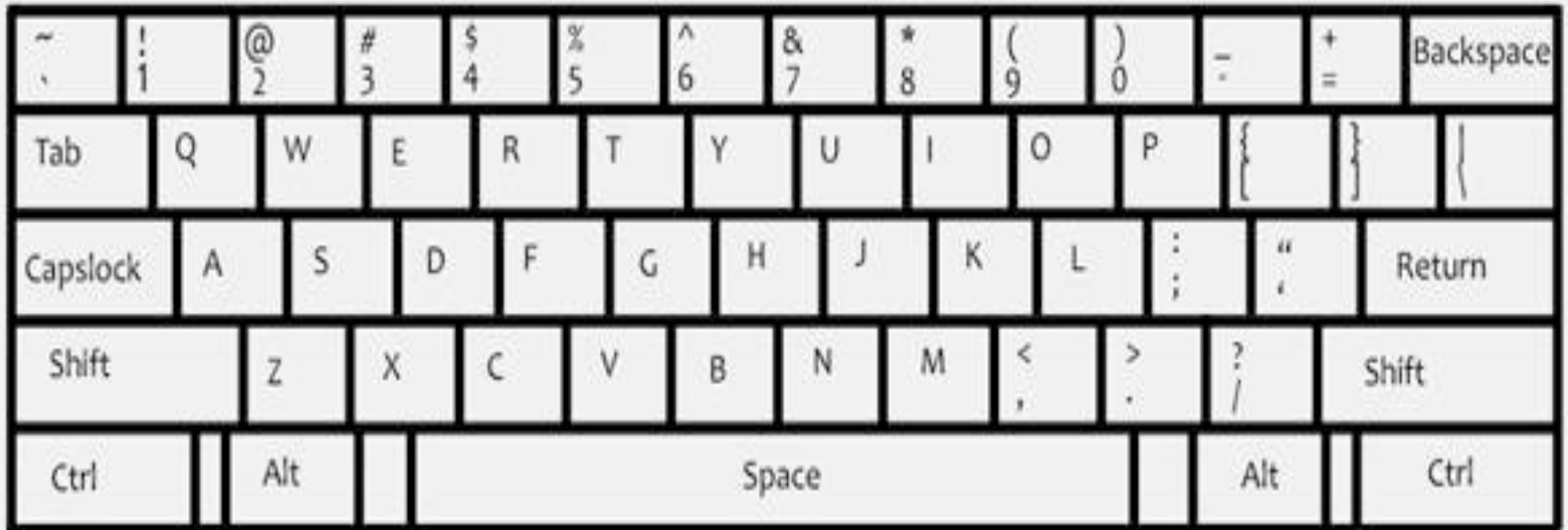
Concentrated

Concentrated

Few large landholders,
 migration encouraged

Less concentrated
 landholdings

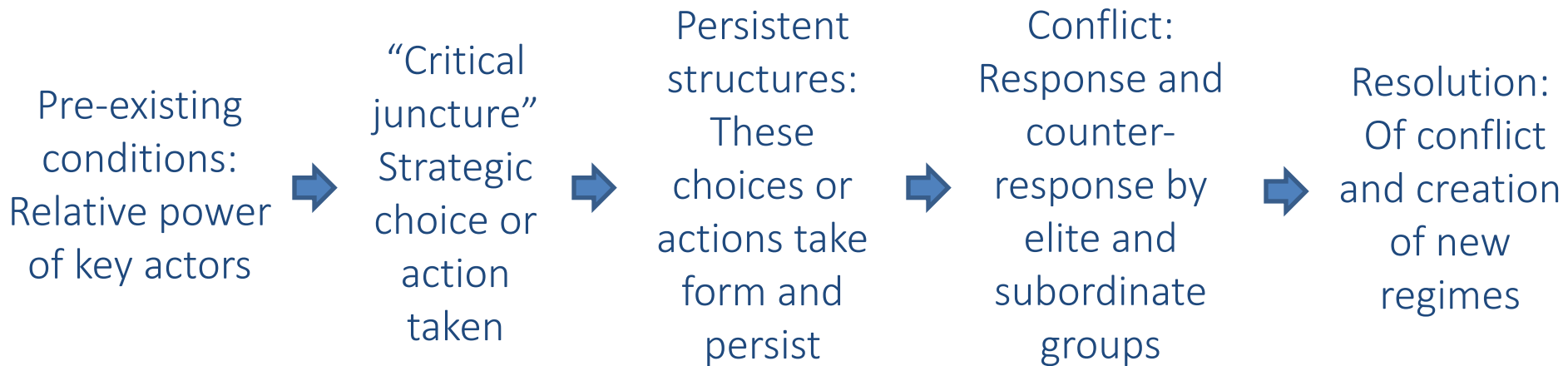
So was the choice of the keyboard, operating system, or tech company location



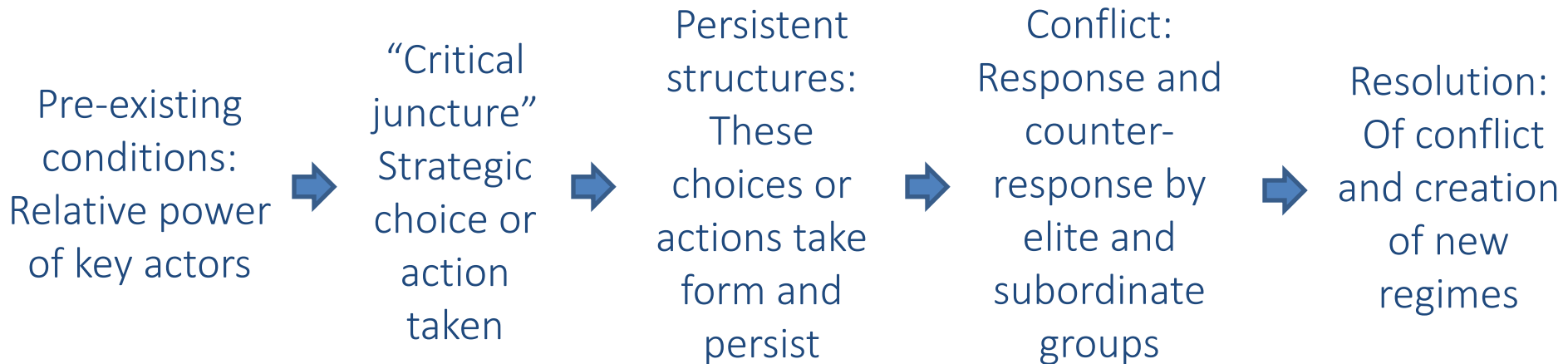
Historians regard “critical junctures” as key choice points

- Actor’s choices create institutions at critical moments
- These institutions themselves shape subsequent behaviors
- How actors respond to institutions in turn culminate in new institutional patterns

Path dependence and critical junctures underlie
Mahoney's "template of path-dependent explanations
of regime change"
(Figure 3, paraphrased)



Implication: Subtle differences in organization of colonial system led to big differences in outcomes



- Geography and endowments influential
- But outcomes not uniquely determined by geography

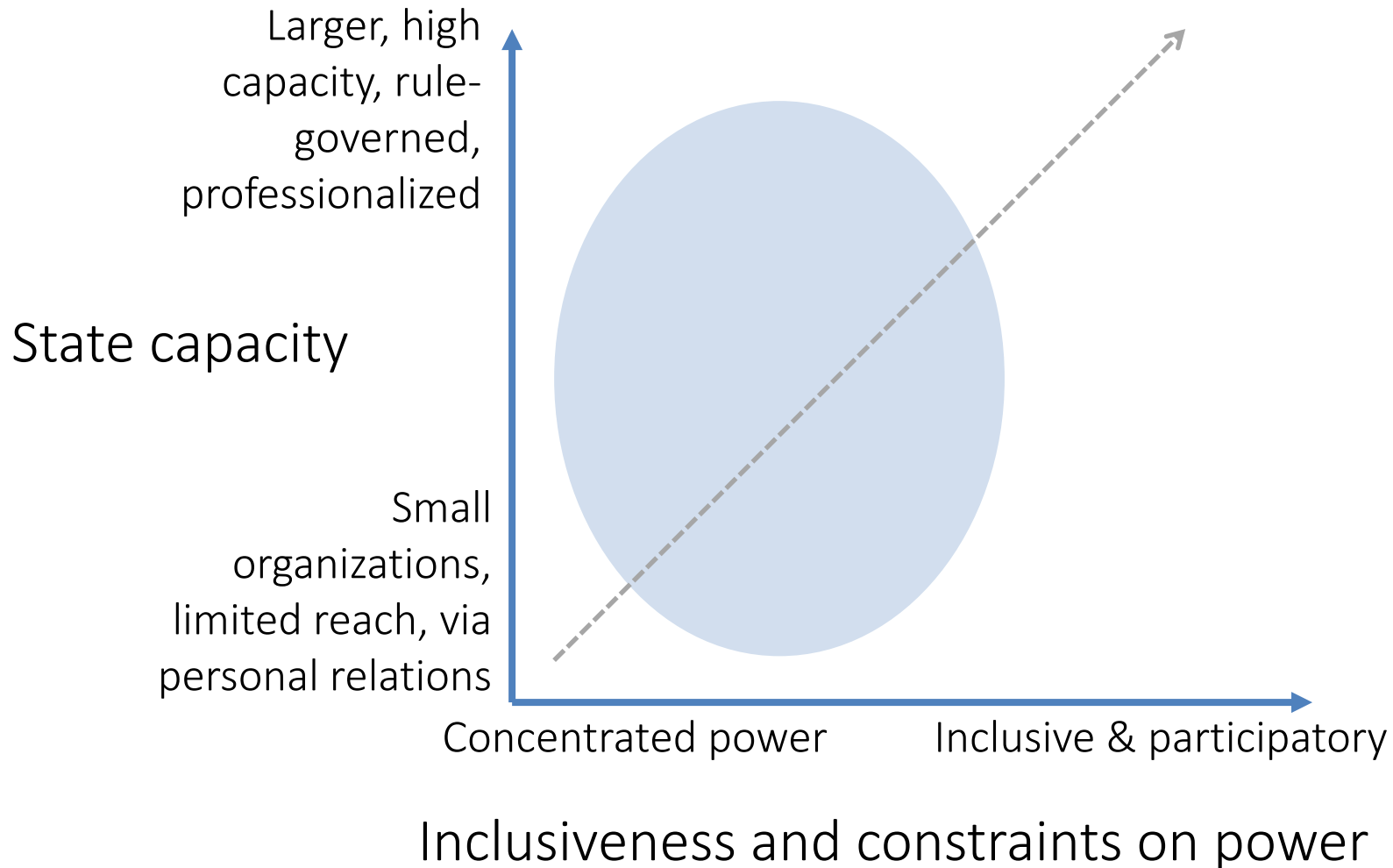
What does this mean for the evolution of institutions?

- Will institutions be efficient?
 - Will the most effective institutions evolve over time? Not necessarily
- Will institutions be accidental?
 - (This is what Acemoglu Johnson and Robinson, or AJR, call “incidental”)
 - Maybe. Central America could be held up as an example
- Will institutional choices be deliberate?
 - If these choice are path dependent, the stakes are huge
 - Self interested, farsighted actors should seek to shape them
 - People who are disadvantaged struggle against the institutions and try to get power for themselves
 - Elites who are advantaged try to maintain them
 - This is what AJR call the “social conflict view”

Building blocks for a theory of institutional change

1. Path dependence
2. Critical junctures
3. Order as bargains
4. Institutional change through social conflict and bargaining
5. Beware of “just so” stories, and get comfortable with chance

Relatively unfree orders, dominated by a small group of elites, emerged 10,000 years ago and continues to be the majority of states today



In such “limited access orders”, a stationary bandit has often built a coalition of elites to remain in power

(North, Wallis & Weingast)

- Political power comes from the ability to threaten social disorder, production, or even violence
- The stationary bandit (or specialist in violence) is not the only person with such power
- The groups that do are potential elites: landlords, clergy, traders, producers, nobility, unions, etc.
- The specialist in violence must build a coalition of these elites to stay in power
- These bargains provide for nascent states with a ruler, elite property rights, unequal economic growth, and a measure of social order

Thus most states are not individual rulers but coalitions of elites with privileged access

- The logic of these states is an elaborate hierarchy of personal relationships—patrimonialism
- Elites enforce their rights by threatening to withdraw from the coalition
- The origins of property rights and legal systems is the definition and protection of elite rights
 - Institutions are designed to protect and entrench interests
- The alternative to systematic rent creation and sharing among elites? Warfare and violence
- Non-elites may have few rights or protections
 - They are non-elite because they can't credibly threaten the coalition and the state does not depend on their support

Recall the latifundia of Latin America: A limited access order by design

- Absolutist rulers in Spain and Portugal sought to preserve power in colonies while maximizing revenue
- Deliberately created a limited access order by restricting political and economic rights
 - Raised revenues by selling monopolies and licenses to elites
 - Limited and controlled immigration, even of own nationals
 - Fostered coercive labor systems based on natives or African slaves
- Imported inefficient Iberian rule of law
 - Poor property rights, corrupt judiciary, inalienable rights of church



We can also view Afghanistan through this lens of limited access orders

- Regional warlords are the specialists in violence
- Each has a coalition of local elites who help preserve their power
 - Mullahs, chieftains, drug traffickers, large landholders
 - Those elites are granted privileged economic and political rights
- The Afghan state in turn is a coalition of these local warlord/elite groups
- One's access to aid dollars, arms, or criminal revenues is proportional to one's ability to threaten this fragile coalition



Jamaluddin Badar, Nuristan governor (prosecuted)
Lutfullah Mashal, Langham governor (journalist & poet)
Gul Agha Sherzai, Nangarhar governor (famous Mujahideen commander)

Early states are typically limited access orders in that the coalition is maintained through patrimonialism, and openness is a threat to order

“

The political center in Kabul was not (and has never been) a collection of formal, bureaucratic institutions working in concert to penetrate the unwieldy periphery of wayward warlords, defiant mullahs, and rebellious tribal chieftains.

It was, instead, a political center operating largely in the neopatrimonial image, and, much like many of its predecessors, forging links to the countryside through partnerships with power holders who could sometimes expand the scope of the state by engaging it.



As with Afghanistan, larger states are larger coalitions of multiple specialists in violence and elite groups

- Larger and more complex states involve an alliance of many specialists in violence, broad array of elites.
- These coalitional structures take a huge variety of forms:
 - Empires to city states, personal dictatorships to theocracy or party rule
 - Even representative assemblies for the elites not the masses

This provokes some questions

1. Why would elites form larger coalitions?
 - Why share power with other elites and organized groups: Other nobility, producers, traders, landlords, clergy, unions, etc
2. Why would these coalitions in turn give up power and share it with the masses?

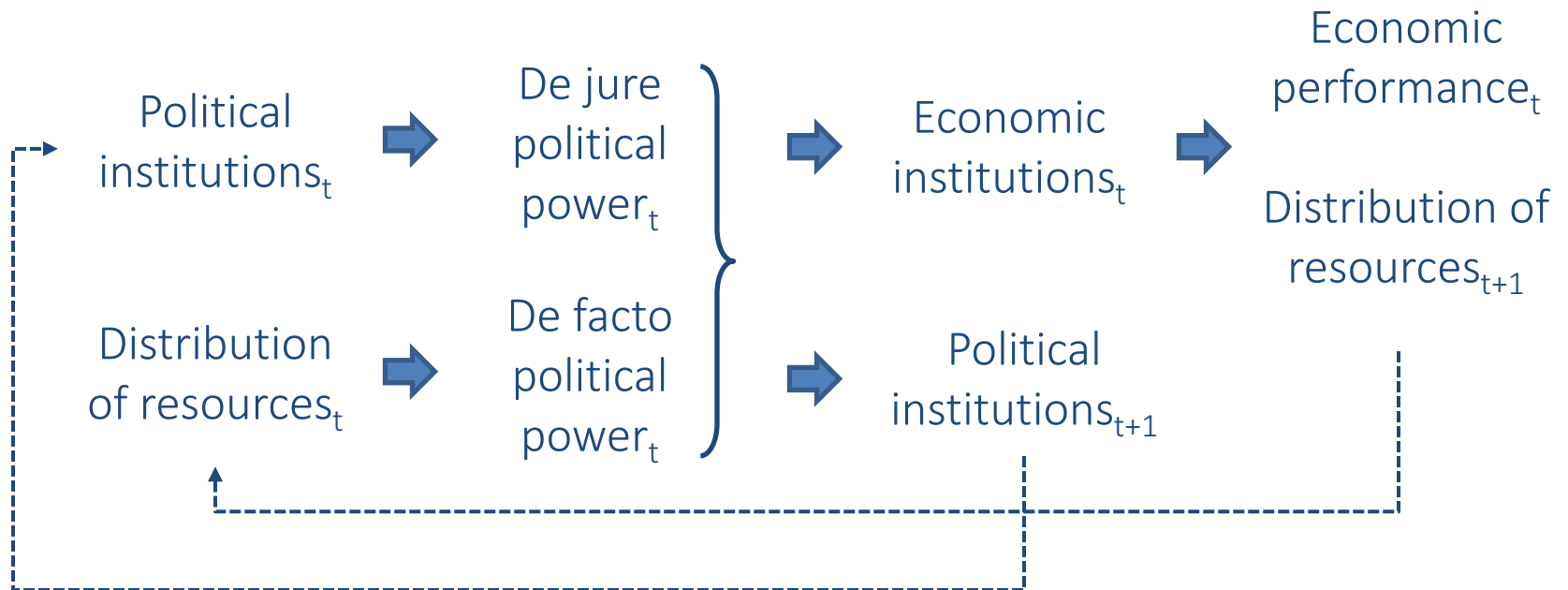
Building blocks for a theory of institutional change

1. Path dependence
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4. Institutional change through social conflict and bargaining
5. Beware of “just so” stories, and get comfortable with chance

No coalition is permanent

- Past bargains resulted in a balance of power and (often times) written and unwritten rules to cement that power: institutions
- Anything that changes the balance of power between existing groups, or introduces new powerful groups, threatens past bargains
- These moments offer critical junctures
- In the midst of this competition, bargaining could break down into violence
 - Especially when groups cannot commit to peaceful division of rents
- New sustainable bargains emerge from solving these commitment problems in new institutions

This is the basic idea underlying Acemoglu and Robinson's argument: Institutions are the product of competition between groups with power

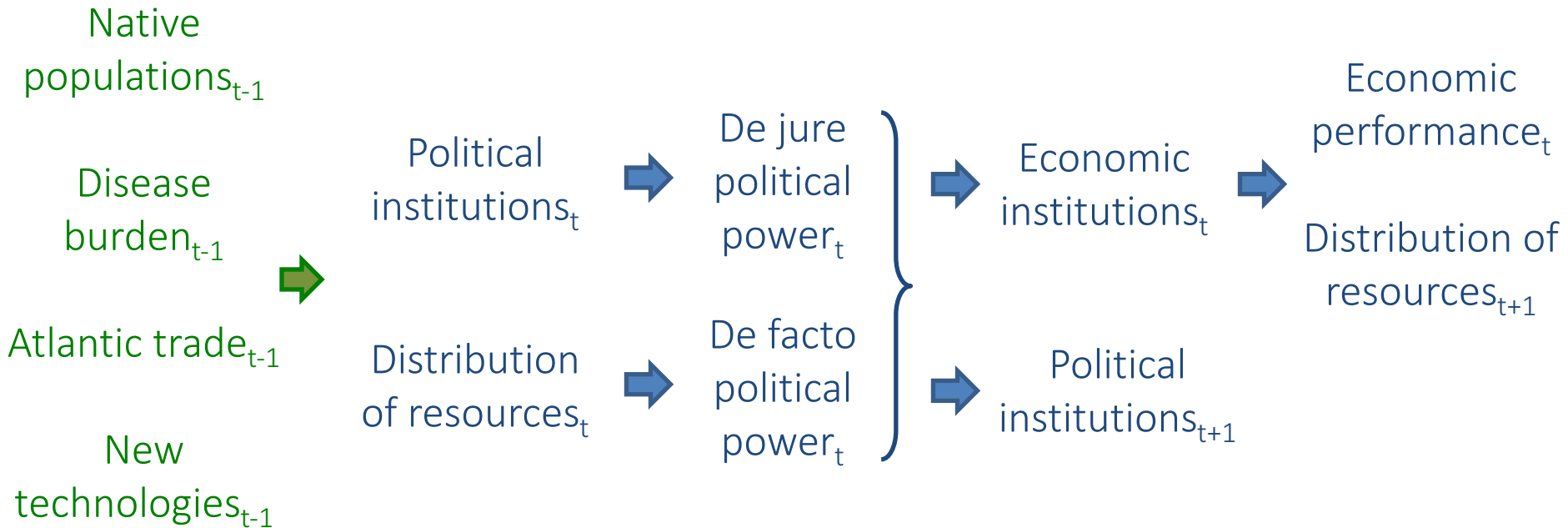


What pressures elite coalitions to expand?

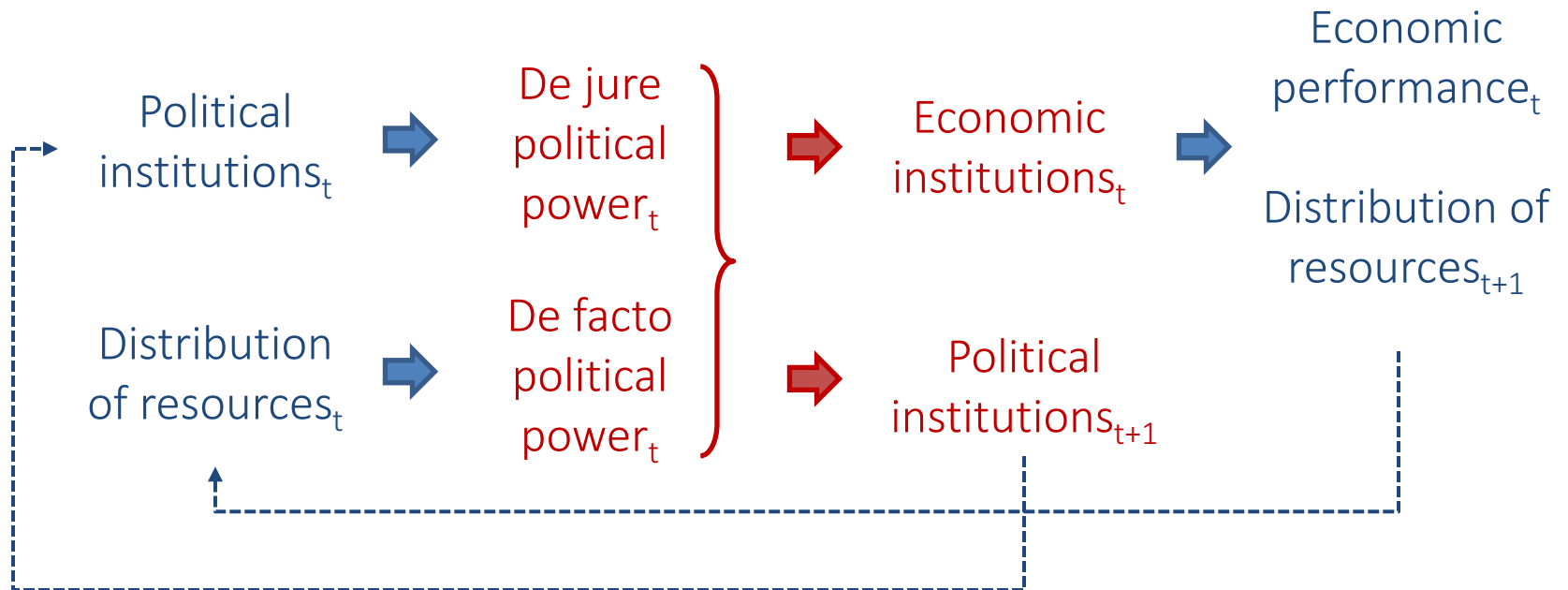
Some common examples

- External threats
 - Band together for protection
 - Exchange taxation for representation
- Or powerful new elites internally are created through:
 - Economic change and growth
 - Technological changes
 - Successful social mobilization
- Ideas and ideologies
 - Universal human liberty
 - Religious mobilization
- In the modern era, external incentives
 - Aid, sovereign recognition

These initial conditions, events and critical junctures can be thought of as exogenous shocks to Acemoglu & Robinson's endogenous system



Gaps between de facto and de jure political power prompt bargaining, where the key challenge is the commitment problem



An example: Endowments and initial colonial policies foster different elite coalitions in different parts of the Americas

Free smallholders?



Or coercive labor?



A key juncture: Rapid and relatively unexpected early 19th century decolonization

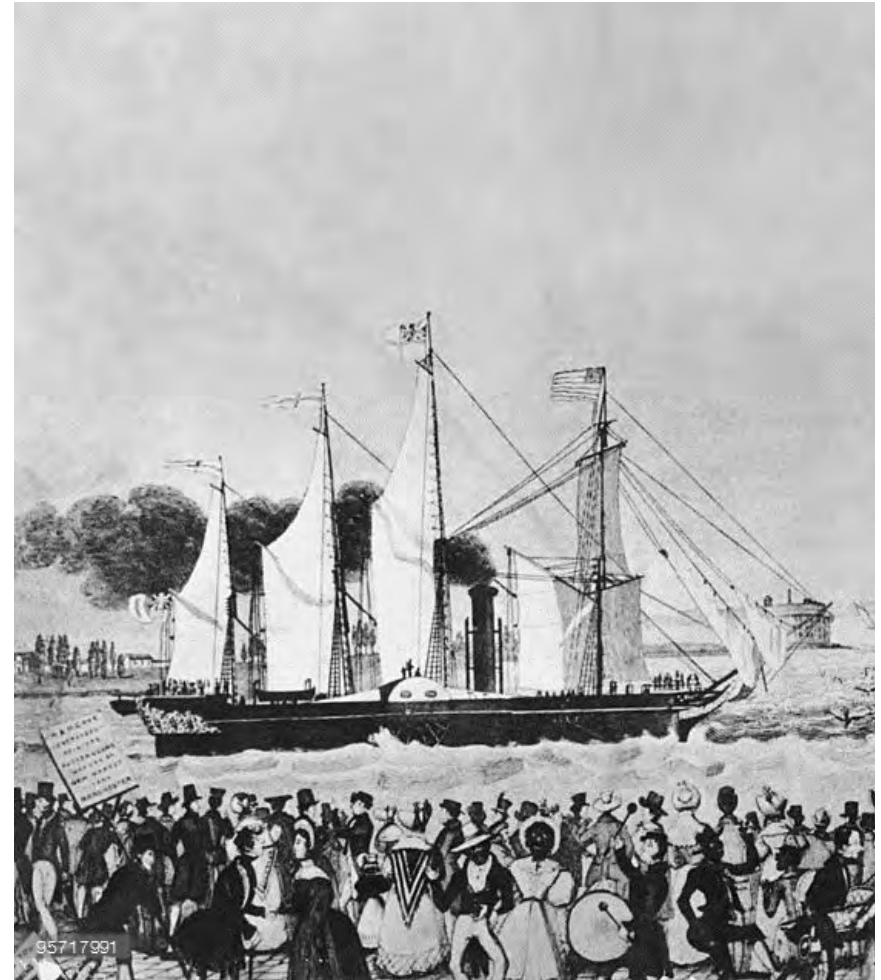
Year of independence



- Nations fought to establish international borders
- Elites competed to capture the new republics, often violently
 - Conservatives fought to preserve their colonial limited-access privileges
 - Liberals sought to commercialize, free markets somewhat, and extend some equality
- The institutional structures developed were an outcome of this elite competition
 - Partly settled by chance

Other 19th century forces that have the potential to change elite power and new bargains

- Expansion of global trade in late 19th century
 - Steamship
 - Refrigeration
 - Competition with other commodity producing economies
- New ideas and ideologies
 - Individual liberty
 - Liberal economic policy

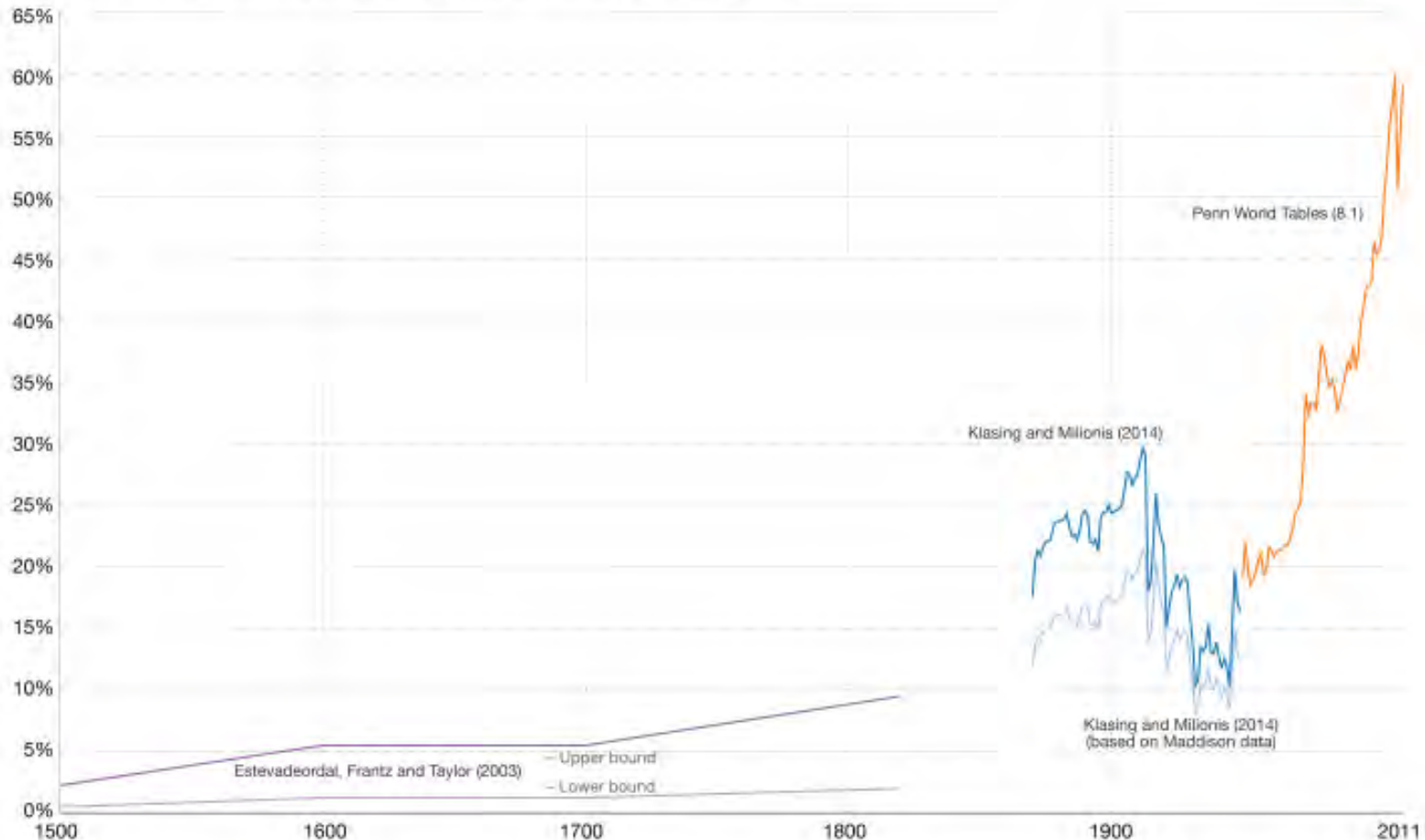


The 'SS Great Western' steamer arrives in New York after her maiden voyage from Bristol UK

Rise in 19th century trade

Globalization over 5 centuries (1500-2011)

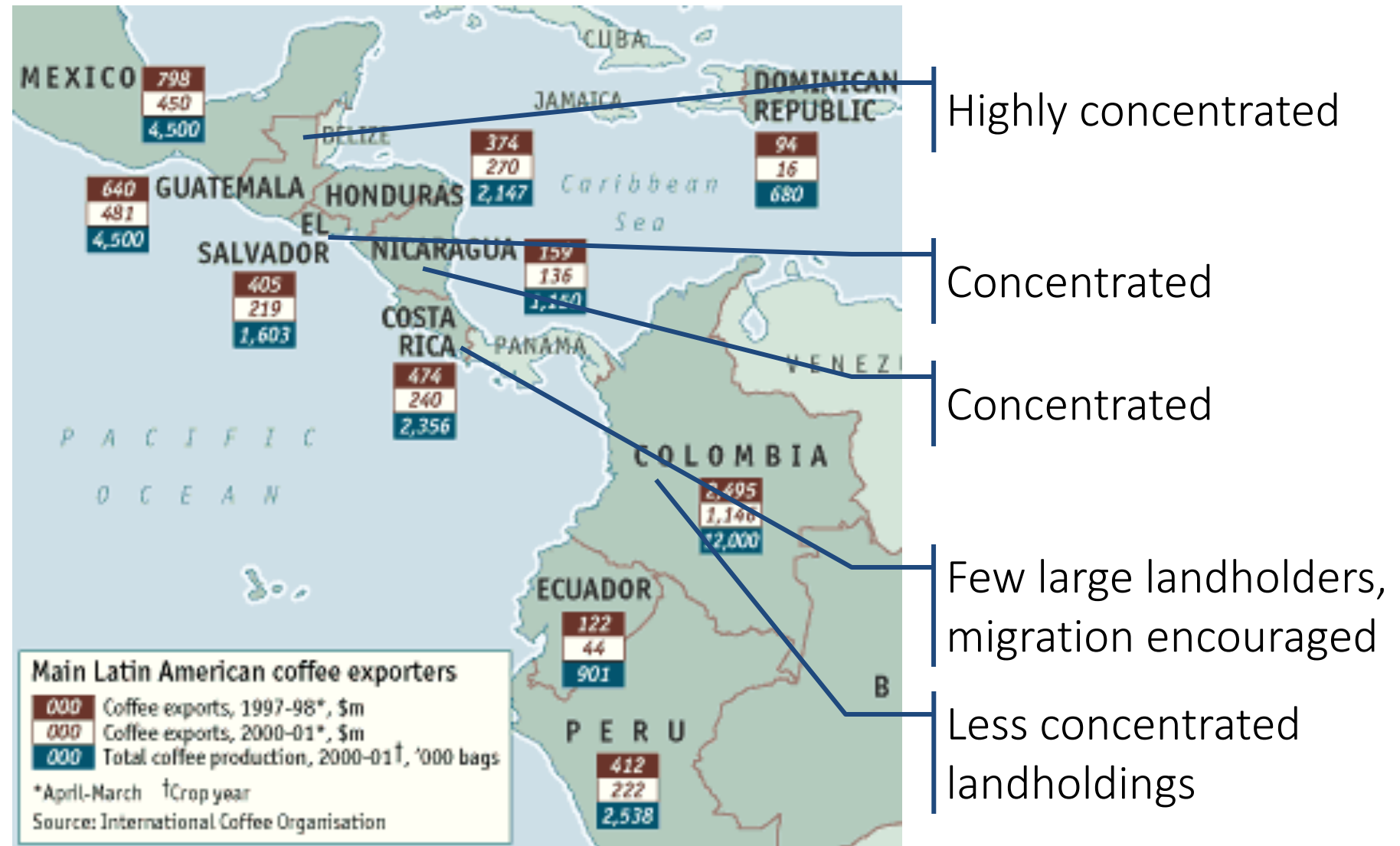
Shown is the sum of world exports and imports as a share of world GDP (%)
The individual series are labeled with the source of the data



Huge increase in European and US demand for coffee



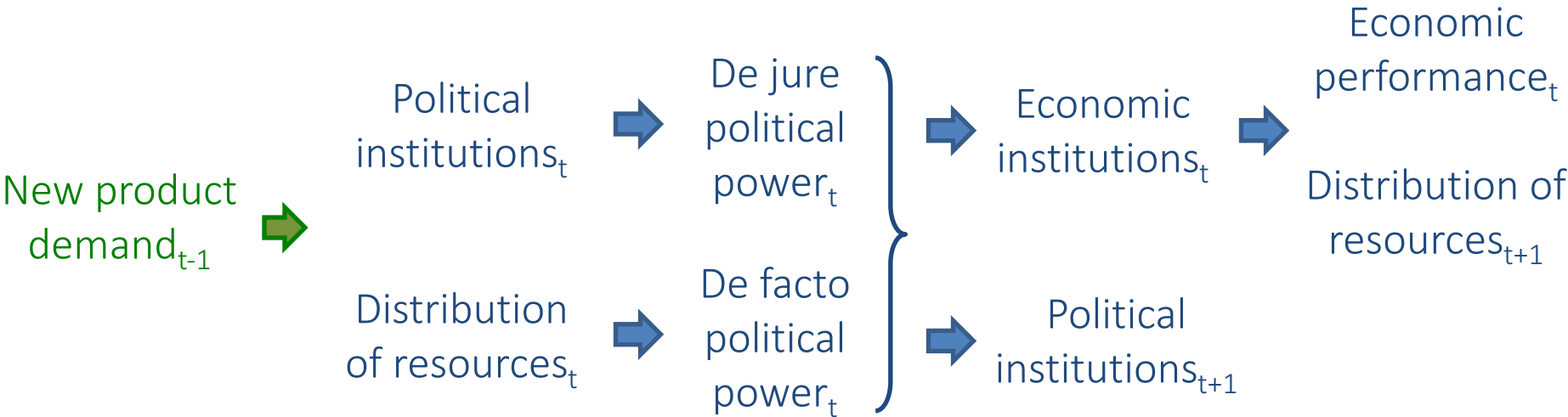
Some decades after decolonization, former colonies with similar environments and colonial power chose different forms of land concentration



These explanations for land concentration are influenced by endowments and past path dependent choices, but they are rooted in the interests and advantages of elite groups

- Large native populations who could be enslaved to work on large plantations
 - Guatemala had, others did not
- Whether or not pre-globalization elites were landlords or not
 - In early 19th century El Salvador and Guatemala, elites already had large landholdings and turned to coffee production
 - In Costa Rica and Colombia, elites were more commercially focused (e.g. gold export in Colombia) and chose to monopolize finance and exportation, and were happy to encourage smallholder production and concede property rights to land
- Population density and historical levels of interest by Spain
 - Costa Rica and Colombia were comparatively less settled
- Historical external threats and degree of militarization
 - El Salvador and Guatemala elites had faced previous threats from one another (and other neighbors) and had developed powers of coercion

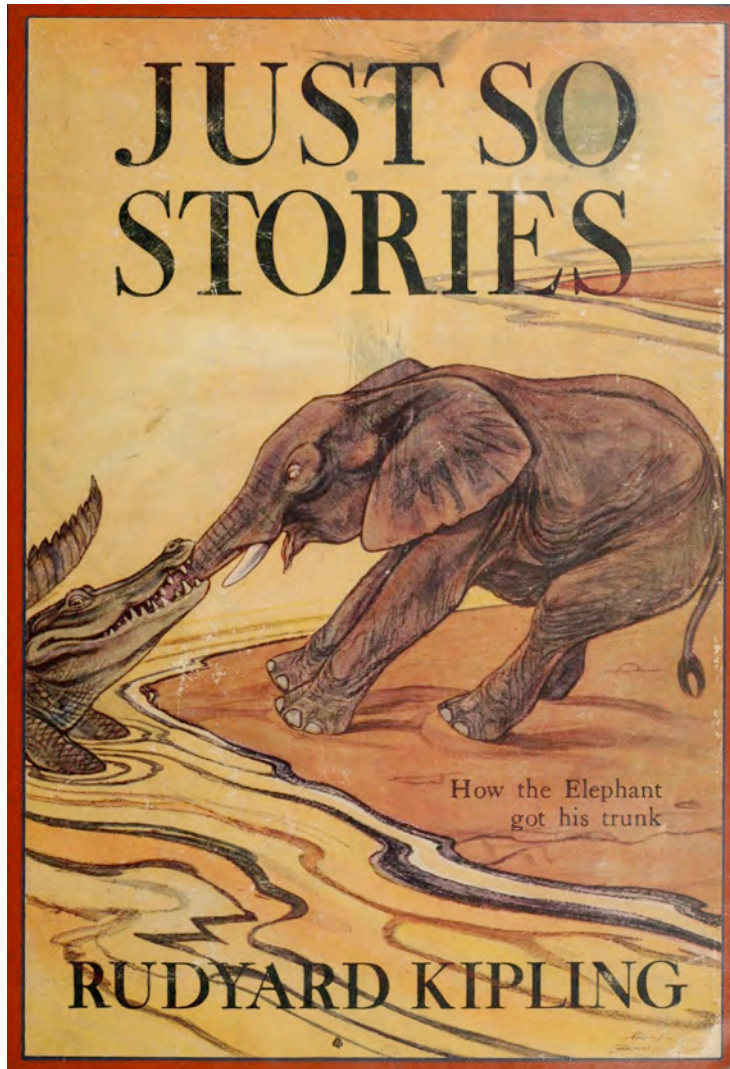
Each former colony reacted to the change in different ways



Building blocks for a theory of institutional change

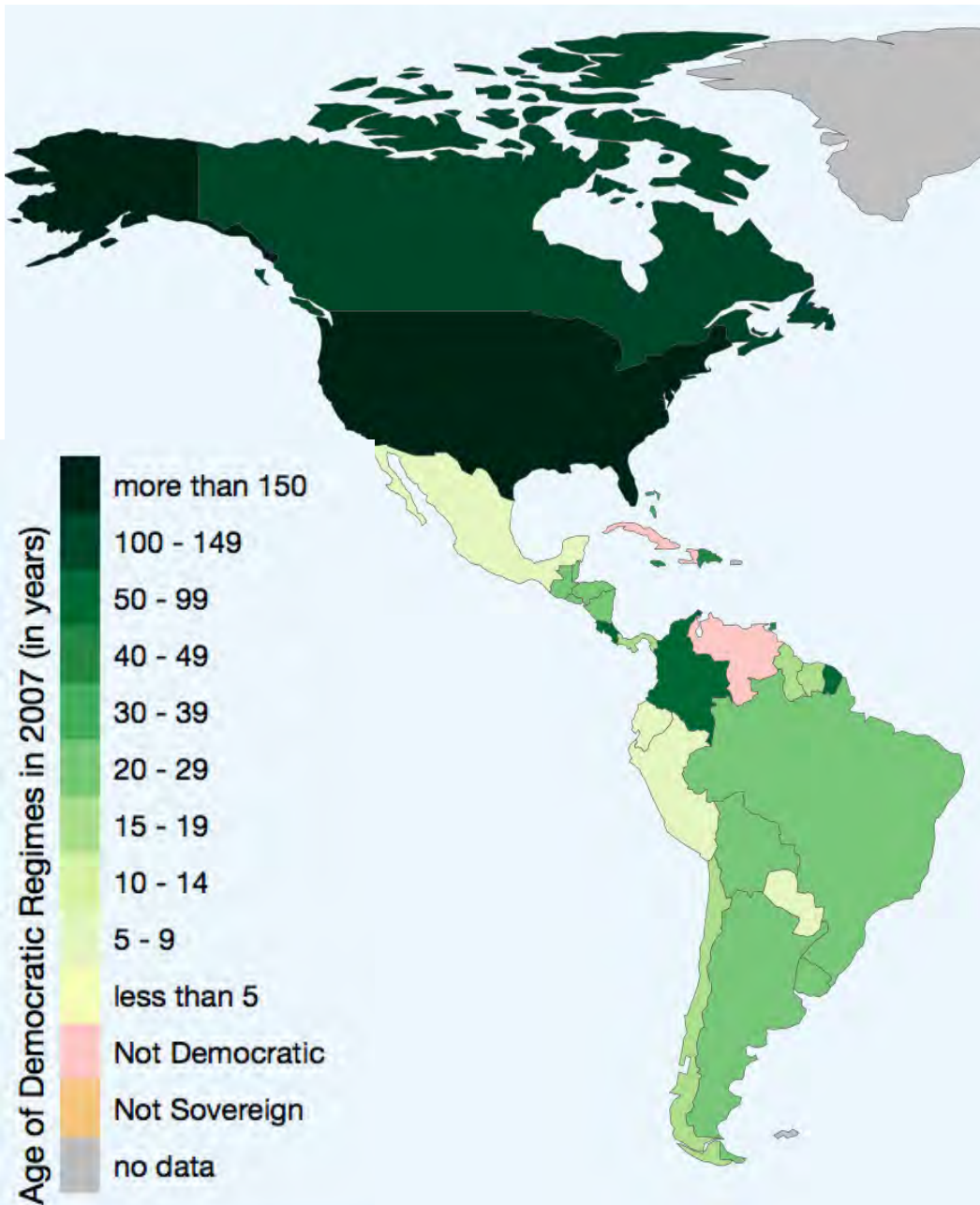
1. Path dependence
2. Critical junctures
3. Order as bargains
4. Institutional change through social conflict and bargaining
5. Beware of “just so” stories, and get comfortable with chance

Just so stories



- An unverifiable story explaining for historical events, cultural practices, biological traits, or human behavior of humans or other animals.
- A negative term for a hard-to-prove hypothesis

Age of democracy in years, since 2007



We saw a large number of studies, some with more concrete evidence than others

It's hard, but try not to take any one explanation too seriously

- Most political development books argue for one big explanation or idea
- But almost never is there just one explanation for such a big, complex set of events
 - Even if the “big idea” sells more books
- Chance and idiosyncrasy don't get enough credit
- Path dependence means history and past choices matter
- And elites and other groups competing for power do try to make their own luck
- But fundamentally these are chance events, with great consequence at critical junctures

Putting the building blocks together: An application to the Atlantic trade and the rise of Western Europe

1. Path dependence
2. Critical junctures
3. Order as bargains
4. Institutional change through social conflict and bargaining
5. Beware of “just so” stories, and get comfortable with chance

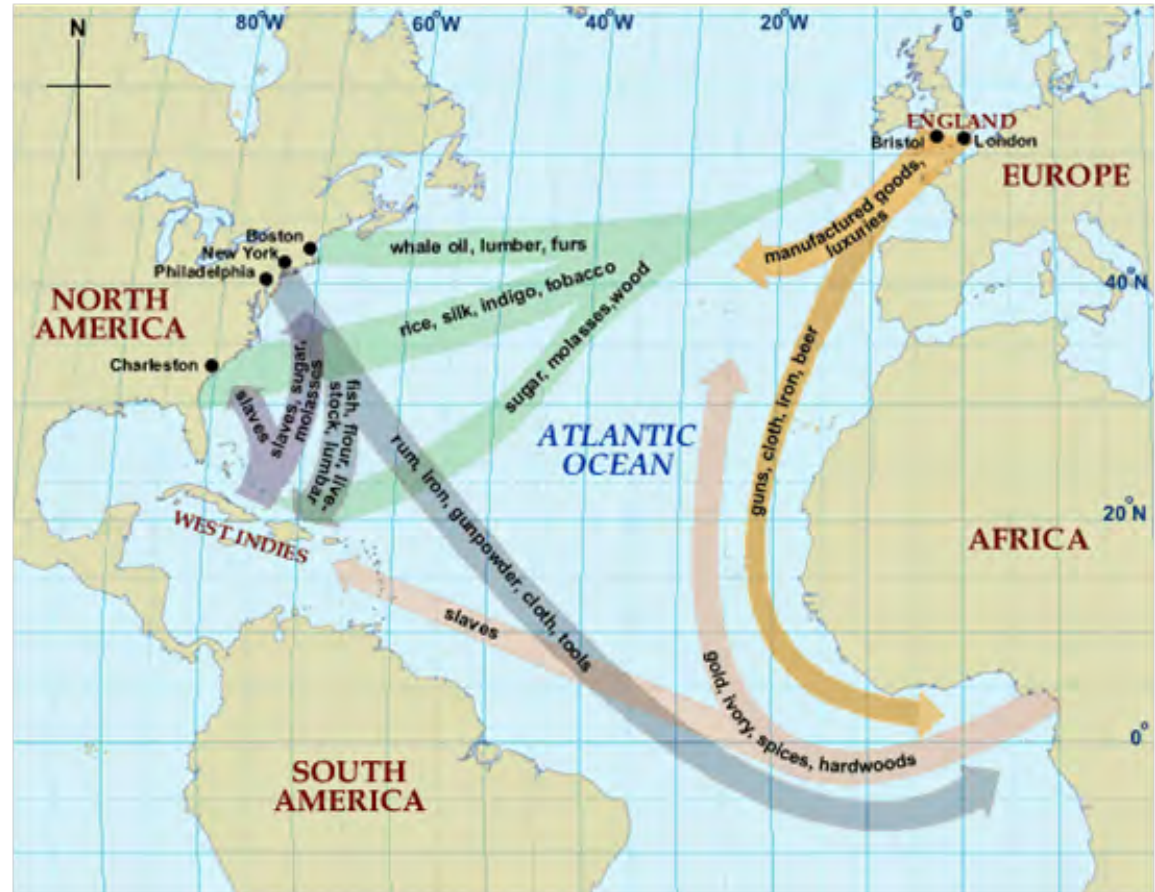
From 1400-1900, countries in Western Europe took different paths

- Feudal system of organization in decline
- Elite groups competed for power
 - Aristocracy sought to maintain power
 - Monarchs tried to centralize control
 - Merchants and peasants tried to escape or restrain both
- **England and Netherlands:** Developed constitutional governance
- **France, Spain, and Portugal** moved towards absolutism



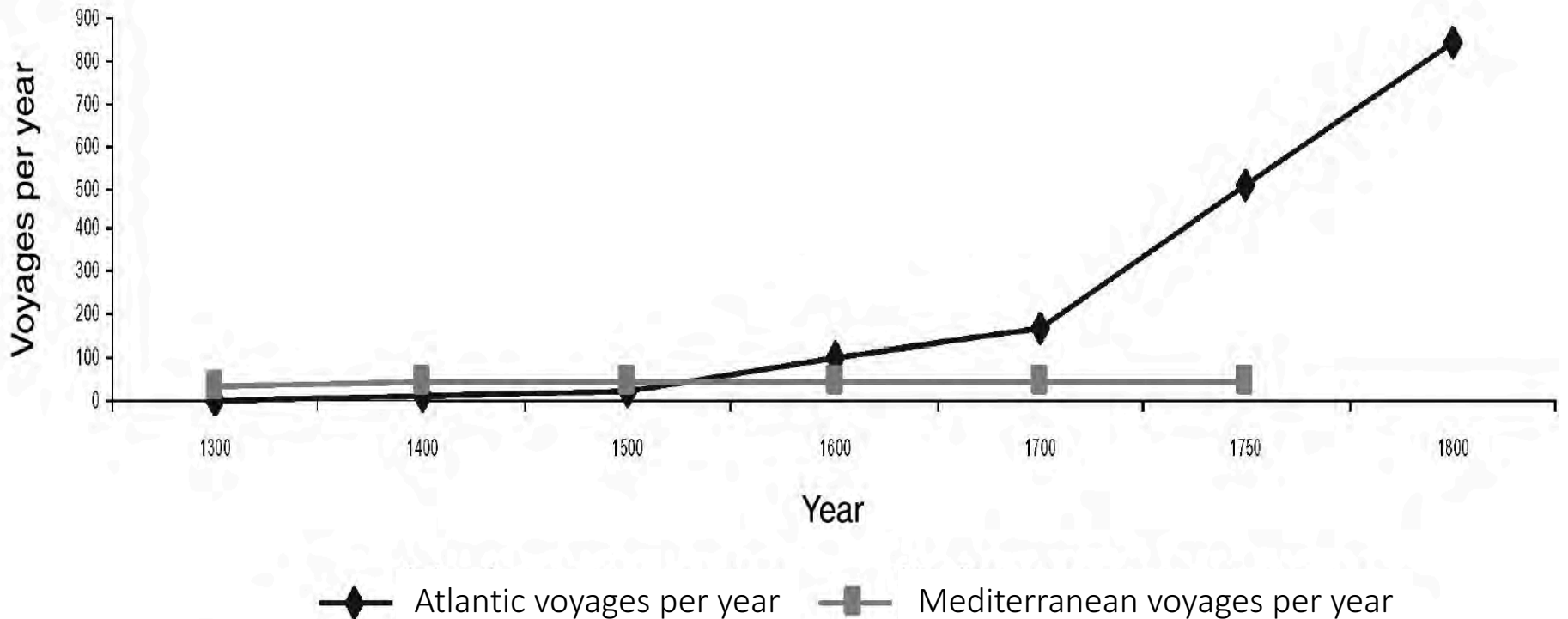
1500s: A fundamental change in the global trade changes the distribution of resources in Europe

- Late Middle Ages: Growing trade with Europe and Asia in
- From 1500: Trade spurred by technology
 - In shipping and navigation
 - In industrial production
- Massive profits from the Atlantic trade



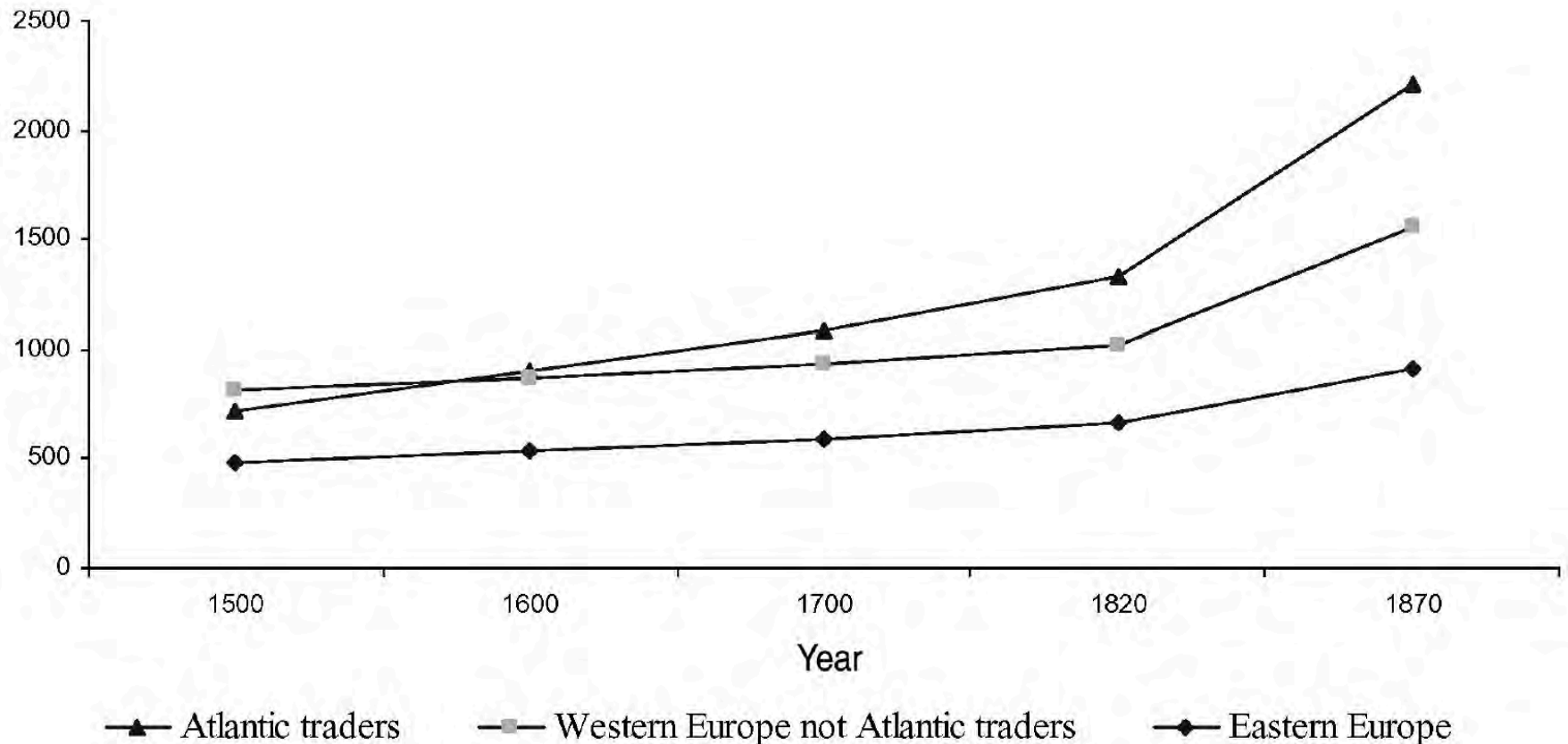
A major change in trade flows after 1500

Atlantic & Mediterranean trading voyages per year, 1300-1800



Incomes doubled in Atlantic trading nations 1500-1820, and elsewhere grew <30%

GDP per capita 1500-1870 in countries with and without Atlantic traders



One story: Trade empowers different groups in different parts of Europe, depending on pre-1500 balance of power (AJR)

- England and Netherlands:
 - By 1500, landed gentry had expanded the coalition and constrained monarch with a parliament
 - Individuals, small companies, and large charter companies competing for advantage
- France, Spain, and Portugal:
 - Still had absolutist regimes
 - State controls trade and grants or sells monopolies and trade privileges
 - Majority of profits and rents go to the Crown

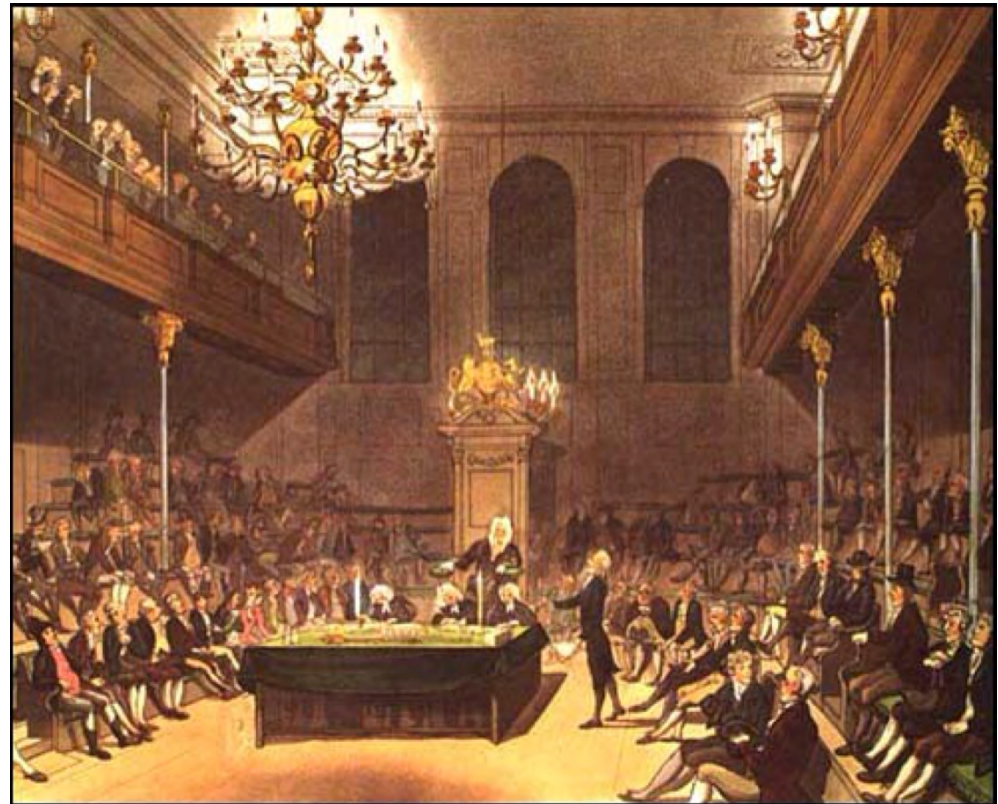


The Atlantic trade strengthened the bargaining power of the elite groups that captured the revenues

- Revenues altered the balance of political power by either:
 - Enriching and strengthening commercial interests outside the royal circle (merchants, slave traders, planters,...)
 - Strengthening a centralized monarchy who sells monopolies for revenue
- Each strengthens the trend towards absolutism or capitalist and non-absolutist institutions
- In England and Netherlands, Atlantic trade created large profits for merchants in favor of:
 - Dismantling or preventing royal monopolies
 - Freer trade
 - More moderate taxation
 - Property rights and contracts for commercial enterprise
 - Further restricting the power of the Crown

Contributing factor to The Glorious Revolution of 1688: The establishment of parliamentary supremacy

- Landmark event in Britain
- Culmination of multiple wars between Parliament and the monarchy
 - e.g. English Civil War 1642-51
- Parliament beheads King James II and invites a new monarch to the throne, on their terms: William of Orange
- Parliament reconvenes and elects William and Mary as monarchs
- Passes the Bill of Rights, establishing parliamentary supremacy



William and Mary sign the Bill of Rights

Putting the building blocks together: An application to the Atlantic trade and the rise of Western Europe

1. Path dependence

- The crucial importance of the monarch's strength in 1500
- Unanswered: Why were institutions more absolutist in France, Spain and Portugal by 1500? Why had Britain developed property rights, the rule of law, and basic constraints on the monarchy?

2. Critical junctures

- After the opening of the Atlantic trade, each society had to decide how to organize that trade to maximize revenues and its hold on colonies
- Did not make these decisions with a view of the long term consequences

3 & 4. Order as bargains & change through social conflict and bargaining

- Contests between aristocracy and commercial classes
- Those bargains often broke down (e.g. the English Civil War 1642-1651)

5. Be careful of deterministic stories

- The outcomes of wars, who would be strengthened by trade, how successful they would be, was not foreordained