



Institutions, Governance and Development

ECO 224

Chapter 1



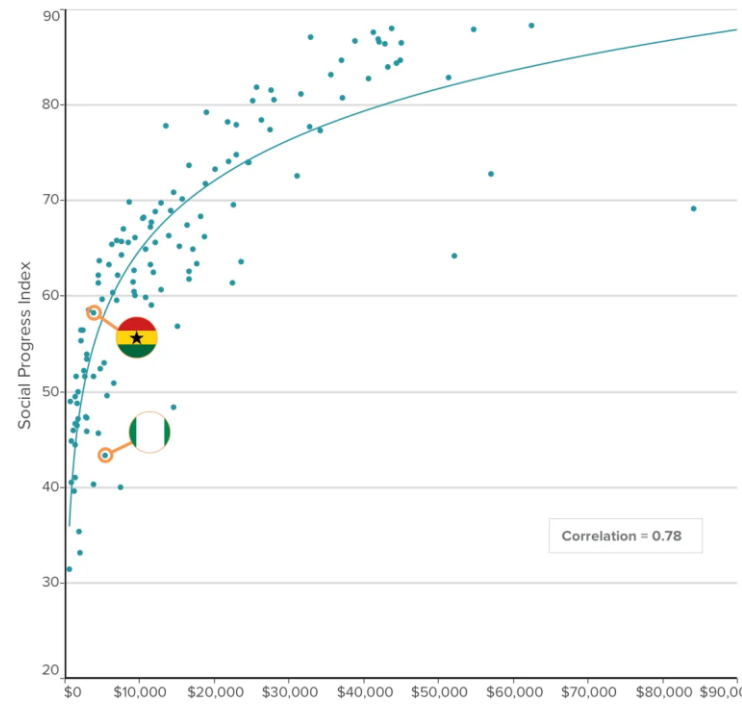
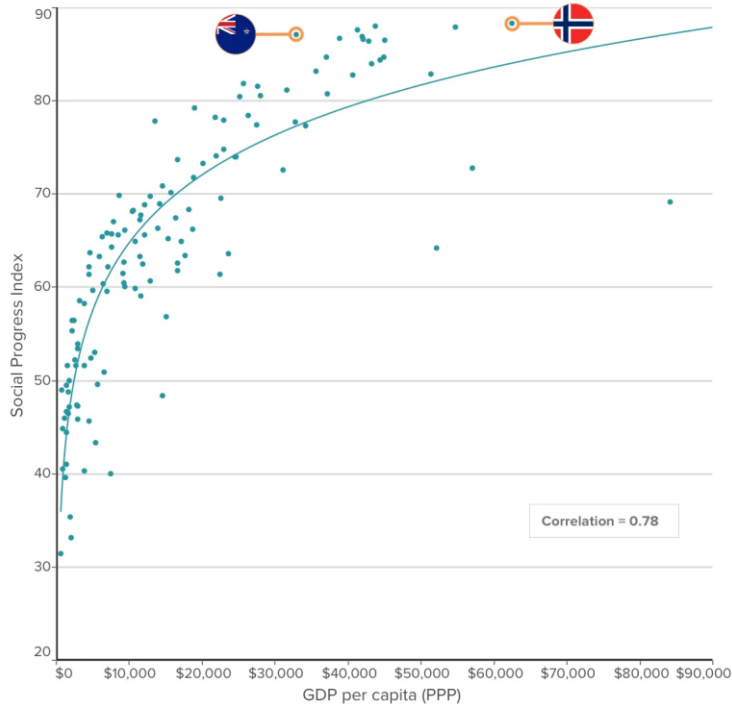
Let us rummage in
Institutions!



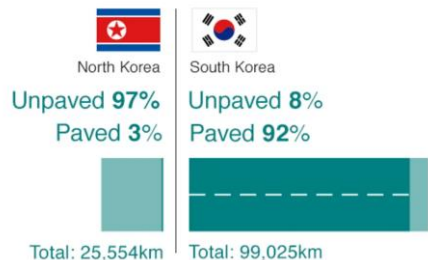
Should we judge a country by its GDP?

What GDP does not include?

What are the alternatives?



North Korea's roads are bad



Source: CIA World Factbook

BBC

Dynasty vs democracy

Leaders since 1948



L-r: Rhee Syng-man, Yun Bo-seon, Park Chung-hee, Choi Kyu-hah, Chun Doo-hwan, Roh Tae-woo, Kim Young-sam, Kim Dae-jung, Roh Moo-hyun, Lee Myung-bak, Park Geun-hye, Moon Jae-in

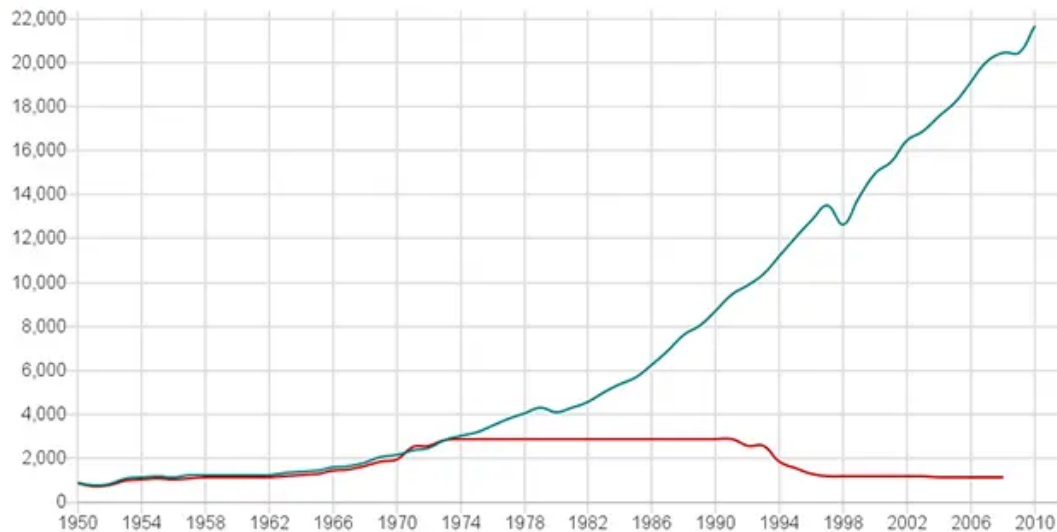
Source: CIA World Factbook

BBC

But the Koreas used to be much more closely matched

GDP per capita in USD, 1950-2010

— S. Korea — North Korea



Source: The Maddison Project

BBC



So Close and Yet So
Different (*Why Nations
Fail*, 2012)

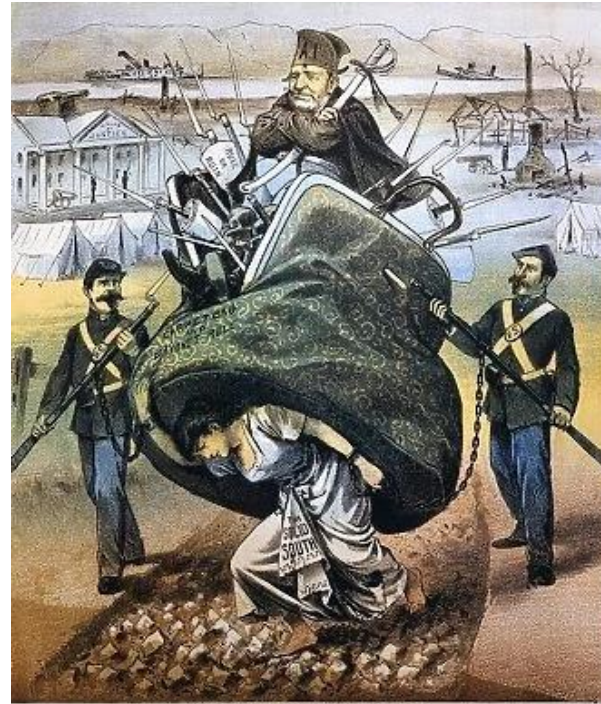
Nogales, Arizona
Vs
Nogales, Mexico

Institutions determine economic growth, and global inequality is the result of different countries' differing institutions. **Acemoglu and Robinson** point out that both political and economic institutions shape prosperity.

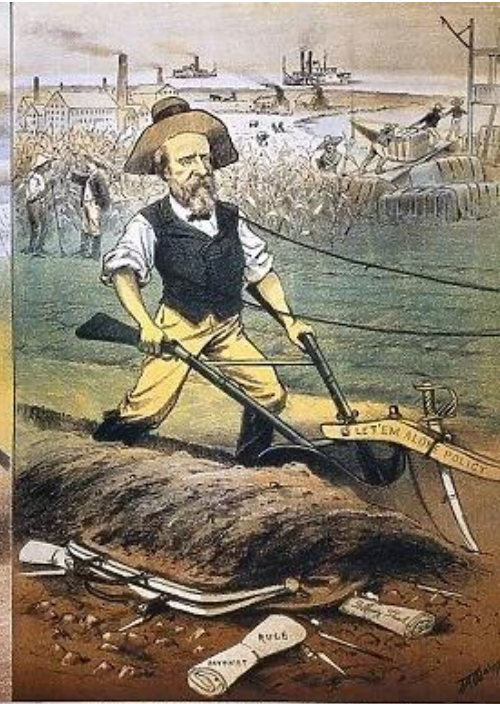
What is better,
strong
government/
good
institution?



What is better,
strong
government/
good
institution?



THE "STRONG" GOVERNMENT 1869-1877.



THE "WEAK" GOVERNMENT 1877-1881.

100% digital, 0% bureaucrazy

100% online services: Estonia has eliminated bureaucracy through seamless digital solutions.

This achievement positions Estonia as a global leader in digital governance and sets a benchmark for nations worldwide.



Chapter 1 outline

- Institutions: definition and types
- Society relationships: social structure and individual agency
- Shaping behaviour in society: rules and institutions
- Power and political debates: authority, legitimacy and resistance



Institutions: concept

Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.

In consequence they structure incentives in human exchange, whether political, social, or economic. Institutional change shapes the way societies evolve through time and hence is the key to understanding historical change.

Institutions reduce uncertainty by providing a structure to everyday life. They are a guide to human interaction, so that when we wish to greet, meet or interact for some purpose, we know (or can learn easily) how to perform various tasks.



Institutions and organizations

Institutions are the underlying rules of the game and organizations (and their entrepreneurs) are concerned with their roles as agents of institutional change and as achieving predetermined goals; therefore there is an interaction between institutions and organizations.



University



Education



Court



Law

Institutions and organizations

Institutions are the underlying rules of the game and organizations are the players of the game. Organizations are concerned with their roles as agents of institutional change and as achieving predetermined goals; therefore there is an interaction between institutions and organizations.



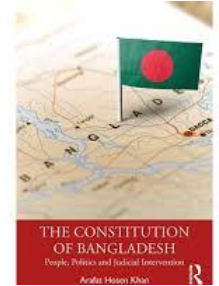
Market



Trade



Parliament



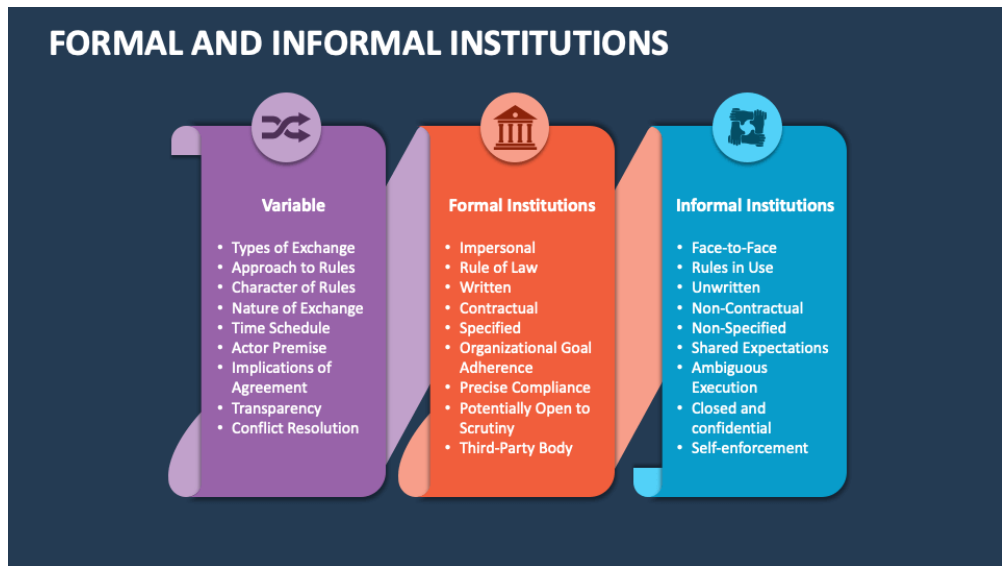
Constitution

Institutions: formal or informal?

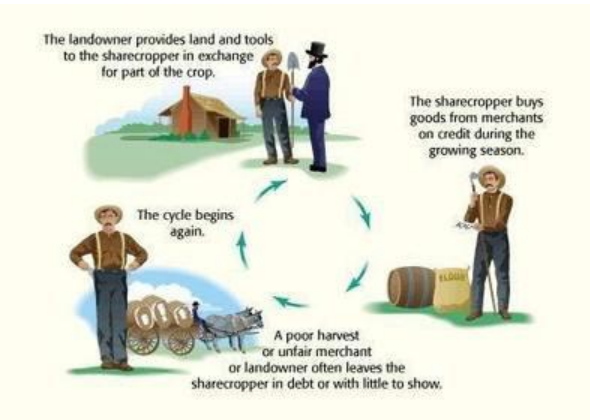
Institutions include any form of constraint that human beings devise to shape human interaction.

Institutional constraints include both what individuals are prohibited from doing and, sometimes, under what conditions some individuals are permitted to undertake certain activities.

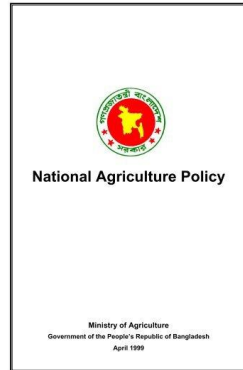
Formal constraints - such as rules that human beings devise and **Informal constraints** - such as conventions and codes of behavior. Constraints consist of **formal written rules** as well as typically **unwritten codes of conduct that underlie and supplement formal rules**. The formal and informal rules and the type and effectiveness of enforcement shape the whole character of an institution.



Institutions: formal or informal?



Sharecropping



Agricultural policy



Property rights



Tenancy

Institutions: roles and changes

The major role of institutions in a society is to reduce uncertainty by establishing a stable (but not necessarily efficient) structure to human interaction.

But the stability of institutions in no way gainsays the fact that they are changing. From conventions, codes of conduct, and norms of behavior to statute law, and common law, and contracts between individuals, institutions are evolving and, therefore, are continually altering the choices available to us.

The changes at the margin may be so slow and glacial in character. Institutional change is a complicated process because the changes at the margin can be a consequence of changes in rules, in informal constraints, and in kinds and effectiveness of enforcement. Moreover, **institutions typically change incrementally rather than in discontinuous fashion** (e.g., revolution and conquest).

Although formal rules may change overnight as the result of political or judicial decisions, informal constraints embodied in customs, traditions, and codes of conduct are much more resistant to deliberate policies.

Institutions, together with the standard constraints of economic theory, determine the opportunities in a society. Organizations are created to take advantage of those opportunities, and, **as the organizations evolve, they alter the institutions.**

Institutions: roles and changes

An example: U.S. economic history - the growth of the economy in the nineteenth century.

The basic institutional framework

(the Constitution and the Northwest Ordinance, as well as norms of behavior rewarding hard work)



induced the **development of economic and political organizations**

(Congress, local political bodies, family farms, merchant houses, and shipping firms)



Creating efficient political and economic markets (zero transaction cost)

(maximizing activities resulted in increased productivity and economic growth both directly and indirectly by an induced demand for educational investment, resulted in the free public educational system, and in agricultural experiment stations.)



Institutional change

(The Morrill Act created the land grant to public universities.)

Social structure



Two friends are having coffee at a coffee shop.
Can you find a **social structure**?

Social activity (two friends)

Business (coffee shop)

Market (coffee trade and coffee shop)

Production (coffee cultivation and processing)

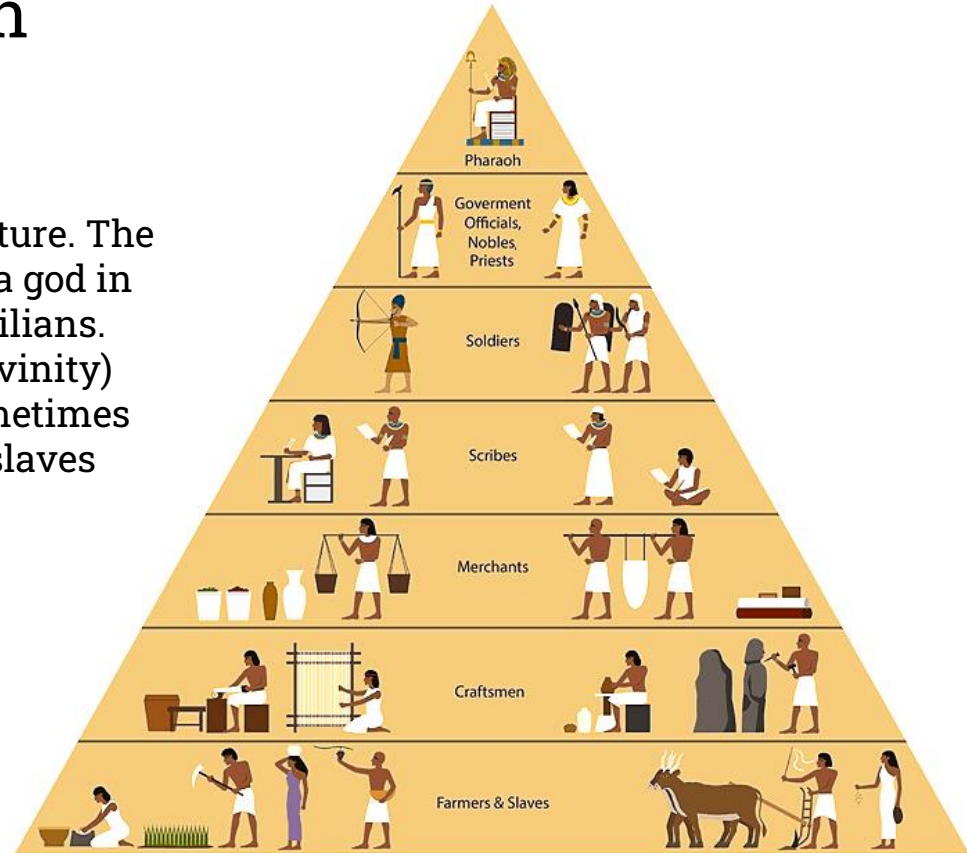
Institutions (fair trade policy, shop licensing, labor laws, consumer rights, social security)

Individuals drinking coffee enter into a set of social and economic relationships. Coffee is a product grown by poor rural communities and consumed at fancy shops by wealthy communities. Countries earn foreign exchanges, people talk business, social, economic and political issues at coffee time. Individuals drinking coffee that is purchased in fair trade is a matter of environmentalism and political activism. **Our lives and actions are structured in a society → Social structure**

Social structure: evolution

1550 BCE- Egyptian Social hierarchy

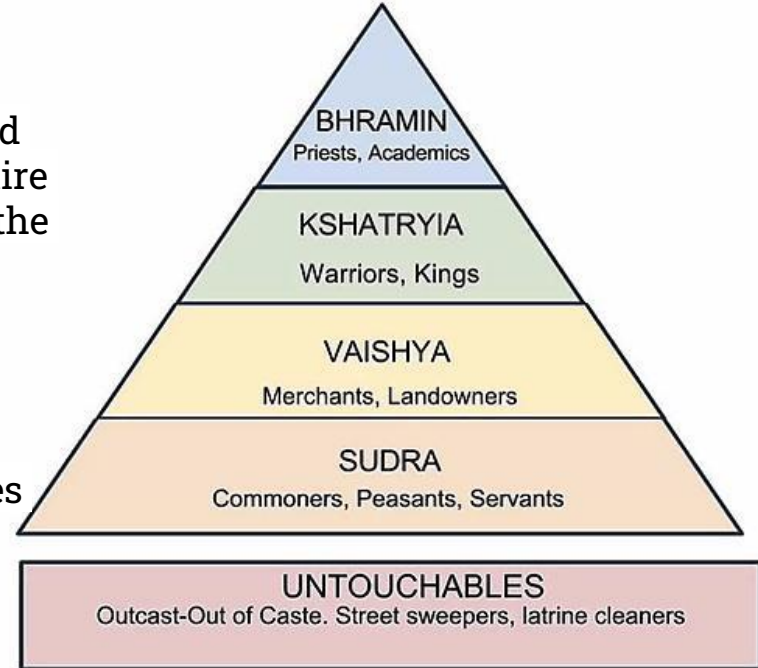
The Egyptians followed a pyramid-like structure. The pharaoh was at the top and considered to be a god in human form. He had total power over the civilians. The others at the top (also associated with divinity) were the officials, nobles and priests and sometimes soldiers. Scribes, merchants, craftsmen and slaves (who served the upper class) followed.



Social structure: evolution

1400 BCE Indian Caste system

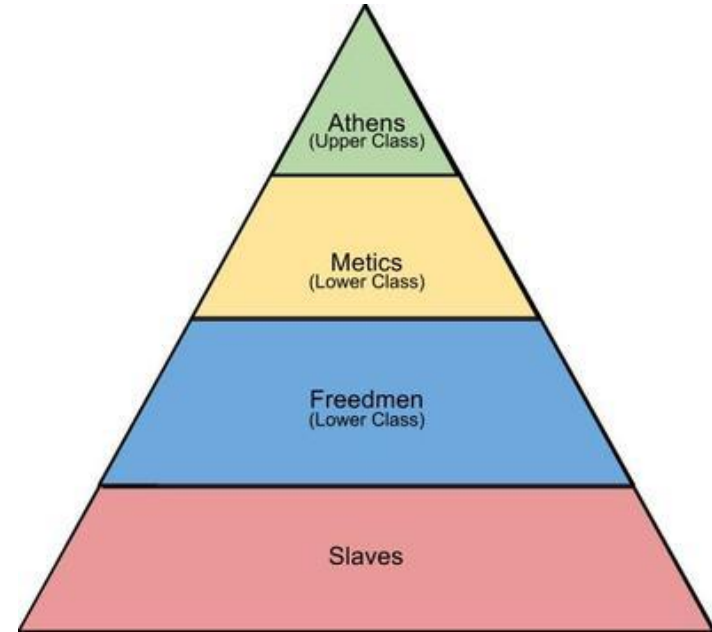
In the Indian caste system, your heredity determined your class and you had to stay in that class your entire life. There were 4 main levels or "castes": Brahmin, the priests; Kshatriya, warriors and nobility; Vaishya, farmers, traders and artisans; and Shudra, tenant farmers and servants. Then there was a group not even included on the list called the Dalit, or "untouchables". The top of the caste system were considered to be the most holy, and the untouchables were considered "impure"



Social structure: evolution

500 BCE Ancient Greek Social Structure

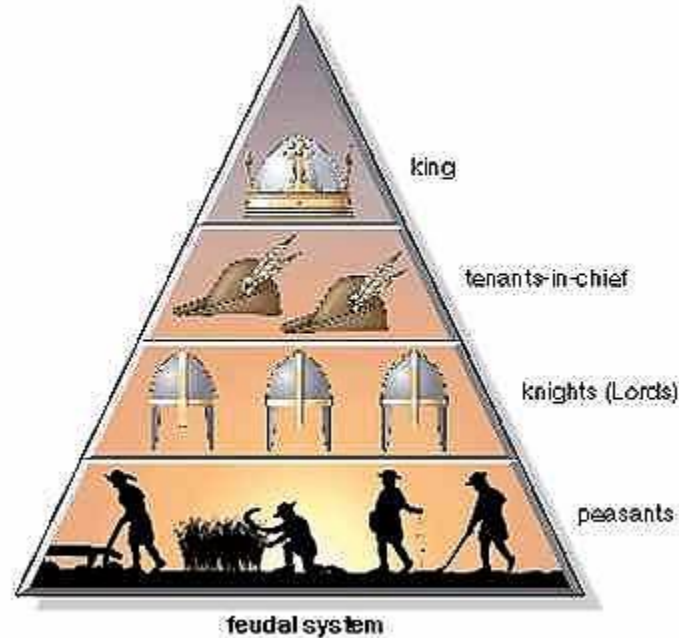
Their social structure basically broke up into free people and slaves. The highest class of free people were called the Athens, and they were born citizens and didn't have to serve in the military. The second class, the Metics, had to serve in the military before they became citizens. **The women in Greece did not have a class, all of their legal matters had to go through their husbands and they could not participate in social events.**



Social structure: evolution

1000 (10th century) Standard European Feudalism

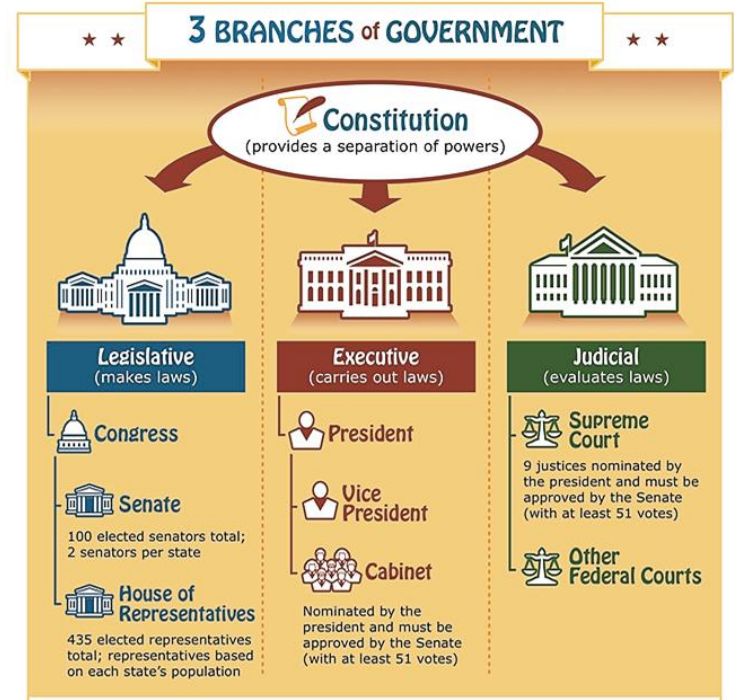
In feudalism, the king ruled over all of the land, yet because he couldn't take care of it all, so the barons ruled large areas of land called fiefs. They divided their land up among lords, and that land was called manors. The lords ruled the vassals who lived on the land for free if they worked for the lords. The vassals could own peasants or craftsman. This structure was mainly based on land and more commonly known as the middle ages.



Social structure: evolution

1776 United States Democracy

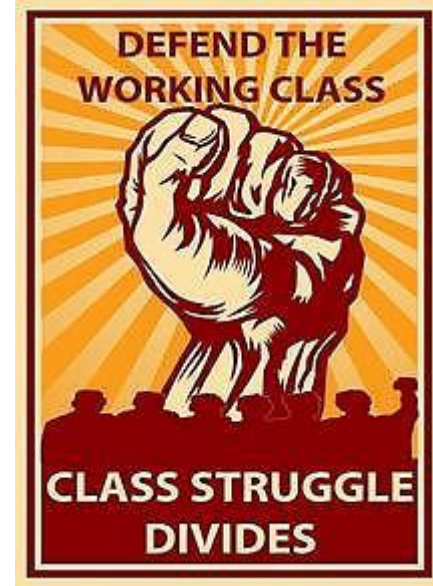
In 1776 the United States of America signed their Declaration of Independence to free themselves from Great Britain. They started a democracy where there is a president yet he doesn't have nearly all the power. There are 3 branches of power, Legislative (makes laws), Judicial (enforces laws), and Executive (carries out laws) and they separate the power so that one can gain too much power. Ideally this keeps the United States from turning into a social hierarchy, yet as we know there are always other motives in society and there are unsaid social hierarchies.



Social structure: evolution

1848 Socialist Views of Capitalist Structure

According To Karl Marx, the world is split into two classes: the bourgeoisie, the wealthy, and the proletariat, the poor. Marx predicted that eventually the Proletariat will rise into power, take over capitalism and establish a communist government. Socialist believe that all products should be managed by the community and everyone gets an equal share.



Social structure: theories of industrialization

Auguste Comte's (1798–1857) **law of the three stages** claims that human efforts to understand the world have passed through **theological, metaphysical and positive stages**.

In the **theological** stage, thoughts were guided by religious ideas and the belief that society was an expression of God's will.

In the **metaphysical** stage, which came to the forefront around the time of the Renaissance, society came to be seen in natural not supernatural terms.

The **positive** stage, ushered in by the discoveries and achievements of Copernicus. Galileo and Newton, encouraged the application of scientific techniques to the social world.

Comte was concerned with the **inequalities being produced by industrialization and the threat they posed to social cohesion**. The long-term **solution was the production of a moral consensus** that would help to regulate, or hold together society despite the new patterns of inequality.

Social structure: theories of industrialization

Emile Durkheim (1858–1917) was particularly interested in **social and moral solidarity** - what holds society together and keeps it from descending into chaos. Solidarity is maintained when individuals are successfully integrated into social groups and are regulated by a set of shared values and customs.

In his first major work (**The Division of Labour in Society**) Durkheim presented an analysis of social change arguing that the advent of industrial era meant the emergence of a new type of solidarity. He contrasted **two types of solidarity, mechanical and organic** and related them to the division of labour - the growth of distinctions between different occupations.

Traditional cultures with a low division of labour are characterized by **mechanical solidarity**. Most members of the society are involved in similar occupations, they are bound together by common experience and shared beliefs. Such solidarity is grounded in consensus and similarity of belief.

Societies characterized of **organic solidarity** are held together by people's economic interdependence and their recognition of the importance of others' contributions. As the division of labour expands, people become increasingly dependent upon one another. **This is caused by industrialization and urbanization.**

Social structure: theories of industrialization

Max Weber (1864–1920) sociological perspective was the idea of **the ideal type** which is concerned with conceptual or analytical models that can be used as reference points to understand the world.

He believed that people were moving away from traditional beliefs grounded in superstition, custom and long-standing habit. Instead, **individuals were increasingly engaging in rational, instrumental calculations that took into account efficiency and future consequences.**

The development of science, modern technology and bureaucracy was described by Weber collectively as **rationalization**- the organization of social and economic life according to the principles of efficiency and on the basis of technical knowledge and the **Industrial Revolution and the rise of capitalism were proof of a larger trend towards rationalization.**

Social structure and agency

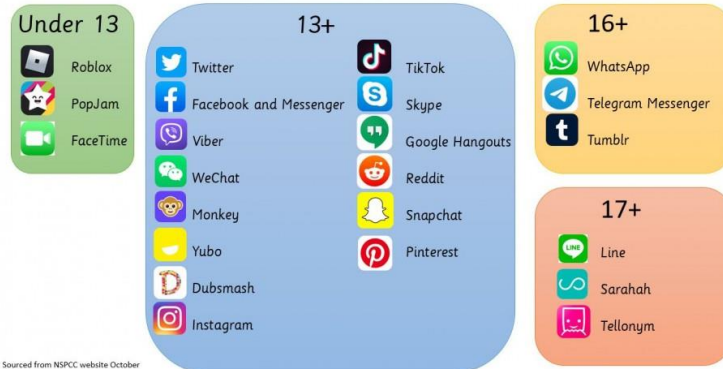
“Agency denotes individual capacity for free thought and action” (Bruce & Yearley, 2006)

“Structure denotes the constraints on individuals that result from the fact that repeated patterns of action, legitimated by ideologies, form the environment that shapes us and limits our actions.” (Bruce & Yearley, 2006)



Age Restrictions for Social Media Platforms

What is the minimum age for account holders on these social media sites and apps?



Social structure and agency

One of **Anthony Giddens's** central themes, was the move away from the 'dualism' of having individual person (human agent) on the one hand and the society or social structure on the other. Giddens aimed to bring together grand theories of how society worked with micro-theories of what motivated individual social action.

Anthony Giddens discusses **the notion of human agent under the concept of self-identity**, and this is made up of three elements: ·

the unconscious- is a concept derived from Freud to outline those elements of our self which we are not fully in control of, beyond our immediate intentions;

the practical consciousness- is a concept derived from Harold Garfinkel to explain that human action is not pushed about, or determined by forces outside of the individual. Giddens also accepts, as suggested by Garfinkel, that individuals have the ability to establish rules and routines for themselves;

the discursive consciousness- a term imported from Alfred Schutz to suggest that individuals reflect upon their social actions to make sense of these actions.

Social structure and agency

For Giddens **structure is always both enabling and constraining; defined as rules and resources**, it is the property of social systems and gives shape to social systems. Structures themselves are reproduced 'through the regularised conduct of knowledgeable agents'.

Structure helps the human agent to solve the problem of getting from one event to the next.



Human agents make rules- rules form structures- rules are used by agents to deploy resources- resources help to form structures of domination- structures are outside of time and space: they have a virtual existence. **(duality of structure)**

Social institutions, as structure, are preserved by the action of individuals through some form collective agreement.



According to Giddens, agency and structure are mutually dependent and reinforcing. Structure influences agency, but the reverse is also true, two sides of the same coin.

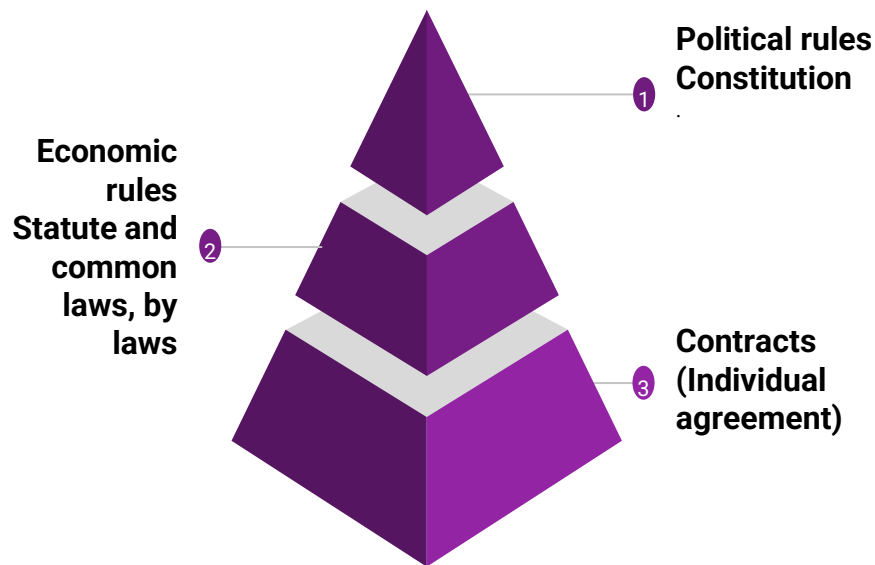
Social structure and agency

Agency 	Structure 
Subjective	Objective
Autonomy/choice	Constraints
Structure cannot exist without agency	
Structure is not necessarily a bad thing	
Agency does not mean complete free will or freedom	

Social structure and agency: examples

Capitalism	Teachers	Class at 2 pm
Market	Politicians	Attend the 2 pm class
Businessman	Government	Labour strike
Entrepreneurs	Coffee shop	Minimum wage
Managers	Drinking coffee	Marriage
Workers	Watching cricket	Love
Public University	Cricket tournament	Religion

Rules and institutions



Formal rules can complement and increase the effectiveness of informal constraints. **They may lower information, monitoring, and enforcement costs and hence make informal constraints possible solutions to more complex exchange.**

Formal rules include political (and judicial) rules, economic rules, and contracts. The hierarchy of such rules, from constitutions, to statute and common laws, to specific bylaws, and finally to individual contracts defines constraints, from general rules to particular specifications. And typically constitutions are designed to be more costly to alter than statute laws, just as a statute law is more costly to alter than individual contracts.

The function of rules is to facilitate exchange, political or economic.

Rules and institutions

Political rules broadly define the hierarchical structure of the polity, its basic decision structure, and the explicit characteristics of agenda control, how political power is structured, exercised, and controlled. They shape the **institutional framework** of governance and public decision-making.

Economic rules define property rights, that is the bundle of rights over the use and the income to be derived from property and the ability to alienate an asset or a resource (e.g., land ownership).

Contracts contain the provisions specific to a particular agreement in exchange. Contracts will reflect the incentive-disincentive structure imbedded in the property rights structure (and the enforcement characteristics)

Rules are generally devised with **compliance costs** in mind, which means that methods must be devised to ascertain that a rule has been violated, to measure the extent of the violation (and consequent damages to the party to exchange), and to apprehend the violator. The costs of compliance include measuring the multiple attributes of the goods or services being exchanged and measuring the performance of agents. In many cases, **the costs of measurement, given the technology of the time, exceed the gains, and rules are not worth devising and ownership rights are not explained. Changes in technology or relative prices will alter the relative gains from devising rules.**

Rules and institutions: examples

"The Republic shall be a democracy in which fundamental human rights and freedoms and respect for the dignity and worth of the human person shall be guaranteed in which effective participation by the people through their elected representatives in administration at all levels shall be ensured."

— -Article 11 Bangladesh Constitution

Powers of Canal Office: At any time after the day so named, any canal-officer acting under the orders of the Government in this behalf may enter on any land and remove any obstructions, and may close any channels, and do any other thing necessary for such application or use of the said water.

— The Irrigation Act, 1876

A attacks Z under such circumstances of grave provocation that his killing of Z would be only culpable homicide not amounting to murder. B having ill-will towards Z and intending to kill him, and not having been subject to the provocation, assists A in killing Z. Here, though A and B are both engaged in causing Z's death, B is guilty of murder, and A is guilty only of culpable homicide.

— The Penal Code, 1860

Rules and institutions: examples

The Bangladesh Biodiversity Act 2017

The Act was passed in line with Bangladesh's constitutional mandate under Article 18A and international mandates under Convention on Biodiversity. The Act regulates who may have access to biological resources and traditional knowledge and how such resources and knowledge may be lawfully transferred.

Costs
Administrative, monitoring, research, enforcement, conservation and protection infrastructure, investments in adaptation and mitigation
Benefits
Ecotourism, ecosystem services, biodiversity, sustainable resource management, carbon offset programmes

Rules and institutions

Many kinds of formal rules are selected through a centralized process of bargaining and political conflict between individuals and organizations who attempt to change the rules for their own benefit. In other cases, formal or informal rules may be selected in a decentralized way through evolutionary competition among alternative institutional forms.

Application of the importance of rules: Tragedy of the Commons (Elinor Ostrom, 1990)

The tragedy of the commons refers to a situation in which individuals with access to a public resource (also called a common) act in their own interest and, in doing so, ultimately deplete the resource. **Ostrom (1990) found that many communities manage to develop rules to successfully avert the tragedy of the commons in the management of common-pool resources, such as fisheries, forests, and common pasture.**

Example: Rules to control overfishing, fast fashion, traffic congestion, groundwater use.

Rules and institutions

Tragedy	Economic rules/statute laws	Contracts
Overfishing	Ban on fishing, Fish conservation act Since 2015, the government of Bangladesh imposes a 65-day annual ban from May 20th to July 23rd under the Marine Fisheries Ordinance of 1983.	Ostrom found that successful rules were more likely to emerge in groups with small numbers of decision makers, long time horizons, and members with similar interests.
Fast fashion	Fashion Act The Fashion Act, a groundbreaking new bill introduced by legislators in the New York State Senate and House of Representatives in 2022. Under this bill, companies are required to map their supply chains, disclose environmental and social impacts, and set binding targets to reduce those impacts.	Recycled materials use; wages and working conditions; water, energy and chemical usage
Traffic congestion	Traffic Act build more roads/flyovers/elevated expressways; modernise traffic management and fix the traffic signals; mark lanes clearly; ban rickshaws; throw pedestrians in jail if they fail to use foot overbridges.	Vehicle registration and road worthiness certification, driver license in case of employment, vehicle insurance contract, accident settlement
Groundwater use	Water Conservation Act Bangladesh Water Act 2013 (BWA) is a framework Law to integrate and coordinate the water resources management in the country.	Water supply agreement between provider and consumer, rainwater harvesting contract, wastewater treatment agreement

Power and legitimacy

“The chance of a man or a number of men to realize their own will in a command action even against the resistance of others who are participating in the action” – Max Weber. To Weber, **power** is about getting your own way, when others do not want you to. Forms of power: **Coercive use of power (not legitimate)** and **power legitimated by some form of authority**.

Coercive example: Russia-Ukraine war- Russia targeted [medical hospitals and ambulances](#), both of which are explicitly protected under the law of war ([First Geneva Conventions](#), Articles 18-21; Articles 12-15 and 21 of Additional Protocol I; and *Law of War Manual* at [7.10](#), [7.17](#), and [7.18](#)); such attacks constitute serious violations of [international law](#).

Authority example: Israel-Palestine conflict- International humanitarian law recognizes the Israeli occupation of the West Bank and Gaza as an ongoing armed conflict. It began when Hamas launched a surprise attack on southern Israel from the Gaza Strip. Current hostilities and military attacks between Israel and Hamas and other Palestinian armed groups are governed by the conduct of hostilities standards rooted in the Common Article 3 to the Geneva Conventions of 1949 and customary international humanitarian law.

Civilians may never be the target of attack. Warring parties are required to take all feasible precautions to minimize harm to civilians and civilian objects, such as homes, shops, schools, and medical facilities. **Attacks may target only combatants and military objectives.**

Power and legitimacy

Weber's three sources of **authority**: traditional, charismatic, and rational-legal.

Traditional authority: is power legitimized through respect for long-established cultural patterns, e.g., hereditary family rule of nobles in the medieval Europe.

Charismatic authority: is drawn from the devotion felt towards a leader by their subordinates who believe that the leader possesses exceptional qualities that inspire devotion, e.g., Jesus Christ, Adolf Hitler.

Rational-legal authority: replaces traditional authority in the modern world, is legitimated through legally enacted rules and regulations, e.g., modern day organizations, bureaucracy.

Foucault's power conceptualization of political sociology: power is not concentrated in one institution, e.g., state. Instead, **power operates at all levels of social interactions, in all social institutions and by all people. Power and knowledge are closely tied together. For example, increase in knowledge about health and illness gives doctors power over their patients (i.e., they claim authority over patients).**

Power and legitimacy: Weber's power



Power and legitimacy: Foucault's power



Power, legitimacy and resistance

Weber's view: 'power' and 'resistance' as distinct but interdependent aspects of, or phenomena within the power relation.

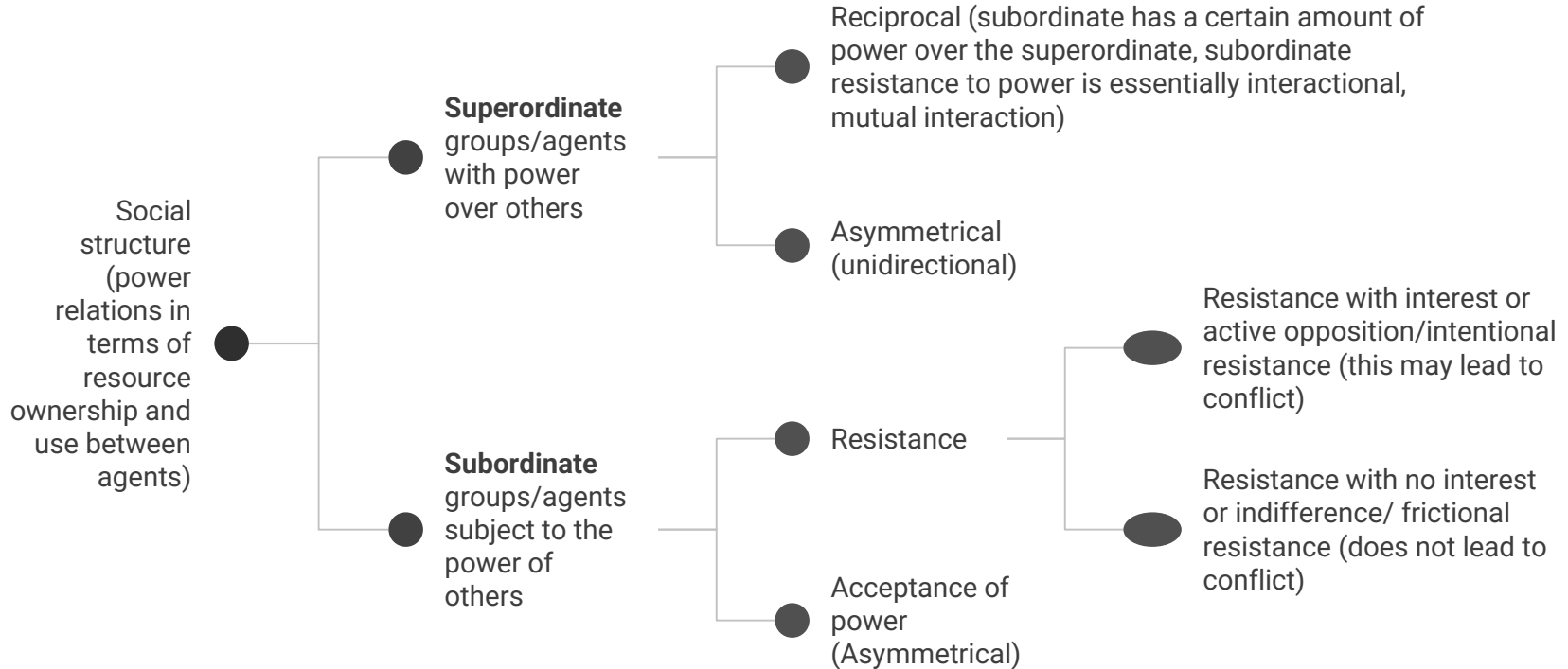
'Resistance' refers to the factors which limit the effects of power and contribute to the outcome of power relations.

Alvin Gouldner's theory of resistance: Resistance is a capacity in its own right germane to an understanding of social relations. The relations have an outcome determined not by the dominant group in the relationship, normally described as having 'power over' the other, but by the balance of the opposing groups.

Power relations have to be conceptualized in terms of 'power' and 'resistance' is the fact that here the notion of a 'balance of power' explains the outcome of interaction in terms of the unequal power of participants.

The efficacious influence of those subordinate to power is resistance. Their influence on social relationships exerted by powerless agents derives precisely from their resistance to power. **Resistance limits the effects of power and in doing so materially influences the 'conditions of reproduction of those social systems' in which those resisting power have subordinate positions.**

Power, legitimacy and resistance



Power, legitimacy and resistance: examples

Patriarchy	Men	Women
Capitalist economy	Labourers	Industrialist
Absolute monarchy (e.g., Saudi Arabia, Vatican City)	Royal family/The Pope	citizens
Feudalism	Peasants	Lord
Cultural hegemony	Bengali	Indigenous groups

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End of Chapter 1