

2 Economic performance: statics

- Models as specific to particular constellations of institutional constraints
- They do not recognise
- Subjective perception, incomplete information and complex environments
 - Ideas and ideologies matter. Institutions determine how much they matter.
 - Politics and economy are interlinked. This needs to be reflected in theories

3 Economic performance: dynamics

New theory building on old elements

- Scarcity/ competition
- Incentives are the driving forces

And new elements

- Incomplete information
- Subjective models of reality
- Increasing returns characteristics of institutions

Increasing our understanding of path dependence

A case of path dependence

Spain-Latin America

- 1500: not yet unified, centralized Castile
- Problem: rising costs of warfare - Cortes, taxing wool trade
- Fiscal crisis unresolved, evolution of church and bureaucracy, 300 years of stagnation
- Inherited by Latin America

Britain-North America

- 1500: centralized feudalism and monarchy
- Problem: rising costs of warfare – Parliament, taxing wool trade
- Fiscal crisis resolved, evolution of polity, started the road to world hegemony
- Inherited by North America

Ch13: Stability and change in economic history

Institutions provide a basic structure permitting the creation of order and reduction of uncertainty

- What kinds of institutions permit the capture of the gains from trade inherent in the neoclassical (zero transaction costs) model?
- Some paths led to stable exchange patterns other paths led to dynamic change
- Why stability and why change?

Changing economies

- Growing specialisation and market access
 - From village markets to global markets
- Transaction costs change as scale increases
 - Agency problems (kin-networks, commenda)
 - Contract enforcement absent a state
- Ending up with first national, then global capital and commodities markets
 - The global system is now struggling to solve some of the same problems as the nation state of early modern Europe (standardized measurement units, medias of exchange, laws, enforcements agencies, taxation)

Stability of the Suq

- High measurement costs
- Continuous efforts at clientization
- Intensive bargaining at every margin

The name of the game is to raise the costs of transacting to the other party to exchange.
One makes money by having better information than one's adversary

European institutional changes in
medieval and early modern times

Organizational innovations at 3 cost margins

- Increasing the mobility of capital
 - Evading usury law
 - Bill of exchange, negotiability and discounting
 - Enforcement, accounting and auditing methods
- Lowering the information costs
 - Printing of prices and manuals
- Spreading the risk
 - Insurance
 - Organisations (portfolio diversification, limited liability)

Institutional stability?

- Normally, in history social change does not encourage maximizing actors to obtain knowledge and skills that increase productivity
- Neither does it normally induce institutional change conducive to increased productivity
- European history is special
 - Why the Netherlands and England?

Ch 14: Incorporating institutional
analysis into economic history:
prospects and puzzles

- Traditional history emphasis technology and the industrial revolution to explain change – but in many cases technology seems to make matters worse
- Application of neoclassical economic theory made it possible to focus on choices and constraints – but it was a static theory
- Neo-institutional theory can do it better

What makes for efficient markets?

- Technology provides an upper bound on economic growth
- Neoclassical models of growth crucially depends on an implicit incentive structure that drives the models
- Marxist models of exploitation have to demonstrate that the institutional framework produce systematic uneven consequences
- Are exploitative institutions imposed from outside or are they endogenously determined?

Incentives are the key

- Rationality
- Ideas
- Ideologies
- Maximising behaviour
- Relative prices
- Collaboration and organisation to exploit opportunities structured by institutions

The adaptive efficiency of the institutional matrix

- The informal constraints come from
 - Cultural transmission of values
 - Extension and application of formal rules to solve specific exchange problems
 - Solutions of straightforward coordination problems
- Traditions of hard work, honesty, and integrity - reinforced by ideologies lowers TC
- The transaction costs inherent in the political process are always high
