Institutions and Norms in Economic Development (CESifo Seminar Series)

Institutions + Norms = Development

Recent decades have seen almost unprecedented economic growth in income per capita around the world. Yet this extraordinary overall performance masks a wide variation in growth rates across different countries, with persistent underdevelopment in some parts of the world. This disparity constitutes the development puzzle, and it is exemplified by growth spurts in China and India that contrast markedly with disturbingly low growth rates in sub-Saharan Africa. In this volume, economists address issues of inequality and growth, going beyond narrowly defined economic factors to consider the effect on growth of the structure of governance, the quality of a country's governing bodies, and the social norms that govern collective decision-making. The contributors use both formal modeling and empirical analyses to examine how the soft factors of institutions and norms interact with growth performance, natural resource endowments, and economic performance. They consider such topics as the effects of decentralization in Africa, fiscal discipline in Indian states, natural resource wealth as a cause of corruption, social violence during the Indonesian financial crisis of 1997 and 1998, and the effect of strong national identity on redistributive politics. Some of their findings suggest that not only do institutions and norms affect economic performance, economic performance itself is a key factor in explaining such governance failures as corruption and the frequency and intensity of economic conflict.


My Personal Review:
Until recently economics professors taught their beginning students that in the process of building economic theories economists make two distinct statements: positive and normative statements. Positive statements are testable statements of fact; they are scientific, and therefore, well,
constitute "good economics". Normative statements, being the opposite of positive are "negative", untetestable value judgments, and hence never lead to "good economics". Thus, normative statements are like an infectious plague to be avoided at all costs.

A number of very good studies, some by the VIPs of economics, have started to push back the wave of naïve scientificism by allowing norms to play their appropriate roles in economic theory. George Akerlof's essay - "The missing motivation in macroeconomics" - that appeared in the American Economic Review of March 2007 makes a good case for the place of norms in all economics, not just macroeconomics. It is good news that economists are slowly getting rid of the "radical physicalism" of the Scientific Method, to borrow from JR Weinberg's 1960 book "An Examination of Logical Positivism."

This book - Institutions and Norms in Economic Development - is another convincing act of the power of the dismal science when used safely. It demonstrates that norms are important to economic life; norms are not just dirt to be cleared away so the (social) scientist discovers the truth. The truth is always embedded in someone's norm, sometimes even inseparably so. Norms are to truth what rough is to a diamond.

The book brings to the understanding of development what many always felt needed said. From Adam Smith we know that economic progress depends on institutions - both public and private, although the facts have favored the latter. One cannot have institutions without norms. The primacy of institutions expresses itself in two dimensions: infrastructural and superstructural.

The current book deals with the superstructural elements of institutions, dividing the discussion into four parts. The first part sets the stage by characterizing development. Part 2 studies the structure of governance, both pre- and post-colonial, while the third part describes institutional quality, and how it relates to the structure and function of property rights. The book closes with two very interesting essays on norms and culture. One essay ponders the positive correlation observed between religious intensity and social violence, and the other essay considers the relationship between social identity and support for distributive equity. Regarding the conclusions, I am not going to tattle for fear of spoiling the fun for the reader. Instead, I recommend the book highly.

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Modeling Determinants of Income in Embedded Economies
ISBN: 1600210465