

IS 101

Week 9

The news this past week. May 4th abc news -
<https://abcnews.go.com/Politics/trump-ukraines-zelenskyy-sign-mineral-deal/story?id=119463336>

● Europe live

Trump envoy says he plans to meet with Ukraine over peace 'framework' as Zelenskyy welcomes Europe's plan to rearm

7m ago

Ukraine Ukraine opposition leaders confirm talks with US but deny plotting to oust Zelenskyy

UK UK to continue to supply intelligence to Ukraine after US cutoff

European Union 'Watershed moment': EU leaders agree plan for huge rise in defence spending



Trump says Ukraine's Zelenskyy wants to sign mineral deal

He said the country's president sent him a letter saying so before his speech.

By [Ivan Pereira](#)

March 4, 2025, 9:29 PM



Trump claims Zelenskyy wrote him a letter agreeing to sign minerals agreement Trump claimed Zelenskyy sent him a letter today indicating that he was ready to come back to the negotiating table and was willing to sign the agreement to give the U.S. Ukraine's rare materials.



Muted Israel reaction after US and Hamas engage in secret negotiations

🕒 LIVE UPDATES

- 9m ago: WATCH: PM Netanyahu 'in difficulties internally' over restarting Gaza war
- 24m ago: US-Hamas talks 'not promising'
- 39m ago: New Columbia University committee targets pro-Palestine students

Israel's Gaza aid blockade could breach humanitarian law: European nations

UK, France, and Germany demand Israel uphold ceasefire terms, warning its blockade on aid risk breaching humanitarian law.



Tamer Hassan al-Shafai, 37, eats an iftar meal, the breaking of the fast, with his family in their destroyed house amid the rubble of buildings in Beit Lahiya in the northern Gaza Strip on March 4, 2025, during the Muslim holy month of Ramadan [Bashar Taleb/AFP]

World Food Programme halves food rations for Rohingya in Bangladesh

Decision made after attempts to raise more funds had been unsuccessful, agency tells authorities



📷 Rohingya refugees gather to collect relief materials from a distribution point in the Kutupalong

- Tutorial questions:

A. Can you explain what your reading means by “inclusive economic institutions”. Can you think of any one example of such an institution?

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A. *This example is meant to help you understand the central thesis of the book – the relationship between incentives, institutions and prosperity.* You are a businessman looking to invest in a new venture that will expand your business.

(1) Speak to your tutorial group and decide what your business is and what your expansion plan is. Crucially, decide WHERE your business is going to be based. What kind of institutions does the place you have chosen have? You will have to sit and do some research together. Assign at 1-2 people in your group to assess political and social/cultural institutions, 1-2 to assess economic institutions. Give one concrete example of each.

(2) What research will you need to do in order to decide whether the plan is viable? (refer to question 1. How will you delve deeper to understand whether or not google is right? In other words, how will you figure out the nature of institutions on the ground?) How will you assess whether or not you will make a profit?

(3) What aspects of government policy would be important for you to understand as part of your research?

(4) You need to have a backup plan if things do not work out. What is your back up plan and what does it depend on?

What is an “institution?”

We will look at this throughout our lecture today, but for right now, please google “examples of institutions”.

Based on this, what do you think an institution is?

Institutions examples

From sources across the web

Religion

Economy

Bank

Institutional economics

Health system

Army, navy, air force, marines

Military

Religious organizations

Education

Government

Social institutions

Educational institution

Mass media

Democracy

Non-governmental organizations (...)

Family

Legal systems

Bureaucracy

Family culture

Society

Marriage

Political party

This image and the associated text has been pulled from the National Geographic. Missing here is the number of South Koreans who also died. South Korean casualties were some 1,313,000 (1,000,000 civilians).

If we were to combine casualties and include those who were missing and wounded, the number rises to about 4 million out of which 3 million were Koreans.

Source:

<https://www.jstor.org/stable/23612666>



Korean War

Cpl. Sam Ayala, U.S. 3rd Infantry Division, waits for medical evacuation from Hill 717 during the Korean War. More than 30,000 Americans died in the proxy conflict of the Cold War, in which the U.S. supported South Korea and the Soviet Union and China supported North Korea.

Understanding the historical context in order to understand this difference between North and South Korea.

In order to understand the large amount of information that you will hear in this video, try and make notes to explain three themes that are covered:

1. Korea was initially not divided into North and South. It was a tributary state under China and by the late 1800s Japan tries to gain more and more control. In these circumstances, Korea gains sovereignty, but is it really free to make its own rules and laws?
2. 1905: greater control of Japan and until 1945 Japan ruled over Korea with draconian laws.
3. WWII When Japan joins the war and then surrenders – note what happens to Korea.
4. Proxy war during the Cold War and the division of Korea into North and South. At the time, no one thought this would be permanent.
5. At the end of the video – how do you think the institutions (like law, education and healthcare systems) were functioning?

PBS “Origin of Everything”: Why is there a North and South Korea?

ORIGIN OF NORTH & SOUTH KOREA

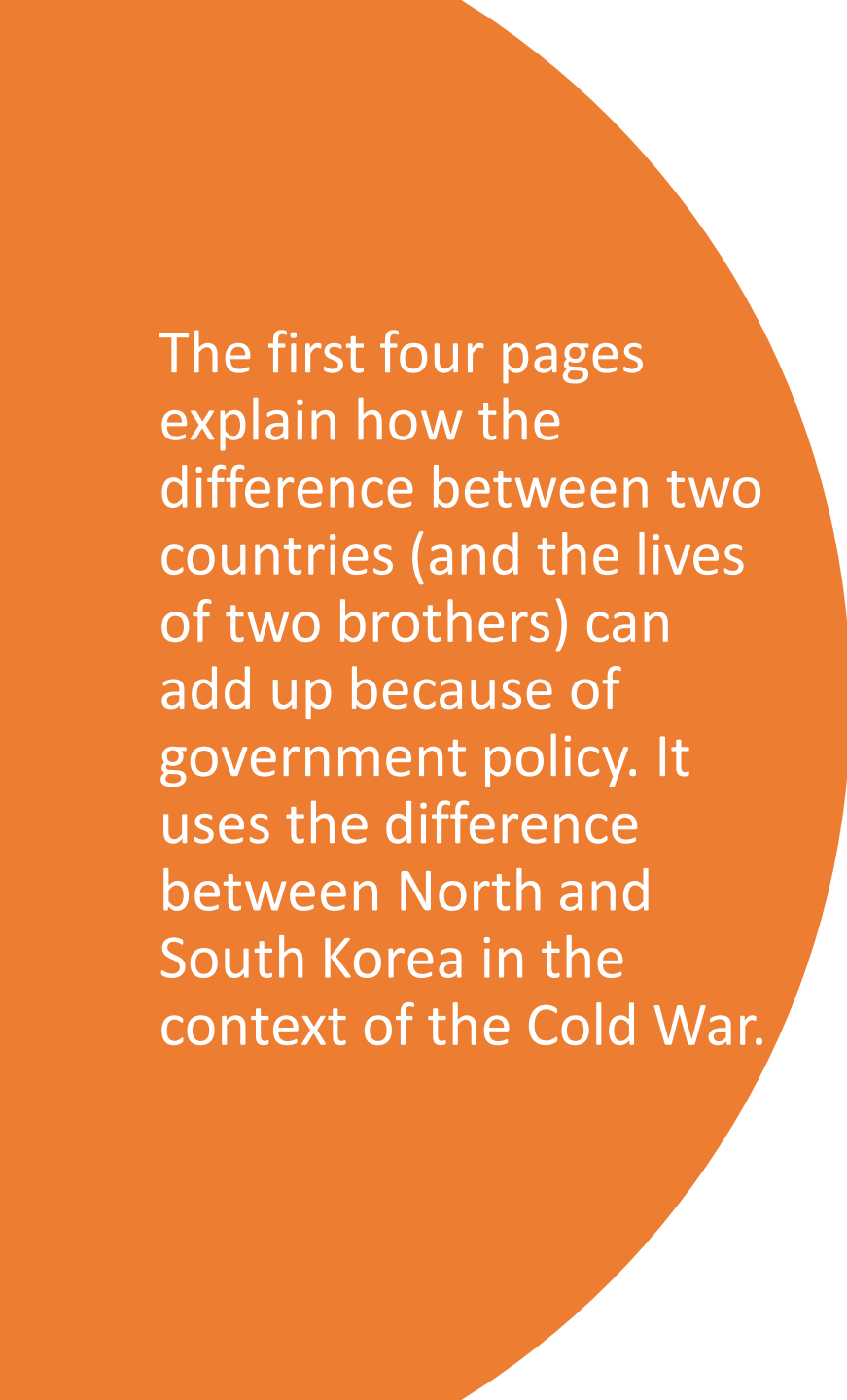
North Korea



PBS
DIGITAL
STUDIOS



South Korea




The first four pages explain how the difference between two countries (and the lives of two brothers) can add up because of government policy. It uses the difference between North and South Korea in the context of the Cold War.

Explainer: what was the Cold War?

Between 1946 (the end of WWII) and 1991, the US, the USSR and their allies were locked in a long period of conflict.

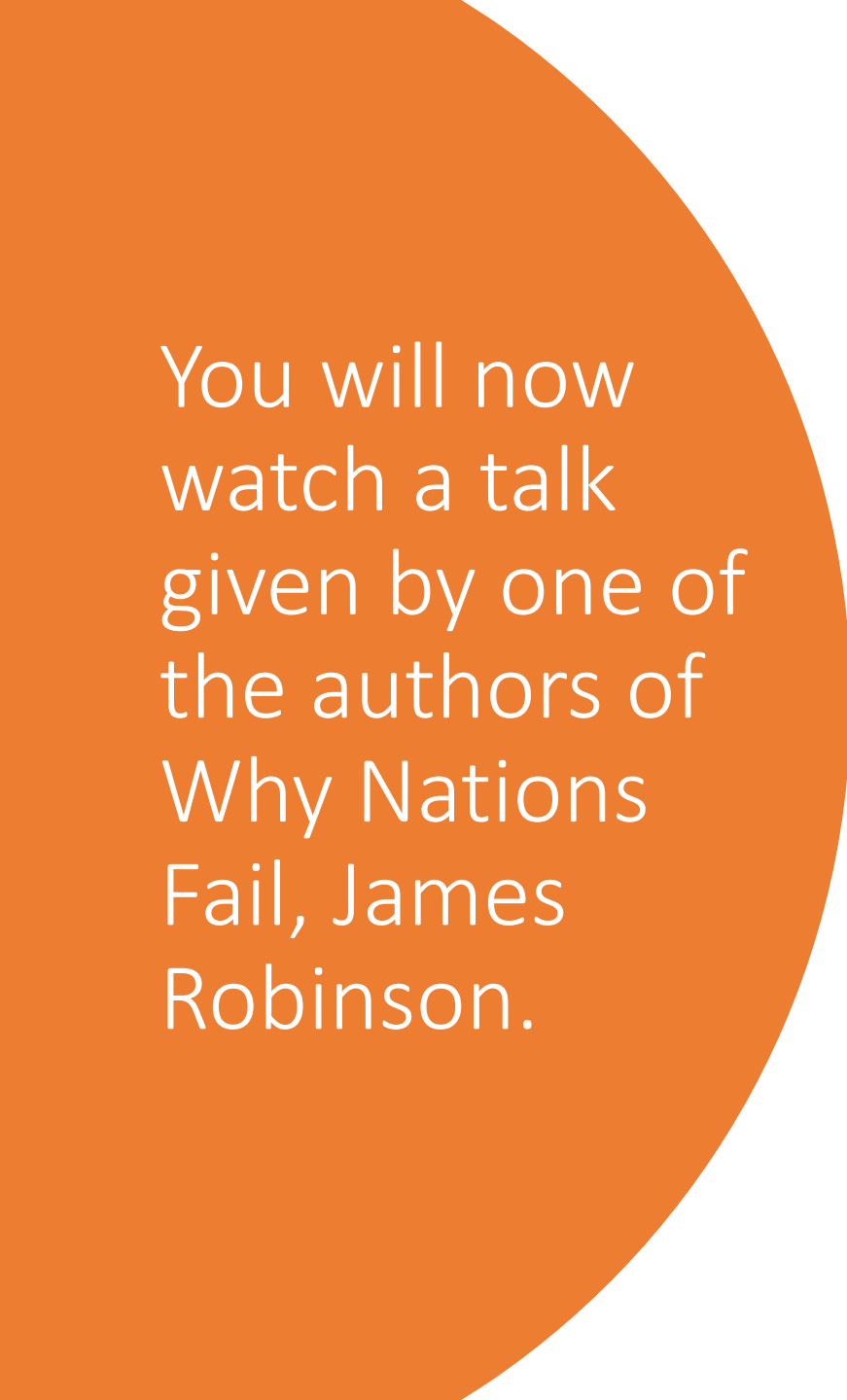
Although technically the Cold War was “officially” peaceful it was fought in other ways. As an ideological battle, more directly and violently as a series of proxy wars and an aggressive arms race.

The Vietnam war, the Korean war, the Cuban-Missile crisis and the Afghan-Soviet war are all examples of such proxy wars which had a long and complicated legacy across the world.



According to your reading: “These striking differences are not ancient. In fact, they did not exist prior to the end of the Second World War. But after 1945, the different governments in the North and the South adopted very different ways of organizing their economies.”




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You will now watch a talk given by one of the authors of Why Nations Fail, James Robinson.

As you watch the video, please watch out for the following themes (it may be a good idea to note these down).

1. What is the main difference that Robinson lays out between rich and poor countries?
2. Why do rich and poor countries have different services?

His answer: rich countries and poor countries are organized in very different ways. This leads to different incentives and possibilities for people within the country.

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What are institutions? From Douglass C North

“Institutions are the humanly devised constraints that structure political, economic and social interaction.”

These can be formal or informal.

Why do humans devise them?

- to reduce uncertainty in exchange.

But they do not evolve as “one-off”. They build incrementally in ways that are specific to the historical, socio-cultural and economic aspects of the local areas in which they evolve.

The problem is that people would study institutions in terms of their “efficiency”, their “sound rules” etc. This is problematic because it assumes away the central issue that “economic history is overwhelmingly a story of economies that failed to produce a set of economic rules of the game (with enforcement) that induce sustained economic growth.”

Why do some succeed and others don't? This is where your reading really begins.

In the example given by Douglass North – is the individual incentivized to maximize their own skills or are they incentivized to improve ways to maximize the market's ability to protect everyone? (excerpt from p. 109 in North).

In each case the trader would invest in acquiring knowledge and skills to increase his wealth. But in the former case, improved knowledge and skills meant getting better information on opportunities and having greater bargaining skills than other traders, since profitable opportunities came from being better informed and being a more skilled bargainer than other traders. Neither activity induced alteration in the basic institutional framework. On the other hand, while a merchant at a medieval European Fair would certainly gain from acquiring such information and skills, he would gain also from devising ways to bond fellow merchants, to establish merchant courts, to induce princes to protect goods from brigandage in return for revenue, to devise ways to discount bills of exchange. His investment in knowledge and skills would gradually and incrementally alter the basic institutional framework.



Extractive and Inclusive Economic Institutions

In other words, institutions affect aspirations.

Your reading compares teenagers in North and South Korea. How do we know what they want and how they will behave?

What you can achieve, what is possible for you, will shape your incentives. Inclusive economic institutions:

- allow maximum participation
- Allow people to make choices and make best use of their talents and skills.
- permits entry of new businesses and allows people to choose careers.

*Do you agree or think this is overly simplistic?



So clearly, inclusive economic institutions are key to prosperity. Why is this example (of Barbados) not an example of an inclusive economic institution?

- Your reading then discusses the example of Barbados. Read the following excerpt and try and assess whether this is an example of an inclusive economic institution. Why or why not?
- “In 1680 the English government conducted a census of the population of its West Indian colony of Barbados. The census revealed that of the total population on the island of around 60,000, almost 39,000 were African slaves who were the property of the remaining one-third of the population. Indeed, they were mostly the property of the largest 175 sugar planters, who also owned most of the land. These large planters had secure and well-enforced property rights over their land and even over their slaves. If one planter wanted to sell slaves to another, he could do so and expect a court to enforce such a sale or any other contract he wrote. Why? Of the forty judges and justices of the peace on the island, twenty-nine of them were large planters”

Think about how institutions affect incentives. Let us look at some examples.

Your reading argues that inclusive economic institutions become the motor that drives both technology and education (p. 8-9). By contrast: “The low education level of poor countries is caused by economic institutions that fail to create incentives for parents to educate their children...”

The example of:

- Standing in line at a grocery store. Were you taught to do this? Who taught you?
- Being polite when asking someone for help at an office.

So are inclusive economic institutions all that you need for progress?

No, you need the infrastructure and state strength to back it up.

In other words you need:

- public services, roads, transport,

Public infrastructure

Law and order to ensure your investments are safe

Crucially: enforcement of private property and associated laws.

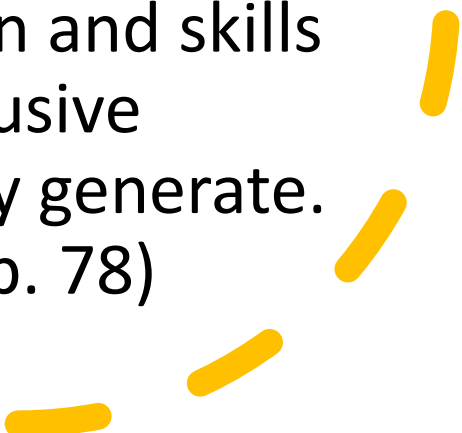
Without these you have extractive economic institutions (like those under colonialism). “Extractive economic institutions are those that are designed to extract incomes and wealth from one subset of society to benefit a different subset”

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Inclusive
economic
institutions
produce
other
“engines of
productivity”

“Inclusive economic institutions also pave the way for two other engines of prosperity: technology and education. Sustained economic growth is almost always accompanied by technological improvements that enable people (labor), land, and existing capital (buildings, existing machines, and so on) to become more productive.”

*Schooling and access to education and skills training is intimately tied in to inclusive institutions and the incentives they generate. Can you explain why? (answer on p. 78)

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Why does the state have to be powerful and centralized for prosperity?

- The authors then move toward making a similar argument about political institutions (those institutions that determine who has power in society and how that power can be wielded. They also determine how government is chosen and what rights it has. In order to have inclusive political institutions the political institutions need to be:
 - (a) pluralistic
 - (b) Supported by sufficiently centralized and powerful states
- What is a state? We have discussed this previously, but your authors add a little bit more detail (which you can find in the summaries for the first few weeks in a comment): “Max Weber, who we met in the previous chapter, provided the most famous and widely accepted definition of the state, identifying it with the “monopoly of legitimate violence” in society. Without such a monopoly and the degree of centralization that it entails, the state cannot play its role as enforcer of law and order, let alone provide public services and encourage and regulate economic activity.”
- Politics (the process by which society chooses the rules that govern it) is also centrally important.



Extractive
economic
and political
institutions
reinforce one
another.

“This synergistic relationship between extractive economic and political institutions introduces a strong feedback loop: political institutions enable the elites controlling political power to choose economic institutions with few constraints or opposing forces. They also enable the elites to structure future political institutions and their evolution. Extractive economic institutions, in turn, enrich the same elites, and their economic wealth and power help consolidate their political dominance.” (p. 81)

- Now let us examine the example of the PRC
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The next set of examples in your reading about extractive vs inclusive institutions use the example of Democratic Republic of Congo

Understanding the context of the DRC (totally different from the ROC)



“Slavery was central to the economy, used by the elite to supply their own plantations and by Europeans on the coast. Taxes were arbitrary; one tax was even collected every time the king’s beret fell off. To become more prosperous, the Kongoleses people would have had to save and invest—for example, by buying plows. But it would not have been worthwhile, since any extra output that they produced using better technology would have been subject to expropriation by the king and his elite. Instead of investing to increase their productivity and selling their products in markets, the Kongoleses moved their villages away from the market; they were trying to be as far away from the roads as possible, in order to reduce the incidence of plunder and to escape the reach of slave traders”
(88)

1200s - Rise of Kongo empire, centred in modern northern Angola and including extreme western Congo and territories round lakes Kisale and Upemba in central Katanga (now Shaba).

1482 - Portuguese navigator Diogo Cao becomes the first European to visit the Congo; Portuguese set up ties with the king of Kongo.

16th-17th centuries - British, Dutch, Portuguese and French merchants engage in slave trade through Kongo intermediaries.

1870s - Belgian King Leopold II sets up a private venture to colonise Kongo.

1908 - Belgian state annexes Congo amid protests over killings and atrocities carried out on a mass scale by Leopold's agents.

Millions of Congolese are said to have been killed or worked to death during Leopold's control of the territory.

Post-independence turmoil

1960 June - Congo becomes independent with Patrice Lumumba as prime minister and Joseph Kasavubu as president.

1960 July - Congolese army mutinies; Moise Tshombe declares Katanga independent; Belgian troops sent in ostensibly to protect Belgian citizens and mining interests; UN Security Council votes to send in troops to help establish order, but the troops are not allowed to intervene in internal affairs.

1960 September - President Kasavubu dismisses Mr Lumumba.

1961 February - Patrice Lumumba murdered, reportedly with US and Belgian complicity.

1973-74 - President Mobutu nationalises many foreign-owned firms and forces European investors out of the country.

1977 - President Mobutu invites foreign investors back, without much success; French, Belgian and Moroccan troops help repulse attack on Katanga by Angolan-based rebels.

1989 - Zaire defaults on loans from Belgium, resulting in a cancellation of development programmes and increased deterioration of the economy.

1990 - President Mobutu agrees to end the ban on multiparty politics and appoints a transitional government, but retains substantial powers.

1991 - Following riots in Kinshasa by unpaid soldiers, President Mobutu agrees to a coalition government with opposition leaders, but retains control of the security apparatus and important ministries.

1994 - President Mobutu agrees to the appointment of Kengo Wa Dondo, an advocate of free-market reforms, as prime minister.

1996-97 - Tutsi rebels capture much of eastern Zaire while President Mobutu is abroad for medical treatment.

Rule of the Kabilas

1997 May - Tutsi and other anti-Mobutu rebels, aided principally by Rwanda, capture the capital, Kinshasa; Zaire is renamed the Democratic Republic of Congo; Laurent-Desire Kabila installed as president.



Your reading then gives several fascinating examples that illustrate how the formation of inclusive institutions and mechanisms to redistribute wealth and create greater prosperity for all have actively been resisted by some groups of people. Looking at the examples, can you explain why? The examples include the dictator Mobutu in the Congo, the aristocrats and landed elites on the eve of the industrial revolution in England and the Luddites in 1753. What do they have in common?

From p. 84 of your reading. It is actually smart for some powerful people (like dictators) to resist prosperity.

“Not because of ignorance or short-sightedness; quite the opposite. Rather, such opposition to economic growth has its own, unfortunately coherent, logic. Economic growth and technological change are accompanied by what the great economist Joseph Schumpeter called creative destruction. They replace the old with the new. New sectors attract resources away from old ones. New firms take business away from established ones.”

The main lesson: there is no natural tendency toward more inclusive institutions or greater political centralization. Whether or not countries move toward this is about power and incentives.

Can growth happen with extractive political institutions?

In describing the example of the Congo in the last few pages, the authors also lay out the central thesis of their book: “that economic growth and prosperity are associated with inclusive economic and political institutions while extractive institutions typically lead to stagnation and poverty. But this implies neither that extractive institutions can never generate growth nor that all extractive institutions are created equal.”