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Three countries/regions that became more inclusive after which they became richer

Botswana is actually, the richest sub-Saharan African country. Per capita GDP is about the same as Brazil. Stability, reinvestment for the common good, limited power of the chiefs.

The U.S. South: Became less extractive with civil rights movement, but dare I say, we still have a long way to go.

China: AR's prediction that China's growth can't continue without major institutional changes—they are arguing that their theory is true, and China doesn't fit. At the same time, they argue a different direction—about Deng. Deng kept extractive political institutions but allowed for inclusive economic institutions.

- Household responsibility system

- Firms had authority over production decisions

- Market (price) system

- TVEs allowed to compete with SOEs

But this is all outside their main theory of political inclusiveness leading to economic inclusiveness leading to inventiveness leading to growth.

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Strategy to convince. Exhaustive list of examples throughout history to show correlation between inclusiveness/extractiveness and economic growth.

Extractive institutions destined to stagnate because
Extractive systems suppress innovation (creative destruction)

Elites want to maintain status quo. Others will want to take their place, which leads to unrest. Instability not good for business.

China and Charm of Authoritarian Growth: They explain away the China miracle. China is example of growth under extractive institutions. But this isn't really an explanation.

The institutionalist view is that good (inclusive) institutions CAUSE growth and development.

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We are focused on a very narrow point, which is, what causes the transition from a Malthusian existence to an industrialized economy.

Of course, we rather live in a society with inclusive institutions. The question is whether inclusiveness is a necessary or sufficient condition.

It's not that institutions don't matter at all. A bad government can wreck an economy. Look at Venezuela.

Look at countries like South Korea, Taiwan, Singapore. They made their transitions under dictatorships (not inclusive).

Wen's Main Points:

1. Industrialization is mass production
2. It only makes sense to mass produce if you have access to a mass market.
3. The English didn't say, oh because of the Glorious revolution, I should invent mechanized factories, I should invent the steam engine. They did it because they had access to a mass market.
4. Creation of a mass market formed by a pro-business, mercantilist government. The mass market is a public good.
5. Adam Smith had the answer. He explained the Wealth of Nations by the specialization and division of labor, the extent to which is limited by the size of the market.

Wen's version of the China Miracle

1. The Malthusian Trap. In olden times, low variety of consumption. Two main consumption goods were children and food. Food is a special type of good. Need it to live, but as soon as your stomach is full, marginal utility drops really fast. Generally not storable. Hence, not much use in trying to accumulate food as a store of wealth. So what to do in times of high income? Spend it on more children. More income but more mouths to feed means no change in per capita GDP. Bad harvests, lower income, people starve. That is the Malthusian trap.

2. Large variety of consumer goods competes with children, reduces fertility.
3. How China escaped the Malthusian trap and makes the transition to industrialization.
 - a. China had property rights under Qing. But didn't have residual claim rights for peasants nor infrastructure (roads connecting villages, irrigation systems, etc).
 - b. Reduced fertility (beginning 1972), and the household responsibility system generated "surplus" income for peasants. This is the foundation for a mass market. Public infrastructure allows transport of goods at low cost, to deliver to mass market, to develop supply chains. These two things combine to be a mass market.
 - c. Coordination problem: How to convince the peasants to leave the farm to work in a factory if it's never been done before. Need some form of social trust. This was facilitated by trust among families in the village and local government (village) leadership. This social trust was achieved without having a well functioning legal system and law enforcement.
 - d. By trial and error, learn how to do mass production. Smart enough to start with low value-added labor intensive goods, like bicycles, shoes, clothes, and not capital intensive heavy industry goods.