

GUNS, GERMS & STEEL (DIAMOND, 1997)

Explains cross-country differences in economic development by geography.

Mainly about China + Europe 1600
vs. American Indians,
Australian aborigines 1600
etc.

1) Kremer (1993) bigger is better

+ ag technology (crops + animals) travels $\overset{W}{\leftarrow} \overset{E}{\rightarrow}$ not

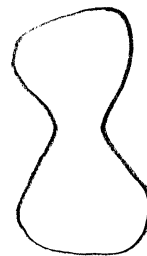
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N
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so



Eurasia

beats



America

2) Populations with lots of pathogens win out by killing others with their diseases
e.g. Europeans vs. American Indians

3) Settled farmers (not hunter-gatherers) with cities (disease pools) & animals (sources of disease) have lots of diseases.

4) African animals can't be domesticated, & Euro-Asian animals can't live in Africa.

INSTITUTIONS

Government (monopoly of force)
+ social norms (no obvious third-party enforcement)

Game
Thy

"Good" instns. achieve Pareto-optimal outcomes
(note distribution is another issue)

microeconomic efficiency.

so good means

1) Fully-assigned property rights.

Everything is clearly owned by somebody (Doesn't matter who)
(Think Coase Theorem)

2) Contracts

- any kind of deal is possible (e.g., allow "usury")
- reliable enforcement

3) Discourage rent seeking

all with low "transactions costs"

of enforcing contracts, property rights, etc.

Across countries, variation in
quality of instns.
+ transactions costs

INSTITUTIONS

(2)

Some issues that come up

Role of social norms

1) Formal rules, govt. structures etc. must be supported by social norms.

Example: American-style constitutions introduced to Latin America failed.

- President won't leave office at end of term
- Army leaders seize power
- Court decisions ignored etc.

2) Areas of life where formal rules, govt. enforcement don't go

Examples: do families educate boys only, or girls too?

3) Lessons of game theory

Social norms can partly replace contracts if:

- no final period
- low discount rates
- players can't escape punishment etc.

INSTITUTIONS

Evolution of institutions

How did we get from

Cavemen

Functioning states

Nigeria

Liberal Democracies

China

→ American

→ Sweden

Given existing instns, players act to max utility,
actions may change instns,

Given changed instns, players act...
etc.

Different initial conditions, different outcomes?

Multiple equilibria?

Blind alleys?

Interactions between instns & changing technology?

INSTITUTIONS

Leviathan

Powerful state with monopoly on force.

Will it act to max Y , take a %?

↖ (good for growth

Maybe not.

1) Dynamic inconsistency

E.g. government borrowing, Reneges on debt.

Need low discount rate, no final period.

But when survival is at stake...

2) Efficient (lump-sum) taxes not possible.

So Leviathan might become rentseeker.

E.g. create monopolies, take monopoly rents

" " , sell them

How can we have powerful state
but control the state?

INSTITUTIONSPapers about institutions

My own criticisms. They often

1) Fail to highlight key assumptions/unexplained conditions.

E.g. in North & Weingast

— King has no standing army

— Amsterdam

— Courts & common law have power, constrain King & Parliament

2) Anglo-American bias

Britain & US good, so anything else must be bad!

(But France works just as well)

3) Use math models to present arguments

that could just well be presented in words only

E.g. Acemoglu & Robinson (2000).

A useful model: assumptions + math → surprise!

IF I can see all conclusions from assumptions alone,
model is superfluous.