

Form and Function in Economic Development

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In recent years, economists have been giving much more attention to culture, history, institutions and social cohesion. Indeed, most agree: history matters, institutions matter and trust matters. But how exactly do they matter? Trust affects trade flows (Guiso et al 2009) and trade obviously affects economic development. What would have happened if France and England had trusted each other more? Would they trade more than they do? Would they both have higher GDP per capita today as a result? Or does the low trust between France and England merely affect which trading partners each country has. If there are sufficient trading partner substitutes, then there is no real impact on economic development only on the shape that it takes. In both cases, trust matters in explaining economic outcomes. The important question is, however, not whether trust matters, but in what sense it matters. More generally, does a country's or region's particular history, culture, and institutions (CHI for short) perform necessary functions that determine which development trajectories are available to a country? Or does each of these factors merely affect the shape that development takes?

Consider a recent paper by Cheremukhin et al. (2013) who ask whether Stalin was necessary. The authors compare the economic development in the Soviet era with the counterfactual of what would have happened if the Imperial regime had continued. There are two ways to interpret this counterfactual: either it represents some reasonable approximation of what would have happened had some uniquely attributable aspects of Stalin's policies not occurred or it represents some broader class of conservative and traditional development paths that is juxtaposed with the dramatic development of modern industrialization, whereby decentralized and democratic industrialization is essentially equivalent to Soviet industrialization. In the latter case, the necessity of Stalin only applies to the particular shape that Soviet development exhibited. In the former case, Soviet institutions and policies under Stalin played a functional role independent of their form. In the former case, one can ask whether there is some optimal mix of institutions given a particular culture or history? If so, do the different facets of CHI interact to impede or achieve this mix?

This research seminar aims to tackle these broad and complex questions using theoretical models and rigorous empirical analysis. Under the umbrella of the questions mentioned above, we have in mind four areas of research that would tackle these issues from different perspectives. The first starts with one of the most fundamental empirical issues,

how to measure economic development. All countries have different CHI. If CHI impacts the shape of development, is it the case that certain measures of development capture certain forms of development better than others. In other words, measures of economic development, such as aggregate measures like GDP per capita growth or disaggregate measures like luminosity or happiness, may trace not only the functional aspects of economic development but also the shape of economic development. Is there a bias against particular forms of development? The second approach is also primarily an empirical one and aims to document the reach of historical experience. In particular, is there evidence of historical persistence through great institutional change? If so, then history not only affects the shape of development but very likely constrains which development trajectories are feasible. The third approach is both theoretical and empirical, and investigates the interaction between social capital and institutions. In particular, what is the relationship between institutions and trust and social capital? Do institutions fully determine the level of trust in a society? If not, which institutions, if any, affect investments in social capital or the preponderance of trust? Affirmative answers to either of these questions would point to the functional aspect of the forms that development takes. Finally, the last approach explores, both theoretically and empirically, one of the most important global issues of today, how to deal with diversity. Diverse societies are less likely to have a common CHI, leading to fragmented forms and more complex interactions of the elements of CHI and their effects on economic outcomes. If CHI merely affects the shape of development, then policies designed to accommodate diversity have less of an economic function. On the other hand, if CHI affects economic development in a functional sense, then there is a pressing need for economists to design policies that channel diversity away from its costs and towards its benefits.

We propose to focus on Russia in exploring these issues. The historical and contemporary experience of the country provides a rich and varied environment – from geographic, ethnic, religious, cultural, institutional, political or economic points of view - that permits one to study the factors merely contributing to the shape of economic development and the factors fundamentally driving development. The Russian comparative advantage is there are a lot of potential sources of exogenous variation as a result of a number of unique social experiments during its modern history (like Soviet border reforms, industrial or national policies, forced migration of whole nations under Stalin, the Second World War shock etc.).

To sum up, we envision the following research avenues:

- a) How do various measures of economic development, such as income per capita, happiness and luminosity, correlate with each other at different levels of aggregation, both over time and space?
- b) What is the connection between contemporary differences in regional economic growth and historical ethnic fractionalization? And through what channels historical ethnic fractionalization operates (e.g. governmental capacity, etc.)?
- c) What is the relationship between institutional changes in Imperial Russia and social cohesion?

- d) Do the unique natural experiments and institutional reforms in Imperial Russian and Soviet history have long-rung consequences for economic growth? And via what channels?
- e) How do social interactions and in particular conflicts affect economic development? Do they have long run consequences? In particular to what extent they determine success of institutional reforms?
- f) What is the relationship between alternative measures of social capital?
- g) Do historic measures of social capital correlate with contemporary measures of social capital?
- h) What could be the potential institutional factors that led to the persistence of social capital or to the evolution of social capital?
- i) Do historic measures of social capital correlate with contemporary measures of governmental and bureaucratic performance, such as corruption?

We hope that this research seminar will enable students to produce highly relevant research to today's most pressing socioeconomic issues and will generate a better understanding of the economic development of Russia. Students can study these questions either theoretically or empirically. Students are not required to do both. However, to improve the students' discussion of other students' work throughout the year, we will require that students take a course in microeconometrics.

Finally, this research seminar also serves as a platform for students to engage with the new Center for the Study of Diversity and Social Interactions, directed by Shlomo Weber. Students who develop successful theses will find various funding opportunities, such as summer fellowships, research assistantships, and travel funding for conferences or seminars, available to them through the Center. In addition, students who demonstrate a strong interest in the themes of the Center's research will also have access to the world-renowned scholars that visit the Center as well as the chance to pursue a more advanced degree after the Master's degree.

Possible Data Sources for Empirical Projects:

1) Russian official statistics

Modern Russian official statistics both at national and regional level available at official Rosstat website <http://www.gks.ru/wps/wcm/connect/rosstat/rosstatsite/main/> .

2) Russia Longitudinal Monitoring Survey

A series of nationally representative surveys that contain very detailed information on households' well-being as well as information on local public goods and infrastructure.

See also <http://iresearch.worldbank.org/lsmsslmsurveyfinder.htm> for other countries.

3) Life in Transition survey

A survey evaluates personal and professional experience during transition, including individual perceptions and attitudes.

<http://www.ebrd.com/pages/research/analysis/publications/transition/data.shtml>

4) Russian historical statistics

Russia has relatively rich historical statistics at regional and sub-regional level. Various aspects of diversity in the past as well as regional dimension of social experiments are known from official statistical volumes publishing regularly since the second half of the 19th century. Results of historical population census are available on-line (<http://demoscope.ru/weekly/pril.php>).

5) World Bank surveys on local governance in rural Russia

The World Bank conducted two survey panels, a panel of district and settlement level public officials carried out in 2005 (a year preceding the enactment of the reform legislation) and 2007 and a survey of rural households carried out in the beginning of 2006 and in 2007 in the same randomly selected rural districts and settlements of three regions of Russia, the Republic of Adygeya, Penza, and Perm Oblasts.

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