

Topics in economic history and development

[AY2008-09, 10 master theses]

Professors Paul Dower, Andrei Markevich, Ekaterina Zhuravskaya

E-mails: pdower@nes.ru, amarkevich@nes.ru, ezhuravskaya@cefir.ru

Basic questions and motivation:

Putterman et al. (2002) demonstrates that states with earlier historical origins have higher current economic growth. The authors suggest that early statehood reflects an institutional capacity that fosters growth. Do institutions matter in the long run? How does history shape distant future economic and social outcomes? Do economies exhibit path dependence? Finally, what factors shape institutional design and influence their change?

Nobel prize laureate Robert Lucas formulated the importance of these questions as follows: “The consequences for human welfare involved ... are simply staggering: Once one starts to think about them, it is hard to think about anything else.” We want to address these questions in the context of Russian history. The aim of the project is to apply state-of-the-art methodology as adopted by the economic development field.

Economists are increasingly demanding stronger empirical evidence that institutions do indeed affect economic outcomes. It seems clear that neither natural nor technical constraints adequately explain differences in economic outcomes (Easterly and Levine 2003). This result opens the door for institutions to explain these differences but strong empirical support has yet to accumulate. As a result, basic questions have yet to be satisfactorily answered. Improvements in methodology, the collection of new data and the innovative use of existing data all give hope that soon we will have a better understanding of how institutions affect economic outcomes and be able to appease the Lucas (2000) curiosity.

History provides an excellent source of empirical observations concerning institutions and economic performance. One commonly occurring debate in the literature is whether a particular institution is an efficient response to economic needs (increasing the size of the pie) or instead the result of distributional conflict (redistributing the sizes of the shares of the pie). In the former explanation, institutions are productive; in the latter explanation, institutions are extractive. A good example addressing this debate is Acemoglu et al. (2001) who show how settler mortality rates can explain whether or not colonial authorities set up productive or extractive institutions.

Institutions in history: The State-of-the-Arts

Institutions are humanly devised constraints on human interaction (North 1990). Institutions consist of interdependent rules, beliefs, norms and organizations. When effective, these generate a regularity in behavior. Most institutions that economists are interested in appear to be stable despite this interconnectedness, and it is important to understand how the constraints on behavior are self-enforcing (Greif 2006). Since institutions can be thought of as rules of the game, we will often make use of simple game theory to model institutions in order to make predictions about economic behavior. Historical events will help us identify differences in institutions. Some of these differences will be categorized as natural experiments. Other differences will require a closer look at historical events in order to find a possible source of exogenous variation, permitting an instrumental variables approach.

Institutions persist over time and institutional persistence contributes to inefficient behavior. David (1985) argues that when inferior technologies have been adopted, it is often difficult to supplant them with superior technologies due to network externalities. Thus, a mere historical accident can cause technological adoption that creates path dependence as inferior technologies become entrenched due to institutions that govern human interaction. Accidental differences generate differences in economic outcomes through path dependence. There may also be other fundamental causes that make path dependence difficult to break. For instance, violence associated with the slave trade in Africa is reflected in current political institutions long after the slave trade has ended (Nunn 2008).

Understanding institutional change is also important. Institutional change may be gradual and incremental or discontinuous. History will play an important role in determining the progression of events that would lead to institutional change. Traditionally, economists have treated institutional change as evolutionary; inefficient institutions eventually give way to more efficient ones through selection. More recently, economists have focused their attention on understanding the exact mechanisms of change instead of assuming change takes place as an evolutionary process. After all, institutions are humanly devised and subject to choice theoretic analysis. This method of analysis is highly context-specific and benefits from a narrow historical focus.

1. Russian Empire as a developing country

Russian imperial history grants a natural opportunity to address these questions on the importance of institutional design. The Russian Empire was very large and very diverse. There was a lot of variation in laws, regulations, and institutions that provide a lot of opportunities to test significance of particular institutional settings in a comparative cross-regional framework. A part of the project will be devoted to establishing a link between these old-day institutional variation and development leading to present economic and social outcomes.

In particular, we propose investigation of the legacies of the following institutions:

Zemstva: Provincial self-governance institutions were one of the innovations introduced by Alexander the second via his Great Reforms in the second part of XIX century. However, zemstva were established only in some provinces (e.g., in 31 out of 54 European provinces). In addition, the scales of their activities differed.

Serfdome (“krepostnoye pravo”): there was a lot of variation in the extent of serfdome among provinces. In particular, the numbers of serfs and the regional shares of serfs who belonged to gentry (“dvorianstvo”) vs. the state varied substantially.

Land market regulation: The Russian Empire expanded gradually. It partly inherited medieval legislation of different state-bodies existing on that territory earlier, that caused some variation in land market regulations between regions of the empire.

Settlement status: in the late XVIII century under the Ekaterina the second administrative reform some of the settlements were (quite arbitrarily) granted the status of “City” with a city charter and some did not. City status granted some additional rights to its inhabitants. It would be interesting to compare the long run effect of this legal variation for settlements which otherwise were similar.

Finally, there is also a lot of variation in the time of land conquering of different provinces.

Another part of the project will be devoted to studying a mechanism of functioning of particular institution in Russian imperial history, the local peasant commune (“obshchina”) that provides a natural experiment on the limits of influence of inefficient institution established by exogenous forces.

The stylized history of the ‘obshchina’ is as follows. Serfdom was abolished in 1861, but peasants did not get the right of land ownership. It was 'obshchina' whom the government authorized with the status of collective land owner. Without obshchina’s permission peasants could not do anything with their plots or even leave the village. However, obshchina often granted such permissions since there was a 'land hunger' (shortage of land resources) in the European part of Russian empire. Finally, as a result of the 1905 Russian revolution, in 1906 the government granted the right of ownership to the peasants (so called Stolypin reform).

There is a huge and very old debate history how the peasant reforms of 1861 and 1906 in Russia affected the subsequent Russian development and how the decision to conserve the institution of 'obshchina' affected Russia’s backwardness compared to Western countries.’ The ultimate question is whether these reforms triggered the 1917 Russian revolution. The debate, however, has been mainly among historians. Yet, there is a lot of room for economic research on the topic which can enlighten the debate further.

Limitations on peasants mobility is usually seen as the main mechanism of obshchina’s negative influence on economic development. The exit decisions of peasants (selling of their land and moving, or leasing and moving if selling was not available) will be in the center of the analysis. In particular we will be interested in the following questions:

- What drives exit?
- How exit influences outcomes? Whether this type of emigration had an effect on performance of the remaining farms?
- How Petr Stolypin’s reform of 1906 changed these relationships?
- Finally, whether or not variation in scales of emigration had temporary or long-lasting effect?

The data for this part of the project is available in different historical sources. The bulk of figures come from Russian Local Self-Governing bodies ('Zemstva') that published extensive statistical volumes which contain necessary information for econometric exercises.

2. Soviet State as a developing country.

Another part of the project will be dedicated to the Soviet experience of economic development. The unique features of the Soviet past are the extraordinary role of the state in the national economy and overwhelming centralization of power. However, despite Bolshevik's pre-commitment to hierarchical organization communist leaders had to delegate some authority and autonomy to local level simply because the country was very large. At the same time, the center kept the right to appoint and fire regional leaders (first party secretaries of union republics and provinces).

It will be interesting to learn what determined the Soviet regional policy? Did economic results of union republics determined career paths of republican and local leaders? Or political loyalty was more important for promotion? If the latter, were political connections bad for growth? In other words, was federalism Soviet style motivated by economical or political reasons and was it good or bad for growth? Finally, was the Soviet regional policy strong enough to overcome the institutional legacy of the past?

In economics and development literatures there is a huge debate about workings of federalism in developing and transition countries. In this debate, one strand of the literature argues that decentralization helps to create efficient incentives for local public officials through inter-jurisdictional competition and fiscal incentives. The other strand of the literature argues that decentralization leads to inefficient local policies because of local capture and incentives to pursue regionalist policies. There were a few attempts to solve the puzzle empirically using the outcomes of contemporary Russian and Chinese federalism (Blanchard, Shleifer 2001; Jin, Qian, and Weingast 2005 and Zhuravskaya 2000).

A study in the Soviet history could shed more light on the problem and contribute to the debate. In particular, one might argue that significant Soviet economic achievement before early 1970 were caused by effective regional personnel policy, while Brezhnev stagnation was a result of the policy change towards to irremovability of regional leaders determined by political reasons. To check this hypothesis systematically is an important task and a fascinating econometric project. The data for such study come from specific historical databases and official Soviet statistical volumes.

References

Acemoglu, D., Johnson, S., Robinson, J., (2001) "The colonial origins of comparative development: An empirical investigation", *American Economic Review* 91:1369-1401

Banerjee, A., Iyer, L. (2005) "History, Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India," *American Economic Review*, American Economic Association, vol. 95(4), pages 1190-1213

Blanchard, Olivier; Shleifer, Andrei (2001) "Federalism With and Without Political Centralization: China Versus Russia," *IMF Staff Papers*, 48 (4), 171-179.

Daniel Berkowitz, 2005. "American Civil Law Origins: Implications for State Constitutions," *American Law and Economics Review*, Oxford University Press, vol. 7(1), pages 62-84.

David, Paul A. (1985). "Clio and the Economics of QWERTY," *American Economic Review Papers and Proceedings*, 75 (2), 332-337.

Easterly William and Ross Levine 'Tropics, germs, and crops: how endowments influence economic development', *Journal of Monetary Economics* 50 (*2003), 3-39

Greif, Avner (2006), *Institutions and the Path to the Modern Economy*, Cambridge University Press

Gregory, Paul (1993), *Before Command: an Economic History of Russia from Emancipation to the First Five-Year Plan*.

Gershenkron, Alexander (1965), "Agrarian Policies and Industrialization: Russia 1861-1917" in *The Cambridge Economic History of Europe* vol. VI.

Iyer, L. (2002) "The Long-term Impact of Colonial Rule: Evidence from India", mimeo, MIT

Jin, Hehui; Qian, Yingyi and Weingast, Barry R. (2005) "Regional Decentralization and Fiscal Incentives: Federalism Chinese Style," *Journal of Public Economics*, 89 (9-10), pp. 1719-1742.

Lucas, R. (2000) "Some Macroeconomics for the 21st Century," *Journal of Economic Perspectives* 14: 159-168.

Nafziger (2007) 'Land Redistributions and the Russian Peasant Commune in the 19th Century' http://www.ekh.lu.se/ehes/paper/RepartitionsPaper_June2007.pdf

North, Douglass C. (1990), *Institutions, Institutional Change and Economic Performance*, Cambridge University Press.

Nunn, Nathan, "The Long Term Effects of Africa's Slave Trades," *Quarterly Journal of Economics*, Vol. 123, No. 1, February 2008, pp. 139-176.

Putterman, Louis, Valerie Bockstette and Areendam Chanda (2002), "States and Markets: the Advantage of an Early Start," *Journal of Economic Growth*.

Sokoloff Kenneth and Engerman Stanley 'History Lessons: Institutions, Factors Endowments, and Paths of Development in the New World', *The Journal of Economic Perspectives*, 14 (3), 2000, 217-232.

Zhuravskaya, Ekaterina (2000) "Incentives to Provide Local Public Goods: Fiscal Federalism Russian Style," *Journal of Public Economics*, 76 (3), pp. 337-368.