Institutions in Historical Perspectives - Notes

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Abstract

This publication is a collection of my notes and practice essays from the University of Cambridge MPhil Economics optional paper Institutions in Historical Perspectives taught by Professor Sheilagh Ogilvie. These particular notes were written for the 2017-18 course and as such material may change over the years. These notes have not been marked and are not endorsed by the Faculty, they simply provide an additional resource to revise from in Easter term.

1 Revision Notes

1. Whether an institution is generalised or particularised has important implications for economic growth. Particularised institutions are unlikely to benefit economic growth whilst generalised institutions are.

2. There is no historical evidence of a private-order institution substituting for a public-order institution. At best, private-order institutions are complementary to public-order institutions.

3. Many institutions come into existence not on efficiency grounds (to best tackle an underlying problem) but due to distribution concerns: a group of agents want to maximise their share of income and so build and perpetuate institutions which allow them to capture monopoly profits.

4. The success of a specific institution is very heavily dependent on the existence and state of other institutions in the economy (embeddedness).

5. Not all forms of property rights are good for growth, only generalised property rights which can be held, used and transferred under competitive markets and ensure that assets are allocated to their most productive uses, are invested in and can be used as collateral for such investment.

6. Strong Parliaments are not in themselves good for growth. Instead need a diverse representative with the incentive to benefit all through growth enhancing policies. Such incentives are possible with monarchies and so Parliaments are not necessary for growth.

7. Institutions do not operate in a vacuum and do not affect growth similarly in all countries as each institution is embedded in a wider institutional system constrained by other institutions. The public policy implications of this mean we cannot simply transplant successful institutions into developing countries.

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2 Practice Essays

2.1 Can the efficiency explanation of institutions explain the existence and persistence of merchant guilds?

This essay will explore the efficiency explanation of merchant guilds, focusing on the benefits merchant guilds provided for commercial security, but also their benefits in contract enforcement. We will argue that whilst they may have provided such benefits for their members they did so at the exclusion and even detriment of others. This highlights how particularised institutions (those with membership and benefits only applying to members of the group) are not necessarily beneficial for growth and instead explains the existence and persistence of some institutions as arising from distributional conflict. Under this explanation, guilds existed not because they efficiently overcame a market failure (I.e. lack of public provision of security and contract-enforcement) but because they gave economic rents to a small minority who did not want to lose such benefits. This highlights that institutions do not always exist for the benefit of the economy and whatever is, is not necessarily right (to paraphrase Sheilagh Ogilvie). The policy implications of this are that we need to focus on developing generalised institutions which benefit growth for the entire economy and not just a narrow few.

Commercial security is important for growth as it encourages trade, leading to benefits from a wider range of goods so consumers with Dixit-Stiglitz preferences will benefit. More trading partners leads to economies of scale and increased competition. It is under-provided by the market as it is generally non-rivalrous and non-excludable and hence a public good suffering from the free-rider problem. A lack of commercial security hinders trade as if the probability of attack on goods and persons is high then traders will cease activities. This means we require either a public-order institution (state police system) or a private-order institution (e.g. merchant guild) to provide commercial security. Note that a private-order institution providing commercial security must necessarily be particularised as they need to limit the benefits to a few in order to force them to pay for the public good. On the other hand, a public-order institution can provide commercial security universally (generalised institution) and pay for this using taxation.

There are two mechanisms in which a merchant guild can overcome the problem of commercial security: Volckart and Mangels propose that guilds provided security as a club good whilst Grief et al. suggest that guilds put collective pressure on rulers to guarantee security. The club good mechanism proposes that merchant guilds formed so that merchants could collectively arrange security via convoys and caravans to provide mutual protection. Proponents believe that the early guilds (11th and 12th century) were not cartelistic (this occurred later on) and that the state was not able to provide security itself, thus making merchant guilds an efficient institution. Whilst this aspect of guilds is true in some cases, the benefits only go to a narrow few and so this particularised institution would only benefit members, not necessarily the wider economy. It might be argued that so long as merchant guilds did not harm the security of anyone else, so long as they improved the security of some then they were Pareto improving. Yet there is evidence to suggest that guilds actually harmed the security of others. One such case comes from the merchant guild of Pisa attacking the Genoese in Constantinople in 1162 (Ogilvie). There are also cases where privateering was advocated by states as a form of diplomacy and military strategy. This means the net effect of security provision from merchant guilds is unclear.

Moreover, long distance trade was not that important for economic growth as only the most expensive goods could feasibly be transported long-distance, thereby limiting the benefits from growth. It would seem surprising that merchant guilds could have grown so strong and powerful as a result of solving a problem which was not a great issue. Instead, local trade was more important, and town governments organised sufficient security (and had a fiscal incentive to do so) alleviating the need for merchant guilds. Hence, this shows that merchant guilds were not necessary for the provision of security, as other institutions (town governments) existed to provide such security. There is also an example of merchants from Genoa employing convoys to ensure their merchants reached their destination, without the need to form a monopoly. If we believe that merchant guilds formed to efficiently provide commercial security then why is it the case that they needed a monopoly on trade? In short, the answer to this question is that guilds did not form for efficiency reasons but instead to capture a share of economic rent at the detriment of wider economic growth.

A different argument comes from Grief, Milgrom and Weingast who believe that merchant guilds resolved the issue of commercial security by making credible collective threats that if a ruler did not provide security then they would boycott them. However, the evidence they put forward in supporting this instead shows that demands were focused on monopoly rights and not security. They propose that the German Hanse's embargoes of Bruges were in retaliation for injuries to Hanseatic merchants and in the second case was due to the refusal of Bruges paying compensation for war damages. However, Ogilvie (Institutions and European Trade) points out that in the first case there was no evidence for maltreatment and this was instead about granting special privileges to other merchants which reduced the monopoly power of the German Hansa. Likewise, the second case is attributed to grievances about lost monopoly power.

Individual merchants were often able to get security guarantees from rulers without the need to form guilds, suggesting there must be a further reason for guilds. We propose that guilds were not established primarily to provide commercial security but instead to secure economic rents through the creation of a monopoly which increased the price of goods, reduced the supply and excluded outsiders from sharing in this growth. Commercial security was beneficial for this group as it amplified the economic rents they received.

If merchant guilds were to be efficient then it must be the case that no better institutions existed to provide commercial security. Yet, European political authorities were willing and able to involve themselves in issues of security. This is demonstrated in the Champagne Fairs which flourished for 60 years without the presence of merchant groups or consuls and where the Counts secured guarantees of safe passage providing generalised security to all merchants. In addition, Gelderblom argues that the Flemish cities provided generalised security as rulers realised they could get greater revenue from taxing and lending to foreign merchants than they could from selling privileges to guilds. It was also the case that individual merchants could often get guarantees off rulers for safe passage without the need to form guilds.

Similarly, the issue of contract enforcement is important, another channel by which guilds could solve this issue is through collective reprisals (Greif). Intra-guild cheating would have been prevented as exclusion from the guild would result in the loss of benefits (monopoly rents) which were more significant than the temporary gains from cheating. If one merchant cheated another then that merchant's guild threatened to never trade with the cheater's merchant again. This then led to the cheater's merchant pressuring the cheater to compensate the cheated and by backwards induction the merchant would not cheat in the first instance. However, there is little evidence for this actually happening, Greif claims this happened at the Champagne Fairs. This is false, as the Count never relinquished the legal obligations of a merchant group but instead would put some groups under his direct rule, highlighting the importance of public-order institutions in contract enforcement provision. Even on theoretical grounds the model assumes symmetric power of each merchant and sufficient repeated interactions. Both conditions may not be met in reality, making such a model questionable for its empirical evidence. Moreover, the state was able to provide formal public-order institutions such as the legal system to deal with contract enforcement so merchant guilds cannot have been an efficient solution (as a solution already existed without the need for a particularised institution).

Overall, we have seen that merchant guilds cannot have been efficient as they provided security to only a few whilst excluding others and even causing a worsening of security for some. Security could and was provided by states and guilds were more focused on guaranteeing special privileges permitting them monopoly power than they were on providing commercial security or contract enforcement. We have thus highlighted that the distributional conflict explanation for the existence and persistence of institutions is more relevant to this case. A small but powerful segment of society could extract economic rent by monopolising and restricting growth only to their members. States were complicit in such arrangements due to the financial incentives they received from guilds. This example highlights that we need to focus on developing generalised institutions which benefit all members of society, that incentives of a ruler matter for the forms of institutions they develop and that the presence of an institution does not automatically mean it is best for the economy. This makes the task of development economists trickier as they cannot just promote the creation of (any) institution and instead need to ensure that it is created to benefit the majority and is designed so it cannot be used by an entrenched few to extract economic rent.

2.2 'History shows that public-order institutions were not necessary for long distance trade to grow since private-order institutions successful provided security and contract enforcement'. Discuss.

The economics literature proposes that private-order institutions were able to make up for the lack of public-order institutions and provide commercial security and contract enforcement. Examples adduced in favour of this include the Maghribi traders (regarding contract enforcement), the Champagne Fairs (regarding contract enforcement) and the merchant guilds (regarding both contract enforcement and security).

We refute the evidence that these examples provide, thereby refuting the claim that private-order institutions successfully substituted for public-order institutions. We concludes that public-order institutions are necessary to provide security and contract enforcement. However, this doesn't mean to say private-order institutions were not complimentary to public-order institutions. It is likely that they acted in a complementary fashion, although in some instances private-order institutions inhibited growth as they are inherently particularised institutions, espousing economic rents only to a narrow few.

The policy implications arising from this discussion are that we need to develop good public–order institutions and cannot rely on the private sector to develop institutions to benefit the economy in a generalised manner in the absence of public-order institutions.

Firstly, we begin with the case of the Maghribi traders. Greif proposes that a group of traders from the Maghribi were able to make up for the lack of formal public-order institutions providing contract enforcement. They did this by forming a closed coalition and employing a multilateral punishment scheme by never hiring a cheating merchant again and excluding him from the social group. This mechanism was a Nash equilibrium as to hire a cheating merchant would require a higher wage in order to prevent him from cheating again. This did not provide the merchant an incentive to hire a cheater. This institution is then supposed to have overcome the contract enforcement issue which had prevented trade over long distances and without agents that one knew and trusted.

The closed coalition was supposed to have substituted for a public legal system which would have instead enforced contracts. However, the historical evidence refutes the closed coalition on a number of grounds. Jessica Goldberg finds no evidence that Geniza merchants exclusively traded with "Maghribi traders" as business partners, and the term Maghribi was used more in a social context. She finds that 5% of letters of merchants refer to the legal system but less than 0.5% referred to reputation. Naturally, we would expect a lot of mention of reputation if such information was used to commit agents to not cheat. This evidence highlights that a legal system did exist, supported by Edwards and Ogilvie who shows that 2 of the 5 examples Greif uses in support of his closed coalition actually resorted to the legal system (the cases of Khalluf and Yahya),

Edwards and Ogilvie also point out that Geniza merchants frequently traded with non-Maghribis (such as other Jews and even Muslims) and the high number of members outside the coalition must have meant that other contract enforcement mechanisms existed.

We are thus able to refute the claims that the Geniza merchants show that public-order institutions were not necessary for long distance trade. There were sufficient legal systems in place and these were relied upon by merchants to support trade. This is evident by the fact that trade was constrained to the Arabic world where such contracts were legally enforceable. Moreover, Goldberg points to evidence showing the lengths that traders would go to, to get legally valid testimony of their intentions. This demonstrates that they valued the legal system and the benefits it provided and the necessity of this public-order institution.

At best the closed coalition used a reputation mechanism which aided and complemented the legal system. The language used when referring to reputation was more to do with competence than trust and may have aided in the moral hazard problem which the legal system could not deal with due to its subjective nature.

Next, we turn to the claim that the Champagne Fairs and private judges were used to enforce contracts and that this permitted the success of such fairs and contributed to long distance trade. This idea was put forward by Milgrom et al. who hypothesised that private judges at the fairs provided information on the reputation of traders and so anybody who cheated would earn a bad reputation and thus be excluded from future fairs. This would then limit cheating and so promote trade. However, there was no such thing as a private judge at the Champagne Fairs (Ogilvie). It is likely that Milgrom et al. mistook the fair wardens for private judges, when they were in fact state employees.

This means that there was no private-order institutions responsible for the success of the Champagne Fairs. Instead, they flourished as a result of the legal system provided by the Count of Champagne. He paid for an extensive legal system of fair wardens and municipal courts who competed with each other for business, leading to fair and swift resolutions of justice. Again, this example highlights the necessity of public order institutions in promoting long distance trade. The Counts had an incentive to provide contract enforcement as it resulted in flourishing trade fairs which provided them fiscal revenue. However, this example also shows that public-order institutions can result in the demise of long distance trade. This is witnessed in the 13th century when France annexed Champagne and discriminated against the Flemish traders (as a result of political dispute with Flanders) which resulted in the collapse of these fairs. Hence, public-order institutions are necessary for long distance trade for good or ill.

Finally, some authors propose that merchant guilds were able to overcome the problems of contract enforcement and commercial security. They dd this by having guild courts and a closed system with benefits that were so great that an agent would not cheat due to the cost of exclusion. This prevented intra-guild cheating. One proposal for the prevention of inter-guild cheating comes from the collective reprisals model (Greif). If one merchant cheated another then that merchant's guild threatened to never trade with the cheater's guild again. This then led to the cheater's guild pressuring the cheater to compensate the cheated and by backwards induction the merchant would not cheat in the first place.

However, there is little evidence that that this ever happened and the example that Greif uses is the Champagne Fairs. He claims that the Count relinquished the legal obligations of merchants, who would instead rely on collective reprisals. However, this is false. Ogilvie finds that whenever the Count relinquished the legal obligations of a merchant it was to put him under the Count's own direct rule. This highlights further the necessity of public-order institutions. Moreover, on theoretical grounds the model assumes symmetric power of each merchant and sufficiently repeated interactions. Both conditions may not be met in reality, making such a model questionable for its empirical relevant.

Finally, we consider the case of merchant guilds. Merchant guilds are claimed to have led to greater commercial security which aided in long distance trade. Volchart and Mengels propose that merchant guilds allowed traders to travel in groups, hence providing security. However, they also threatened the security of others. This is witnessed for example by Pisa merchants attacking Genoese merchants in 1162. It is not therefore clear of the net effect that merchant guilds had on security.

Moreover, Ogilvie states that since the 11th century, European rulers were willing and able to provide commercial security. This is demonstrated in their involvement of security of merchant guilds abroad. Furthermore, the Count of Champagne provides another example of a public-order institution getting involved in the provision of security. The Count did this by obtaining guarantees of safe conduct for merchants travelling to the Fairs. Therefore, showing that public-order institutions were necessary for the provision of security which enhanced long distance trade. What is more, merchant guilds were not present at the Fairs for the first sixty years of its existence, so these guilds cannot have provided security until at least 1245. But given that the Fairs flourished either suggests that security was not an issue (but became so at a later date), or that the public-order institutions existed to deal with trade. The Count of Champagne's safe conduct guarantees provide evidence that the second reason is more plausible.

In conclusion, we have seen no example where a private-order institution can substitute for a public-order institution. Instead, contract enforcement and security was either directly provided or implicitly guaranteed by the state. Private-order institutions are necessarily particularised and so provide security and contract enforcement only for their own members at the detriment of the wider economy. On the other hand, public-order institutions can provide generalised security and contract enforcement which benefits every member of society. Unfortunately, there is no guarantee that the ruler will provide generalised benefits and may instead be incentivised to provide particularised benefits which can limit growth. We saw this in the case of Champagne, when France annexed and restricted the provision of security and contract enforcement (by not providing it to the Flemish), thus leading to the demise of the fairs.

2.3 Were craft guilds good for economic growth?

Craft guilds were a private-order institution which had legal privileges giving its member monopoly rights over producing certain goods and monopsony power over purchasing and using inputs. This essay will argue that craft guilds were bad for economic growth as they restricted access to the market of anyone who wasn't a member and systematically excluded women, Jews and other minorities. We will find that the supposed benefits of crafts guilds are not empirically justified. This discussion highlights that not all institutions are created for efficiency purposes and instead can be formed due to distributional conflict. As a result, this implies that policy prescriptions for developing countries should be that the type of institution formed matters (and whatever is, is not necessarily right, to paraphrase Ogilvie). Furthermore, institutions which are generalised instead of particularised are better for economic growth. Finally, this discussion highlights that private-order institutions are not able to substitute for public-order institutions.

Epstein proposes that craft guilds were good for economic growth as they solved market failures in the education market and in innovation. He argues that craft guilds emerged to provide transferable skills through apprenticeships; sustained interregional specialised labour markets; and technological growth by stimulating technical diffusion through migrant labour and providing inventors with temporary monopoly rents.

There was a market failure in the provision of education because apprentices would have an incentive to be trained by the master but then work for somebody else. There was an issue of early departure and poaching by rival masters which would mean that training would be expensive as the master would need to be compensated fully for the time they spent training the apprentice. If there was a mechanism which would constrain apprentices to work for the master for a period of time, at a specified wage, after training then the cost of education would fall, as the master would be compensated later on. Epstein proposes that guilds provided such a mechanism which would then lead to optimal training. In a similar vein, guilds are supposed to have enforced rules to ensure that masters provided adequate training and not shirk.

Guilds are normally thought to have prohibited technological progress due to their belief in the lump of labour fallacy. Under this belief, the guilds prohibited technological advancement for fear that it would create unemployment amongst its members. However, Epstein believes that innovation was permitted so long as it wasn't visible in the final product. This means technical innovation could happen in the manufacturing stages, which matches Caracausi's finding that there were very few product checks during the manufacturing stages and inspectors had inadequate skills to monitor product quality. Such innovation was the outcome of small scale incremental practical experiment and of random variation. The benefits of such innovation would be amplified as diffusion outside of the guild was discouraged and the benefits from the monopoly rents are likely to have been significant.

In reality, guilds did not do a good job of increasing human capital as they restricted access to education for many due to the high fees they imposed whilst excluding large groups of society altogether. If the apprenticeship system was supposed to increase human capital which was required to produce guild goods then it doesn't explain how (i) qualifications could often be bought, (ii) some guilds didn't require apprenticeships and (iii) a masters' widow was allowed to continue the workshop without the need for an apprenticeship (the duration of marriage was unimportant for this rule). Instead it seems that apprenticeships were more a mechanism to exclude people from guilds rather than to foster human capital and nurture the most brilliant craftsmen.

On the claim of innovation, it can't be argued that monopoly profits encouraged innovation along Schumpeterian lines as such models require free entry and so are not applicable to guilds. Instead, guilds opposed innovation as they suffered from the lump of labour fallacy where they believed there was a fixed quantity of demand, so higher productivity would cause unemployment. In practice, innovation creates more buying power leading to higher demand and creates more jobs (Say's law). As a result, guilds banned innovation which threatened their monopolies by lobbying against innovations, forbidding members to use them and boycotting places which did use them.

A further proposed benefit of craft guilds is that they solved the information asymmetry market failure concerning the quality of a good. In most markets the suppliers know more about the quality of a good than the buyer and as a result buyers may be reluctant to spend large amounts of money on a good which may be poorly manufactured which can lead to market breakdown (Akerlof's market for lemons). This could be solved by guilds who had a reputation for standards and so association with such a guild signalled high quality.

Caracausi refutes this argument as guilds had little incentive to penalise members for infringing on quality and due to the difficulty in spotting bad quality. Studying Italian guilds, she finds that quality control concerned only 1.6% of total ordinances and 0.9% of total criminal proceedings whilst 55% of ordinances and 87.1% of criminal cases focused on monopoly rights. Furthermore, guild officials often didn't have the skills to evaluate what factors lowered quality and 79% of defects in cloth arose from operations carried out after collective trademark had been applied to clothes.

Hence it seems difficult to argue that guilds efficiently overcame the quality control issue, given the ease of counterfeiting and the limited quality control that actually went on. Such actions may even have harmed consumers, as it limited the range of goods, particularly low-quality but cheap goods which consumers (such as Leicester women who petitioned against the stocking-knitter guilds) may have preferred.

Others have argued that guilds may have supported property rights and contract enforcement through generating social capital of trust and collective action. However, evidence suggests that formal public-order institutions already existed to provide contract enforcement and security of property rights. As a result, guilds cannot have substituted public-order institutions but at best complemented them and this was only for their own interest. Whilst guilds may have increased security for their own members they did so at the expense of decreasing security for outsiders.

This suggests that guilds were not designed (or at least did not persist) to solve the market failures prevailing in the economy. So, if guilds weren't formed on efficiency grounds, why were they created. Ogilvie believes a better explanation for the existence and persistence of guilds is that they arose from distributional conflict: a small group in society could capture economic rent and used this to pay for their privileges from the state to perpetuate their power. Guilds enabled their members and political elites to negotiate a way of extracting rents in the manufacturing and commercial sectors which neither party could have extracted on their own. This is evidenced by the expense guilds went to in lobbying the state to retain their special privileges, giving the state cash payments, a share of revenue, taxes, assistance in tax collection, favourable loans, military support and political support in exchange for ordinances granting monopoly privilege.

This interpretation of guilds suggests a wider implication of institutions; if they aren't built for efficiency reasons but distributional concerns then they can become entrenched due to the political Coase theorem. This means we need to design institutions which can adapt to the changing economy such that powerful elites don't become entrenched and exploit the institution for their own gain at the expense of the wider economy. Furthermore, the mere existence of an institution does not mean we can assume it is efficient and is beneficial for an economy and we cannot transplant an institution which is successful into one society into another society as institutions are embedded and their success depends on the context surrounding it.

Overall, we have seen that craft guilds were not good for economic growth as they were particularised and benefitted only a small segment of society. We refuted arguments of efficiency and conclude that craft guilds existed and persisted due to distributional conflict.

2.4 How does the land-labour ratio affect the prevalence of serfdom?

Serfdom was a particularised institution that affected growth by restricting access to factor and product markets, prevented allocation of resources to their highest productivity use and created poor incentives to investment in human capital, land improvements and technological innovations.

Domar argued that serfdom was a response to a high land labour ratio as this gave landlords a strong incentive to organise an institution which entitled them to extract coerced labour. A high land-labour ratio would result in upward pressure in wages and so give more power to labourers relative to landowners. If landowners had sufficient coercive power, then serfdom was their market-driven response to factor prices, ensuring that land will be worked at a low cost. Domar realised that land-labour ratios couldn't fully explain serfdom, as he knew enough about history to know this wasn't the case universally, and so he highlights that the coercive power of landlords is an important determinant of the rise of serfdom combined with land-labour ratios.

Whilst Domar believed that a high land-labour ratio would result in an increase in serfdom, Brenner points out that an increase in the land-labour ratio after the Black Death was associated with the decline of serfdom in Western Europe but its intensification in East Europe. This seems contradictory. Furthermore, Postan argues that a low land-labour ratio in 12th Century England intensified serfdom by limiting serfs' outside options.

Acemoglu and Wolitzky clarify these differing observations by developing a model whereby the rise in land-labour ratios increase coercion, as the price of output by landlord's increase, but decreased coercion as the outside option of serfs increased. It then becomes an empirical question, perhaps dependent on other institutions in society, as to which effect dominated and hence the effect of land-labour ratios in promulgating serfdom. This model is able to reconcile the observations by Postan and Brenner with Domar's view.

In other words, a high land-labour ratio increases the outside option of serfs, as they are in higher demand and face greater wages. This ought to act to reduce serfdom. Yet higher wages, and less economic power for landlords, would give them a greater incentive to band together to restrict the rights and movements of peasants in order to maximise their share of income.

Klein and Ogilvie analyse 11,000 serf villages in 18th Century Bohemia and find that a higher land-labour ratio increased coercion, i.e. the Domar effect did exist in this economy. By studying a specific society, they are able to control for political economy variables and they introduce further controls for other influences on labour coercion such as village size and type of lordship. This finding suggests that the Domar effect outweighed any countervailing outside option effects in this particular society. Note that this doesn't mean this would have been the case in every society (otherwise Brenner's observation would not be valid), but in 18th Century Bohemia, external institutions were such that the Domar effect dominated outside option effects. The authors propose that serfdom was potentially stronger in Eastern Europe because the urban sector was too weak to generate outside options for serfs, such that the Domar effect dominated.

The geographical/natural resource explanation of institutions only partly explains the existence and persistence of serfdom. Other explanations for the emergence of institutions are (1) accidental (reinforced by path dependency), (2) efficiency reasons, (3) distributional conflicts and (4) culture.

The efficiency view is espoused by North and Thomas who believe that given the underlying state of the economy, characterised by (a) a lack of markets and (b) the need for protection and justice which they consider public goods, that serfdom best addressed these issues. They argue that a lack of markets, uncertainty and high transaction costs explain why serfs had to pay in the form of forced labour rather than cash. An absence of markets would require the consumption bundle (the form of payment from the serf to the landlord) to be negotiated which would have high transaction costs as the landlord would need to negotiate with every tenant. Furthermore, the inherent uncertainty in production of agricultural goods would mean that this consumption bundle would need to be frequently updated. The need for protection and justice, which North and Thomas consider public goods (non-excludable and non-rivalrous) leads the authors to believe that serfs had to be forced to deliver payments otherwise they would attempt to freeride.

It was thought that landlords were constrained in their behaviour by the customs of the manor (a set of rules which dictated what acceptable behaviour was) and the threat of serfs moving to another manor or medieval town.

North and Thomas considered the exit options of the serfs to be low cost as Lords were always competing for scarce labour to enlarge estates, so if one landlord mistreated his serfs then they would be able to switch manor relatively frictionlessly. The conclusion of the efficiency belief of serfdom suggests that serfdom was not an exploitative arrangement but a contractual agreement to provide labour services in exchange for protection. Therefore, under this explanation, serfs voluntarily entered into such agreements in order to guarantee their safety.

This view relies on (1) an absence of markets, (2) non-excludability of protection and justice and (3) serfs were not being exploited. The empirical evidence refutes every one of these points which leads us to conclude that serfdom cannot have emerged, or at least persisted, on efficiency grounds.

Ogilvie points out that every serf society ever studied had markets for goods and factor inputs. Fenoaltea highlights that the lord's fortified buildings did not automatically protect every member of the community and the village laid outside the walls of the lord's house. As a result, protection was excludable as landlords would not have to protect certain households and could have refused the rights of non-paying serfs to shelter in fortifications during unpredictable raids by bandits (which made up a large percentage of medieval violence). Although, it might be counter-argued that basic protection was provided by the landlord who prevented roaming bandits from settling and exploiting the serfs, this was instead done by the landlord. Moreover, justice was even easier to exclude as it is not a public good as any individual can be deprived of legal justice.

Migration was not a costless path to freedom because doing so would result in lost capital, leaving behind family and community and due to uncertainty and risk in travel. Hence, a lack of migration does not reveal that serfdom was voluntary. This is especially true given the violence imposed by landlords at any serfs attempting to leave. In fact, peasant attempts at liberalisation by force of arms and their willingness to pay for freedom suggests by revealed preference that serfdom was exploitative and non-voluntary. Furthermore, much of the insecurity and injustice that serfs needed to be protected from was generated by landlords themselves. Ogilvie finds evidence in Germany of landlords instructing officials to use violence to coerce serfs into producing extra labour services against their contractual obligations.

Fenoaltea disagrees that labour sharing was the most efficient form of contract, as whilst it had lower transaction costs than rents in kind it also had very high cost of enforcement, which would be zero for a rent contract. It could therefore be the case that in some societies with high enforcement costs (which would need to be maintained constantly), a rent contract would be more efficient than a labour sharing contract if the transaction costs were low.

Overall, it was difficult to see serfdom as an efficient institution. A better explanation for serfdom comes from the distributional conflict theory. This explains serfdom existing and persisting as a result of the power that landlords had which gave them a large share of wealth and power which they wished to retain despite the sufferings of others and the fact that the economy could be made larger under a different system. It might have been possible that serfdom initially emerged as a result of efficiency reasons but continued as a powerful social group did not want to lose their special interests.

Alternatively, serfdom may have begun as a result of high coercive power of landlords who realised they could grab a larger share of the distribution of wealth under such a system. As a result, serfdom persisted due to the political Coase theorem as it wasn't possible to move to a better system due to the entrenched incentives of a small social group with high coercive power. The state was complicit in such a system as they helped overcome the free-rider problem associated with enforcing serfdom. Landlords had an individual incentive to compete for labour, but this would increase the outside options of serfs and erode the coercive power of landlords. The state helped cooperation between landlords in returning fugitive serfs and in agreeing not to compete with each other. In return the state received aid in collecting taxes and ensuring conscription when necessary.

The case of serfdom highlights that institutions can evolve due to distributional conflicts which lead to inefficiency and sustain such institutions. The public policy implications of this are that the existence of an institution does not demonstrate that it is efficient for the economy, and, to paraphrase a paper by Ogilvie, whatever is, is not necessarily right. This means that we need to go to great lengths to ensure not only that good institutions which are generalised (i.e. for the benefit and accessible to everyone) are formed, but that they are designed to be able to evolve with the economy such that a narrow faction with special interests cannot become entrenched and result in the institution focusing on providing benefits to a group with special interests.

2.5 Do the Maghribi traders demonstrate that private order institutions can substitute public order institutions?

A private order institution is an informal institution set up by private individuals for the benefit of themselves. By its nature it must be a particularised institution as it is designed to exclude outsiders to benefit insiders. However, this could still result in higher economic growth which might lead to side-benefits to outsiders. As long as it doesn't harm others and leads to an improvement in the situation of its members it will be Pareto improving.

On the other hand, a public order institution is set up by the state but does not necessarily have to be generalised. This essay will argue that the Maghribi traders were not able to sustain a private-order institution and instead relied on legal mechanisms which are themselves a public-order institution. Instead, their reputation-based network complemented the existing legal system but, in itself, does not demonstrate that private-order institutions can substitute for public-order institutions. The public policy implications for this are that developing countries today need to focus on building good public-order institutions instead of relying on private-order institutions to develop and overcome the pitfalls the economy suffers. This means international organisations need to promote good governance in developing countries and aid them in designing successful institutions.

Contract enforcement can result in a market failure, where profitable trades do not occur, because agents have an incentive to not provide the stated good. As a result, without an institution to enforce contracts agents will be forced to trade only in spot transactions with goods exhibiting easily observable quality or with trusted agents in repeated transactions where the short-run cost of cheating is outweighed by the long-run benefit of continued trading. This restricts the possibility of long-distance trading and limits economic growth as trading is constrained. Alongside lower economic growth, people will be worse off as they have access to a narrower range of goods (assuming they had Dixit-Stiglitz preferences then reduced choice results in lower utility) and have fewer opportunities to trade.

Grief proposed that the Geniza merchants (aka Maghribi traders) formed a closed coalition of members who employed a multilateral punishment strategy to exclude any cheaters from their coalition. In his view this helped to overcome the issue of contract enforcement and helped promote international trade without the need for state intervention. Trade increased because merchants had a large network of reliable agents to trade with over a large geographical base. Each agent would naturally have an incentive to cheat (not pay for the goods) but this issue is overcome because if the agent cheated then he would be excluded from the network: no Maghribi would ever trade with a cheating agent again. In fact, in Grief's model to hire a cheating agent would actually require a higher wage – despite the agents lower outside options – to ensure he didn't cheat again, this meant that the MPS was a Nash equilibrium. This demonstrates the power of the multilateral punishment strategy which was enhanced by the multiplex social ties that this Jewish sub-group displayed such that social ostracisation acts as a further cost to cheating.

Under this belief, there was no public-order institution such as a legal system which would force contracts to be upheld and so this private-order institution successfully substituted for the legal system. This implies that successful public-order institutions are not necessary for economic growth in developing countries as private-order institutions could possibly develop to act as substitutes. However, as we shall argue, this view is incorrect.

The model proposed by Greif gives a number of testable implications; (1) there was no public-order institutions to act as alternatives to the closed coalition, (2) the network was closed and well-defined, (3) the Maghribis existed as a business group and traded with each other based on notions of trust and reputation and reported any instance of cheating.

We begin by refuting point (3). Greif provides only 5 examples of the coalition existing in the manner he describes, all of which Edwards and Ogilvie refute based on mistranslations leading to the conclusion that there was no exclusive or clearly defined coalition. Nor do they find evidence that multilateral sanctions were ever imposed, despite some people deserving punishment as a result of cheating. Furthermore, Jessica Goldberg finds no instance of a merchant requesting a commercial task of a 'Maghribi' showing that they did not exist as an economic/commercial group. She points out that Maghribis only valued reputation, not that they formed a closed network. Moreover, reputation was about diligence and competence not trust and cheating. The use of reputation in this manner helped overcome moral hazard issues which cannot be easily addressed by the legal system due to its subjective interpretation.

With respect to point (2) we would expect a closed coalition to only be effective if it was well-defined (members were known) and did not contain too many outsiders. A predominance of intra-agency relations is a prediction and not a condition of Greif's model, so we need to evaluate how many external relations prevailed before we reject the coalition claim. It is not the case that a few exceptions would disprove the rule. Edwards and Ogilvie however believe that there were many extra-agency relations with non-Maghribis (such as Muslims and other Jews) which results in the coalition not being closed and means there must have been other enforcement mechanisms which did not rely on collective social ostracism in a closed coalition.

Point (1) is perhaps the easiest point to refute as Edwards and Ogilvie find that the Geniza merchants made use of the formal legal system, in fact, 2 of the 5 examples which Greif proposes (those of Khalluf and Yahya) show the legal system played a significant role.

Out of 700 Geniza merchant letters less than 0.5% mention reputation whereas 5% mention legal enforcement (Goldberg) demonstrating that reputation cannot have been much of an important factor and were only a minor plank on top of formal legal institutions. However, this statistic doesn't completely demonstrate that private order institutions were not dominant and may highlight that the threat of a lawsuit did not provide sufficient deterrent meaning the legal system provided only poor protection. Goldberg believes that better evidence in favour of the dominance of the legal system is the extent to which merchants went in security legally valid testimony of their intentions and activities ex ante. 96% of contracts were in writing which was required by the courts and the cost merchants went to in securing good evidence shows, by revealed preference, that they valued the benefits of the formal legal system. Additionally, traders limited the geography of their business to the Islamic Mediterranean where their contracts were recognised, despite the personal ties they had with other Jews and merchants living under Christian rule.

The existence of a legal system, however, does not mean that agents would use it as a means of first resort. Relying on the legal system may have been costly and time-consuming and may have resulted in a loss of reputation ('there is no smoke without fire') and so agents may have preferred to resolve disputes themselves in order to preserve reputation. This demonstrates that the reputation mechanism complemented the public order legal system and did not substitute or replace it.

This leads us to conclude that the Maghribis coalition did not exist in the manner proposed by Greif. Instead the Geniza merchants had a reputation-based sanctions mechanism which was used to complement the existing public-order institutions of legal mechanisms. This demonstrates that we cannot expect developing countries to develop substitute institutions for poor public-order institutions. The point should also be made that public-order institutions need not be a force for good and bad versions can exist which hinder growth, particularly when they are particularised and not generalised.

Whilst Greif's model is theoretically valid and intuitive, it gained particular credit as it was applied to a specific context verifying its existence. If we cannot observe such a system in reality we need to question why. Is it because such a private-order institution simply isn't feasible in reality? Is it because the transfer of information is slow and costly (this may be mitigated in today's digital age)? Or is it because 'better' public-order institutions have always existed? No evidence of a private-order institution existing to substitute for public-order institutions is not sufficient to claim that this can never occur. Hence, further research should be directed at examining under what circumstances might a private-order institution exist and successful substitute for poor public-order institutions as if this is possible it might be more effective than trying to reform public-order institutions in developing countries. However, there might be concerns that a private-order institution is necessarily particularised (and so only benefits certain parties at the expense of other agents in the economy) and so is not as beneficial as the promotion of good public-order institutions.

2.6 Are property rights necessary for economic growth?

Property rights are the claims on assets and can be good for economic growth due to efficient allocation, productivity increases following greater investment and because they can act as collateral for loans which can fund such investment. Efficient allocation is good for growth as the agent with the highest valuation of an asset would purchase the asset and then use it in the most productive manner. Property rights mean that an asset can be used as collateral on a loan which increases investment which can be used to increase the productivity of the asset and fuel economic growth.

For these growth-enhancing channels to exist we require that property rights are well-defined, private, secure and generalised. To be well-defined we mean that everyone knows who owns an asset and what this entitles them to do with the asset. This property of a property right makes it easy to transfer assets such that we achieve efficient allocation. It also creates good incentives for the owner to invest in the asset and ensure it isn't destroyed or depleted and means they can use it as collateral. To be private means that the right to the asset is excludable. We distinguish security of property rights into security of ownership, security of transfer and security of use. Security of ownership prevents anyone being able to take the asset away from you arbitrarily simply because they are more powerful than you. Security of use implies that the owner can use the asset for whatever purpose they best see fit. Finally, security of transfer means you have the right to exchange the property right with any other agent you wish. It can be considered necessary to distinguish the rights of security as not all tenets have been met simultaneously at different points of time, and the effects of growth differ for the different characteristics.

Some authors such as Acemoglu and Johnson and North and Weingast believe that property rights are necessary for economic growth and that the reason England saw the Industrial Revolution first was because of the Glorious Revolution of 1688. In their view the GR saw the introduction of secure property rights which did not exist previously and that these secure property rights led to greater investment and thus saw the industrial revolution occur in England.

Other authors (McCloskey, Clarke and Hodgson) refute this and argue that secure property rights did exist prior to 1688 and so even if property rights are necessary, they cannot be sufficient for economic growth otherwise England would have exhibited such growth at an earlier date. Veitch points to only 4 examples of property confiscation or debt default applying to medieval England (i.e. prior to 1688) and these mainly targeted Jews and foreigners suggesting that property rights for English property owners were relatively secure. Sussman and Yafeh find that interest rates on British government debt did not show any discontinuity around 1688 which we might expect if the GR was as significant as North and Weingast believe. Murrell looks at the changes that the Bill of Rights brought in following the GR. He finds that the only law which changed the power of monarchs was the requirement of Parliamentary consent for a standing army. The only clause change which survived Parliamentary debate relevant to the credible commitment on economic issues was the requirement that judges serve on good behaviour and not the pleasure of the King. Therefore, the most important aspect of the GR was a change in religious rights which suggests that the GR cannot have been that important for Parliamentary authority and hence property rights as North and Weingast suggest. This evidence suggests that property rights were rather secure before 1688 and emphasises that there was no discontinuity around the time of the Glorious Revolution.

Hodgson goes as far as arguing that the Glorious Revolution had no effect on property rights and instead enclosure and reforms of property rights came about due to the need for higher growth in order to support war. The only (indirect) effect in this view of the GR was that it caused a shift in foreign alliances, prompting major wars and led to an influx of the Dutch who brought financial knowledge with them leadings to London's rise as a financial centre. The logical conclusion to such a view is that property rights have no effect on economic growth, a stance we do not agree with.

Ogilvie questions why if the Glorious Revolution was so important for the Industrial Revolution was there such a delay? This is an interesting point, although we might expect an inevitable lag between a significant policy change and a change in outcomes. For example, it might take a number of years for expectations to change such that asset owners change their beliefs that their property rights are now indeed secure following the policy change. However, overall, the balance of evidence would suggest that the Glorious Revolution did not lead to a significant change in property rights. Property rights existed before 1688, but they emerged gradually and fluctuated in their strength at various times, and hence whilst it might be argued that they were necessary for an economic growth they cannot have been sufficient by this argument.

We can reconcile these two views by disaggregating the security of property rights into its constituent properties, finding that certain property rights were secure prior to 1688 but they were not all secure simultaneously and they were not static over the period. For property rights to benefit growth as discussed in the beginning of this essay requires them to be well-defined, private, secure and generalised. Well-defined means that all agents know who owns the property and what this entitles them to do with the property, private means that the use of the asset is excludable. Security of property rights can be further separated into security of use (nobody can prevent you from using the asset in any way you see fit), security of ownership (somebody cannot take the asset away from you arbitrarily because they are more important) and security of transfer (you can transfer the asset to someone else or use it as collateral). These characteristics of property rights occurred in different combinations but not always universally prior to the GR and hence the effect of property rights on growth depended on which characteristics were secure. North and Weingast believe that it was security of ownership, which was lacking prior to the GR, as rulers could arbitrarily remove assets from their owners. However, Veitch shows that this did not occur often and was unlikely to harm English landowners. Furthermore, McCloskey points out that as expropriation happens unexpectedly it cannot lead to lower investment, although the higher uncertainty that this might cause could reduce investment. There were times when security of use was limited, for example by farming communities which restricted what crops could be grown on fields. Instead, security of ownership, use and transfer existed at different points in time, but they needed to exist in combination for property rights to be truly secure.

Overall, the balance of evidence would suggest that the Glorious Revolution did not lead to a significant change in property rights. Property rights existed before 1688, but they were not static and fluctuated in their strength at various times, and hence whilst it might be argued that they were necessary for an economic growth they cannot have been sufficient by this argument.

We have so far seen that property rights are not sufficient for economic growth and we now proceed to argue that secure property rights are not easily distinguishable from secure contract rights. Contract institutions are those which allow the exchange of property rights (output, labour, assets or credit) between individuals.

Acemoglu and Johnson argue that there is a key distinction between property rights and contract institutions in that property rights guarantee the vertical relationship in protecting ordinary people from expropriation by the rich and powerful. They see contracting institutions as the horizontal relationships which protect private contracts between ordinary people. In their view, property rights are superior to good contracting institutions as they believe it is easier to substitute for poor contracting institutions than it is property rights institutions. Such a view is false, as it is based on the notion that private-order institutions (e.g. Maghribi traders' reputation-based mechanisms, Champagne Fairs and private justice and collective reprisals) can substitute public-order institutions which Ogilvie has sufficiently demonstrated is invalid. "Economic history does not support the view that it was easy to devise informal substitutes for poor public-order contracting institutions". Theoretically, when people trade, they both transfer property rights to another person and enter into a contract. The enforceability of the contract depends on how strong the property rights are whilst the security of the property rights depends on whether a person is permitted to enter into contracts involving his own property. This demonstrates the simultaneous link between both institutions. Rulers intervened not just in property rights but also in contracts, invalidating agreements when it benefitted them.

Furthermore, there is plenty of historical evidence which demonstrates the interconnectedness of property rights and contract institutions. We can clearly see this in the case of the agricultural revolution in Britain where growth benefits from increased property rights could not be seen without changes to contract institutions. An increase in property rights in the agricultural sector (which comprised a large part of the economy) came from privatisation of common pasture and reorganisation of scattered strips. Privatisation of common pastures encouraged agricultural growth by reducing transaction costs involved in shifting pasture to alternative uses which were more productive (i.e. cash crops) and for more productive crop rotation systems. Some have argued that enclosure is likely to have reduced the tragedy of commons problem, but this is unlikely as communal management was designed to overcome overuse and common pasture rights were often already owned privately by individuals (typically the largest village farmer). Scattered strips in open arable fields were reorganised to form contiguous private farms which increased scale economies, reduced transaction costs of adopting new arable techniques and increased individual incentives to invest in improvements.

The increase in property rights ought to have led to an increase in economic growth, or at least higher productivity in the agricultural sector, however Allen argues that productivity did not increase, and he seems supported by the cross-sectional analysis. So, why was there no increase in productivity following improvements in private property rights? Ogilvie believes that property rights institutions were necessary but not sufficient and that we needed to see contracting institutions so that owners could purchase inputs and sell output to make a return on their investment in introducing innovations. This makes sense as farmers wouldn't invest in productive innovations on their property if they couldn't guarantee that they could sell their output (perhaps because staple laws meant they could not do so profitably) or hire non-familial labour (perhaps due to the existence of serfdom, or prevention of labour migration), or obtain microcredit to invest in new fences, hedges and irrigation systems.

The agricultural revolution thus demonstrates that contracting and property institutions are interdependent and to benefit from good property rights institutions we also need to see good contracting institutions. England is not the only case where this is observed, Olsson and Svensson find that in Sweden the volume of marketable surplus was increased both by privatisation of property rights and by improving markets for farm outputs.

Thus, we have shown that property rights are not sufficient for economic growth and that they need to be combined with good contract institutions to permit economic growth. Finally, we explore whether property rights are even necessary. Hoppit argues that property rights actually declined after 1688 as there was the abolishment of property rights in slaves and compulsory seizure of land to build roads, canals and railways. This suggests that economic growth does not require property rights but a powerful interventionist state that is willing and able to take away private property in order for growth to occur and protect the property rights of those vital for economic success. Instead, we can reconcile this evidence with the view that property rights are good for growth by distinguishing particularised and generalised property rights. Particularised property rights circumscribed ownership use and transfer of assets to a circle of privileged people and denied them to everyone else. The examples of property rights being abolished which were good for economic growth, tended to be particularised property rights. This therefore leads us to conclude that generalised property rights are important for economic growth, but particularised property rights might hinder growth. Particularised property rights can block growth enhancing projects due to coordination problems of negotiating with many owners and the ensuing holdout problem. Ergo, we should secure property rights only in the case when they are generalised.

In conclusion we have seen that private property rights are only sufficient for growth when they are generalised and combined with good contracting institutions. We have also seen evidence which would suggest they are not sufficient for economic growth.

2.7 Are strong parliaments necessary for economic growth?

Proponents such as North and Weingast and Acemoglu and Robinson believe that strong Parliaments representing the interest of wealth-holders are a necessary condition for economic growth. They thereby attribute the Industrial Revolution occurring in England as a result of the Glorious Revolution which shifted power away from the monarchy towards Parliament which was then able to restrict policies which gave power to special interest groups and was instead able to enact policies which benefitted the overall economy. We will ignore the debate around whether the Glorious Revolution did truly have any affect; authors such as Hodgson claim that the monarchy was largely subservient to Parliament long before 1688, instead focusing on whether a strong Parliament would result in policies conducive to growth.

North and Weingast propose that a strong Parliament is necessary for economic growth through two channels. Firstly, a Parliament will have more diverse views than a monarchical government and so will represent a wider constituent and be better able to resist pressure to grant special privileges to a narrow group of society. This would result in more generalised policies and institutions being favoured over particularised institutions which benefit only a small segment of society. Secondly, they believe that if Parliament is made up of wealth-holders then it will have strong support for property rights and be averse to policies which weaken the security of these property rights. Whilst the term "wealth-holders" was not clearly defined by the authors, they fundamentally believed it should include land-owners, industrialists, merchants and state creditors.

Ogilvie points to the theoretical and empirical criticism of the view that strong Parliaments will resist special interest groups and favour policies to benefit the whole economy. Theoretically, it is pointed out that wealth-holders in Parliament may seek to develop institutions or enact policies which benefit them and not the whole economy. Practically, this is witnessed empirically, for example in Poland where the Sejm was a very strong and powerful Parliament which represented large noble landowners and guild masters in privileged towns. As a result, the Sejm prevented growth friendly policies and promoted policies which benefited this particular group of wealth-holders. We can see this in that Poland had a strong second serfdom, whilst other European countries had monarchical rulers who were strong enough to restrict the demands of landlords and prevent serfdom returning. This demonstrates that a strong Parliament is not necessarily good for growth, particularly if it is made up of a group without a diversity of views who would all benefit in the same way from policies which cause suffering to those not represented in the Parliament. Therefore, it could be contended that if Parliament is made up of a group of wealth-holders with a homogenous view then it is inevitable that Parliament will mirror the same problems as a monarchical ruler.

Instead, it might be the case that a strong Parliament with a diverse composition representing different industries and regions is needed to promote growth. However, the case of Wurttemberg is used to show that this is not a definitive rule, it had a strong Parliament made of industry and commercial representatives but still granted legal monopolies and other privileges to special interest groups (craft and merchant guilds). Again though, one might counter-argue that the representatives were not diverse enough (geographically and occupationally) and as a result all benefitted in the same way from certain policies. Only if the wealth-holders have conflicting interests will we be likely to see growth enhancing policies favoured over policies benefitting a certain group. If Wurttemberg's Parliament also contained land-owners, then we might claim it better reflects North and Weingast's diverse wealth-holders and hence if we still find that the Parliament enacts harmful policies we would be able to reject the claim that a diverse and strong Parliament must necessarily lead to generalised growth-enhancing policies being introduced.

Ogilvie then points out that it is the underlying institutions of society which influence whether a strong Parliament will foster or stifle growth. It is the mechanisms for becoming a wealth-holder and for getting into Parliament which will determine the growth record. This helps to reconcile the view that a strong Parliament with diverse representatives promote growth. The diversity of representatives within Parliament is obviously determined by admission to such a Parliament and how wealth is generated. If anyone with money can simply buy a position in Parliament and then contribute to policies, it would be no surprise that they are likely to introduce policies benefitting themselves. On the other hand, if representatives had to be elected then they might well enact policies which benefit the wider economy, although the question then is who is able to vote. A strong Parliament will only encourage growth if the representatives consider it in their interest to promote generalised institutional arrangements which benefit the whole of the economy rather than a narrow subset.

The underlying mechanism of representation may help to explain why the Netherlands, with a strong Parliament, saw high economic growth in the early 17th Century but then stagnation. The strong Parliament succumbed to the power of entrenched business elites who used their parliamentary power to secure rents at the expense of economic growth. This also demonstrates that an institution may begin as an efficient solution to a problem, but path dependency and the political Coase theorem result in stagnation and no change in institution despite a change in the underlying economic problem.

This leads to the broader conclusion that strong control over the executive by a Parliament manned by wealth-holders will only encourage growth if wealth-holders see their interest in promoting generalised institutions which benefits the growth of the whole economy and they do not support particularised institutional arrangements which redistribute wealth to themselves.

Prussia is an example of a country which enacted growth enhancing policies without a strong Parliament. This happened at a much faster pace than in Wurttemberg with their strong Parliament. It could be argued that Prussia sought to enact such policies due to the military threat posed by France after the Napoleonic invasion of Prussia. This external force gave the executive an incentive to reform and enact growth enhancing policies as this growth led to stronger military power which restored the power of the Prussian leader against foreign threats.

A further example is that of Champagne, where the Count of Champagne provided generalised commercial security for all merchants trading in his city which helped fuel economic growth in his dominion. He was incentivised to offer such security as the trading centres which flourished increased his fiscal revenue. There were no domestic special interest groups lobbying for special rights to offer a counter-incentive for the Count and this example again demonstrates that it does not necessarily matter for economic growth who is in power but the incentives they face when designing policy.

Even in England, where North and Weingast believe the Glorious Revolution resulted in a strong Parliament which was able to implement growth-enhancing policies, we see evidence that a homogenous view limited change. We can see this with slavery where Adam Smith pointed out that it was more difficult to abolish slavery under Parliament – where representatives were slave owners and thus had an incentive to maintain the status quo – than a monarchical government due to the entrenched beliefs and lack of incentives to change legislation. Additionally, we see this in corn laws which resulted in higher corn prices to the detriment of the poor but the benefit of represented landowners, and in colonialist policies which are believed to have benefits outweighed by the costs. This demonstrates that even in typical case described by North and Weingast of a strong Parliament leading to growth enhancing policies it can be the case that incentives and who is represented, is extremely important.

Overall, the historical record seems to support the conclusion that it does not matter who is in charge of creating policies (a monarchical leader or a strong Parliament) but what the incentives of the ruling elite are. It is certainly not the case that a strong Parliament is sufficient for growth. If rulers can enact policies which benefit themselves without any recourse then this is what they are likely to do (for example a monarchy with a weak Parliament, or a strong Parliament composed of a homogenous representative). On the other hand, if the leader has an incentive to create growth-enhancing policies – either because their power is threatened, perhaps by the possibility of revolt or outside influences, or if such growth would increase their wealth – then the type of ruler does not necessarily matter. The policy implications of this are not necessarily that we should promote a strong Parliament, but that we should ensure a good balance of institutions to limit the control of anyone group and ensure that representatives are frequently replaced to ensure they accurately represent the demographics and problems of the economy.

More concretely, we would argue that what is necessary to ensure growth is a focus on generalised institutions which benefit everyone as opposed to particularised institutional arrangements.

2.8 Describe the theoretical mechanisms for family to affect the performance of the economy

This essay will explore three mechanisms through which family and the EMP in particular affect growth through the following channels: (1) demographic growth, (2) encouragement of human capital and (3) female empowerment and emancipation into the labour force. We will find that such mechanisms alone cannot explain patterns of growth, instead they fundamentally depend on the context of other institutions in society. Moreover, evidence suggests that a stronger EMP is not associated with faster growth and it is the system of institutions in which the family is embedded which matters. We will conclude that the EMP may be necessary for growth, but is not sufficient. The policy implications of this are that we need to consider the whole institutional framework of a society before believing that changes to one institution will have the impact theorised.

The European Marriage Pattern (Hajnal) is characterised by later age of first marriage, a high proportion of people never marrying (10-15%) and neo-locality instead of nuclear households. It was hypothesised that having the EMP characteristics was conducive to growth. In particular, it was believed that England and the Netherlands experienced rapid economic growth as a result of their strong EMP.

Firstly, Voitglander and Voth believe that EMP makes demographic behaviour more responsive to economic signals. A slowdown in the economy means households have to save for longer (due to lower wages) in order to set up their own household (neo-locality). As a result, they delay marriage and so fertility falls as does population growth. This keeps per capita incomes high enough to continue capital accumulation and so permits continued economic growth. In a similar, but separate view, Schofield and Wrigley believe that EMP acted as a preventive Malthusian check (instead of a more violent positive check) which prevents population growth from eroding any gains from economic growth. However, the evidence suggests this mechanism is not as strong or effective as theorised. Weil finds that at no point between 1670 and 1830 was marriage more responsive to economic signals in France than in England, yet we see much slower growth in France. Similarly, Guinnane and Ogilvie find that the elasticity of fertility with respect to economic signals was higher in Germany than England. This might be expected given that Germany manifested a more extreme form of EMP, yet experienced slower growth (Dennison and Ogilvie). Hence, this mechanism cannot help to explain why England saw higher economic growth.

Secondly, it is hypothesised that the EMP kept wages relatively high, which gave women a good economic position and permitted their entry into the labour market (van Zanden and de Moor). This expanded labour force would benefit the economy as there are more people able to work and produce goods. Yet, whether women had a good position depended more on other institutions such as guilds, communities, the church and the state. Even if wages were high, if guilds prevented women from entering the labour force then they would not have a good position in society. This highlights how the EMP is embedded in a wider institutional framework.

Thirdly, it is proposed that the EMP encouraged human capital investment and economic models of endogenous growth (e.g. Romer) attribute this as leading to higher growth. It is argued that late marriage and low fertility means parents have fewer children (perhaps exacerbated by the higher opportunity cost of women following from their labour market involvement) and so they invest more in each child (Becker's quantity-quality trade-off). But parents will only invest in offspring's education if it is expected to bring returns in the future. Despite net inter-generational wealth flowing from parents to children (Caldwell) it might be the case that this investment creates a strong emotional bond which pays off in later years (e.g. visiting family). Furthermore, children will only see a return on education if they have unfettered access to labour markets in the future. In some societies the existence of guilds would have restricted this, limiting the benefits to investment in education.

Additionally, family was not the only institution affecting education and the market, church, state and community all played a role in the provision (or exclusion) of education. In England, it is believed that education hardly played a role in industrialisation (Mokyr), so it is difficult to claim this mechanism can explain England's rapid economic growth. Again, this highlights the embeddedness of the EMP on other institutions in society.

Some authors also argue that there is a role for culture to play. However, causality is very difficult to establish. Some argue that the EMP fostered a culture conducing to growth, whilst others argue that a good growth culture led to the EMP. This issue of endogeneity is compounded by the difficulty in measuring and capturing the essence of culture, making it hard to find evidence that culture affects the economy.

Overall, we have found little evidence that the EMP supports growth. Looking at it as a whole, Dennison and Ogilvie create an index for EMPness based on age of first marriage, female lifetime celibacy and the number of complex households. They find that the strength of EMP is not correlated with growth. This then refutes the claim that a more extreme form of EMP is responsible for higher growth. Whilst Carmichael et al. highlight that the EMP is a dynamic, not static, measure and they don't believe that the relationship is linear, the evidence makes it difficult to believe that the EMP was necessary and sufficient for economic growth.

Instead, we conclude that at best, the EMP was necessary, but not sufficient for economic growth. The institutional framework surrounding EMP is more important for its success, which highlights the more important lessons that all institutions are embedded and so a given institution may be compatible with other prevailing institutions and benefit growth, but the same institution may not be good for growth in another institutional framework. We should note that observing an institution (EMP) in a successful economy does not necessarily imply a causal relation.

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