

Lecture 20: Institutions I

Dave Donaldson and Esther Duflo

14.73 Challenges of World Poverty

Institutions I: Plan for the lecture

- ▶ What is an 'institution'?
- ▶ Discussion of film
- ▶ Discussion of reading
- ▶ 2 papers covered in reading:
 - ▶ Besley (1995)
 - ▶ Field (2003)

What is an Institution (to Economists)?

Two answers from Douglass North (1990):

1. “The rules of the game”
 - ▶ People and organizations (firms, the WTO, governments, the UN) are the players of the game of life
 - ▶ Institutions are the rules of the game
 - ▶ There may be a higher-level game (eg a constitution) that specifies the rules by which lower-level rules (ie legislation) are to be re-written
2. “Institutions are the humanly devised constraints that structure human interaction. They are made up of formal constraints (rules, laws, constitutions), informal constraints (norms of behavior, conventions, and self imposed codes of conduct), and their enforcement characteristics. Together they define the incentive structure of societies and specifically economies.”

What is an Institution (to Economists)?

Three more down-to-earth examples that are commonly associated with policies that engender 'good institutions':

1. Well-enforced property rights.
2. Constraints on the executive.
3. A well-functioning formalized legal system.

Discussion of Film: Questions

- ▶ What does this film have to say about the importance of property rights?
- ▶ In this setting, are property rights good or bad for economic development?

Discussion of Reading: Mooya and Cloete (2009) I

- ▶ Article largely concerned with ‘land titling’—movement (usually associated with Hernando de Soto) to formalize the rights that poor (typically urban) citizens have to their land.
- ▶ What are land rights?

Discussion of Reading: Mooya and Cloete (2009) I

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- ▶ What are land rights?
 - ▶ The right to sell, use or bequeath

Discussion of Reading: Mooya and Cloete (2009) II

- ▶ Why might land rights matter in theory?

Discussion of Reading: Mooya and Cloete (2009) II

- ▶ Why might land rights matter in theory?
 1. Promote investment on the land (long term planning, returns not expropriated)
 2. Land can act as collateral (so able to get credit)
 3. Able to trade land (so gains from trade can be exploited)
 4. Less time spent protecting your property ('protection mechanism')
 5. Wider taxable asset base
 6. "Incorporates residents into the property-owning democracy and citizenry"

Evidence for These Mechanisms

- ▶ There is plenty of macro-scale, cross-country evidence for the importance of property rights in long-run economic development. The next lecture, “Institutions II”, will be full of this.
- ▶ But unfortunately, hard evidence ‘on the ground’ is hard to find.
- ▶ Why is this?
- ▶ What kind of study would you like to perform that would contribute to our knowledge about the effects of property rights in developing countries?

Besley (1995) I

- ▶ One of the first empirical papers to confront this topic.
- ▶ Studies 2 regions in Ghana in which the rights that farmers enjoy on their lands are varied
 - ▶ Traditionally, all land rights (in these regions) were 'communal': village chiefs would determine what a farmer could do with his land.
 - ▶ More recently, there was a trend towards more individualistic notions of property: the farmer could do what he wanted with his land.
 - ▶ Ghana was in transition at the time of Besley's study.
 - ▶ So much so, that individual farmers would have communal rights to some of their plots and individual rights to the rest of their plots.

Besley (1995) II

- ▶ Besley exploits this variation within-farmers (ie across plots each farmer owns) to study whether farmers do actually invest more on the land they have individual rights to.
- ▶ What could be some of the problems with doing so?

Besley (1995): Finding I

- ▶ Individualistic property rights matter for investments (eg planting trees) but not by enormous amounts.

Besley (1995): Finding II

- ▶ Within a given farmer, the property rights he has on plot A affect how much he invests on plot A.
- ▶ This is not to be expected under the pure 'collateral' (de Soto) view. Why not?

Besley (1995): Finding III

- ▶ The types of rights in place (eg right to sell, right to use, right to bequeath) doesn't seem to matter.
- ▶ This is not to be expected under the 'gains from trade' view. Why not?

Besley (1995): Finding IV

- ▶ Rights appear to be somewhat *endogenous*—the rights themselves evolve according to the actions that farmers take.
- ▶ What kinds of actions could a farmer take to improve his rights over the land he occupies?

Field (2003) I

- ▶ This paper studies the 'protection mechanism'—when occupants have better rights to their land, they may spend less time on socially wasteful activities like protecting their land.
- ▶ Note that this just transfers the activity of protection from individuals to the state. Why might this be more efficient?

Field (2003) II

- ▶ Paper studies a major, nationwide titling program in Peru (1995-2003)—indeed, the first major titling program in a developing country
- ▶ Field compares behavior of households who have received the titling program (ie the T group) to those who have not *yet* received the program (ie the C group). She also asks the T and C groups how much their behavior has changed in recent years (an attempt to mimic pre-program and post-program data).
- ▶ Why might this T-C comparison fail to identify the causal effect of titling on protective behavior?

Field (2003): Results I

- ▶ Program increases amount of time spent by an entire household in the labor force by 16.2 hours per week— a 17 % rise. Over the long run this may be as high as 45 % (effectively freeing up a household member to work rather than do something other than working).
- ▶ The way that households appear to be generating more hours is by adding *people* to the workforce, not hours of the day within the same people.
- ▶ Households also shift the hours they work from work within the household to work outside the household (ie they are less likely to stay at home).

Field (2003): Results II

- ▶ Treatment households also use less child labor.
- ▶ What could explain this?

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