

EDITED BY HA-JOON CHANG

# INSTITUTIONAL CHANGE AND ECONOMIC DEVELOPMENT



FOREWORD BY DEEPAK NAYYAR

# Institutional Change and Economic Development

Edited by

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# CHAPTER 1

## INSTITUTIONAL CHANGE AND ECONOMIC DEVELOPMENT: AN INTRODUCTION

HA-JOON CHANG<sup>1</sup>

### **1. The rising interest in the role of institutions in economic development**

The issue of institutional development, or ‘governance reform’, has come to prominence during the last decade or so. During this period, even the IMF and the World Bank, which used to treat institutions as mere ‘details’, have come around to emphasizing the role of institutions in economic development and tried to improve the institutions of developing countries as a way of promoting their economic development. For example, the IMF put great emphasis on reforming corporate governance institutions and bankruptcy laws during the 1997 Asian crisis, while the World Bank’s 2002 annual report (*Building Institutions for Markets*) focused on institutional development, although from a rather narrow point of view, as indicated by its title. There are a few reasons behind this rather dramatic change in the intellectual atmosphere.

First, the institution-free technocratic reform programmes promoted by the IMF and the World Bank and by many donor governments since the 1980s have almost universally failed. Many of these reform programmes blatantly ignored institutional differences across countries, thereby recommending identikit policies, in what has come to be known as the ‘one-size-fits-all’ approach to economic policy. Today, it is widely accepted even by many orthodox economists that policies directly derived from the experiences of the developed countries – or, even worse, from economic

textbooks – are likely to fail in developing countries, where certain institutions whose existence these policies take for granted (e.g., well-defined private property rights, a developed government bond market) simply do not exist.

Second, a number of devastating large-scale financial crises in developing countries around the turn of the century (Mexico in 1995, Asia in 1997, Russia in 1998, Brazil in 1999, and Argentina in 2002) have prompted debates on the need for reforming a range of institutions in order to prevent and deal with such crises. Emphasis has been placed not only on financial institutions and corporate governance institutions, which determine the likelihood of the crisis and its immediate consequences, but also on labour market institutions and social welfare institutions (and the fiscal institutions that underpin them), which affect the way in which the social impacts of the crisis are managed.

Third, the increasing attempts by the developed countries to ‘harmonize’ institutions across countries have prompted debates on the suitability of so-called ‘global-standard’ institutions for developing countries (see Chang, 2005, for a critical discussion of the global-standard argument in institutional development). The most obvious sources of such pressure have been the IMF and the World Bank, which have increasingly attached ‘governance-related conditionalities’ to their loans (Kapur and Webber, 2000). Developed country governments have strengthened such conditionalities by making their aids conditional on countries passing the ‘health test’ by the IMF and the World Bank. In addition, the WTO’s unique sanctioning power has made the adoption of institutions mandated by it (e.g., strong patent law) unavoidable. Of course, many critics point out that not only are many of the ‘global-standard’ institutions inappropriate for developing countries but they are also unlikely to take root within the 5–10 years’ ‘transition period’ that is typically granted by international agreements that mandate the institutional change. However, despite such criticisms the pressure on the developing countries to adopt the global-standard institutions has been increasing enormously.

Added to this increasing awareness of the importance of institutions from the policy-oriented point of view have been the recent theoretical developments in institutional economics. The last couple of decades have witnessed the rise not only of the orthodox (neoclassical) New Institutional Economics but also of a variety of heterodox institutional theories. As a result, we now have much deeper understanding on issues like the emergence and the role of institutions, compared to even a decade ago.

However, there are still some important gaps that need to be filled before we can say that we have a good grip on the issue of institutions and economic development, both theoretically and at the policy level.

First of all, we are still some way away from knowing exactly which institutions in exactly which forms are necessary, or at least useful, for economic development in which contexts. For example, everyone may agree that a ‘good’ property rights system is essential for economic development. However, what is in fact a ‘good’ property rights system? That it is not necessarily Western-style private property rights system is clear from the excellent economic performance of China over the last two decades, where such a system simply does not exist. To focus on a more concrete aspect, should this ‘good’ property rights system include strong intellectual property rights? That this may not be the case for developing countries was revealed in the debate surrounding the TRIPS (trade-related aspects of intellectual property rights) agreement in the WTO (see Chang, 2001, for further details). These kinds of questions can be asked in relation to just about all the major institutions, but the point is that there is a large variety of institutional forms that work. And if this is the case, it becomes even more important that we are able to identify the exact conditions under which particular institutions (and the exact forms they take) help economic development or otherwise.

Second, even when we understand what role a particular institution can play in economic development, we often do not know how we can build such institution. The few guidelines that exist in relation to institution building tend to assume that the best way to improve institutional quality is to import ‘best practice’ institutions wholesale, as suggested by the so-called ‘global standards’ argument. Yet, as many of the chapters in this volume show, real life success stories of institution building are typically a mixture of country-specific innovation and chance developments as well as deliberate learning from the more advanced countries. If so, we need to better understand the process of institutional change.

Filling these intellectual gaps calls for new approaches to the study of the role of institutions in economic development.

First of all, we need to translate the abstract theoretical notions that underlie many discussions on the role of institutions in economic development into more practical terms. In particular, we need to develop new discourses on what may be called the ‘technology of institution building’. For example, having agreed that a developing country needs to build better fiscal institutions in order to enlarge its fiscal base, we still need to decide: How much of this will come from tax and how much from government borrowing (taking into account the fact that often the latter can be increased only when the former is expanded, as higher tax revenue acts as an implicit collateral for the lenders to the government); which forms of

taxes are more appropriate in which economic and political contexts and for what social purposes; how different forms of political resistance to different taxes may be overcome; and how best an effective tax collection machinery can be built; and so on. The existing literature on institutions and development do not adequately address such questions.

Second, in order to improve our understanding of the process of institutional change, we need more case studies on actual experiences of institution building – both from the history of today’s developed countries and from the recent experiences of developing countries themselves. Real life experiences of institution building are often more imaginative than what theoreticians have suggested on the basis of broad generalization and abstract reasoning. This means that learning more about real life experiences of institutional change will not only help us develop better strategies of institution building but also enrich our theoretical understanding by revealing aspects of reality that theoreticians have neglected or failed to grasp due to the inherent limits of their theories.

The present volume is the result of an attempt to fill these gaps. In doing so, it was felt that, given the complexity of the issues involved, we needed to gather a team that spans the conventional disciplinary divides and make them look at a wide range of cases, both in terms of the country, the time period, and the topics. The team thus assembled comprises scholars working in economics, history, political science, sociology, public administration, and business administration. Given the multiplicity of the approaches taken by the team members, no attempt was made to impose a single theoretical template.

Nor is there a single topical focus. Given the overwhelming importance of state-sanctioned institutions in modern economic life, there is a natural focus on those institutions. But a conscious effort has been made not to work with the broad category of ‘the state’. The state is de-composed into many of its constituent institutions – the political system, the bureaucracy, the fiscal system, the welfare state, the institutions for industrial policy, and so on. A conscious attempt was made to look at a very wide range of countries, rather than focusing on a narrow set. Numerous countries get mentioned, but there are more than a dozen countries that get substantial attention. They include, in alphabetical order, those in Africa (Botswana, Mauritius, South Africa, and Uganda), the Americas (Brazil, Colombia, Costa Rica, El Salvador, Guatemala, and the USA), Asia (China, Japan, Korea, Malaysia, and Taiwan), and Europe (Britain and Switzerland).

## **2. Key findings from the chapters**

### **2.1. *Functional multiplicity of institutions***

Institutions can, and do, serve multiple functions. As pointed out in the chapter by Chang (chapter 2), for example, budgetary institutions serve functions such as investment in productive assets (e.g., physical infrastructure, R&D facilities), provision of social protection (the welfare state), and increasing macroeconomic stability (e.g., through its ‘automatic stabilizer’ function). At the same time, the same function can be served by different institutions in different societies (or in the same society at different times). For example, social welfare is typically taken care of by the welfare state in most European countries. The same is provided by a combination of a (weaker) welfare state, company welfare schemes, family provision, and other means in East Asia. If we looked only at the welfare state, we may misleadingly believe that the level of social welfare provision in East Asia is much lower than what it actually is.

The functional multiplicity of institutions makes the task of institution building most difficult, as there is no inevitable and simple relationship between a desired function and an institutional form.

Unfortunately, this point has been rather neglected in the mainstream discourse on institutions and development. As a result, there has been a tendency to assign a single function to each institutional form – the central bank should focus on inflation control, corporate governance institutions should serve the interest of the shareholders only, etc. This tendency, which Thandika Mkandawire referred in the project meeting to as ‘institutional mono-tasking’ is highly problematic not simply for esoteric theoretical reasons but because it has serious implications for the way in which we design and implement institutional reform.

First of all, institutional mono-tasking makes us fail to fully exploit the potential of an institution, as best exemplified in Epstein’s chapter (chapter 6) on the central bank. Epstein shows that there are many ‘developmental’ functions that the central bank can play and has historically played, including the support for government-targeted manufacturing industries and the promotion of the financial industry, but that they have become increasingly neglected because of the currently dominant view that the sole function of the central bank is to guarantee price stability.

Second, institutional mono-tasking also makes it easier for particular interest groups to hijack certain institutions and make them work mainly to their advantages, when those institutions can, and should, serve other interests too. Lazonick’s chapter (chapter 7) shows how shareholder-oriented institutions

of corporate governance have allowed shareholders (and the professional managers who have bought into the doctrine) to assert their interests over those of other stakeholders in the firm and of the broader society, when ‘governing’ the corporations.

Third, institutional mono-tasking increases the danger that countries import certain institutions for one function and do not carefully think about their ‘other’ functions. For example, if a developing country imported a set of shareholder-oriented corporate governance institutions thinking that the only role of corporate governance institutions is to control managerial excesses and to prevent expropriation of minority shareholders by dominant shareholders, they may end up importing a set that is very poor in serving other functions, including the management of other types of conflicts surrounding the corporation (e.g., labour-capital conflict, conflict with environmental groups, etc.).

## **2.2. ‘Appearances can be deceptive’ – formal and informal institutions**

The absence of one-to-one mapping between forms and functions of institutions is one reason why ‘appearances can be deceptive’ when we try to understand the role of institutions in a society.

Institutions do not function in a vacuum but interact with other institutions. If a country tries to change its institutions by importing new forms of them (or even import the kinds of institution that are currently absent), they may not function well if they are incompatible with local institutions; perhaps because they are founded upon moral values that are incompatible with local moral values, perhaps because they assume the existence of certain other institutions that are missing in the local context.

The problem of compatibility will be more severe in relation to informal (that is, non-codified) institutions that interact with the institution in question. When introducing a new institution, it may be possible to change all the ‘surrounding’ *formal* institutions by rewriting all the relevant laws, but it is impossible to change the informal institutions (e.g., customs, business practices) in a short span of time. This means that the institutions of a country as defined in the laws may be very different from what they actually are.

Using the example of Malaysia, whose common-law tradition was compromised by the all-powerful prime minister’s desire to use East Asian-style administrative guidance arising out of the civil law tradition, Woo shows in her chapter (chapter 9) that the formal legal system cannot determine how decisions are made and conflicts resolved. Zhu’s chapter

(chapter 14) also clearly demonstrates that, despite the apparent differences in their formal institutional forms, how the actual institutional matrixes that have supported rapid economic transformations in China and Taiwan are remarkably similar to each other.

### **2.3. *Politics of institution building***

All the chapters in the volume reveal that institution building cannot simply be a technocratic exercise. All institutions, including the market (which is often assumed by mainstream economists not to be an institution) are defined in relation to the structure of the rights and obligations of the relevant actors. And as the definition of those rights and obligations is ultimately a political act, no institution, including the market, can be seen as being free from politics (Chang, 2002b, elaborates this point).

Di John's discussion of the tax system in different developing countries (chapter 8) reminds us that beneath all aspects of state capacity, including its ability to create and change institutions, lies its ability to tax, which ultimately rests on its political legitimacy.

The chapter by Burlamaqui, Pereira de Souza, and Barbosa Filho on Brazil (chapter 13) shows that many instances of institutional reform in the country were motivated by the desire to solve distributional struggles between different groups and how the political compromises made in one era critically affected the way the economy evolved later – the effect of wage indexation on subsequent episodes of inflation being the best example.

David and Mach show in their chapter (chapter 12) how the establishment of key economic institutions in Switzerland in the late nineteenth and the early twentieth century required various political compromises. To take just one example, they show how the Swiss central bank was deliberately created as a mixed (part public and part private) company with majority shares owned by the Cantons, in order to allay the fears by the private sector and the Cantons of dominance by a centralized public institution.

What also emerges from the chapters in the volume is that the politics involved in the institution-building process can be often very unpleasant. The efficient tax institutions of Britain fuelled its imperialist expansion and repression of lower classes at home in the name of protecting private property (O'Brien, chapter 10). The American federal system, while allowing the 'losers' of the nineteenth-century globalization to partially protect themselves, also preserved institutions that persecuted the blacks and the poor in the Southern states (Rauchway, chapter 11). The South African

tax system's exceptional ability (among developing countries) to tax the rich ultimately originated from the country's shameful history of apartheid (di John, chapter 8). And so on.

At one level, these 'dark' origins of certain institutions limit their applicability. For example, few would want to recommend (at least openly) that developing countries create institutions that repress the poor to emulate the British economic success in the eighteenth century. Nor would anyone argue that the South African experiences show us that we need exclusionary politics in order to build a good tax base. However, as we shall see later, institutions can be used for purposes that were not originally intended, and therefore the 'darkness' of their origins need not keep us from imitating and improving upon them.

Having emphasized the importance of politics in making institutional changes, it has to be pointed out that political compromise alone is not enough in making positive and durable institutional changes. The chapters by Epstein on the central bank (chapter 6) and Toye on the modern bureaucracy (chapter 5) show particularly well that 'technical' details matter in determining the benefits and the sustainability of certain institutions.

The analogy will be a family having an internal feud over what kind of house they will build in their plot of land. Deciding the kind of house they want to build is arguably the most important first step that may require a lot of fights and compromises ('politics'). However, even if the family was able to forge a durable consensus on the kind of house to build, without skilled architect and builders ('technocracy'), it may not be able to build a good house that will last.

In other words, the emphasis on politics should not be misinterpreted as a denunciation of technocratic expertise in the Maoist fashion. While there can be no institutional solution that is purely 'technical', poor 'technical' design of an institution may ultimately undermine its political legitimacy by creating discontent even among its main beneficiaries (e.g., the poor design of a state pension system ultimately discrediting state pension itself).

#### **2.4. *Structure and human agency in institutional change***

As the theoretical chapter by Chang (chapter 2) emphasizes, in the mainstream theory of institutional change, there is no 'real' human agency. In the mainstream theory, material interests that motivate people to change institutions (e.g., pressure for democracy from small independent farmers) are pre-determined by 'objective' economic (or even natural) conditions, and therefore what a 'rational' actor will choose is already structurally

determined. In other words, there is no meaningful choice (Chang and Evans, 2005). Many chapters in the volume show that history has developed the way it has because someone somewhere made choices that were *not* 'obvious' according to the structural parameters.

For example, as Kiiza's chapter (chapter 15) shows, Botswana could overcome landlockedness and 'resource curse', two conditions widely (if contentiously) believed to be a main obstacle to development in sub-Saharan Africa, and has developed a prosperous economy because its political leaders made certain deliberate political decisions about the appropriation of diamond rent and its use.

The chapter by Woo (chapter 9) shows that Malaysia has its current form of administration because Mr Mahathir decided to weaken the common law system inherited from British colonial rule in favour of an East Asian administrative guidance system based in the civil law tradition.

In discussing the Central American countries, Evans (chapter 3) points out that, despite similar economic and social conditions, the political elites of Guatemala in the nineteenth century decided to concentrate property in a small class of landlords while their counterparts in Costa Rica opted for a more broad-based property ownership, with very different results in terms of growth, income distribution, and social peace in the twentieth century.

The emphasis on the role of human agency brings us to the issue of the role of 'ideas' in institutional change. If human actors are not automata responding to structurally-determined incentives, their ideas – how they perceive their interests, what their moral values are, how they think the world works, what actions they think are possible and impossible, and so on – matter a great deal.

Sometimes ideas can be used as tools by human agents in their attempt to change institutions in the way that they prefer. While ideas cannot be seen as being totally independent of the 'structural' conditions surrounding the human agents holding them, human agents are certainly capable of developing ideational discourses that are not totally 'structurally' determined and use them to advance their interests in particular directions.

Lazonick (chapter 7) shows how the American professional managerial class has been able to use the shareholder-value ideology, which identifies them as main targets of restraint, in a way that allowed it to build institutions that enrich itself (e.g., stock options). For another example, Kiiza (chapter 15) shows that the influence or otherwise of developmental nationalism was the key variable explaining why some sub-Saharan African countries were more successful in building institutions like developmentalist bureaucracy than others.

However, ideas are not merely tools that human actors cynically manipulate in order to make the institutional changes that they prefer. Institutions affect the ideas that human actors hold, and therefore shape the human actors (Chang, 2002b and Chang and Evans, 2005, call it the constitutive nature of institutions). In other words, ideas may not be totally manipulable by human actors.

Zhu's chapter (chapter 14) shows how the 'socialist' institutions of Taiwan and China have subsequently affected the way their policy-makers behaved, while Woo's chapter (chapter 9) shows how the centralized political and bureaucratic institutions made the Korean policy-makers liberalize the economy after the 1997 crisis often through centralized and illiberal means.

## **2.5. *Unintended consequences and intended 'perversions'***

Emphasizing human agency in the process of institutional change does not imply that those who plan and implement such changes can be certain about the consequences of their actions. This is because there are unintended consequences of institutional change.

The unintended consequences may be positive or negative. Toye (chapter 5) shows that the US Tenure of Office Act (1820) gave the President and the Senate the power to reappoint every office in the government, with the laudable intention of preventing 'the emergence of an official aristocracy able to pass office on to its children', which was a serious problem in many European countries at the time. However, he points out that it 'also stopped dead the emergence of a class of professional public servants', thereby producing a negative unintended consequence of harming the development of modern bureaucracy in the country. Conversely, Rauchway (chapter 11) shows that the inability (and unwillingness) of the US federal government to impose fiscal discipline on the state governments unexpectedly produced positive consequences by encouraging the development of investment banking much earlier than in other countries with similar conditions (e.g., Canada, Argentina).

Institutions may serve functions that were not originally intended not because their original inventors did not think through their consequences (as seen in the above examples of 'unintended consequences') but because some actors deliberately chose to use them for purposes other than the ones that had originally been intended.

When discussing how patents may be turned into vehicles of rent-seeking (as in the case of Britain at the time of Adam Smith) or even into an obstacle, rather than a stimulus, to innovation (as in the current case of the

recent extension of patents to the genetic level), Reinert (chapter 4) shows how there can be ‘institutional perversion’.

However, ‘institutional perversion’ need not be a negative thing. If we use the term to simply mean that the institution in question is used for something other than the original purpose(s), without necessarily implying that the original purpose was good and the subsequent change in the purpose is bad, we begin to see some interesting possibilities of institutional change.

For example, the chapter by Woo (chapter 9) shows that the Korean administrative guidance system, which was a main institutional vehicle through which the Korean state exercised its influence, was used by the Kim Dae-Jung government as a means to reduce the role of the state. This is a ‘perversion’ that may or may not be considered positive, depending on what one believes about the appropriate role of the state and the legitimacy of the administrative guidance system.

For another example, the chapter by di John (chapter 8) shows that the effective institutions of taxation of South Africa were built as an integral part of the detestable apartheid system. However, despite their ‘dark’ origin, such institutions may be used for redistributive purposes, as it is slowly happening. Such ‘perversion’ may be considered positive by many people.

Thus seen, the possibility of ‘institutional perversion’ has positive and negative implications. On the negative side, it shows that there is a definite danger of a beneficial institution being turned into a harmful one by deliberate actions by certain individuals or groups. On the positive side, it suggests that an institution need not have a ‘noble’ pedigree in order to be utilized for good purposes.

## **2.6. *The ‘technology’ of institution building***

The chapters in the volume clearly show that there is no ‘one-size-fits-all’ model for successful institutional development. Different countries found different solutions to the same problem. For example, in the late nineteenth century, the USA tried to deal with distributional conflicts through regulating banking and suppressing cartels (Rauchway, chapter 11), while Switzerland responded to the same problem by allowing cartels in certain industries and providing protection to less productive sectors like agriculture (David and Mach, chapter 12).

Emphasizing the diversity of institutions across time and place, however, should not be interpreted as saying that there are no common principles in the ‘technology of institution building’ that can be applied across countries. The chapters in the book suggest some of them.

One relatively well-known such principle confirmed by the chapters in the volume is that ‘institutions that at one point were beneficial can ... with passage of time become roadblocks for development’, in Reinert’s words (chapter 4). Institutions that had worked well for a long time may suddenly become obsolete because of some new challenges arise that they cannot meet. Evans (chapter 3) shows this while discussing the case of Botswana, where the lack of mobilization mechanisms in the old institutional arrangement proved to be the major obstacle to the country’s ineffectual management of AIDS/HIV crisis, which is now threatening the very viability of its once-successful economy. Therefore, policy-makers should never rest on their laurels and be ready to reform institutions when the need arises.

A less obvious principle in the technology of institution building that the volume suggests is that it is often more effective to start the process of institutional reform by introducing desired economic activities than by introducing the desired institutions. This is a point made most explicitly by Reinert in his chapter (chapter 4). Reinert argues that ‘an institutional system is mainly moulded around the needs determined by the mode of production, not the other way around’ and therefore that policy-makers should target ‘the kind of activities that would bring the right kinds of institutions, not the other way around’. This is an extremely important antidote to the currently prevalent thinking that development can be promoted by introducing the ‘right’ kind of institutions. It is also in line with many case studies in the volume (especially the chapters on Brazil and Taiwan/China) and with the extensive historical examples provided by Chang (2002a), which shows that most of the ‘good’ institutions that exist in today’s developed countries are products, rather than causes, of economic development.

A more unusual insight on the technology of institution building that emerges from the volume is that, even when we agree that some institution is likely to be ‘good’ for almost all countries at least for some purpose, there is always a danger of what Reinert calls ‘institutional overdose’. Nowhere is the potential for ‘institutional overdose’ great as in the mainstream discourse on private property rights, as shown by Chang’s chapter (chapter 2). Chang theoretically points out and gives some historical examples which show that, even if some protection of private property is absolutely necessary, it is wrong to infer from that the stronger the protection is the better it is, as the conventional wisdom goes. In the same way life-saving or health-giving drugs can turn into poisons if taken in too large quantities, an ‘overdose’ of an institution that may be beneficial at some level may be harmful for economic development.

### 3. Concluding remarks

The chapters in the volume show that there is no simple formula for institutional development that countries can import and neatly apply in order to promote their economic development. Functional multiplicity, the importance of informal institutions, the existence of unintended consequences and intended ‘perversion’ of institutions all imply that importation of ‘best practice’ formal institutions does not guarantee any particular positive outcome, even assuming that the imported institution can actually take root in the importing country. This is why real life experiences of institutional development have been achieved through a mixture of deliberate imitation and adaptation of foreign institutions, on the one hand, and local innovations (sometimes deliberate, sometimes accidental), on the other hand. Consequently, the process has been a long drawn-out one with diversity across countries.

The fact that there is no set formula, not to speak of a ‘magic bullet’, when it comes to institutional development should not, however, make us think that there is nothing we can do to improve the quality of institutions in today’s developing countries.

First of all, being late-comers, today’s developing countries have the benefit of being able to imitate institutions that exist in the more developed countries – of course, taking care that they choose the institutions that are right for their circumstances in right forms and in the right dosage – and thus cut down the costs associated with developing new institutions *de novo*. It is not just in terms of technologies but also in terms of institutions that the developing countries can reap the ‘late-comer’s advantage’.

Second, the historical experiences show that countries do not have to start with high-quality institutions before they start their economic development, as the orthodox discourse tends to imply. Our chapters show that, in many ways, institutional development is a consequence, rather than a cause, of economic development. More importantly, they also show that institutional development and economic development may be concurrently pursued – it is perfectly possible to improve the quality of institutions while the country is developing its economies, with both of them feeding into each other.

Third, despite the difficulties of identifying a better ‘technology of institution building’, there are some general principles that may be extracted that would help countries build better institutions. For example, if it is difficult to change deep-rooted institutions through political means, it may be possible to change them by introducing new economic activities that put demand for different kinds of institutions. For another example, we can take heart from the fact that some institutions with ‘dark’ political origins have been ‘perverted’ into serving good purposes.

Institutional development, especially if it is conceived as a means to promote economic development, is an area where finding a neat solution that applies to every country is simply impossible. However, our volume shows that, even in this inherently complex area, it is possible to extract some general principles and enrich our empirical knowledge, especially if we are willing to go beyond the rather narrow theoretical and empirical confines of today's orthodox discourse on institutions.

## Notes

1. I thank Peter Evans for his helpful comments on the first draft of this chapter.

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# Institutional Change and Economic Development

Edited by Ha-Joon Chang

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The issue of institutional development has come to prominence during the last decade or so. During this period, even the IMF and the World Bank, which used to treat institutions as mere 'details', have come to emphasize the role of institutions in economic development. However, there are still some important knowledge gaps that need to be filled before we can say that we have a good grip on the issue of institutions and economic development, both theoretically and at the policy level. This book is an attempt to fill these gaps.

Recognizing the complexity of the issues involved, this book draws together contributions from scholars in economics, history, political science, sociology, public administration and business administration. These experts discuss not only theoretical issues but also a diverse range of real-life institutions—political, bureaucratic, fiscal, financial, corporate, legal, social and industrial—in the context of dozens of countries across time and space – spanning from Britain, Switzerland and the USA in the past to today's Botswana, Brazil and China.

"Just when the institutionalist approach to economic development is at risk of seeming like a 'black box' for tautological non-explanations, this volume of richly historically informed and nuanced studies will restore confidence in the value, if not superiority of this approach to the political economy of development."

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"Much has been said about institutions in development, but this book takes us to a new level of analysis, with a very thorough understanding of the history and political economy of institution-building."

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