Institutional Explanations of Long-Run Underdevelopment: An Insidious Discourse?

In his seminal work on institutions, Douglassa North defined the term as 'humanly devised constraints that structure political, economic and social interactions.' The gradual seepage of the theory as a foundational topic in development economics has seen the emergence of the institutionalist school (championed by Acemoglu, Rodrik, etc) which has become the oracle of unresolved questions in understanding underdevelopment. By blaming 'weak institutions' for the continued poverty and lack of success of development programmes, institutionalist explanations seems at once omniscient and also pessimistic - can institutions really be modified? They are seen as an ever-fixed mark that gazes upon the vicissitudes of a poor country, outlasting reform agenda, whether national or sponsored by donor agencies.

A certain vagueness permeates the discourse however with one view of institutions taking them to mean systems of extraction and malign design of government machinery that facilitates rent-seeking and corruption. Another conception refers to a culture of bribery, nepotism, and discrimination. What remains uncertain is whether it is the functional design of organizations that is at fault, or the human agents carrying out the functions. Without always stating so explicitly, institutionalist explanations border on an almost racial argument categorizing some populations to be more prone to dishonest practices. And yet, the discourse reads as an impersonal, historical argument, blaming 'colonial' rule for the continued underdevelopment of many post-colonial societies: imperial legal systems, revenue extraction systems, communications network designed to funnel resources, etc. In a dark fairytale, the colonial forces are succeeded by nefarious post-colonial governments, often patronized by the erstwhile colonial government, well-placed to take on the role of a rogue elite. While there is some merit in institutionalist discourses, there is ultimately an element of disability conveyed by the arguments due to the perceived lack of traction in institutionalist design.

A particular drawback is the paucity of truly historical studies of institution building in the developing world to provide empirical foundations for institutionalist theories. This is often due to an insufficiency of data with economists resorting to unconvincing proxies and instrumental variables like climate and rainfall to quantify institutional change. This paper examines institution building in colonial South Asia to attempt to closely examine an instance of institution-building and thereby to identify the precise bottlenecks and constraints 'weak' institutions create i.e. how are incentives altered on an individual level by having extractive, colonial institutions? I use both qualitative and quantitative sources from colonial Punjab to structure my arguments.
Perhaps the most prosperous province in British India, the Punjab provides a unique case study for the close examination of the effects of expanding financial access and property rights in a traditional economy. Existing research on the development of institutions in the Punjab has remained largely abstract and concerned with major structural changes like the patronage of feudals and the military, development of the canal colonies, changes in the administrative structure or the setting up of railway networks. This paper uses micro-level data to gain a more nuanced understanding of the material impact of colonial institutions on the everyday lives of the peasants. It also examines the role of colonial officers in initiating and promoting a set of initiatives in the province in the period of interest particularly as they relate to the provision of secure property rights and cheap credit including the efforts of Malcolm Darling and F. Brayne. This helps contextualise the reform strategies by understanding the worldview, inspirations and intellectual connections of the colonial officers enabling a richer understanding of the economic reforms. Simultaneously, micro-level data on Punjabi villages is used to quantify the changes and to analyse the contemporary and long-term impact of institutional change in the Punjab.

The validity or otherwise of the theories that hold weak colonial institutions responsible for long-run impoverishment of post-colonial societies, e.g. those advanced by Acemoglu and Robinson, is enabled through this two-tiered analysis. Insights are gained into institutional change in South Asia, often castigated for its ‘weak institutions.’ This paper questions the validity of the institutional perspective as a ‘historical’ explanation by bringing the details of the inception of two key institutions to the fore. It also sees institutions as both evolutionary and dynamic, seeking to go beyond a characterization of institutions as ossified and unchangeable.

Submitted by:
Atiyab Sultan,
PhD candidate in Economic History, University of Cambridge  (2012- present)
M Phil (Economics), University of Cambridge – 2011.

Email: as2066@cam.ac.uk