Institutions, socio-economic models and development: An overview of the literature and a methodology

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The effects of institutions and socio-economic models on development: theoretical settings

Why is there so much variety in the institutions and regulations?

- Facts: Diversity of the national systems of institutions and regulations
- One function / Several forms
- China, «western style»?
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How can we assess this diversity?

- NIE or NCD: Diversity as an institutional gap / A narrow view on the diversity of institutional forms / coarse data and overuse of instruments

- CPE, VoC: diversity of socio-economic models
  - but OECD capitalisms / Asian model (Amable, 2003)

- Then, socio-economic models can be defined as original systems of institutions and regulations that display a long lasting efficiency and support in regard of the objective (and the means) that are valued by the majority of the population
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What is the « comparative advantage » of our approach?

• Against the low dimensionality of the benchmark approach to reform, our approach adopts a broad perspective of the institutions as systems

• We focus on similarities and differences between institutions and regulation mechanisms across nations regarding:
  • Competition and labour regulations, finance and corporate governance, training and education, social protection systems, agriculture and environmental regulations, …
  • … and the observable complementarities between these fields
  • How do they relate one with another? Do they give rise to specific, new or already known, configurations of capitalism?
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Why focusing on emerging economies among all LDCs?

- Countries that have experimented original mixes of institutions and regulations are mostly emerging ones
- Institutional divergence does not impede the convergence in performance
- Institutional divergence $\Rightarrow$ risk diversification for the World economy
- Piecemeal and experimentation vs global reform: accounting for complementarities

- Useful clues for OECD economies?
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Questions and area of study:

- Who (and also what) are the emerging countries?
- Which are the institutional configurations that support countries emergence?

- The area of study has to consider all the economies in the world, except for the smallest ones for data availability reasons
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Separately considering the different dimensions of emergence…

- Agriculture
- Education system
- Environmental issues
- Competition / Regulation and International integration
- Development financing, financial market and banking system
- Labour market
- Social welfare
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... to produce original and relevant classifications of countries, regarding each dimension

New “qualitative” cross-section database
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A tool to answer some of our questions

New qualitative cross-section database

- Who are the emerging countries?
- Do emerging countries constitute an homogeneous group?
- How do they emerge?
- Are they several « ways » to emerge?
- Is there an « emergence path »?
- One country, one emergence?
An example of collected data: the labour market database

For each considered country from Afghanistan to Zimbabwe and for each available year back to 1980

<table>
<thead>
<tr>
<th>LABOUR FORCE COMPOSITION</th>
<th>JOB SECURITY AND EARNINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Labour force participation by gender / age</td>
<td>- Share of working poor</td>
</tr>
<tr>
<td>- Employment to population ratio</td>
<td>- Minimum wage</td>
</tr>
<tr>
<td>- Child labour</td>
<td>- Work contract protection</td>
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<tr>
<td>- Wage workers in working population</td>
<td>- Factory inspectorate</td>
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<tr>
<th>FUNDAMENTAL CONVENTIONS AND COLLECTIVE BARGAINING</th>
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<tbody>
<tr>
<td>- Ratification of int. labour standards</td>
<td>- Share of public employment</td>
</tr>
<tr>
<td>- Union rights</td>
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<tr>
<td>- Collective bargaining</td>
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<td>- Labour troubles</td>
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<tr>
<th>INFORMAL ACTIVITY</th>
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<tr>
<td>- Share of vulnerable employment</td>
<td></td>
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<tr>
<td>- Employment in the informal sector</td>
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<tr>
<td>QUALITATIVE DATABASE</td>
<td>&quot;Type of education&quot;</td>
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<td>Countries 2007</td>
<td>Afghanistan</td>
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<td>Countries 2006</td>
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<td>FM</td>
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<td>Afghanistan</td>
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<td>Zimbabwe</td>
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<td>AG</td>
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<tr>
<td>Zimbabwe</td>
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</tbody>
</table>
Who are the emerging countries?
How do they emerge?
Less developed countries

Emerging countries

Industrialized countries

« Emergence path » ?
« One specific way »?
« Several ways of emergence » ?
« One country / One emergence process » ?
<p>| Possible complementarities between institutions and regulations in the case of LDCs |
|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| <strong>Labor</strong>                                      | <strong>Social Welfare</strong>                               | <strong>Education</strong>                                   | <strong>Bank and finance</strong>                            | <strong>Trade and FDI</strong>                                | <strong>Agriculture</strong>                                  | <strong>Environment</strong>                                 |
| <strong>Competition on product markets</strong>             | Coordination and Liberalization                  | Demand (China)                                  | Comparative advantage                           | Labour and investment                            | Gains from openness / Protection                 | Export vs Subsistence                           |
|                                                | Liberalization                                  | Skills upgrading                                |                                                |                                                |                                                | Pollutions and innovations                      |
|                                                | Informal activities                              |                                                |                                                |                                                |                                                |                                                  |
| <strong>Labor</strong>                                      | Decent labour                                    | Skills upgrading                                | Remittances                                     | Deregulation                                     | Surplus towards industry                        | Employment creation via innovation              |
|                                                | Demand support                                   |                                                |                                                | Volatility                                       |                                                |                                                  |
| <strong>Social welfare</strong>                             |                                                | Fiscal policy                                   | Pension funds                                   | Social dumping                                   | Informal protections                            | Reduction of inequalities                       |
|                                                |                                                |                                                |                                                | Redistribution reduction                        |                                                |                                                  |
| <strong>Education</strong>                                  |                                                | Microcredit                                     | Skills and comparative advantage upgrading      | Productivity, sustainability                     | Sustainable consumption                         |                                                  |
| <strong>Bank and finance</strong>                           |                                                |                                                | Exchange reserves                               | Microcredit                                      | Clean development and access to international financing |
| <strong>Trade and FDI</strong>                              |                                                |                                                |                                                |                                                | Struggle for land                               | Rents from Commodities                          |
| <strong>Agriculture</strong>                                |                                                |                                                |                                                |                                                |                                                | Pollution deforestation                         |</p>
<table>
<thead>
<tr>
<th>Reference</th>
<th>Dependent variable</th>
<th>Measures of institutions</th>
<th>Instrumental Variable</th>
</tr>
</thead>
</table>
II. Private Investment/GDP (1974-89)  
III. Private Investment/GDP (1989-99) | I. ICRG index  
II. BERI index  
III. Economic freedom  
IV. Political freedom  
V. Social freedom | No IV estimates                                                                 |
| LLSV (1999)   | I. Interference with private sector  
II. Efficiency  
III. Output of public goods  
IV. Size of public sector  
V. Political freedom | I. Ethnolinguistic fractionalization  
II. Legal origin  
III. Religion | No IV estimates                                                                 |
II. Investment/GDP (1960-1985)  
III. Investment/GDP (1980-1985) | I. Index of institutional efficiency  
II. Index of bureaucratic efficiency | Ethnolinguistic fractionalization (1960) |
II. Urbanization2 (1995) | i. protection/expropriation risk  
ii. executive constraints (1990)  
iii. executive constraints (1990)  
iv. initial executive constraints | Settler mortality                                                                 |
II. Output per worker (1988)  
III. Capital per worker (1988)  
IV. Years school. per worker (1985)  
V. TFP (1988) | Rule of law index  
II. European-language speakers  
III. Predicted trade shares | I. Settler mortality  
II. European-language speakers |
II. GDP per capita growth 1960-2000  
III. Years schooling  
IV. Political institutions | Executive constraints | I. Settler mortality  
II. Legal origin  
III. Indigenous popul. density (1500) |
| DLLS (2002)   | I. Deaths from intestinal infection and accidental poisoning  
II. Quality standards (ISO 9000)  
III. Water pollution  
IV. Unofficial economy: (i) size/ GDP  
(ii) employment  
V. Product market competition | Number of different procedures that a start-up has to comply with in order to obtain a legal status, i.e. to start operating as a legal entity. | No IV estimates |