

## **The Glorious Revolution, Economic Institutions and the Developing World**

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**Abstract** This paper critically examines the relative merits of New Institutional Economics (NIE, hereafter) versus the critical institutionalist method of institutional analysis. The paper sketches how the Glorious Revolution, a seminal event in British economic and political history, has been analyzed by NIE. Using material from both economics and political science, this paper argues that the NIE analysis, in general, and that of the Glorious Revolution, in particular, shows a considerable amount of theoretical weakness. Instead, the paper forwards the critical institutionalist method to present a comprehensive institutional analysis of the Glorious Revolution. The paper also underscores the changing nature of resource distribution and culture in Britain as key variables. Finally, the paper also highlights the role of the “Whigs” as key agents in bringing about the events associated with the Glorious Revolution.

## **The Glorious Revolution, Economic Institutions and the Developing World**

At least for the last two decades, the field of economic development has been dominated by New Institutional Economics (NIE, hereafter). NIE scholars make a case for considering “institutions”—conceived narrowly as “rules of the game”—as a veritable panacea for all the economic problems facing the developing world. However, the absence of institutional convergence, the persistence of dysfunctional institutions and the lack of contextual analysis for developing countries behoove us to critically examine NIE’s efficacy as a relevant paradigm for institutional analysis, especially in the context of developing countries. Specifically, “credible commitments,” a term first popularized by two NIE scholars, Douglass North and Barry Weingast (1989), has probably been one of the more widely used terms in economics, as well as in political science.

In the first section of this paper, I sketch how the Glorious Revolution, a seminal event in English (later, British) economic and political history, has been analyzed by the NIE. I will show that the examination, in general, and that of the Glorious Revolution, in particular, depicts a considerable amount of theoretical weakness, especially with respect to the omission of key explanatory variables like distributional conflicts and bargaining power asymmetries. In the next section, I will use the critical institutionalist method to present a comprehensive institutional analysis of the Glorious Revolution. In the critical institutional argument forwarded in this paper, the changing nature of resource distribution and culture in Britain are pointed out as key variables. At the same time, the role of the “Whigs” as key agents is also underscored in bringing about the necessary events that came to be associated with the Glorious Revolution.

## **I. Historical Background**

Douglass North and Barry Weingast (1989) make a case for the singular importance of the Glorious Revolution in England in terms of setting England on the course towards economic growth and prosperity. According to the authors, before the Glorious Revolution of 1688-89, the fundamental problem in England was the monarchy itself. In the absence of statutory taxation, the monarchy was unable to “credibly commit” itself toward protecting the property rights of the English subjects. The monarch was free to impose taxation and take away gains without prior notice. As a result of this persistent uncertainty, the system of incentives was stacked against economic growth.

During the Glorious Revolution (1688-89), King James II of England was defeated by an invading Dutch Army. As a result, William III of Orange-Nassau and his wife Mary II became joint monarchs. The Glorious Revolution led to significant recalibration in the institutional makeup. Through this institutional recalibration, the English government, the NIE argument goes, was finally able to convince the people that the government would not engage in arbitrary taxation. Finally, the system of incentives was properly aligned to kick start the process of economic growth, thus placing England on the path to the Industrial Revolution, economic development, prosperity and the British Empire.

## **2. Analysis of the Glorious Revolution in NIE**

The institutional analysis presented in North and Weingast (1989) is one of the many permutations of NIE’s conceptualization of institutions as the “rules of the game.” In a political context—as in the Glorious Revolution—the authors argue, political institutions and the constitution of a state play a determinative role with respect to what course a state takes in terms of economic development.

The authors conclude that appropriately designed institutions are important for two chief reasons: First, appropriately designed institutions improve the workings of a political system by acting as constraints in situations where other non-institutional constraints fail to deter one of the agents from renegeing on agreements. Second, these appropriately designed institutions, according to authors, are also essential for economic growth. Absence of credible commitments leads to tremendous uncertainty and thus militates against economic growth by dissuading would-be entrepreneurs and investors.

### **3.The Paucity of NIE Institutional Analysis**

Despite the many permutations of institutions, NIE intellectuals end up granting pride of place to secure property rights. North and Weingast (1989) make a case for the state to credibly commit against arbitrary taxation through enforcing secure property rights as secure property rights provide the best protection against potential predation by the state. However, there are a number of problems with this line of reasoning: First, the NIE assertion that having secure property rights will lead to economic growth misses the larger point that people in the developing world, at times, require completely different type of property rights (Bardhan, 2006). The type of property rights being promoted in NIE are the Anglo-Saxon-style property rights that establish asset or land ownership through titles and deeds. In so doing, NIE's promotion of secure Anglo-Saxon-style property rights misses the reality of life in many developing countries, where people, lacking asset or land ownership, require completely different type of property rights. For instance, a micro-enterprise owner in a peri-urban area in South Asia may require protection from extortion by the local goons (Bardhan, 2006). In the final analysis, the attractiveness of any set of property rights varies with people's differing socio-economic status—where big corporations consider protection from excessive taxation to be a property right, micro-enterprise owners see protection from

extortion as property rights. In this way, NIE is guilty of painting a picture with broad strokes that appears reductive, at best, and downright Western-centric, at worst.

Second, another omission in the NIE literature is the absence of any recognition of whether establishing property rights, the prescribed medicine for economic development, results in any pernicious side effects on a region's ecology. There is plenty of evidence to support that establishing property rights is not always ecologically neutral. James Scott (1998) has shown that "scientific agriculture" based on the modern property rights regime has been an unmitigated ecological disaster, especially in Africa. Moreover, Mathew Forstater (2002) has documented how the establishment of property rights led to the utter ecological ruination of the Maasai of East Africa. Forstater shows how attempts at establishing property rights by the colonial and post-colonial governments of Kenya and Tanzania, reduced the Maasai to be only able to sell the bones of their dead cattle since most of their livestock had perished in repeated droughts.

Third, another issue is that questions regarding the morality of establishing secure property rights—whether the establishment is just, fair or equitable—are given short-shrift by NIE. Usually, the establishment of secure property rights for one group entails dispossessing another group of its traditional rights of usage and ownership. The forced removal of native Americans from their ancestral homeland by the United States government to "Indian Territory," west of the Mississippi River, has been widely documented in popular media. In Britain, the Enclosure movement, which was at its peak from 1760-1830, landowners fenced in commonly farmed land, thereby pushing hundreds of thousands of rural dwellers towards urban centers in search of sustenance constituting a major social upheaval.

Fourth, another problem with NIE is the way in which the promotion of secure property rights is touted as the shortest route to economic growth. This NIE claim is a

function of conceptualizing economic growth as a coordination problem—a Prisoners’ Dilemma Game. Without property rights, human existence remains beset with the “tragedy of the commons” (Hardin, 1968), whereby individuals “...pursue their private objectives to disastrous consequences for themselves and others” (Bowles, 2004: 27). There are two main ways in which property rights are said to help with providing a channel to economic development. First, it is argued that property rights provide an external enforcement mechanism through which economic agents can reach and remain at the Pareto-optimal equilibrium, as opposed to being doomed to the Pareto-inferior Nash equilibrium.

The second way in which property rights are said to save the day with respect to economic development has to do with changing the very nature of the process of economic growth from a prisoners’ dilemma to what Samuel Bowles has termed the “Invisible Hand Game.” In the Invisible Hand Game there exists a single Nash equilibrium that is also Pareto-optimal, thus in a two-person game “...the self-interested actions of both actors yield an outcome that maximizes the well-being of each” (Bowles, 2004:41). In other words, the second solution through which property rights assist with economic growth is through changing the very nature of the problem at hand.

There are two main issues with the claim that property rights can solve the coordination problem of economic growth. The first issue has to do with the fact that providing secure property rights is simply not possible unless a individual or an organization can monopolize the use of violence; the Weberian conception of the state. For unless the capacity to undertake violence can be monopolized through state formation, un-ending violence between warring factions, clans or tribes in a Hobbesian “state of nature” would ensure that not even the idea of property rights exists. What may belong to one clan today might end up belonging to another faction tomorrow. In a sense, the purported solution to the coordination problem of economic growth in the shape of secure property rights in itself a

coordination problem—establishing secure property rights is a nested prisoners' dilemma. In political science, nested prisoners' dilemmas are studied through the so-called sequencing debate that analyzes whether the state formation happened before the formation of democracy or democratic institutions (Acemoglu & Robinson, 2015). Thus, what is being claimed as a solution is dependent on the state for enforcement, while the coordination problem inherent in state formation is not explained.

The second issue has to do with the plethora of evidence that points in the opposite direction as opposed to what we are being told by the NIE. Even if we accept markets as coordination mechanisms, the efficacy of the state as a superb coordination mechanism cannot be ignored. The East Asian state, for instance, played a significant coordinating role in setting the region on the path towards economic development. The East Asian state intervened in the capital markets to regulate credit allocation to designated “winners”, promoted industrial investment, underwrote risks and guaranteed loans and established public development banks, to name a few instances (Amsden, 1989).

Finally, the biggest gap in the NIE literature on institutions is an incomplete theory of institutional genesis and change. The story of the Glorious Revolution, as told to us by North and Weingast (1989), simply states that new institutional arrangements arise when certain principals realize the institutions' importance and hence decide to play by the new “rules of the game.” For instance, after William and Mary became joint monarchs of Britain, they just “realized” that violent and frequent expropriation of surplus from the citizenry was counter-productive and thus they agreed to play by the rules and provide secure property rights.

If getting the right institutions is a matter of realization, it naturally begs the question as to why dysfunctional institutions even exist? Institutional re-calibration should have automatically occurred in the favor of Anglo-Saxon-type property rights by now in almost all

human societies as the re-calibration, *ala* NIE, is a function of the “realization” regarding the efficacy of secure property rights. In other words, we should have witnessed a greater level of convergence between local institutions and those that belong to the Anglo-Saxon private property rights tradition. It goes without saying that reality is not so.

The actual reason why we do not see convergence in the institutions of property rights around the world has to do with the fact that the NIE theory of institutional change does not take two very important variables—vested interests and collective action—into account. The first omitted variable is vested interests or the distributive conflicts and asymmetries in bargaining and mobilizing power among various social groups, especially in poor countries. Acemoglu and Robinson (2006) have shown that, at times, it may *not* be in the interest of a dictator to carry out institutional changes that safeguard property rights or contract enforcement—institutional arrangements that improve overall economic performance—because such institutional changes carry the potential for “...upsetting the current arrangement for the uncertain prospect of share in a larger pie” (Bardhan, 2006:20).

Perhaps, the most convincing explanation for sticky dysfunctional institutions pertains to distributive struggles in the historical evolution of land rights in developing countries. According to Bardhan (2006), empirical evidence from most developing countries suggests that large land holdings are not economically efficient. If we are to give any credence to the NIE theory of institutional change, then the landholders in developing countries would have had their “eureka” moments by now and they would have parceled out their large land holdings to small farmers in order to grab the surplus generated due to this efficient reallocation. As a matter of fact, the direction of land sales is often in the opposite (inefficient) direction, i.e. from small landholders towards large landholders and moneylenders.

The second reason for the perpetuation of dysfunctional institutions owing to distributional conflicts has to do with political reasons. In this case the large landholders resist reallocation of land that they know is inefficient due to the fact that the leveling impact of redistribution reduces their social and political power as well as their ability to control and dominate non-land transactions. In other words, the greater the degree of inequality in a society—owing to distributional conflicts—the greater is the likelihood of dysfunctional institutions.

Finally, another reason why dysfunctional institutions persist in various guises has to do with the relationship between collective action and distributional conflicts. In comparisons of macroeconomic performance from East Asian countries, it has been noted that the reason why East Asian countries were able to develop economically had to do with the relatively equitable nature of asset distribution, particularly due to land reform, expansion of education and basic health services since having a relatively equitable distribution of resources makes it easier to enlist the support of various social groups and thus find a solution to problems of “free riding.”

#### **4. Critical institutionalism**

As opposed to NIE, which relies on methodological individualism as its ontological commitment, critical institutional analysis relies on methodological holism. Using methodological holism as an ontological foundation enables critical institutionalist analysis to incorporate the interplay of resource structure, culture and human agency.

Tauheed (2013) builds a usable definition of culture as culture includes “...technology (“tools and skills”) and its “symbols, stories, rituals and world-views,” all developed from collective experience in past problem solving (2013:7, parentheses and quotes in original).” At the same time, resource structure (r-structure, hereafter) is defined as

“...the distribution of resources to agents as an outcome of past social action (Tauheed, 2013:7).” The idea here is that with a definition of r-structure, we want to capture the actual distribution of resources that is available to various agents at a given time.

Tauheed defines agency as “...the degree of awareness people have of their power to interact with and to re-make their social environment to suit their needs” (p.7). Agency is a “psychological construct” that concerns people’s “beliefs” about their capabilities and thus the probabilities of success in carrying out their personal agenda. In this sense, agency becomes informed and possible purposive action. In this way, defining agency as purposive human action, critical institutionalism puts the agents back into the calculus behind social action.

In section I, I argued that bargaining asymmetries in distributional conflicts leads to the persistence of dysfunctional institutions. By glossing over entrenched distributional conflicts, NIE is unable to provide us with an answer as to why dysfunctional institutions exist. However, by specifically taking resource distribution into consideration, critical institutionalist analysis incorporates entrenched distributional conflicts, in rich as well as in developing countries and thus provides us with an answer to the question pertaining to dysfunctional institutions. In this way, critical institutionalism gears towards providing a workable theory of institutional change that can explain why dysfunctional institutions persist and how under certain conditions institutions transform.

### **5. Analysis of the Glorious Revolution in critical institutionalism**

**R-structure and Culture.** The process of significant change in Britain’s r-structure and culture had commenced at least one hundred years—if not earlier—prior to the actual years in which the Glorious Revolution took place. In the following paragraphs, beginning with the

Enclosure Movement, I detail some of the changes that had a profound impact on Britain's society in terms of profoundly changing the distribution of resources and culture.

First, since agriculture held a central place in British society of the seventeenth century, distributional changes in agriculture carried a lot of significance. According to O'Gorman (1997), Britain was going through a veritable revolution in agriculture from the early years of seventeenth century onwards. As a result, "...[h]arvests were good...[b]y the end of the century England was feeding herself comfortably and had even begun to export grain" (O'Gorman, 1997:20–21). Though few statistical records exist from that era, research of wills and probates shows that all over Britain there was increased wealth, improvement in machinery as well as a willingness to invest in newer techniques for increasing agricultural yields (O'Gorman, 1997).

Enclosures also had a significant impact in aiding the expansion of agricultural production in Britain. Enclosures had been proceeding for centuries, O' Gorman points out that by 1660 only 50 percent of the English farm land needed to be enclosed (1997). The rationale behind enclosure was clear from the perspective of landowners. Unenclosed land was uneconomic and its haphazard distribution in the shape of immense open fields made it rather difficult to carry out experiments in crop rotation as well as in animal breeding (O' Gorman, 1997). Enclosures constituted a major social upheaval in British society by pushing hundreds of thousands of indigent masses towards the cities (Polanyi, 1944). However, where the forced exodus of people towards the major British cities constituted an upheaval, it was pivotal in turning British cities into major industrial centers (Coward, 1994) as well as providing the necessary fillip to agriculture as these large urban populations now had to be fed.

Second, where changes in agricultural productivity were changing the r-structure in Britain, simultaneous development in international trade were creating a new “trader” class that came to play a crucial role in the transformation of Britain as this trader class gained political clout—in the shape of the Whigs. According to the data provided by O’ Gorman, British exports roughly doubled between 1640 and 1700. One of the reasons why British exports doubled during this time has to do with the availability of new protected markets, especially in North America. At the same time, the introduction of new textile products, both for the domestic as well as the international market ensured continued economic growth. It can be assumed that the more international trade grew the more politically significant the Whigs became.

In terms of culture, the role of technology increased in exponential terms in the years prior to the Glorious Revolution. One example of the exponential increase in technology can be gleaned by the amount of deadweight tonnage (DWT) that was being carried by British merchant marine fleet. By 1688, Britain had the largest merchant marine fleet in the world, with a carrying capacity of 3.4 million tons in 1686, up from 2 million tons in 1660. This exponential increase in the use of technology is also evidenced by the rising amount of coal output in Britain. Though actual numbers are not available, Coward (1994) has shown through anecdotal evidence that most of the biggest coalfields in Britain started being utilized in the beginning of the seventeenth century. Rising coal usage was directly linked with the expansion of smelting of lead, copper and tin. This initial expansion of the metal smelting fueled by coal laid the eventual foundation of the development of the metal industry in Britain.

**Agency.** By the time of the Glorious Revolution, the political faction dominated by “Whigs” was on the ascent. Indeed, the immediate period after the Glorious Revolution is sometimes referred to as the golden age of Whig ideas in Britain. In the critical institutionalist analysis

of the Glorious Revolution presented in this paper, therefore, Whigs are the agents who actually carried out the institutional changes that came to be associated with the Glorious Revolution. Since agents act according to their agendas, the specific agenda of the Whigs can be characterized by their stance on three main issues: monarchy, religion and economy.

Whigs developed their views on monarchy in opposition to the traditional conception about monarchy in Britain. Whigs, for instance, rejected the argument for monarchy's "divine right" and "hereditary succession." In a sense, Whigs believed and argued for a limited and constitutional monarchy that could *not* extract excessive surpluses from the economy, at will. This desire to control the fiscal excesses of the monarch was manifested in the firm Whig belief that the Parliament must have supremacy over monarchy, especially in relation to royal expenditure and in the ability to generate new taxes.

The Whig position on religion can be summarized as one based on selective tolerance. As opposed to their political opponents, the Tories, Whigs were willing to show more toleration for those groups that had formally separated from the Church of England. These groups came to be collectively known as the "English Dissenters." Rather ironically, however, Whigs were opposed to having Catholics in any position of power in Britain.

The Whigs, in essence, were the very physical embodiment of Classical Liberalism. Whigs believed in maximal personal, political and social liberty. As a natural extension, leading Whigs were in favor of *laissez-faire* and free trade. John Locke was a quintessential Whig. As a matter of fact, Locke waited to publish his work (1690) until the dust had settled after the Glorious Revolution and property rights had carried the day. Locke is perhaps the most important intellectual for modern capitalism as he provided a justification for Anglo-Saxon style of property rights. Increasingly, Whigs came to be associated with the emerging industrial interests (metals, commerce etc.) and wealthy merchants (international trade) as

where the former were leery of absolute monarchical powers, the latter preferred *laissez-faire* with taxes at a minimum, if any.

### Conclusions

This paper began by critically examining the relative merits of two techniques of institutional analysis, namely NIE and critical institutionalist technique. In the first section of the paper, I evaluated how NIE institutional analysis proceeds, by focusing on the way NIE has dealt with the Glorious Revolution, a seminal event in British history. NIE, I argued, suffers from a number of weaknesses. For instance, the “cookie-cutter” approach employed by NIE scholars in only promoting secure property rights is reductive, at best, and Western-centric, at worst. Moreover, I pointed out that there is no theory of institutional change within NIE. As a result, NIE is unable to account for the lack of global convergence towards Anglo-Saxon-style institutions as well as for the persistence of dysfunctional institutions, especially in developing countries.

In the second section of this paper, I first detailed the critical institutionalist method for institutional analysis. I pointed out that it was the changing nature of resource distribution—over hundreds of years— in Britain (agriculture, trade, commerce) that enabled the Whigs to bring about the actual events of the Glorious Revolution. I showed that by specifically factoring in actual distribution of resources, the critical institutionalist method is superior to NIE for providing a workable theory of institutional change and for explaining the persistence of dysfunctional institutions, especially in developing countries as these countries often suffer from systemic distributional conflicts.

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