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## Journal of Comparative Economics

journal homepage: [www.elsevier.com/locate/jce](http://www.elsevier.com/locate/jce)

# Design and evolution in institutional development: The insignificance of the English Bill of Rights<sup>☆</sup>

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## ARTICLE INFO

*Article history:*

Received 6 April 2016

Revised 24 August 2016

Accepted 29 August 2016

Available online xxx

*JEL classifications:*

O1

N00

K1

H1

P5

*Keywords:*

Institutions

Institutional development

Constitutions

Glorious revolution

Design

Evolution

Critical junctures

Hayek

Bill of rights

## ABSTRACT

**Murrell, Peter**—Design and evolution in institutional development: The insignificance of the English Bill of Rights

This paper challenges a belief that is deeply embedded in mainstream economics—that 1688–1701 saw a fundamental transformation in England that sprang from changes in the highest-level institutions designed by those who understood how to effect productive reform. This is the design hypothesis. The alternative is that change occurred in many features of society over a long period and that the 1688–1701 reforms were just one element in a deep ongoing evolutionary process. The paper presents evidence of two distinct types. First, legal history shows that the high-level institutional measures of 1688–1701 can be characterized primarily as either durable and endorsing the status quo or path-breaking and ephemeral. This is evolutionary trial and error. Second, patterns in structural breaks in myriad data sets reveal that widespread socioeconomic change was under way before 1688 and continued thereafter. Because England's early development provides a popular paradigmatic example for economists, the paper's verdict on the nature of English history is pertinent to debates on transition and development, on the importance of critical junctures, and on the relative roles of culture and institutions. *Journal of Comparative Economics* 000 (2016) 1–20. Department of Economics, University of Maryland, College Park, MD 20742, USA.

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## 1. Introduction

Within mainstream economics, it is a truth almost universally acknowledged that the institutions built immediately after the Glorious Revolution of 1688 forever changed history's path, leading inexorably to Britain's ascent. The literature is replete with approval of [North and Weingast's \(1989\)](#) conclusion that "...the institutional changes of the Glorious Revolution permitted the drive toward British hegemony and dominance of the world".<sup>1</sup> [Acemoglu and Robinson \(2005\)](#) and [North et al. \(2009\)](#), two recent influential works linking institutions and long-term development, endorse this view albeit from very dif-

<sup>☆</sup> Lisa Dettling, Paul Grajzl, Nona Karalashvili, and Martin Schmidt provided terrific research assistance. Thanks are due to Boragan Aruoba, Roger Betancourt, Tomas Cvrcek, Valentina Dimitrova-Grajzl, Allan Drazen, Peter Grajzl, Richard Hornbeck, Monica Kerekes, Keith Krehbiel, Suresh Naidu, Ingmar Prucha, Stephen Quinn, Carmen Reinhart, Razvan Vlaicu, John Wallis, Jing Zhang, and participants at ISNIE 2010 in Stirling, the 2010 NBER Summer Institutes on the Development of the American Economy and Political Economy, and the Northwestern Economic History Workshop.

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<sup>1</sup> The North-Weingast model is influential in an "extraordinary range of disciplines" according to [Coffman and Neal \(2013: 10\)](#), who nevertheless are more representative of historians and economic historians in being skeptical of that model.

<http://dx.doi.org/10.1016/j.jce.2016.08.007>

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Please cite this article as: P. Murrell, Design and evolution in institutional development: The insignificance of the English Bill of Rights, *Journal of Comparative Economics* (2016), <http://dx.doi.org/10.1016/j.jce.2016.08.007>

ferent perspectives. Acemoglu and Robinson (2012) reiterate that the “The Glorious Revolution limited the power of the king and the executive, and relocated to Parliament the power to determine economic institutions ...The Glorious Revolution was the foundation for creating a pluralistic society...The government...steadfastly enforced property rights... Historically unprecedented was the application of English law to all citizens. Arbitrary taxation ceased, and monopolies were abolished almost completely...” It is therefore not surprising that economists frequently use this historical episode as a parable to motivate policy advice.<sup>2</sup> For example, in reviewing the property-rights literature for development economists, Besley and Ghatak (2010) state that: “...limiting coercive power of the state is an important historical feature...of development...A classic reference is North and Weingast (1989) who argued that a decisive point in the history of state development in England came after the Glorious Revolution which limited the arbitrary power of the King subordinating to Parliament his ability to raise taxes.”<sup>3</sup>

Indeed, North and Weingast (1989) did shape the way that mainstream economists discuss English history. There are two core elements of their story. The first is that by the beginning of the eighteenth century a credible commitment ensured that the government protected property rights and taxed predictably, encouraging private initiative and enterprise. The second element identifies the institutions that imparted credible commitment, the critical time of institutional change, and the process by which the institutions arose. The commitment mechanism was primarily legal, embodied in the highest levels of law.<sup>4</sup> The decisive moments of legal change were in the years immediately following the Glorious Revolution, with the passage of the Bill of Rights in 1689 and the Act of Settlement in 1701. The process was one of design by forward-looking individuals who understood the ramifications of the new laws. While having no issue with the first element of this story, the constrained government, this paper shows that there is little evidence for the second – which institutions changed, when, and by what process.<sup>5</sup>

Hayek (1960) provides an alternative perspective on process, echoing a tradition going back to Smith, Hume, and, before them, the jurisprudence of the Common Law. He views institutions accumulating as a result of trial and error and survival of the successful, with design secondary. A workable structure is “...the sum of experience, in part handed from generation to generation as explicit knowledge, but to a larger extent embodied in tools and institutions which had proved themselves superior, institutions whose significance we might discover by analysis but which will also serve men’s ends without men’s understanding of them” (Hayek, 1960, p. 60). The institutions of government and the rights of the English arose in a very long process, which reached culmination in the mid-seventeenth century and thereafter bore fruit. In this view, constitutional law was just one element, with the changes consequent on 1688 largely summarizing existing measures. At least as important as law were a common set of ideas on rights and on the nature of government, plus many lesser instruments and habits of governance.

We thus have two very different visions of the process by which a country first begins to acquire a set of effective institutions, inspired by two different interpretations of English history. One is phrased in terms of conscious design, with the critical changes occurring during bursts of reform concentrated at the highest levels of the institutional structure. The other employs the language of evolution and natural selection, viewing institutional development as the gradual accretion of large numbers of measures, a product of the survival of workable arrangements.

The purpose of this paper is to examine evidence on these two visions of English history – the design and the evolution hypotheses. Hence, the point of departure is very different from previous papers that have that subjected the North-Weingast thesis to critical examination. This paper examines that thesis from the broadest perspective, contrasting the overall vision of the design approach to an evolutionary view, focusing on process, the genesis of institutions, and the timing of change, rather than on the specific effects of particular institutions.<sup>6</sup>

<sup>2</sup> Coffman and Neal (2013 pp. 10, 12) view the North-Weingast history as providing “support for the Washington consensus” and providing the stylized facts to many scholars who characterize England’s institutional development.

<sup>3</sup> For further examples, see Olson (1993) reflecting ideas originally developed as advice to transition countries and Yu (2014) on China, on which Acemoglu and Robinson (2012, pp. 436–432) also have strong pronouncements.

<sup>4</sup> Hence, the North-Weingast approach fits squarely in a very strong intellectual tradition: “...constitutions and constitutional structures are the instruments through which reforms must be effected if ultimate improvements in patterns of political outcomes are to be expected” (Buchanan, 2000, p. 1)

<sup>5</sup> The conclusions are therefore complementary to those of the essays summarized by Coffman and Neal (2013) in that any credible commitment that existed arose via a succession of many events over a long historical period.

<sup>6</sup> See Clark (1996), Quinn (2001), Sussman and Yafeh (2006), and Wells and Wills (2000) for examples of the existing literature. That existing literature usually accepts a hypothesis from North-Weingast that this paper tests, that the measures of 1689 and 1701 fundamentally changed the status quo. Thus the existing literature focuses on whether North-Weingast correctly identified the specific mechanisms by which 1688 changed England.

Clark (1996) uses regression techniques to examine changes in rates of return before and after the Glorious Revolution and during periods of turbulence, showing that 1688 had little effect on rates of return and concluding that the private economy in England was largely insulated from political events throughout the seventeenth century. His conclusion is that any effects of the Glorious Revolution were not through changes in the security of property but he does assume that the Glorious Revolution led to a “new constitutional order – the foundation of the modern British state”. The conclusions of the present paper can be regarded as an extension of Clark’s acute observations on property rights to the broader institutional framework.

Quinn (2001) assumes that the institutional changes of the 1690’s had an effect and asks whether the effects are strongest in the substitution of sovereign for private debt, in increasing the supply of funds to private borrowers, or in bolstering the private-sector demand for loanable funds. He finds evidence for the last of these (at least after the country was at peace).

Sussman and Yafeh (2006) examine British interest rates and debt in the eighteenth century and conclude that financial markets do not reward countries for institutional reforms in the short run and thus that “The evidence on the importance of the Glorious Revolution and the institutional changes of the seventeenth century as a turning point remains elusive.” This paper in fact suggests a reason for that elusiveness – that the institutional changes were small.

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