Institutional economists have made important contributions to the study of economic development. At the same time, many development economists have stressed the importance of institutions in shaping national rates of growth and profiles of development. This affinity has meant that, in the field of development economics, many of the divisions that exist between institutionalists and orthodox economists are muted or absent. This chapter discusses the origins of economic development as a subject, arguing that its emergence grew from acceptance of the proposition that institutional differences are fundamental in explaining national development paths.

The chief contribution of this chapter is to explicate three alternative but complementary ways of looking at the role of institutions: as structure, process, and incentive. Early anthropologists emphasized the first viewpoint, which many critics found too static and confining. Bringing acquisitive, achievement-oriented individuals into the picture, along with time, creates a basis for studying social processes and social change. Lastly, an institutional pattern comprises a set of incentives and disincentives that configure how individuals and groups act. The chapter concludes with a review of institutional contributions to the analysis of Latin America and South Asia.
Institutions and the Economics of Development

The field of economic development or development economics emerged distinctively only after the end of World War II. In the beginning its legitimacy within the economics profession was challenged on several grounds; and, down to the present, controversy over its status and distinguishing features has never subsided. Some early critics said that concern with growth had been an important interest of economists since Adam Smith, so that nothing novel was being done. Others remarked that the concepts and tools used by development economists were no different than those of general economics. There was thus no singular body of theory. If there were novelty, it came only from using the standard constructs of economics in exotic locales. Even in such venues, it was declared, the utility of those ideas remained more or less the same. Familiar thought packages, such as those surrounding supply-and-demand relations, competitive markets, savings and capital formation, and tax and expenditure evaluation, would yield good analysis and good policy regardless of the settings in which they were applied.

On these multiple grounds there was resistance to offering the field of economic development as a separate subject in graduate programs. This hesitancy was usually broken through by the concerted efforts of committed faculty members and interested graduate students, many of whom came from overseas and perceived that the standard theory and the institutional framework in which it was purported to operate did not jibe with realities at home. During the 1960s, specialized textbooks and journals codified and deepened the field.

The challenges to the field of development economics met a multipronged response. Notwithstanding the fertile legacy of Smith, Mill, and Marx, economists of the first half of the 20th century had not expended much energy examining problems of growth, particularly in very low-income economies, so it was evident that much was not known. Many neophyte practitioners in the first waves of vagabonding experts found that their conventional mental utensils did not work very well amidst the conditions in underdeveloped nations. Market behavior was absent or weak, especially in rural areas. Capital markets were frequently entirely absent, and only a small portion of the work force labored for wages or contracted for hire in the market. Manipulation of public spending, the money supply, and interest rates had little effect on chronic underemployment or cost-based inflation. The economic systems of less-developed countries were, it was discovered, dissimilar to those of the economically advanced part of the world. Poor economies were dualistic; the effects of trade and foreign