States and Markets: The Advantage of an Early Start*

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In this paper, an index of the depth of experience with state-level institutions, or state antiquity, is derived for a large set of countries. We show that state antiquity is significantly correlated with measures of political stability and institutional quality, with income per capita, and with the rate of economic growth between 1960 and 1995. State antiquity contributes significantly to the explanation of differences in growth rates, explaining half of the differences in growth rates between countries like China and Mauritania, which are located at the two ends of the spectrum. It is also a good instrument for “social infrastructure,” which explains cross-country differences in worker productivity.

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JEL classification: O40, O10, P50

1. Introduction

States and markets have sometimes been viewed as competitors, but in the last decade, there has been increasing agreement that a capable state can play an important facilitating role in the process of economic development. A number of studies have explored the empirical connection between measures of political stability and bureaucratic competence, on the one hand, and rates of economic growth, on the other. There is some evidence from these, and also arguments at the case study level, that a stable and competent state is indeed a contributing factor in economic growth. But what gives rise to effective states?

In this paper, we investigate the possibility that differences not only in state capacity but more broadly, in the capacity to mount an effective drive toward economic development,

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derive in part from very long run historical processes giving rise both to early state-level institutions and to different potentials for growth in recent decades. We develop an index of the antiquity of the state, and show that it is a robust predictor of recent economic growth in the presence of a variety of economic, institutional, and regional controls. We show that the index is correlated with indicators of current institutional capacity and stability, but has predictive power in growth equations even when the latter are controlled for. Finally, we show that while the antiquity of the state is not a robust proximate determinant of the level of development, it is an effective instrument for the social infrastructure variable used in Hall and Jones (1999).

2. Early States and Modern Growth

Imagine a series of political maps of the world, in which the areas occupied by kingdoms, empires, or states are shaded, the rest unshaded. By 10,000 BCE, there is human habitation in all of the continents except Antarctica, but the map of the world remains entirely unshaded, since people live in small bands or clan groups and there are no signs of political structures uniting even a few thousand individuals. By 1500 BCE, the map would be shaded in portions of Mesopotamia and of the Nile, Indus, and Yellow River valleys and would remain unshaded almost everywhere else. On the eve of Columbus’s 1492 voyage, the map would be more widely shaded, but would remain unshaded for large parts of the Americas and Africa, all of Australia, and smaller portions of Europe and Asia. By 2000 CE, the inhabited world would be fully shaded and comprised of nation states. A review of the earlier maps would make it clear that some of today’s nations (for example, China) have histories stretching back thousands of years, while others (for example, New Guinea) have much shorter state histories.

A longer history of statehood might prove favorable to economic development under the circumstances of recent decades for several reasons. There may be learning by doing in the ways of public administration, in which case long-standing states, with larger pools of experienced personnel, may do what they do better than do newly formed states. The operation of a state may support the development of attitudes consistent with bureaucratic discipline and hierarchical control, making for greater state (and perhaps more broadly, organizational) effectiveness. An experienced state like China seems to have been capable of fostering basic industrialization and the upgrading of its human capital stock even under institutions of government planning and state property in the 1960s and 1970s, whereas an inexperienced state like Mozambique sowed economic disaster when attempting to pursue similar policies a few years later. Such differences may carry over to a market setting—contrast, for instance, the late 20th century economic development of Japan and South Korea, modern countries with ancient national histories, with that of the Philippines, a nation that lacked a state before its 16th century colonization by Spain.

Historically, the technological, social and economic development of the world’s societies between Neolithic times and the present was not a one step process of leaping from a “backward” or “traditional” economy to a “modern” and industrial one. Instead, there were multiple steps involving a transition from hunting and gathering in small bands to the development of settled village agricultures to the rise of more densely settled