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

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1. Introduction

Recent years have seen a significant revival of interest for the study of institutions. This renewed institutional economics has raised a set of basic questions particularly relevant for the development issues: how do current institutions of least developed countries (hereafter LDCs) have formed? How do they affect economic performance and explain divergence in economic outcomes? Why have so few countries been able to create rules and norms that foster growth and social progress and how can we explain the survival of inefficient institutions? How do they change in connection with political and economic modernization all along the development path?

Following the seminal works from North (1981, 1990), New Institutional Economics (NIE) has made important attempts to answering these questions. The former have mostly forged their theories upon the study of institutions in the long-run structural change encompassed by now industrialized countries, and made important attempts to question the institutional dimension of contemporary development of emerging and transition countries. Simultaneously, as an unexpected consequence of the dismantling of planned communist economies, the approach of comparative economics has been revived in two ways during the last ten years. The first one is associated to the New Comparative Development (NCD) project to explain the increasing difference in development around the world by a comparison of various measures of mainly formal institutions. The second approach can be labelled Variety of Capitalisms (VoC) and tries to assess the scope of the diversity of modern capitalist industrialized economies through a classification analysis based on the identification of self-consistent institutional systems.

Their contribution to a better knowledge of institutional systems and of their impact on economic outcomes will be surveyed below in this paper, but with a specific attention to one question: Is there a significant case for institutional diversity in the literature, and how has this diversity been assessed by theoretical and empiric analyses?

A growing number of papers have recently emphasized the diversity of institutional models in developing economies. Djankov et al. (2003: 597) underline that “the interest in institutions revived with the collapse of socialism and the transition of the economies in Eastern Europe, the former Soviet Union, and China to capitalism”. The question rapidly became the one of effectiveness of the newly created institutions, and not the one of the speed of their implementation (Murrell, 1995). At the same time, market-oriented reforms advocated for developing economies since the end of the 1980s in the context of the Washington consensus was based on a very similar ideas than transition programs: institutional structure has significant effects on economic performance, and free market institutions are the more efficient ones. But in regard of the failure of these market-oriented structural reforms to be significantly associated with a higher economic performance, a series of critics motivated the necessity to think about development and reforms in a richer institutional setting (beyond the market) than had

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1 Basically, North (1990) argues that institutions provide rules whose enforcement informs individual agents about their own future actions (what they can, cannot, must do) but also about what they can anticipate regarding the future actions of the other interacting agents (Knight, 1992, Amable, 2003). Then they reduce the uncertainty attached to social interaction and favour economic exchanges.
been previously done. Moreover, the international divergence in the paths of growth and development has increased in the 1990s leaving on the side of the road the old question of convergence between developing and industrial economies at the benefit of a renewed questioning about the national fundamental factors that could explain that two countries similar in terms of proximate determinants of growth can present so different economic performance in the long-run².

The motive for a renewal of the study of institutions has been quite clearly expressed in Djankov et al. (2003) which argues that comparing alternative capitalist systems prevailing in different countries allow for a better understanding of what makes each of the different systems work and reach economic goals. What differs from one country to another lies in the institutional setting in which actors and organisations make their decision, act and interact. As recently underlined by Rodrik (2008b, 2008d), the variety of institutional forms that prevail in advanced countries (Freeman, 2000, Hall and Soskice 2001, Amable, 2003) suggests that each one of the common economic ends (growth, stabilization, equity) can be achieved in a large number of different ways.

As will be argued below, there is a strong support in the literature for the notion that institutions remain very differentiated despite the increasing operation of significant forces of convergence attached to globalization (Rodrik, 1997, 2005). The distinction between a small set of function and multiple possible forms, adequate with local history, culture, beliefs, polity affords the diversity in institutional systems. For example, Rodrik (2004: 28) underlines that “high-quality institutions can take a multitude of forms and that economic convergence need not necessarily entail convergence in institutional forms”³.

Yet the recent claims for a more comprehensive assessment of the diversity, relativity and high dimensionality appears to have had very little impact on operational practices. The benchmark approach based on a very restricted notion of the institutions on institutions is having much more hearings from international agencies and on national agendas of reforms (Dutraive, 2009; Rodrik, 2008). The last twenty years have witnessed a lot of efforts from agencies, organizations and donors from Western countries to transfer their vision of what is a good institution for growth to LDCs: institutions for markets with the first Washington consensus (Williamson, 1989), and then for governance (Kauffman et al., 2004, 2008), and more recently for business (La Porta et al., 2006). As further underlined by Rodrik (2009), the type of institutional reform promoted by multilateral organizations (World Bank, IMF, or the World Trade Organization) is still highly influenced by the best-practice model. The question of the reforms is then an important issue at the background of our reflection.

The core ambition of our research is to assess this diversity with adequate methods of data analysis and to unveil the internal logic of the institutional system of a large sample of countries, including OECD, emerging and poorer countries. A complementary question raised by our approach is about the possibility that original models of capitalism could have emerged in the south, even if they actually are transitional models. But what Japan, Korea and Taiwan have shown is that original capitalist models can last and adapt in the long run, without necessary converging towards European or Anglo-Saxon models of capitalism. What are these models, and to what extent are they significantly different from what has been observed among OECD countries by Hall and Soskice (2001) or Amable (2003)? Do emerging economies like China, India or Brazil display different patterns of institutions than what has been previously observed for newly industrialized countries (NIE) or older industrialized ones. The context of development is different than it was forty years ago when Japan or Korea took-off. Globalization has made integration to the world economy an utterly constraint upon emerging economies⁴. Moreover, the huge competition on goods markets raised by globalization makes it

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² For an early and ambitious attempt in that renewed research program associating comparative approach and a focus on institutions, see Lal and Myint (1996). For more recent attempts see Rodrik (2003).
³ Quoted from Dutraive (2009).
⁴ Piveteau and Rougier (2010).
trickier for laggards to leapfrog towards the technological frontier. One reason is that shifts in specialization are only to a small degree driven by market forces, and it has been extensively shown that they require important interventions from the state through its trade and industrial policies. Hence, the approach that we have chosen is different in many respects than what is promoted by the new institutionalist literature on economic development.

We adopt a comparative approach that focuses on similarities and differences between institutions and governance mechanisms across nations. An attempt is being made to develop a synthetic understanding of how different institutional domains of the economy – industrial relations, finance, corporate governance, training, and social protection systems – relate to one another, and give rise to specific, non-random configurations of capitalism. A recent literature conceptualizes these various institutions within an economy as being interdependent, i.e., they engender interaction effects that vary depending upon the particular combination of institutions present within the same political-economic system (Amable, 2005; Hausmann, 2008). Our central research task is to understand the impact of differences in institutional arrangement on various economic outcomes, at both the micro and macro levels (e.g., growth, efficiency, innovation).

We bring in a quantitative analysis of socio-economic models trajectories on the period 1980-2010 through statistical and econometric tools on CEEC and emerging countries. The overall objective is to assess the variety of the socio-economic development models that a wide range of OECD and developing countries are engaged in. The methodology in two steps consists in mapping with advanced methods of data analysis the countries trajectories produced by the combination of economic, social, political, institutional and environmental variables. A first step consists in sorting countries out of a sample of developed and emerging economies and in recomposing the dynamic patterns of their socio-economic models.

Our method is twofold: A preliminary classification analysis on each institutional dimension, with a qualitative outcome: model A, model B, model C ... A building up of the socio-economic models through the institutional complementarities produced by a matrix analysis of the partial institutional models previously branded.

A second step will consist in testing the performance of the socio-economic models with the background assumption that some socio-economic models or partial patterns of institutional complementarities outperform the others in increasing growth and competitiveness, or in reducing inequality and poverty ... Nevertheless, a series of problems are likely to appear in that stage of the empirical work: How will we handle the problem of the trade-off between the theoretical assumption of diversity and the necessary information loss of statistical adjustment: dummies, fixed effects, interactives? How will we assess structural breaks and the two way causation between institutions and economic performance?

What do we leave out of the study? Firstly, micro-analytics of institutional design of agrarian contracts (imperfect information) are not useful for our purpose because they cannot serve to distinguish different macro socio-economic models. An important formal strand of the literature on institutions has developed game theoretic analysis of micro-institutions and conventions but its congruence with our purpose is rather limited too. Where do we depart from when questioning the institutional dimension of economic development, then? A first strand of the new institutionalist literature that could be congruent with our concern is to be found in this New Institutionalist Economics and New Comparative Development. A second strand is constituted by the analysis of the variety of capitalisms in OECD economies. Both are focusing on the role of institutions in the long-run development of...
nations, but their approaches, rather different, have rarely been confronted. We believe that it could be made with great benefit not only for the sake of understanding the degree to which institutions matter for structural change and social progress, but also for normative reasons related to the need for reforms in poor economies.

2. A critical overview of the neo-institutionalist literature on development

NIE or New NEI according to some classifications (Desquech, 2002, Dutraive, 2009) have proposed a large body of historical and cross-country evidence that institutions matter significantly for economic outcomes. But their contribution to better knowledge must be scrutinized according to the aims we have attached to our research project. Basically, historical narratives have first been implemented and have produced appealing results for the understanding of long-run socio-economic development. Then econometric studies have been held on contemporary cross-sections and have shown that a great bundle of institutional factors have a large influence on a large set of economic outcomes. But despite their fertility, these approaches do not afford to measure institutional diversity on the ground of a systematic method of comparison and classification.

2.1. Long-run development and reversals of fortune

The NIE essentially proposes a functionalist approach whereby institutions are seen as efficient and stable equilibrium devices devoted to a given set of functions. Such institutions are basically norms or rules that foster exchange by the enforcement of contracts designed to support market development and transactions, and political institutions that protect property rights and persons from a potentially strong state (Shirley, 2008a). From the approach of transaction costs shared by Coase and Williamson and the old smithian vision of development as expansion of the market and of the scope of specialization, new institutionalists have stemmed a theory of institutions that matter for explaining long-run development (North, 1990; Greif, 1993). The standard story argues that the role of institutions in development is linked to the natural trade-off likely to appear while the expansion of markets and specialization leads to an increase in transaction costs because there is a significant shift in the scale of economic activities and relationships. Yet, transaction costs need to be lowered in order to benefit from the economies from scale and specialization associated with increasing market sizes. Historical analysis has provided evidence that this trade-off is efficiently solved if institutions are able to foster investment and exchange beyond arms-length relation-based trade, notably by constraining transaction participants, reducing the uncertainties of social interaction.

Those institutions are well-known now: enforced property rights, formal contracts, business rules and other devices like limited liability or bankruptcy laws (North, 1981, 1990; Greif, 1992, 1997). Countries that are industrialized today have succeeded yesterday in giving themselves institutions that have been able to provide security of property rights and relatively equal access to economic resources to a broad cross-section of society (Acemoglu et al., 2005). The ability to endow the state with the power to foster the development of contractual and cooperative mechanisms, protect property rights and maintain stability and peace, together with the capacity to limit in the same time his capacity to constrain economic actors, have probably been key determinants for the economic success of western countries (Shirley, 2008a). Economic and political institutions have lowered transaction costs and limited the ascendency of single interest groups, which has created increasing opportunities for investment in physical and human capital. Then, the increasing returns from these investments that were fed by economic development reinforced the incentives to deepen the very institutions perceived as efficient (Shirley, 2008a: 616).
These efficient institutions used to be produced by adaptative learning process of groups of traders as shown by Grief (1993) and some of them ended up being formalized in the body of law. Hence, a large bundle of the modern institutions has been established or codified by the legal and formal rules, and the state has progressively turned out to be a crucial actor of the institutional making. The trouble is that, developing countries, the state can be either too weak to guarantee the rights of private actors and institutions for trade and economic activity, or too grabbing and predatory for the production and trade to develop. Then, many developing economies display poorly devised or enforced institutional structures, with limited incentive effects on private actors and no influence on productivity and growth. On the contrary, emerging economies like China, India, or Vietnam are the living proofs that globalization endow LDCs with enough scope to experiment original institutional designs, as long as experimentation remains possible, and provided that some basic conditions of stability and political support are fulfilled (Rodrik, 2003).

Historical narratives have given widespread evidence of those virtuous mechanisms for developed but also for East Asian new industrialized economies (Greif, 1993, 1997; North and Thomas, 1973; North, 1981). Symetrically, they have also pointed out to a series of explanations for the inability of most of African and Latin American countries to settle the institutions fostering growth and progress (Shirley, 2008a). A first explanation lies in the notion that the norms, values and ideas shared by the population of some countries could be more or less adequate for the development of institutions convenient for growth. Historical narratives have shown for instance how closed communities have been prone to develop systems of horizontal cooperation whereby industry has emerged but have failed to reach higher levels of efficiency because trading with strangers to the network necessitates formal rules and courts (Greif, 1993; Landes, 1998; La Porta et al., 1999). Another reason that has been invoked is that failure to establish “good institutions” can stem from the direct inheritance from colonial rules (North, 1990) or more indirectly through the legacy of colonial origin (La Porta et al., 1997, 1998, 1999, 2008). Djankov et al. (2002) have argued that colonization has probably impeded the emergence of institutions convenient for the purposes of trade expansion and productivity growth in LDCs, because colonizers have imposed imported institutions adapted to extract the rent at their benefit, but not adapted to local cultures and environments. But it can also be that the interplay between endowments in natural resources or labor and initial geographical or sanitarian condition has influenced the nature of institutions devised by the colonizers (Acemoglu et al., 2001, 2002; Sokoloff and Engerman, 2000). Another assumption is that the weakness of competition between political elites within the borders particularly because of the absence of struggle for national boundaries (Herbst, 2000, Bates, 2001) did not create the habits to bargain and make compromises to gain political support the necessary incentives to enforce the rules and build the bureaucracies apt to get citizens to pay for the fiscal spending and to control them.

Whatever the difficulties to generalize raised by the method of historical narratives, a convergent outcome of this literature is that each time the ruling elites have been compelled to bargain with one another or find support form the population, the implementation of new political rules to secure those bargains and their durable enforcement (once elites have understood that their payoff from accepting them is larger than the payoff to reneging them) has had sustained positive effects on the respect of property rights and the security of economic activities. When a more even distribution of wealth and education has supported the previous changes, development has gained a stronger probability to occur (Shirley, 2008: 625).

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8 Another strand of literature focuses on the agrarian contracts in LDCs and provides formal game models explaining these institutions have emerged because of market failures like asymmetries of information. For a brief overview, see Bardhan (2005), for a more complete presentation of that widespread literature in the context of Africa, see Fafchamps (2004). Despite its obvious interest for the understanding of the making of local institutions, this literature does not fit our approach and will be left aside in the remaining of the paper.

9 Nugent and Robinson (2002) also emphazise the role played by the nature of the elites in competition to explain that Colombia and Costa Rica have developed faster than Guatemala and El Salvador.
Despite its contribution to the understanding of historical mechanisms of long-run development, this approach is limited to explain how institutions change today in countries inheriting from old rules and traditions and at the same time eager to modernize their institutional devices. As has been shown by North and Thomas (1973) for Western Europe, acquiring institutions remains a long-run gradual process of try and errors, requiring experimentation and adaptation, which can be spurred by competition and wars. However, beyond cultural norms, factor endowments, and historical inheritance and accidents, the examples of China, India or Poland have recently evidenced that there is possible scope for action and reforms towards institutions more convenient for growth and social progress for an economy aiming at developing herself in a context of globalization, whatever the legs from long-run history can be. That is precisely on those latitudes for action that we intend to focus in the present work.

2.2. The impact of institutions on development

A second strand of this literature has recently came about to implement econometric estimations on cross-country or panel data including de facto measures of institutional quality (La Porta et al., 1997, 1998, 1999, 2004, 2005, 2008) or instruments for inherited institutions (Acemoglu et al., 2001, 2002, 2003c). Beyond the variety of their methods, most of these studies try to assess to what extent various measures of institutions explain the differences in economic performance across countries. They all come to the point that institutions, meaning the ones that are stemmed from the stable mature institutions of old industrial economies (democracy, property rights, courts, law enforcement), matter for growth and development. The theoretical explanation of this result is straightforward: institutions determine incentives and constraints that lead agents to invest in certain assets, acquire certain skills, cooperate or coordinate their activities (Amable, 2003: 71). These individual private decisions will in turn affect the pace of macroeconomic growth. On the other hand, macroeconomic institutions partially determine the level of transaction costs and ultimately the organizational structure established by agents at a microeconomic level. Then, these organizations allowing individuals to exploit economic opportunities have a consequence for the dynamics of the wealth of nations. From what precedes, it appears that institutions matter because of their ability to partially solve coordination problems (cooperation and opportunism) and because of the differential effect of different institutional designs on economic performance.

Then, whatever the method used, a consensus has emerged upon the notion that difference in long-run economic performance is explained in a significant manner by the difference in institutions as Acemoglu et al. (2005), Djankov et al. (2003) or Rodrik et al. (2004) have underlined it. Institutional gaps explain economic gaps more significantly than geography, trade or policies (Acemoglu et al., 2005; Rodrik et al., 2001). But this consensus is not free from cautions. For example, Rodrik (2003) reports that World Bank’s study on governance (World Bank, 1998) treated China, Taiwan, Chile, Thailand, Korea and Indonesia as outliers in the econometric estimation.

As underlined by Acemoglu et al. (2005), a danger in that approach would be that we define good economic institutions as those that generate economic growth, whatever the situation of a country in his development path. Hence, a given set of economic institutions may have very different implications in terms of economic performance depending on the technological possibilities and economic opportunities. Certain institutions can be convenient for the development of plantation cultures or

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10 The first metric is generally stemmed from an attempt to reduce the complexity of the actual institutional systems to a set of simple measurable and comparable indicators or of qualitative variables. The second one is used to avoid the problem of endogeneity between contemporaneous economic performance and institutions.

11 Property rights, disclosures, contracts, laws enforcement, forms of government, democracy, bureaucracy. In order to avoid endogeneity problems, a set of historical or geographical proxies for current institutions has been extensively used: ethnic and linguistic fractionalization, settler mortality, distance from equator, pre-colonial population density, and legal origins.

12 GDP growth, financial development, trade openness, size of public sector, private investment, education, health scores.
resources extraction, but become fairly inadequate as soon as the economy begins to encounter significant structural shifts towards industrialization and diversification. It has also been pointed out by Acemoglu et al. (2006) that a given set of economic institutions can foster productivity growth when the economy is far from the technological frontier and hinder it while the economy is more technologically developed. In a different vein, Acemoglu (2003b) shows that institutions protecting property rights of a small elite can spur economic growth when investment opportunities are concentrated in the hands of this elite, whereas it can be detrimental if economic growth needs a wider participation to accumulation and entrepreneurship.

Another shortfall of that literature is that the functions and the forms of institutions are seldom differentiated. Though, recent experience has evidenced that different institutional forms can produce similar successes. China’s reforms have made the demonstration that some functions, such as giving assurances to investors, can be achieved in the absence of private property rights, which are a particular form among others (Rodrik, 2003). Moreover, a given institution efficient in a given institutional setting or in a given period is not necessarily efficient in another one. Moreover, as LDCs used to mix imported (adapted) institutions with locally implemented ones, each system is a singular system. The importance for institutions to be consistent with the socio-cultural environment in which they are established in is now widely underlined (North, 1990; Djankov et al., 2004, Rodrik, 2003, Acemoglu et al., 2005). Hence, socio-economic systems are so complex that any attempt to typify them is probably either misleading or bound to fail. Resorting to synthetic indexes or to historical proxies in order to measure up institutions is necessary an extreme simplification, and a much more problematic matter is that it does not pay debt to the notion that an economic system rests on the interplay of different institutional areas in which the forms of institution are mutually reinforcing their efficacy according to the institutional complementarity hypothesis (Hausmann, 2008; Rodriguez, 2007). Econometric methods estimate isolated effects of given institutions and consequently fail to assess the diversity and complementarity in institutional models, with resultant biases in estimations (Pande and Udry, 2006).

Another limitation is that despite there is a broad range of very diversified measures of institutions comparable on large cross-sections and sometimes on panel, the treatment of the institutional reality is far too coarse because measures are urban biased and fail to grab the large body of informal institutions prevailing in LDCs (Pande and Udry, 2006). Moreover, institutions are mostly endogenous to economic change and instruments are rare and are consequently overused and over-interpreted. As an addition, as instruments often consist in historical data, they are unable to grasp institutional change and its effects on performance. Moreover, they are subject to biases in estimations because of the association of a problem of omitted variable (the entire array of institutions can not be seized by the coarse set of available institutional measures and instruments) and of heterogeneity across countries in the way the same institution affects economic outcomes and in how the institution responds to the instrument used (Pande and Udry, 2006; Acemoglu, 2005).

First, if variability in institutions is a (the most) significant factor in explaining differences in economic performance: more than geography, trade. Sala-I-Martin (1997) Bayesian procedures confirm that a small set of institutional variables that remain significant in explaining growth under the conditions of the test: Rule of Law, Political Rights, and Civil Liberties, (good for growth), Number of Revolutions and Military Coups, and War Dummy (bad for growth). But as Sala-I-Martin uses the Barro and Lee (1993) data set, he has not included in tests the widespread range of new institutional

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13 For an extensive and critical overview of the econometric analyses of institutions and development, see Pande and Udry (2006).
14 Pande and Udry (2006: 6 n2) reports that a very Small set of instruments is systematically used either as explaining or as instrumental variable in the set of papers they have surveyed.
15 A variable like sitters mortality from (Acemoglu et al. (2001) has been used in different studies as an instrument for different types of institutions; protection against expropration risk, executive constraints, financial depth and overall institutional quality (Pande and Udry, 2006: 6).
variables that have been proposed since the end of the 1990s. However, note that the index of degree of capitalism from Hall and Jones (1996) remains also significant in across the tests.

Last but not least, what is really measured up by data? Is it the variety of the forms (functions) or the intensity or depth in a given form of institutions (western-style). Then it is the distance from the institutional frontier (the benchmarks that explain differences in performance. If the benchmark corresponds systematically to an OECD economy, then what has been demonstrated is that differences in development explained by differences in development: truism. This assumption could be checked by the recent additions to institutional data.

3. Institutional diversity and socio-economic models of capitalism in LDCs

Institutional diversity across LDCs and emerging economies is at the core of our project. But the notion has not been coined precisely in the literature. Hence, it is necessary to give a sharper account of what is meant by diversity. Then the case for typologies of socio-economic models of emerging capitalism will be made.

3.1. What do we mean by diversity?

There are two ways to understand the notion of institutional diversity in the literature. The fist one is positive and considers that diversity is a necessary feature of the socio-economic national models. This is what is pointed out by the literature on VoC. Diversity or variety stems from the evolutive establishment of a consistent ad path dependant set of idiosyncratic institutions that provides them with stability, efficiency and consequently affords economic performance according to a peculiar comparative advantage (Hall and Soskice, 2001; Amable 2003; Rodrik, 2003, 2008; Hausman, 2008). What could be their contribution to our approach will be overview in the following point (3.2.). The other view corresponds to the negative idea that diversity is due to the fact that some countries are closer from an institutional frontier than others. In that view, diversity may be a new expression of the development inequalities among world countries, development gaps that must be reduced through massive or gradual reforms towards the benchmark model. The rationale for that view must be clarified for the reason that it is dominant throughout the economic reform arena.

The popular approach among empirical economists corresponds to the idea that existing institutions can be explained because they act similarly as efficient arrangements between individuals or groups. The standard theory explains that institutional diversity mainly because transaction costs and market failures change along the development process. According to the functionalist assumption from Djankov et al. (2003: 596), public and private institutions “function to select political leaders, to secure property rights, to redistribute wealth, to resolve disputes, to govern firms, to allocate credit, etc”. Then, difference in national institutions should simultaneously result from and account for a significant part of the international differences in economic performance. More precisely, according to Djankov et al. (2003), institutions are differentiated together by the form and the degree of enforcement of property rights and by the degree of constraint imposed on the state. And diversity across countries stems essentially from the differences of development between them.

In their seminal paper, Djankov et al. (2003) describe institutions as a continuum of equilibrium solutions between the function defining the social costs of the different combinations of disorder and of anarchy, and the convex frontier of institutional possibilities, whose position depends on the degree of technological, political or economic development. Institutions consist of various efficient political equilibria ranged from private ordering (with no room for public enforcement) to state ownership (with no room for private enterprise). They argue that the position of the frontier of institutional possibilities that they name civic capital, and then consequently the appropriate choice of institutions, both depend on a society’s initial conditions such as its culture (Landes, 1998), its long run history of cooperation in a community and its social capital (Putnam, 1993), the degree of ethnic heterogeneity (Easterly and Levine, 1997; Alesina et al., 1999), or the factor endowments and physical environment (Diamond,
Societies with more such capital, and an IPF closer to the origin, are more capable of achieving cooperation among their members. Even if they account for the possibility of diversity in the genesis of equilibrium institutions, they nonetheless promote a bench of ex-ante best practises that every economy should implement if she wants to get economic successes.

In a series of recent studies, NCD’s authors have attempted to implement this benchmark approach to institutional diversity by the way of reducing the complexity of institutional systems by the computation of composite index for labor or market regulations that they introduce in cross-sections. They then test the way legal origins, or the kind of regulation associated with these origins, impact economic growth or employment, other determinants being controlled for. They have put forward a lot of new results but one important outcome of their approach is that it provides relatively simple benchmarks that can be easily adopted by policy makers and reformers of LDCs. This framework enables to position each country in regard with the others thanks to a simple metric of their institutional characteristics. They can implement classificatory benchmarks and cross-sections econometrics in order to check if a given dimension of differentiated degrees of enforcement of property rights or of constraints on the state leads a differentiated economic performance.

As a way of consequence, reforming LDCs consists in guiding them towards the benchmark, that sort of “institutional frontier” given by some of the western countries economic, legal and political institutions. The benchmark determines a homogenous set of ex ante consistent institutional arrangements generally inspired by developed economies institutions (Rodrik, 2008) and it promotes convergence of transition and developing countries towards those arrangements. The strength of this approach lies in the possibility to measure institutional performance by an extensive set of indicators and then to proceed to cross-national comparisons and rankings and benchmarking. Examples are provided by the Doing business database of the World Bank but also by the Global Competitiveness database from the Davos Forum.

But, as underlined by Acemoglu et al. (2005: 423), this approach is not adequate to understand what happens in LDCs because it generally does not specify how different parties operate to reach agreement over efficient economic institutions, especially in the case of the economic institutions that are particularly relevant for development outcomes which are more the result of collective choices than individual bargains. There may indeed be problems of free riding or of socio-political threats mechanisms whereby majority groups renounce to obtain the more efficient institutions for the benefit of a powerful minority. This outcome can obtain because of collective action problems (Bardhan, 2005) but also because of specific political economy constraints (Rodrik, 1996; Bardhan, 2005; Amable, 2003). The issue is generally solved by assuming that, at least in democracies, the political market competition provides significant incentives for political entrepreneurs (or parties) to propose a removal of institutions which are inefficient for the majority of voters, thus leading to efficient policies and collective choices.

Then, it has been argued by Acemoglu et al. (2005) that there are ideological, incidental or political determinants for change too, and these explanations are more appealing for the task of understanding diversity.

An interesting explanation for institutional differentiation lies in the fact that different societies may have different beliefs about what is socially efficient so that they will probably choose rationally different economic institutions. Lin (2009) provides extensive illustration of that idea when he describes how the will of Chinese and Indian elites to build a heavy industry sector has led to very

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17 The high dimensionality of these indicators can generally be summarized and collapsed into a small number of synthetic assessments. See Hausmann (2008) for a critique of this method.
18 See Acemoglu (2003a) for a formal model; See Lin (2009) or Rodrik (1996, 2008c) for historical examples.
specific forms for policies (Developmental State) and institutions (controlled markets). The socialist imprints have obviously also been of considerable influence on the choices made by early post-independence elites in some countries. However, Acemoglu et al. (2005) argue that the fact that British colonists established different economic institutions in different parts of the world insofar as giving to them the most convenient setting as regards the natural endowments of host areas (natural resources, density of native population, morbidity) for the most efficient implementation of their economic activities, is a sharp proof that differences in colonial policies and institutions are rather hard to explain by differences in ideology. A different but congruent approach argues that social interactions or historical accidents at critical junctures can produce unintended consequence in terms of institutional design. Hence, the best method to assess these determinants of change remains historical narratives.

Another reason why the approach dominant among international agencies is inappropriate in regard of our ambition lies in the fact that the theoretical background of the standard approach is a pure first-best analysis in which institutions are designed ex-ante to minimize transaction costs in a given domain that is seen as relevant for the economic performance of the system. Yet, Rodrik (2008c) argues that dealing with institutional requirements in developing economies requires a second-best setting in which no institutional form should be seen as unable to achieve desired ends ex ante and with no ex-ante selection of what are good or bad institutions for growth. In contradiction with the benchmark logic, there is not a unique set of convenient institutions for a given set of goals (Rodrik, 2003, 2006, 2008). For example, Yingyi Qian (2003) has explained recent China’s success by the mix of transitional goals and heterodox economic institutions that managed to provide efficient incentives while maintaining the rents of those who are politically powerful. Indeed, an institutional setting is favourable to development when it provides a mix of economic incentives and of political support, but the proportion of the mix varies across countries, history and culture, and the recipe of the institutional set that is able to produce this mix is highly context-dependant. Then, Acemoglu at al. (2005) consider that each economy is characterized by a given equilibrium set of institutions that might differ from the set that prevails in another country.

A similar concern is that the efficiency of a given institution or of a given set of institutions is necessary contingent to the degree of advancement in the development path. As an illustration, Acemoglu et al. (2006) have provided evidence that the economies that are distant from the global technology frontier, and where the main challenge is stimulating investment rather than innovation, may benefit from institutional arrangements that privilege incumbent firms over entrants because these generate the rents that finance the requisite investments. Furthermore, Hausmann (2008) has recently shown that the complexity of a given national institutional setting is partially due to its high dimensionality, and that the most commonly used empirical methodologies could not address it.

Another important point is that no institution is likely to deliver its impact on economic behaviour in isolation from the remaining institutions of the system. Institutional systems are very high dimensional spaces due to the multiplicity of its interacting constitutive dimensions. Hausmann (2008) is very cautious in respect with the methods the most commonly used to reduce this complexity. For example, a large body of literature has now pointed out that the efficiency of the labour regulations depends on the complementarity by which they operate with goods market regulation19. Hence, institutional models should be studied as they appear in their reality, and in their globality. As one particular institution cannot be extracted from the system that gives it a meaning and efficiency, a direct consequence is that the study of institutions in LDCs can be significantly eased by the use of typologies of the different institutional models of development. Once they accept the idea that institutional systems are heterogeneous set of linked institutions, and that “high-quality institutions can take a multitude of forms and that economic convergence need not necessarily entail convergence in institutional forms” (Rodrik, 2004c, p. 28), institutional economists come gradually to the point that

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complementarity matters more than the existence of the core economic and political institutions (property rights, democracy) (Rodrik, 2008; Dutraive, 2009)

Another peculiar feature of institutions in LDCs is that the existence of formal on-the-book rules and of formal courts does not necessarily involve that they are actually enforced or even employed by agents. As stated by Fafchamps (2004) for Sub Saharan Africa, firms and economic agents may be unwilling to use formal devices to arbitrate their disputes essentially because they don’t trust their capacity, autonomy, and honesty. Even if control, information gathering and ex-post contract renegotiations raise considerably the costs of business in weak judiciary environments, it has been argued that self-enforcing relational arrangements such as long-term personalized relationships with suppliers and consumers or cooperation through repeated interaction can be more efficient than formal institutions in early stages of economic development because of the large fixed costs of setting up the latter (Dixit, 2004). Rodrik (2008c) even reports that a similar formal judiciary environment has led to a much more considerable upsurge of firms and economic activity in Vietnam than in Africa. The same informal rules and personalized links than in Africa have led to economic success and formal judicial weakness has not been a constraint to growth and investment in Vietnam. Consequently, it is not necessary that institutional weakness is a significant impediment for growth, in every case. Furthermore, institutional reforms could backfire if they act as an incentive for firms to abandon the discipline that prevents opportunistic behaviour in relational contracts (Dixit 2004, chap. 2) so that transaction costs are raised for firms that continue to regard courts as ineffective. In that very case, Rodrik (2008c) suggests that a different kind of institutional reforms more or less based on information production and diffusion on firms, together with the possibility of targeting on new or foreign firms that do not dispose of relational experience with local partners, should be promoted instead of those advocated by IFIs (formal courts, on the book rules), at least in the first steps of development.

Then, in spite of their huge contribution to the building up of a simple analytical framework for the study of the role of institutions in development, the econometric approach to diversity fails to adress the question of the observed diversity of the socio-economic models of development. Historical studies from Greif (1993) or Engerman and Sokoloff (1993) have given a large body of evidence that there is not a unique set of institutions whereby growth might be spurred, whatever the context (Engerman and Sokolof, 2008). They show instead that very different institutional contents can lead to similar success (or similar failures) regarding growth and development, so that institutional diversity is an essential outcome and in the same time a strong impendiment to the discovery of the efficient institutions by reaserchers or policy makers. What we are interested in here is the possibility that LDCs may present a variety of socio-economic models that could explain the big diversity of economic and social performance observed during the last fifty years.

As a way of consequence, existing quantitative methods such as benchmarking or cross-sections are not convenient for our purpose because they fail to assess the diversity of models20. Hence, analyzing institutional change should be a much more promising route on the way to understand how institutions adapt themselves or change in order to ease growth, beyond the unescapable diversity of the systems they belong to (Engerman and Sokolof, 2008). Moreover, it has been claimed that institutional reforms should be contextualized so as the new devices can fit with the local contingencies of existing institutional systems (Rodrik, 2003, 2008; Hausmann, 2008, Roland, 2007). At some degree, diversity persists because the prevalent institutional system fits the perceived reality of a country or of a stage of its development path so that removing it should bear an economic and political cost (North, 2005). Then, institutional diversity stems also from the fact that any change in institutions is channelled by a socio-political mechanism made under the constraint of path dependence and of the complementary with the existing system.

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20 Cross-country econometric methods have also been recently criticized by Hausmann (2008) and Rodriguez (2007) for their inability to deal with dimensionality, diversity, and their questionable assumptions about linearity.
From what precedes, there is significant room for improvement of the understanding of the way different sets of institutions (and not different isolated institutions) emerge and self-enforce whether they become stable enough to be identified as models or not. A further issue would be to examine whether those consistent sets of institutions differentiate the economic performances of different socio-economic systems.

3.2. Is there a case for typologies of LDCs?

A brief survey of the literature first shows that there is not a special case for socio-economic models in LDCs. There is a growing case for varieties of capitalism in developed countries (Amable, 2005; Hall et Soskice, 2001; Freeman, 2000; Baumol, Litan, Schramm, 2007). The complexity of institutional and sociopolitical systems has also been recently pointed out by Hausmann (2008). He denies the ability of standard measures of institutions to describe what is going on in a developing economy. A similar point is made by Rodrik (2007, 2008) who underline the variety of political choice and of institutional forms in developing economies. Even Djankov et al. (2002: 19) argues that institutional diversity “can in part be understood in terms of the fundamental trade-off between controlling dictatorship and avoiding disorder”, each time in a given particular local context. They further claim that institutional reforms in any country “should be evaluated relative to its own institutional opportunities, rather than some idealized benchmark (…)” (Djankov et al., 2002:19)\textsuperscript{21}. Yet, the paradox is that though a growing number of papers refer to variety regarding institutions and socio-political arrangements in developing countries (Rodrik, 2008; Hausmann, 2008), the models of capitalism emerging in the developing world have rarely been scrutinized.

The literature on developing economies does not propose much typologies of socio-economic for LDCs. Hall and Jones (1996) have proposed an early typology of the nature of coordination encompassed by a large sample of 166 countries based on a measure of the Degree of Capitalism made by Freedom House. The variable Degree of Capitalism gives countries one of six values according to how important private enterprise is in the organization of the economy\textsuperscript{22}. Hall and Jones (1996) and Sala-I-Martin (1997) show that the closer to capitalist the economy is, the more it grows. This typology is based on a rough measure of the nature of coordination in the economy, with the assumption that the larger the share of private enterprises in the national output, the large ris the scope for a coordination of the economy by market mechanisms. Attempts to classify former State socialist economies have also been made, as transition to market provides a natural experiment of the way a wide array of new institutions can be established. Some papers have linked varieties of emerging transitional capitalisms to performance regarding GDP growth, poverty alleviating and integration to the world economy\textsuperscript{23}.

An extensive use has also been made of legal origins either as an exogenous variable explaining contemporaneous economic (La Porta et al., 1998, 1999), or as an instrument for today’s institutions in LDCs (Acemoglu and Johnson, 2005; Aghion et al., 2005; Gleaser et al., 2004; Rodrik, 1999). The theory of legal origins (La Porta et al., 1998, 1999; Djankov et al., 2002, 2003; Glaeser and Shleifer, 2002) sees in the origin of the legal system a central source of variation in many critical economic institutions, with significant consequences for resource allocation. This theory is interesting because

\textsuperscript{21} Then they end up advocating the comparative perspective, which identifies both “the possibilities and the limitations of individual societies” (ibid.)

\textsuperscript{22} The categories and their corresponding values are: 0 = statist (Iraq or Ethiopia belong in this category), 1 = mixed statist (Egypt, Rwanda), 2 = mixed capitalist-statist (Malta), 3 = capitalist-statist (Italy, India), 4 = mixed-capitalist (Greece, Senegal), and 5 = capitalist (USA, Botswana).

\textsuperscript{23} For a recent attempt, see Lane (2005). He basically finds three clusters. The first group corresponds to modern capitalist systems of the continental type characterises that approach the levels of OECD countries with respect to marketization and are integrated to the global economy. A second group is made of relatively poor and weakly coordinated economies with low integration into the global economy characterised by a hybrid state/market uncoordinated type of market capitalism. A third relatively coherent cluster has high levels of state control, relatively little privatisation and an undeveloped market.
the various correlations between them and a widespread set of economic, legal or politic outcomes that has been unveiled by the previously cited econometric studies could provide an easy and simple way to characterize rough models of developing economies. Hence, civil law tends to be associated with lower legal protection for investors than common law and with a higher degree of concentration of the shares\(^{24}\) (La Porta et al., 1998), but also with less efficient governments (La Porta et al., 1999) or legal systems (Djankov et al., 2003), the degree of procedural formalism and the likeliness of corruption and unfairness being larger than in common law systems. Legal origins typically come from historical accidents or critical junctures like colonization or revolutions, and institutions are seen as highly path dependent and heavily constraining for economic outcomes. But, its relevance for the purpose of identifying models of emerging capitalism is denied by on the behalf that institutions are endogenous to economic outcomes (Easterly, 2005; Engerman and Sokolof, 2008), but also to political equilibria (Acemoglu et al., 2005; Amable, 2003), and institutional system consequently evolve towards unstable equilibria, and any attempt to resume these features by a unique legal origin would be seriously misleading. Moreover, the consistency and robustness of the results produced by the econometric testing of the hypothesis that legal origin could resume institutions and explain divergence in performance are undermined by methodological limitations as pointed out by Pande and Udry (2006).

Apart from these few exceptions, the question of the variety of emerging capitalisms has seldom been addressed by the recent literature. It is however possible to identify several models that have been defined in isolation from others and without any unique analytic grid. The Competitive “Developmental” State models have been proposed to illustrate the peculiar approach to coordination of the market experienced by several east-asian economies but also by some rare African economies like Mauritius or the Bostwana. Then many LDCs in Africa or in Asia could belong at least partially to the “Natural Resource Curse” models, but they sometimes are mixed with the “Factional-distributive” models frequently met in Africa and Latin America. As regards more systematic typologies, the candidates are really sparse in the literature. An important attempt has been made by the comparative projects from Lal and Myint (1996), or by the pseudo-comparative compilation of country-case studies edited by Rodrik (2003), but both these approach lack of a systematic treatment of cross-country differences that could produce really endogenous typologies. Countries are chose ex-ante because they represent an ideal-type of developing countries, the categories being presumably pre-defined, at least intuitively. World Bank (2000) has proposed a typology ranging different models different models from the less to the more inclusive in terms of social and environmental objectives, but its main shortfall is that it rests on performance indicators and then drives to the densification of performance models, without any consideration of the institutional inputs lying behind the measured output. Last but not least, Sgard (2008) proposes an interesting typology opposing three models of developing capitalist economies: the emerging economies (China, India, Brazil, Vietnam…) characterized by an autonomous and strong state, the liberal economies with non autonomous states because they have liberalized too fast their institutions and regulations (mostly in Latin-America), and resource-rent economies. This typology is rather close from the set of models delivered by the literature on development with which we have introduced this paragraph.

The point is that there is no such work and typology than what has been done upon OECD countries by researchers looking for variations in the socio-economic and institutional models of industrialized capitalism. This approach could be insightful as it could allow to better the understanding of the way institutions can be reformed and mixed in a more efficient manner than previously made in numerous LDCs, because the models identified could be associated to a set of institutional features giving its consistency to each of them, and to a set of economic, social and environmental performance. But is the literature on the variety of capitalism (VoC) implemented on OECD industrialized economies adaptable to the case of LDCs? Could it be appealing for our purpose?

The fact that national systems of rules, regulations and policies remain very different despite the huge

\(^{24}\) When controlled for the level of per-capita income.
strenghts of convergence transiting through globalization has produced a revival of comparative
capitalism analyses. Hall and Soskice (2001) have proposed an appealing typology of the capitalisms
in globalization. Their approach is based on the determination of institutional configurations
combining a set of core institutions including the systems of finance, corporate governance, industrial
relations, education and training, and social welfare. Each of these institutional configurations, whether
it corresponds to coordinated market economies (CMEs) or to liberal markets economies (LMEs), are
internally consistent and displays comparative advantages in different areas of production.

Amable (2003) builds an alternative typology upon a set of institutional areas very close: product
market competition, labour market and industrial relations, social protection, education and finance but
his approach is richer in that it allows to consider new types of capitalisms (mediterranean and sian)
which may be relevant to compare to certain groups of developing economies. But the real stake of
that approach for our purpose is that they provide an adequate grid to question the content and the
internal logic of institutional systems. Another stake is to have a better understanding of the reason
why structural reforms can fail if reformers don’t take account of the systemic operation of institutions.
As the efficiency of one given institution depends on the existence and the operation of other
complementary institutions, the different rules and conventions governing labour relations are not
perfect substitutes. Flexibility is likely to function more efficiently when it is associated with
consistent rules and conventions in the financial sector (deregulation) or in education systems (mostly
vocational and generic skills).

The VoC approach actually tries to address two “big questions” with respect to globalization. The first
one concerns the probability to see a deep institutional convergence cross-nationally in response to
globalization whereas the second is relative to the circumstances under which globalization could
provokes a political backlash against her. Their answer is straithforward: the diversity of capitalism will
persist mostly as each model of capitalism presents obvious and deep interests in preserving its
particularity, because it provides him with a specific type of comparative advantage which is fed by
specific patterns of asset investment which tie actors to the existing system. Then, rejection of
globalization is not likely to occur as soon as there is no attempt to move away from a country’s
existing institutional equilibrium.

Consequently, the way openness might influence actors’ preferences with respect to the structure of
domestic institutions and of how the structure of domestic institutions might influence actors’
preferences with respect to economic openness are strongly related in this approach\textsuperscript{25}. No need to
underline how appealing could that core interaction be for the purpose of analysing development in the
context of globalization as emerging economies are trying to do it. Nevertheless, the role of politicians
is curiously passive in that process as they only follow the lead given by the collective preferences,
whenever they express themselves through corporatism, lobbies or unions, or through electoral
choices. Amable (2003) adopts a different approach while he puts forward the importance of conflicts,
based on values and organizations, in the operation of institutional change. In that sense, he is closer
from North (1990) but he goes further on the way of the emphasis given to the political content of
institutional change.

Whereas it could be very helpful, the VoC framework has not been interested in development question
up till now. On the contrary, the role of institutions in development has been widely considered by the
recent neo-institutionalist literature. To what extent this plethoric literature could be helpful for our
purpose? That is what we survey in the following section.

\textsuperscript{25} Wren (2005).
4. The question of the institutional reform for LDCs

Institutional change in LDCs is at the backgroud of our research project. The question has been addressed by North (1990, 2005). What he has coined can be considered as the ground model over which theoretical refinements have been elaborated. Among these refinements, the political economy and on social conflicts, largely overlooked by North, become major engines of institutional change (Acemoglu et al., 2005; Amable, 2003).

4.1. Institutions and change according to North: the core theory

Socio-economic models are consistent systems of complementary institutions, political patterns and modes of action. Institutions are a component of socio-economic models, together with government and collective action. Definitions for institutions and the framework in which they operate generally refer to North (1990). They are both formal and informal rules, different from organisations. Institutions are any form of constraint (formal, informal, created, and evolving) that human being devise to shape human (economic, social, political) interaction: constraints on what it is possible to do, and on how it can be done. An essentially part of the effectiveness of institutions is the costliness of ascertaining violations and the threat and severity of the punishment. Organizations refer to the political bodies (parties, assemblies, agencies), economic bodies (firms, trade unions, family farms, cooperatives), special bodies (churchs, clubs) and educational bodies (schools, universities) in the context of which individuals interact and make their choices constrained by institutions, and try to profit from economic opportunities.

Organizations are created by agents who share the same interests and objectives, with purposive intent in consequence of the opportunity set resulting from the existing set of constraints (institutions + economy). In the course of attempts to accomplish their objectives, they are a major agent of institutional change. The theoretical settings of North is given by the microeconomic theory of individual choices; it consists in understanding how institutional constraints are created by these choices and how they impose constraints and restrictions on choice sets (a convenient theory of human behaviour because it enables to start from testable hypotheses). Another assumption is that institutions (together with the technology employed) affect the performance of the economy mainly by their effect on the cost of exchange and production.

Institutional change is the result of the lock-in process between institutions and organizations and on the interplay between actors in organizations and opportunities and the institutional change their actions can produce (Figure 1). In LDCs, North (1990: 9) argues that the set of opportunities is a mixed bag of incentives (towards increasing productivity activities and towards decreasing ones), but they favour activities that promote redistributive rather than productive activity, that creates monopolies, that does not promote investments in education and that restrict opportunities. Organizations become more and more efficient towards unproductive activities and are finally biasing institutions in that direction. Such a path can persist because the transaction costs of political and economic markets together with the subjective (wrong) models of the actors (bounded rationality) do not lead them to move incrementally toward more efficient outcomes.

The incremental nature of institutional change and the bounded rationality of individual actors in interpreting the reality and in making their choices accounts for path dependency and makes history relevant. (North, 1990: 10). But the adaptative nature of institutions alongside the process of economic development and according to the changing needs of actors may provide another explanation for the dependence upon a specific historic path (Engerman and Sokolof, 2008). Institutions gradually shift from one content to another, and the institutional system seldom remains stable over long time periods.
North has progressively shifted its approach of institutions from a formal notion (filling the gaps due to market failures) towards a view of institutions as “mental models”, as external manifestations of the dominant internal representations. In contrast, the view on institutions from IFIs remains stuck to a materialistic view that reduces the scope of the notion of institution and their establishment to something mechanical and functionalist. They never question the way institutions can emerge as a specific form partially grounded on the collective beliefs of a society. They elude the question of reforms and promote a simple benchmark process based on the western today’s institutional forms.

4.2. The political economy of institutional change

The efficiency view of institutions considers that politics and conflicts between social groups do not matter for institutional change towards more efficiency. A commonly mentioned definition of institutions is North (1981) for whom “an economic institution is a set of rules, compliance procedures and moral and ethical behavioural norms designed to constrain the behaviour of individuals in the interests of maximizing the wealth or utility of principals.” (p.201-202). If the definition of institutions as sets of rules, procedures or norms that constrain behaviour can be easily agreed on, many scholars disagree with the notion of agency embodied in this standard definition. Pande and Udry (2005: 2) for example argue that institutions “need not be designed, and even if they are, their actual operation may be quite different than intended”. Yet many recent studies focus on institutions as equilibrium arrangements designed to remain stable as long as they succeed in constraining individual economic actions towards efficient outcomes. Acemoglu (2003) refers to this theory as the Political Coase Theorem whereby individuals can negotiate and bargain towards the most efficient institutional outcome in terms of the surplus shares received by each one of them. A first limitation of this view is that it is irrelevant to explain the empirical evidence according to which difference in institutions are the major cause of income difference because it considers that economic institutions are chosen efficiently, and all societies have the best possible economic institutions given their needs and underlying structures (Acemoglu et al., 2005).

Yet, in LDCs, institutions are much more political arrangements, sometimes very stable, but this stability does not mean that they produce efficient outcome. One reason is that economic resources are very unevenly distributed and collective action is not necessarily organized or even possible (Bardhan, 2001, 2005), so that suboptimal institutions remain active despite their negative effects for a majority of the population. If institutions are assumed to vary independently from the underlying economic needs of societies, because of historical patterns inherited from colonization or of political economy patterns for instance, then, we can understand better the persistence of inefficient institutions in certain settings.

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See below for a discussion of that definition, especially in regard of other larger demarcations.
Consequently, it is more relevant to introduce political economy and conflicts between groups with differentiated power of influence to understand institutional change in LDCs. Acemoglu et al. (2005) have proposed a general setting suitable for this purpose. On the one hand, economic institutions determine exogenously growth and prosperity. But on the other hand, economic institutions must be seen as endogenous to economic change, but also to the distribution of political power in society. Developing economies are indeed transitional institutional systems, both because the huge structural change they encompass must be supported by a constant evolution of the institutional settings (property rights, laws and incentives, efficient red-tape), and because economic growth and transformation induces a necessary political support fed together by a strengthening of state capacities (Besley and Persson, 2009) and by the emergence of consensus across social classes through effective redistribution, (Rodrik, 1997, 2008; Easterly, 2001), in order to be sustained over the long-run.

But institutions are also endogenous to changes in the political equilibrium between the socio-political groups\textsuperscript{27}. The notion that elites, i.e., the politically powerful, may opt for economic institutions which increase their incomes, often at the expense of society, has been argued by North (1981), but it is also present in the orthodox literature on the grasping hand and captured states, and in much of the Marxist and dependency theory literature, as Acemoglu et al. (2005) recall it. Amable (2003) points out that theoretical models generally explain the birth of an institution in the context of a strategic game regarding a coordination problem (Schotter, 1981), but it can also be that an institution is chosen because it solves a problem of distribution and of conflict about the gains of the game (Bardhan, 2005). Heterogeneity between the actors in terms of economic wealth, preferences, political power, anticipation or skills is at the root of these conflicts because it induces heterogeneous interests and strategies that cannot be solved as a simple coordination problem. Some institutions can guide actions in a context of ex-ante heterogeneity but produce more ex-post heterogeneity because of the distribution conflicts it produces (Drazen, 2000, Amable, 2003). As many formal institutions\textsuperscript{28} are established as a compromise between vested interests, it is a political (collective and conflict) outcome and, in some cases, it is an expression of the prevailing political equilibrium.

While public authority is useful to support a given interest group, the institutions governing the political competition (constitutional rules and rules of lobbying) should have an influence on the institutional equilibrium established between the different groups of vested interests (Acemoglu et al., 2005). Then, economic institutions determine economic outcomes such as the aggregate growth rate of the economy and the future distribution of resources. But economic institutions are themselves endogenous and determined in turn both by the prevailing political institutions and by the incoming distribution of resources. In Acemoglu et al. (2005), there are two sources of persistence in the behaviour of the system: first, political institutions are durable, and typically, a sufficiently large change in the distribution of political power is necessary to cause a change in political institutions, such as a transition from dictatorship to democracy. Second, when a particular group is rich relative to others, this will increase its de facto political power and enable it to push for economic and political institutions favourable to its interests.

The social conflict approach to institutional change can then be represented as by a socio-political extension (in grey) to the model from North of the Figure 1. In the Figure 2, we introduce the hierarchical and endogenous framework of Acemoglu et al. (2005) in the socio-political conflict viewpoint proposed by Amable (2003).

\textsuperscript{27} Lin (2009) and Shirley (2008a) have also emphasized the role played by ideas in institutional change.

\textsuperscript{28} Amable (2003) argues that organization and conventions also result from conflicts between heterogeneous interests and consequently imply political economy processes. The Hayekian tradition considers on the contrary that most of economic institutions are unintentionally produced by the sum of decentralized individual choices, and that power asymmetries and political conflicts are seldom central in their formation.
Two important notions are associated with the view of institutions as a political conflict. Institutions interact one with each other, because they are complementary (the proceeding of one institution increases the returns from another one) but also because they are hierarchically established (the implementation of an anterior institution defines a path-dependency constraint for the establishment of the posterior ones). But hierarchy also mean that there are superior rules (constitutional) defining collective rules (trade-union rules, social rules, competition rules) that condition operational rules of agents (Ostrom, 2001). Superior rules should be the more stable because the cost of changing all the levels of rule is too high. Amable (2003) argues that hierarchy can be explained by the need for government to be supported by one or a coalition of socio-political groups to remain in function. This need drives government to limit the institutional changes that deserve the vested interests of its political supports. The hierarchy is based on the differential of political powers between socio-political groups. In that setting, institutions are less able to change if they are hierarchically higher and if changes have differential effects on the groups having a power of veto in the decision power (their expectations must be positive).

Note that other notions of hierarchy have been argued in the institutionalist literature. Root (2005) argues that “the influence of the rich can compromise the property rights of the poor” and that “the security of property rights in highly unequal societies is often enforced by military rather than the rule of law” insofar as a certain degree of social cohesion and of political constraint on power should be
considered as the first stage of institutions. Then, the hierarchy of institutions stems from the necessity to establish social cohesion before expecting specific economic institutions like property rights to obtain their beneficial effects on growth and investment (Root, 2005). Yet developing countries are frequently advised to adopt economic institutions such as property rights that are sustainable and enforceable only when they are introduced into an adequate environment. It means that other institutions should have increased social coherence and political accountability, so as to avoid that property rights would be overturned by the forces of social upheaval or confiscated byunchecked political discretion (Root, 2005).

In a similar vein, Acemoglu et al. (2005) introduces a concept of hierarchy of institutions whereby political institutions strongly influence equilibrium economic institutions. For them, talking about hierarchy between institutions basically means that political institutions should be placed at the centre of the story because they define the constraints limiting the use of political power but also and maybe more importantly, because they condition the distribution of resources (and rents) in the economy and determines consequently which groups hold de jure political power in society. Depending on the fact that it is an elite or a broad middle class group of entrepreneurs, the opportunities for investment and economic diversification and development will be very different. Hence, political institutions are central to the system, and changes in political institutions are a means for manipulating future political power, and thus indirectly shaping future, as well as present economic institutions and outcomes: “While political institutions determine the distribution of de jure political power in society, the distribution of resources influences the distribution of de facto political power at time t. These two sources of political power, in turn, affect the choice of economic institutions and influence the future evolution of political institutions” Acemoglu et al. (2005)

The interest of these questions is not only theoretical. Most of the developing economies are looking for a bettering of their institutions and regulation and the efficacy of their reforms condition their forthcoming economic performance. The question is obviously a very practical one for LDCs, especially those that have been left out of new ideas after the last Consensus.

4.3. Endogenous institutions and institutional change

Following Easterly (2005), two viewpoints upon reforms can be opposed. The institutions view which holds that yesterday’s geographic and historical conditions produce long-lasting differences in institutions that will have long-run economic impact on the variations of economic performance. A radical form of the former view can be found in the extensive use of historical variables controlling a king of initial conditions and linking them to current outcomes. Settler mortality (Acemoglu et al., 2001, 2002; Acemoglu and Johnson, 2005; Aghion et al., 2005, Rodrik et al., 2005) or state antiquity (Bokstette et al., 2002; Kogel, 2005) are now standard explaining variables or instruments for the explanation of various modern economic or political outcome. Then, whatever the reform, the historical legacy should heavily constrain the path of institutional shifts. Yet, a specific legal origin does not necessary lock-in future change and initial institutional choices are not deemed to last infinitely, because well-organized groups can always ask the inherited institutions and push forward to considering alternatives. To illustrate this point, Acemoglu et al. (2005: 427) mention important changes in institutional systems shifting from a legal origin to another (Japan after the Meiji restoration, Russia after the Crimean War, and Turkey under Mustafa Kemal in the 1920’s).

On the contrary, the policy view considers that economic policies and institutions reflect current knowledge and political forces and today’s economic performance are afforded to improve provided that knowledge about which policies and institutions are best for development can be amended. In the latter view, accumulation and good policies will end up bringing about efficient institutions to

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support them. What is denied is possibility to understand economic development today by the consideration of former institutions alone. The reason why is that, according to the Policy view, institutions are transitional because they are endogenous to economic change (Rodrik, 2008, Engerman and Sokolof, 2008). Hence, institutions are considered as evolutionary organisms prone to change and adjust if the economic conditions are modified and if the socio-political conditions for change are fulfilled. Even if past events, geography or historical accident define a path which constrains or channels further institutional development, particularly trough collective mental representations, Rodrik (2003) or Hausmann (2008) claim that there is scope for experimentation as has been illustrated by China. This notion of relativity condemns every attempt to reform by attaching a specific imported institutional form to a given economic objective. China has provided evidence that private investments and activities can flourish without a clear enforcement of private property rights, simply by the credible commitment of a stable government to ease entrepreneurship at different levels (Special Economic Zones, privatization of Township-Village Enterprises), and by different means (fiscal incentives, local empowerment). Hence, the good news for LDCs eager to implement a reform of their institutions is is that it should not require massive changes to be efficient (China and India in 1980s), mostly for the reason that complementary reforms can be built progressively and in accordance with local conditions (Rodrik, 2003: 15-16). Moreover, Institutional reforms in China have mixed in a very original fashion a few orthodox goals with means and many heterodox goals and means. The result is the China’s unconventional policies but Rodrik (2007) reports that a similar mix or orthodox and heterodox elements characterizes all successful growth experiences (such as South Korea in the 1960s and 1970s, Mauritius in the 1970s and 1980s, or India during the last couple of decades. Consecutively, it is an uneasy exercise to import structural reforms and rules in a socio-economic system made of a previous set of rules enforced under a particular collective mindset. Because of institutional complementarities or non-complementarities, a certain institution can produce very different outcomes according to the structure of the national institutional context in which it is introduced. Institutional change generates a social payoff only if it is consistent with the previous system. This complementarity also provides an explanation of the persistence of institutions, even if they are not efficient for a majority of the actors. Institutions articulate one with another in a socio-political system in which every shift towards another content for a given institution would cause significant dysfunctions for the whole system. The explanation generally put forward is that institutions are efficient because they are associated with other complementary institutions, that is to say institutions which proceed in the same direction.

Note however that contrary to the dominant view on reforms consisting in adopting strong priors about the nature of the obstacles to development and the appropriate remedies in the form of a list of reforms and in emphasizing the complementarity among reforms rather than their sequencing and prioritization and exhibiting “a bias towards universal recipes, “best-practices,” and rules of thumb” (Rodrik, 2009), the experimental approach to reforms, which has been successfully implemented in China, insist on the sequentiality and on the second-best logic of successive actions towards the successive most binding constraints on growth.

Despite its role is often overlooked by NIE, the state and its strategy is necessarily a key organization both, constraints have to be hierarchized, but also because change is necessary constrained by a political economy and because regulation is complementary to change (Rodrik et al., 2003; Rodrik, 2008).

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31 For a comprehensive overview of the political economy of institutional change see Shirley (2008a, 2008b), Bardhan (2005) or Acemoglu et al. (2005). For an introduction of social conflict, see Amable (2003).
32 Even if the road might be more difficult for a smaller developing economy, with different economic and socio-political conditions than could China or India benefit from.
33 See Qian (2003) and Murell (2005).
5. Strong state vs weak state or developmentalist state vs regulatory state?

The state is a key actor in the implementation of formal capitalist institutions. Since Myrdal, the traditional view in among development economists is that the state is too weak to rule all the dimensions whereby economic, social and political modernizations take place in laggard countries. Yet, since the more “modern” view of the state as a potential grabbing hand has emerged with the political economy and the NCD, the political and ruling strength of the state is now seen as a threat on the economy and its private actors. But this opposition is too arid and simplistic to fit to the needs of reforms in LDCs. Actually, the key debate is certainly more about the trade-off that can be found against the developmentalist state and the minimal regulatory state.

The state is generally not identified as an institution in the North’s definitions. It is an organization, constrained by political institutions and producing economic institutions. As a consequence, the new institutionalists never focus on it as an actor despite its obvious potential influence on the economy through laws and institutions, and through policies and incentives.

In a frequent economist’s approach, the State is the only actor to have the ability to coerce the counter-productive rent-seeking activities of private actors (Stigler, 1971, Krueger, 1974, Bhagwati, 1982). The government intervention on the economy is in turn a factor of rent extraction through regulations created by bureaucrats or politicians. Even in a Williamson’s world where private agents are incited to find private-order institutional solutions to the transaction costs associated with their interaction, some of these solutions are either self-enforcing (Dixit, 2004) or are simply not enforceable by someone else than the government. In that case, the power of the latter to extract rents from its institutional and regulation powers has to be balanced by political institutions aimed at constraining the risk of a predatory state.

Following the neoclassical approach to the state, the NIE is prone to overrate the importance of the predatory nature of the state claiming that strong bidding constraints should be imposed on public officials (Djankov et al., 2003; Shirley, 2008a, 2008b). Hence, they tend to overlook the strategic role public actors can play through their fiscal and subsidy policies for the emergence of strong and competitive specialization, firms and industries (Bardhan, 2001, 2005). Yet, historical and empirical evidence have widely evidenced that a strong state with an efficient administration are two necessary conditions to sustained development. Aoki et al. (1997) or Wade (1990) have made the demonstration that East Asian economies have succeeded in leapfrogging and climbing the technological ladder, at least in the emerging phase, because he state has played an active role in coordinating and orienting investments (through the provision of rents from coordination), and because its administration has been an efficient relay of this policy. However, Acemoglu et al. (2008) have confirmed the idea from Aoki et al. (1997) that once economies are closer to the technological frontier, market coordination must relay state coordination because of important problems of information are raised by the diversification of the productive system.

Some standard papers have claimed recently having adopted a larger vision of the role of the state in development. Stemming from the old idea that a state too weak will fail to enforce its policies, Besley and Persson (2009) propose a model of endogenous state ability to enforce trade institutions and market regulations through investments in its fiscal and legal capacities. Their model suggests that there is an important complementarity between these two forms of state capacity and that such complementarity explain why institutions are clustering to become a weak or a strong state at different levels of economic development. But they also show that the dynamic of state enforcement is endogenous to the level of economic development and that the incentives to invest in state capacities can be deterred under the circumstances in which the state is used to attain redistribution and rent.

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34 See for example Djankov et al., 2003 on the regulation of entry.
35 On that point, see what Rodrik (2008d) has said about the possibility of a revival of industrial policies in LDCs.
creation goals instead of common-interest goals. Together with the complementarity of capacities, the dominance of the rent creation goals may trap the economy into a low level equilibrium. Hence, this model puts together existing elements of the literature and explains why we find weak states mainly at low levels of income. What is new is that the capacity to tax, even at high levels, is seen as a positive capacity for the state to operate in an effective manner its policies. Then, enforcing the institutions for market support and implementing ambitious fiscal policies towards investments (infrastructure for instance) not carried out by the private actors can be a simultaneous task for LDCs states to emerge.

Yet, in that paper, the scope for state interventionism remains limited to the actions that do not distort the market. Important interventions like social protection transfers, public investments in education or subsidies to industries are not evoked as common interest actions. Though, Rodrik (1996, 1997, 2008a) or Lin (2009) have heavily underlined the importance such state interventionism has had for the emergence of East Asian newly industrialized economies. The literature on comparative capitalism is traditionally less reluctant to consider state as an effective actor of development. In the introduction to their book, Hall and Soskice (2001) recall that the variety of capitalism approach they develop is deeply rooted in a series of previous works among whom Shonfield’s one (1965) can be of deep interest for us. This approach was seeing the challenge of modernizing the industrial sectors in developed economies as a crucial stake implying a critical set of actors liable to possess the capacity to devise plans and actions towards strategic sectors. Among them, the banking sector and the public officials were supposed to have the influence on the private sector through both the orientation and the manipulation of the flows of funds from the financial system and the planification system. Successful economies (France, Germany and Japan) had strong states while laggards (Britain) had weak states. Note that the debate upon the respective roles of the state and the market to explain the East-Asian miracle has revived this approach as illustrated by Amsden (1989), Wade (1990), Rodrik (1996) or Aoki et al. (1997). Bardhan (2005: 11-13) has also insisted on the decisive role the state can play (together with the financial sector) in the resolution of the natural problem of the coordination of investment when the market is enable to do it for information externality or for other reasons.

The necessity to enlarge the scope for efficient state interventionism in the development process is being more widely supported by economists. Rodrik (2003) has distinguish three stages for the reforms that can be initiated by the state distinguish in LDCs. Providing the economy with market institutions like a form of property rights and laws on contracts is a first step. But establishing regulation devices like public regulation authorities is a subsequent and very important step, for the simple reason that markets institutions need to be regulated in order to “minimize abuse of market power, internalize externalities, deal with information asymmetries, establish product and safety standards, and so on…” (Rodrik, 2004: 27). Then Rodrik et al. (2003) identify a third level of economic institutions devoted to stabilizing the macroeconomic evolution of the economy (Central Bank, exchange regimes, budget rules, whatever the principles over which they are established) but also to gain political support from the legitimation of market and institutions specially designed to perform income redistribution and social protection (pension systems, social security systems, and unemployment benefit systems). An augmented version of that vision of state interventionism should be held in our work. Even if it is difficult to measure up, data on the active actions carried out by the state on the markets for coordination or orientation of investment stakes should be used to compare the scope for state

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36 For a brief Survey of the other approaches focusing on neo-corporatism and the systems of production that we consider less interesting for our purpose, see Hall and Soskice (2001)
38 Very few LDCs have independent Central Banks.
interventions through the introduction of voluntary distortions on the factor or goods markets (Lin 2009; Rodrik, 2008c, 2008d)

6. Our framework: complementarities and socio-economic models

One candidate is the answer whereby institutions persist because they articulate in a stable socio-political system that cannot change easily, mainly because every shift towards another content for a given institution would cause significant dysfunctions for the whole system. The explanation generally put forward is that institutions are efficient because they are associated with other complementary institutions, that is to say institutions which proceed in the same direction.

6.1. How accounting for complementarity between institutions and regulations?

In this paper, our task consists in identifying socio-economic models of development for emergent and poor countries. In this general framework our specific goal is to shed light on the institutional complementarities observable in LDCs and emerging economies, and then to assess their effect on growth and socio-economic development. There is an increasing concern for complementarities between institutions and regulation, especially in the context of reforms for transition and developing countries (Braga de Macedo and Martins, 2008; Hausmann, 2008; Rodrik, 1997; Senatore (2006) Drazen (2000) Sindzingre and Stein (2002), Stein (2008). Rodrik et al. (2003) or Amable (2003) points out to the notion of complementarity between institutions when they evoke explicitly the gains in efficiency related to their association. More specifically, Aghion et al. (2008) or Fiori et al. (2007) have evidenced the complementary effects of product market and labour regulations on growth and employment outcomes. The importance of complementarity has been also pointed out for trade openness and liberalization policies by Bolaky and Freund (2004) and Chang et al. (2005).

In this paragraph, we discuss the methods to assess complementarity and hierarchy within a national system of institutions in the context of emerging and development countries.

First note that as has been argued previously in section 2, for the reason that each institutional space is characterized by sector specific institutions interacting one with another and that the most convenient setting for analysing institutions in LDCs is a second-best one, with no ex-ante selection of good institutions, then clearly, implementing a cross-sectional approach to institutional diversity is a non sense, except if models have been identified as a first step (Amable, 2003; Rodrik, 2008)

Then, pooling separate indicators of regulation or institution into a composite indicator (Djankov et al., 2003, Berr et al., 2009) can not be a convenient approach because the mix of institutions and regulations is pre-determined and constraint the potential diversity across national models. The method proposed by Braga de Macedo and Martins (2008) to assess complementarity in the structural reforms encompassed by transition countries during the 1990s is appealing but is not consistent with our theoretical framework. They assume that a reform strategy exploiting policy synergies should be reflected into an even distribution of individual reform indicators. Then, they propose to capture this by the reciprocal of a simple usual Hirschmann-Herfindhal indicator of concentration of reforms. But they define ex ante a set of complementary reforms in a typical first-best approach. What we try to do is to unveil the nature of the regulation and institution mix actually implemented in our sample of LDCs.

As emphasized in Braga de Macedo and Martins (2008), second-best approach opposes à la Rodrik to the supermodularity approach of the reforms coined by the Washington Consensus. Moreover, the question raised by Rodrik is different from that of the VoC. Whereas the latter ask for the internal coherence and the performance of an existing and stable set of institutions, the former is interested by the process of institutional change in LDCs and by the establishment of new transitory institutional

39 See also the critics of cross-country methods that do not deal with dimensionality, diversity, and make controversial assumptions about linearity by Hausmann (2008) and Rodriguez (2007).
forms in a unstable system deemed to change incrementally at every stage of the development path. The common point is that both consider economies as socio-economic original models that are subject to external and internal forces of instability. VoC’s approach consists in evaluating institutional complementarities, their changes and their “sustainability” to discuss the possible trajectories of socio-economic models. On the contrary, Rodrik advocates an incremental method of experimentation of new institutional forms, often grounded on previous institutions or organizations like in China (Quian, 2003), without any ex-ante selection of the ideal institutional content or imitation from abroad. Then, Rodrik (2009) underlines that China has halved sequentially each bidding constraints, one after the previous one: first agriculture, then industry and then trade …

Even if comparative analysis is the main methodology to identify and characterize the evolution in the diversity of socio-economic national models, we try to provide in this project an efficient mapping of the similarities and differences in the way developing, emerging and transition economies articulate their institutions and regulations. The recent transformation of China shows that there exist different trajectories for the transition process to market. Another puzzling concern is how the European socio-economic models are contested by alternative models, not only in industrialized countries (USA and Japan), but also in emerging countries that are becoming new players in the world economy? Our objective is to add social and institutional dimensions to the performance-based classification in order to shed light on the likely diversity of the socio-economic models of development. A further point is to assess the performance of the models.

The theory of the institutional forms is directly adapted from Amable (2003). We have tried to question the content and the stakes of each institutional form (Education, Competition, Social protection, Labour market and social relations, Finance and money) for LDCs, and the way they articulate with each other. In the annex are reported the overviews of the literature for each institutional dimension considered in this work: education system, competition / Regulation on goods markets, labour market, social protection, financial market and banking system. Beyond the areas considered by the work of Amable (2003), we have chosen to introduce a set of new areas that we judge critical for the issues of development: access to external financing, Trade and FDI, Agriculture, Environmental issues. In accordance with what has been said in the previous sections, we have added in the dataset variables regarding another element that is likely to matter in the differentiation of models: the process of state formation and enforcement of its capacities. Readers will find in the last annex a grid of the potential complementarities between institutions for LDCs and emerging economies.

Note that we first do not come to a decision as to whether these last three dimensions are or are not institutional forms per se. What is essential is that we must keep in mind that socio-economic models emerge in that very context. Identifying the processes of emergence, stabilization, continuity and changes in socio-economic models for developing and emerging economies means producing explanations for the emergence, discovery and “bricolage” of institutional complementarities in a context of changes in socio-political equilibrium / compromises.

Our approach consists in evaluating institutional compromises as they appear in institutions, their changes and their “sustainability” to discuss the possible trajectories of socio-economic models. Comparative analysis is the main methodology to identify and characterize the evolution in the diversity of socio-economic models. The recent transformation of China shows that there exist different trajectories for the transition process to market. How the European socio-economic models are contested by alternative models, not only in industrialized countries (USA and Japan), but also in emerging countries that are becoming new players in the world economy? Our objective is to add social and institutional dimensions to the performance-based classification in order to shed light on the

40 As regards environment, we made the decision to confront each model to its “green performance” at a first stage, and then to assess the underlying policy and institutions each time it is possible.
likely diversity of the socio-economic models of development that go further than the World Bank (2000) economic models ranging from the “Grow now, clean up and redistribute later” mind-step to the various “high quality growth” with good governance schemes. Discuss the assumptions of complementarity and hierarchy (Amable, 2003) in the context of development countries and of emerging economies

6.2. Data analysis strategy

In this work, we try to provide answers to a series of questions that have not been addressed yet, to the best of our knowledge, in the literature on emerging countries. How do the different institutional areas compose with each other? Are there different models? Are there more within- or between-variations? Are there hierarchies between institutions? Do specific models refer to specific performance? One country, one emergence? Our goal is to investigate who the emerging countries are and which institutional configuration(s) support their emergence, take-off, leapfrogging or whatever the name. In order to avoid being biased towards who emerging countries are and how they emerged (or how they are emerging), our basic theoretical perspective, and first important choice, was to simultaneously consider all the economies in the world, except for the really smallest ones of less than 1 million inhabitants. We are therefore dealing with 154 countries. Getting down to work, it quickly turned out that we would have to deal with a huge number of variables, insofar as we intend to consider the whole dimensions of what may be, support or constitute the emergence of countries.

So, instead of straight computing factorial analysis on such large and heterogeneous dataset, we first made the decision to separately consider the different dimensions of emergence. Partly drawing our inspiration from Amable (2005), we distinguished the seven following dimensions: (i) agriculture, (ii) education system, (iii) environmental issues, (iv) competition, regulation and international integration, (v) development financing, financial market and banking system, (vi) labour market, and (vii) social welfare. For each of these dimensions, a dedicated team of 2 to 3 researchers is now in charge to draw up a database covering the different aspects of the question for each country.

Such databases collect as many variables as necessary, so that each aspect of the question gets measured, somehow or other. For example, considering agriculture matters, we collect information about the GDP share of agriculture, the amount and role of subsidies, the local / export price differentials, and so on. Regarding education issues, we observe the public spending to GDP ratio, school enrolment ratios, quality indicators, and so on (see databases for more details). Regarding years of observation, we systematically consider the most recent available year and then, we save all available data, yearly, and back to 1980 when possible. We do not claim to be exhaustive in such challenge, but the target is to gather as much statistical information as possible.

All those seven separate databases will then be organized, harmonized and finally aggregated into one single rich, coherent and “user-friendly” database that will be made accessible to any researcher involved in the project. That is when our own investigations will really start. As soon as the seven dimensional databases will be available, the first stage of analysis will consist in computing appropriate factor analysis (principal component analysis + k-means clustering / multiple correspondence analysis + hierarchical cluster analysis) in order to produce original and relevant classifications / typologies of countries, regarding labour market configurations, international integration, environmental considerations, education system issues, social welfare matters, and so on... The main purpose of that phase will be to summarize, to typify each dimension by 2, 3, 4 or say 5 clear, significant, homogeneous and revealing type of countries. We will then be able to tell that among world countries coexist, say, 3 or 4 distinct kinds of labour markets, or state education, or 2 or 3 modes of international integration, and to clearly and explicitly define and describe such alternatives. In practical terms, we will make use of hierarchical cluster analysis or k-means cluster analysis to constitute homogeneous and relevant group of countries in each dimension and we will implement multiple correspondence analysis or principal component analysis to investigate and describe such groups.
The results of this first stage of analysis will allow us to draw up a new cross-section database in which each country of the world will be described by its membership in some group or other, regarding each dimension. For example, we will then be able to tell which kind of agriculture system is conducted, which type of education system is at work, how environmental issues are considered and so on, in such or such country under review. This qualitative database will be available for the most recent period, but also, if possible, for one or several previous period(s). At that time, we will manipulate seven variables presenting about 30 to 40 well-known distinct alternatives.

The implementation of multiple correspondence analysis and hierarchical cluster analysis to such dataset should give us some ways to answer many of our questions. First, who are the emerging countries? That is, as shown in figure 1, which countries lies in an intermediate situation between less advanced and industrialised countries, which shall constitute two opposite extreme groups in such analysis? Which countries show specific configurations neither fitting anyone of those of less developed countries nor those of rich countries?

Secondly, how do they emerge? That is, as shown in figure 2, which combination of several distinct alternatives characterizes such countries? Which institutional configuration(s) support their emerging process? In other words, is it the combination of one education system with one labour market regulation and one kind of international integration; or is it the combination of one financial market and development financing combined with one mode of regulation and social welfare issues?

Is there, as shown in figure 3, “one specific way”, that is, do emerging countries constitute an homogeneous group in which comparable institutional changes occur? In that case, emerging countries will strongly look like each other. Is there, as shown in figure 4, an « emergence path » previously followed by today rich countries?

Are there, as shown in figure 5, several ways of emergence, each one being supported by specific institutional constructions? Does each emerging country implement its own emerging process, its own regulation and institutional mix to ignite and support its emergence process, as shown in figure 6? Are there different configurations for the two stages of the growth acceleration and of the long-run sustained growth as claimed by Rodrik (2003)?

![Figure 1: Who are the emerging countries?](image1)

![Figure 2: How do they emerge?](image2)
Naturally, econometric analysis will be implemented on our dataset to assess which are the determinants of the emergence or the determinants of a given model of socio-economic emergence. Moreover, we will also be able to question the economic and/or social performance of such or such model of emergence.

What are we about to find, then? What are the possible results to which we are likely to come about? A first one is that original internally consistent models are implemented in LDCs. A second outcome could be that some emerging or developing economies converge towards OECD models. A third outcome would consist off partial models made of different types of institutions inherited from inconsistent and partial reforms (international norms, structural adjustment, transnational rules) but deemed to efficiency losses due to institutions with limited complementarity, or substitutes, or counterproductive in respect with other parts of the system.

Lastly, all intuitions and conclusions that may arise from the observation of factor analysis and econometrical results could also be backed up by some pseudo-dynamic or comparative static observations based on the use of additional individuals techniques applied to previous period’s data. We guess that we will then be able to describe and comment on the institutional changes, not only the
institutional states but the institutional changes, which occurred in such or such country (or group of countries) during its emergence process, and to draw up some trajectories of emergence in order to appreciate their respective socio-economic performances.

To conclude, we intend to lead a second phase of investigation when emerging countries will have been correctly identified, described and possibly classified. The aim of this phase will be to focus on the only emerging countries so as to enrich available databases with more specific and appropriate data. It will then be possible to run more accurate analysis in order to qualify our previous statements and to bring out the subtler points. Naturally, econometric analysis can be conducted on data to explore, to investigate, which are the determinants of emergence or the determinants of each pattern of emergence. Moreover, we will also be able to question the economic and/or social performance of these models of emergence.

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