**Revisiting the Glorious Revolution: Property Rights, Economic Institutions and the Developing World**

**Abstract:** This paper evaluates the merits of New Institutional Economics (NIE, hereafter) versus the critical institutionalist method. The paper sketches how the Glorious Revolution, a seminal event in British economic and political history, has been analyzed by NIE. This paper argues that the NIE analysis, in general, and that of the Glorious Revolution, in particular, shows a considerable amount of theoretical weakness. This paper utilizes the critical institutionalist (critical-realism and original institutional economics) method to present a comprehensive institutional analysis of the Glorious Revolution. The paper underscores the changing nature of resource distribution and culture in Britain as key variables. The paper also highlights the role of the Whigs as key agents in bringing about the events associated with the Glorious Revolution.

**Keywords:** Economic Growth, Evolutionary Economics, Political Institutions, Property Rights, New Institutional Economics, Developing World, Critical institutionalist method.

**Biographical notes:** Aqdas Afzal earned his doctorate in economics and social science at the University of Missouri – Kansas City on a Fulbright scholarship. While finishing his doctorate, Afzal taught at the Rockhurst University in Kansas City. Afzal also won the Student Scholars’ Prize in economics in 2015. Afzal participated in several seminars, while pursuing his doctorate, including the Minsky Summer School at the Levy Economics Institute, and ‘Complexity in Social Systems and Economics’ at the Santa Fe Institute. Afzal is an Assistant Professor in the department of economics at the National University of Sciences & Technology (NUST) in Islamabad, Pakistan. He can be reached at aqdas.afzal@gmail.com.
1. Introduction

At least for the last three decades, the field of development and international financial institutions like the World Bank have been dominated by the precepts of New Institutional Economics (NIE). Previously, the Original Institutional Economics (OIE) of Thorstein Veblen, John Commons and Wesley Mitchell was a prominent paradigm for analysing institutions in the 1920s and the 1930s. However, where OIE scholars—Veblen’s critique of economic man as a ‘lightning calculator’ (1919), for instance—rejected the ontological foundations of neoclassical economics, NIE develops institutional theory that comports with these foundations. This conscious effort is also referred to as building on ‘microfoundations,’ or the ‘fourth level of social analysis’ (Williamson, 2000).

According to Douglass North, perhaps NIE’s most famous proponent, ‘…new institutional economics builds on, modifies, and extends neo-classical theory to permit it to come to grips and deal with and entire range of issues…’ (North, 1995, p. 17). Specifically, NIE scholars make a case for considering ‘institutions’ as a veritable panacea for most of the economic problems facing the developing world. Nonetheless, problems remain. The absence of institutional convergence, the persistence of dysfunctional or ‘inefficient’ institutions and the lack of contextual analysis for developing countries behooves us to critically examine NIE’s efficacy as a relevant paradigm for institutional analysis, especially in the context of developing countries.

In the first section, this paper sketches how the Glorious Revolution, a seminal event in English—later British—economic and political history, has been analyzed by NIE. The paper argues that the NIE’s institutional analysis of the Glorious Revolution suffers from
considerable theoretical weakness, especially regarding the omission of key explanatory variables like distributional conflicts and bargaining power asymmetries. The second section utilizes the critical institutionalist (critical realism and original institutional economics) method to present a comprehensive institutional analysis of the Glorious Revolution. In the critical institutional argument advanced in this paper, the changing nature of resource distribution and culture in Britain are emphasized as key variables. At the same time, the role of the Whigs as key agents is also underscored in precipitating the necessary events that came to be associated with the Glorious Revolution.

North and Weingast (1989) make a case for the singular importance of the Glorious Revolution in putting England on the course towards economic growth, prosperity and Empire. According to the authors, prior to the Glorious Revolution of 1688-89, the fundamental problem in England was the monarchy itself. In the absence of statutory taxation, the monarchy did not ‘credibly commit’ itself toward protecting the property rights of the English subjects and thus the monarch imposed taxes and siphoned off economic gains without prior notice. Due to this persistent uncertainty, the system of incentives was stacked against economic growth resulting in anemic—if any—economic growth.

During the Glorious Revolution of 1688-89, King James II of England was defeated by an invading Dutch force (Hodgson, 2016). As a result, William III of Orange-Nassau and his wife Mary II became joint monarchs. The Glorious Revolution led to significant recalibration in the institutional makeup, via which the English government, the NIE argument goes, was finally able to convince the people that the Crown would not engage in arbitrary taxation. Finally, the system of incentives was properly aligned to jump start the process of economic growth, thus placing England on the path to the Industrial Revolution, economic development, prosperity and the British Empire.
2. The Paucity of NIE Institutional Analysis

Despite the many permutations of institutions, a central NIE precept is secure property rights (North, 1981; North & Weingast, 1989). For instance, North and Weingast (1989) make a case for the state to credibly commit against arbitrary taxation through enforcing secure property rights, since they provide the best protection against potential predation by the state. However, there are several problems with this line of reasoning. Specifically, regarding the Glorious Revolution, it is not entirely clear if North and Weingast’s claims (1989) regarding property rights are factually correct. Hodgson (2016) disputes there were any significant changes in property rights in Britain after the Glorious Revolution since property rights were already ‘relatively secure’ in England since the 13th Century. Hodgson ascribes the improvements in living standards to the needs of war and Britain’s expanding global role. McCloskey (2016) also questions the focus on property rights as she argues that the property rights regime did not change in England for at least two hundred years between 1630-1830. McCloskey ascribes the ‘Great Enrichment’ in living standards to changing social values.

On a deeper level, the NIE assertion that having secure property rights will lead to economic growth misses the larger point that people in the developing world, at times, require completely different type of property rights (Bardhan, 2006). The type of property rights being promoted in NIE are the Anglo-Saxon-style property rights that establish asset or land ownership through titles and deeds. In so doing, NIE’s promotion of secure Anglo-Saxon-style property rights misses the reality of life in many developing countries, where either Anglo-Saxon-style property rights often are absent, or very different property rights are desired—protection from extortion by local goons is one such example. In an interesting analysis, Neale (1985) shows the variation in ‘property rights’ in the case of an Indian village. In most Indian villages in India, the village land belongs to the dominant caste group,
which sustains its control by exercising raw power. The dominant caste group also decides how the produce is to be distributed amongst the village inhabitants. Everyone gets a share—not according to the work put in, but according to their relative caste standing. In other words,

‘[p]ower or politics and produce were strong organizing ideas in India. Property was not. When we, as analysts, focus on property—our concept for our interest—we examine "appropriational powers," and the appropriate terms for India are probably village, revenue, rank, role, power, and share, not right’ (Neale, 1985, p.956).

In the final analysis, the attractiveness of any set of property rights varies with people’s differing socio-economic status: where big corporations consider protection from excessive taxation as property rights, small karyana store owners in South Asia, for example, consider protection from extortion as property rights.

Milonakis and Fine (2007) take issue with the Northian definition of property rights finding it too ‘narrow.’ Instead of ‘property rights’ argue Milonakis and Fine (2007) the concept of ‘property relations’ or the social relations between production agents is more effective to understand the diverse nature of property rights. In sum, NIE is guilty of painting a picture with broad strokes that appears reductive, at best, and downright Western-centric, at worst.

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

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

Schneider and Nega (2016, p. 437) have also underscored the ethical problems pertaining to equitably assigning property rights in Africa, ‘Some of the most productive members of society, particularly women, tend to be excluded from government efforts to extend formal property rights to communal lands’. As such, NIE’s lack of a moral appraisal is part of a bigger problem in neoclassical economics that largely eschews philosophical questions (Fine, 2004; Nussbaum, 2016). Such philosophical ignorance, where it can result in unjust outcomes, is deeply troubling.

Another problem with NIE is how promotion of secure property rights is touted as a solution to the problem of coordination since NIE conceptualizes economic growth as a coordination problem—a Prisoners’ Dilemma Game. Without property rights, NIE argues, human existence remains beset with the ‘tragedy of the commons’ (Hardin, 1968), whereby
individuals ‘...pursue their private objectives to disastrous consequences for themselves and others’ (Bowles, 2004, p.27).

There are two main ways in which property rights allegedly provide a channel to economic development. First, property rights provide an external enforcement mechanism through which economic agents can reach and remain at the Pareto-optimal Nash equilibrium, as opposed to being doomed to the Pareto-inferior Nash equilibrium. Second, property rights also assist with economic development by changing the very nature of the process of economic growth from a Prisoners’ Dilemma to what Bowles has termed the ‘Invisible Hand Game’ (2004). Unlike a Prisoners’ Dilemma that has two Nash equilibria, only one of which is Pareto-optimal, there exists a single Nash equilibrium that is also Pareto-optimal in Bowles’ Invisible Hand Game. This means that property rights bring about economic development by acting essentially like the Invisible Hand Game with clear incentives for mutually beneficial and sustainable collaboration between different parties.

There are two main issues with the claim that property rights can solve the coordination problem of economic growth. The first issue is that providing secure property rights is simply not possible unless an individual or an organization can monopolize the use of violence; the Weberian conception of the state. For unless the capacity to undertake violence can be monopolized through state formation, perpetual violence between warring factions, clans or tribes in a Hobbesian ‘state of nature’ would ensure that not even the idea of property rights exists. What may belong to one clan today might end up belonging to another faction tomorrow. In a sense, the purported solution to the coordination problem of economic growth in the shape of secure property rights is by itself a coordination problem—establishing secure property rights is a nested prisoners’ dilemma since the formation of a state must precede the establishment of property rights. In political science, nested prisoners’ dilemmas are studied through the so-called sequencing debate that analyzes whether state
formation happened before the formation of democracy or democratic institutions (Acemoglu and Robinson, 2016). Thus, what is claimed as a solution to the problem of coordination depends on the state for enforcement, while the coordination problem inherent in state formation is not explained.

The second issue stems from the plethora of evidence that points in the opposite direction from that of the NIE. Even if we accept property rights as coordination mechanisms, the efficacy of the state as a superb coordination mechanism cannot be ignored. The East Asian state, for instance, played a significant coordinating role in setting the region on the path towards economic development: It intervened in the capital markets to regulate credit allocation to designated ‘winners;’ promoted industrial investment; underwrote risks and guaranteed loans and established public development banks, to name a few instances (Amsden, 1989).

Schneider and Nega (2016) have also criticized NIE for ignoring the state as an important variable, at least for the developing world. The authors analyze policy prescriptions for Africa emanating from NIE and find that the NIE remains a supply-side approach promoting the private sector ‘…over demand considerations and the public sector’ (p.441). In their own words, ‘Viewing the state primarily as an impediment to development is problematic. There are almost no instances of late-industrializing countries succeeding without substantial state intervention, so it makes little sense to continue to deemphasize state-led development’ (Schneider and Nega, 2016, p. 441).

Finally, the biggest gap in the NIE literature on institutions is an incomplete theory of institutional genesis and change. The story of the Glorious Revolution, as told by North and Weingast (1989), simply states that new institutional arrangements arise when certain principals realize the institutions’ importance and decide to play by the new rules of the
game. For instance, after William and Mary became joint monarchs of Britain, they realized that violent and frequent expropriation of surplus from the citizenry was counter-productive, and thus agreed to play by the rules and provide secure property rights. If getting the right institutions is a matter of realization, it naturally begs the question as to why dysfunctional institutions even exist? Or, given that the right institutional architecture is a function of realization, institutional re-calibration in favor of Anglo-Saxon-type property rights should have occurred in almost all human societies by now. In other words, we should have witnessed a greater level of convergence between local institutions and those belonging to the Anglo-Saxon private property rights tradition. Needless to say, reality is not so.

The NIE theory of institutional change ignores three important variables: i) culture; ii) vested interests; iii) collective action. Property rights institutions show immense variation owing largely to spectacular diversity in human cultures—e.g., the different nature of property rights in Indian villages. Property rights in the form of inalienable rights of ownership are not a strong organizing principle in many societies. And, even in societies where property rights are important organizing concepts, the very notion of property rights is often open to legal or juridical interpretation (Mayhew, 1985; Atkinson and Paschall, 2016). In other words, the very notion of property rights is culture-specific, open to interpretation and dynamic.

OIE recognized culture to be an important driver behind human action (Mayhew, 1987; Waller, 2003). Thorstein Veblen and John R. Commons and their intellectual heirs recognized that cultures are important in explaining “…the organization of processes of producing and distributing goods and services” (Mayhew, 1987, p.588). However, NIE in its zeal to incorporate the ontological foundations of neoclassical economics, only focuses on alleged universal aspects of human behavior like rationality and utility maximization while deliberately expunging cultural influences. Devoid of a diverse cultural analytical
perspective, NIE is only left with explaining spectacular institutional diversity in the case of property rights by invoking the concepts of rationality or lack thereof.

Another variable explaining the lack of institutional convergence is vested interests or the distributive conflicts and asymmetries in bargaining and mobilizing power among various social groups, especially in the developing world. Acemoglu and Robinson (2008) have shown that, at times, it may \textit{not} be in the interest of a dictator to carry out institutional changes that safeguard property rights or contract enforcement—institutional arrangements that improve overall economic performance—because such institutional changes carry the potential for ‘…upsetting the current arrangement for the uncertain prospect of share in a larger pie’ (Bardhan, 2006, p. 20).

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

The second reason for the perpetuation of dysfunctional institutions is related to political reasons. In this case, large landholders resist reallocation of land that they know is inefficient since the leveling impact of redistribution reduces their social and political power as well as their ability to control and dominate non-economic markets. In other words, the greater the degree of inequality in a society—owing to distributional conflicts—the greater
the likelihood of dysfunctional institutions. Finally, the third reason for the perpetuation of persistent dysfunctional institutions the relationship between collective action and distributional conflicts. In comparisons of macroeconomic performance of East Asian countries, it has been noted that they were able to develop economically because of relatively equitable asset distribution, particularly due to land reform, and expansion of education and basic health services, since having a relatively equitable distribution of resources makes it easier to enlist the support of various social groups and thus find a solution to problems of free riding.

3. Critical institutionalism

Critical institutionalism (CI) explores how institutions dynamically mediate relationships between people, natural resources and society (Cleaver and de Koning, 2015). In addition, history and path dependence are important considerations within CI; however, in CI, path dependence is not deterministic, ‘...but in a sense that institutions are formed in sedimented layers...’ (Cleaver & de Koning, 2015, p. 6). At the same time, CI takes complexity or feedback loops, power asymmetries and social justice issues into context. Moreover, as opposed to NIE, which relies on methodological individualism as its ontological commitment (Kjosavik, 2003), CI analysis relies on methodological holism.

Tauheed (2013) builds a usable definition of culture to include ‘...technology (“tools and skills”) and its ‘symbols, stories, rituals and world-views,’ all developed from collective experience in past problem solving (2013, p.7, parentheses and quotes in original).’ At the

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1 Critical institutionalism (CI) explores how institutions impact relationships between people, resources and society. CI underscores the complexity of institutions in social arrangements, the institutions historical formation and the power relations found within them. Often in CI perspectives, social justice is used as a normative standard in evaluating the outcomes of various institutional processes.
same time, resource structure (r-structure, hereafter) is defined as ‘…the distribution of resources to agents as an outcome of past social action (Tauheed, 2013, p.7).’ The idea here is that with a definition of r-structure, we want to capture the actual distribution of resources available to various agents at a given time. Finally, Tauheed defines agency as ‘…the degree of awareness people have of their power to interact with and to re-make their social environment to suit their needs’ (2013, p.7). Agency is a ‘psychological construct’ that concerns people’s ‘beliefs’ about their capabilities and thus the probabilities of success in carrying out their personal agenda. In this sense, agency becomes informed and possible purposive action. Thus, defining agency as purposive human action, critical institutionalism puts the agents back into the calculus behind social action.

In section I, I argued that bargaining asymmetries in distributional conflicts leads to the persistence of dysfunctional institutions. By glossing over entrenched distributional conflicts, NIE is unable to answer why dysfunctional institutions exist. However, by specifically incorporating resource distribution, critical institutionalist analysis incorporates entrenched distributional conflicts, in both developed and developing nations. Thus, critical institutionalism provides a workable theory of institutional change to explain why dysfunctional institutions persist and how under certain conditions institutions transform.

4. Analysis of the Glorious Revolution in critical institutionalism

R-structure and Culture. The process of significant change in Britain’s r-structure and culture had commenced at least one hundred years—if not earlier—prior to the Glorious Revolution. In the following paragraphs, beginning with the Enclosure Movement, I detail some of the changes that profoundly impacted Britain’s society in terms of changing the distribution of resources, and culture.
First, since agriculture was central in 17th century British society, distributional changes were significant. According to O’Gorman (1997), Britain was going through a veritable revolution in agriculture from the early years of seventeenth century onwards. Thus, ‘…[h]arvests were good…[b]y the end of the century England was feeding herself comfortably and had even begun to export grain’ (O’Gorman, 1997, p.20–21). Though few statistical records exist from that era, research of wills and probates indicates that entire Britain experienced increased wealth, improvement in machinery as well as a willingness to invest in newer techniques for increasing agricultural yields (O’Gorman, 1997).

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

Second, where changes in agricultural productivity were changing the r-structure in Britain, a simultaneous development in international trade was creating a new ‘trader’ class that was crucial in transforming Britain, as this trader class gained political clout—in the shape of the Whigs. According to by O’Gorman (1997), British exports roughly doubled between 1640 and 1700, which followed from the availability of new protected markets, especially in North America. At the same time, the introduction of new textile products, both for the domestic and international markets ensured continued economic growth. It can be
assumed that the more international trade grew the more politically significant the Whigs became.

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

**Agency.** By the time of the Glorious Revolution, the political faction dominated by ‘Whigs’ was on the ascent. Indeed, the immediate period after the Glorious Revolution is sometimes referred to as the golden age of Whig ideas in Britain. In the critical institutionalist analysis of the Glorious Revolution presented in this paper, therefore, Whigs are the agents who carried out the institutional changes that came to be associated with the Glorious Revolution. Since agents act according to their agendas, the specific agenda of the Whigs can be characterized by their stance on three main issues: monarchy, religion and economy.

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

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

The Whigs were the very physical embodiment of Classical Liberalism. Whigs believed in maximal personal, political and social liberty. As a natural extension, leading Whigs were in favor of laissez-faire and free trade. Increasingly, Whigs came to be associated with the emerging industrial interests (metals, commerce etc.) and wealthy merchants (international trade): where the former were leery of absolute monarchial powers, the latter preferred laissez-faire with minimal taxation.

5. Conclusions

This paper began by critically examining the relative merits of two methods of institutional analysis, namely NIE and critical institutionalism. In the first section of the paper, I evaluated NIE institutional analysis by focusing on how NIE explains the Glorious Revolution, a seminal event in British history. NIE, it was argued, suffers from several weaknesses. For instance, the cookie-cutter approach employed by NIE scholars in only promoting secure property rights is reductive, at best, and Western-centric, at worst. Moreover, as pointed out, there is no theory of institutional change within NIE. As a result, NIE is unable to account for the lack of global convergence towards Anglo-Saxon-style institutions and the persistence of dysfunctional institutions, especially in developing countries. The second section of this paper, advanced critical institutionalism as a better
method for institutional analysis, demonstrating its efficacy via an application to the Glorious Revolution. I showed that the changing nature of resource distribution—over hundreds of years—in Britain (agriculture, trade, commerce) enabled the Whigs to actualize the events of the Glorious Revolution. I also argued that by specifically factoring in distribution of resources, the critical institutionalist method is superior to NIE for providing a workable theory of institutional change and for explaining the persistence of dysfunctional institutions, especially in developing countries.
References


