Growth theory in intitutional economics

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Institutions v.s. Techonology

- Growth theory of new classical economics, as in our textbook, emphasizes technology as the driving force of economic growth.
- Growth theory of institutional economics emphasizes instituions as the driving force of economic growth.
    - In a world where technological information is at least nominally free, differences in ability to make efficient use of the state of knowledge must account for the widely disparate experience of national economies.

Ocean shipping as an example

- It is difficult to show the importance of instituions on a macroeconomic level.
- It is possible to show it in a microeconomic level.
- Douglass North (1968) presents evidence on sources of productivity change in ocean shipping from 1600 to 1850.
    - Douglass C. North (1968), "Sources of Productivity Change in Ocean Shipping, 1600-1850", *Journal of Political Economy*, 76, p.953-970.

Institutions matter

- Data show that there was a substantial improvement in toal factor productivity of shipping from 1600 to 1850.
  - There was no technological progress in shipping over this period.
  - A decline in piracy and an improvement in economic organization account for most of the productivity change over this period.
- The decline of piracy and privateering permitted ships to reduce both manpower and armament on ship, which reduces shipping cost.
  - The decline of pirace also lowered insurance costs.
- The developement of markets and international trade reduced the port time. (the inventorying of tobacco)