

## Executive Summary

ESF Exploratory Workshop

### **Development Meets Transition: Understanding Institutional Change**

*Stockholm, 12-13 December 2003*

Transition economics is a rather new field which emerged rapidly when the transformation process of former socialist economies began. There is widespread agreement that *transition* should be understood and analyzed as *a process of large-scale institutional change*. In this spirit transition economics has become a dynamic field with considerable publication success in top journals. By virtue of its interest in the dynamics of institutions and their impact on economic welfare, transition is closely related to development economics, economic history and political economy. The Exploratory Workshop's main goal was to bring together the community of transition researchers from Europe, the US and Asia and researchers from neighbouring fields to discuss topics of joint interest, new methodologies and the relevance of research on institutional change and economic policy.

The workshop's programme covered theoretical as well as empirical work, microeconomic as well as macroeconomic topics. The papers looked at a broad set of regions: North America and the EU, Africa, Asia and Central and Eastern Europe. Common to all papers was the concern with three questions: What is the impact of the institutions that govern markets and private and public organizations on efficiency and growth? What are the determinants of institutional change? How can institutional change and, thus, economic performance be influenced by economic policy?

## Scientific Content of the Event

Daron Acemoglu (MIT) presented an overview of his recent work, which, as one of its goals, tries to understand the emergence of democratic institutions in Europe as a consequence of the rapid development of trade in the 17<sup>th</sup> and 18<sup>th</sup> century. Fabrizio Zilibotti (Stockholm University) presented a new methodology to measure the impact of development gaps on the adoption of new technologies, which also allows the evaluation of policy options for development. The article of Peter Howlett (LSE) and colleagues investigated whether the development of post World War trade led to convergence among countries and documents the emergence of clubs of countries who converge compared to other countries in the same club, but diverge across clubs. The three papers have in common that they combine macroeconomic

interest in development with a cross-country analysis, and historical perspective with concerns about contemporary issues of economic development.

A second group of papers looked at the micro-determinants of economic welfare. Daniel Berkowitz (University of Pittsburgh) investigates the effect of transplanting legal systems into inappropriate environments. While this topic has been explored before for transition and development economies, he opens a new perspective by showing that even in the US legal transplants have had little success. Emmanuelle Auriol (University of Toulouse) presented a theory and empirical estimations on the effect of weak fiscal institutions on market entry barriers. Her paper, in a way similar to the one by Berkowitz, takes a cross-sectional perspective to test how institutional weaknesses affect the interactions of economic actors and, ultimately, welfare. The paper of Jakob Svensson (Stockholm University) investigates a unique micro-dataset trying to estimate the effects of an information campaign on the efficient use of public funds. It shares the concern of the preceding papers to quantify the effects of publicly provided institutions on the economic well-being of the population. It is an innovative policy tool, because it allows quantifying the beneficial effects of rather simple policy reforms in development economies.

Four articles looked at changes in labour market institutions and their impact on economic performance. Dalia Marin (University of Munich) investigated the effect of market integration on the use of human resources and organisational structure. Stepan Jurajda (Cerge-EI, Prague) looked at the effect of transition in East Germany on the wage gap between men and women and Tito Boeri (IGIER, Milan) provided an overview of how product market integration in the EU has affected labour market institutions. Robin Burgess (LSE) analyzed a data set covering all Indian regions that reformed their labour market institutions to different extent throughout the last decades and estimates the effects of such liberalization policies on firm dynamics. The papers contribute to a better understanding of the costs and benefits of labour market reforms. They also identify sources for inertia and resistance to change.

The final two papers enriched the economic perspective by concepts from sociology and social psychology. Raja Kali (University of Arkansas) presented his work on social embeddedness of economic interactions, which highlights the risk of collapse of trust in societies that get rapidly exposed to the functioning of markets. Mariassunta Giannetti (Stockholm School of Economics) presented her work on entrepreneurship in Sweden, which

provides support for the hypothesis that social norms may be equally important for the understanding of entrepreneurship as economic motives.

### Assessment of the Results, Contribution to the Future Direction of the Field, Outcome

The main goals of the exploratory workshop were:

1. To help *shape a research agenda* for the future of transition economics.
2. To review the *methodological underpinnings* for the theory of transition and to take *stock of the available data* for empirical tests of theories of transition.
3. To *enhance cohesion in the scientific community* of transition economists, in particular with young economists in the transition economies, and improve *cooperation with the neighbouring fields*: economic theory, economic history, development economics, political science and law.
4. To identify the *main policy challenges* facing the field.

To achieve these goals the conference brought together researchers on large-scale institutional change from different regions and with quite different background. The workshop used a format conducive to intensive interactions. Paper presentations were shorter than usual, discussants were allocated more time than usual, and generous amounts of time was allocated to the lively discussions from the floor. A number of interesting challenges and lessons were identified in the workshop.

- 1) *Identifying joint research interests*. Disciplines like transition, development economics, empirical political economy, economic history have one thing in common: They necessarily look at institutions in a comparative perspective. Thus it is not surprising that the language and tools that researchers in the different fields use seem to converge and that the dividing lines between transition, development and economic history are less strong than previously. The workshop made clear that the problems with property right enforcement,

labour market or public sector reforms have much in common, independent of the stage of development of a country or geographical situation.

- 2) *Extending the comparative perspective.* While the underlying economic forces may be quite similar, different countries and regions do have their specificities. In particular, they start with different initial conditions, have different historical backgrounds, and so forth. The crucial challenge for the further development of transition and institutional economics in general is to develop methods accounting for these specificities in order to carry out empirical analyses on the effects of institutions on economic performance, and the feedback from economic performance into institutional change. A fruitful new perspective is the work of researchers like Burgess or Berkowitz who look at the states of India and the US, where arguably the differences weigh much less heavy, and where, consequently, it is easier to pin down the effects of institutional reforms on economic performance.
- 3) *Evaluating the effects of exogenous shocks.* Massive exogenous shocks often but not always involve large-scale institutional change: the expansion of transatlantic trade since the 16<sup>th</sup> century affected institutions in some but not in other countries (as Acemoglu shows), modern trade has affected some countries positively, but has harmed others (see Howlett's paper), the collapse of socialism led to quite different adjustment processes of labour markets (Jurajda), but not others. Identifying exogenous shocks and investigating when they lead to successful adjustment can teach much about the process of institutional change.
- 4) *Developing new policy evaluation tools.* It is difficult to evaluate the effects of policies on institutions and economic performance. However, the work of Svensson shows that one can design policy experiments that allow investigating in-depth quantitative case studies, which are interesting for researchers as well as from a policy perspective. Interaction with policy-makers can help to identify a broader range of such unique data bases that allow to pin down the channels of behavioural adjustments of economic agents.

The workshop has shown that there is a strong interest in the scientific community to use experiences from different regions, different points in history, and concerning different spheres of economic activity to identify common research interests and to mutually enrich the research agendas. Through this process and through the interactions with policymakers a richer paradigm for institutional economics, both empirical and theoretical, can be shaped. Next steps in this process are, among others, extended cooperation with research centres and think tanks in Eastern Europe and Asia and the Annual CEPR/WDI transition conference that will take place in Hanoi, in may 2004.

European Science Foundation  
Standing Committee for the Social Sciences (SCSS)

**ESF/SCSS EXPLORATORY WORKSHOP**

# **Transition Meets Development: Understanding Large-Scale Institutional Change**



**Stockholm, Sweden**

**12-13 December 2003**

Scientific Committee:

**Guido Friebel<sup>1</sup>, Erik Berglöf<sup>2</sup>  
Philippe Aghion<sup>3</sup>, Gérard Roland<sup>4</sup>**

Local Organiser:

**Anatole Faykin<sup>2</sup>  
Gun Malmquist<sup>2</sup>**

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<sup>1</sup> Université des Sciences Sociales de Toulouse, EHESS and CEPR

<sup>2</sup> Stockholm Institute of Transition Economics (SITE), Stockholm School of Economics (SSE) and CEPR

<sup>3</sup> Harvard University and CEPR

<sup>4</sup> University of California and CEPR



The European Science Foundation (ESF) acts as a catalyst for the development of science by bringing together leading scientists and funding agencies to debate, plan and implement pan-European scientific and science policy initiatives.

ESF is the European association of 76 major national funding agencies devoted to scientific research in 29 countries. It represents all scientific disciplines: physical and engineering sciences, life and environmental sciences, medical sciences, humanities and social sciences. The Foundation assists its Member Organisations in two main ways. It brings scientists together in its EUROCORES (ESF Collaborative Research Programmes), Scientific Forward Looks, Programmes, Networks, Exploratory Workshops and European Research Conferences to work on topics of common concern including Research Infrastructures. It also conducts the joint studies of issues of strategic importance in European science policy.

It maintains close relations with other scientific institutions within and outside Europe. By its activities, the ESF adds value by cooperation and coordination across national frontiers and endeavours, offers expert scientific advice on strategic issues, and provides the European forum for science.

### ***European Science Foundation***

1 quai Lezay Marnésia  
F-67080 Strasbourg Cedex  
Fax: +33 (0)3 88 37 05 32  
<http://www.esf.org>

#### **ESF Social Sciences Unit:**

**Henk Stronkhorst**  
Head of Unit

**Céline Seewald**  
Administrative Assistant

Tel: +33 (0)3.88.76.71.00  
Email: [cseewald@esf.org](mailto:cseewald@esf.org)  
<http://www.esf.org/scss>

#### **ESF Exploratory Workshops Unit:**

**Philippa Rowe**  
Administrator

**Isabelle Vonesch**  
Administrative Assistant

Tel: +33 (0)3.88.76.71.60  
Email: [philippa@esf.org](mailto:philippa@esf.org)  
<http://www.esf.org/workshops>



European Science Foundation - SCSS Exploratory Workshop

**Transition Meets Development: Understanding Large-Scale Institutional Change**

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### Scientific Committee:

#### Guido Friebel

Université des Sciences Sociales Toulouse,  
EHESS and CEPR

<mailto:friebel@cict.fr>

#### Erik Berglöv

Stockholm Institute of Transition Economics  
(SITE), SSE and CEPR

<mailto:Erik.Berglof@hhs.se>

#### Philippe Aghion

Harvard University  
and CEPR

[mailto:p\\_aghion@harvard.edu](mailto:p_aghion@harvard.edu)

#### Gérard Roland

University of California  
and CEPR

<mailto:groland@econ.berkeley.edu>

---

### Local Organiser:

#### Anatole Faykin

<mailto:anatole.faykin@hhs.se>

#### Gun Malmquist

<mailto:gun.malmquist@hhs.se>

Stockholm Institute of Transition Economics (SITE)

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### Background and Objectives:

In the early 90's, policymakers and economic researchers were confronted with a new challenge. Unexpectedly, most economies of the socialist world entered a phase of transition towards the market. A decade later transition remains at the top of the European policy agenda as the EU is enlarging eastwards and encounters new challenges.

There is a widely recognized definition of *transition as a process of large-scale institutional change*. In this spirit transition economics has become a dynamic field with considerable publication success in top journals. However, the question remains whether transition economics can establish itself as an autonomous field in economics, in a way similar to economic history or development economics. If it is here to stay, transition economics must show that it goes far beyond the description and analysis of isolated events. Rather, it must establish itself as the discipline that makes use of the *unique, natural, transition experiment* and extends this experience to a broader set of historical processes to enhance our knowledge about the role of institutions in economics in general.

The main goal of the exploratory workshop is to:

1. Help *shape a research agenda* for the future of transition economics.
2. Review the *methodological underpinnings* for the theory of transition and to take *stock of the available data* for empirical tests of theories of transition.
3. *Enhance cohesion in the scientific community* of transition economists, in particular with young economists in the transition economies, and improve *cooperation with the neighbouring fields*: economic theory, economic history, development economics, political science and law.
4. Identify the *main policy challenges* facing the field.

To achieve these goals we have invited researchers from many fields that are concerned with large-scale institutional change. Our goal is not to just study transition as a phenomenon of economic change in Central and Eastern Europe. Rather we will investigate similarities and differences in the institutional dynamics of quite different regions such as India, China, Latin America, Africa, and also historical experience from Europe and the US and reflections on institutional change in the EU. We will also put an emphasis on the effect of the internalisation of the global economy on institutions.



## PROGRAMME:

- Keynote speakers: 40-45 minutes - Open discussion: 15-20 minutes
  - Speakers: 30 minutes – Discussants: 10-15 minutes – Open discussion: 15-20 minutes
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### Friday 12<sup>th</sup> December 2003

12:30 – 13:00	<b>Registration</b> (sandwiches)
13:00 – 13:15	<b>Welcome &amp; Presentation of the European Science Foundation</b> Asbjørn Rødseth (Standing Committee for Social Sciences, SCSS)
13:15 – 14:15	<b>Keynote: Institutional Change</b> Daron Acemoglu (MIT)
14:15 – 14:30	Coffee Break
14.30 – 15.30	<b>Trade, convergence and globalisation: the dynamics of change in the international income distribution, 1950-1998</b> Philip Epstein, *Peter Howlitt (LSE), Max-Stephan Schulze <i>Discussant:</i> Catherine de Fontenay (University of Melbourne)
15.30 – 16.30	<b>Initial Conditions, Institutional Dynamics and Economic Performance: Evidence from the American States</b> Karen Clay, *Daniel Berkowitz (Pittsburgh University) <i>Discussant:</i> Pierre Cyrill Hautcoeur (Delta, Paris)
16.30 – 17.00	Coffee Break
17.00 – 18.00	<b>Taxation Base in Developing Countries</b> *Emmanuelle Auriol and Michael Warlters (Université de Toulouse and CEPR) <i>Discussant:</i> Wei Li (University of Virginia)
18.00 – 19.00	<b>The Power of Information: Evidence from a Campaign to Reduce Capture</b> Ritva Reinikka and *Jakob Svensson (IIES, Stockholm University, World Bank, CEPR) <i>Discussant:</i> Jean-Philippe Platteau (FUND, University of Namur)



## Saturday 13<sup>th</sup> December 2003

09.30-10.00	Coffee
10.00 – 11.00	<b>Globalisation and the Empowerment of Talent</b> *Dalia Marin (University of Munich, CEPR) and Thierry Verdier <i>Discussant:</i> Michael Castanheira (Free University of Brussels, CEPR)
11.00 – 12.00	<b>When Are ‘Female’ Occupations Paying More?</b> *Stepan Jurajda and Heike Hamgart (CERGE-EI, Prague, CEPR) <i>Discussant:</i> Jozef Konings (Licos, KU Leuven, CEPR)
12.00 – 13.30	Lunch
13.30 – 14.30	<b>Product Market Integration, Institutions and the Labor Market</b> Giuseppe Bertola, *Tito Boeri (Bocconi University and IGER) <i>Discussant:</i> Jan Fidrmuc (Free University of Brussels, CEPR)
14.30 – 15.30	<b>Keynote: Distance to Frontier, Technology Adoption and Public Policy in the Development Process</b> Fabrizio Zilibotti (IIES, Stockholm University and CEPR)
15.30 – 16.00	Coffee Break
16.00 – 16.30	<b>The Unequal Effects of Liberalization: Theory and Evidence from India</b> Philippe Aghion, *Robin Burgess (LSE, CEPR), Stephen Redding, Fabrizio Zilibotti <i>Discussant:</i> Sanjay Jain (University of Virginia)
16.30 – 17.00	Coffee Break
17.00– 18.00	<b>Social Embeddedness and Economic Governance: A Small World Approach</b> *Raja Kali (University of Arkansas) <i>Discussant:</i> Sergei Guriev (NES Moscow, Princeton University, CEPR)
18.00 – 19.00	<b>Does Prestige Matter More Than Profits? Evidence from Entrepreneurial Choice</b> *Mariasunnta Giannetti (SITE, SSE and CEPR), Andrei Simonov <i>Discussant:</i> Wendy Carlin (University College London, CEPR)



European Science Foundation

## **Objectives of the ESF Standing Committee for Social Sciences (SCSS)**

The mission of the **ESF Standing Committee for Social Sciences (SCSS)** is as follows:

- to promote high quality social science research at the European level;
- to bring 'added value' to nationally funded research through European collaboration between ESF Member Organisations;
- to help support innovative research ideas and approaches emanating from the scientific community, and
- to play an institutional role in strengthening European social science research infrastructure.

**SCSS** supports a limited number of **Exploratory Workshops** each year. These workshops allow leading European scientists to explore novel ideas at the European level with the challenging aim of “spearheading” new and preferably inter-disciplinary areas of research. Further details are available at <http://www.esf.org/workshops>.

One outcome of an ESF Exploratory Workshop may be that participants decide to submit a proposal for an ESF scientific **Programme, Network** or **Euroconference**, possibly to be financed by, and coordinated through, the European Science Foundation. If this is the case, it is expected that participants of the workshop follow the relevant procedures.

In the case of **Programmes** (“à la carte” or **EUROCORES**), a draft proposal should be submitted to the SCSS Secretariat for advice, to then subsequently undergo further external refereeing. If successful in obtaining SCSS’s scientific recommendation, the proposal will be submitted to ESF Member Organisations for funding on a voluntary basis. More details are available at <http://www.esf.org/scss>.

In the case of a **Network** the proposal is submitted to the ESF Network Secretariat. The results of the refereeing process and SCSS’s scientific recommendations are provided to the Network Group. This is the body that decides whether or not to recommend a proposal for launching. More details are available at <http://www.esf.org/networks>.

In the case of **Euroconferences**, the proposal is submitted to the ESF Euresco Secretariat. A Committee (assisted by Advisory Panels) takes full responsibility for the selection of conference subjects and chairmen. More details are available at <http://www.esf.org/euresco>.

## FINAL PARTICIPANT LIST - EW02-189

Name	Affiliation	Telephone	Email	Fax
Wendy Carlin	UCL	(44) 20-7679 5858	<a href="mailto:w.carlin@ucl.ac.uk">w.carlin@ucl.ac.uk</a>	(44) 20-7916 2774
Jan Fidrmuc	ULB	(32) 2 650 4462	<a href="mailto:jfidrmuc@ulb.ac.be">jfidrmuc@ulb.ac.be</a>	(32) 2 650 3369
Guido Friebel	EHESS	(33) 5 61 12 86 05	<a href="mailto:friebel@cict.fr">friebel@cict.fr</a>	(33) 5 61 12 86 37
Jean-Philippe Platteau	DES	(33) 81/724860	<a href="mailto:jean-philippe.platteau@fundp.ac.be">jean-philippe.platteau@fundp.ac.be</a>	(33) 81/724840
Chenggang Xu	LSE	(44) 20 7955 7526	<a href="mailto:c.xu@lse.ac.uk">c.xu@lse.ac.uk</a>	(44) 20 7831 1840
Micael Castanheira	ULB	(32)26504467	<a href="mailto:mcasta@ulb.ac.be">mcasta@ulb.ac.be</a>	(32) 2 650 44 75
Jozef Konings	Leuven	(32)16 32 65 89	<a href="mailto:joep.konings@econ.kuleuven.ac.be">joep.konings@econ.kuleuven.ac.be</a>	(32) 16 / 32 6599
Emmanuelle Auriol	Toulouse	(33) 5 61 12 86 20	<a href="mailto:eauriol@cict.fr">eauriol@cict.fr</a>	(33)5 61 12 86 37
Pierre Hautcoeur	DELTA	(33)143136301	<a href="mailto:pch@delta.ens.fr">pch@delta.ens.fr</a>	(33) 1 43 13 63 10
Irena Grosfeld	DELTA	(33) 1 43 13 63 28	<a href="mailto:grosfeld@delta.ens.fr">grosfeld@delta.ens.fr</a>	(33)1 43 13 63 10
Peter Howlett	LSE	(44) 20 7955 7075	<a href="mailto:w.p.howlett@lse.ac.uk">w.p.howlett@lse.ac.uk</a>	(44) 20 7955 7730
Steven Fries	EBRD		<a href="mailto:friess@ebrd.com">friess@ebrd.com</a>	
Stepan Jurajda	CERGE	420-2-240 05 139	<a href="mailto:Stepan.Jurajda@cerge-ei.cz">Stepan.Jurajda@cerge-ei.cz</a>	
Tito Boeri	Bocconi		<a href="mailto:tito.boeri@uni-bocconi.it">tito.boeri@uni-bocconi.it</a>	
Robin Burgess	LSE	(44) 20 7955 6676	<a href="mailto:r.burgess@lse.ac.uk">r.burgess@lse.ac.uk</a>	
Dalia Marin	Munich	(49) 89 2180-2446	<a href="mailto:dalia.marin@lrz.uni-muenchen.de">dalia.marin@lrz.uni-muenchen.de</a>	(49) 89 2180-6272
Fabrizio Zilibotti	UCL	(46) 8 16 4377	<a href="mailto:fabrizio.zilibotti@iies.su.se">fabrizio.zilibotti@iies.su.se</a>	46 8 16 1443
Wei Li	Virginia	1-434-243-7691	<a href="mailto:LiW@darden.virginia.edu">LiW@darden.virginia.edu</a>	
Sergei Guriev	NES	(7-095) 129-3911	<a href="mailto:sguriev@nes.ru">sguriev@nes.ru</a>	(7-095) 129-3722
Chris Woodruff	UCSD		<a href="mailto:cwoodruff@ucsd.edu">cwoodruff@ucsd.edu</a>	
Raja Kali	Arkansas	1-479-575-6219	<a href="mailto:rkali@walton.uark.edu">rkali@walton.uark.edu</a>	1-479-575-3241
Sanjay Jain	Virginia	1-434-924-6753	<a href="mailto:sj8n@virginia.edu">sj8n@virginia.edu</a>	1-434-982-2904
Daron Acemoglu (keynote)	MIT	1-617-253-1927	<a href="mailto:daron@mit.edu">daron@mit.edu</a>	1-617-253-1330
Daniel Berkowitz	Pittsburg		<a href="mailto:dंबरk+@pitt.edu">dंबरk+@pitt.edu</a>	
Catherine de Fontenay	Melbourne		<a href="mailto:c.de.fontenay@unimelb.edu.au">c.de.fontenay@unimelb.edu.au</a>	
Erik Berglof	SITE, SSE	(46) 8 736 9676	<a href="mailto:erik.berglof@hhs.se">erik.berglof@hhs.se</a>	(46) 31 64 22
Mike Burkart	SITE, SSE	(46) 8 736 9140	<a href="mailto:mike.burkart@hhs.se">mike.burkart@hhs.se</a>	(46) 31 64 22
Tore Ellingsen	SSE	(46) 8 736 9260	<a href="mailto:tore.ellingsen@hhs.se">tore.ellingsen@hhs.se</a>	
Jesper Fagerberg	SSE	(46) 8 736 9270	<a href="mailto:jesper.fagerberg@hhs.se">jesper.fagerberg@hhs.se</a>	
Daniel Ferreira	SITE, SSE	(46) 8 736 9681	<a href="mailto:daniel.ferreira@hhs.se">daniel.ferreira@hhs.se</a>	(46) 31 64 22
Mariassunta Giannetti	SITE, SSE	(46) 8 736 9607	<a href="mailto:mariassunta.giannetti@hhs.se">mariassunta.giannetti@hhs.se</a>	(46) 31 64 22
Magnus Henrekson	SSE	(46) 8 736 9202	<a href="mailto:Magnus.Henrekson@hhs.se">Magnus.Henrekson@hhs.se</a>	
Torgny Holmgren	Swedish MFA			
Jakob Svensson	Stockholm	(+46) 8 16 30 60	<a href="mailto:jakob.svensson@iies.su.se">jakob.svensson@iies.su.se</a>	

## Country breakdown

Country	Number of Participants
UK	5
Belgium	3
France	5
Czech Rep.	1
Italy	1
Germany	1
Sweden	10
US	6
Russia	1
Australia	1