

INTERVIEW

WEBPONDO: Professor Robinson, thank you for accepting our invitation. This interview is going to have three types of questions. We begin with some academic issues and then we conclude with more personal and informal questions.

You say somewhere that you usually take a simplistic view of development. We would like to know what is that view.

JAMES A. ROBINSON: (Laughing) When I say that, I mean I concentrate on trying to explain per-capita income. It's fashionable to say (particularly Amartya Sen tries to say it) that this is a too simple view of what development is. Development is the "evolution of rights", it's "human development", and we should look at all of these things. But that's all very complicated. We don't really understand why people have certain rights in society or how all of these things evolve. Well, clearly welfare is different from development as high income, but a lot of things seem to be correlated with high income. So, when I say that, I really mean I'm just trying to look at income differences and not trying to start with this very ambitious kind of agenda of simultaneously trying to explain many other things that might be desirable in society. And lots of those things end up being very useless. So, for example, the United Nations proposes a "human development index" as a way of getting "beyond" GDP per capita. But the "human development index" is just an arbitrary combination of different indicators: life expectancy, or literacy, or income. But, how do I know how to weight those things? How do I know if life expectancy is more important than income? I mean, it's very arbitrary the way those things get ranked. So, I don't see the use of that index. Obviously we care about life expectancy and literacy and things like that, but I think it's too much to start worrying about.

When I said simplistic, that's what I mean. I think it was traditional to focus on income and then it became unfashionable...that's what I mean.

WP: So, income gives you a lot of information.

JAR: Yes, I think it's hard enough to understand.

WP: Ok, that brings us to another question. One of the research agendas in economic development has been the work by economists such as Barro and Sala-i-Martin, who have tried to explain the differences in income between countries using the traditional growth models. What do you think about this research agenda? And especially, do you think that these models help us understand all the problems about comparative development?

JAR: Well, I think that Barro and Sala-i-Martin's research agenda does not help to understand comparative development because they start with models that just don't have the potential to really explain the variance that you observe. So, if we take the standard Barro and Sala-i-Martin approach, they'd say: *could it be that all countries were the same, and it happens that some countries are richer than others because they started to grow earlier. So, if some countries are poorer, it's because they're further away from the steady state than others, but they're all converging to the same level of income.*

Well, we know that's not true. If all countries were the same, countries that are poorer would be growing faster (for the standard reason of diminishing marginal productivity of capital) and we know that it is not generally true that countries that are poor grow faster. So, then it must be that countries are different. Hence, if countries are different, maybe countries converge conditionally, they converge to their own steady states. But so what? What we're interested in is what is it that determines why countries have different steady states. However, in the type of models that they look at (like neoclassical growth models) the things that cause differences in steady states are either differences in preferences or differences in technology or government policy or things like that, which are the things you want to explain, not take as exogenous.

This idea goes back to Douglas North, which is that neoclassical growth focuses on factor accumulation: saving, technology, that are the *proximate* determinants of development. But you have to get beyond that to look at the incentive structure: what is it that *fundamentally* conditions the process of saving and accumulation? And in the neoclassical growth theory, that's basically preferences. And that's it: it's just preferences.

Interestingly I don't even think Barro and Sala-i-Martin tried very hard to explain comparative development on the basis of comparative preferences. I don't even know

whether anyone seriously proposes that idea, it doesn't seem very plausible to me. Many economists don't really see what it takes to provide a satisfactory explanation of comparative development.

I think if you read, say, Chad Jones's book on economic growth, he realizes right at the end of the book that all these models of factor accumulation don't really add up to a satisfactory theory of comparative development, and then he says: "well, there's this other stuff like 'institutions' and 'politics', but we don't really know much about that". Which is true! I mean, we're struggling for a way to think about comparative institutions, which institutions matter, why societies end up with the institutions that they do. How should we think about that?

And that's an agenda that North started in a rather vague way, but which has never really been carried through with. It hasn't been carried through with empirically, it hasn't been carried through theoretically, people don't really have models of things like that. So, that's the whole enormous agenda, very exciting, which is really getting off the ground, in my opinion.

If you read North, North's stuff is very interesting and with lots of very clever ideas, but it all never really comes together into a coherent explanation to comparative development. And one of the problems of North is that he doesn't really know anything about anywhere other than Europe and the United States. He doesn't know about the third world, about Latin America, or Africa or Asia. So, his ideas are very much about why the United States developed so successfully after 1800; why did the industrial revolution happen in Britain; why did Britain diverge from Spain and France, and stuff within Europe. So he has ideas about that, but I think that we need to look much wider at what's going on in the world to really understand the central issues of comparative development.

So, I feel that the type of factor accumulation models that Barro and Sala-i-Martin work on, may be useful for some purposes, but ultimately they just don't have built into them variables which are really going to help explain what we see. I never quite understood Barro and Sala-i-Martin's point of view. I don't really understand if they just don't see that's an issue, or whether they do see it and they think that somehow the model's going to explain everything.

We're (I mean me, Daron Acemoglu, Simon Johnson) trying to develop this research agenda that North proposed 30 years ago, but which never went anywhere. But I think basically North had it right. He asked the right questions and generally understood what the right sort of answer was. However, there is a lot to be done.....

WP: With respect to this in the previous issue of Webpondo, Michele Boldrin also criticized both the theoretical and the empirical work on economic growth. We would like to know if you think that his work with David Levine overcomes these sorts of shortcomings that you point out.

JAR: Well, I don't know this work very well by Michele Boldrin and David Levine. But my feeling is that if you're writing down a neoclassical growth model where you have preferences and technology, and things like that, then that's not going to get you very far. It doesn't matter how complicated you make it, whether you have non-linearities and cycles, or whatever..., that's not going to work.

Certainly, I can add non-neoclassical properties to growth models like non-convexities, I could have increasing returns in technology, or some types of problems of market failures like incomplete capital markets. This can lead to situations where you have multiple steady state equilibria. Some people think that the neoclassical growth model with some additions which would generate multiple equilibria can explain development in the sense that poor countries are trapped in "development traps", in "low level equilibria", when there exist other equilibria with higher growth rates or better development. So, everyone has the same characteristics; we have the same parameters, the same preferences, etc., it's just that intrinsically the world has multiple equilibria, where some countries get stuck in good equilibria and some countries get stuck in bad equilibria.

Good friends of mine such as Steve Durlauf (at Wisconsin) and Oded Galor (at Brown university), for example, think that's basically the way the world is, but my feeling is that this is very hard to see. First of all, if you look at data, countries do differ in observable characteristics, and so I don't quite know what to claim. We can write down a model and we can say we have the same alpha and the same gamma, but probably that doesn't look too plausible in reality. I just don't know what the evidence is that suggests that the world is characterized by multiple equilibria. So I just don't understand why it would be that some

countries would be stuck in one equilibrium and some countries would be stuck in another equilibrium. Some people like that type of approach, but it just doesn't seem to be a very useful way of thinking about the world.

My feeling is that you can't stick with this paradigm of preferences and technology, you have to look outside this tradition and this growth theoretic tradition to understand what's going on. That's what I would say.

WP: Looking outside these proximate determinants, one of the fundamental determinants that some people, such as Jeffrey Sachs, have talked about is geography. In some papers with Daron Acemoglu and Simon Johnson you have argued that it is not geography but rather institutions, which explains comparative development. So, what do you think about this other view of fundamental causes of development?

JAR: Well, I think that's really misconceived. But I think it's a very attractive theory, though. I think there are two sorts of ideas people have: one is something like a sort of racial theory, which is that *you have all these Indians in Bolivia, and you have all these Africans, you have all these black people, and, it's just something about white people that generates prosperity, you know, "black people are lazier"*, so these sort of racial theories are very popular. I think if you asked people on the street, many people (for example, my brother-in-law!) would tell you stories like that. Another idea is this geographical theory, which is that it's to do with just intrinsic properties of geography. I remember when I was a schoolboy, I learned that one of the reasons that the industrial revolution happened in England was that the leading sector in industrial revolution was basically textiles. If you look at the growth in England from the late 18th century to about 1840, 1850, textiles were really driving everything. Textiles are one third of manufactures. So, how come it happened in Britain and not in France, or somewhere else? Well, I remember vividly the school teacher explained to me that that was because in England it rained a lot, and so the air was very damp... so when they were spinning the cotton, the cotton didn't break, whereas in France it was drier and the cotton broke, and so you couldn't have a textile industry!

One learns a lot of things like that, like you learn that civilization started in the Tigris and Euphrates river valleys in the Middle East, "the fertile crescent", why did civilization start

there? Well, you get a bunch of geographical kind of explanations. But, my feeling is that this has very little explanatory power both historically and when we look across the world today. In my work with Acemoglu and Johnson we left open the extent to which geography might explain the distribution of income in 1500. But I have been reading about the Incas for example. The triumph of the Incas is a story about superior social, economic and political organization. I don't see how this can be explained by geography or the fact that they lived near the Urubamba river valley!

The reason that there's a correlation between the incidence of malaria and income, to cite one famous example, is that poor countries have bad institutions and they can't get to act together to eradicate diseases. Is not that diseases are causing low income. Of course having malaria is very bad for welfare: children die, it has terrible effects on welfare. But it's not that, if I eliminated malaria tomorrow, that would solve the problems of development in Africa.

So, we try very hard in those papers to try and nail this in a statistical way, to try and really say: "look, this geographical explanation doesn't explain the long-run patterns of development we observe", and moreover, we test statistically various types of geographical hypotheses and they just doesn't really stand up, they don't stand up to scrutiny.

So, sometimes people tell me that we've spent too long discussing geography, but the reason we do that is that I feel that at some level that's the way many people think about these types of issues. I don't understand what drives Jeffrey Sachs, but I find it worrying that he's so influential. You know, he's the chief advisor to Koffi Annan, in the United Nations. So, I find it worrying that someone whose work has so little scientific content can become so important in the world of policy advice. I don't really understand that.

I should also add that we tested the 'white superiority' hypothesis and found it lacking. There is even less evidence supporting racially based theories.

WP: You have exploited the differences in colonization process in America as a natural experiment to test for the hypothesis that institutions is one of the fundamental causes of development as opposed to other causes. And you have further argued that maybe macro-economic stability can be traced back to these

institutional origins more than to their differences in macro-economic policies. We'd like to know briefly about this empirical work that you have done.

JAR: Yes, when we first looked at this, we looked at the connection between institutions and comparative development. We looked at that statistical relationship, but there could be many things connecting particular sets of institutions to development. So, there's a sort of big "black box" in some sense between institutions and development, which we were sort of agnostic about. The question is exactly how do institutions affect development? Do they affect it directly? You might imagine that political institutions are important because they generate property rights and property rights generate incentives to invest, but it could also be that political institutions are important because of the way they affect the nature of political competition or the type of economic policy that will arise in equilibrium. So, here we've been trying to kind of test different aspects of this sort of causal channel between institutions and development outcomes.

I think there's a lot of incoherence in the way that economists discuss the relationship between policy and development. In welfare economics and public finance there is this tradition of thinking of policy as exogenous and we just calculate the impact on the economy of different types of policy. So you know, if you look at the literature on optimal taxation, we can design optimal taxes to minimize the distortion we cause in raising tax revenue. Let's say we have to raise X amount of revenues to provide public goods or whatever, then optimal taxes minimize the costs of collecting those taxes. We have these models of exogenous policies and their implications, and we can do the calculation that high tax rates on capital accumulation are bad to saving, and investment, etc. But, in a description of the world, we can't take these policies as exogenous and we need to figure where these policies come from.

So, if I want to explain why the Argentines keep getting this really stupid overvaluation of the exchange rate... There's this Argentine historian called Gerardo Della Paolera, who just published a book recently with a British historian Alan Taylor, looking at macroeconomic policy in Argentina from about 1880 to 1920, and you see the same types of things before, they even had this currency board which collapsed in a huge crisis in 1919. So, why is that? And I think that many economists don't have a coherent explanation, they always want to take these policies as exogenous, and just keep saying that this is a really bad policy.

The idea in our research is to try to understand how a particular policy arises in equilibrium as a result of something which is more fundamental and, in this particular piece of research that you are alluding to¹, asks to what extent do institutions affect development directly or also indirectly because of the way they influence macroeconomic policy and then because of the way that macroeconomic policy affects development. And what's interesting is what we find is that macro policies are not very important. I actually was quite surprised, I thought personally that this was going to be very important, the channel from institutions to macroeconomic policy to growth. But what we find is that actually that's not so important... it seems to be not so important, except in the case of exchange rate overvaluation.

So, despite the discussion that many people have, when you actually kind of look at the data yourself and start playing with it, it's very difficult to find these strong effects of macro policy to growth and, as I said, you can report regressions where that matters, but it's very unrobust.

So, the larger agenda was trying to understand the mechanism between institutions and development outcomes. We're sort of vague, the nice way of saying it would be we're agnostic, but you could also say we're vague about these connections, there's a lot of work to be done on that.

One of the things we've also been trying to do is case studies of countries in much more detail, so actually we did this work on Africa, which was published in a book that Dani Rodrik edited. We actually wrote some stuff about Botswana, a country in Southern Africa which is very interesting because it's very successful economically. I went out there and spent some time in Africa looking at Botswana. Recently I've been doing this work on Mauritius, trying to look at specific countries and trying to understand in detail over a long period of time what went on in those countries, what was the kind of matrix of political conflict, how did institutions emerge and evolve in the colonial period, what happened in the independence, and so, trying to get a better handle on this question of the mechanisms mediating between institutions and outcomes.

¹ The paper is called "Institutional causes, macroeconomic symptoms: volatility, crises and growth". Coauthored with Daron Acemoglu and Simon Johnson from the MIT and Yunyong Tchaicharoen from the Bank of Thailand.

I think it's more through these specific examples that one can get a better handle on what is it that keeps certain types of institutions in place, despite the fact that you might argue that they are bad for development. I think that's interesting. This historical approach might seem very pessimistic. You could say geography is very pessimistic too. If you were at the Equator there's not much you can do about it, you can't move to temperate latitudes, right? But you could also say, *hey! there's nothing you can do about whether you were colonized by the Spanish either*. I mean, at some general level we don't have anything to say about how one would improve institutions, but I think you have to look very hard at specific cases to understand that, and understand exactly what matters and what is it that keeps some types of institutions in place, and why are they in equilibrium, and how could you change that.

Also although there are so many examples of dramatic institutional changes and it is hard to replicate them. For instance, the reason that there were such large institutional changes made in Japan in the 1850s was because the Japanese were worried that the Americans were going to invade and make Japan a colony. This is what historians would call defensive modernization: where the Japanese realized they were so far behind the United States technologically and militarily, that they were going to have to desperately catch up, otherwise they were going to be just taken over. Now, of course, it's also true that many other countries attempted to modernize like that and failed completely, so there's more to it than that, the Japanese succeeded while other countries didn't.

WP: All this institutional debate has become very fashionable lately and some recent research effort here coordinated by Fedesarrollo and professor Alesina, (the so-called Alesina project) tried to identify the institutional failures and weaknesses of Colombia in a broad number of areas like the monetary policy, Central Bank independence, judicial institutions, decentralization, etc. So, what's your opinion about this type of work on the institutions?

JAR: I think it's a great idea to do something like that. What I would say about that research was that there are many kinds of valuable insights and ideas in the specific chapters. What I think is that the biggest problem with it (I said this to Alesina and he got mad at me) is that the book kind of lacked a perspective of how Colombia got into the situation it is today. For example, in the whole book there's no discussion anywhere of the

fact that there's a sort of civil war going on in Colombia. And I also think that there's practically no discussion of drugs.

People now think "oh Colombia is a mess", "economic performance has got worse", "the government's expenditure is going up", "we got this conflict going on"... but actually until a few years ago, Colombia was a success story. Colombia had never had a year of negative GDP growth until a couple of years ago since the early 1930's. There's never been populism in Colombia, Colombia has never had an inflation problem. It's never had massive debt problems; it never had the debt crisis. Wasn't Colombia the only Latin American country that didn't reschedule its debt in the 80s? In many ways, Colombia has been terrifically successful economically, so what I want to know is if now there are all these institutional problems in Colombia, how come 20 or 30 years ago they were consistent with apparently quite good macroeconomic performance? Well, now you could tell me that, of course, Colombia hasn't grown like 10% a year like China has for the last 15 years. You know, the growth was less dramatic than that, but then growth has been stable and consistent, so that's something of an achievement, I would say.

My view is just that if you're going to tell a story in Colombia about current problems or about institutional problems, you need to try and put some historical perspective on it.

My feeling is that many of the things people pointed to, you could have looked at in the 1960s, and the same things would have been true. So, the question is why do those things cause all those problems now, while in the 1960s they didn't? So there has to be some interaction with something else. It can't just be in those institutions on their own.

I also feel that it's very hard to do that sort of study without some comparative context in the sense that you could look at any political system in the world and find things that look screwed up. What does that explain? It's very hard to know without looking comparatively across countries and say: *ok, let's look at other countries, do they have those same institutions? What sort of outcomes do they get?* Of course it's very hard, it's very hard and very ambitious to do this in comparative context. But I find it's very difficult in a situation like this to really make the deductions about the impact of institutions on outcomes that you care about without this comparative context.

So that's two sort of general issues. On the other hand, as I said, someone's got to do this sort of thing, right? At some level I have to be supportive of things like that; I myself don't do things like that, but someone has to do it. One excuse for doing things like that is if you didn't do it, somebody less qualified would be doing it.

The problem of being an academic is that when you're an academic, the things you realize you don't know increase faster than what you do know. My mother used to say that "ignorance is bliss". Do you know what that expression means? If you're ignorant, you're happy, right. But, the more you know, the more you realize you don't know. That's what happens at graduate school: when you start at graduate school, you think, "oh, this is great I'm just going to learn all this theory and everything, and it's just going to be fantastic". But no, actually, as you learn more you realize you don't know. So, when you're an academic, when you're doing research, you're always focusing on things you don't know. That's what research is: What's the answer to that problem? I don't know.

Then, it's hard to do policy, because to do policy you have to say: "let's focus on what we do know, let's try and use that knowledge to improve things". And I think that that was the idea of the Alesina project and, if Alesina was here he'd say, "look, that's probably right, but I don't understand all these problems in Colombia. What can I say about that? What I know is that countries with independent central banks have lower inflation rates. Now, that's not going to solve Colombia's problems. But, it may help a little bit. Ok?"

I feel that some of the chapters are very interesting, there's some interesting data in some of the chapters like Perotti's and Levitt and Mauricio Rubio; the stuff that Alberto Carrasquilla, Roberto Steiner and Alesina did on the Central Bank, I think that's valuable.

Other things, I think are very speculative and I think we just don't know what happens if you change the electoral institutions. If I take a bicameral institution and I make it a unicameral institution or I do all these other changes in the electoral rules, we don't have evidence that surely tells us what's going to happen and moreover, we don't have an explicit enough theory which is going to allow us to calculate the full general equilibrium effects of that. But, as I said again, at another level, somebody has to do that work and somebody has to make policy proposals, you have to put ideas on the table and we can discuss them, and so it could be that the project has a very good effect of forcing people to

say why you don't like it, you have to be articulate about why this is misguided or why that's a misconceptualization of this particular issue or whatever.

So, there are many ways you can think about the Alesina project. I don't know exactly what the impact of that for the debate in Colombia is. My reaction to it is complicated, my reaction functions at various levels. I do remember there's a quote of Alesina, it's something Alesina said in the introduction, they're talking about checks and balances and politicians, so he says: "In Colombia politicians are unchecked and unbalanced." (Laughs) So, I told him that was a rather classic statement, I told him that it was going to become a classic remark, "unchecked and unbalanced". But then my point is, *hey, Colombian politicians are unchecked and unbalanced, they've always been unchecked and unbalanced. But economic performance has not always been very bad, there hasn't always been a civil war going on, and so that's not enough, it must be the interaction with other stuff: the drugs, the impact of drugs on institutions, etc.*

My feeling is that the expansion of the drug trade in Colombia has had huge effects on institutions, increases in corruption and all sorts of things like that.

WP: In that case, for example, this debate going on in Colombia about unicameralism or bicameralism wouldn't be so relevant...

JAR: Yeah, I think we probably know nothing about the intrinsic implications of, say, bicameralism for development. I think there are no great effects of those types of variations in political institutions. I think there's practically no real evidence on things like that. It could be that the Colombian president elect's idea is that unicameralism is going to be easier for him to work with, right? He's in a situation where he wants to get things done. He has this agenda and his problem is that he's worried about he can't get things done in Congress. So he wants to make it easier for him to get things done. And it's easier for him to get things done if there are fewer checks and balances. Of course he's quite popular; he has a mandate, a lot people voted for him, you could say that this is because, well, in this moment in Colombia we need to get things done.

But probably the evidence is more consistent with the view that checks and balances are good on average for development and when you think about what's happened in Venezuela, Chavez also rewrote the Constitution to enormously increase the power of the

executive, because Chavez wanted to get things done too. But do people really think that that's being good for Venezuela? No. People are worried that Chavez is dictatorial, that many of the constraints on the executive power are being dismantled because of the way he rewrote the Constitution. And, so, I think that despite the fact that the President obviously wants to get things done, that's very dangerous, going down this path of removing checks and balances in order to get things done. Since it may be that what he wants to get done is going to be good for the country, but what happens down the line? What happens when in the future?

And then there is actually real empirical evidence connecting checks and balances to good economic performance. There's also a guy called Henitz who is at Wharton Business School at University of Pennsylvania, who has several empirical papers on this. He developed a coding for different political institutions that provided checks and balances on the executive. I don't remember if he has bicameralism. Probably not. But there are very few unicameral countries. In both of the countries that I've been, two of the countries that I worked with recently which are Mauritius and Botswana, both are unicameral. They have basically unicameral systems and they have been very successful economically. Anyway, I don't recall the way that he coded the data, but he did find that his coding of checks and balances has a lot of explanatory power, more checks and balances-better economic performance.

WP: Thinking about Colombia, we'd like to make this question. In a theoretical paper on the origins of democracy with Daron Acemoglu you wrote that highly unequal societies could fluctuate in and out of democracy, and that this could explain some of the characteristics of Latin American countries. So, we'd like to know about this idea and that puzzle which is why this oscillation is not apparent in Colombia.

JAR: The basic idea was that democracy is unstable when democracy is very threatening to politically elites, to wealthy people. If you think about the situations in Latin American history where democracy has collapsed, it's often collapsed in the context of very radical types of policies. Like the collapse of democracy in Guatemala in 1954. All the people blame the CIA and that sort of stuff, the reality is that the Guatemalan government was engaged in a very radical plan of trying to eradicate inequalities in land ownership. The

Pinochet coup, it's clear that it was targeted at putting into reverse these highly egalitarian policies that Allende had been adopting. There are many other examples of that, for instance Venezuela in 1948. Basically the first creation of democracy in Venezuela happened in 1945, there was immediately a coup in 1948 because of the prospective land reform. If you look at the coup by the military in Brazil against Goulart in the early 1960s, same thing.

So, one of the ideas we developed is just that democracy is not going to consolidate when you have this radical policies emerging in equilibrium.

If you look at the Chilean case, the Pinochet's constitution for example. Pinochet's constitution was designed in order to stop the socialists coming to power; this is a great story. The Constitution is gerrymandered...Do you know what gerrymandering is? It means you draw electoral constituencies in such a way it maximizes your vote. So this comes from the United States in the 19th century: Eldridge Gerry was an American politician and he was famous, I think he was in Boston. Gerrymandering comes from the way that, when he was Mayor of Boston, he drew these electoral institutions in order to maximize his amount of votes he got.

So, what Pinochet did was he designed institutions that minimize the political power of the urban area like Santiago and Valparaiso because that's where the socialists had been strong traditionally, and what he did was he actually got these political scientists to calculate the effects of his gerrymander: would Allende's coalition have won so many seats in 1970 under the new institutions? So he did this gerrymandering to minimize the number of seats for socialists assuming that people voted in the same way.

So, this seems to be one of the reasons why democracy has been more unstable in Latin America. It's because Latin Americans are having much more fundamental inequalities in assets and income than other places in the world. This makes democracy very threatening for elites because it leads to radical polity proposals and therefore elites oppose democracy.

So, why not in Colombia? Now, this is a very interesting question, why is it in Colombia that you haven't had this process? You know, basically, when has the military rebelled in Colombia... remember when there was this coup by General Melo in 1850-something,

right? Because the officers in Bogotá were unhappy with the liberals had cut tariffs, and then I guess you could say that Rafael Reyes, when he was elected in 1904 or something, but then he sort of turned into a dictator, almost. And then there was Rojas Pinilla in the 1950s, but Rojas Pinilla was almost begged to come into power because the Liberals and Conservatives were fighting each other so much, this was not like a coup by the Argentine military.

Colombia has not experienced this, why is that? I think it's very difficult to understand. One obvious explanation is the way that political competition evolved in Colombia and the way that the party system persisted. For example, there's never been a socialist party in Colombia. The Liberals and Conservatives, they're not class parties, it's not like you have the socialists and a rightwing party. They're much more like what political scientists would call cross-class coalitions, meaning that within both parties you had *campesinos*, you had landowners, you had merchants, and so, what divided the parties? The parties were not like the rich against the poor, which means that the main factor of conflict was not over redistribution of income. Of course, religion was also an important factor in conflict but there were other things like liberalism with a small 'L' (tariffs, free market, property rights, etc.), and I guess it was also a regional conflict. I don't know if the people definitely understand why parties formed in the way they did in Colombia, but once they had formed, in some sense the composition of the parties made it difficult for the access to power or competition to be about redistribution. So, to my point of view, when the parties dominated, it was very unlikely that either of the parties was going to propose some radical egalitarian type policy, which meant that democracy was not so threatening to political elites in Colombia as it was in Brazil, Chile, or Guatemala. What I am suggesting is that, in our model or in our theory, democracy collapses when the political equilibrium becomes very radical but because of the way the party system evolved in Colombia, that is very unlikely.

I find the absence of a socialist party a very important issue. In the last election you had this Lucho. He would seem like he's a pretty intelligent, coherent guy, and he got nothing! No support! Isn't that a paradox within a country where you have these very powerful socialist revolutionaries and you have no electoral support for left-wing parties whatsoever? And that's not just now, that's always been true. That's historically true.

Now, why is that so? One way of thinking about this problem is to ask why is it that these 19th century parties persisted for so long, which is unusual in Latin America. I mean, if you look at the Old Republic in Brazil after the end of the Monarchy and after 1888, the traditional liberal or conservative parties disintegrated in the 1930s. In Venezuela, if you look in the 19th century, again, you have liberal and conservative parties (that look like Colombian Liberal and Conservative parties), which disintegrated around the turn of the century. In Colombia they persisted, so why is that? Why did they persist? What I am suggesting is that one of the explanations for why democracy has been stable in Colombia is that democracy is never very threatening to political parties, to political elites. And that was because the traditional parties managed to keep a stronger hold on democratic politics than elsewhere.

Now, another interesting idea is that the military in Colombia is very different. The military is much less professionalized historically in Colombia than in Brazil or Argentina and a professionalized military is more politically threatening, and one thing which our theory doesn't really take into account very well is the role of the military and the role of the military in politics. That's really important in the accounts of democracy in Latin America and my feeling is also that in Colombia for historical reasons, the Colombian military evolved in a very different way, which again probably has something to do with the parties, that is, the parties found having a strong military was threatening (you wanted to keep the military weak). If you look in the 19th century, governments continuously tried to cut the military back in Colombia (reduce the size of the Army). So, if you have an incompetent military, the incompetent military can't manage to coup against you but the problem is that they can't defeat the guerrilla either, so there is a trade-off, the trade-off between having a guerrilla and having military coups.

I would say that those are ideas. I don't know what the right way to thinking about this is but I have a sense that it must have something to do with this.

W.P. We recently talked to Mariano Tommasi who also gives a lot of importance to the role of institutions. What do you think about this type of institutional approach?

JAR: I think Tommasi's approach and our approach is very similar. He's been really doing the stuff about Argentina and trying to understand, trying to see in a detailed way, what is it

about the institutional structure of Argentina that's a problem, where did it come from, what its impacts are. I find that stuff very interesting. I would say the same thing about that work as I said about the Alesina project, which is that it's very hard to learn much by just looking at Argentina on its own, because you could look at anything and say: this is got to be the reason why Argentina is such a disaster. But you really have to take this comparative perspective; what would be really great is that all these people who are doing this Alesina project and Tommasi and everybody else who was interested in this, got together to try to put together on a longer term basis, some comparative projects within Latin America.

Now I think Tommasi, you have to admire the guy because he's really worked very hard on this Argentine case, and he's just going to keep working on it until he thinks he understands it, and that sort of dedication is what you need. I mean he and I even talked about this stuff, that to do that in a comparative context in Latin America would be extremely interesting.

So, there's people doing bits and pieces of that, political scientists like Mark Jones in Michigan in the United States who has been looking at comparative electoral institutions in Latin America. And there are political scientists like Barry Ames at Pittsburgh, who has been working in trying to develop different ways of coding political institutions in Latin America. There's also a very interesting project by a guy called Rich Schneider who's a political scientist from Illinois, and David Samuels who's also a political scientist, looking at the extent of malapportionment of Latin American political institutions. Malapportionment means that if I look at Congress, the number of congressional representatives in a particular area is not representative of the population in that area. So, think of the U.S. Senate. In the U.S. Senate, each State has two senators, but Wyoming has like 3 people and California has 60 million people. But Wyoming has as many senators as California does (that's enormously malapportioned).

Now, it turns out that Argentina has the most malapportioned Congress and Senate in the World. If you look at Buenos Aires and the provinces around Buenos Aires that have basically 78% of GDP, and 70% of the population, it only has like 4% of the Senators. These places like Chebut and Formosa that have 2 people, and 3 donkeys, have 2 senators. There's an interesting reason for that, right, which is that if you look historically (200 years

ago) where does that come from, those places in the northwest (well, not Chebut) were the places that were rich and powerful because during the colonial period, the Spanish basically tried to stop development of Buenos Aires, because they were really worried about smuggling and the British. They wanted the silver, they were worried about the silver in Bolivia. They wanted to stop the silver being smuggled out, out through the River Plate and things like that. But the Northwest, like Tucumán and Salta were very rich because they grew foods and they bred animals for the Bolivian mines. Those parts of Argentina were much, much more developed at independence than the *Pampa*, which only started developing after the Bourbon reforms in the 1760s.

So, one of the reasons why the Constitution in Argentina is structured in that way is that, in the 19th century, those provinces were able to extract a lot of political power in the way that institutions were written. Of course you could say, well the long run potential is the *Pampa*, is Buenos Aires (trade and exports) and not Salta and Jujuy, but at the time the institutions were formed those places were powerful, they had military, *caudillos* and resources. So, what's interesting in Argentina is that despite the fact that those places probably realized that in the long run they were going to decline economically, they were able to build in that political power into the way that political institutions were formed.

Tommasi and I, it's all part of the same agenda I would say.

W.B. We now have a couple of economic policy questions. So, first, what do you think about the role of multilateral institutions such as the IMF and the World Bank, in Latin America. And do you share the opinion expressed by Joe Stiglitz in his latest and controversial book on the globalization and its discontents?

JAR: Let me say something about Stiglitz. There are many people who are concerned about whether or not promoting free trade is going to help the economy in Bolivia, or Zambia, or places in Africa, or things like that. We have theories which suggest that if a country specializes according to its comparative advantage its going to be better off. We also have theories which suggest that it'll not be better off. There are models where in the short run your income can be higher, but when looking at the dynamics, your growth path is actually lower and that's because you can specialize in sectors which don't generate technical

changes or something like that. In a world of market failures, it's also difficult to reallocate resources.

Recently I was reading about Zambia in Africa. In the 1990s Zambia introduced a radical liberalization of the trade regime, and as a result of that, domestic industry contracted in Zambia: domestic industry, textiles, clothing, which had previously been protected, went bankrupt. Now, the neoclassical economists would say, that's great, it's good they've gone bankrupt because now they free up resources and those resources flow to more productive uses in the economy. What's happened in Zambia? Nothing has happened. So, if there are market failures, you can't guarantee that these resources will be reallocated efficiently. Moreover, if you are in a society with bad institutions, you can't expect dynamic export sectors to jump up overnight unaided.

I think basically, that at some level, the standard trade theoretic approach is probably good. If you look at the examples of countries that are very successfully developed, they've all done it through promoting exports: Mauritius, South Korea, Hong Kong, Singapore, Taiwan, China. Look at every country with a dramatic development miracle in the last 40 or 50 years and they've all done it by dramatically promoting exports, by integrating into the world economy. So, from that point of view, I think it's difficult to really promote development if you have autarchy. It's clear for all countries that there are potential benefits from integrating into the world economy. But with the market failures and other things, it's not necessarily easy to take those benefits. If I look at specific countries like Mauritius and Taiwan and South Korea, there are many government policy interventions which were aimed at promoting this exporting sector. There are complementarities between policies and globalization.

I think the good part of Stiglitz's book is the part where he talks about market failures, and how we don't necessarily expect globalization to produce benefits if there's going to be these market failures. But I think he missed the opportunity to say something powerful, because so much of the book is this sort of personal attack on people he doesn't like, and it's also promoting himself in a very unprofessional way. You know, he had these personal attacks like saying that Stanley Fisher was corrupt. And I don't know Stanley Fisher personally, but my own impression is that if there's one person in the economic profession who is not corrupt, it is Stanley Fisher.

My feeling is that Stiglitz figures as one of the most brilliant economists of the century. Stiglitz is up there with Arrow in my opinion. Stiglitz wrote 25 fantastic papers that are worth reading, and he could have done something very important with this book. But he undermined the good aspects of it by this other irrational ranting about things.

What about the IMF and the World Bank? My feeling is that probably the IMF and the World Bank do lots of things that don't help. They're bureaucracies, and bureaucracies often work in dysfunctional ways, they use these simple ideas about how the world works that may be inappropriate in lots of situations. My feeling however is that the World Bank and IMF are not the problem in developing countries. My own opinion is that people probably attribute too much power to these institutions. I mean, it's interesting that if you read the history, for example, of policy conditionality in Africa in the 1980s, people tried to introduce policy conditionality, which basically meant: you have to take this policy, and if you don't do it, we're not going to give you the money. If you look at that, it's a complete failure. Countries never do what the World Bank or the IMF wants them to do.

There's a fantastic book by a political scientist called Nicholas van der Walle, who basically looked at this adjustment in Africa, and he shows that these African political elites or African politicians, are very good at avoiding doing what the IMF or World Bank wants them to do. I think it is too simple to blame the IMF. I mean, I am sure that IMF and World Bank give erroneous advice and there are all sorts of political criteria involved with lending but this doesn't mean they are the big problem.

If you read about Zaire for example, the Congo, President Mobutu was absolutely brilliant at manipulating the World Bank and the IMF. There's actually a book by this historian called Winsome Leslie about the relationship between President Mobutu and these multinational institutions. He was a bastion of anticommunism in Africa and he used that to induce the Americans to push the IMF and the World Bank to give lots of money. So the problem is not the IMF and the World Bank. My own experience is that the IMF and the World Bank are full of very intelligent well-meaning people. Of course, at the top there are these political incentives and things like that going on, but I guess my general feeling is that that's a sort of second order problem. It's a mistake to kind of see the IMF and the

World Bank as being central to the question of development; that would be my own feeling.

You can look at things they do that are stupid, you can look at things they do that are good. In Mauritius, for example, the IMF promoted an incredibly successful macroeconomic stabilization policy in the late 1970s. I keep telling these people it's just a classical textbook example of macro stabilization that really seemed to be a good idea.

W.B. We have this nice debate in webpando and we want you to participate, the question is: what do you think about the U.S drug policy? and should the drugs be legalized?.

JAR: I think it would be very good for Colombia if they legalized cocaine. The other thing which could be worthwhile, is that Colombia should subsidize scientists to work on a synthetic alternative to cocaine. You know, if you take these drugs like ecstasy or LSD, they're made in America (I don't know how you make them, but they're made out of chemicals). The problem is that people make them in North America, in Berkeley probably, but no one makes ecstasy in Bolivia and exports it to United States. So the problem is that cocaine grows here; you see, it's hard to grow a big cocaine field in the middle of Berkley and not be noticed. So if they came up with synthetic cocaine that would be good for Colombia.

My feeling is that there's a lot of irrationality about the whole discussion of drugs. Alcohol is a drug. Alcohol has huge social consequences that create disease, mortality, it creates enormous amounts of violence, car accidents, fatalities, and no one ever discusses the social costs of alcoholism and the implications of alcohol, so it's a very irrational policy. There are drugs in society and we don't talk about them. And there are other drugs where we just get very upset and we say this is immoral, like marihuana. I'm sure that if you legalized marihuana (which many European countries are doing basically) there are no problems. Who cares? Moreover, look at tobacco. Tobacco kills many other people every year. To me it's just absolutely irrational.

I understand that some types of drugs like LSD or whatever, can have very damaging psychological effects on people, and young people can take these drugs and they don't

really understand the potential consequences and they can mess all their lives up like taking heroine or things like that. It's very damaging. Cocaine, I don't really know anything about cocaine, I haven't read the medical literature on this, but I guess I would probably be in favor of legalizing it. First of all, cocaine is a rich persons' drug, it's rich stock brokers on Wall Street taking cocaine, so it's just the worst kind of people. And people probably do it because it's fashionable, and if you legalized it, people wouldn't think it was fashionable and exciting anymore, and they'd just think it was boring. It would become much less of a big deal. You know, cocaine, natural cocaine, Coca-Cola used to have cocaine, until around 1920. Right? The original recipe for Coca-Cola was from cola nuts and cocaine.

...and coca leaves...

Yes! People have been chewing coca for generations and thousands of years in the Andes. And, I think, for what we know, the saddest thing about the whole drug business is that the demand is all in North America, but the North Americans managed to impose the worst cost of it to other countries like Colombia (it's kind of malapportionment) which makes it very difficult to deal with. You know, if the costs were being felt by the North Americans, it would be far more rational.

W.B. Unlike many foreign academics, you have visited Colombia despite its reputation. Why is that? I mean, what's your link with coming to Colombia like an academic?

JAR: Well, you see, my wife is Colombian. There is a book called "*Los Colombianistas*" or something, which is about the gringos who study Colombia. I haven't looked at that. My feeling is that the stylized fact is that gringos who study Colombia are people who have Colombian wives. So, actually, that's the reason.

But, before I married a Colombian or had anything to do with Colombia, I spent a lot of time traveling in different parts of Latin America and I've also been to places which I consider more dangerous than Colombia. There are places in Africa where one feels much less secure than in Colombia. So, one shouldn't get paranoid about it. I mean, I'm not going to start walking around Urabá or somewhere. You have to be careful of course, but you have to be careful anywhere in the world.

W.P. So the prescription is to get more Colombian women to marry more foreigners to have better education here...

JAR: (laughs) Well, I don't know, I would say that's certainly a good policy implication if it is good to have us coming down here...

I agree that it's a problem that people in the United States or in Europe, have large misconceptions about what Colombia is like. They have large misconceptions about the political situation in Colombia as well. So, especially England, if you read newspapers in England, people have a lot of misperceptions about the situation in Colombia. That's very sad. The more people I meet, the more educated other people become about Colombia. At Berkeley there's certainly been a big effort with Latin American studies which have a series of seminars on Colombia where I was invited. Different types of Colombians, like Peñalosa, historian Marco Palacios, Charles Bergquist (he's a historian who has written about Colombia), this chap Alfredo Molano, political scientists, historians, politicians and journalists, they all came and talked about the problem in Colombia and that's really an attempt to educate people in the United States. These seminars are open to the public and they attempt to educate people about the situation in Colombia. And, so, that's very valuable.

W.P. And the very last question is: Who has been particularly influential in your academic career? And why?

JAR: I guess my thesis adviser was very influential. My thesis advisor was a mathematical economist called Truman Bewley, at Yale. My type of research idea is extremely different from the type of research he did, which is a very abstract general equilibrium theory. But I think that he influenced me in the sense that he was so serious about research, so serious intellectually, that he would never cut a corner, he would never cheat, he always wanted to know everything.

He has the kind of seriousness with which to approach research, and I think that was a fantastic kind of role model to me because, you see, in academia there is a lot of bullshit. There's a lot of people trying to impress other people and to be important and who'll try to

be clever and, often, when this stuff becomes important, the intellectual side really suffers. I think that he just didn't care, he didn't care what people thought about him, he didn't care if people thought he was clever or if he was not clever, he didn't care about being important. He just was passionate about research in social science and that was the best kind of intellectual role model. I think he was very important.

Another person who has been very influential is Robert Bates. He's not a person I know very well, but, when I started to read Robert Bates's work, that's when I understood how to think about development. So, Bates's book "Market and State in Tropical Africa" I claim is like the best book that has ever been written on political economy. And if they were going to give a Nobel Prize to political economy, they should give it to Bates, in my opinion. I've read that book probably 20 times. Every time you read it you learn something (and it's even very short which is good too).

W.P. And what about the one on International Coffee...

JAR: I don't like that book so much: this "Open Economy Politics". I don't like it very much. But the part on Colombia is interesting. What you should do is read "Markets and State in Tropical Africa" of Bates and then you read Chapter 3 about Colombia's entry in "Open Economy Politics", and you'll see that Chapter 3 is much more interesting than you thought. You will think: why is it that in Colombia you have a very different political outcome than you had in these African countries? So, in many of these African countries you have smallholders growing cocoa and coffee and exportable crops. And these smallholders basically were completely expropriated by political elites, and Bates explains that this happened because these smallholders couldn't solve the collective action problem. But then, when you look at Colombia, you have a lot of smallholders growing coffee, but they were very powerful politically.

So, to my point of view I don't care about the stuff of international coffee organizations too much (so I just teach the Chapter 3), he's saying: so how come these smallholders were important to Colombia when they aren't politically powerful and there the explanation comes from the political competition between the Liberals and Conservatives in the late 1920's. That political competition basically meant that these small holders became very powerful because in some sense they were at the median of the income distribution. So,

they were very important politically. The parties were competing for their votes and that gave them a lot of political power and they were able to get what they wanted.

Now, the problem with that explanation, I should say, is that it's very inconsistent, that it's a very cute idea, but it's really inconsistent with the traditional historiography about Colombia. If you read what political scientists say about Colombia, if you go to a little town in Caldas, in that town everyone has their houses painted red. And you go to another town, then everyone has their houses painted blue. So, what the political scientists claim is that in Colombia there's this dedication to the parties, we are Liberals or Conservatives – the so-called 'hereditary hatreds'. And that's what we do, we're Conservatives, our parents are Conservatives, our children will be Conservatives, but that's inconsistent with Bates's theory, because Bates's theory is that since the parties are competing for the people, the coffee growers got a lot because they could say to the Liberals, you can do this, if you don't we can go with the Conservatives, and they could go to the Conservatives and say, you can do this, otherwise we're going to go to the Liberals. But if actually people were dedicated to vote for one party or the other, this breaks Bates's theory right down. I guess he didn't know the literature on Colombia very well.

But anyway, let me just get back to the question. Bates would be someone who was really, very influential on the way I thought about development.

Another person who I am more friendly with and who of course had a large impact in my career both intellectually and practically would be Dani Rodrik. Dani Rodrik is someone who also influenced the way I thought about development because Dani was also trying to understand the processes of institutional change, the adoption of development strategies, and the politics in development strategies, and he was also someone who helped me a lot in my practical career. He is again a tremendously serious person who I respect very much. I suppose it is also true that Dani was the first 'famous' person who really got excited about my work, which was a big thrill for me.

I think probably that the other person who kind of influenced my career is my coauthor which is Daron Acemoglu. He and I have been working together for about 7 years, I guess. We met when I left Yale, like 10 years ago. I gave a job talk at the London School of Economics and he was a graduate student at London School of Economics. So he was

sitting in the front row, and I was presenting this work on repeated games, and every time I kind of put a slide up he'd say, "no, no, that's wrong and if you change that assumption that was all wrong". So, I thought, who is this guy? What a pain! (laughs)

But then we went out to dinner because he was like the star student, and this is one year before he got hired by MIT. So then we sat next to each other and we sort of hit it off and became very friendly, and then we kind of realized that we had all these ideas, and further questions, and stuff which was very similar, and so we started working on these topics and I guess I probably learned more from him than anybody, and working with him has been a very big thing for me. I think it's also true that he's the truly outstanding economist of this generation in the United States, probably the World. I would say that without any doubt. I mean, he's a pretty young guy, he's 35 (or 34 I guess). I really think he's absolutely outstanding, there nothing he doesn't understand, and I feel it's a big help to have the outstanding economist of his generation working with you. Its been a great pleasure, a priviledge.

Thank you very much.