

# NURTURING INSTITUTIONS FOR A RESILIENT CARIBBEAN

Editors:

Diether W. Beuermann and Moisés J. Schwartz



Institutions in the Caribbean have played a critical role in being able to enhance our democracy and to provide a platform for economic growth. They have protected the interests of those least capable of protecting themselves. It is vital that we work each day to ensure that our institutions continue to play this role without themselves becoming obsessively distracted with their own sustainability at the expense of achieving their core mission.

**—Mia Mottley**  
**Prime Minister of Barbados**

This book is a wonderful starting point for anybody interested in understanding the economic problems of the Caribbean and how broad-based prosperity can be built in the region.

**—Daron Acemoglu, Charles P. Kindleberger**  
**Professor of Applied Economics, Massachusetts Institute of Technology;**  
**coauthor, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty***

The Caribbean has been a crucible for every institutional experiment of the modern world, from plantation slavery and globalization to building states and democracy from the ashes of extractive colonialism. It's a story of remarkable successes and frustrating failures and this fascinating book shows that there is so much we can learn from a rich set of natural experiments.

**—James A. Robinson, The Reverend Dr. Richard L. Pearson**  
**Professor of Global Conflict, University of Chicago;**  
**coauthor, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty***

This volume reflects the high level of scholarship that has made the IDB the respect institution it is. The Bank should be commended for investing in research dedicated to assessing the role of institutions in the growth and development of the small developing countries of the Caribbean. This is a very useful work which will be of great importance to the region as well as to other developing countries. Though focused on the Caribbean the book is a timely reminder to all developing countries that institutions matter for sustained growth and stability.

**—Ewart Williams**  
**Former Governor of the Central Bank of Trinidad and Tobago**

Socio-economic and political institutions play a major role in development. This excellent volume brings together a group of prominent scholars and practitioners to analyze how these institutions have affected development in six Caribbean nations. The result is a theoretically informed, empirically rich exploration of the fascinating problems and prospects of these societies. This book will be of natural interest to those concerned about the Caribbean; it also makes fascinating reading for anyone interested in the political economy of development more generally.

**—Jeffry Frieden**  
**Professor of Government, Harvard University;**  
**author, *Currency Politics: The Political Economy of Exchange Rate Policy***

This book answers two fundamental questions that emerge from influential scholarship. History and institutions matter for development, and particularly in the Caribbean. But which institutions? And reforms to accelerate development must take into account the historical and institutional context. But how? This book sheds new light on the complex interplay of colonial and post-colonial experience, political institutions and cultural norms, and the economic institutions that directly steer economic development. It offers new strategies that address the development challenges of the Caribbean and makes a fundamental contribution to our understanding of the role of institutions in development.

**—Philip Keefer**  
**Principal Economic Advisor, Institutions for Development,**  
**Inter-American Development Bank**

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# Rule of Law and Human Capital Institutions

*Christian Dippel*

There is an abundance of correlates of economic developments, among which researchers have tried to separate causation from correlation. Richer countries tend to have higher education levels, trade more with other countries, have stronger state capacity, and have more and better financial intermediation and institutions that are more conducive to growth. For each of these factors, there are convincing arguments that, rather than being a mere correlate of development, the factor is among development's fundamental root causes. As evidenced in Chapter 3, among these factors, good institutions have received significant attention in the literature. From the general review provided in Chapter 3, institutions associated to the rule of law and human capital development have been identified as important sets of institutions. This chapter focuses on these institutions by going deeper into the evidence linking them with growth and development. The main objective is, therefore, identifying which institutional arrangements related to the rule of law and human capital development have been shown to be relatively more important. Such identification will then guide the analyses of the institutional conditions within Caribbean countries documented in the chapters that integrate the third and fourth sections of this volume.

For the question of how to define institutions, one needs look no further than Douglass North's widely accepted definition: "Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction....They structure incentives in human exchange, whether political, social, or economic" (North, 1991, 3).<sup>1</sup>

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<sup>1</sup> See Chapter 3 in this volume for a deeper discussion of the definition of institutions and why such institutions may plausibly be the fundamental cause of differences in economic development.