Lecture 5:

Institutions, Power, and Inequality
Institutions are written and unwritten rules that regulate:

- Who does what
- How people interact

Institutions provide both the constraints and the incentives
Two things to keep in mind:

1. Organizations are not institutions
2. Institutions include social norms as well as laws
• Institutions determine how *power* is distributed
• Power in economics takes (broadly) two forms:
  1. Setting the terms of an exchange
  2. Imposing or threatening to impose heavy costs
• Economists will often focus their attention on *bargaining power*
Split the Pie

You decide how to split the pie.

How much will you take?
In the Indian state of West Bengal, many farmers work as sharecroppers, or bargadars in Bengali. In 1973, 73% of the rural population lived in poverty. In 1978 the newly-elected Left Front government adopted new laws which stated that:

- Bargadars could keep up to three-quarters of their crop.
- Bargadars were protected from eviction by landowners, provided they met this 25% quota.

What effects do you think this had on the bargadars? Do you think the post-reform changes were a Pareto efficient improvement? Do you think they were fair?
UNIT 5: INSTITUTIONS: THE RULES OF THE GAME

- **Scenarios**
  - A. Angela's independence: None (not applicable)
  - D. Property rights, rule of law and democracy: Limited (more equal to Angela's)
  - C. Property rights and rule of law: Great (compared to Angela's)
  - B. Rule of force: Total

- **Bruno's bargaining power**
  - Angela's biological survival constraint
  - Angela's reservation indifference curve

- **Bushels of grain**
  - Angela's indifference curves
  - Angela's feasible frontier

- **Angela’s hours of free time**

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Feasible frontier: Angela and Bruno combined

What Angela gets
UNIT 5: INSTITUTIONS AND RACIAL INEQUALITY

Figure 1.1 Distribution of output on large slave plantations: 1859. (Source: Table 1.1.)
### Table 1.2. Comparison of per capita output and material income measures, slaves on large plantations in 1859 with black sharecroppers in 1879

<table>
<thead>
<tr>
<th></th>
<th>Plantations with 51 or more slaves, 1859</th>
<th>Black-operated sharecropped family farms, 1879</th>
<th>Percent change, 1859–1879</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expressed in 1859–1860 dollars per capita</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total output</td>
<td>147.93</td>
<td>74.03</td>
<td>−50.0</td>
</tr>
<tr>
<td>Product of labor</td>
<td>78.78</td>
<td>41.39</td>
<td>−47.5</td>
</tr>
<tr>
<td>Material income</td>
<td>32.12</td>
<td>41.39</td>
<td>28.9</td>
</tr>
<tr>
<td>Expressed as percent of total output</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product of labor</td>
<td>53.3</td>
<td>55.9</td>
<td>4.9</td>
</tr>
<tr>
<td>Material income</td>
<td>21.7</td>
<td>55.9</td>
<td>157.6</td>
</tr>
</tbody>
</table>

*The value of output in 1879 is calculated by deflating the current dollar figures using a cash price index devised for this purpose in Appendix A.*

**Source:** 1859: Table 1.1; 1879: Tables A.8, A.9, A.10. See Appendix A for details.
Figure 6.1 Southern black voter registration, 1940–2008. Garrow writes that the decline between 1970 and 1971 is the “wholly artificial” result of changing the population base from 1960 to 1970.
Figure 4.5 Median black male income by region, 1953–2000.

Figure 7.5 Poverty rates by region, 1959–2009.


Note: Rates are the number of poor individuals as a percentage of the regional population.
UNIT 5: INSTITUTIONS AND RACIAL INEQUALITY

Figure 7-2. Black-White Ratios of Earnings per Worker and Income per Capita, 1774-2010
Average hourly black-white wage gaps, by gender, 1979–2015 (adjusted and unadjusted)

Note: The adjusted wage gaps are for full-time workers and control for racial difference in education, potential experience, region of residence, and metro status.

Source: EPI analysis of Current Population Survey (CPS) Outgoing Rotation Group microdata
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Gini coefficient in each case: 0.40

Cumulative share of the population from lowest to highest income (%)
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![Graph showing cumulative share of income and Gini coefficients before and after land tenure reform.](image)

- Initial Gini coefficient: 0.40
- Gini coefficient after land tenure reform: 0.15

Diagram details:
- Cumulative share of income (%)
- Landowners’ share of initial income
- Farmers’ share of initial income
- Lorenz curve shifts due to land tenure reform
- 90 farmers
- 10 landowners
- Cumulative share of the population from the lowest to the highest income (%)
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![Graph showing cumulative share of income and population. The graph compares cumulative share of income to cumulative share of the population.]
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Market income
Income from wages, salaries, business and investments

Subtract direct taxes

Add cash transfers

Disposable income
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