

# Political Economy of Development

Feb-May 2020

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Office Hours: By appointment

This course provides an introduction to the emerging field of political economy of institutions and development. Research in economics, economic history and political science has shown that economic development failures are typically correlated with other institutional, organizational, and political failures. That is, the regions that perform poorly in one dimension, also underperform in many dimensions of collective behavior. The purpose of the course is to introduce you to different methodological approaches and to the empirical evidence.

The major questions to be addressed by the course are: How central is politics to economic development? How do political institutions determine policy choices? How do economic structures in turn impact on politics? Why do governments employ policies that hinder development? What are the causes and consequences of corruption and inequality? Why do seemingly inefficient institutions survive? What is the role of history on current outcomes? Do culture and beliefs influence development?

**Prerequisites:** Econometrics and Game Theory.

**Readings:** Students are required to read at least one of the articles or book chapters marked with two stars (\*\*) for each week. There will be weekly, oral or written, evaluations of the readings. Readings not marked with stars are additional readings. Additional readings are not required, I include them as a guide to help you write your memos and organize your presentations.

**Group Presentations:** Presentations are *not* intended to summarize the reading. Rather, presentations are intended to take the reading further. In addition to stating the main question(s) and mechanism(s) of the reading, the presenter can undertake an empirical analysis using real data to replicate the analysis in the reading, otherwise use evidence to convincingly evaluate the implications of the reading, or discuss other literature that has engaged with the theory implications, or empirical results of the reading. The rest of the class will take a critical stance.

**Policy memos:** The students are required to write two policy memos (2-3 pages) on the readings (at least 2) of two different weeks of their choosing. A student cannot write a policy memo for the week that he or she is presenting. Students can discuss with other students the readings and write the memo based on the discussion, but each student must write his/her own memo.

**Evaluation:** Each student will be evaluated on the basis of one in class presentations (20%), two written policy memos (30%), class participation (20%), and a final exam (30%). A minimum of 85% class attendance is required to take the final exam which will take place on **Tuesday, June 2**.

**Academic Integrity:** A fundamental tenet of all educational institutions is academic honesty; academic work depends upon respect for and acknowledgment of the work and ideas of others. Misrepresenting someone else's work as one's own is a serious offense in any academic setting and it will not be condoned.

## Recommended books:

- Besley, T. and T. Persson. 2011. *Pillars of Prosperity: The Political Economics of Development Clusters*. Princeton University Press.
- Bowles, S. 2004. *Microeconomics: Behavior, Institutions, and Evolution*. Princeton Univ Press.
- Drazen, A. 2000. *Political Economy in Macroeconomics*. Princeton Univ Press.
- Helpman, E., (ed). 2008. *Institutions and Economic Performance*. Harvard University Press.
- Rodrik, D., (ed). 2003. *In Search of Prosperity: Analytic Narratives on Economic Growth*. Princeton.

## COURSE SCHEDULE

### Week 1. The Fundamental Problem in Political Economy

- \*\* Dixit, Avinash. 2006. *The Making of Economic Policy*. Princeton Univ Press, chpt. 1.
- Helpman, Elhanan. 2004. *The Mystery of Economic Growth*. Harvard Univ Press, chpt. 1-2.
- Przeworski, Adam. 2003. *States and Markets*, Cambridge Univ Press, chpt. 1 and 2.
- Hirschman, Albert. 1977. *The Passion and the Interests: Political Arguments for Capitalism Before It's Triumph*, Chapter 1.

### Week 2. Causality and Evidence

- J.D. Angrist and J. Pishke. 2009. *Mostly Harmless Econometrics: An Empiricist's Companion*. Princeton University Press. Chapters 1-2.
- \*\* Milton Friedman. (1953) 1970. "The Methodology of Positive Economics," in *Essays In Positive Economics*. Univ. of Chicago Press, pp. 1-9, 19-27.
- \*\* Deaton, Angus. 2010. "Instruments, Randomization and Learning about Development." *Journal of Economic Literature*, 48(2): 424-455.

### Week 3. Does Political Economy Matter?

- Krugman, P. 1991. "History versus Expectations," *Quarterly Journal of Econ* 106 (2): 651-667.
- \*\* Acemoglu, Daron and Matthew O. Jackson. 2015. "History, Expectations, and Leadership in the Evolution of Social Norms," *Review of Economic Studies* 0, 1-34.
- \*\* Jones, Benjamin F. and Olken, Benjamin A. 2005. "Do Leaders Matter? National Leadership and Growth Since World War II," *Quarterly Journal of Economics*, 120 (3), 835-864.
- Keefer, Phillip. 2004. "What does political economy tell us about economic development—and vice versa?" *Annual Review of Political Science*.
- Brenner, Robert. 1976. "Agrarian Class Structure and Economic Development in Pre-Industrial Europe," *Past and Present*, 70.

#### Week 4. **Historical Legacies**

\*\* Engerman, Stanley L. and Sokoloff, Kenneth L. 1997. "Factor Endowments, Institutions, and Differential Growth Paths among New World Economies" in *How Latin America Fell Behind*, Stephen Haber ed., Stanford: Stanford University Press.

\*\* Acemoglu, D., S. Johnson, and J. A. Robinson, 2001. "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review*, 91(5), 1369-1401.

La Porta, Rafael, Lopez-de-Silanes, Florencio, Shleifer, Andrei, and Vishny, Robert W. 1998. "Law and Finance," *Journal of Political Economy*, 106, 1113-1155.

Banerjee, A. and L. Iyer. 2005. "History, Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India," *American Economic Review (AER)*, 95:4.

#### Week 5. **Natural Resources and Institutions**

\*\* Acemoglu, Johnson, and Robinson. 2002. "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Economy" *Quarterly Journal of Economics* 1231-1296

Mehlum, Karl M. and Ragnar Torvik. 2006. "Institutions and the Resource Curse," *Economic Journal*, 116(508): 1-20.

Alsan, Marcella. 2015. "The Effect of the TseTse Fly on African Development," *American Economic Review*, 105(1): 382-410.

\*\* Arias, L.M. and D. Girod. 2014. "Indigenous Origins of Colonial Institutions," *Quarterly Journal of Political Science*, Vol. 9, No. 3, pp. 371-406.

Maloney, William F. and Valencia Caicedo, Felipe. 2015. "The Persistence of (Subnational) Fortune," *The Economic Journal* 126: 2363-2401.

Spolaore, E. and R. Wacziarg (2013), "How Deep are the Roots of Economic Development?," *Journal of Economic Literature* 51(2).

#### Week 6. **Geography, Social Conflict and Development**

\*\* Nunn, Nathan and Diego Puga. 2012. "Ruggedness: The Blessing of Bad Geography in Africa," *Review of Economics and Statistics*, 94 (1): 20-36.

Miguel, Edward, Shanker Satyanath, and Ernest Sergenti. 2004. "Economic shocks and civil conflict: An instrumental variables approach," *Journal of Political Economy*, 112 (4).

\*\* Blatman, C., A. Hartman and R. Blair. 2014. "How to promote order and property rights under weak rule of law? An experiment in changing dispute resolution behavior through community education," *American Political Science Review* 108 (1): 100-120.

Alesina and Spolaore. 2005. "War, Peace and the Size of Countries." *Journal of Public Economics*, 1333-1354.

#### Week 7. **Institutions and Behavior**

\*\* Bowles, Samuel. 2004. *Microeconomics*. Princeton. Prologue, chapter 1.

\*\* Greif, Avner, Paul Milgrom and Barry Weingast. 1994. "Coordination, Commitment and Enforcement: The Case of the Merchant Guild," *Journal of Political Economy*, 102, 912-950.

Fafchamps, Marcel. 2010. "Spontaneous Markets, Networks, and Social Capital: Lessons from Africa", in *Institutional Microeconomics of Development*, T. Besley and R. Jayaraman (eds.), MIT Press.

Henrich, Joseph, et al. 2005 "Economic man' in cross-cultural perspective: Behavioral experiments in 15 small-scale societies," *Behavioral and Brain Sciences*, 28, 6, pp. 795-815.

## Weeks 8. **The Development of the State (or Endogenous Political Change)**

Besley, Timothy and Torsten Persson. 2011. *Pillars of Prosperity*, chapter 1.

\*\* North, Douglas C., and Barry R. Weingast. 1989. "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England." *The Journal of Economic History* 49(4): 72-96.

\*\* Garfias, Francisco. 2016. "Elite Competition and State Capacity Development: Theory and Evidence from Mexico," Working Paper.

Besley, Tim, and Torsten Persson. 2009. "The Origins of State Capacity: Property Rights, Taxation, and Politics." *American Economic Review* 99(4): 1218-44.

Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-State in Latin America*, Penn State Press. Chapters 1 and 3.

Herbst, J. I. 2000. *States and Power in Africa: Comparative Lessons in Authority and Control*, Princeton University Press.

Tilly, Charles. 1990. *Coercion, Capital and European States, AD 990-1990*, Blackwell.

## Week 9. **Democracy and Autocracy**

Olson, M. 1993. "Dictatorship, Democracy and Development." *American Political Science Review* 87, 3.

\*\* Przeworski, Adam and Fernando Limongi. 1997. "Modernization: Theory and Facts." *World Politics*, 49: 155-84.

\*\* Gehlbach, S and P Keefer. 2012. "Private Investment and the Institutionalization of Collective Action in Autocracies: Ruling Parties and Legislatures," *Journal of Politics* 74: 2, 621-35.

Acemoglu, D and J Robinson. 2006. *Economic Origins of Democracy and Dictatorship*.

## Week 10. **Inequality and Democracy**

\*\* Helpman, Elhanan. 2004. *The Mystery of Economic Growth*. Harvard Univ Press. Chapt. 6.

D Acemoglu and J Robinson, 2000. "Why Did the West Extend the Franchise? Democracy, Inequality, and Growth in Historical Perspective," *Quarterly Journal of Econ* 115: 1167-1199.

\*\* John Ahlquist and Erik Wibbles. 2012. "Riding the Wave: World Trade and Factor-Based Models of Democratization." *American Journal of Political Science*.

\*\* Alesina, Alberto, Stelios Michalopoulos, and Elias Papaioannou. 2016. "Ethnic Inequality." *Journal of Political Economy* 124, 2.

Persson, Torsten and Guido Tabellini. 1994. "Is Inequality Harmful for Growth?" *American Economic Review*, 84: 600-621. (some) Data Tell us." In Beramendi and Anderson (eds.) *Democracy, Inequality and Representation*. Russell Sage Foundation, NY.

Bénabou, Roland. 1996. "Inequality and Growth." *NBER Macro-Economics Annual*: 11-74.

## Week 11. Political Decision Making

Anthony Downs. 1957. *An Economic Theory of Democracy*. New York: Harper Collins (4 & 8).

Banerjee, Abhijit, Selvan Kumar, Rohini Pande, and Felix Su, "Do Informed Voters Make Better Choices? Experimental Evidence from Urban India," mimeo, Harvard.

\*\* Dal Bó, Pedro, Andrew Foster, and Louis Putterman. 2010. "Institutions and Behavior: Experimental Evidence on the Effects of Democracy," *American Economic Review* 100, 2205-2229.

\*\* Alberto Chong, Ana De La O, Dean Karlan, and Leonard Wantchekon, 2011. "Looking Beyond the Incumbent: The Effects of Exposing Corruption on Electoral Outcomes," NBER WP 17679.

Dal Bó, Pedro, Ernesto Dal Bó, and Erik Eyster. 2016. "The Demand for Bad Policy When Voters under appreciate Equilibrium Effects." NBER Working Paper No. 22916.

Adsera, A., C. Boix, and M. Payne. 2003. "Are You being Served? Political Accountability and Quality of Government." *Journal of Law, Economics and Organization* 19 (2): 445-90.

Olson, Mancur. 1965. *The Logic of Collective Action*. Harvard University Press.

## Week 12. Governance Failures

\*\* Shleifer, A. and R. Vishny. 1993. "Corruption," *Quarterly Journal of Econ*, 108 (3) 599-617.

\*\* Olken, Benjamin and Patrick Barron. 2009. "The Simple Economics of Extortion: Evidence from Trucking in Aceh", *Journal of Political Economy* 117 (3), pp 417-452.

Bertrand, Marianne, Simeon Djankov, Rema Hanna, and Sendhil Mullainathan. 2007. "Obtaining a Driver's License in India: An Experimental Approach to Studying Corruption," *Quarterly Journal of Economics*, Vol 122 (4) 1639-1676.

Morris, S. D. and J. L. Klesner. 2010. "Corruption and Trust: Theoretical Considerations and Evidence From Mexico," *Comparative Political Studies* 43(10), pp. 1258-1285.

A. Banerjee. 1997. "A Theory of Misgovernance" *Quarterly Journal of Econ*, 112, 1289-1332.

## Week 13. Rent Seeking

\*\* A. Przeworski. *States and Markets*, ch. 6.

\*\* Dixit, Avinash and John Londregan. 1996. "The Determinants of Success of Special Interests in Redistributive Politics." *Journal of Politics*, Vol. 58, pp. 1132-1155.

Kreuger, Anne O. 1974. "The Political Economy of the Rent-Seeking Society," *AER*, 291-303.

Shleifer, A. and Vishny, R. 1994. "Politicians and Firms," *Quarterly J of Econ*, 109(4), 995-1025.

Murillo, Victoria. 2000. "From Populism to Neoliberalism: Labor Unions and Market Reforms in Latin America", *World Politics*. 52(2).

Grossman, Gene M., and Elhanan Helpman. 1994. "Protection for Sale." *AER* 84, 833-850.

#### Week 14. **Beliefs and Culture**

\*\* Bowles, S. (1998) "Endogenous Preferences: The Cultural Consequences of Markets and other Economic Institutions," *Journal of Economic Literature*, 36, March.

\*\* Rafael Di Tella, S. Galiani and E. Schargrotsky. 2007. "The Formation of Beliefs: Evidence from the Allocation of Land Titles to Squatters," *Quarterly Journal of Economics*, 122(1).

Tabellini, Guido (2008) "The Scope of Cooperation: Values and Incentives," *Quarterly Journal of Economics*, 123, 905-950.

\*\* Greif, A. 1994. "Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies," *Journal of Political Economy*, 102(5).

Tabellini, Guido (2010) "Culture and Institutions: Economic Development in the Regions of Europe." *Journal of European Economic Association*, 8, 677-716.

Guiso, Luigi, Paola Sapienza and Luigi Zingales (2006) "Does Culture Affect Economic Outcomes?" *Journal of Economic Perspectives*, 20, 23-48.

Kosfeld, Michael, Markus Heinrichs, Paul J. Zak, Fischbacher and Ernst Fehr. 2005. "Oxytocin Increases Trust in Humans," *Nature*, 435 (2): 673-676.

#### Week 15. **Dynamics: Institutional Change and Persistence**

Acemoglu, Daron and Robinson, James A. 2008. "Persistence of Power, Elites and Institutions," *American Economic Review*.

\*\* Bleakley, Hoyt and Jeffrey Lin (2012), "Portage and Path Dependence," *The Quarterly Journal of Economics* 127 (2): 587-644.

Bowles, Samuel. 2004. *Microeconomics*. Princeton, chapter 12.

Page, Scott E. 2006. "Path Dependence." *Quarterly Journal of Political Science* 1: 87-115.

Arthur, W. Brian. 1989. "Competing Technologies, Increasing Returns and Lock-In by Historical Events," *Economic Journal*, 1989, 99(1), pp. 106-131.

Ashraf, Quamrul and Oded Galor. 2010. "The Out of Africa Hypothesis, Genetic Diversity and Comparative Development," *American Economic Review*.

Davis, Donald and David Weinstein. 2002. "Bones, Bombs, and Break Points: The Geography of Economic Activity," *American Economic Review*, 92 (5): 1269-1289