
PLSC 721. ECON 792. Political Economy of Institutions and Development¹

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Course Info:
Spring 2013
W 9:25–11:15
Rosenkranz Hall 301

How do political institutions affect economic outcomes? How do economic conditions determine political institutions? This course reviews recent advances in the emerging field of the political economy of institutions and development, with a focus on formal modeling and quantitative studies. We start with an introduction to the importance of institutions for economic performance. Second, we review some basic models of democratic politics, focusing on the impact of economic conditions (such as inequality) on political outcomes. Third, we cover economic theories of democratization, for example studying the effect of income, inequality, and natural resources on institutional change. Fourth, we study some political theories of democratization, looking at the effect of non-democratic institutions on democratization. Finally, we take a critical look at the role of institutions, considering the possibility of policy persistence despite institutional change.

Course Requirements

The course grade is a combination of problem sets (30%), two topic reviews and one topic presentation (30%), a final exam (30%) and overall course participation (10%). Problem sets consist of a handful of mathematical problems related to some articles covered in class. Topic reviews are short written assignments (no longer than six pages) which should summarize three articles on a narrow topic, explain their contribution, the questions that remain unresolved and the approach needed to address these shortcomings. The findings are then presented to the whole class in one topic presentation at the end of the semester. The final exam is a combination of mathematical problems and short essays (see the schedule of assignments at the end of the syllabus).

Texts and References

The reading list is long, so as to help you dig deeper in any topic (for a topic review, for example). You are expected to read the references marked with a * prior to coming to class (only those references, but all those references). There

¹This draft: April 24, 2013.

is no required textbook for the class. Required references are available from the Classesv2 website.

Academic Integrity

Students should be familiar with the University's policies on academic integrity and disciplinary action, as cheating will be dealt with severely.

Course Outline

1. An Introduction to Institutions (Wednesday January 16)

- Acemoglu, Daron. 2003. 'Why Not a Political Coase Theorem? Social Conflict, Commitment, and Politics.' *Journal of Comparative Economics*. 31(4): 620-652.
- Acemoglu, Daron, Simon Johnson and James A. Robinson. 2001. 'The Colonial Origins of Comparative Development: An Empirical Investigation' *American Economic Review*. 91(5): 1369-1401.
- Acemoglu, Daron, Simon Johnson and James A. Robinson. 2002. 'Reversal of Fortune: Geography and Institutions in the Making of the World Income Distribution.' *Quarterly Journal of Economics*. 117(4): 1231-1294.
- *Acemoglu, Daron, Simon Johnson and James A. Robinson. 2005. 'Institutions as a Fundamental Cause of Long-Run Growth' in Philippe Aghion and Steven Durlauf. eds. *Handbook of Economic Growth*. Amsterdam: North Holland: 385-464.
- Acemoglu, Daron, and James A. Robinson. 2012. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. New York, N.Y.: Crown Business
- Buchanan, James M. and Gordon Tullock. 2004. *The Calculus of Consent: Logical Foundations of Constitutional Democracy*. Indianapolis, IN: Liberty Fund.
- Barro, Robert J. 1996. 'Democracy and Growth.' *Journal of Economic Growth*. 1(1): 1-27.
- Besley, Timothy and Masayuki Kudamatsu. 2008. 'Making Autocracy Work.' in Elhanan Helpman (ed.). *Institutions and Economic Performance*. Cambridge, MA: Harvard University Press. 452-510.
- Demsetz, Harold. 1967. 'Toward a Theory of Property Rights.' *American Economic Review*. 57(2): 347-359.
- Engerman, Stanley L. and Kenneth L. Sokoloff. 1997. 'Factor Endowments, Inequality, and Differential Paths of Growth Among New World Economies: A View from Economic Historians of the United States' in Stephen Haber. ed. *How Latin America Fell Behind: Essays on the Economic Histories of Brazil and Mexico, 1800-1914*. Stanford, CA: Stanford University Press.

- Glaeser, Edward L. and Andrei Shleifer. 2002. 'Legal Origins' *Quarterly Journal of Economics*. 107(4): 1193-1229.
- Herbst, Jeffrey. 2000. *States and Power in Africa: Comparative Lessons in Authority and Control*. Princeton, N.J.: Princeton University Press.
- Keefer, Philip and Stephen Knack. 1997. 'Why Don't Poor Countries Catch Up? A Cross-National Test of an Institutional Explanation.' *Economic Inquiry*. 35(3): 590-601.
- Knack, Stephen and Philip Keefer. 1995. 'Institutions and Economic Performance: Cross-Country Tests Using Alternative Measures.' *Economics and Politics*. 7(3): 207-227.
- Lake, David A. and Matthew A. Baum. 2001. 'The Invisible Hand of Democracy.' *Comparative Political Studies*. 34(6): 587-621.
- Mauro, Paulo. 1995. 'Corruption and Growth.' *Quarterly Journal of Economics*. 110(3): 681-713.
- Mulligan, Casey B., Ricard Gil and Xavier Sala-i-Martin. 2004. 'Do Democracies Have Different Public Policies than Nondemocracies?' *Journal of Economic Perspectives*. 18(1): 51-74.
- North, Douglass C. 1981. *Structure and Change in Economic History*. New York, N.Y.: W.W. Norton & Co.
- North, Douglass C. and Barry R. Weingast. 1989. 'Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England.' *Journal of Economic History*. 49(4): 803-832.
- Rodrik, Dani. 1997. 'Democracy and Economic Performance.' Harvard University Kennedy School of Government mimeo.
- Sachs, Jeffrey. 2006. *The End of Poverty: Economic Possibilities for Our Time*. New York, NY: Penguin Press.
- *Sachs, Jeffrey. 2008. 'Institutions Matter, But Not for Everything. The role of geography and resource endowments in development shouldn't be underestimated.' in Giorgio Secondi (ed.) *The Development Economics Reader*. London, Routledge: 86-91.
- Tilly, Charles. 1985. 'War Making and State Making as Organized Crime' in Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol. (eds.) *Bringing the State Back In*. Cambridge, U.K.: Cambridge University Press: 169-191.
- Tilly, Charles. 1992. *Coercion, Capital, and European States, AD 990-1992*. Cambridge, MA: Blackwell Publishing.

2. Economic Theories of Democratic Politics

(a) **Inequality and Redistribution** (Wednesday January 23 - 1st half)

- Alesina, Alberto, Edward Glaeser, and Bruce Sacerdote. 2001. 'Why Doesn't the United States Have a European-Style Welfare State.' *Brookings Papers on Economic Activity*. 2001(2): 187-254.
- Alesina, Alberto and Dani Rodrik. 1994. 'Distributive Politics and Economic Growth.' *Quarterly Journal of Economics*. 109(2): 465-490.
- *Austen-Smith, David and Jeffrey S. Banks. 2000. *Positive Political Theory I. Collective Preference*. Ann Arbor, MI: University of Michigan Press: 113-115 (26-34 are recommended but not required).
- Benabou, Roland and Efe A. Ok. 2001. 'Social Mobility and the Demand for Redistribution: The POUM Hypothesis.' *The Quarterly Journal of Economics*. 116(2): 447-487.
- Chattopadhyay, Raghendra and Esther Duflo. 2004. 'Women as Policy Makers: Evidence from a Randomized Policy Experiment in India.' *Econometrica*. 72(5): 1409-1443.
- Levitt, Steven D. 1996. 'How Do Senators Vote? Disentangling the Role of Voter Preferences, Party Affiliation, and Senator Ideology.' *The American Economic Review*. 86(3): 425-441.
- *Meltzer, Allan H. and Scott F. Richard. 1981. 'A Rational Theory of the Size of Government.' *Journal of Political Economy*. 89(5): 914-927.
- Persson, Torsten and Guido Tabellini. 1994. 'Is Inequality Harmful for Growth?' *American Economic Review*. 84(3): 600-621.
- Persson, Torsten and Guido Tabellini. 2002. *Political Economics: Explaining Economic Policy*. Cambridge, MA: MIT Press: 19-41, 374-377.
- Piketty, Thomas. 1995. 'Social Mobility and Redistributive Politics.' *The Quarterly Journal of Economics*. 110 (3): 551-584.
- Roberts, Kevin W. S. 1977. 'Voting Over Income Tax Schedules.' *Journal of Public Economics*. 8(3): 329-340.

(b) **Lobbying, Vote-Buying**

Wednesday January 23 - 2nd half

- Becker, Gary S. 1983. 'A Theory of Competition Among Pressure Groups for Political Influence.' *Quarterly Journal of Economics*. 98(3): 371-400.
- *Grossman, Gene M. and Elhanan Helpman. 1994. 'Protection for Sale.' *American Economic Review*. 84(4): 833-850.

- Lohmann, Suzanne. 1995. 'Information, Access, and Contributions: A Signaling Model of Lobbying.' *Public Choice* 85(3-4): 267-284.
- Peltzman, Sam. 1976. 'Toward a More General Theory of Regulation.' *Journal of Law and Economics*. 19(2). only read pages 211-217.
- Persson, Torsten and Guido Tabellini. 2002. *Political Economics: Explaining Economic Policy*. Cambridge, MA: MIT Press: 58-62, 171-175, 180-185.

Wednesday January 30

- Dal Bo, Ernesto. 2007. 'Bribing Voters' *American Journal of Political Science*. 51(4): 789-803. (ER)
- Dekel, Eddie, Matthew O. Jackson and Asher Wolinsky. 2008. 'Vote Buying: General Elections.' *Journal of Political Economy*. 116(2): 351-380.
- *Groseclose, Tim and James M. Snyder, Jr. 1996. 'Buying Supermajorities.' *The American Political Science Review*. 90(2): 303-315.
- *Lizzeri, Alessandro and Nicola Persico. 2001. 'The Provision of Public Goods under Alternative Electoral Incentives.' *American Economic Review*. 91(1): 225-239.
- *Myerson, Roger B. 1993. 'Incentives to Cultivate Favored Minorities Under Alternative Electoral Systems.' *American Political Science Review*. 87(4): 856-869.
- Powell, Robert. 2007. 'Allocating Defensive Resources with Private Information about Vulnerability.' *American Political Science Review*. 101(4): 799-809.
- Snyder, James M. Jr. 1991. 'On Buying Legislatures.' *Economics and Politics*. 3(2): 93-109.

3. Economic Theories of Democratization

(a) **Income and Democracy / Modernization** (Wednesday February 6)

- Acemoglu, Daron, Simon Johnson, James A. Robinson and Pierre Yared. 2007. 'Reevaluating the Modernization Hypothesis.' *Journal of Monetary Economics*. 56(8): 1043-1058.
- *Acemoglu, Daron, Simon Johnson, James A. Robinson and Pierre Yared. 2008. 'Income and Democracy.' *American Economic Review*. 98(3): 808-842.
- Benhabib, Jess, Alejandro Corvalan and Mark M. Spiegel. 2011. 'Reestablishing the Income-Democracy Nexus.' NBER Working Paper # 16832.

- Boix, Carles. 2011. 'Democracy, Development, and the International System.' *American Political Science Review*. 105(4): 809-828.
- *Boix, Carles and Susan C. Stokes. 2003. 'Endogenous Democratization.' *World Politics*. 55(4): 517-549.
- *Cheibub, Jose Antonio and James Raymond Vreeland. 2010. 'Economic Development and Democratization.' in Nathan Brown (ed.) *Dynamics of Democratization*. Baltimore, MD: Johns Hopkins University. 145-182.
- Debs, Alexandre. 2010. 'Economic Theories of Dictatorship.' *The Economics of Peace and Security Journal*. 5(1): 11-17.
- Lipset, Seymour Martin. 1959. 'Some Social Requisites of Democracy: Economic Development and Political Legitimacy.' *American Political Science Review*. 53(1): 69-105.
- Przeworski, Adam, Michael E. Alvarez, Jose Antonio Cheibub and Fernando Limongi. 2000. *Democracy and Development. Political Institutions and Well-Being in the World, 1950-1990*. Cambridge, U.K.: Cambridge University Press.

(b) **Inequality and Democracy**

Wednesday February 13

- *Acemoglu, Daron and James A. Robinson. 2006. *Economic Origins of Dictatorship and Democracy*. Cambridge, U.K.: Cambridge University Press: 99-107, 118-172.

Wednesday February 20

- *Acemoglu, Daron and James A. Robinson. 2006. *Economic Origins of Dictatorship and Democracy*. Cambridge, U.K.: Cambridge University Press: 173-203.
- Ansell, Ben and David Samuels. 2010. 'Inequality and Democratization: A Contractarian Approach.' *Comparative Political Studies*. 43(12): 1543-1574.
- *Boix, Carles. 2003. *Democracy and Redistribution*. Cambridge, U.K.: Cambridge University Press: chapter 1.
- *Haggard, Stephan and Robert R. Kaufman. 2012. 'Inequality and Regime Change: Democratic Transitions and the Stability of Democratic Rule.' *American Political Science Review*. 106(3): 495-516.
- Houle, Christian. 2008. 'Inequality and Democracy: Why Inequality Harms Consolidation But Does Not Affect Democratization.' *World Politics*. 61(4): 589-622.

(c) **Resource Curse** (Wednesday February 27 - 1st half)

- Brooks, Sarah M. and Marcus J. Kurtz. 2012. ‘Oil and Democracy: Endogenous Natural Resources and the Political ‘Resource Curse.’ Paper presented for the 2012 APSA Meetings.
- Caselli, Francesco and Andrea Tesei. 2011. ‘Resource Windfalls, Political Regimes, and Political Stability.’ LSE Mimeo.
- *Dunning, Thad. 2008. *Crude Democracy: Natural Resource Wealth and Political Regimes*. Cambridge, UK: Cambridge University Press. chapter 3.
- Fish, M. Steven. 2005. *Democracy Derailed in Russia: The Failure of Open Politics*. Cambridge, U.K.: Cambridge University Press: chapter 5.
- Haber, Stephen and Victor Menaldo. 2011. ‘Do Natural Resources Fuel Authoritarianism? A Reappraisal of the Resource Curse.’ *American Political Science Review*. 105(1): 1-26.
- Krusel, Per and Jose-Victor Rios-Rull. 1996. ‘Vested Interests in a Positive Theory of Stagnation and Growth.’ *Review of Economic Studies*. 63(2): 301-329.
- Morrison, Kevin. 2009. ‘Oil, Nontax Revenue, and the Redistributive Foundations of Regime Stability.’ *International Organization*. 63: 107-138.
- Ross, Michael. 2001. ‘Does Oil Hinder Democracy?’ *World Politics*. 53(3): 325-361.
- *Ross, Michael. 2012. *The Oil Curse: How Petroleum Wealth Shapes the Development of Nations*. Princeton, N.J.: Princeton University Press. Chapters 1-3.
- Tornell, Aaron and Philip R. Lane. 1999. ‘The Voracity Effect.’ *American Economic Review*. 89(1): 22-46.

(d) **Democratization for Efficiency** (Wednesday February 27 - 2nd half)

- Acemoglu, Daron and James A. Robinson. 2000. ‘Why did the West Extend the Franchise? Democracy, Inequality, and Growth in Historical Perspective.’ *Quarterly Journal of Economics*. 115(4): 1167-1199.
- *Lizzeri, Alessandro and Nicola Persico. 2004. ‘Why Did the Elites Extend the Suffrage? Democracy and the Scope of Government, with an Application to Britain’s “Age of Reform”.’ *Quarterly Journal of Economics*. 119(2): 707-765.
- Llavador, Humberto and Robert J. Oxoby. 2005. ‘Partisan Competition, Growth, and the Franchise.’ *Quarterly Journal of Economics*. 120(3): 1155-1189.
- O’Donnell, Guillermo and Philippe C. Schmitter. 1986. *Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies*. Baltimore, MD: The Johns Hopkins University Press

4. Political Theories of Democratization

(a) Agency Problems (Wednesday March 6)

- Acemoglu, Daron, Georgy Egorov and Konstantin Sonin. 2008. 'Coalition Formation in Nondemocracies.' *Review of Economic Studies*. 75(4): 987-1009.
- Acemoglu, Daron, Davide Ticchi and Andrea Vindigni. 2010. 'A Theory of Military Dictatorships.' *American Economic Journal: Macroeconomics*. 2(1): 1-42.
- Boix, Carles and Milan Svolik. 2012. 'The Foundations of Limited Authoritarian Government: Institutions, Commitment, and Power-sharing in Dictatorship.' *Journal of Politics* [forthcoming].
- Bueno de Mesquita, Bruce, James D. Morrow, Randolph M. Siverson and Alastair Smith. 2003. *The Logic of Political Survival*.
- Bueno de Mesquita, Ethan. 2010. 'Regime Change and Revolutionary Entrepreneurs.' *American Political Science Review*. 104(3): 446-466.
- Chehabi, H.E. and Juan J. Linz. eds. 1998. *Sultanistic Regimes*. Baltimore, MD: The Johns Hopkins University Press.
- Debs, Alexandre. 2009a. 'The Wheel of Fortune: Agency Problems in Dictatorships.' Yale University Mimeo.
- Debs, Alexandre. 2009b. 'Political Strength and Economic Efficiency in a Multi-Agent State.' Yale University Mimeo.
- Egorov, Georgy and Konstantin Sonin. 2011. 'Dictators and their Viziers: Endogenizing the Loyalty-Competence Trade-off.' *Journal of the European Economic Association*. 9(5): 903-930.
- McGuire, Martin C. and Mancur Olson, Jr. 1996. 'The Economics of Autocracy and Majority Rule: The Invisible Hand and the Use of Force.' *Journal of Economic Literature*. 34(1): 72-96.
- Myerson, Roger B. 2008. 'The Autocrat's Credibility Problem and Foundations of the Constitutional State.' *American Political Science Review*. 102(1): 125-139.
- Padro-i-Miquel, Gerard. 2007. 'The Control of Politicians in Divided Societies: The Politics of Fear.' *Review of Economic Studies*, 74(4): 1259-1274.
- *Svolik, Milan. 2009a. 'Power-sharing and Leadership Dynamics in Authoritarian Regimes.' *American Journal of Political Science*. 53(2): 477-494.
- *Svolik, Milan. 2012a. 'Contracting on Violence: The Moral Hazard in Authoritarian Repression and Military Intervention in Politics.' *Journal of Conflict Resolution* [forthcoming].

- Svolik, Milan. 2012b. *The Politics of Authoritarian Rule*. New York, N.Y.: Cambridge University Press.
- Tullock, Gordon. 1987. *Autocracy*. Boston, MA: Kluwer Academic Publishers.
- Weber, Max. 1968. *Economy and Society: An Outline of Interpretive Sociology*. edited by Guenther Roth and Claus Wittlich. New York, NY: Bedminster Press: chapters XII.
- Wintrobe, Ronald. 1998. *The Political Economy of Dictatorship*. Cambridge, U.K.: Cambridge University Press. chapters 1 - 5.

Wednesday March 13, 20: Spring break, no class.

(b) **Regime Types** (Wednesday March 27)

- *Cheibub, Jose Antonio, Jennifer Gandhi and James Vreeland. 2010. 'Democracy and Dictatorship Revisited.' *Public Choice*. 143(1-2): 67-101.
- *Debs, Alexandre. 2012. 'Living by the Sword and Dying by the Sword? Leadership Transitions in and out of Dictatorships' Yale University Mimeo
- Gandhi, Jennifer. 2008. *Political Institutions under Dictatorship*. New York, N.Y.: Cambridge University Press.
- Gandhi, Jennifer and Adam Przeworski. 2006. 'Cooperation, Cooptation, and Rebellion under Dictatorship.' *Economics and Politics*. 18(1): 1-26.
- *Geddes, Barbara. 1999. 'What Do We Know About Democratization After Twenty Years?' *Annual Review of Political Science*. 2: 115-144. (ER)
- Geddes, Barbara. 2009. 'Changes in the Causes of Democratization Through Time' In Todd Landman and Neil Robinson (eds.) *The Sage Handbook of Comparative Politics*. London, U.K.: Sage publications ltd.: 278-298
- Huntington, Samuel P. 1991. *The Third Wave: Democratization in the Late Twentieth Century*. Norman and London: University of Oklahoma Press. esp. chapters 1-3.
- Magaloni, Beatriz. 2008. 'Credible Power-Sharing and the Longevity of Authoritarian Rule.' *Comparative Political Studies*. 41(4/5): 715-741.
- O'Donnell, Guillermo and Philippe C. Schmitter. 1986. *Transitions from Authoritarian Rule. Tentative Conclusions about Uncertain Democracies*. Baltimore, MD: Johns Hopkins University Press. 37-47.
- Stepan, Alfred. 1986. 'Paths toward Redemocratization: Theoretical and Comparative Considerations' in Guillermo O'Donnell,

Philippe C. Schmitter, and Laurence Whitehead (eds.) *Transitions from Authoritarian Rule. Comparative Perspectives*. Baltimore, MD: Johns Hopkins University Press. 64-84.

Wednesday April 3: No Class (ISA); rescheduled as a review session (see below).

5. Revisiting Economic Theories of Democracy

(a) Institutional Change and Policy Persistence (Wednesday April 10)

- *Acemoglu, Daron and James A. Robinson. 2008. 'Persistence of Power, Elites and Institutions.' *American Economic Review*. 98(1): 267-293.
- Acemoglu, Daron, Maria Angelica Batista, Pablo Querubin and James A. Robinson. 2008. 'Economic and Political Inequality in Development: The Case of Cundinamarca, Colombia.' in Elnathan Helpman (ed.). *Institutions and Economic Performance*. Cambridge, MA: Harvard University Press. 181-245.
- Acemoglu, Daron, Davide Ticchi and Andrea Vindigni. 2010. 'Emergence and Persistence of Inefficient States.' *Journal of the European Economic Association*. 8(2-3): 664-676.
- *Debs, Alexandre and Gretchen Helmke. 2010. 'Inequality under Democracy: Explaining "The Left Decade" in Latin America.' *Quarterly Journal of Political Science*. 5(3): 209-241.
- Iversen, Torben and David Soskice. 2006. 'Electoral Institutions and the Politics of Coalitions: Why Some Democracies Redistribute More than Others.' *American Political Science Review*. 100(2): 165-181.
- Michels, Robert. 1962 [1911]. *Political Parties. A Sociological Study of the Oligarchic Tendencies of Modern Democracy*. New York: The Free Press.

(b) Elections and Self-enforcing Democracy (Wednesday April 17)

- *Debs, Alexandre and Kevin Morrison. 'Income, Social Classes, and Democratization.' Yale University Mimeo.
- *Fearon, James. 2011. 'Self-enforcing Democracy.' *The Quarterly Journal of Economics*. 126(4): 1661-1708.
- Przeworski, Adam. 2006. 'Self-Enforcing Democracy' in Barry R. Weingast and Donald A. Wittman. *The Oxford Handbook of Political Economy*. 312-328.
- *Svolik, Milan. 2012. 'Learning to Love Democracy: Electoral Accountability and the Success of Democracy.' *American Journal of Political Science* [forthcoming].

Topic Presentations (Wednesday April 24)

Review Session (Friday April 26, 2.30pm-4.20pm, Rosenkranz Hall room 301)

Schedule of Assignments

Problem Sets

Problem set 1: Handed out on January 23. Due February 20.

Problem set 2: Handed out on February 20. Due March 27.

Problem set 3: Handed out on March 27. Due April 17.

Topic Reviews

Topic Review 1: List of 3 papers due February 13. Review due March 6.

Topic Review 2: List of 3 papers due April 3. Review due April 24.

Final Exam: May 6, 9.30am-12.30pm, Rosenkranz Hall 202.