

14.773 Political Economy of Institutions and Development

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This part of the course will discuss. The reading list is long, mostly to give you references to build on, if you're interested. The reading package will only contain the double starred (**) articles. Single starred (*) articles will be discussed in the lecture, but they are somewhat less important, so they are not in the reading package. The non-starred articles are for future reference. None of the book references are in the package.

1 Issues and Evidence

1.1 Institutions and Development: General Issues—3 lectures, DA (Feb. 6 and 11, 13)

1.1.1 What Are Institutions? Institutions, Policies, Political Power and Commitment

1. ** North, Douglas C. (1981) *Structure and Change in Economic History*, W.W. Norton & Co., New York.
2. North, Douglass C. (1990) *Institutions, Institutional change, and Economic Performance*, Cambridge University Press, New York.
3. ** North, Douglass C. and Barry R. Weingast (1989) "Constitutions and Commitment: Evolution of Institutions Governing Public Choice in Seventeenth Century England," *Journal of Economic History*, 49, 803-832.
4. Weingast, Barry (1998) "Political Stability and Civil War: Institutions, Commitment and American Democracy," in R.H. Bates et al. eds. *Analytic Narratives*, Princeton University Press, Princeton NJ.
5. * Acemoglu, Daron, Simon Johnson and James Robinson (2001) "Institutions and Economic Development" mimeo.

6. * Olson, Mancur (1982) *The Rise and Decline of Nations: Economic Growth, Stagflation, and Economic Rigidities*, Yale University Press, New Haven and London.
7. Grossman, H.I. and M-S. Kim (1995) "Swords or Ploughshares? A Theory of the Security of Claims to Property," *Journal of Political Economy*, 103, 1275-1288.
8. Olson, Mancur (2000) *Power and Prosperity : Outgrowing Communist and Capitalist Dictatorships*, Basic Books, New York.
9. ** Tilly, C. (1985) "War Making and State Making as Organized Crime," in P. Evans, D. Rueschmeyer and T. Skocpol eds. *Bringing the State Back In*, Cambridge University Press.
10. * Tilly, Charles (1990) *Coercion, Capital and European States, AD 990-1990*, Blackwell, Cambridge MA.
11. * Bates, Robert H. (2001) *Prosperity and Violence*, Cambridge; Harvard University Press.
12. * Evans, Peter B. (1995) *Embedded Autonomy: States and Industrial Transformation*, Princeton University Press, Princeton NJ.
13. Herbst, Jeffery I. (2000) *States and Power in Africa: Comparative Lessons in Authority and Control*, Princeton University Press, Princeton NJ.

1.1.2 Institutions: Efficiency Vs. Inefficiency

1. * Becker, Gary (1983) "A Theory of Competition among Pressure Groups for Political Influence," *Quarterly Journal of Economics*, 98, 371-400.
2. * Wittman, Donald (1989) "Why Democracies Produce Efficient Results," *Journal of Political Economy*, 97, 1395-1426.
3. Wittman, Donald (1995) *The Myth of Democratic Failure: Why Political Institutions are Efficient*, University of Chicago Press, Chicago IL.
4. * Demsetz, Harold (1967) "Toward a Theory of Property Rights" *American Economic Review*, volume 57.

1.1.3 Institutions, Culture and Cooperation

1. * Putnam, Robert D. with Robert Leonardi and Raffaella Y. Nanetti (1993) *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton; Princeton University Press.
2. Harrison, Lawrence E. and Samuel P. Huntington eds. *Culture Matters: How Values Shape Human Progress*, New York; Basic Books.

3. * Greif, Avner (1994) “Cultural Beliefs and the Organization of Society,” *Journal of Political Economy*, 102.
4. ** Greif, Avner (1994) “Contract Enforceability and Economic Institutions in Early Trade: the Maghribi Traders’ Coalition”, *American Economic Review* v83, n3 (June 1993): 525-48.

1.1.4 Institutions and Conflict

1. * Marx, Karl and Frederich Engels (1872) *Manifesto of the Communist Party* pp. 469-500 in Robert Tucker *The Marks-Engels Reader*, W. W. Norton & Co., New York London.
2. * Therborn, Goran (1977) “The Rule of Capital and the Rise of Democracy,” *New Left Review*, 103, 3-41.
3. * Brenner, Robert (1976) “Agrarian Class Structure and Economic Development in Pre-Industrial Europe,” *Past and Present*, 70.
4. ** Przeworski, Adam and Michael Wallerstein (1982) “The Structure of Class Conflict in Democratic Society,” *American Political Science Review*, 76, 215-236.
5. Buchanan, James M., and Gordon Tullock (1962). *The Calculus of Consent*. Ann Arbor MI: University of Michigan Press.

1.1.5 Conflict between Politicians and the Society

1. * Andrei Shleifer and Robert Vishny (1992), “Corruption,” *Quarterly Journal of Economics* vol. 108, pp. 599-618.
2. Andrei Shleifer and Robert W. Vishny (1998) *The Grabbing Hand: Government Pathologies and their Cures*, Harvard University Press, Cambridge MA.
3. * Person, Torsten, Gerard Roland and Guido Tabellini (1997) “Separation of Powers and Political Accountability” *Quarterly Journal of Economics*, volume 112, 1163-1202.

1.2 Institutions and Economic Performance. Some macro evidence— 2 lectures, DA and AB (Feb. 18 and 20)

1. ** Knack, Steven and Philip Keefer (1995) “Institutions and Economic Performance: Cross-Country Tests Using Alternative Measures,” *Economics and Politics*, 7, 207-227.
2. * Mauro, Paulo (1995), “Corruption and Growth” *Quarterly Journal of Economics* vol 110, #3, 681-713.

3. ** Acemoglu, Daron, Simon Johnson and James A. Robinson (2001) “The Colonial Origins of Comparative Development: An Empirical Investigation,” *American Economic Review*, volume 91, No. 5, 1369-1401.
4. ** Acemoglu, Daron, Simon Johnson and James Robinson (2001): “Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution” NBER working paper, forthcoming *Quarterly Journal of Economics*.
5. * Perrson, Torsten and Guido Tabellini (2001) “Political Institutions and Policy Outcomes: What Are the Stylized Facts?” Stockholm mimeo.
6. Barro, Robert (1997), *Determinants of economic growth: a cross-country empirical study*, Cambridge, Mass. The MIT Press.
7. ** Banerjee, Abhijit and Lakshmi Iyer, (2001), “History, Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India.”

2 Sources of Institutional Failures

2.1 Bureaucracy and Corruption: 2 lectures, AB (Feb. 25 and 27)

1. **Andrei Shleifer and Robert Vishny (1992), “Corruption,” *Quarterly Journal of Economics* vol. 108, pp. 599-618.
2. **Andrei Shleifer and Robert Vishny (1992), “Politicians and Firms,” *Quarterly Journal of Economics* vol. 109, pp. 995-1026.
3. *Paulo Mauro (1995), “Corruption and Growth” *Quarterly Journal of Economics* vol 110, #3, 681-713.
4. Andrei Shleifer and Robert W. Vishny (1998) *The Grabbing Hand: Government Pathologies and their Cures*, Harvard University Press, Cambridge MA.
5. **Abhijit Banerjee (1997) “A Theory of Misgovernance” *Quarterly Journal of Economics* vol 112.
6. Acemoglu, Daron and Thierry Verdier (1998) “Property Rights, Corruption and the Allocation of Talent: A General Equilibrium Approach.” *Economic Journal*, September 1998, 108:450, 1381-1403.
7. **Acemoglu, Daron and Thierry Verdier (2000) “The Choice Between Corruption and Market Failures,” *American Economic Review*, 90, 194-211.
8. * Shleifer, A. S. Djankov, R. La Porta, and F. Lopez-de-Silanes (2000), ”The Regulation of Entry,” mimeo, Harvard University. (on Andrei Shleifer’s website at Harvard)

2.2 Lobbying 1 lecture, DA (March 4)

1. * Peltzman, Sam. 1976. "Toward a More General Theory of Regulation." *Journal of Law and Economics* 19: 211-240.
2. ** Grossman, Gene M., and Elhanan Helpman (1994). "Protection for Sale." *American Economic Review* 84: 833-850
3. Grossman, Gene M., and Elhanan Helpman (1996). "Electoral Competition and Special Interest Politics." *Review of Economic Studies* 63: 265-286.

2.3 The Limits of Voting: 4 lectures DA (March 6, 11, 13), AB (March 19)

2.3.1 Basic voting models

1. ** Person, Torsten and Guido Tabellini (2000) *Political Economics: Explaining Economic Policy*, The MIT Press, Cambridge MA, chapters 2, 3 and 6.
2. * Roberts, Kevin W.S. 1977. "Voting Over Income Tax Schedules" *Journal of Public Economics* 8: 329-340.
3. * Meltzer, Allan H. and Scott Richards (1981) "A Rational Theory of the Size of Government" *Journal of Political Economy* volume 89, #5, 914-927.
4. Person, Torsten and Guido Tabellini (1994), "Is Inequality Harmful for Growth? Theory and Evidence" *American Economic Review*, volume 84, #3, 600-621.
5. ** Alesina, Alberto and Dani Rodrik (1994) "Distributive Politics and Economic Growth" *Quarterly Journal of Economics*, volume 109, #2, 465-490.
6. * Benabou, Roland (2000), "Unequal Societies: Income Distribution and the Social Context" *American Economic Review*, 90, #1.
7. * Shepsle, Kenneth A. (1979) "Institutional Arrangements and Equilibria in Multi-dimensional Voting Models," *American Political Science Review*, 23, 27-59.
8. Shepsle, Kenneth A. and Barry R. Weingast (1984) "Uncovered Sets and Sophisticated Voting Outcomes with Implications for Agenda Institutions," *American Political Science Review*, 28, 49-74.
9. * Alesina, Alberto. 1988. "Credibility and Policy Convergence in a Two-Party System with Rational Voters." *American Economic Review* 78: 796-805.
10. * Alesina, Alberto. 1987. "Macroeconomic Policy in a Two-Party System as a Repeated Game." *Quarterly Journal of Economics* 102: 651-678.
11. ** Besley, Timothy, and Stephen Coate. 1997. "An Economic Model of Representative Democracy." *Quarterly Journal of Economics* 112: 85-114.

2.3.2 Probabilistic voting models

1. **Lindbeck, Assar, and Jorgen W. Weibull. 1987. “Balanced-Budget Redistribution as the Outcome of Political Competition.” *Public Choice* 52: 273-297.
2. Dixit, Avinash, and John Londregan. 1995. “Redistributive Politics and Economic Efficiency.” *American Political Science Review* 89: 856-866.
3. Dixit, Avinash, and John Londregan. 1996. “The Determinants of Success of Special Interests in Redistributive Politics.” *Journal of Politics* 58: 1132-1155.
4. * Dixit, Avinash and Londregan, John “Ideology, Tactics, and Efficiency in Redistributive Politics” *Quarterly Journal of Economics* v113, n2 (May 1998): 497-52

2.3.3 Do voters know what they want?

1. **Piketty, Thomas, (1995) “Social Mobility and Redistributive Politics, *Quarterly Journal of Economics*, 110.
2. **Benabou, Roland and Efe Ok, “Social Mobility and the Demand for Redistribution”, *Quarterly Journal of Economics*, May, 2001.
3. Austen-Smith, David (1991) “Rational Consumers and Irrational Voters,” *Economics and Politics*, 3, 73-92.
4. *Alesina, Alberto and Eliana La Ferrara, “Preference for Redistribution in the Land of Opportunities”, mimeo, Harvard, July 2000.

2.4 Some Evidence: 1 lecture AB (March 20)

1. **Banerjee, Abhijit, Kaivan D. Munshi, Dilip Mookherjee and Debraj Ray (2001) “Inequality, Control Rights, and Rent Seeking: Sugar Cooperatives in Maharashtra,” *Journal of Political Economy*, 109.

2.5 Political Agency: 2 lectures AB (April 3 and 8)

1. **Banerjee, Abhijit and Rohini Somanathan (2001), “A Simple Model of Voice”, *Quarterly Journal of Economics*
2. **Dixit, Avinash, Gene Grossman and Elhanan Helpman (1997) “Common Agency and Coordination: General Theory and Application to Tax Policy”, *Journal of Political Economy*

2.5.1 Some Evidence: 1 lecture AB (April 10)

1. **Chattopadhyay, Raghavendra and Esther Duflo, “Women as Policy Makers: Evidence from an India-wide Randomized Policy Experiment”, mimeo, 2001.
2. *Pande, Rohini, “Minority Representation and Policy Choices: The Significance of Legislator Identity”, mimeo 2000.
3. *Steve Levitt, “How do Senators Vote? Disentangling the Role of Voter Preferences, Party Affiliation and Senator Ideology”, *American Economic Review*, 86, 3.
4. **Khwaja, Asim Ijaz (2000): *Can good projects succeed in bad communities? Collective Action in the Himalayas*, working paper, department of economics, Harvard University.

2.6 Group Conflict: 3 lectures DA (April 15, 17 and 22)

1. ** Lane, Philip and Aaron Tornell (1998), “Power, Growth and the Voracity Effect,” *Journal of Economic Growth* vol. 1, pp. 213-242.
2. ** Rodrik, Dani (1996) Understanding Economic Policy Reform,” *Journal of Economic Literature*, 34, 9-41.
3. ** Fernandez, Raquel and Rodrik, Dani (1991) “Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty” *American Economic Review* v81, n5, 1146-55.
4. ** Alesina, Alberto and Alan Drazen (1991) “Why Are Stabilizations Delayed?” *American Economic Review* v81, n5, 1170-88.
5. ** Bates, Robert H. (1981) *Markets and States in Tropical Africa*, University of California Press, Berkeley CA.
6. ** Coate, Stephen and Stephen Morris (1995) “On the Form of Transfers to Special Interests,” *Journal of Political Economy*, 103, 1210-1235.
7. Tullock, G. (1983) *The Economics of Income Redistribution*, Kluwer-Nijhoff, Boston MA.
8. Alt, J.E., J. Frieden, M.J. Gilligan, D. Rodrik and R. Rogowski (1996) “The Political Economy of International Trade: Enduring Puzzles and an Agenda for Inquiry,” *Comparative Political Studies*, 29, 689-717.
9. Austen-Smith, David (1991) “Rational Consumers and Irrational Voters,” *Economics and Politics*, 3, 73-92.
10. ** Acemoglu, Daron and James A. Robinson (1998) “Inefficient Redistribution,” *American Political Science Review*, November 2001.

11. Robinson, James A. and Thierry Verdier (1999) “The Political Economy of Clientalism,” Unpublished mimeo.
12. ** Hassler John, Sevi Mora, Kjandetil Storlesseten and Fabrizio Zilibotti “Survival of the Welfare State” Stockholm mimeo.

2.6.1 Some Evidence: 1 lecture DA (April 24)

1. **Alesina, Alberto, Reza Baqir and William Easterly (1999): “Public Goods and Ethnic Divisions”, *Quarterly-Journal-of-Economics*; 114(4), pages 1243-84.
2. *Easterly, William and Ross Levine (1997): “Africa’s Growth Tragedy: Policies and Ethnic Divisions”, *Quarterly-Journal-of-Economics*; 112(4), pages 1203-50.
3. Putnam, Robert D. (1993): *Making democracy work: civic traditions in modern Italy*, Princeton University Press.
4. **Alesina, Alberto, Reza Baqir and Caroline Hoxby (2000), “Political Jurisdictions in Heterogeneous Communities”, mimeo.
5. *Miguel, Edward, ”Ethnic Diversity and School Funding in Kenya”, mimeo.

3 Modeling Institutions

3.1 The Emergence of Order: Dynamic Game Ideas—1 lecture, AB (April 29)

1. Ellickson, R.C. (1991) *Order without Law*, Harvard University Press, Cambridge MA.
2. ** 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.
3. ** Dixit, Avinash, Gene M. Grossman, and Faruk Gul. 2000. “The Dynamics of Political Compromise.” *Journal of Political Economy* 108: 531-568.

3.2 Modeling Changes in Political Regimes—2 lectures, DA (May 1 and 3)

3.2.1 The emergence of democratic institutions

1. * Moore, Barrington (1966) *The Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World*, Beacon Press, Boston MA.

2. Lipset, Seymour M. (1959) "Some Social Prerequisites for Democracy: Economic Development and Political Legitimacy," *American Political Science Review*, 53, 69-105.
3. ** 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*, CXV, 1167-1199.
4. Engerman, Stanley L., Elisa Mariscal and Kenneth L. Sokoloff (1998) "Schooling, Suffrage, and the Persistence of Inequality in the Americas, 1800-1945," Unpublished Paper, Department of Economics, UCLA.
5. Collier, Ruth Berins (1999) *Paths Towards Democracy: The Working Class and Elites in Western Europe and South America*, Cambridge University Press, New York.

3.2.2 Political transitions

1. ** Acemoglu, Daron and James A. Robinson (2001) "A Theory of Political Transitions," *American Economic Review*.
2. O'Donnell, Guillermo (1973) *Modernization and Bureaucratic Authoritarianism: Studies in South American Politics*, University of California, Institute for International Studies, Berkeley CA.
3. Haggard, Stephan and Robert R. Kaufman (1995) *The Political Economy of Democratic Transitions*, Princeton University Press, Princeton NJ.
4. Gasiorowski, Mark J. (1995) "Economic Crises and Political Regime Change: An Event History Analysis," *American Political Science Review*, 89, 882-897.
5. Kaufman, Robert R. and Barbara Stallings (1972) "The Political Economy of Latin American Populism," in Rudiger Dornbusch and Sebastian Edwards eds. *The Macroeconomics of Populism in Latin America*, University of Chicago Press, Chicago IL.
6. Przeworski, Adam, Michael Alvarez, José A. Cheibub and Fernando Limongi (1996) "What Makes Democracy Endure?" *Journal of Democracy*, 7, 39-55.
7. Przeworski, Adam, Michael Alvarez, José A. Cheibub and Fernando Limongi (2000) *Democracy and Development: Political Institutions and material well-being in the world, 1950-1990*, Cambridge University Press, New York NY.
8. Przeworski, Adam and Fernando Limongi (1997) "Modernization: Theory and Facts," *World Politics*, 49, 155-183.
9. Linz, Juan J. and Alfred Stepan (1996) *Problems of Democratic Transition and Consolidation*, Johns Hopkins University Press, Baltimore MD.

3.2.3 Persistence of inefficient institutions

1. * Acemoglu, Daron and James Robinson (1999), “Political Losers As a Barrier to Economic Development” forthcoming *AEA Papers and Proceedings* vol 90.
2. ** Acemoglu, Daron and James Robinson (2001) “Economic Backwardness in Political Perspective” MIT mimeo
3. Robinson, James (1998); “When Is a State Predatory?” Mimeo.
4. Krusell, 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.
5. ** Olson, Mancur (1982) *The Rise and Decline of Nations: Economic Growth, Stagflation, and Economic Rigidities*, Yale University Press, New Haven and London.
6. Mokyr, Joel (1990). *The Levers of Riches: Technological Creativity and Economic Progress*, Oxford University Press, New York.

3.3 Role of Institutional Innovation: 2 lectures AB (May 6 and 8)

1. **Aghion, Philippe, Alberto Alesina and Francesco Trebbi, “Endogenous Political Institutions”, mimeo.
2. **Glaeser, Edward, Simon Johnson and Andrei Shleifer (2001), ”Coase versus the Coasians”, *Quarterly Journal of Economics*, August.
3. **Banerjee, Abhijit, “The Uses of Economic Theory”, mimeo, MIT, 2000.

3.4 Institutional Origins and Comparative Development—2 lectures, DA (May 13 and May 15)

1. ** North, Douglass C. and Robert P. Thomas (1973) *The Rise of the Western World: A New Economic History*, Cambridge University Press, Cambridge UK, chapters 6-11.
2. ** Engerman, Stanley L. and Kenneth L. Sokoloff (1997) “Factor Endowments, Institutions, and Differential Paths of Growth among New World Economies,” in S.H. Haber ed. *How Latin America Fell Behind*, Stanford University Press, Stanford CA.
3. ** Coatsworth, John H. (1978) “Obstacles to Economic Growth in Nineteenth Century Mexico,” *American Historical Review*, 83, 80-100.
4. ** Acemoglu, Daron, Simon Johnson and James Robinson (2001): “Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution” NBER working paper, forthcoming *Quarterly Journal of Economics*.

5. * Acemoglu, Daron, Simon Johnson and James A. Robinson (2001b) "An African Success: Botswana," forthcoming in Dani Rodrik ed. *Analytical Development Narratives*, Princeton University Press.
6. Beard, C.A. (1935) *An Economic Interpretation of the Constitution of the United States*, Macmillan, New York.
7. Boix, Carles (1999) "Setting the Rules of the Game: The Choice of Electoral Systems in Advanced Democracies," *American Political Science Review*, 93, 609-624.
8. Leff, Nathaniel (1972) "Economic Retardation in Nineteenth Century Brazil," *Economic History Review*, 25, 489-507.
9. Haggard, Stephan (1990) *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries*, Cornell University Press, Ithaca NY.