

**Political Economy of Development**  
**G53.3400.003**  
**New York University**  
**Fall 2010 Bldg. 19W4, Room 217 , Tuesdays 10-12**

Instructor: Thomas Brambor  
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Office hours: Wednesdays 10am-noon

## **Course Description**

This course studies the political economy of development with particular emphasis on the state as a central institution.

We begin by introducing the theory of the state as the guarantor of order and property rights, and as coordinator of economic policies, all of which are contributing to economic development. Yet, when the state has the capacity to provide these beneficial things, it is also strong enough to implement policies running contrary to the public interest. Especially if state institutions are captured by elite interests, they can stand as an impediment to development. We suggest that the solution lies in the institutionalization of state power, particularly in the form of democracy.

After the introduction to the origins of political and economic institutions, we then move on to discuss how incentives by political and economic actors are mediated by the institutional environment they act in. We apply our thinking to a range of selected topics discussed in the recent literature in political economy. These topics include the variations in the institutional structure of the state (federalism vs. decentralization), dealing with natural resources, the effects of societal differences (ethnicity and inequality), corruption and accountability, the provision of public goods etc. Whenever possible, we will try to find evidence for or against the theoretical frameworks we discuss at both the cross-national and subnational level.

The seminar should be seen as a complement to other courses on development focusing on growth models and interventions in particular areas such as health, education, and infrastructure. Instead, our focus is on understanding the origin of institutional arrangements that shape the incentives and actions of decision makers. This seminar aims to enable participants to get up to speed on the current state of the literature in a select number of issue areas and in the course of the semester through a number of assignments develop a research proposal to contribute to that discussion.

Many of the papers on the syllabus are using applied econometrics. Some basic knowledge of microeconomics and econometrics is assumed.

## Requirements and Grading

1. Class participation (30%): This class will combine lecture and seminar. Participants are expected to have done the reading before class and be prepared to take part in the discussion during the session. One absence per term will be excused without notice.
2. Response papers (25%): For four of the weekly sessions (any two from weeks 2-7, and any two from weeks 8-13), participants will write a response paper. These papers must be completed by 5pm on the day before the session, with copies posted to the Blackboard course website.  
These papers should be from 1,000 to 1,500 words and review one of the papers to be read for the session. If you are reviewing a theoretical paper, try to think about how it can be applied to some case you know. If the paper is empirical, try to point out extensions or short-comings of the analysis.  
Participants will occasionally be asked to volunteer on certain topics the week before the seminar, so that the most important works will be reviewed each week. All students should read the papers of the other students before the seminar meets as their input will be part of the discussion.
3. Class presentation (15%): You will take the lead presenting and critiquing one of the papers on the syllabus directly related to your research proposal. Please approach me early on in the semester to let me know which paper you are interested in presenting.
4. Research proposal (30%): In week 7 of the course, you provide a 3-5 page summary of the research question on the topic of your choice you want to analyze in your final research proposal, along with an indication of how to approach the question. Moreover, you present this initial idea to the class in a 5-10min presentation.  
By the end of the course, a 10-15 page research proposal is due. In it, you will outline a concise research question related to a key political development challenge, provide a review of the existing literature, and propose an empirical strategy of how to analyze the question of interest. No actual analysis is required, however, you are welcome and encouraged to provide some initial empirical assessment if possible.

# Lecture Topics and Reading Assignments

All articles will be made available on the class website on Blackboard.

NOTE: Readings marked with a star (\*) are recommended and can serve as additional reading for students interested in the topic.

## Part I: Origins of Political and Economic Institutions

### Week 1: Overview and introduction, What are the outcomes we care about? Research Design 101

NO REQUIRED READING for first meeting.

- \* Banerjee, A., and Esther Duflo. 2007. "The Economic Lives of the Poor." *Journal of Economic Perspectives* 21(1): 141–167.
- \* Easterly, William Russell. 2002. *The elusive quest for growth*. MIT Press.

### Week 2: Theory of the State and the Origin of Institutions

North, Douglass C., and Barry R. Weingast. 1989. "Constitutions and Commitment: The Evolution of Institutional Governing Public Choice in Seventeenth-Century England." *The Journal of Economic History* 49(4): 803-832.

Naritomi, Joana, Rodrigo R. Soares, and Juliano J. Assunção. 2009. "Institutional Development and Colonial Heritage within Brazil."

Tilly, C. 1985. "War Making and State Making as Organized Crime." In *Bringing the State Back In*, Cambridge: Cambridge University Press, p. 169–91.

- \* Besley, T., and T. Persson. 2009. "The Origins of State Capacity: Property Rights, Taxation, and Politics." *American Economic Review* 99(4): 1218–1244.
- \* Herbst, J. I. 2000. *States and power in Africa: comparative lessons in authority and control*. Princeton University Press. [for a quick overview of the book without having to read it, check this review article: Robinson, James A. 2002. "Review: States and Power in Africa by Jeffrey I. Herbst: A Review Essay." *Journal of Economic Literature* 40(2): 510-519.]
- \* Bates, R. H. 2001. *Prosperity and violence: the political economy of development*. WW Norton.
- \* North, Douglas. 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.

### Week 3: Institutions and Development: Do Institutions Cause Growth?

Glaeser, Edward L. et al. 2004. "Do Institutions Cause Growth?." *Journal of Economic Growth* 9(3): 271-303.

[Presentation Georgina Rovirosa: Subramanian et al. paper]

- Rodrik, D., A. Subramanian, and F. Trebbi. 2004. "Institutions rule: the primacy of institutions over geography and integration in economic development." *Journal of Economic Growth* 9(2): 131–165.
- Acemoglu, Daron, Simon Johnson, and James A. Robinson. 2001. "The Colonial Origins of Comparative Development: An Empirical Investigation." *The American Economic Review* 91(5): 1369-1401.
- Nunn, Nathan. 2008. "The Long-Term Effects of Africa's Slave Trades." *Quarterly Journal of Economics* 123(1): 139-176.
- \* North, Douglass Cecil. 1981. *Structure and change in economic history*. New York: Norton.
- \* Easterly, William, and Ross Levine. 2003. "Tropics, germs, and crops: how endowments influence economic development." *Journal of Monetary Economics* 50(1): 3-39.
- \* Besley, T. 1995. "Property rights and investment incentives: Theory and evidence from Ghana." *Journal of Political Economy* 103(5): 903–937.

#### **Week 4: Private Order Institutions: Do we need the state?**

- Milgrom, P. R., D. C. North, and B. R. Weingast. 1990. *The Role of Institutions in the Revival of Trade: The Law Merchant, Private Judges, and the Champagne Pairs*. Domestic Studies Program, Hoover Institution, Stanford University.
- Greif, Avner. 1993. "Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Traders' Coalition." *The American Economic Review* 83(3): 525-548.
- Gambetta, D. 2000. "Can we trust trust." *Trust: Making and Breaking Cooperative Relations*, Department of Sociology, University of Oxford: 213–237.
- Richman, B. D. 2006. "How Community Institutions Create Economic Advantage: Jewish Diamond Merchants in New York." *Law and Social Inquiry* 31(2): 383.
- \* Tabellini, Guido. 2010. "Culture and Institutions: Economic Development in the Regions of Europe." *Journal of the European Economic Association* 8(4): 677-716.

## **Part II: Selected Topics in Political Economy**

#### **Week 5: Political Competition and Accountability**

- [Presentation Alejandra Lopez Martinez: Przeworski, Adam, and Fernando Limongi. 1997. "Modernization: Theories and Facts." *World Politics* 49(2): 155-183.]
- Przeworski, A. 2004. "Democracy and economic development." In *The evolution of political knowledge: Democracy, Autonomy, and Conflict in Comparative and International Politics*.
- Olson, Mancur. 1993. "Dictatorship, Democracy, and Development." *The American Political Science Review* 87(3): 567-576.

Ferraz, Claudio, and Frederico Finan. 2008. "Exposing Corrupt Politicians: The Effects of Brazil's Publicly Released Audits on Electoral Outcomes." *Quarterly Journal of Economics* 123(2): 703-745.

Besley, Timothy, Torsten Persson, and Daniel M Sturm. "Political Competition, Policy and Growth: Theory and Evidence from the United States", mimeo, London School of Economics and forthcoming in the *Review of Economic Studies*.

\* Przeworski, Adam et al. 2000. *Democracy and Development: Political Institutions and Material Well-Being in the World, 1950-1990*. New York: Cambridge University Press.

## **Week 6: The grabbing hand of the state**

*[Presentation Valbona Gashi: Krueger paper]*

Krueger, Anne O. 1974. "The Political Economy of the Rent-Seeking Society." *The American Economic Review* 64(3): 291-303.

Shleifer, Andrei, and Robert W. Vishny. 1993. "Corruption." *The Quarterly Journal of Economics* 108(3): 599-617.

Mauro, Paolo. 1995. "Corruption and Growth." *The Quarterly Journal of Economics* 110(3): 681-712.

*[Presentation Cady Glaser: Hellman paper]*

Hellman, Joel S. 1998. "Winners Take All: The Politics of Partial Reform in Postcommunist Transitions." *World Politics* 50(2): 203-234.

\* Bates, Robert H. 1981. *Markets and states in tropical Africa : the political basis of agricultural policies*. Berkeley: University of California Press.

\* Shleifer, A., and R. W Vishny. 2002. *The grabbing hand: Government pathologies and their cures*. Harvard Univ Press

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

## **Week 7: Short student presentations of ideas for research proposals**

*Four page summary for research idea due.*

Everyone should be prepared to spend 3-5 minutes presenting an idea for a research proposal along with a concise question, some initial check of the existing literature, and suggest an empirical strategy of how to answer the question posed.

Barry R. Weingast. 1995. *Caltech Rules for Writing Professional Papers*

\* Przeworski, Adam, and H. Teune. 1970. *The logic of comparative social inquiry*. Wiley-Interscience.

\* King, G., R. O. Keohane, and S. Verba. 1994. *Designing social inquiry: scientific inference in qualitative research*. Princeton University Press.

## **Week 8: Public Goods and Ethnic Diversity**

Olson, M. 1965. *The Logic of Collective Action: Public Goods and the Theory of Goods*. Cambridge: Harvard University Press.

Alesina, A., R. Baqir, and W. Easterly. 1999. "Public Goods and Ethnic Divisions." *Quarterly Journal of Economics* 114(4): 1243–1284.

*[Presentation Miriam Ott: Habyarimana et al. paper]*

Habyarimana, J. et al. 2007. "Why Does Ethnic Diversity Undermine Public Goods Provision?." *American Political Science Review* 101(04): 709-725.

*Presentation Soo Yeon Jung: Posner Paper* Posner, Daniel N. 2004. "The Political Salience of Cultural Difference: Why Chewas and Tumbukas Are Allies in Zambia and Adversaries in Malawi." *American Political Science Review* 98(04): 529-545.

\* Alesina, Alberto, and Eliana La Ferrara. 2005. "Ethnic Diversity and Economic Performance." *Journal of Economic Literature* 43(3): 762-800.

### **Week 9: Inequality**

Banerjee, A., and L. Iyer. 2005. "History, institutions, and economic performance: the legacy of colonial land tenure systems in India." *American Economic Review* 95(4): 1190–1213.

Acemoglu, D. et al. 2007. "Economic and political inequality in development: the case of Cundinamarca, Colombia." NBER Working Paper Series 13208.

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.

*[Presentation Diana Jimenez: Banerjee, Duflo paper]*

Banerjee, Abhijit V., and Esther Duflo. 2003. "Inequality and Growth: What Can the Data Say?." *Journal of Economic Growth* 8(3): 267-299.

\* Engerman, Stanley L. et al. 2002. "Factor Endowments, Inequality, and Paths of Development among New World Economies." *Economía* 3(1): 41-109.

### **Week 10: Political economy of taxation**

*[Presentation Sarah Shah Sikander: Cheibub paper]*

Cheibub, José Antonio. 1998. "Political Regimes and the Extractive Capacity of Governments: Taxation in Democracies and Dictatorships." *World Politics* 50(3): 349-376.

Bates, R. H., and D. Lien. 1985. "A Note on Taxation, Development, and Representative Government." *Politics and Society* 14(1): 53.

Timmons, Jeffrey F. 2010. "Taxation and Representation in Recent History." *The Journal of Politics* 72(01): 191-208.

\* Sokoloff, K. L., and E. M. Zolt. 2004. "Inequality and Taxation: Some Evidence from the Americas."

### **Week 11: Federalism and Local Public Finance**

- Montinola, Gabriella, Yingyi Qian, and Barry R. Weingast. 1995. "Federalism, Chinese Style: The Political Basis for Economic Success in China." *World Politics* 48(1): 50-81.
- Rodden, Jonathan, and Susan Rose-Ackerman. 1997. "Does Federalism Preserve Markets." *Virginia Law Review* 83: 1521.
- Fisman, Raymond, and Roberta Gatti. 2002. "Decentralization and corruption: evidence across countries." *Journal of Public Economics* 83(3): 325-345.
- Jin, Hehui, Yingyi Qian, and Barry R. Weingast. 2005. "Regional decentralization and fiscal incentives: Federalism, Chinese style." *Journal of Public Economics* 89(9-10): 1719-1742.
- Fan, C. S., C. Lin, and D. Treisman. 2009. "Political decentralization and corruption: evidence from around the world." *Journal of Public Economics* 93(1-2): 14-34.

### **Week 12: Political Connections**

- Khwaja, Asim Ijaz, and Atif Mian. 2005. "Do Lenders Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market." *Quarterly Journal of Economics* 120(4): 1371-1411.
- Fisman, Raymond. 2001. "Estimating the Value of Political Connections." *The American Economic Review* 91(4): 1095-1102.
- Faccio, Mara. 2006. "Politically Connected Firms." *The American Economic Review* 96(1): 369-386.
- \* Faccio, Mara, Ronald W. Masulis, and John J. McConnell. 2006. "Political Connections and Corporate Bailouts." *The Journal of Finance* 61(6): 2597-2635.
- \* Goldstein, Markus P., and Christopher Udry. 2005. "The Profits of Power: Land Rights and Agricultural Investment in Ghana."
- Ferguson, Thomas, and Hans-Joachim Voth. 2008. "Betting on Hitler—The Value of Political Connections in Nazi Germany\*." *Quarterly Journal of Economics* 123(1): 101-137.

### **Week 13: Resource Curse**

- Sachs, Jeffrey D., and Andrew M. Warner. 1995. "Natural Resource Abundance and Economic Growth." *National Bureau of Economic Research Working Paper Series* No. 5398.
- Ross, M. 1999. "The Political Economy of the Resource Curse." *World Politics* 51(2): 297-322.
- Haber, Stephen, and Victor Menaldo. 2010. "Do Natural Resources Fuel Authoritarianism?."
- \* Djankov, Simeon, Jose Montalvo, and Marta Reynal-Querol. 2008. "The curse of aid." *Journal of Economic Growth* 13(3): 169-194.
- \* Brunnschweiler, Christa N., and Erwin H. Bulte. 2008. "The resource curse revisited and revised: A tale of paradoxes and red herrings." *Journal of Environmental Economics and Management* 55(3): 248-264.

## **Week 14: Final Presentation of Research Proposals**

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