

POLITICAL ECONOMY OF DEVELOPMENT

Professor: Sergei GURIEV

Academic Year 2018/2019: Common core curriculum – Fall Semester

SUMMARY OF THE COURSE

The course is to introduce the students to the recent research in political economy of development. The course will consist of three parts. We will start with the normative approach understanding what government should do in a developing economy discussing missing markets, externalities, public goods, and redistribution. The second part of the course will be devoted to the modern positive political economy theory that explains why real-life democratic and non-democratic governments do what they actually do. In the third part of the course we will apply the tools of political economy theory to specific issues of economic development: economic and political institutions, governance and corruption, international trade and migration, management of natural resources and of international aid, and transition from plan to market in post-communist countries and China.

SYLLABUS

Session n°1: Introduction

Introduction to the main facts and the main puzzles of economic development. Global inequality. The role of international institutions in development. Introduction to methodology of modern economics. Structure of the course grade and of the homework.

Required readings:

- Acemoglu and Robinson, Ch. 1,2.
- Easterly, Ch. 1.

Complementary readings:

- Deaton, Introduction and Ch. 1
- Rodrik, Dani (2014) An African Growth Miracle? Richard H. Sabot Lecture, the Center for Global Development.
- Kristof, Nicholas (2015) The Most Important Thing, and It's Almost a Secret, New York Times, Oct 1, 2015
- Lakner, Christoph and Branko Milanovic (2016) Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession. World Bank Economic Review, forthcoming.

- Michael A. Clemens and Michael Kremer (2016) The New Role for the World Bank. *Journal of Economic Perspectives*, 30(1), pp. 53–76.
- Martin Ravallion (2016) The World Bank: Why It Is Still Needed and Why It Still Disappoints. *Journal of Economic Perspectives* 30(1), pp.77–94.

Session n°2: Role of the government

Role of the government in a market economy. Externalities and public goods. Taxation, regulation and public ownership. Role of the government in a developing economy. Market failures vs. government failures. Inequality and redistribution. Inequality, poverty and redistribution. Poverty traps. Human capital and externalities. Attitudes to inequality and redistributive politics. State ownership and privatization.

Required readings:

- Shleifer, Andrei and Robert Vishny (1994), "The Politics of Market Socialism." *Journal of Economic Perspectives*, 8(2), 165-176.
- Milanovic, Branko (2014) "Global inequality of opportunity: how much of our income is determined by where we live." *Review of Economics and Statistics*.

Complementary readings:

- Banerjee, Abhijit V., and Esther Duflo. 2007. "The Economic Lives of the Poor." *Journal of Economic Perspectives*, 21(1): 141-168.
- Miguel, Edward (2004). Tribe or Nation? Nation Building and Public Goods in Kenya versus Tanzania, *World Politics* 56, 327-62.
- Estrin, Saul, Jan Hanousek, Evzen Kocenda, and Jan Svejnar (2009). The Effects of Privatization and Ownership in Transition Economies. *Journal of Economic Literature* 47(3), 699–728.

Session n°3: Democratic politics and voting.

Social choice theory. Coase theorem and "political Coase theorem". Median voter theorem. Voting paradox. Rational voter.

Required readings:

- Coase, Ronald H. (1960), "The Problem of Social Cost," *Journal of Law and Economics*, 3,1-44.
- Acemoglu, Daron (2003), "Why not a Political Coase Theorem? Social Conflict, Commitment, and Politics", *Journal of Comparative Economics*, 31(4), 620-652.

Complementary readings:

- Caplan (2007). Ch. 2,3,5,6.

Session n°4: Interest groups politics

Lobbying, interest groups, political connections and rent-seeking.

Required readings:

- Acemoglu and Robinson, Ch. 8.

Complementary readings:

- Faccio, Mara (2006), "Politically Connected Firms", *American Economic Review*, 96(1), 369-386.
- Guriev, Sergei, and Andrei Rachinsky. 2005. "The Role of Oligarchs in Russian Capitalism." *Journal of Economic Perspectives*, 19(1): 131-150.

Session n°5: Non-democratic politics

Political economy of non-democratic regimes. Economic development in dictatorships: successes and failures.

Required readings:

- Acemoglu and Robinson, Ch. 5.

Complementary readings:

- Besley, Timothy and Masayuki Kudamatsu (2008), "Making Autocracy Work. Institutions and Economic Performance", Edited by Elhanan Helpman (Harvard University Press), 452-510.
- McMillan, John and Pablo Zoido (2004), "How to Subvert Democracy: Montesinos in Peru," *Journal of Economic Perspectives*, 18(4), 69-92.
- Guriev, Sergei, and Daniel Treisman (2015) *The new authoritarianism*. Voxeu.org

Sessions n°6-7: Institutions and economic development.

Democracy and development. Political and economic institutions and economic development. Role of colonial legacies and legal origins. Role of human capital. Role of culture and social capital in economic and political development.

Required readings:

- Acemoglu and Robinson, Ch. 4,11,12,13.

Complementary readings:

- Spolaore, Enrico, and Romain Wacziarg (2013), "How Deep Are the Roots of Economic Development?", *Journal of Economic Literature*, 51 (2), 325-369.
- Alesina, Alberto, and Paola Giuliano (2015). *Culture and Institutions*. *Journal of Economic Literature* 53(4), 898–944.

Session n°8: Governance and Corruption

Governance, bureaucracy and corruption. Corruption in developing countries. Corruption and development. "High corruption" traps. Regulation and corruption.

Required readings:

- Easterly, Ch. 11-12.

Complementary readings:

- Svensson, Jakob (2005), "Eight Questions about Corruption," *Journal of Economic Perspectives*, 19(3), 19-42.
- Bertrand, Marianne, Simeon Djankov, Rema Hanna and Sendhil Mullainathan (2007), "Obtaining a Driver's License in India: An Experimental Approach to Studying Corruption", *The Quarterly Journal of Economics*, 122(4), 1639–1676.
- Rasul, Imran, and Daniel Rogger (2016) *Management Of Bureaucrats And Public Service Delivery: Evidence From The Nigerian Civil Service*. CEPR Discussion Paper No. 11078
- Olken, Benjamin, Frederico Finan and Rohini Pande (2016). *The Personnel Economics of the State*. *Handbook of Field Experiments*, forthcoming.
- Olken, Benjamin, and Rohini Pande (2012). *Corruption in Developing Countries*. *Annual Review of Economics* 4, pp. 479-505.

Session n°9: Globalization and migration.

Globalization of product, capital and labor markets and economic development. Political economy of protectionism and import substitution policies. Political economy of international migration. Legal and illegal migration. Brain drain. Migration policy of developed countries. Accumulation of human capital in developing countries. Political economy of education reforms. Increasing returns and multiple equilibria in production of human capital.

Required readings:

- Easterly, Chapter 4, 8, 9.
- Cecilia Hornok, Miklós Koren (2016) *The case for free trade*. Voxeu.org
- Goldberg, Pinelopi, Koujianou, and Nina Pavcnik. 2007. "Distributional Effects of Globalization in Developing Countries." *Journal of Economic Literature*, 45(1): 39-82.

Complementary readings:

- Leamer, Edward E. 2007. "A Flat World, a Level Playing Field, a Small World After All, or None of the Above? A Review of Thomas L Friedman's *The World is Flat*." *Journal of Economic Literature*, 45(1): 83-126.
- Hanson, Gordon H. 2012. "The Rise of Middle Kingdoms: Emerging Economies in Global Trade." *Journal of Economic Perspectives*, 26(2): 41-64.
- Goldberg, Pinelopi, Koujianou, and Nina Pavcnik (2015) *The Effects of Trade Policy*, (with P. Goldberg), NBER Working Paper 21957. Forthcoming in the *Handbook of Commercial Policy* (K. Bagwell and R. Staiger, Editors).
- Gene M. Grossman and Elhanan Helpman (2015) *Globalization and Growth*. *American Economic Review: Papers & Proceedings*, 105(5): 100–104.

- Autor, David, David Dorn, and Gordon Hanson (2016). The China Shock: Learning From Labor Market Adjustment To Large Changes In Trade. NBER Working Paper 21906.
- Deaton, Ch. 3,4.
- Docquier, Frédéric, and Hillel Rapoport. 2012. "Globalization, Brain Drain, and Development." *Journal of Economic Literature*, 50(3): 681-730.
- Aubry, Amandine, Michal Burzynski, and Frédéric Docquier (2016) The welfare impact of global migration in the OECD countries. *Journal of International Economics*, forthcoming.

Session n°10: Resource curse. International aid

Economic development in the resource-rich countries. Economics and politics of the "resource curse". International development aid and its impact on growth.

Required readings:

- Anthony J. Venables (2016) Using Natural Resources for Development: Why Has It Proven So Difficult? *Journal of Economic Perspectives* 30(1), pp. 161–184.
- van der Ploeg, Frederick. 2011. "Natural Resources: Curse or Blessing?" *Journal of Economic Literature*, 49(2): 366-420.

Complementary readings:

- Baumeister, Christiane, and Lutz Kilian (2016) Forty Years of Oil Price Fluctuations: Why the Price of Oil May Still Surprise Us. *Journal of Economic Perspectives* 30(1), pp. 139–160.
- Brollo, Fernanda, Tommaso Nannicini, Roberto Perotti, and Guido Tabellini (2013) The Political Resource Curse, *American Economic Review*, 103(5): 1759-96.
- Nunn, Nathan, and Nancy Qian. 2014. "U.S. Food Aid and Civil Conflict," *American Economic Review*. 104(6): 1630-1666.
- Galiani, Sebastian, Stephen Knack, Lixin Colin Xu, and Ben Zou. 2014. "The effect of aid on growth: Evidence from a quasi-experiment." Working Paper, World Bank, Washington, DC.
- Werker Eric, Faisal Ahmed, and Charles Cohen C. 2009. "How Is Foreign Aid Spent? Evidence from a Natural Experiment." *American Economic Journal: Macroeconomics* 1:225–44.
- Raghuram G. Rajan, Arvind Subramanian, Aid, Dutch disease, and manufacturing growth, *Journal of Development Economics*, Volume 94, Issue 1, January 2011, Pages 106-118.
- Jones, Sam, and Finn Tarp (2016) Does foreign aid harm political institutions? *Journal of Development Economics* 118, 266–281.

Session n°11: Transition from plan to market

Political economy of transition from plan to market. The transition experiences of Central and Eastern Europe and former Soviet Union countries.

Required readings:

- Simeon Djankov (2016) The Divergent Post-Communist Paths to Democracy. *Journal of Economic Perspectives*.

Complementary readings:

- Roland, Gérard. 2002. "The Political Economy of Transition." *Journal of Economic Perspectives*, 16(1): 29-50.
- Guriev, Sergei, and Ekaterina Zhuravskaya. 2009. "(Un)happiness in Transition." *Journal of Economic Perspectives*, 23(2): 143-68.
- European Bank for Reconstruction and Development. 2016. "Transition for all: Promoting equal opportunities in an unequal world." *Transition Report 2016-17*. London.

Session n°12: Economic development in China

Political economy of economic development in China.

Required readings:

- Qian, Yingyi (2003). "How Reform Worked in China." In Dani Rodrik, editor, *In Search of Prosperity: Analytic Narratives on Economic Growth*, Princeton University Press, 2003, pp. 297-333.

Complementary readings:

- Roland, Gérard. 2002. "The Political Economy of Transition." *Journal of Economic Perspectives*, 16(1): 29-50.
- Qian, Yingyi (2012). "Perspectives on China's Economic Growth," in Daron Acemoglu, Manuel Arellano and Eddie Dekel, editors, *Advances in Economics and Econometrics, Tenth World Congress*, Cambridge University Press.
- Xu, Chenggang. 2011. "The Fundamental Institutions of China's Reforms and Development." *Journal of Economic Literature*, 49(4): 1076-1151.
- Xiaodong Zhu (2012) *Understanding China's Growth: Past, Present, and Future*. *Journal of Economic Perspectives* 26(4), pp. 103–124.