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Mondays 10-12

## Seminar in Political Economy: Institutions, Causality, and History.

*Seminar. Association of the teachers, fellows, and scholar for the prosecution of original studies by means of discussion and criticism. OED.*

The seminar will consider some philosophical, theoretical, and methodological issues entailed in evaluating the impact of political institutions on economic performance, specifically on long-term patterns of economic development and inequality. Topics will range broadly, to include the relation between causality and counterfactuals, issues entailed in evaluation research, a comparison of the new institutional history with marxist development theories, as well as current statistical research on the impact of institutions. Students will be expected to make a class presentation and to write a bibliographic paper on the impact of a particular institution on some aspect of economic performance.

If you can, read in the order specified under each topic. Some of the texts are difficult: you may want to reread them after we discuss them.

### 1. Preview.

The central difficulty of new institutionalism. Endogenous institutions. Causality and counterfactuals. The role of institutions in development. Inequality and growth. Observational issues. Plan of the seminar.

### 2. Political Institutions, Income Distribution, and Economic Growth in the Americas

Is the perpetuation inequality in Latin America due to political institutions? Could these institutions have been different? Would it have made a difference? What are the similarities and differences between the Engerman-Sokoloff and Cardoso-Faletto analyses?

Read: (One of the Engerman and Sokoloff texts will suffice; they are highly repetitive)

Engerman, Stanley L., and Kenneth L. Sokoloff. 1997. "Factor Endowments, Institutions, 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*. Palo Alto: Stanford University Press.

Engerman, Stanley L., and Kenneth L. Sokoloff. 2001. "Inequality, Institutions, and Differential Paths of Growth Among New World Economies." Paper presented at the meeting of the MacArthur Research Network on Inequality and Economic Performance, Boston.

Sokoloff, Kenneth L. 2000. "The Institutional Foundations of a Market Economy." Villa Borsig Workshop Series.

Cardoso, Fernando Henrique, and Enzo Faletto. 1979. *Dependency and Development in Latin America*. Berkeley: University of California Press. (If you can, read it in the original: 1969. *Dependencia y desarrollo en América Latina*. Mexico: Siglo XXI.)

(If you can) Weffort, Francisco C. 1972. "Notas sobre la 'teoría de la dependencia': teoría de clase o ideología nacional?" In FLACSO-UNESCO, *Teoría, Metodología y Política del Desarrollo de América Latina*. Santiago: Flacso.

### 3. Causality and Counterfactuals

Effects of causes and causes of effects. Causality as invariance under interventions. Can causality be assessed without counterfactuals? The Rubin model. The Dawid critique. When are counterfactuals logically valid? Logical validity vs statistical identification.

Read:

Pearl, Judea. 2000. "Epilogue" to *Causality: Models, Reasoning, and Inference*. Cambridge: Cambridge University Press. Pages 331-358.

Holland, Paul W. 1986. "Statistics and Causal Inference." *Journal of the American Statistical Association* 81: 945-960.

Dawid, A.P. 2000. "Causal Inference without Counterfactuals." *Journal of the American Statistical Association* 95: 407-424.

Jervis, Robert. 1996. "Counterfactuals, Causation, and Complexity." In Philip E. Tetlock and Aaron Belkin (eds.), *Counterfactual Thought Experiments in World Politics*. Princeton: Princeton University Press. Pages 309-316.

### 4. Self-enforcing institutions and equilibrium change.

Self-enforcing institutions. Endogenous institutions. Exogeneity according to Pearl. Exogeneity and manipulability. Statistical sense of endogeneity. Multiple equilibria. Path dependence vs. indeterminacy. Exogenous and endogenous institutional reforms. Why would the powerful ever reform institutions?

Read:

Pearl, Judea. 2000. Sections 5.4.3 and 7.4.5 of *Causality: Models, Reasoning, and Inference*. Cambridge: Cambridge University Press. (Note: Reading the entire Chapter 5 is strongly recommended).

Woolridge, Jeffrey M. 2002. Section 4.1 of *Econometric Analysis of Cross Section and Panel Data*. Cambridge, MA: MIT Press.

Acemoglu, Daron. 1995. "Reward structures and the allocation of talent." *European Economic Review* 39: 17-33. (Watch! A parenthesis is missing in equation (1)).

Holmes, Steven, 2003. "Lineages of the Rule of Law." In José María Maravall and Adam Przeworski (eds.), *Democracy and the Rule of Law*. New York: Cambridge University Press.

Caruthers, Tom. 2002. "Promoting the Rule of Law Abroad: The Problem of Knowledge." Paper presented at the Colloquium on Law, Economics, and Politics, New York University Law School.

## 5. Endogenous Institutions in Marxism and in New Institutional Economics

Non-institutional ("brute") and institutional power. What gives power to institutions? Reproduction of social relations. Change vs breakdown.

Read: (These texts are extremely convoluted but perhaps it is because we have no ready-made language to study the questions they pose.)

Poulantzas, Nicos. 1973. Pages 107-117 and 255-289 from *Political Power and Social Classes*. London: New Left Books.

Balibar, Etienne. 1970. Section 3 (pages 254-308) of "Fundamental Concepts of Historical Materialism." In Luis Althusser and Etienne Balibar, *Reading Capital*. New York: Pantheon Books.

Try to figure out what North means by endogeneity skimming the relevant parts of:

North, Douglass C., and Robert Paul Thomas. 1973. *The Rise of the Western World: A New Economic History*. Cambridge, Cambridge University Press.

North, Douglass C. 1980. *Structure and Change in Economic History*. New York: W.W. Norton.

North, Douglass C. 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge, Cambridge University Press.

North, Douglass C. 1997. "Some Fundamental Puzzles in Economic History/Development" in W. Brian Arthur, Steven N. Durlauf, and David A. Lane (eds.), *The Economy as an Evolving Complex System II*. Addison-Wesley.

## 6. Statistical Issues

Endogeneity and non-random selection. Inferences from observable differences. Sources of bias. Controlling for observables. Controlling for unobservables. Instrumental variables.

Study:

Heckman, James. 1997. "Instrumental Variables: A Study in Implicit Behavioral Assumptions Used in Making Program Evaluations." *The Journal of Human Resources* 32: 441-462.

Winship, Christopher, and Stephen L. Morgan. 1999. "The Estimation of Causal Effects from Observational Data." *Annual Review of Sociology* 25: 659-707.

King, Gary, and Langche Zeng. 2002. "When Can History be Our Guide? The Pitfalls of Counterfactual Inference." <http://GKing.Harvard.Edu>

## 7. "Geography" vs Institutions

Geographic factors and development. Geographic determinism. Does geography determine institutions? Geography and exogenous institutions.

Read:

Montesquieu. Any edition [1748]. Books XIV and XVII of *The Spirit of Laws*.

Sachs, Jeffrey D. 2001. "Tropical Underdevelopment." *NBER Working Paper 8119*. <http://www.nber.org/papers/w8119>.

Gallup, John Luke, Jeffrey D. Sachs, and Andrew D. Mellinger. 1998. "Geography and Economic Development." *NBER Working Paper 6849*. <http://www.nber.org/papers/w6849>.

## 8. Identifying the Effect of Institutions

The causal structure of the arguments about the role of institutions. Conditions for identification. Do instrumental variables work? Conditions for identification.

Read:

Banerjee, Abhijit, and Lakshmi Iyer. 2002. "History, Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India." Ms. Department of Economics, MIT.

Acemoglu, Daron, Simon Johnson, and James A. Robinson. 2002. "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution." *The Quarterly Journal of Economics* 117: 1231-1294.

## 9-13. Statistical Evidence

This part of the seminar will consist of student presentations. Each student should choose a particular institution and a particular policy or policy outcome and critically review the literature. Pay special attention to controls for endogeneity. Evaluate the robustness of the results. You may wish to start with *The World Development Report 2002* but their coverage of the literature is very thin.

Read:

World Bank. 2002. Introduction and Chapter 5 of *World Development Report 2002*. Washington, D.C.: World Bank.

Aron, Janine. 2000. "Growth and Institutions: A Review of the Evidence." *The World Bank Research Observer* 15: 99-135.

Stasavage, David. 2002. "Private Investment and Political Institutions." *Economics and Politics* 14: 41-63.

#### 14. **How Much Confidence Should We Place in Institutional Engineering?**

When can institutional reforms make a difference? What kind of difference? What do we need to know for successful institutional engineering?

Read:

Berkowitz, Daniel, Katharina Pistor, and Jean-François Richard. 2003. "Economic development, legality, and the transplant effect." *European Economic Review* 47: 165-195.

Hoff, Karla, and Joseph E. Stiglitz. 2001. "Modern Economic Theory and Development", with comments by Abhijit Banerjee and Debraj Ray. In Gerald M. Meier and Joseph E. Stiglitz (eds.), *Frontiers of Development Economics*. New York: Oxford University Press.