

Comparative Politics Seminar:

Politics and Economics of Institutional Change In Developing and Post-Industrial Countries

NYU Department of Politics: G53.3501.001

Spring 2007
Thursdays 6:20-8:20 p.m.

Thráinn Eggertsson
Department of Politics
New York University
19 West 4th Street #424

Email te15@nyu.edu
telephone: 212-992 8079
Office hours 5-6 p.m. Wednesdays

Course Description

This seminar is an introduction to the New Institutional Economics or New Institutional Analysis, which is an interdisciplinary field for studying how political, economic and sociological variables combine to create institutional frameworks or mechanisms that enable, restrict, and guides economic activity.

The questions we ask include: Why don't economic institutions spontaneously adjust to the requirements of economic growth? Why did the Industrial Revolution originate in England, and why did it spread only to some countries? Why have transition-to-markets reforms failed in some post-Soviet economies and succeeded elsewhere? In the "New Economy", what adjustments in property rights are needed to accommodate high tech industries, and do such adjustments have political and ideological support? More generally: How is economic change related to adjustments in social institutions, and how are political, economic, and ideological variables related to institutional change? Why do nations tolerate economic institutions that bring relative or absolute decline in living standards? Do different ideas and uncertainty about the true nature of economic systems significantly influence economic development?

We analyze these and similar questions with the help of recent theoretical studies, statistical investigations, and case studies. Our approach emphasizes individual behavior and individual choice, although we assume that people lack complete knowledge and therefore do not possess correct (and identical) models of their environments.

Social institutions coordinate and direct human behavior by creating various incentives. Economic institutions specify the rights and duties of individuals with respect to human and physical capital, natural resources, commodities, and organizations. Effective economic institutions or property rights depend on formal and informal rules and their enforcement. Enforcement depends on expectations about the behavior of public and private enforcers, and on internalized moral codes. The institutional environment sometimes creates incentives for economic actors to invent new production technologies or imitate and adapt available technologies, and move the economy close to its production possibilities frontier. In other instances no such incentives exist. The specific role of social norms and ideologies in the process of economic change remains an unresolved puzzle.

The seminar covers the following topics:

(1) *Introduction to theoretical issues and New Institutional Economics.* The relationship between transaction costs, institutions of property rights, and incentives. A transaction costs theory of politics. How important are social norms and incomplete mental models?

(2) *Revision of growth theory in economics: the role of institutions.* What does the historical evidence tell us about institutional preconditions for long-term economic growth? How did growth-promoting institutional mechanisms emerge?

(3) *Poverty traps and malign social equilibria.* The concept of malign social equilibria. How important are social norms in maintaining poverty traps? How important is path dependence in economic development? How many degrees of freedom do reformers have? How do windows of reform open?

(4) *Economic institutions and wasteful use of natural resources.* Introduction to various types of property arrangements: public and private property, communal property, and open access (no property rights). What arrangements lead to wasteful use of natural and environmental resources? Property arrangements and internal governance and exclusion costs.

(5) *Politics and economics of revolutionary technological change.* Social institutions of leading economic systems are often poorly suited for coping effectively with major technological change—consider for instance biogenetics and digital information. We study the process of changes in these situations and emphasize incomplete knowledge, the search for new forms of property rights, conflict of interests, and the role of ideologies.

Requirements

The course is open to Ph.D. students, as well as M.A. students who are familiar with rational choice methodology and feel comfortable with interpreting statistical tests.

Students are required to come to class prepared to discuss the assigned readings. *Attendance and class participation* will weigh 20% in the final grade.

Three times (approximately) during the semester, each student is asked to *introduce a reading assignment*. I expect to see a brief summary followed by a personal critique of the material. The student is expected to give a written copy of his or her statement to the other students and the instructor at the time of each presentation. The total weight of the three responses in the final grade is 20%.

The final requirement is a *critical research paper* of about 20-25 pages. The paper should either examine theoretical or empirical questions concerning the politics and economics of institutional change in developing countries or in high tech industries. Please write down a paragraph or two about your ideas and consult me on possible topics no later than March 8. The research paper will represent 60% of the final grade.

The final paper is due on Thursday, *April 26, 2007*.

I will only consider Incompletes, if I receive, not later than on April 26, 2007, a one-page preliminary outline of the final paper. In accordance with Department guidelines, all Incompletes must be resolved by the beginning of Fall Term 2007.

Where to find the readings:

The required readings will be made available on the Blackboard homepage of the seminar.

Schedule:

1. Organization of the seminar. The issues (18 January 2006)

Douglass C. North, 1991. *Institutions*. Journal of Economic Perspectives, Vol. 5, No. 1, bls. 97-112.

Thráinn Eggertsson, 2005. *Introduction. Imperfect Institutions: Possibilities and Limits of Reform*. Ann Arbor: University of Michigan Press.

Dani Rodrik, forthcoming. *Goodbye Washington Consensus, Hello Washington Confusion*. Journal of Economic Literature.

Optional

Simon Djankov et al. 2003. *The New Comparative Economics*. National Bureau of Economic Research, Working Paper #9608.

Xavier Sala-I-Martin, April 2002. *The Disturbing Rise of Global Inequality*. NBER Working Paper W8904 (E)

J. Bradford DeLong, 2000. *The Shape of Twentieth Century Economic History*. Working paper (E-his homepage)

2. Introduction to theoretical issues (25 January)

Thráinn Eggertsson, 1990. *The Role of Transaction Costs and Property Rights in Economic Analysis*. European Economic Review, Vol. 34, No.2-3:450-457.

Yoram Barzel, 1982. *Measurement Cost and the Organization of Markets*. Journal of Law and Economics, Vol. 25, No. 1:27-48.

Douglass North, 1990. *A Transaction Cost Theory of Politics*. Journal of Theoretical Politics, Vol. 2, No. 4:355-367.

Donald Clark, 2003. *Economic Development and the Rights Hypothesis: The China Problem*. American Journal of Comparative Law. Vol. 51, pp.89-112.

Optional

Robert Cooter and Thomas Uhlen, 2000. Chapter 4: *An Economic Theory of Property*, and Chapter 5: *Topics in the Economics of Property*. In Law and Economics, 3rd edition, Addison-Wesley-Longman.

Dean Lueck and Thomas J. Miceli, 2004. *Property Rights and Property Law*. Forthcoming in Polinsky and Shavell eds. Handbook of Law and Economics: Amsterdam: North Holland. Available on SSRN.com

Gary Libecap, 1989. *Contracting for Property Rights*. New York: Cambridge University Press.

3. Long-term economic growth: competing perspectives (1 February)

- Thráinn Eggertsson, 2005, Chapter 1: *Imperfect Institutions and Growth Theory in Modern Economics*. In *Imperfect Institutions: Possibilities and Limits of Reform*, University of Michigan Press.
- Abhijit Banerjee & Esther Duflo, 2004, *Growth Theory through the Lens of Development Economics* (E-Banerjee homepage MIT).
- Daron Acemoglu et al., 2004. *Institutions as the Fundamental Cause of Long-Run Growth*. In Philippe Aghion and Steve Durlauf, eds. *Handbook of Economic Growth*, forthcoming. Chapter available on internet.

Optional

- Dani Rodrik et al., 2004. *Institutions Rule. The Primacy of Institutions over Geography and Integration in Economic Development*. *Journal of Economic Growth*. Vol. 9, No. 2:131-165.
- Paul M. Romer, 1994. *The Origins of Endogenous Growth*. *J. of Economic Perspectives*, 8(1):3-22.
- Joel Mokyr, 1992. *Technological Inertia in Economic History*. *J. of Economic History*, 52(2):325-338.
- William Easterly, 2001. *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*. MIT Press.
- Romain Wacziarg, 2002. *Review of Easterly's The Elusive Quest for Growth*. *J. of Economic Literature* XL (Sept.): 907-918.
- Richard R. Nelson, 1998. *The Agenda for Growth Theory: A Different Point of View*. *Cambridge J. of Economics*, 22(4): 497-520

4. The political logic of inefficient institutions (8 February)

- Thráinn Eggertsson, 2005, Chapter 5, *The Political Logic of Bad Economics*. In *Imperfect Institutions*.
- James A. Robinson, 2003. *Politician Proof Policy?* Background paper for the 2004 World Development Report. World Bank.
- Avinash Dixit, 2006. *Evaluating Recipes for Developmental Success*. World Bank Policy Research Working Paper 3859.

Optional

- William J. Baumol, 1990. *Entrepreneurship: Productive, Unproductive, and Destructive*. *J. of Political Economy* 98(5), pt. 1: 893-921.
- Daron Acemoglu, 2002. *Why not a Political Coase Theorem?* NBER Working Paper #9377.
- Mancur Olson, 2000. Chapter 1: *The Logic of Power*; Chapter 2: *Time, Takings, and Individual Rights*; Chapter 7: *The Theory of Soviet-type Autocracies*. In *Power and Prosperity*, Basic Books.
- Jean Paul Azam, Robert Bates, Bruno Biais, 2004, *Political Predation and Economic Development*, Working Paper (Bates homepage)

5. Poverty traps and windows of reform (15 February).

- Thráinn Eggertsson, 2005, Chapter 7, *Why Iceland Starved*. In *Imperfect Institutions*.
- Thráinn Eggertsson, 2005, Chapter 8, *Applying Social Technologies: Lessons from the Old Theory of Economic Policy*, in *Imperfect Institutions*.
- Gérard Roland, 2002. *The Political Economy of Transition*. *J. of Economic Perspectives*, Vol. 16, No.1:29-50.
- Gérard Roland, 2004. *Understanding Institutional Change: Fast-Moving and Slow-Moving Institutions*. *Studies in Comparative Institutional Development*, 38(4):109-31.

Optional

- Thad Dunning and Grigore Pop-Eleches, 2003. *From Transplants to Hybrids: Exploring Institutional Pathways to Growth*. Studies in Comparative International Development, 38(4): 3-29
- Brendan O'Flaherty and Jagdish Bhagwati, 1977, *Will Free Trade with Political Science Put Normative Economists Out of Work?* Economics and Politics 9(3): 207-219.
- Dani Rodrik, 1996. *Understanding economic policy reforms*. J of Economic Literature 34: 8-41 (E)
- Thráinn Eggertsson, 2005, Chapter 9, *Degrees of Freedom in Institutional Reform*, and Chapter 10, *Eluding Poverty Traps, Escaping History*. In *Imperfect Institutions*. University of Michigan Press.

6. Mental models and institutional change (22 February)

- Sun-Ki Chai, 1998. *Endogenous Ideology Formation and Economic Policies in Former Colonies*. Economic Development and Cultural Change, 46(2): 263-290
- Robert Bates et al. 1998. *The Politics of interpretation: Rationality, culture and transition*. Politics and Society, 26(4): 603-642.
- Rui de Figueiredo et al., 2006. *Rationality, Inaccurate Mental Models, and Self-Confirming Equilibrium*. Journal of Theoretical Politics. 18(4):384-415.

Optional

- Thráinn Eggertsson, 2005. *Chapter 3: Competing Social Models*. In *Imperfect Institutions*. University of Michigan Press.
- Randall Calvert, 2002. *Identity, expression and rational choice theory*. In Ira Katznelson and Helen V. Milner eds. *Political Science and the State of the Discipline*. Norton.
- Timur Kuran, 1998. *Ethnic norms and their transformation through reputational cascades*. J. of Legal Studies, 27(2), pt. 2, June: 623-659 (E)
- Alfred W. Crosby, 1997. *The Measure of Reality. Quantification and Western Society, 1250-1600*. Cambridge University Press.

7. Informal institutions (1 March)

- Gretchen Helmke and Steven Levitsky, 2005. *Informal Institutions and Comparative Politics: A Research Agenda*. Perspectives on Politics, 2(4):725-40.
- Alice Sindzingre, 2006. *The Relevance of the Concepts of Formality and Informality: A Theoretical Appraisal*. In Basudeb Guha-Khasnobis et al. *Linking the Formal and Informal Economy: Concepts and Policies*. Oxford University Press.
- Robert C. Ellickson, 1994. The aim of order without law. *J. of Institutional and Theoretical Economics* 150(1): 97-122.

Optional

- Thráinn Eggertsson, 2005. Chapter 6, *Inefficient social norms*, in *Imperfect Institutions*. University of Michigan Press.
- Mark Granovetter, 1985. Economic Action and Social Structure: The Problem of Embeddedness. *American J. of Sociology*, 91(3):481-510.
- Indra de Soysa, and Johannes Jütting, 2006. *Informal Institutions and Development: Think Local Act Global?* The OECD Development Center and the Development Assistance Committee-Network on Governance (GOVNET).
- Avner Greif, 2005. *Institutions and the Path to the Modern Economy: Lessons from Medieval Trade*. New York: Cambridge University Press.

8. Communal property, open access, and spillover effects (8 March)

Elinor Ostrom 2000. *Private and Common Property*. In Encyclopedia of Law and Economics (available on the internet). Edward Elgar.

Thráinn Eggertsson, 1992. *Analyzing Institutional Successes and Failures: A Millennium of Common Mountain Pastures in Iceland*. International Review of Law and Economics, 12:423-437.

Itai Sened and William H. Riker, 1996. *Common Property and Private Property: The Case of Air Slots*, J. of Theoretical Politics, 8(4):427-447.

Optional

Thráinn Eggertsson, 1996. *The Economics of Control and the Cost of Property Rights*. In Rights to Nature: Ecological, Economic, Cultural, and Political Principles of Institutions for the Environment. S. S. Hanna, C. Folke, and K-G. Maler eds. Washington, DC: Island Press.

Ning Wang, 2001. *The Co-evolution of Institutions, Organizations, and Ideology: The LongLake Experience of Property Rights Transformation*. Politics and Society, 29(3): 415-45.

Jeffrey B. Nugent and Nicolas Sanchez, 1998. *Common Property Rights as an Endogenous Response to Risk*. American J. of Agricultural Economics, Vol. 80(3):651-657.

-----Recess 12-17 March-----

9. Strategies for Preventing Wasteful Use of Common Pool Resources (22 March).

Gary Libecap, 2003. *State Regulation of Open Access and Common Pool Resources*. Working Paper No. 19/2003 International Center for Economic Research.

Thráinn Eggertsson, 2005. *The Subtle Art of Major Institutional Reform*. In *Imperfect Institutions*. University of Michigan Press.

Daniel H. Cole, 2002. Chapter 1: *Pollution and Property: The Conceptual Framework*. In *Pollution and Property: Comparing Ownership Institutions for Environmental Protection*. New York: Cambridge University Press.

Paul Romer, 2002. *When Should We Use Intellectual Property Rights?* American Economic Review, Vol. 92, No. 2, 213-216.

Optional

H. Scott Gordon, 1954. *The Economic Theory of a Common Property Resource: The Fishery*. Journal of Political Economy, Journal of Political Economy, Vol. 62, No. 2, 124-42.

Antony Scott, 1955. *The Fishery: The Objectives of Sole Ownership*. Journal of Political Economy, Vol.63, No.2, 116-24.

10. Knowledge: Intellectual property or common property? (29 March)

Richard A. Posner, 2005. *Intellectual Property: The law and economics approach*. Journal of Economic Perspectives, Vol. 19(2): 57-73.

Hal R. Varian, 2005. *Copying and Copyright*. Journal of Economic Perspectives, Vol. 19(2):121-138.

Richard Merges, 1996. *Property Rights Theory and the Commons: The Case of Scientific Research*. In E.F. Paul et al. (eds.). *Scientific Innovation, Philosophy, and Public Policy*. Cambridge University Press.

Optional

Fiona Murray & Scott Stern, 2005. *Do Formal Intellectual Property Rights Hinder the Free Flow of Scientific Knowledge?* NBER Working Paper No. W11465.

- Benjamin Klein, Anres V. Lerner, Kevin M. Murphy, 2002, *The Economics of Copyright, "Fair Use" In a Networked World*. American Economic Review, Vol. 92, No. 2: 205-208.
- Michael Boldrin, David Levine, 2002. *The Case Against Intellectual Property*. American Economic Review, Vol.92, No.2, 209-212.

11. Institutions and the evolution of knowledge (5 April)

- Joel Mokyr, 2004. *Useful Knowledge as an Evolving System: The View from Economic History*.
- Brian Loasby, 2002. *The Evolution of Knowledge: Beyond the Biological Model*. Research Policy, Vol. 31, 1227-39.
- Kenneth J. Arrow, 1974. *Limited Knowledge and Economic Analysis*. American Economic Review, Vol. 64, No. 2(March), 1-10.
- Thráinn Eggertsson, 2005. Chapter 11. *Minimal Property Rights and Legal Transplants*. In *Imperfect Institutions*. University of Michigan Press.

Optional

- Hal Varian, 2004. *Review of Mokyr's Gift of Athena*. Journal of Economic Literature, XLII (September):805-810.
- Brian L. Loasby, 1999. *Knowledge, Institutions, and Evolution in Economics*. The Graz Schumpeter Lectures. Routledge, UK. Working Paper Northwestern University.
- Masahiko Aoki, 2000. *What are institutions: How should we approach them?* Stanford University Economics Department Working Paper (E-department website).

12. Property rights in digital information, software, and the internet (12 April)

- Edward E. Lemer, 2001. *The Economic Geography of the Internet Age*. National Bureau of Economic Research, Working Paper No. 8450
- Robert P. Merges, 2004. *From Medieval Guilds to Open Source Software: Informal Norms, Appropriability Institutions, and Innovations*. Working Paper, UC Berkeley.
- Nicholas Economides, 2007. *Economics of the Internet*. Law and Economics Working Paper Series No.07-07, New York University

Optional

- Pamela Samuelson, 2003. *Mapping the Digital Public Domain: Threats and Opportunities*. Law and Contemporary Problems, Vol. 66:147-71
- Glenn Ellison and Sara Fisher Ellison, 2005. *Lessons About the Market from the Internet*. Journal of Economic Perspectives, Vol. 19(2):147-71.

13. Implications of genetics and biotechnology for property rights (19 April)

- Thráinn Eggertsson, 2005. *Genetic Technology and the Evolution of Property Rights: The Case of deCode Genetics*. Working Paper.
- Michael Heller et al., 1998. *Can Patents Deter Innovation? The Anticommons in Biomedical Research*. Science, Vol. 280 (1 May): 698-701.
- Richard A. Epstein. *Steady the Course: Property Rights in Genetic Material*. Law and Economics Working Paper, No. 152, University of Chicago, Law School.

Optional:

- James M. Buchanan and Yong J. Yoon, 2000. *Symmetric Tragedies: Commons and Anticommons*. Journal of Law and Economics, Vol. XLIII (April):1-13.
- Richard A. Epstein and Bruce Kuhlik, 2004. *Is There a Biomedical Anticommons?* Health and Medicine, Regulation, Summer.

Maurice Cassier, 2002. *Private Property, Collective Property, and Public Property in the Age of Genomics*. International Social Science Journal, No.171:83-98.

14. The lesson: How much do we know about institutional change? (26 April)

Students and instructor report

Food for thought:

Richard A. Easterlin, 1998, Chapter 10. Does satisfying material needs increase human happiness?; and Chapter 11. The next century in historical perspective, in *Growth Triumphant: The Twenty-first Century in Historical Perspective*. Michigan University Press (P)