Comparative Politics Seminar:

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

NYU Department of Politics: G53.3501.001

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

[Last 4 weeks incomplete]

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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)
   97-112.
   Thráinn Eggertsson, 2005. Introduction. Imperfect Institutions: Possibilities and Limits of
   Journal of Economic Literature.

Optional

2. Introduction to theoretical issues (25 January)
   Thráinn Eggertsson, 1990. The Role of Transaction Costs and Property Rights in Economic

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.
in Polinsky and Shavell eds. Handbook of Law and Economics: Amsterdam: North
Holland. Available on SSRN.com
Press.
3. **Long-term economic growth: competing perspectives** (1 February)


Optional


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


Optional


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


Optional
Dani Rodrik, 1996. *Understanding economic policy reforms.* J of Economic Literature 34: 8-41 (E)

6. Mental models and institutional change (22 February)

Optional

7. Informal institutions (1 March)

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

Optional

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

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

Optional

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

Optional

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

*Optional*

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

*Optional*

13. **Implications of genetics and biotechnology for property rights** (19 April)
Richard A. Epstein and Bruce Kuhlik, 2004. *Is There a Biomedical Anticommons?* Health and Medicine, Regulation, Summer.

*Optional:*

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

*Students and instructor report*

*Food for thought:*