

The Political Economy of Institutions
17.160
Political Science Department
MIT
Spring Semester, 2005

Instructor: Prof. Jonathan Rodden
Meeting Time: Wednesdays, 4:00-6:00
Phone: 617-253-6261
E-mail: jrodden@mit.edu

Research on the organization of democratic institutions is flourishing in the fields of economics and comparative politics. Students in both fields have rediscovered some of the questions and themes that occupied thinkers like Aristotle, Rousseau, and Madison. This course provides an overview of some classic and contemporary approaches to basic questions of institutional design in democracies, paying special attention to the relationship between democracy, public goods, redistribution, and economic growth.

We start by asking whether there is a link between democracy and economic growth. We discover that the relationship depends on whether institutions are able to solve a variety of basic problems, like public goods, coordination, collective action, and the tragedy of the commons.

After gaining some basic lenses and tools of comparative political economy, we take a closer look at types of democracies around the world. We explore the role of electoral institutions, cabinets, legislative organization, the relationship between executives and legislatures, and the roles of federalism and decentralization. We will address a variety of normative and positive questions about institutions, but one question will dominate: Under what conditions will democracies make policies that serve the “common interest” rather than the interests of small groups?

While an effort is made to cover some of the most basic contributions to the classic and more recent formal theory literature, the main goal of the course is to prepare students to do empirical work within and/or across countries using case studies and/or statistical analysis. The third section of the course examines empirical studies that flow from the theoretical contributions in the first two sections. In particular, we focus on the size of the public sector, fiscal performance, macroeconomic stability, inflation, economic growth, and redistribution. When addressing both theory and empirics, we will pay careful attention to the possible endogeneity of institutions, asking about social, demographic, international, and geographic factors that shape institutional design and stability.

Course Requirements

- Discussion (20% of Course Grade): Students are expected to read all of the required readings each week and participate in discussions.
- Short Essays (15% Each): To facilitate discussion, each student will write a short “reading response essay” for two of the weeks. Each student will bring the essay to class along with copies for others and draw from it during the discussion. The essays should be around 2-4 pages in length.
 - Essay #1: Apply the theories and/or lessons of the week’s readings to a specific case. How well does the theory fit the case? What accounts for the shortcomings? How might the theory be extended or altered?
 - Essay #2: Write an analytical essay on the week’s readings. A successful essay might be a critique of a theory or article, or it might pull out the key themes that link the readings together, highlight tensions between different authors or theories, or present evidence that contradicts or supports a key hypothesis. This essay should NOT be mere summaries of readings. The student is expected to take a leading role in the discussion for the selected meeting.
- Final Paper (50% of Course Grade): The final assignment, due at the end of the semester, is a serious empirical paper. The topic should be arranged with the instructor; projects related to the student’s

research are encouraged. Students will give brief presentations of their work in progress at the final meeting.

Readings

Most of the readings are available on the course web page. The books are on reserve at the Dewey Library, and will be available for purchase at the MIT Coop, as well as at Amazon, etc.

- Persson, Torsten and Guido Tabellini, *Political Economics*. Cambridge: MIT Press, 2000.
 - Persson, Torsten and Guido Tabellini. *The Economic Effects of Constitutions*. Cambridge, MIT Press, 2002.
 - Lijphart, Arend, *Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries*. New Haven: Yale University Press, 1999.
 - Lijphart, Arend, ed., *Parliamentary versus Presidential Government*. Oxford: Oxford University Press, 1992.
 - Shepsle, Kenneth and Mark Bonchek. *Analyzing Politics: Rationality, Behavior, and Institutions*. New York, London: Norton, 1997.
-

Feb. 2: *Introduction to the Course*

- Madison, James, *The Federalist No. 10*.
- Persson, Torsten and Guido Tabellini, *Political Economics*, Chapter 1.

BASIC THEMES AND CONCEPTS

Feb. 9: *Why government? Why democracy?*

- Aristotle, *The Politics*, in Stephen Everson, ed., *Aristotle: The Politics and Constitution of Athens*. Cambridge: Cambridge University Press (1996). Read Book III, Chapters 6 – 12 (pages 69-80), Chapter 18 (page 91), Book IV, Chapters 1-2 (pages 91-94).

Democratization

- Acemoglu, Daron and James A. Robinson, *Political Origins of Dictatorship and Democracy*, Chapters 1, 4 – 8. Download from:
<http://www.cbrss.harvard.edu/events/encounters/encjan03.htm>

Feb. 16: *Democracy and Growth I: Is there a Link?*

- Przeworski, Adam and Fernando Limongi, "Political Regimes and Economic Growth," *Journal of Economic Perspectives* 7, 3 (1993): 51-69.
- Przeworski, Adam and Fernando Limongi, "Modernization: Theories and Facts," *World Politics* 49 (January 1997): 155-193.
- Acemoglu, Daron and James A. Robinson, *Political Origins of Dictatorship and Democracy*, Chapter 11. Download from:
<http://www.cbrss.harvard.edu/events/encounters/encjan03.htm>
- Lindert, Peter, "Voice and Growth: Was Churchill Right?" *Journal of Economic History* 63, 2 (June 2003): 315-350.

Feb. 23:

Democracy and Growth II
Institutions and Economic Performance (first hour)

- Olson, Mancur, "Big Bills Left on the Sidewalk: Why Some Nations are Rich, and Others Poor," *Journal of Economic Perspectives* 10, 2 (1996): 3-24.
- Acemoglu, Daron, Simon Johnson and James Robinson, "The Colonial Origins of Comparative Development: An Empirical Investigation," December 2001, *American Economic Review* 91, pp. 1369-1401.
- Persson, Torsten and Guido Tabellini, *Political Economics*, Chapter 14.

Cooperation, Public Goods, and the Commons (second hour)

- Shepsle, Kenneth and Mark Bonchek, *Analyzing Politics*, chapters 8-10.
- Shepsle, Kenneth, "Discretion, Institutions and the Problem of Government Commitment," in Bordieu and Coleman, eds., *Social Theory for a Changing Society*, pages 245-263.
- Twain, Mark, "The Canvasser's Tail," in *The Complete Short Stories of Mark Twain*. New York: Bantam, (1957), pages 121-127. (recommended).

March 2:

How can Democracies Provide Public Goods?

An Introduction to Voting, Majority Rule, and Interest Groups

- Shepsle and Bonchek, *Analyzing Politics*, chapters 3-7 and pages 192-94.
- Persson, Torsten and Guido Tabellini, *Political Economics*, chapters 2-4.

Accountability and Representation

- Manin, Bernard, Adam Przeworski, and Susan Stokes, "Elections and Representation," chapter 1 in Przeworski, et al., *Democracy, Accountability, and Representation*. Cambridge: Cambridge University Press (1999), pages 29-54.

Delegation

- Kiewiet, Roderick and Matthew McCubbins, *The Logic of Delegation* (University of Chicago Press, 1991), Chapter 2 (Pages 22-38).

TYPES OF DEMOCRACIES

March 9:

Electoral Rules

- Cox, Gary W., *Making Votes Count: Strategic Coordination in the World's Electoral Systems*. Cambridge: Cambridge University Press (1997), chapters 1-4, 7, 8, 10-12, 15.
- Recommended: Duverger, Maurice. 1954. *Political Parties: Their Organization and Activity in the Modern State*. New York: Wiley. Book 2: "Party Systems."

Majoritarian Versus Consensus Democracy and Veto Players

- Lijphart, Arend, *Patterns of Democracy*, Chapters 1-8.

March 16

Executive-Legislative Relations

- Lijphart, Arend, ed., *Parliamentary versus Presidential Government* (Oxford: 1992).
Read the following chapters and short excerpts:
 - Verney, Douglas, "Parliamentary Government and Presidential Government," (Chapter 1).
 - Montesquieu, selection from *The Spirit of the Laws* (Chapter 2).
 - Madison, James, *The Federalist* Nos. 47, 48 (Chapter 3).
 - Hamilton, Alexander, *The Federalist* No. 70 (Chapter 4).
 - Bagehot, Walter, "The English Constitution: The Cabinet" (Chapter 6).
 - Wilson, Woodrow, "Committee or Cabinet Government?," (Chapter 7).
 - Laski, Harold J., "The President and Congress" (Chapter 8).
 - Mainwaring, Scott, "Presidentialism in Latin America" (Chapter 13).
 - Linz, Juan, "The Perils of Presidentialism" (Chapter 14).
 - Riggs, Fred, "Presidentialism: A Problematic Regime Type" (Chapter 32).
 - Powell, G. Bingham, "Contemporary Democracies: Participation, Stability, and Violence," (Chapter 33).
- Cheibub, Jose Antonio and Fernando Limongi, "Democratic Institutions and Regime Survival: Parliamentary and Presidential Democracies Reconsidered." 2002. *Annual Review of Political Science*.
- Recommended: Alston, Lee and Bernardo Mueller. "Pork for Policy: Executive and Legislative Exchange in Brazil." Unpublished paper.

March 23:

Spring Break

March 30:

Federalism and Decentralization

- Rodden, Jonathan. "Comparative Federalism and Decentralization: On Meaning and Measurement." *Comparative Politics* 36, 4 (2004).
- Inman, Robert and Daniel Rubinfeld, "The Political Economy of Federalism," in Dennis Mueller, ed., *Perspectives on Public Choice: A Handbook*. Cambridge: Cambridge University Press (1997), pages 73-105.
- Lijphart, Arend, *Patterns of Democracy*, Chapters 10-11.
- Weingast, Barry, "The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Development," *Journal of Law, Economics, and Organization* 11: 1, (1995).
- Treisman, Daniel, "Decentralization and Inflation: Commitment, Collective Action, or Continuity?" *American Political Science Review* 94, 4 (Dec. 2000): 837-857.
- Stepan, Alfred, "Federalism and Democracy: Beyond the U.S. Model," *Journal of Democracy* 10: 4 (October 1999), p. 19-33.
- Rodden, Jonathan and Erik Wibbels, "Beyond the Fiction of Federalism," *World Politics* 54, 4 (July 2002).

PREFERENCES, INSTITUTIONS, AND OUTCOMES

April 6: Redistribution and the Welfare State

- Persson, Torsten and Guido Tabellini, *Political Economics*, Chapter 6.
- Alesina, Alberto, Edward Glaeser, and Bruce Sacerdote, "Why Doesn't the United States Have a European-Style Welfare State?" Available at: <http://post.economics.harvard.edu/hier/2001papers/HIER1933.pdf>
- Lindert, Peter, *Growing Public Social Spending and Economic Growth since the Eighteenth Century*. Cambridge: Cambridge University Press (2004), Chapters 1-4, 7, 13-14, 16-17.
- Bradley, David, Evelyne Huber, Stephanie Moller, Francois Nielsen, and John D. Stephens. "Distribution and Redistribution in Post-Industrial Democracies" *World Politics* 55, 2 (January 2003): 193-228.
- Iversen, Torben and David Soskice, "Electoral systems and the politics of coalitions: Why do some democracies redistribute more than others? Unpublished paper: <http://www.wcfia.harvard.edu/seminars/pegroup/iversensoskice2002r.pdf>

April 13: Comparative Politics and the Size of Government

Read carefully:

- Persson, Torsten and Guido Tabellini, *Political Economics*, Chapters 8-10.
- Persson, Torsten and Guido Tabellini. *The Economic Effects of Constitutions*. Cambridge, MA: MIT Press (2003). Skim chapters 2-5, read 6 carefully.
- Milesi-Ferretti, Gian Maria, Roberto Perotti, and Massimo Rostagno, "Electoral Systems and Public Spending," *Quarterly Journal of Economics* May 2002.

Skim for arguments and findings

- Besley, Timothy and Anne Case, "Incumbent Behavior: Vote-Seeking, Tax-Setting, and Yardstick Competition," *American Economic Review* 85, 1 (1995): 25-45.
- Lowry, Robert C, James Alt, and Karen Ferree, Karen E., "Fiscal Policy Outcomes and Electoral Accountability in the American States," *American Political Science Review* 92, 4 (1998): 759-74.
- Feld, Lars and John Matsusaka, "Budget Referendums and Government Spending: Evidence from the Swiss Cantons," *Journal of Public Economics* 87, 12: 2703-2724.

April 20: Special Interest Politics and Pork

- Persson, Torsten and Guido Tabellini, *Political Economics*, Chapter 7.
- Ramseyer, Mark and Frances Rosenbluth, *Japan's Political Marketplace*. Cambridge, MA: Harvard (1993), chapter 2 (pages 16-37).
- Ames, Barry, "Electoral Rules, Constituency Pressures, and Pork Barrel: Bases of Voting in the Brazilian Congress," *The Journal of Politics* 57 (1995) p. 324-43.

Geography, Representation and Redistribution

- Dahlberg, Matz and Eva Johansson. 2002. "On the Vote-Purchasing Behavior of Incumbent Governments," *American Political Science Review* 96, 1.
- Ansolabehere, Stephen and James Snyder. 2003. "Reapportionment and Party Realignment in the American States." Unpublished paper.
- Ansolabehere, Stephen and James Snyder. TBA
- Rodden, Jonathan. "Legislative Bargaining and Distributive Politics in Brazil: An Empirical Approach." 2003. Unpublished paper.

April 27: *Multiple Veto Players: Consensus or Fragmentation?*

The Benefits of Consensus

- Lijphart, Arend, *Patterns of Democracy*, Chapters 15-17.

The Costs of Fragmentation

- Tsebelis, George, "Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism and Multipartyism," *British Journal of Political Science* 25 (1995): 289-325.
- Persson, Torsten and Guido Tabellini, *Political Economics*, Chapter 13.

Some Evidence

- Roubini, Nouriel and Jeffrey Sachs, "Political and Economic Determinants of Budget Deficits in the Industrial Democracies," *European Economic Review* 33 (1989): 903-938.
- Henisz, Witold, "The Institutional Environment for Economic Growth," *Economics and Politics* 12, 1: 1-31.
- Persson, Torsten and Guido Tabellini. *The Economic Effects of Constitutions*. Cambridge, MA: MIT Press (2003). Chapters 7-8.

May 4: No meeting. Time to work on presentation.

May 11: Student Presentations