

12P007

Political Economy

Winter Term - 3 ECTS

Mandatory Course

Prof. Hannes Mueller

Prof. Ursula Mello

### Prerequisites to Enroll

Basic knowledge of STATA, Econometrics and Statistics are important. Knowledge of modeling in Microeconomics and Macroeconomics are useful.

### Overview and Objectives

This course provides an overview of current topics in political economy. The main aim of the discussed topics is to understand (some of) the political reasons behind the massive income differences between countries by analyzing how politics and economics interact. The course offers an introduction to a diverse set of topics such as elections, the bureaucracy, the legal system, the role of the media in shaping policy and the capacity of the state to provide public services such as security or education.

Methodologically, we will pay close attention to the models and the empirical approaches used by the different authors and understand some of the methods for the empirical identification of effects in detail. For that purpose, both econometric and game theoretic tools will be used in the lectures and the assignments. Students are also expected to critically engage the current literature on political economy during the class. Special attention will be paid to the setting up of regression equations that are motivated by simple theories and use different parts of the variation in the data.

At the end of the course students will have an understanding of how institutions, power and economic outcomes interact with each other. They will also be familiar with a wealth of concepts used in political economy, conflict and development economics today. The close relation to development economics means that the course will offer some "policy conclusions" to take home. Students will also be able to use econometric tools to test their own theories in data and understand flaws in empirical work they see.

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## Course Outline (\* is recommended reading)

### Motivation and Empirical Tools (Session 1)

The first session will motivate the focus on political economy and the move away from standard growth models towards understanding institutions and conflict. Content of this session will be tested in the same week in an online test.

- Besley, Timothy, Torsten Persson (2014) The Causes and Consequences of Development Clusters: State Capacity, Peace, and Income. *Annual Review of Economics*. 6:927–49.
- Acemoglu, Daron, Simon Johnson and James Robinson (2001) The colonial origins of comparative development. *American Economic Review* 91: 1369-1401.

### Political Accountability and Selection (Session 2)

In this session we look at an alternative to voting – appointment for life. We will compare the incentives of policy-makers in a normative framework and discuss why judicial independence is granted in practice. We then given an overview over the literature on selection of office holders.

- Alesina and Tabellini (2007) Bureaucrats or Politicians? Part I: a single policy task. *American Economic Review*.
- Besley, Timothy and Marta Reynal-Querol (2011) Do democracies select more educated leaders? *American Political Science Review*, vol. 105 (3).
- Dal Bó, Ernesto, Frederico Finan, Olle Folke, Torsten Persson and Johanna Rickne (2017) Who Becomes a Politician? *Quarterly Journal of Economics*, 132(4), pp. 1877–1914.
- Gagliarducci and Nannicini (2013) Do Better Paid Politicians Perform Better? Disentangling Incentives from Selection. *Journal of the European Economic Association*, 11(2), pp. 369-398

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- Hanssen (2004) Is There a Politically Optimal Level of Judicial Independence? *American Economic Review*, Vol. 94, No. 3 (Jun., 2004), pp. 712-729
- Maskin and Tirole (2004) The Politician and the Judge: Accountability in Government. *American Economic Review* 94(4), pp. 1034-1054.\*

### Voting (Session 3)

Voting models are the backbone of many political economy models. They also offer an excellent starting point to talk about the impact of institutions on political (and economic) outcomes. This session will start with a discussion of the Median Voter Model, Multidimensional Voting and Citizen Candidate and will then give an overview over the large variety of papers where these are used.

- Besley, Timothy and Robin Burgess (2002) The Political Economy of Government Responsiveness. *Quarterly Journal of Economics*, 117(4), pp. 1415-1451.
- Besley, Timothy, Torsten Persson and Daniel Sturm (2010) Political Competition, Policy and Growth: Theory and Evidence from the US. *Review of Economic Studies*, 77, pp. 1329–1352.
- Caselli, Francesco and Massimo Morelli (2004) Bad politicians, *Journal of Public Economics* 88, pp. 759-782.
- Chattopadhyay, Raghendra and Esther Duflo (2004) Women as Policy Makers: Evidence from a Randomized Policy Experiment in India. *Econometrica*, 72(5), pp. 1409-1443.\*
- DellaVigna, Stefano and Ethan Kaplan (2007) The Fox News Effect: Media Bias and Voting. *Quarterly Journal of Economics*, 122, pp. 1187-1234.\*
- Fernandez, Raquel and Dani Rodrik (1991), Resistance to Reform: Status Quo Bias in the Presence of Individual- Specific Uncertainty. *American Economic Review*, 81(5), pp. 1148-1155.

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- Persson, Torsten and Lars Svensson (1989) Why a Stubborn Conservative would Run a Deficit: Policy with Time-Inconsistent Preferences. *The Quarterly Journal of Economics* Vol. 104(2), pp. 325-345.
- Pettersson-Lidbom, Per (2001) An Empirical Investigation of the Strategic Use of Debt. *Journal of Political Economy*, 109(3), pp. 570-583.
- Sturm and List (2006) How Elections Matter: Theory and Evidence from Environmental Policy. *Quarterly Journal of Economics*, 121(4), pp. 1249-1281.\*

### Political Economy and the Provision of Public Services (Session 4)

This session will delve deeper on the impact of institutions and voters on different outcomes. First, we will cover some examples of how voter's characteristics are intimately correlated with the redistributive policies implemented by governments. Second, we will see how different development conditions are, per se, determinants of political participation.

- Voter's characteristics and redistributive policies:

Bardhan, Pranab and Dilip Mookherjee (2010) "Determinants of Redistributive Politics: An Empirical Analysis of Land Reforms in West Bengal, India" *American Economic Review*, 2010.

Cascio, Elisabeth and Ebonya Washington (2014) "Valuing the Vote: The Redistribution of Voting Rights and State Funds Following the Voting Rights Act of 1965", *Quarterly Journal of Economics*.\*

Fujiwara, Thomas (2015) Voting Technology, Political Responsiveness, and Infant Health: Evidence from Brazil, *Econometrica*.\*

Gerber, Elisabeth and Jeffrey Lewis (2004) "Beyond the Median: Voter Preferences, District Heterogeneity, and Political Representation", *Journal of Political Economy*, 121(6), 1364---83.

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Miller, Grant (2008). "Women's Suffrage, Political Responsiveness, and Child Survival in American History", *Quarterly Journal of Economics*, 123(3), 1287---1327. \*

Clots-Figueras (2012). Are female leaders good for education? Evidence from India. *AEJ: Applied Economics*.

Naidu, Suresh (2012) "Suffrage, Schooling, and Sorting in the Post-Bellum U.S. South," NBER Working Papers 18129.

- Development and Political Participation:

Charles, Kerwin Kofi, and Melvin Stephens. 2013. "Employment, Wages, and Voter Turnout." *American Economic Journal: Applied Economics*, 5(4): 111-43. \*

Funk, Patricia (2010). "Social Incentives and Voter Turnout: Evidence from the Swiss Mail Ballot System." *Journal of the European Economic Association*, Vol. 8(5): 1077---1103.

Gerber, Alan, Donald Green, and Christopher Larimer (2008). "Social Pressure and Voter Turnout: Evidence from a Large-Scale Field Experiment", *American Political Science Review*, 102(1), 33---48.

Gine, Xavier and Ghazala Mansuri (2018). "Together we will: Experimental evidence on female voting behavior in Pakistan" *AEJ: Applied Economics*. \*

Washington, E. (2006) How Black Candidates Affect Voter Turnout, *Quarterly Journal of Economics*, 121 (3), 973-998.

Milligan, Kevin, Enrico Moretti, and Philip Oreopoulos, (2004). Does education improve citizenship? Evidence from the United States and the United Kingdom, *Journal of Public Economics* 88: 1667-1695.\*

Campante, Filipe R. and Davin Chor (2010). "Schooling, Political Participation and the Economy", *Review of Economics and Statistics*

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### The Bureaucracy (Session 5)

In this session we turn towards the state bureaucracy as an institution. We will analyze how the tension between competence and political power in the bureaucracy affect efficiency and social peace.

- Bai and Jia (2016) Elite Recruitment and Political Stability: The Impact of the Abolition of China's Civil Service Exam. *Econometrica*, Vol. 84, No. 2 (March, 2016), 677–733.\*
- Bandiera, Prat and Valletti (2009) Active and Passive Waste in Government Spending: Evidence from a Policy Experiment. *American Economic Review*: 99(4): 1278-1308.
- Callen and Long (2015) Institutional Corruption and Election Fraud: Evidence from a Field Experiment in Afghanistan. *American Economic Review*, 105(1): 354–381
- Fisman and Miguel (2007) Corruption, Norms, and Legal Enforcement: Evidence from Diplomatic Parking Tickets. *Journal of Political Economy*, 115(6): 1020-1048.
- Holmstrom, Bengt, and Paul Milgrom (1991) Multitask Principal-Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design. *Journal of Law, Economics, & Organization*, 7: pp. 24-52.
- Iyer and Mani (2012) Traveling Agents: Political Change and Bureaucratic Turnover in India. *The Review of Economics and Statistics*, 94(3): 723–739.
- Mueller (2014) Insulation or Patronage: Political Institutions and Bureaucratic Efficiency. *BE J. Econ. Anal. Policy* 2015; 15(3): 961–996.
- Niskanen (1968) The Peculiar Economics of Bureaucracy. *The American Economic Review* Vol. 58, No. 2: pp. 293-305.
- Xu, Guo. 2018. "The Costs of Patronage: Evidence from the British Empire." *American Economic Review*, 108 (11): 3170-98.

### State Capacity, Property Rights, the Legal System and Law and Order (Sessions 6 and 7)

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The state is at the core of development. One of its most important functions is the enforcement of property rights and the legal system more generally. This makes property rights an important mechanism by which political institutions affect economic outcomes. In this series of sessions we discuss why property rights are important empirically and why they are often provided ineffectively.

Historic roots:

- Banerjee and Iyer (2005) History, Institutions, and Economic Performance: The Legacy of Colonial Land Tenure Systems in India. *American Economic Review*, 95(4): 1190-1213.
- Besley, Tim; Torsten Persson (2011) Pillars of Prosperity: The Political Economics of Development Clusters. Princeton, NJ: Princeton Univ. Press.\*
- Glaeser and Shleifer (2002) Legal Origins. *Quarterly Journal of Economics*, 117 (4): 1193-1229.
- Sanchez de la Sierra (2019) On the Origin of States: Stationary Bandits and Taxation in Eastern Congo. *Journal of Political Economy* (forthcoming).

The mechanism at work:

- Goldstein and Udry (2008) The Profits of Power: Land Rights and Agricultural Investment in Ghana, *Journal of Political Economy*.\*
- Gonzalez, Francisco (2012) The use of coercion in society: insecure property rights, conflict and economic backwardness. *Oxford Economic Handbook*.

The Cost of Lawlessness:

- Besley, Tim; Thiemo Fetzer and Hannes Mueller (2015) The Welfare Cost of Lawlessness: Evidence from Somali Piracy. *JEEA*, 13(2): 203–239.\*
- Besley, Tim and Hannes Mueller (2018) Predation, Protection and Productivity: A Firm-Level Perspective. *American Economic Journal: Macro*.

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### De Jure and De Facto Political Power (Session 8 and 9)

Political institutions affect political outcomes. However, outcomes and institutions also bend under economic power. In this series of sessions we discuss examples and mechanisms of this reverse causality.

- Anderson, Siwan, Patrick Francois, and Ashok Kotwal (2015) Clientelism in Indian Villages. *American Economic Review* 2015, 105(6): 1780–1816.\*
- Acemoglu and Robinson (2006) De Facto Political Power and Institutional Persistence. *American Economic Review*, Papers and Proceedings.
- Berger, Daniel, William Easterly, Nathan Nunn, Shanker Satyanath (2013) Commercial Imperialism? Political Influence and Trade During the Cold War. *American Economic Review*, 103(2): 863–896.
- Blanes i Vidal, Draca, and Fons-Rosen (2012) Revolving Door Lobbyists. *American Economic Review*, 102(7): 3731-48.
- Dube; Kaplan and Naidu (2011) Coups, Corporations, and Classified Information. *Quarterly Journal of Economics*.\*
- Kuziemko, Ilyana and Eric Werker (2006) How Much Is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations. *Journal of Political Economy*, 114(5), pp. 905-930.
- Luechinger and Moser (2014) The value of the revolving door: Political appointees and the stock market. *Journal of Public Economics*. Volume 119, November 2014, Pages 93–107.

### Political Institutions as a Mediator of Internal Conflict (Session 10)



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In the final sessions we return to the idea that political institutions stabilize the economy. The mechanism we discuss will be based on the idea that there are pre-existing conflicts that are alleviated by political institutions.

- Besley, Tim and Torsten Persson (2011) The Logic of Political Violence. Quarterly Journal of Economics, 126(3), 1411-1445.
- Burgess et al (2013) The Value of Democracy: Evidence from Road Building in Kenya. Mimeo. London School of Economics.\*
- Chaney, Eric (2013) Revolt on the Nile: Economic Shocks, Religion, and Political Power. Econometrica, 81(5), 2033--2053.
- Esteban, Joan, Laura Mayoral, and Debraj Ray (2012) Ethnicity and Conflict: An Empirical Study, American Economic Review, 102(4): 1310-42.
- Huber, John and Laura Mayoral (2019) Group inequality and the severity of civil conflict. Journal of Economic Growth. 24(1): 1-41.
- Manacorda, Marco and Andrea Tesei (2019) Liberation Technology: Mobile Phones and Political Mobilization in Africa.
- Michalopoulos, Stelios and Elias Papaioannou (2016) The Long-Run Effects of the Scramble for Africa. American Economic Review. 106 (7): 1802-48.

### Required Activities

There will be at least one online test and homework. Also, the lecture will include many “mini-exams” in which students need to solve tasks in class. Students will also need to write a final term paper.

### Evaluation

Your grade will be based on online tests and assignments (30%), and a term paper (70%).

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### Competences

- Understand (some of) the political reasons behind the massive income differences between countries.
- Understand and analyze how institutions, power and economic outcomes interact.
- Develop a general understanding of the current literature on political economy.
- Learn about the models and the empirical approaches used by the different authors to identify causal effects in economics, with a focus on political economy applications.
- Learn to use econometric tools to “test” theories in data and understand flaws in empirical work.
- Develop the ability to provide policy conclusions based on rigorous evidence.

### Learning Outcomes

- Economic literature in political economy and development economics.
- Economic theory and basic economic modelling applied to political economy.
- Econometric techniques of policy evaluation.
- Data analysis and interpretation.
- Writing academic papers.
- Presentation skills.