

GOVERNMENT 2158

Political Institutions and Economic Policy

Spring 2017

Jeffrey Frieden and Kenneth Shepsle, Instructors

This seminar explores the role of political institutions in the formation, implementation, and regulation of economic policy. We examine research traditions in the positive theory of political institutions, and in comparative and international political economy, and apply them to several substantive issue areas.

Starting February 27, each week several students will work together to organize the discussion. The discussion leaders will circulate a *one-page* memorandum highlighting (i.e. with bullet points) some of the principal analytical points of the week's topic and setting out some possible research questions related to the week's topic.

Requirements of the course are seminar participation and an original research paper related to the general approach of the course, due May 3. The topic must be approved by the instructors in advance, by April 3. Your paper should have a theoretically grounded argument (not necessarily formalized). It may also include empirics. A purely empirical paper is not acceptable. Those taking an Incomplete are required to turn in a research design outlining the research question, the potential argument, and (if relevant) the empirical strategy, by May 3.

All readings are available on the course website:

Instructor coordinates are as follows:

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January 23 Organization and Introduction

January 30 Theory: Special Interests and Agency

Dennis Mueller, *Public Choice III* (New York: Cambridge University Press, 2003), pp. 333-335, 343-401

Gary Miller, "The Political Evolution of Principal-Agent Models," *Annual Review of Political Science* 8 (2005): 203-225

James Fearon, "Electoral Accountability and the Control of Politicians: Selecting Good Types versus Sanctioning Poor Performance," in Bernard Manin, Adam Przeworski, and Susan Stokes, eds., *Democracy, Accountability, and Representation* (Cambridge: Cambridge University Press, 1999)

Scott Ashworth, "Electoral Accountability," *Annual Review of Political Science*, 15 (2012).

Recommended background:

Kenneth Shepsle, *Analyzing Politics: Rationality, Behavior, and Institutions* Second edition (W. W. Norton, 2010), chapter 13

February 6 Theory: Spatial Models, Collective Action and Bargaining

Keith Krehbiel, "Pivots," in Barry R. Weingast and Donald A. Wittman, eds., *The Oxford Handbook of Political Economy*, pp. 223-240.

David Baron and John Ferejohn, "Bargaining in Legislatures," *American Political Science Review* 83 (December 1989): 1181-1206.

Gary Cox, "Electoral Equilibria Under Alternative Voting Institutions," *American Journal of Political Science* 31 (February 1987), pages 82-108.

Luis Medina, "The Analytic Foundations of Collective Action Theory," *Annual Review of Political Science* 16 (2013).

Shepsle, *Analyzing Politics*, Chapters 5, 8-10.

February 13 Theories of Institutions

Douglass North, *Institutions, Institutional Change and Economic Performance*, Chapter 1.

Randall Calvert, "The Rational Choice Theory of Social Institutions: Cooperation, Coordination, and Communication," in Jeffrey Banks and Eric Hanuhek, eds., *Modern Political Economy*, pp. 216-269.

Avner Greif and Christopher Kingston, "Institutions: Rules or Equilibria?" in Gonzalo Caballero and Norman Schofield, eds. *Political Economy of Institutions, Democracy and Voting*. Springer, 2011: Pp. 13-43.

February 20

NO CLASS – PRESIDENTS' DAY HOLIDAY

February 27 Institutional Origins

Harold Demsetz, "Towards a Theory of Property Rights," *American Economic Review* 57 (1967): 347-359.

Kenneth L. Sokoloff and Stanley L. Engerman, "Institutions, Factor Endowments, and Paths of Development in the New World," *Journal of Economic Perspectives* 14, Number 3 (Summer 2000): pages 217–232

Acemoglu, Johnson, and Robinson "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution." *Quarterly Journal of Economics* Vol. CXVII, No. 4 (2002): 1231-1294.

Jeffrey B. Nugent and James A. Robinson, "Are factor endowments fate?" *Journal of Iberian and Latin American Economic History* 28 (2010): 45–82.

David Stasavage, "Representation and Consent: Why They Arose in Europe and Not Elsewhere," *Annual Review of Political Science*, 19 (2016): pages 145 - 162

March 27 Origins, Practice, and Change: A Case Study of Franchise Expansion

Daron Acemoglu and James Robinson, "Why Did the West Extend the Franchise? Democracy, Inequality, and Growth in Historical Perspective," *Quarterly Journal of Economics* 115 (2000): 1167-1199.

Alessandro Lizzeri and Nicola Persico, "Why Did the Elites Extend the Suffrage? Democracy and the Scope of Government, with an Application to Britain's 'Age of Reform'," *Quarterly Journal of Economics* 2004: 707-764.

Samuel Berlinski, Torun Dewan, and Brenda Van Coppenolle, "Franchise Extension and the British Aristocracy," *Legislative Studies Quarterly*, 39 (2014).

April 3 Trade Policy I: Theory and History

Jeffrey G. Williamson. *Winners and Losers over Two Centuries of Globalization*. WIDER Annual Lecture 6, 2002

Ron Rogowski, *Commerce and Coalitions* (Princeton: Princeton University Press, 1989), chapter 1.

Michael J. Hiscox, "Commerce, Coalitions, and Factor Mobility: Evidence from Congressional Votes on Trade Legislation," *American Political Science Review* 96 (2002): 593-609.

Kishore Gawande, Pravin Krishna, and Marcelo Olarreaga, "What Governments Maximize and Why: The View from Trade" *International Organization* 63 (2009) 491-532

[Skim] Gene Grossman and Elhanan Helpman, "Protection for Sale," *American Economic Review* 84 (1994): 833-850.

April 10 CLASS POSTPONED

April 17 Trade Policy II: Approaches and Applications

Douglas Irwin, "Antebellum Tariff Politics: Coalition Formation and Shifting Regional Politics," *Journal of Law and Economics* 51 (November 2008): 715-742

Michael Bailey, Judith Goldstein, and Barry Weingast, "The Institutional Roots of American Trade Policy. *World Politics* (1997), pp. 309-38.

Paola Conconi, Giovanni Facchini, and Maurizio Zanardi, "Policymakers' Horizon and Trade Reforms" *Journal of International Economics* 94 (2014), 102 -118

Yotam Margalit, "Costly Jobs: Trade-related Layoffs, Government Compensation, and Voting in U.S. Elections," *American Political Science Review* 105, No. 1 (February 2011)

Helen V. Milner and Keiko Kubota, "Why the Move to Free Trade? Democracy and Trade Policy in the Developing Countries," *International Organization* 59 (2005), pages 107-143.

April 24 Banking and Finance I: Sovereign debt and central banking

Douglass C. North and Barry R. Weingast (1989). "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England." *Journal of Economic History*, 49, pp 803-832

David Stasavage, "Credible Commitment in Early Modern Europe: North and Weingast Revisited" *Journal of Law, Economics, and Organization* 18(1), pp.155-86, 2002.

David Stasavage, "What We Can Learn From the Early History of Sovereign Debt?" *Explorations in Economic History* (2016).

J. Lawrence Broz, "The Origins of Central Banking: Solutions to the Free Rider Problem." *International Organization* 52, 2 (Spring 1998): 231-268.

Jeffrey Frieden, "Lessons for the Euro from Early American Monetary and Financial History," Bruegel Essay and Lecture Series, May 2016

May 1 Banking and Finance II: Finance

Randall Kroszner and Philip Strahan. "What Drives Deregulation? Economics and Politics of the Relaxation of Bank Branching Restrictions," *Quarterly Journal of Economics* 114 (November 1999): 1437-67.

Atif Mian, Amir Sufi, and Francesco Trebbi, "The Political Economy of the U. S. Mortgage Default Crisis," *American Economic Review* 100 (December 2010): 1967–1998

Atif R. Mian, Amir Sufi, and Francesco Trebbi, "Resolving Debt Overhang: Political Constraints in the Aftermath of Financial Crises," *American Economic Journal: Macroeconomics*, April 2014, 6(2): pp.1-28

J. Lawrence Broz, "Congressional Politics of International Financial Rescues." *American Journal of Political Science* 49, 3 (July 2005): 479-496

Sumit Agarwal, Gene Amromin, Itzhak Ben-David, and Serdar Dinc, "The Legislative Process and Foreclosures," working paper March 2014