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POLITICS OF ECONOMIC GROWTH

The course is an advanced introduction to the literature, with a heavily methodological bent. It focuses on indentifying what we do not know and on the methods for finding out.

The first part of the course is an introduction to growth economics. The second part examines political aspects of growth.

Class meetings will consist mainly of lectures. There will be a take-home exam, which is enclosed.

Students will be assumed to know some economics (with calculus), some game theory and some statistics (OLS). Readings will be extensive and some difficult. The pace will be rapid.

Items under "Read" provide general introductions to particular topics; those under "Study" will be explained in class: these constitute required reading. "Recommended" comprises items that will be referred to in the lectures. "Assumed" are self-explanatory; "Background" includes some classical articles that you may find useful if you would like to learn more about a particular topic. *If possible, you should read in the order indicated.* You may wish to reread the material after it was discussed in class.

1. Introduction

Conceptual issues: growth and development. History of development criteria. History of thinking about growth. "Isolation paradox." Politics of economic growth. Preview of the course. Administrative matters.

Read:

Arndt, H. W. 1987. *Economic Development. The History of an Idea*. Chicago: University of Chicago Press. Chapters 3 and 4.

Recommended: (A good history of "political economy of development")

Oman, Charles P., and Ganesh Wignaraja. 1991. *The Postwar Evolution of Development Thinking*. New York: St. Martin's Press.

Background:

Rosenstein-Rodan, P.N. 1943. "Problems of Industrialization of Eastern and South-Eastern Europe." *Economic Journal* 53: 202-211.

Singer, H.W. 1949. "Economic Progress in Underdeveloped Countries." *Social Research* 16: 1-11.

Nurkse, Ragnar. 1952. "Some International Aspects of the Problem of International Development." *American Economic Review* 62: 571-583.

Kuznets, Simon. 1955. "Economic Growth and Income Inequality." *American Economic Review* 45: 1-28.

Schultz, T.W. 1960. "Capital Formation by Education." *Journal of Political Economy* 68: 571-583.

Singer, H.W. 1965. "Social Development: Key Growth Sector." *International Development Review* 7: 3-8.

Seers, Dudley. 1969. "The Meaning of Development." *International Development Review* 11: 2-6.

Hicks, Nicolas. 1979. "Growth v. Basic Needs: Is There a Trade-Off?" *World Development* 7: 985-994.

2. Mechanics of Economic Growth

"Mechanics of growth": production function, investment function. Accumulated and non-accumulated factors. Returns to scale. The logic of inference. Predictions of growth models. "Exogenous" versus "endogenous models." What is endogenous? Factor accumulation, technical change, knowledge, institutions. What is left?

Comment: For those of you who need to brush up on the mathematics, an excellent source is Appendix A to Jones, Charles I. 1998. *Introduction to Economic Growth*. New York: W.W. Norton.

Read:

Ray, Debraj. 1998. *Development Economics*. Princeton: Princeton University Press. Chapter 3 (Skip Section 3.5.6)

Solow, Robert M. 1994. "Perspectives on Growth Theory." *Journal of Economic Perspectives* 8: 45-54.

Background: (Early growth models.)

Harrod, R.F. (1939). "Dynamic Theory." In Amartya Sen, ed. 1970. *Growth Economics*. London: Penguin Books. Pages 43-65.

Pasinetti, Luigi. (1961). "Profit and Growth." In Amartya Sen, ed. 1970. *Growth Economics*. London: Penguin Books. Pages 92-113.

Solow, R.M. (1956). "Model of Growth." In Amartya Sen, ed. 1970. *Growth Economics*. London: Penguin Books. Pages 161-192.

3. Dynamic Optimization

Microfoundations of growth. Control and state variables. Optimal growth. Dynamic optimization: first order conditions. Discrete and continuous models. Steady states. Transitional dynamics.

Study:

Chiang, Alpha. 1992. *Elements of Dynamic Optimization*. New York: McGraw-Hill. Sections 9.3 and 9.4. (If you want to understand the mathematics behind the technique, study Introduction and Sections 2.1,7.1,7.2,7.3,8.2,8.3)

Recommended:

Barro, Robert J. and Xavier Sala-i-Martin. 1995. *Economic Growth*. New York: McGraw-Hill. Chapters 1 and 2.

Background:

Ramsey, F.P. (1928). "Optimal Growth." In Amartya Sen, ed. 1970. *Growth Economics*. London: Penguin Books. Pages 477-495.

Cass, David. 1965. "Optimum Growth in an Aggregative Model of Capital Accumulation." *Review of Economic Studies* 32: 223-240.

4. Engines of Growth

Exogenous growth. Growth accounting. Endogenous growth. "Engines of growth": alternative explanations of non-decreasing returns. Physical and human capital. Technological spillovers. Varieties of knowledge and their role in growth. Empirical consequences of growth models.

Read:

Romer, Paul M. "The Origins of Endogenous Growth." *Journal of Economic Perspectives* 8: 3-22.

Study:

Hammond, Peter J., and Andrés Rodríguez-Clare. 1993. "On Endogenizing Long-Run Growth." In Torben M. Andersen and Karl O. Moene (eds.), *Endogenous Growth*. Oxford: Blackwell. Only pages 1-17.

Aghion, Philippe, and Peter Howitt. 1998. *Endogenous Growth Theory*. Cambridge, MA: MIT Press. Chapter 1.

Background:

Arrow, Kenneth J. 1962. "The Economic Implications of Learning by Doing." *Review of Economic Studies* 29: 155-173.

Romer, Paul M. 1986. "Increasing Returns and Long-Run Growth." *Journal of Political Economy* 96: 500-521.

Stiglitz, Joseph E. 1987. "Learning to learn, localized learning and technological progress." In Partha Dasgupta and Paul Stoneman, eds. *Economic Policy and Technological Performance*. Cambridge: Cambridge University Press. Pages 124-153.

Lucas, Robert E. Jr. 1988. "On the mechanics of economic development." *Journal of Monetary Economics* 22: 3-42.

Stiglitz, Joseph E. 1989. "Markets, Market Failures, and Development." *American Economic Review, Papers and Proceedings*. May: 196-203.

Romer, Paul M. 1990. "Endogenous Technical Change." *Journal of Political Economy* 98: S71-S102.

Tamura, Robert. 1991. "Income Convergence in an Endogenous Growth Model." *Journal of Political Economy* 99: 522-540.

Romer, Paul M. 1992. "Increasing returns and new developments in the theory of growth." In W.A. Barnett, ed. *Equilibrium Theory and Applications*. New York: Cambridge University Press. Pages 83-110.

Krugman, Paul. 1992. "Toward a Counter-Counterrevolution in Development Theory." With comments by Joseph Stiglitz and Lal Jayawardena. *Proceedings of the World Bank Annual Conference on Development Economics*. Washington, D.C.: The World Bank.

Lucas, Robert E. Jr. 1993. "Making a Miracle." *Econometrica* 61: 251-272.

Romer, Paul M. 1994. "The Origins of Endogenous Growth." *Journal of Economic Perspectives* 8: 3-22.

Bresnahan, Timothy and Manuel Trajtenberg. 1995. "General Purpose Technologies: 'Engines of Growth'." *Journal of Econometrics* 65: 83-108.

Jovanovic, Boyan. 1997. "Learning and growth." In David M. Kreps and Kenneth F. Wallis (eds.), *Advances in economics and econometrics: theory and applications. Seventh World Congress*. Volume II: pages 318-339. Cambridge: Cambridge University Press.

Krueger, Alan B. and Mikael Lindahl. 2001. "Education for Growth: Why and For Whom?" *Journal of Economic Literature* 39: 1101-1136.

5. Path Dependence and Poverty Traps

Multiple equilibria. History vs. expectations. "Traps." Poverty is not always a trap. Examples. Empirical consequences.

Study:

Krugman, Paul. 1991. "History versus Expectations." *Quarterly Journal of Economics* 105: 651-667.

Benhabib, Jess, and Jordi Gali. 1995. "On growth and indeterminacy: some theory and evidence." *Carnegie-Rochester Conference Series on Public Policy* 43: 163-211. (Read only pages 163-179).

Read:

Ray, Debraj. 2000. "What's New in Development Economics?" *The American Economist* 44: 3-16..
www.econ.nyu.edu/user/debraj/

Recommended:

Murphy, Kevin M., Andrei Shleifer, and Robert W. Vishny. 1989. "Industrialization and the Big Push." *Journal of Political Economy* 97: 1003-1026.

Banerjee, Abhijit V. and Andrew F. Newman. 1994. "Poverty, Incentives, and Development." *American Economic Review* 84: 211-215.

Acemoglu, Daron. 1995. "Reward structures and the allocation of talent." *European Economic Review* 39: 17-33. (Note a missing parenthesis in equation 1).

Dasgupta, Partha. 1997. "Poverty Traps." In David Kreps and K. Wallis (eds.), *Advances in Economic Theory*, Volume 2. Cambridge: Cambridge University Press. Pages 114-159.

Bloom, David E., David Canning, and Jaypee Sevilla. 2003. "Geography and Poverty Traps." *Journal of Economic Growth* 8: 355-378.

6. Evidence

GDP as the measure of output. International comparisons of GDP. Long-term patterns of growth. Output growth and population growth. Cross-national inequality and individual inequality. Do levels of per capita income converge? What is the relevant evidence? Historical patterns. Traps, spurts, and collapses. Cross-country regressions. What do the data tell us about the models?

Read:

Quah, Danny T. 1996. "Twin Peaks: Growth and Convergence in Models of Distribution Dynamics." *The Economic Journal* 106: 1045-1055.

Mankiw, N. G., P. Romer, and D. Weil. 1992. "A Contribution to the Empirics of Economic Growth." *Quarterly Journal of Economics* 107: 407-438.

Crafts, N.F.R. 1997. "Endogenous growth: lessons for and from economic history." In David M. Kreps and Kenneth F. Wallis (eds.), *Advances in economics and econometrics: theory and applications. Seventh World Congress*. Volume II: pages 38-78. Cambridge: Cambridge University Press.

Graham, Bryan S. and Jonathan R.W. Temple. 2006. "Rich nations, poor nations: how much can multiple equilibria explain?" *Journal of Economic Growth* 11: 5-41.

Hausmann, Ricardo, Lant Pritchett, and Dani Rodrik. 2005. "Growth Accelerations." *Journal of Economic Growth* 10: 303-329.

Recommended: (Purchasing Power Parity)

Kravis, Irving B. 1984. "Comparative Studies of National Incomes and Prices." *Journal of Economic Literature* 22: 1-39.

Summers, Robert and Alan Heston. 1991. "The Penn World Table (Mark 5): An Expanded Set of International Comparisons, 1950-1988." *Quarterly Journal of Economics* 106: 327-68.

Heston, Alan and Robert Summers. 1996. "International Price and Quantity Comparisons: Potentials and Pitfalls." *American Economic Review* 86: 20-24.

Dowrick, Steve and John Quiggin. 1997. "True Measures of GDP and Convergence." *American Economic Review* 87: 41-64.

Neary, J. Peter. 2004. "Rationalizing the Penn World Table: True Multilateral Indices for International Comparisons of Real Income." *American Economic Review*: 94: 1411-1428.

Recommended: (Cross-country regressions):

Durlauf, Steven N., Paul A. Johnson and Jonathan R.W. Temple. 2004. "Growth Econometrics." Ms.

Jerzmanowski, Michal. 2006. "Empirics. of hills, plateaus, mountains, and plains: a Markov-switching approach to growth." *Journal of Development Economics* 81: 357-85.

Pritchett, Lant. 2000. "Understanding Patterns of Economic Growth: Searching for Hills among Plateaus, Mountains, and Plains." *The World Bank Economic Review* 14: 221-250.

Salai-I-Martin, Xavier X. 1997. "I Just Ran Two Million Regressions." *American Economic Review, Papers and Proceedings* 87: 178-183.

Background: (Historical patterns)

Baumol, William J. 1988. "Productivity Growth, Convergence, and Welfare: Reply." *American Economic Review* 78: 1155-1159.

Berry, Albert, François Bourguignon, and Christian Morrison. 1991. "Global Economic Inequality and Its Trends Since 1950." In Lars Osberg, ed. *Economic Inequality and Poverty. International Perspectives*. Armonk, NY: M.E. Sharpe. Pages 60-91.

De Long, Bradford J. 1988. "Productivity Growth, Convergence, and Welfare: Comment." *American Economic Review* 78: 1138-1154.

Dowrick, Steve, and John Quiggin. 1997. "True Measures of GDP and Convergence." *American Economic Review* 87: 41-64.

Gough, Ian and Theo Thomas. 1994. "Why do levels of human welfare vary among nations?" *International Journal of Health Services* 24: 715-748.

Korzeniewicz, Roberto Patricio. 1997. "World-Economic Trends in the Distribution of Income, 1965-1992." *American Journal of Sociology* 102: 1000-1039.

Landes, David S. 1990. "Why are We So Rich and They So Poor?" *AEA Papers and Proceedings*: 1 - 13.

Li, Hongyi, Lyn Squire, and Heng-fu Zou. 1997. "Explaining International and Intertemporal Variations in Income Inequality." *The Economic Journal* 108: 1-18.

Maddison, Angus. *Phases of Capitalist Development*. Oxford: Oxford University Press, 1982.

Milanovic, Branko, 1999. "True World Income Distribution, 1988 and 1993: First Calculation Based on Household Surveys Alone." Ms. Washington, D.C.: The World Bank.

Pritchett, Lant. 1997. "Divergence, Big Time." *Journal of Economic Perspectives* 11: 3-18.

Schultz, T. Paul. 1998. "Inequality in the Distribution of Personal Income in the World: How it is Changing and Why." *Journal of Population Economics*, 11: 307-344.

Stocker, Herbert. 1996. "Changes in the International Distribution of Income." Working Paper #227. Notre Dame: Helen Kellogg Institute for International Studies.

Acemoglu, Daron and Jaume Ventura. 2002. "The World Income Distribution." *Quarterly Journal of Economics* 117: 659-94.

Bourguignon, Francois and Christian Morrison. 2002. "Inequality among World Citizens, 1820-1992." *American Economic Review* 92: 727-744.

7. Politics of Economic Growth

The structure of interests. First best strategies. Punishment strategies. Second best strategies. Maximum sustainable growth rate. Impact of economic inequality. Impact of political inequality. Introduction to the remainder of the course: Who are the "agents"? How do they grab? Who decides? What is the institutional framework?

Study:

Bénabou, Roland. 1996. "Inequality and Growth." *NBER Macro-Economics Annual*: 11-74. Section 4 only. www.wws.princeton.edu/rbenabou/

Drazen, Allan. 2000. *Political Economy in Macroeconomics*. Princeton: Princeton University Press. Section 11.5 (pages 500-513).

Recommended:

(difficult, but easier after you read Drazen) Benhabib, Jess, and Aldo Rustichini. 1996. "Social Conflict and Growth." *Journal of Economic Growth* 1: 125-142.

Sen, Amartya. 1967. "Isolation, Assurance and the Social Rate of Discount." *Quarterly Journal of Economics* 81: 112-24.

8. Benevolent Government and Growth

When do governments have a role to play? Public and private capital as substitutes and complements. Externalities, public goods, fixed costs. What should governments do to promote growth? Government services as inputs. Optimal size of the government. Production services and consumption services. Taxes and investment.

Read:

Cheibub, José Antonio, and Adam Przeworski. 1997. "Government spending and economic growth under democracy and dictatorship." In Albert Breton et al. (eds.), *Understanding Democracy: Economic and Political Perspectives*. (Pages 107-124). Cambridge: Cambridge University Press.

Study:

Barro, Robert. J. 1990. "Government Spending in a Simple Model of Endogenous Growth." *Journal of Political Economy* 98: S103-S126.

Background: (This is a random selection of views on what governments should and should not do.)

World Bank. *Development Report 1987*. Chapter 4.

World Bank. *Development Report 1991*. Chapter 7.

World Bank. *Development Report 1997*. Entire.

Reynolds, Lloyd G. 1983. "The Spread of Economic Growth to the Third World." *Journal of Economic Literature* 21: 941-980.

Sen, Amartya, Nicholas Stern and Joseph Stiglitz. 1990. "Development Strategies: The Roles of the State and the Private Sector." *Proceedings of the World Bank Annual Conference on Development Economics*: 421-435.

Krueger, Ann O. 1990. "Government Failures in Development." *Journal of Economic Perspectives* 4: 9-25.

Westphal, Larry E. 1990. "Industrial Policy in an Export-Propelled Economy: Lessons from South Korea's Experience." *Journal of Economic Perspectives* 4: 41-60.

Lindauer, David L. and Ann D. Velenchik. 1992. "Government Spending in Developing Countries. Trends, Causes, and Consequences." *The World Bank Research Observer* 7: 59-78.

9. Self-interested Government and Growth

Good policies and bad policies. Why would governments pursue bad policies? Predatory state models. Objectives of rulers. Revolution as constraint. Production functions. Encompassing coalitions. Time preferences: exogenous or endogenous? Accountability. Political regimes and economic growth.

Read:

Robinson, James A. 1995. "Theories of 'Bad Policy'." *Policy Reform* 1: 1-17.

Przeworski, Adam, Michael Alvarez, José Antonio Cheibub, and Fernando Limongi. 2000. *Democracy and Development: Political Regimes and Material Well-being in the World, 1950-1990*. New York: Cambridge University Press. Introduction, Chapter 3.

Recommended:

Ventelou, Bruno. 2002. "Corruption in a model of growth: Political reputation, competition and shocks." *Public Choice* 110: 23-40. (Note the mistake in equation 6', which is correctly reproduced on page 33.)

Background: (Arguments and models of the impact of "predatory state" on growth).

Clague, Christopher, Philip Keefer, Stephen Knack, and Mancur Olson. 1997. "Institutions and Economic Performance: Property Rights and Contract Enforcement." In C.Clague (ed.), *Institutions and Economic Development: Growth and Governance in Less-Developed and Post-Socialist Countries*. Baltimore: Johns Hopkins University Press.

Findlay, Ronald. 1990. "The new political economy: Its explanatory power for the LDCs." *Economics and Politics* 2: 193-221.

Grossman, Herschel I. and Suk Jae Noh. 1990. "A Theory of Kleptocracy with Probabilistic Survival and Reputation." *Economics and Politics* 2: 157-171.

Lane, Frederic C. 1979. "Economic Consequences of Organized Violence (1958)." In *Profits from Power: Readings in Protection Rent and Violence Controlling Enterprises*. Albany: State University of New York Press.

McGuire, Martin C., and Mancur Olson. 1996. "The Economics of Autocracy and Majority Rule." *Journal of Economic Literature* 34:72-97.

Olson, Mancur. 1991. "Autocracy, Democracy and Prosperity." In Richard J. Zeckhauser (ed.), *Strategy and Choice*. Cambridge, MA: MIT Press.

Olson, Mancur. 1993. "Dictatorship, Democracy, and Development." *American Political Science Review* 87: 567-576.

Olson, Mancur. 1997. "The New Institutional Economics: The Collective Choice Approach to Economic Development." In C. Clague (ed.), *Institutions and Economic Development: Growth and Governance in Less-Developed and Post-Socialist Countries*. Baltimore: Johns Hopkins University Press.

North, Douglass C., and Barry W. Weingast. 1989. "The Evolution of Institutions Governing Public Choice in 17th Century England." *Journal of Economic History* 49: 803-832.

Wintrobe, Ronald. 1990. "The Tinpot and the Totalitarian: An Economic Theory of Dictatorship." *American Political Science Review* 84: 849-871.

Background: (This is a debate about "bureaucratic insulation.")

Bardhan, Pranab. 1988. "Comment on Gustav Ranis' and John C. H. Fei's 'Development Economics: What Next?'" In Gustav Ranis and T. Paul Schultz, eds. *The State of Development Economics. Progress and Perspectives*. Oxford: Basil Blackwell. Pages 137-138.

Evans, Peter and Dieter Rueschemeyer. 1985. "The State and Economic Transformation: Toward an Analysis of the Conditions Underlying Effective Intervention." In Peter Evans, Dieter Rueschemeyer, and Theda Skocpol (eds.), *Bringing the State Back In*. Cambridge: Cambridge University Press.

Haggard, Stephan. 1990. *Pathways From Periphery. The Politics of Growth in the Newly Industrializing Countries*. Ithaca, NY: Cornell University Press. Pages 42-46.

Przeworski, Adam. 1990. *The State and the Economy Under Capitalism*. Char: Harwood Academic Publishers. Chapter 2.

10. Class Conflict

Differential games between two actors. Capital-labor game. Tax instruments. Alienable and inalienable assets. Endogeneity of savings. Dynamic inconsistency. Efficiency enforced by trigger strategies. Capital flight as a disciplining device. Redistribution and democracy.

Study:

Przeworski, Adam, and Michael Wallerstein. 1988. "Structural Dependence of the State on Capital," *American Political Science Review* 83: 11-29.

Bertola, Giuseppe. 1993. "Factor Shares and Savings in Endogenous Growth." *American Economic Review* 83: 1184-1198.

Background:

Grout, Paul A. 1984. "Investment and Wages in the Absence of Binding Contracts: A Nash Bargaining Approach," *Econometrica* 52: 449-460.

van der Ploeg, F. 1987. "Trade Unions, Investment, and Employment: A Non-Cooperative Approach," *European Economic Review* 31: 1465-1492.

Benhabib, Jess, and Aldo Rustichini. 1997. "Optimal Taxes without Commitment." *Journal of Economic Theory* 77: 231-259.

Tornell, Aarón, and Andrés Velasco. 1992. "The Tragedy of the Commons and Economic Growth: Why Does Capital Flow from Poor to Rich Countries?" *Journal of Political Economy* 100: 1208-1231.

Benhabib, Jess and Adam Przeworski. 2006. "Political Economy of Redistribution under Democracy." *Economic Theory*. Special Issue.

Background (Contrasting views on human capital accumulation):

Galor, Oded, and Omer Moav. 2001. "Das Human Kapital." Discussion Paper Series No. 2701. www.cepr.org/pubs/dps/DP2701.asp.

Pineda, Jose, and Francisco Rodríguez. 1999. "The Political Economy of Human Capital Accumulation." Ms. Department of Economics, University of Maryland.

11. Inequality and Growth

A map of the literature: voting and non-voting equilibria, investment of physical and in human capital. Basic median voter model with costly redistribution. Is redistribution always costly? Is the decisive voter the one with median income? Joint dynamics of growth and redistribution. Estimation issues. Data quality.

Study:

Banerjee, Abhijit V., and Esther Duflo. 2003. "Inequality and Growth: What Can the Data say?" *Journal of Economic Growth* 8: 267-299.

Get the main points of :

Alesina, Alberto and Dani Rodrik. 1994. "Distributive Politics and Economic Growth." *Quarterly Journal of Economics* 109: 465-490.

Saint Paul, Gilles, and Thierry Verdier. 1996. "Inequality, redistribution and growth: A challenge to the conventional political economy approach." *European Economic Review* 40: 719-728.

Bénabou, Roland. 2000. "Unequal Societies: Income Distribution and the Social Contract." *American Economic Review* 90: 96-129.

Perotti, Roberto. 1993. "Political Equilibrium, Income Distribution, and Growth." *Review of Economic Studies* 60: 755-776.

Assumed:

Meltzer, Allan H. and Scott F. Richard. 1981. "A Rational Theory of the Size of Government." *Journal of Political Economy* 89: 914-927.

Background:

(1) Median voter models

Bourgignon, François, and Thierry Verdier. 2000. "Oligarchy, democracy, inequality, and growth." *Journal of Development Economics* 62: 285-313.

Lee, Woojin. 1998. "Political Regimes, Income Distribution and Economic Growth." Ms. Department of Economics, University of California, Davis, CA.

Milanovic, Branko. 1999. "Do more unequal countries redistribute more? Does the median voter hypothesis hold?" Ms. World Bank.

Moene, Karl Ove and Michael Wallerstein. 1998. "Inequality and Redistribution." University of Oslo, Department of Economics Memorandum No. 25.

Persson, Torsten and Guido Tabellini. 1991. "Is Inequality Harmful for Growth? Theory and Evidence." Working paper No. 91-155. Department of Economics, University of California, Berkeley.

Perotti, Alberto. 1992. "Income Distribution, Politics, and Growth." *American Economic Review. Papers and Proceedings*. 82: 311-316.

Perotti, Roberto. 1993. "Political Equilibrium, Income Distribution, and Growth," *Review of Economic Studies* 60: 755-776.

Perotti, Roberto. 1996. "Income distribution and investment." *European Economic Review* 38: 827-835.

(2) Other mechanisms

Alesina, Alberto, and Roberto Perotti. 1996. "Income Distribution, Political Instability, and Investment." *European Economic Review* 40: 1203-1228.

Alesina, Alberto, Sule Özler, Nouriel Roubini, and Phillip Swagel. 1996. "Political Instability and Economic Growth." *Journal of Economic Growth* 1 (June): 189-211.

Keefer, Philip, and Stephen Knack. 1995. "Polarization, Property Rights and the Links between Inequality and Growth." Ms.

(3) Overviews

Alesina, Alberto and Roberto Perotti. 1994. "The Political Economy of Growth: A Critical Survey of the Recent Literature." *The World Bank Economic Review* 8: 351-371.

Alesina, Alberto, and Roberto Perotti. 1997. "The Politics of Growth: A Survey." In V. Bergström (ed.), *Government and Growth*. Oxford: Oxford University Press.

Atkinson, A.B. 1997. "Bringing Income Distribution in From the Cold," *Economic Journal* 107(March): 297-321.

Atkinson, A.B. and F. Bourguignon. 1998. "Introduction" in Atkinson, A.B. and F. Bourguignon, eds., *Handbook of Income Distribution: Theories and Evidence*, in Anthony Atkinson and François Bourguignon (eds.) *Handbook of Income Distribution*. North Holland.

Aghion, Philippe, Eve Caroli and Cecilia García Peñalosa. 1999. "Inequality and Economic Growth: the Perspective of the New Growth Theories." *Journal of Economic Literature* 37: 1615-1660.

Bardhan, Pranab, Samuel Bowles, and Herbert Gintis. 1998. "Wealth Inequality, Credit Constraints, and Economic Performance," in Anthony Atkinson and François Bourguignon (eds.) *Handbook of Income Distribution*. North Holland.

Bourguignon, François. 1998. "Distribution, redistribution and development:where do we stand?." Ms. Delta, Paris.

Hoff, Karla. "Market Failures and the Distribution of Wealth: A perspective from the economics of information," *Politics and Society*, Dec. 1996, 24(4) pp. 411-432.

Perotti, Roberto. 1996. "Growth, Income Distribution, and Democracy: What the Data Say." *Journal of Economic Growth* 1: 149-187.

(4) Income Distribution Data:

Deiningner, Klaus, and Lyn Squire. 1996. "A New Data Set Measuring Income Inequality." *World Bank Economic Review* 10 (3):565-591.

Atkinson, A.B., and A. Brandolini. 1999. "Promise of Pitfalls in Use of 'Secondary' Data Sets: Income Inequality in OECD Countries. Ms.

12. Political Institutions and Growth

The central difficulty of institutionalism. The role of institutions in development. Equilibrium institutions. Endogenous institutions.

Read:

Sachs, Jeffrey D. 2001. "Tropical Underdevelopment." *NBER Working Paper* 8119. <http://www.nber.org/papers/w8119>.

Acemoglu, Daron, Simon Johnson, and James A. Robinson. 2002. "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution." *The Quarterly Journal of Economics* 117: 1231-1294.

Banerjee, Abhijit, and Lakshmi Iyer. 2006. "History, Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India." *American Economic Review*:

Przeworski, Adam. 2004. "The Last Instance: Are Institutions a Deeper Cause of Economic Development?" *European Archives of Sociology* 45(2): 165-188..

Recommended:

Aron, Janine. 2000. "Growth and Institutions: A Review of Evidence." *The World Bank Research Observer* 15: 99-136.

Berkowitz, Daniel, Katharina Pistor, and Jean-Francois Richard. 2003. "Economic development, legality, and the transplant effect." *European Economic Review* 47: 165-195.

Posner, Richard A. 1998. "Creating a Legal Framework for Economic Development." *The World Bank Research Observer* 13(1): 1-13.

Bardhan, Pranab, and Christopher Udry. 1999. *Development Microeconomics*. Oxford: Oxford University Press. Chapter 17.

World Bank. 2002. Introduction and Chapter 5 of *World Development Report 2002*. Washington, D.C.: World Bank.

Stasavage, David. 2002. "Private Investment and Political Institutions." *Economics and Politics* 14: 41-63.

Keefer, Philip. 2004. "From settler mortality to patrimonialism: weaving the dynamics of political competition into the political economy of development." *Political Economist* 12(3).

Background: (This literature is immense and rapidly growing. Below are just classical statements.)

North, Douglass C., and Robert Paul Thomas. 1973. *The Rise of the Western World: A New Economic History*. Cambridge, Cambridge University Press.

North, Douglass C. 1980. *Structure and Change in Economic History*. New York: W.W. Norton.

North, Douglass C. 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge, Cambridge University Press.

North, Douglass C. 1997. "Some Fundamental Puzzles in Economic History/Development." In W. Brian Arthur, Steven N. Durlauf, and David A. Lane (eds.), *The Economy as an Evolving Complex System II*. Reading, MA: Addison-Wesley. Pages 223-237.

Williamson, Oliver E. 1994. "The Institutions and Governance of Economic Development and Reform." *Proceedings of the World Bank Annual Conference on Development Economics*. Washington, D.C.: The World Bank: 171-197.

13. Political Barriers to Growth

"Blocking." Barriers to factor mobility, barriers to entry, access to credit, new technologies, productivity. Endogeneity of the blocking mechanisms.

Read:

Przeworski, Adam. 2007. "Political Rights, Property Rights, and Economic Development." Working Paper. Department of Politics, New York University.

Mokyr, Joel. 1990. *The Lever of Riches: Technological Creativity and Economic Progress*. New York: Oxford University Press. Chapter 10.

Acemoglu, Daron. 2005. "The Form of Property Rights: Oligarchic vs. Democratic Societies. Department of Economics, MIT. econ-www.mit.edu/faculty/index.htm?prof_id=acemoglu&type=paper

Comin, Diego and Bart Hobijn. 2004. "Lobbying and Technology Diffusion." Working paper, Department of Economics, New York University.

14. Overview

What makes countries grow and stagnate? Does growth come in spurts? Do we know anything beyond randomness? Does politics make a difference? How?

Read:

Lucas, Robert E. Jr. 2000. "Some Macroeconomics for the 21st Century." *Journal of Economic Perspectives* 14: 159-168.

Hoff, Karla, and Joseph E. Stiglitz. 2001. "Modern Economic Theory and Development." In Gerald M. Meier and Joseph E. Stiglitz (eds.), *Frontiers of Development Economics: The Future in Perspective*. Oxford: Oxford University Press. Pages 389-486. (Including comments by Gustav Ranis, Abhijit V. Banerjee, and Debraj Ray).

Take-home examination

Your answers should be *no longer than six single-spaced pages* in total. Do not use a font smaller than 10cpi.

You do not need to cite full references of items on the syllabus (e.g. "Barro 1990: 105" is enough) but do provide full information about other sources.

Answer all three questions:

I. What are the arguments in favor and against the existence of a trade-off between equality and growth? In the light of the evidence, what is your view of the issue?

II. What is the general structure of the arguments about "poverty traps"? Choose one trap to illustrate your answer. Do you think "poverty traps" explain income divergence between countries?

III. Discuss one example of governmental intervention that is said to impede growth and one that is said to accelerate growth. What are the arguments and evidence of each policy having the presumed effect? What are the political conditions under which each is likely to occur.