The Politics of Economic Development II

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GOV 20, September 14 2017
Questions

- What’s the puzzle?
- What’s more important –the economy or politics?
- How is development political?
- How do states interact with markets?
- Why do nations fail?
- What are the main competing theories of comparative development?
- Why do such smart people disagree?
Kuznet’s paradox

“There are four kinds of countries in the world: developed countries, undeveloped countries, Japan and Argentina” Simon Kuznets, 1971 Nobel Prize in Economics
Robert H. Bates vs. Robert H. Wade?
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<th>Google Scholar Citations</th>
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<td>Wade</td>
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“I also assume benign political leaders, whose concerns go beyond using state power to support the affluence of a small group [...] But states vary in terms of the benignness or maliciousness of their leaders, and the more any particular case is toward the benign end of the spectrum the better the argument applies”
The Lay of the Land
Major theories of development

- Culture [Weber]
- Geography [Montesquieu, Jeffrey Sachs, Jared Diamond]
- Institutions [Acemoglu and Robinson, Douglass North...]
GDP per hour worked

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Figure: Source: Gorodnichenko and Roland (2010)
Geography: Jeffrey Sachs
Figure 1. GDP per capita 1995
How does geography matter?

- Climate determines work effort, incentives, productivity [Montesquieu]
- Climate determines technology (especially agriculture) [Jared Diamond]
- Disease environment [Jeffrey Sachs]
Reversal of Fortunes

**Figure I**

Log GDP per Capita (PPP) in 1995 against Urbanization Rate in 1500

*Note.* GDP per capita is from the World Bank [1999]; urbanization in 1500 is people living in towns with more than 5000 inhabitants divided by total population, from Bairoch [1988] and Eggimann [1999]. Details are in Appendices 1 and 2.
Institutions and Development

**Figure 2. OLS Relationship Between Expropriation Risk and Income**
What is an institution??

Daron Acemoglu is an

INSTITUTION
What is an institution??

- North (1990, p. 3): “Institutions are the **rules of the game** in a society ... the humanly devised **constraints** that structure political, economic and social interactions”.

- Acemoglu and Robinson (2012, p. 79): “the rules that govern incentives in politics. They determine how the government is chosen and which part of the government has the right to do what. Political institutions determine who has power in society and to what ends that power can be used”.
What are good institutions?

- Risk of tautology
- Which institutions are good? Those that cause growth.
- Good economic institutions:
  - 1. Protect property rights
  - 2. Relatively equal access to economic resources
- Good economic institutions are more likely when:
  - Political institutions constrain rulers
  - Political power is dispersed
  - There are limited rents to extract
Congo: Mobutu
Your TF in the Congo
<table>
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What have we learned?

- States can foster or hinder prosperity
- Main theories of development
- Descriptive evidence supporting each
- Main arguments/counterexamples
- What is an institution
- How institutions may effect development
What do we actually know?

“The thing is, if we don’t know whether we are doing any good, we are not any better than the Medieval doctors and their leeches. Sometimes the patient gets better, sometimes the patient dies. Is it the leeches? Is it something else? We don’t know.” Esther Duflo, Professor of Economics, MIT