

# Political Development Economics

## POLECON 683

### Syllabus 2018.1 (under revision)

Saumitra Jha\*  
Stanford Graduate School of Business

November 22, 2017

## 1 Introduction

There is a growing awareness that many of the key challenges in fostering development in poor societies are political challenges. What can we do to encourage trade, cooperation and peace in environments riven with social and ethnic divisions? How do we foster broadly beneficial political reforms and good governance when the potential losers to reforms are able to mobilise to prevent them? How do we detect and mitigate the effects of corruption? What role may modern finance play in creating or mitigating political economy challenges in developing countries?

These problems are modern and endemic, but many are also old problems, and economic theory and the practical experiences of different countries have much to tell us both about what has worked in the past, and what policy experiments we may try in new environments. Rather than a survey, the objective of this course is to selectively discuss new and open research areas in political development economics and the theoretical and empirical tools necessary to contribute to them, with the topics chosen to complement other Stanford courses in applied microeconomics, development, political economics and economic history. By the end of the course, the student will have analysed a theoretical or historical solution to a key political development challenge and proposed a natural or field experiment to test it empirically. Graduate level proficiency in microeconomics and empirical methods will be required.

## 2 Practicalities

**Session times** Thursdays 8:30am-11:20am

---

\*Associate Professor of Political Economy, Stanford University, Senior Fellow, Center for Democracy, Development and the Rule of Law, FSI, and Associate Professor of Economics and Political Science by courtesy. My thanks to Daron Acemoglu, Kimuli Kasara and Debraj Ray for sharing course materials and for advice on the course structure.

**Pre-requisites** Proficiency in microeconomics and econometrics at the level of the 1st year GSB / economics graduate sequence, or by permission.

**Office hours** By appointment

**Course websites** On Canvas

**Contact information**

Office: E220 Knight Faculty Block  
Phone: (650) 721 1298  
Email: saumitra@stanford.edu  
Web: people.stanford.edu/saumitra

Faculty Assistant: Jennifer Smith,  
Office: W308A, Knight Faculty Block  
Phone: (650) 723 4315,  
Email: Jennifer.E.Smith@stanford.edu

### 3 Course requirements

1. Class participation (15%): this class will combine lecture and seminar. Participants will be expected to have done the discussion reading before class and be prepared to answer questions during the session. Each student can choose one “mulligan”-one day, mentioned to me at the beginning of class, when they will not be evaluated on class participation.
2. Referee report with modeling exercise (20%): This exercise will take you through the process of critiquing an applied model in a current working paper and begin crafting your own alternative.
3. Class presentation: (20%): You will take the lead presenting and critiquing a working paper directly related to your research proposal.
4. Research paper: (45%): By the end of the course, you will have analysed a theoretical or historical solution to a key political development challenge and proposed a natural or field experiment to test it empirically.

### 4 Schedule

1. January 11:
  - (a) Overview and introductions
  - (b) Why development is hard: constituencies and losers from reform.
  - (c) Financial solutions to the political economy of development.
2. January 18:

- (a) Social and ethnic identities as political constituencies
  - (b) Understanding identity and identity change.
- 3. January 25: Ethnic and civil conflict
- 4. February 1:
  - (a) Violence vs non-violent mobilization
  - (b) The aftermath of conflict
- 5. Week of Jan 29 - Feb 2: One on one meetings to discuss research proposal.
- 6. February 8:
  - (a) Corruption and “forensic” economics
  - (b) *referee report due.*
- 7. February 15: Complementarities and institutions
- 8. February 22: NO CLASS, but research outline due.
- 9. March 1: The role of leadership in development
- 10. March 8:
  - (a) The origins of the state and state capacity
  - (b) Democratisation and threats to democracy
- 11. Week of March 9- March 14: One on one meetings to discuss student presentations.
- 12. March 15: Student presentations
- 13. March 24: *research paper due.*

## 5 Reading list

This reading list is meant to be inclusive. Each week, I will ask you to prepare to discuss and answer questions on two or three papers, while I cover the others (and several not listed), highlighting useful methods or intriguing ideas.

### 5.1 Why development is hard: constituencies and losers

#### Discussion focus

1. Rajan, Raghuram and Rodney Ramcharan (forthcoming) Constituencies and Legislation: The Fight over the McFadden Act

2. Rajan, Raghuram and Rodney Ramcharan (2011) “Land and Credit: A Study of the Political Economy of Banking in the United States in the early 20th Century”, *Journal of Finance*
3. Rajan, Raghuram (2009) “The Persistence of Underdevelopment: Constituencies and Competitive Rent Preservation”, *American Economic Journal: Macroeconomics*
4. Daron Acemoglu and James A. Robinson, (2008). “Persistence of Power, Elites, and Institutions,” *American Economic Review*, vol. 98(1), pages 267-93, March

## 5.2 Financial solutions to political economy problems

1. Saumitra Jha and Moses Shayo (2016) “Valuing Peace: The Effects of Financial Market Exposure on Votes and Political Attitudes, *Stanford GSB working paper 3389*
2. Saumitra Jha (2015) “Financial Asset Holdings and Political Attitudes: Evidence from Revolutionary England” *Quarterly Journal of Economics*
3. Stephen Haber and Enrico Perotti (2012) “The Political Economy of Finance” *mimeo*, Stanford.
4. Saumitra Jha (2012) “Sharing the Future: Financial Innovation and Innovators in Solving the Political Economy Challenges of Development” in Masahiko Aoki, Timur Kuran and Gerard Roland eds., *Institutions and Comparative Economic Development*.
5. Francesco Caselli and Nicola Gennaioli (2008) “The Economics and Politics of Alternative Institutional Reforms” *Quarterly Journal of Economics*
6. Bruno Biais and Enrico Perotti (2002) “Machiavellian Privatization” *American Economic Review*, 92(1), 240-258.
7. Richard Sylla and Peter Rousseau (2001) “Financial Systems, Economic Growth and Globalization” NBER working paper 8323
8. Maxim Boycko, Andrei Shleifer and Robert Vishny (1994) “Voucher Privatization” *Journal of Financial Economics*

**Historical Cases:** The USA, 1790s, Japan, 1850s, England, 17C-19C, Russia 20-21C, Israel, 21C.

## 5.3 Understanding ethnic and social identity

### Discussion focus

1. Alberto Diaz-Cayeros and Saumitra Jha (2016) “Conquered but not Vanquished”, to be posted on Canvas.

2. Paola Giuliano and Nathan Nunn (2016) “Explaining Cultural Persistence and Change”, to be posted to Canvas.
3. Debraj Ray (2006) “Aspirations, poverty and economic change” chapter 28 in Banerjee, Benabou and Mookherjee eds. *Understanding poverty*, OUP
4. Roland Fryer and David Austen-Smith (2005) “An Economic Analysis of ‘Acting White’” *The Quarterly Journal of Economics*, May \*
5. Alberto Alesina and Eliana La Ferrara (2005) “Ethnic Diversity and Economic Performance” *Journal of Economic Literature*
6. Daniel Chen “Club Goods and Group Identity: Evidence from Islamic Resurgence During the Indonesian Financial Crisis”, forthcoming, *Journal of Political Economy*

## Background

1. Nathan Nunn (2014) “Historical Development”, *Handbook of Economic Growth*
2. Alberto Alesina, Paula Giuliano and Nathan Nunn (2013) “On the Evolution of Gender Roles” *Quarterly Journal of Economics*
3. Ben Eifert, Edward Miguel and Dan Posner (2010) “Political Competition and Ethnic Identification in Africa” *American Journal of Political Science*
4. Alberto Bisin and Thierry Verdier (2010) The Economics of Cultural Transmission and Socialization *NBER working paper/ Handbook of Social Economics*
5. Saumitra Jha (2004) “Cultured Economic Theory”, mimeo, Stanford University
6. Posner, Daniel (2004) “The Political Salience of Cultural Difference: Why Chewas and Tumbukas Are Allies in Zambia and Adversaries in Malawi” *American Political Science Review* Vol. 98, No. 4
7. Lily Tsai (2007) “Solidary Groups, Informal Accountability, and Local Public Goods Provision in Rural China”, *American Political Science Review*, vol.101, no.2, pp.355-372.
8. George Akerlof and Rachel Kranton (2000) “The Economics of Identity”, *Quarterly Journal of Economics*

**Historical Cases:** Indigenous Communities in Mexico (15C-21C) Islamisation in sub-Saharan Africa (20C), Indonesia (Financial crisis)

## 5.4 Ethnic and Civil Conflict

### Discussion focus

1. Francisco Trebbi and Eric Weese (2015) “Insurgency and Small Wars: Estimation of Unobserved Coalition Structures”, mimeo, UBC.

2. Nathan Nunn and Nancy Qian (2014) “US Food Aid and Civil Conflict” *American Economic Review*
3. Saumitra Jha (2013) “Trade, institutions and ethnic tolerance: evidence from South Asia”, *American Political Science Review*.
4. Oeindrila Dube and Juan Vargas (2013), “Commodity Price Shocks and Civil Conflict: Evidence from Colombia”, *Review of Economic Studies*.
5. Joachim Voth and Nico Voigtlander (2012) “Persecution Perpetuated: The Medieval Origins of anti-Semitic Violence in Nazi Germany” *Quarterly Journal of Economics*.
6. Joan Esteban and Debraj Ray (2011) “Linking Conflict to Inequality and Polarization”, *American Economic Review*
7. Ernesto Dal Bo and Pedro Dal Bo (2011) “Workers, Warriors and Criminals: Social Conflict in General Equilibrium”, *Journal of the European Economic Association*.
8. Joan Esteban and Debraj Ray “On the Salience of Ethnic Conflict”, *American Economic Review*.

### **Background papers**

1. Robert Powell (2006) “War as a Commitment Problem” *International Organization*
2. Debraj Ray and Joan Esteban (1994) “On the Measurement of Polarization” *Econometrica*

**Historical Cases:** Colombia (20C), India (6C-20C), Spain (15C) / Ottoman Empire (15-20C)

## **5.5 Violence vs non-violent mobilization**

### **Discussion focus**

1. Omar Wasow (2016) “Do Protest Tactics Matter? Evidence from the 1960s Black Insurgency”, mimeo, Princeton
2. Rikhil Bhavnani and Saumitra Jha (2014) “Gandhi’s Gift: Lessons for Peaceful Reform from India’s Struggle for Democracy” *Economics of Peace and Security Journal*, 2014.
3. Rikhil Bhavnani and Saumitra Jha (2013) “Forging a Non-Violent Mass Movement: Economic Shocks and Organizational Innovations in India’s Struggle for Democracy”, available on canvas.
4. Emiliano Huet-Vaughn (2013) “Quiet Riot: The Causal Effect of Protest”, Berkeley job market paper.

## Background papers

1. Kurt Schock (2013) “The practice and study of civil resistance” *Journal of Peace Research*
2. Erica Chenoweth and Maria Stephan (2011) *Why Civil Disobedience Works: The Strategic Logic of Nonviolent Conflict*, Columbia U Press
3. Eli Berman and David Laitin (2008) “Religion, Terrorism and Public Goods: Testing the Club Model”, *Journal of Public Economics*.

## 5.6 The aftermath of conflict

1. Leonard Wantchekon and Omar Garcia-Ponce (2015) Critical Junctures: Independence Movements and Democracy in Africa
2. Christoph Koenig (2015) Loose Cannons: War Veterans and the Erosion of Democracy in Germany, TWERP working paper.
3. James Fearon and David Laitin (2014) Does Contemporary Armed Conflict have ‘Deep Historical Roots’, mimeo, Stanford.
4. Saumitra Jha and Steven Wilkinson (2012) “Does Combat Experience Foster Organizational Skill? Evidence from the Partition of South Asia”, *American Political Science Review*
5. Christopher Blattman (2010) “From Violence to Voting” *American Political Science Review*
6. Alberto Abadie and Javier Gardeazabal (2003) “The Economic Costs of Conflict: A Case-Control Study for the Basque Country.” *American Economic Review* 93.1: 113-132.

## Background

1. John Bellows and Edward Miguel (2008) “War and Collective Action in Sierra Leone” *Journal of Public Economics*.
2. Sebastian Galliani, Martin Rossi and Ernesto Schargrodsky (2011) “Conscription and Crime” *AEJ: Applied Economics*
3. Joshua Angrist (1990) “Lifetime earnings and the Vietnam era draft lottery: evidence from Social Security administrative records” *American Economic Review*, Vol 80:3, pg 313-336.

**Historical Cases:** India (1947), Japan (20C), Spain (20C), Uganda (1990s-2000s), Africa (20C), Israel (21C)

## 5.7 Corruption and “forensic” economics

### Discussion focus

1. Melissa Dell (forthcoming) “Trafficking Networks and the Mexican Drug War” *American Economic Review* .\*
2. Paulina Oliva (2015) “Environmental Regulation and Corruption: Automobile Emissions in Mexico City” *Journal of Political Economy* \*
3. Todd Kumler, Judith Frias and Eric Verhoogen (2013) Enlisting Employees in Improving Payroll-Tax Compliance: Evidence from Mexico, mimeo, Columbia
4. Arindrajit Dube, Ethan Kaplan and Suresh Naidu (2011) “Coups, Corporations and Classified Information”, NBER working paper \*
5. Finan, Federico and Claudio Ferraz (2008) “Exposing Corrupt Politicians”, *Quarterly Journal of Economics*\*
6. Raymond Fisman and Edward Miguel (2008) “Corruption, Norms, and Legal Enforcement: Evidence from Diplomatic Parking Tickets”, *Journal of Political Economy* \* \* OR
7. Raymond Fisman and Shang-Jin Wei (2009), “The Smuggling of Art, and the Art of Smuggling: Uncovering the Illicit Trade in Cultural Property and Antiques”, *AEJ: Applied*.\*
8. Eliana la Ferrara and Stefano della Vigna (2010), “Detecting Illegal Arms Trade” , *AEJ: Economic Policy*

### Background

1. Shleifer, Andrei and Robert Vishny (1993) “Corruption” *The Quarterly Journal of Economics*, Vol. 108, No. 3, pp. 599-617, August
2. Vito Tanzi (1997) “Corruption: Arm’s Length Relationships and Markets” chapter 7 in *The economics of organised crime*, Gianluca Fiorentini and Sam Peltzman eds., Cambridge University Press
3. Raymond Fisman (2001) “Estimating the Value of Political Connections”, *The American Economic Review*, Vol. 91, No. 4, pp. 1095-1102

**Historical Cases:** Guatemala, Iran (20C), Indonesia (20C), Mexico (21C)

## 5.8 Complementarities and institutions

### Discussion focus

1. Saumitra Jha (2014) ‘Unfinished Business’: Historic Complementarities, Political Competition and Ethnic Violence in Gujarat *Journal of Economic Behavior and Organization*



2. Avner Greif and David Laitin (2004) “A Theory of Endogenous Institutional Change”, *American Political Science Review* \*
3. Paul Milgrom, Yingyi Qian and John Roberts (1991) “Complementarities, Momentum and the Evolution of Modern Manufacturing” *American Economic Association Papers and Proceedings*, 85-89. \*
4. Paul Milgrom and John Roberts (1990) “The Evolution of Modern Manufacturing”, *American Economic Review*

### **Background**

1. Susan Athey, Paul Milgrom and John Roberts (1998) *Robust Comparative Statics*, mimeo, Stanford.
2. Paul Milgrom and John Roberts (1994) “Comparing Equilibria”, *American Economic Review*
3. Paul Milgrom, Susan Gates and John Roberts (1996) “Complementarities in the Transition from Socialism: a Firm-Level Analysis” in John McMillan and Barry Naughton (eds) *Reforming Asian Socialism: the Growth of Market Institutions*, University of Michigan Press, Ann Arbor

**Historical Cases:** Russia, Poland, Czech Republic (20C)

## **5.9 The importance of leaders in development**

### **Discussion focus**

1. Patrick Francois, Ilia Rainer and Francesco Trebbi (2015) “The Dictator’s Inner Circle, mimeo, UBC.
2. Sandeep Baliga and Tomas Sjöström (2012) “The Strategy of Manipulating Conflict”, *American Economic Review*.
3. Daron Acemoglu and Matt Jackson (2011) “History, Expectations and Leadership in the Evolution of Social Norms” mimeo, MIT.
4. Ben Olken and Benjamin Jones (2007) “Hit or Miss? The Effect of Assassinations on Institutional Change and War” *NBER Working Paper 13102* \*
5. Ben Olken and Benjamin Jones (2005) “Do Leaders Matter? National Leadership and Growth since World War II” *Quarterly Journal of Economics* 120 (3), pp. 835-864, August 2005. \*
6. Gerard Padro (2007) “The Control of Politicians in Divided Societies: The Politics of Fear”, *Review of Economic Studies* 74(4): 1259-12747.
7. Edward Glaeser (2005) “The Political Economy of Hatred” *Quarterly Journal of Economics*
8. Timur Kuran (1989) “Sparks and Prairie Fires: A Theory of Unanticipated Political Revolution”, *Public Choice*, 61:41-74

## 5.10 The origins of the state and state capacity

1. Susan Athey, Emilio Calvano and Saumitra Jha (2016) “A Theory of Community Formation and Social Hierarchy”, Stanford GSB working paper.
2. Raul Sanchez de la Sierra (2015) “On the Origins of States: Stationary Bandits and Taxation in Eastern Congo”, mimeo, Berkeley
3. Joram Mayshar, Omer Moav and Zvika Neeman. (2015) “Geography, Transparency, and Institutions”, CEPR Discussion Paper 9625
4. Paul Seabright (2013) “The Birth of Hierarchy” in Kim Sterelny et al. eds *Cooperation and its Evolution*
5. Enrico Spolaore and Romain Wacziarg (2013) “How Deep are Roots of Economic Development? *Journal of Economic Literature*
6. Gregory K. Dow and Clyde G. Reed (2013), “The Origins of Inequality: Insiders, Outsiders, Elites, and Commoners,” *Journal of Political Economy*, 121, 609-641.

**Historical Cases:** Egypt, Mesopotamia, the Pacific Northwest

## 5.11 Democratisation and threats to democracy

### Discussion focus

1. Toke Aidt and R. Franck (2013) “How To Get the Snowball Rolling and Extend the Franchise: Voting on the Great Reform Act of 1832” *Public Choice*
2. Alessandro Lizzeri and Nicola Persico (2004) “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* (May 2004).
3. Tim Besley and Torsten Persson (2016) “Democratic Values and Institutions”, available on Canvas.

### Background

1. Daron Acemoglu, Suresh Naidu, Pascual Restrepo, James Robinson (2014) “Democracy Does Cause Growth” *NBER working paper*
2. Adam Przeworski (2007) “Conquered or Granted? A History of Suffrage Extensions” mimeo, NYU.
3. Dani Rodrik and Romain Wacziarg (2005) “Do Democratic Transitions Produce Bad Economics Outcomes?” *American Economic Review Papers and Proceedings*, May, pp. 50-55

4. Daron Acemoglu and James A. Robinson (2000) “Why Did The West Extend The Franchise? Democracy, Inequality, And Growth In Historical Perspective,” *The Quarterly Journal of Economics*, MIT Press, vol. 115(4), pages 1167-1199, November.
5. Carles Boix (2003) *Democracy and Redistribution*, Cambridge University Press

**Historical Cases:** England (19C)

## 5.12 Deliberative processes

### Discussion Focus

1. Gabriel Lopez-Moctezuma (2016) “Sequential Deliberation in Collective Decision-Making: The Case of the FOMC”, mimeo, Princeton.
2. Radu Ban, Saumitra Jha and Vijayendra Rao (2012) “Who has Voice in A Deliberative Democracy?: Evidence from Transcripts of Village Parliaments in South India” *Journal of Development Economics*.
3. Ben Olken (2010) “Direct Democracy and Local Public Goods: Evidence from a Field Experiment in Indonesia”, *American Political Science Review* 104(2):243-267
4. Adam Meirowitz and Dimitri Landa (2009) “Game Theory, Information and Deliberative Democracy” *American Journal of Political Science* 53(2):427-444

### Background

1. Adam Karpowitz and Tali Mendelberg (2010) “An Experimental Approach to Citizen Deliberation”, mimeo, Princeton.
2. Catherine Hafer and Dimitri Landa (2007) “Deliberation as Self-Discovery and Institutions for Political Speech” *Journal of Theoretical Politics*, 19(3):329-360
3. Adam Meirowitz (2007) “In Defense of Exclusionary Deliberation: Communication and Voting with Private Beliefs and Values” *Journal of Theoretical Politics*, 19(3):301-327
4. Keith Krehbiel (2004) “Legislative Organization” *Journal of Economic Perspectives*, 18(1):113-128
5. Vincent Crawford and Joel Sobel (1982) “Strategic Information Transmission” *Econometrica*

### 5.13 Political open economy macroeconomics

1. Man-Keung Tan and Shang-Jin Wei (2009) “The Value of Making Commitments Externally: Evidence from WTO Accessions” *Journal of International Economics*, 2009, 78(2): 216-229
2. Jeffrey Frankel and Shang-Jin Wei (2007) “Assessing China’s Exchange Rate Regime” NBER Working Paper No. 13100

**Historical Cases:** China (20-21C)

### 5.14 Political Economy of Trade

1. Christian Dippel, Avner Greif and Daniel Treffer (2015) The Rents from Trade and Coercive Institutions: Removing the Sugar Coating, mimeo, Toronto.
2. Diego Puga and Daniel Treffer (2014) “International Trade and Institutional Change: Medieval Venice’s Response to Globalization”, *Quarterly Journal of Economics*
3. Helen Milner and Bumba Mukherjee (2011) “Democracy and Trade Policy in Developing Countries: Particularism and Domestic Politics with a case study of India”, mimeo, Princeton
4. Petia Topalova (2010) “Factor Immobility and Regional Impacts of Trade Liberalization: Evidence on Poverty from India.” *American Economic Journal: Applied Economics*, 2(4): 141.’
5. J. Ernesto Lopez-Cordova and Christopher Meissner (2008) “The Impact of International Trade on Democracy: A Long Run Perspective” *World Politics* 60, 4, 539-575.

#### Background

1. A. Kerem Cosar and Pablo D. Fajgelbaum (2016) “Internal Geography, International Trade and Regional Specialization” *American Economic Journal: Microeconomics*
2. Helen Milner and Bumba Mukherjee (2009) “Democratization and Economic Globalization” *Annual Review of Political Science*, 12, 163-181
3. Ron Rogowski (1990) *Commerce and Coalitions*, Princeton University Press

**Historical Cases** Venice (9C-18C), Caribbean (19C), Latin America (20C), South Asia (20C)