

# 14.750x: Political Economy and Economic Development

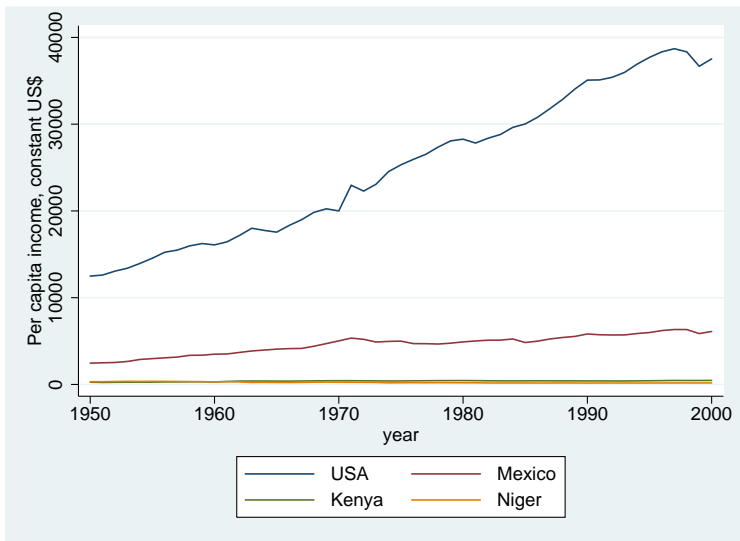
## Introduction

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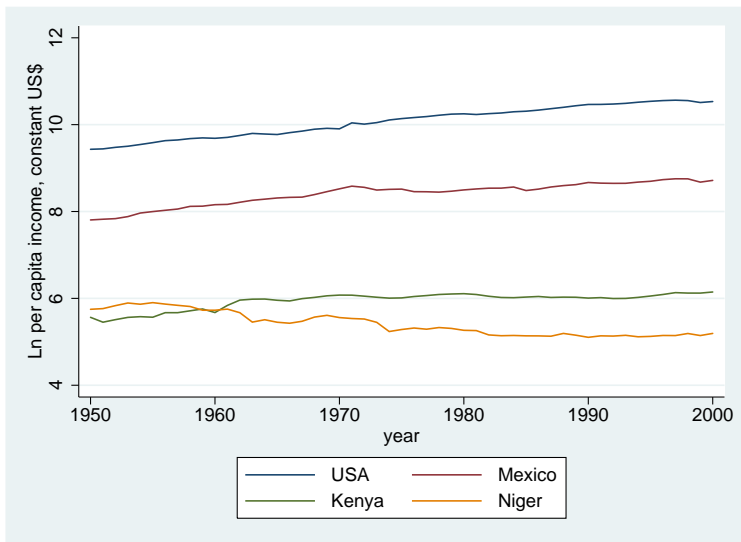
# Some basic facts about the world

- Income dispersion between rich and poor countries
- What is GDP per capita?
  - US GDP per capita in 2015 is? \$55,830
  - Mexico? \$9,000
  - Kenya? \$1,367
  - Niger? \$359
- These are all in actual US dollars. Adjusting for purchasing power differences makes some difference, but not much.

# Dispersion has increased since 1950



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- Even worse if you look over past 140 years
  - USA vs. poorest countries was a factor of 10-1 in 1870
  - USA vs. poorest countries was a factor of 45-1 in 1990

*Table 2*

**Estimates of the Divergence of Per Capita Incomes Since 1870**

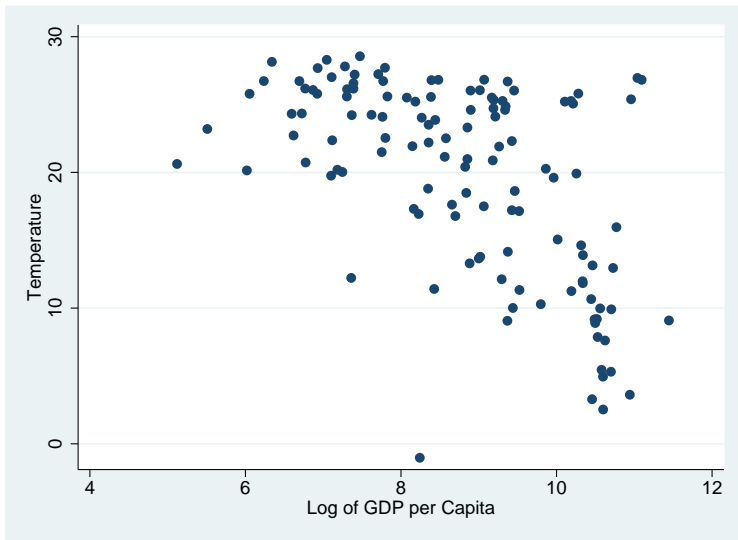
	1870	1960	1990
USA (P\$)	2063	9895	18054
Poorest (P\$)	250	257	399
	(assumption)	(Ethiopia)	(Chad)
Ratio of GDP per capita of richest to poorest country	8.7	38.5	45.2
Average of seventeen "advanced capitalist" countries from Maddison (1995)	1757	6689	14845
Average LDCs from PWT5.6 for 1960, 1990 (imputed for 1870)	740	1579	3296
Average "advanced capitalist" to average of all other countries	2.4	4.2	4.5
Standard deviation of natural log of per capita incomes	.51	.88	1.06
Standard deviation of per capita incomes	P\$459	P\$2,112	P\$3,988
Average absolute income deficit from the leader	P\$1286	P\$7650	P\$12,662

# Why could this be?

- Gap between richest and poorest countries is enormous, and the gap is growing
- Why could this be? What's different between these countries?
- Let's make a list:
- Some hypotheses:
  - Geography: temperature, disease burden
  - Human capital: education
  - Physical capital
  - Institutions: democracy, corruption, etc
- What does the data say? Let's start by looking just at some cross-sectional graphs

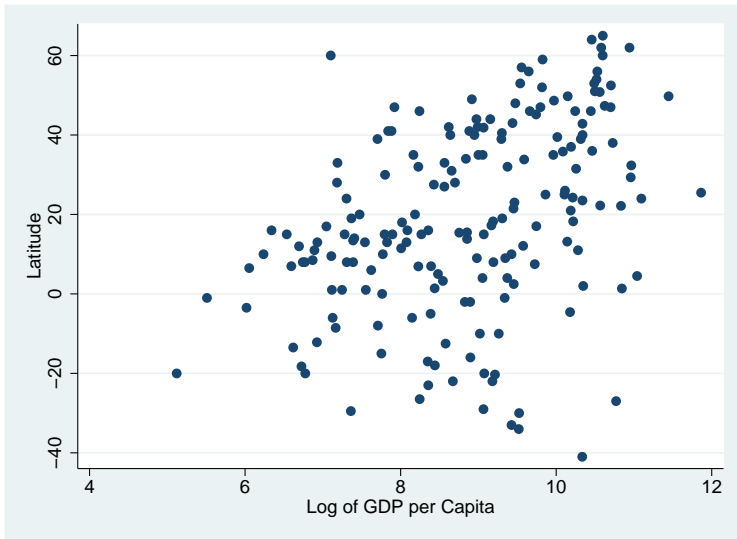
# Is it geography?

Temperature and per-capita income



# Is it geography?

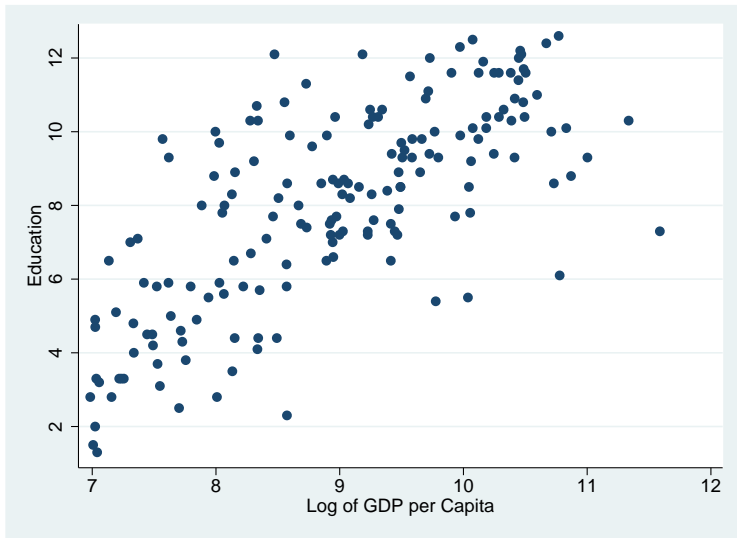
Latitude and per-capita income





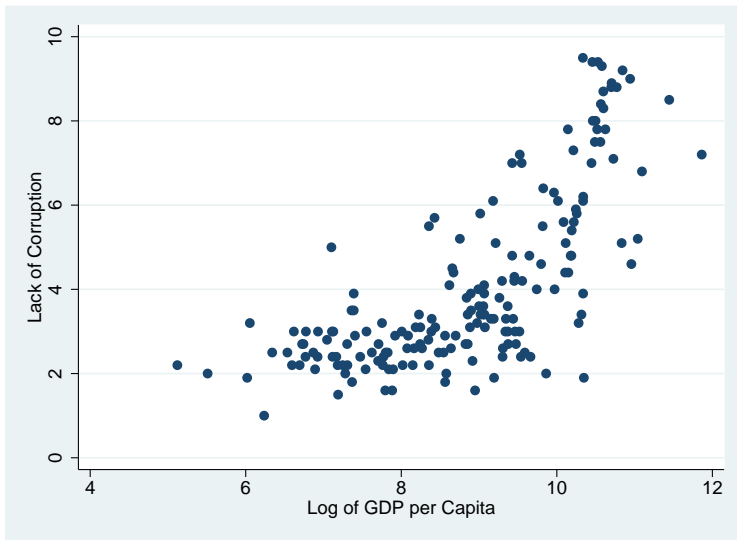
# Is it human capital?

Average years of schooling and per-capita income



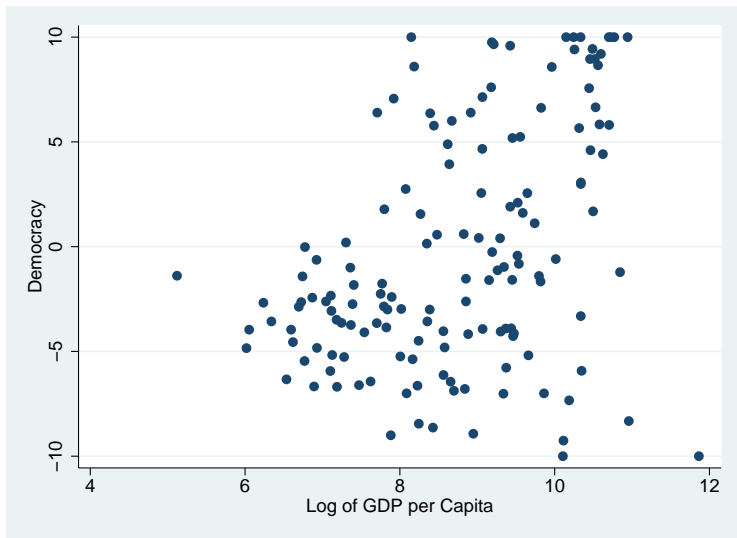
# Is it institutions?

Corruption and per-capita income



# Is it institutions?

Democracy and per-capita income



# A particularly stark example

Korea at night



# What do we learn from all these graphs?

- Rich countries seem to be better on all of these dimensions
  - Geography
  - Human capital
  - Institutions
- These graphs don't necessarily tell us that these factors cause the income differences. Why not?

# This course

- This course is going to explore the role of politics and institutions in developing countries
- We'll explore both whether political institutions matters for development, and if so, how to analyze political institutions in developing countries
- In the process, we have three goals for you:
  - 1 Understanding some core theoretical concepts in political economy, with illustrations from developing countries whenever possible.
  - 2 Understanding empirical evidence in economics. makes a good empirical study? How do we learn about the world empirically? What are some of the techniques we can use to better understand the world?
  - 3 Building a foundation for critical thinking about the role of political economy in understanding economic development. We intend to have vigorous class discussions to encourage this.
- Let me give a preview of where we're going

# Does political economy matter? And how do we know?

- The cross-sectional graphs we showed suggests that there is a correlation between political institutions and economic development
- But do politics actually affect development?
- Many countries have become wealthy without having democracy (e.g., China, Singapore) and some countries became wealthy first, and then became democratic (e.g., Korea)
- How do we know if political institutions actually affects development?
- We'll study several recent empirical studies that explore whether there really is a link
  - Do political leaders matter? Does it matter who the President is?
  - Do historical institutions matter? 50 years after the end of colonialization, do colonial institutions still matter for development? Do even older institutions still make a difference?
  - If so, then what? Are we stuck?
- And can we use data to answer these questions?

# Voting and Policy Determination in Democracies

- How to think about elections:
  - The benchmark is called the "Median Voter Theorem." The basic idea is that you win elections if you get  $> 50\%$  of the vote. This says that if candidates compete, then policies should express the preferences of the median voter.
- Does this hold in practice? Why or why not?
  - Maybe politician's identity matters (e.g., women, minorities, etc)
  - Maybe people vote based on what happened in the past, not the future
  - Maybe people vote for good politicians, not just whatever policy they most prefer
  - Maybe people just vote for whoever will bribe them the most
  - Maybe with more than 2 choices, things get a bit more complicated than the median voter theorem suggests
- Common theme we'll explore: how does the way that voting takes place in developing countries influence the policies that governments actually put in place and ultimate development outcomes



- Corruption can undermine the state's authority in many ways
  - Government officials can create hassles to get you to pay bribes
  - Bribes allow law breakers to pay their way out of breaking the law – which can undermine the government's ability to crack down on lawbreakers
  - Theft from government projects can mean that government can't execute projects it would like to
  - etc.
- We'll ask three questions about corruption
  - What are the impacts of corruption? Is corruption inefficient?
  - How do corrupt officials respond to incentives?
  - Can we think about corrupt politicians using the economics of firms?

# Service delivery and its failures

- Not all public goods are provided by the state. In many case, people do it themselves.
- This is true in the US to some degree (from PTAs to citizen initiatives) but even moreso in developing countries
- Topics we'll discuss:
  - Why do developing countries fail at providing public goods?
  - How can we solve this problem

# Discrimination and Affirmative Action

- Ethnic and gender discrimination is a problem everywhere.  
pause
- Where do stereotypes come from?
- How can we fight them?

- The media plays a crucial role in politics:
  - Information is a high fixed-cost, low-marginal cost activity. Meaning?  
We need to rely on journalists to gather information and the mass media to disseminate it
  - This plays an important role in voters' ability to assess politicians
  - But what if the media is biased? Or is too busy?
  - How does all this change age of social media?
- If you don't like the government, should you join a protest?
  - Does it affect policies?
  - Does it matter how many other people are going?