

**Centre for the Study of the World Economy (formerly CITD)**  
**School of International Studies**

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|---------------------------|----------------------------------|
| <b>Course title:</b>      | Political Economy of Development |
| <b>Course code:</b>       | IE 532                           |
| <b>Course instructor:</b> | Bharatee Bhusana Dash            |
| <b>Course type:</b>       | Optional (Winter Semester)       |
| <b>Credits:</b>           | 4                                |
| <b>Contact hours:</b>     | 4 hours per week                 |

### **Course Overview**

This course focuses on why and how political economy affects economic development. The goal of this course is to introduce some of the core theoretical concepts in modern political development economics and learn how to evaluate them empirically. The course covers topics on the role of historical circumstances shaping present economic outcomes, understanding the economics of conflict, the economic role of State, and causes and consequences of voting. For the application, examples and empirical evidence from both developed and developing countries will be used.

### **Course Objectives**

- 1) To demonstrate the use of economic concepts and empirical strategies in specialized topics in political economy of development.
- 2) To explain the evolution of political economy from the past to the present.
- 3) To explain the intricacies of intertwining relations between political and economic outcomes.
- 4) To train students to foster critical thinking skills and do independent research in political economy.

### **Course Learning Outcomes**

In this course students can expect to learn:

- 1) Student will learn to develop theoretically grounded and testable hypotheses about the political economy of development.
- 2) Students will gain basic understanding of and competence in critically evaluating the political economy literature.
- 3) Students will understand the political process of public policy formulation and decision-making in government.
- 4) Students will learn to articulate and critically evaluate the research in political economy.

## Course Outline

### 1. Introduction to political economy of development

Political economy is a diverse and continuously evolving field with many overlapping topics. This topic will provide first an updated overview of political economy of development, and then an outline of the specific topics covered in the course. It will also include a discussion on how the standard economic models are different and modified to incorporate different political economy concepts.

#### Essential Readings:

- Merlo, A. (2006). Whither political economy? Theories, facts and issues. In R. Blundell, W. Newey and T. Persson (eds.), *Advances in economics and econometrics, theory and applications: Ninth world congress of the econometric society*, Vol. I, pp. 381-421, Cambridge: Cambridge University Press.
- Besley, T., and T. Persson (2011). *Pillars of Prosperity: The Political Economics of Development Clusters*. Princeton University Press. (Chapter 1)
- Bardhan, P. (2016). State and development: The need for a reappraisal of the current literature. *Journal of Economic Literature* 54: 862-892.

### 2. History and development

A growing body of literature shows that specific historical events hold key to understand the present socioeconomic and political problems in both developing and developed countries. This topic demonstrates how the role of history can be conceptualized to understand some of the longstanding problems of present.

#### Essential Readings:

- Ray, D. (forthcoming). *Development Economics*. Oxford University Press. (Chapters 7 and 8)
- Alesina, A., P. Giuliano and N. Nunn (2013). On the origins of gender roles: women and the plough. *Quarterly Journal of Economics* 128: 469-530.
- Banerjee, A., and L. Iyer (2005). History, institutions, and economic performance: The legacy of colonial land tenure systems in India. *American Economic Review* 95: 1190-1213.

#### Additional Readings:

- Nunn, N. (2020). The historical roots of economic development. *Science* 367: eaaz9986.
- Dell, M. (2010). The persistent effects of Peru's mining MITA. *Econometrica* 78: 1863-1903.
- Voigtländer, N., and H-J. Voth (2012). Persecution perpetuated: The medieval origins of anti-semitic violence in Nazi Germany. *Quarterly Journal of Economics* 127: 1339-1392.
- Nunn, N. (2008). The long-term effects of Africa's slave trades. *Quarterly Journal of Economics* 123: 139-176.

### 3. Conflict and development

Groups conflicting over resources is seen in all societies. However, what is not well understood is: Whether homogenous or heterogenous groups are likely to involve in a conflict? Does the type of conflict depend on the nature of resource, public or private? Are

there hidden economic motives behind ethnic conflicts? This topic focuses on two specific themes of conflict: (1) Economic determinants of conflict, and (2) Ethnicity and conflict.

### 3.1 Economic determinants of conflict

#### Essential Readings:

- Ray, D. (forthcoming). *Development Economics*. Oxford University Press. (Chapter 24)
- Dube, O., and J. Vargas (2013). Commodity price shocks and civil conflict: Evidence from Colombia. *Review of Economic Studies* 80: 1384-1421.
- Miguel, E., S. Satyanath and E. Sergenti (2004). Economic shocks and civil conflict: An instrumental variables approach. *Journal of Political Economy* 112: 725-753.

#### Additional Readings:

- Ray, D., and L. Mayoral (2022). Groups in conflict: Private and public prizes. *Journal of Development Economics* 154: 102759.
- Nunn, N., and N. Qian (2014). US food aid and civil conflict. *American Economic Review* 104: 1630-1666.

### 3.2 Ethnicity and conflict

#### Essential Readings:

- Ray, D. (forthcoming). *Development Economics*. Oxford University Press. (Chapter 25)
- Mitra, A., and D. Ray (2014). Implications of an economic theory of conflict: Hindu-Muslim violence in India. *Journal of Political Economy* 122: 719-765.

#### Additional Readings:

- Esteban, J., L. Mayoral, and D. Ray (2012). Ethnicity and conflict: An empirical study. *American Economic Review* 102: 1310-1042.
- Mitra, A., and D. Ray (2019). Hindu-Muslim violence in India: A postscript from the twenty-first century. In: JP. Carvalho, S. Iyer, J. Rubin (eds) *Advances in the Economics of Religion*. Palgrave Macmillan.

## 4. State and development I

State is a permanent institution and is comprised of four essential elements—population, territory, government and sovereignty. Studying the economic role of State, two crucial aspects have received extensive theoretical and empirical attention in political economy literature: how State as a political entity fosters economic development in different political regimes, and the ability of State to deliver on its promises. This topic presents existing research on both these aspects: (1) Political regimes and developmental outcomes, and (2) State capacity and economic development.

### 4.1 Political regimes and developmental outcomes

#### Essential Readings:

- Przeworski, A., and F. Limongi (1994). Political regimes and economic growth. *Journal of Economic Perspectives* 7: 51-69.

Acemoglu, D., S. Naidu, P. Restrepo, and J. Robinson (2019). Democracy does cause growth. *Journal of Political Economy* 127: 47-101.

Bonica, A., N. McCarty, K. Poole, and H. Rosenthal (2013). Why hasn't democracy slowed rising inequality?. *Journal of Economic Perspectives* 27: 103-124.

#### Additional Readings:

Wittman, D. (1989). Why democracies produce efficient results. *Journal of Political Economy* 97: 1395-1424.

Olson, M. (1993). Dictatorship, democracy, and development. *American Political Science Review* 87: 567-576.

### 4.2 State capacity and economic development

#### Essential Readings:

Besley, T., and T. Persson (2011). *Pillars of Prosperity: The Political Economics of Development Clusters*. Princeton University Press. (Chapter 5)

Dincecco, M., and G. Katz (2016). State capacity and long-run economic performance. *Economic Journal* 126: 189-218.

Johnson, N., and M. Koyama (2017). States and economic growth: Capacity and constraints. *Explorations in Economic History* 64: 1-20.

#### Additional Readings:

Dincecco, M., and Y. Wang (2024). State capacity in historical political economy. In J. Jenkins and J. Rubin (eds.), *Oxford Handbook of Historical Political Economy*, Oxford University Press, pp. 253-269.

Dincecco, M., J. Fenske, A. Menon, and S. Mukherjee (2022). Pre-Colonial warfare and long-run development in India. *Economic Journal* 132: 981-1010.

## 5. State and development II

Government as an agency of the State performs the day-to-day political administration on behalf of the State. A government serves its purposes when it is accountable to the citizens. Government accountability is critically analyzed under two particular circumstances—electorally competitive environment and decentralized governance structure. There is nothing sacred about government intervention in economic activities; like the market, governments too fail. Rent-seeking and corruption are two well-researched government failures. This topic discusses existing research on both the critical aspects: (1) Government accountability, and (2) Government failures.

### 5.1 Government accountability (political competition and governance decentralization)

#### Essential Readings:

Dash, B., J. Ferris, and S. Winer (2019). The measurement of electoral competition, with application to Indian states. *Electoral Studies* 62.

Besley, T., T. Persson and D. Strum (2010). Political competition, policy and growth: Theory and evidence from the US. *Review of Economic Studies* 77: 1329-1352.

Panizza, U. (1999). On the determinants of fiscal centralization: Theory and evidence. *Journal of Public Economics* 74: 97-139.

### Additional Readings:

- Persson, T., and G. Tabellini (2002): *Political Economics: Explaining Economic Policy*. MIT Press. (Chapter 3)
- Rodden, J. (2004). Comparative federalism and decentralization: On meaning and measurement. *Comparative Politics* 36: 481-500.
- Lucie Gadenne and Monica Singhal (2014). Decentralization in developing economies. *Annual Review of Economics* 6: 581-604.

## 5.2 Government failures (rent-seeking and corruption)

### Essential Readings:

- Shleifer, A., and R. Vishny (1993). Corruption. *Quarterly Journal of Economics* 108: 599-617.
- Treisman, D. (2007). What have we learned about the causes of corruption from ten years of cross-national empirical research?. *Annual Review of Political Science* 10: 211-244.
- Mueller, D. (2003). *Public Choice III*. Cambridge University Press. (Chapter 15)

### Additional Readings:

- Krueger, A. (1990). Government failures in development. *Journal of Economic Perspectives* 4: 9-23.
- Rose-Ackerman, S. (1975). The economics of corruption. *Journal of Public Economics* 4: 187-203.
- Krueger, A. (1974). The political economy of the rent-seeking society. *American Economic Review* 64: 291-303.

## 6. Voting and development

Voting is the political process through which citizens express their preferences in a democratic society. Why do citizens vote (or abstain from voting)? When do (economic) voters vote for or against the incumbents? How voting helps political decision making? Existing research related to these questions is presented in three themes: (1) Determinants of voter turnout, (2) Economic voting, and (3) Voting and political decision-making.

### 6.1 Determinants of voter turnout

#### Essential Readings:

- Feddersen, T. (2004). Rational choice theory and the paradox of not voting. *Journal of Economic Perspectives* 18: 99-112.
- François, A., and O. Gergaud (2019). Is civic duty the solution to the paradox of voting?. *Public Choice* 180: 257-283.
- Dash, B., J. Ferris, and M. Voia (2023). Inequality, transaction costs and voter turnout: Evidence from Canadian provinces and Indian states. *Public Choice* 194: 325-346.

#### Additional Readings:

- Hindriks, J., and G. Myles (2013). *Intermediate public economics*. MIT Press. (Chapter 11).
- Blais, A. (2006). What affects voter turnout?. *Annual Review of Political Science* 9: 11-25.
- Cancela, J., and B. Geys (2016). Explaining voter turnout: A meta-analysis of national and subnational elections. *Electoral Studies* 42: 264-275.

## 6.2 Economic voting

### Suggested Readings:

- Brender, A., and A. Drazen (2008). How do budget deficits and economic growth affect reelection prospects? Evidence from a large panel of countries. *American Economic Review* 98: 2203-2220.
- Aytaç, S. (2018). Relative economic performance and the incumbent vote: A reference point theory. *Journal of Politics* 80: 16-29.
- Arel-Bundock, V., A. Blais, and R. Dassonneville (2021). Do voters benchmark economic performance? *British Journal of Political Science* 51: 437-449.

### Additional Readings:

- Lewis-Beck, M., and M. Stegmaier (2000). Economic determinants of electoral outcomes. *Annual Review of Political Science* 3: 183-219.
- Kayser, M., and M. Peress (2012). Benchmarking across borders: Electoral accountability and the necessity of comparison. *American Political Science Review* 106: 661-684.
- Kayser, M., and M. Peress (2021). Benchmarking across borders: An update and response. *British Journal of Political Science* 51: 450-453.

## 6.3 Voting and political decision-making

### Essential Readings:

- Miller, G. (2008). Women's suffrage, political responsiveness, and child survival in American history. *Quarterly Journal of Economics* 123: 1287-1327.
- Gethin, A., C. Martínez-Toledano, and T. Piketty (2022). Brahmin left versus merchant right: Changing political cleavages in 21 Western Democracies, 1948–2020. *Quarterly Journal of Economics* 137: 1-48.
- Funk, P., and C. Gathmann (2013). How do electoral systems affect fiscal policy? Evidence from Cantonal parliaments, 1890–2000. *Journal of the European Economic Association* 11: 1178-1203.

### Additional Readings:

- Mueller, D. (2003). *Public Choice III*. Cambridge University Press. (Chapters 5 and 7)
- Meltzer, A., and S. Richards (1981). A rational theory of the size of government. *Journal of Political Economy* 89: 914-927.
- Przeworski, A. (2009). Conquered or granted: A history of franchise extensions. *British Journal of Political Science* 39: 291-321.