

GOVERNMENT 2158

Political Institutions and Economic Policy

Spring 2007

Jeffrey Frieden and Kenneth Shepsle, Instructors

This seminar explores the role of political institutions in the formation, implementation, and regulation of economic policy. We examine research traditions in the positive theory of political institutions, and in comparative and international political economy, and apply them to several substantive issue areas.

Requirements of the course are seminar participation and an original research paper related to the general approach of the course. The topic must be approved by the instructors in advance, by April 4.

All readings are available on JSTOR or through HOLLIS online (to the best of our knowledge). We will make arrangements to have a course pack available for those interested in purchasing the collection.

The course website is at

<http://my.harvard.edu/icb/icb.do?keyword=k9300>

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January 31

Organization and Introduction

February 7

Economics of Policy I: Special Interests

Dennis Mueller, *Public Choice III* (New York: Cambridge University Press, 2003), pp. 333-335, 343-358.

William Mitchell and Michael Munger, "Economic Models of Interest Groups: An Introductory Survey," *American Journal of Political Science* 35 (May 1991): 512-546.

Anne Krueger, "The Political Economy of the Rent-Seeking Society," *American Economic Review* 64 (June 1974): 291-303.

February 14

Trade Policy I: Interests

Theory:

Ron Rogowski, *Commerce and Coalitions* (Princeton: Princeton University Press, 1989), chapter 1.

Gene Grossman and Elhanan Helpman, "Protection for Sale," *American Economic Review* 84 (1994): 833-850.

Applications:

Michael J. Hiscox, "Commerce, Coalitions, and Factor Mobility: Evidence from Congressional Votes on Trade Legislation," *American Political Science Review* 96 (2002): 593-609.

Kishore Gawande and Pravin Krishna, "The Political Economy of Trade Policy: Empirical Approaches," in E. Kwan Choi and James Harrigan (eds.), *Handbook of International Trade* (Malden, MA: Blackwell, 2003): 213-250.

Dutt, Pushan & Mitra, Devashish, "Endogenous trade policy through majority voting: an empirical investigation," *Journal of International Economics* 58 (2002): 107-133.

February 21

Political Economy Analytics I: Spatial Models

Theory:

Nicholas R. Miller, Bernard Grofman, and Scott L. Feld, "The Geometry of Majority Rule," *Journal of Theoretical Politics* 1 (1989): 379-406.

(optional) Martin J. Osborne, "Spatial Models of Political Competition Under Plurality Rule: A Survey of some Explanations of the Number of Candidates and the Positions They Take," *Canadian Journal of Economics* 27 (1995): 261-301.

Applications:

Thomas Romer and Howard Rosenthal, "Political Resource Allocation, Controlled Agendas, and the Status Quo," *Public Choice* 33 (1978): 27-43.

Gary Cox, "Centripetal and Centrifugal Incentives in Electoral Systems," *American Journal of Political Science* 34 (1990): 903-935.

Kenneth A. Shepsle and Barry R. Weingast, "The Institutional Foundations of Congressional Power," *American Political Science Review* 81 (1987): 85-105.

February 28

Political Economy Analytics II:
Bargaining, Lobbying, and Institutions

Theory:

David Baron and John Ferejohn, "Bargaining in Legislatures," *American Political Science Review* 83 (December 1989): 1181-1206.

Barry Weingast and William Marshall, "The Industrial Organization of Congress," *Journal of Political Economy* 96 (1988): 132-163.

Elhanan Helpman and Torsten Persson, "Lobbying and Legislative Bargaining," *Advances in Economic Analysis & Policy* 1 (2001), Article 3.

Applications:

David Austen-Smith and Jeffrey S. Banks, "Elections, Coalitions, and Legislative Outcomes," *American Political Science Review* 82 (1988): 405-422.

Michael Laver and Kenneth A. Shepsle, *Making and Breaking Governments* (Cambridge, 1996): Chapters 2-4.

March 7

Political Economy Analytics III: Agency

Theory:

Dennis Mueller, *Public Choice III* (New York: Cambridge, 2003), pp. 359-385, 386-401.

John Ferejohn, "Incumbent Performance and Electoral Control," *Public Choice* 50 (1986): 5-25.

Sean Gailmard and John Patty, "Separation of Powers, Information, and Bureaucratic Structure," (August 2006)

David Epstein and Sharyn O'Halloran, "The Decision to Delegate," Chapter 4 of *Delegating Powers* (New York: Cambridge, 1999), pp. 53-86.

Application:

Barry R. Weingast and Mark J. Moran, "Bureaucratic Discretion or Congressional Control? Regulatory Policymaking by the Federal Trade Commission," *Journal of Political Economy* 91 (1983): 765-800.

March 14

Trade Policy II: Interests and Institutions

James Alt and Michael Gilligan, "The Political Economy of Trading States: Factor Specificity, Collective Action Problems and Domestic Political Institutions," *Journal of Political Philosophy* 2 (1994): 165-192.

Michael Bailey, Judith Goldstein, and Barry Weingast, "The Institutional Roots of American Trade Policy," *World Politics* (April 1997): 309-38.

Douglas Irwin, "Antebellum Tariff Politics: Coalition Formation and Shifting Regional Politics," April 2006

Michael J. Hiscox, "The Magic Bullet? The RTAA, Institutional Reform, and Trade Liberalization," *International Organization* 53 (Autumn 1999): 669-698.

Ronald Rogowski, "Trade and the Variety of Democratic Institutions," *International Organization* 41 (Spring 1987): 203-223.

March 21

Agricultural Policy

Kishore Gawande and Bernard Hoekman, "Lobbying and Agricultural Trade Policy in the United States," *International Organization* 60, No. 3 (Summer 2006), pages 527-561.

Jonathan C. Brooks, A. Colin Cameron, and Colin A. Carter, "Political Action Committee Contributions and U.S. Congressional Voting on Sugar Legislation," *American Journal of Agricultural Economics* 80 (1998): 441-454.

Hans P. Binswanger and Klaus Deininger, "Explaining Agricultural and Agrarian Policies in Developing Countries," *Journal of Economic Literature* 35 (1997): 1958-2005.

John C. Beghin and Mylene Kherallah, "Political Institutions and International Patterns of Agricultural Protection," *Review of Economics and Statistics* 76 (1994): 482-489.

Margaret S. McMillan and William A. Masters, "An African Growth Trap: Production Technology and the Time-Consistency of Agricultural Taxation, R&D and Investment," *Review of Development Economics* 7 (2003): 179-191.

April 4

Financial Regulation I

Burton Abrams and Russell Settle, "Pressure-group Influence and Institutional Change: Branch-banking Legislation during the Great Depression," *Public Choice*, LXXVII (1993): 687-705.

Nicolas Economides, R. Glenn Hubbard, and Darius Palia, "The Political Economy of Branching Restrictions and Deposit Insurance," *Journal of Law and Economics*, XXXIX (October 1996): 667-704.

Randall Kroszner and Philip Strahan. "What Drives Deregulation? Economics and Politics of the Relaxation of Bank Branching Restrictions," *Quarterly Journal of Economics* 114 (November 1999): 1437-67.

Philip Keefer, "Elections, Special Interests and Financial Crisis," *International Organization* (forthcoming)

April 11

Financial Regulation II

Stephen Nunez and Howard Rosenthal, "Bankruptcy Reform in Congress: Creditors, Committees, Ideology, and Floor Voting in the Legislative Process," *Journal of Law, Economics & Organization* 20 (2004): 527-557.

Raghuram G. Rajan and Luigi Zingales, "The Great Reversals: The Politics of Financial Development in the Twentieth Century," *Journal of Financial Economics* 69 (2003): 5-50.

Efriam Benmelech and Tobias Moskowitz, "The Political Economy of Financial Regulation: Evidence from U.S. Usury Laws in the 19th Century," January 2006.

J. Lawrence Broz and Michael Brewster Hawes, "Congressional Politics of Financing the International Monetary Fund," *International Organization* 60, 1 (Spring 2006): 367-399.

April 18

Argument and Critique

Torsten Persson and Guido Tabellini, *The Economic Effects of Constitutions* (Cambridge: MIT, 2003).

Daron Acemoglu, "Constitutions, Politics, and Economics: A Review Essay on Persson and Tabellini's *The Economic Effects of Constitutions*," *Journal of Economic Literature* 43 (2005): 1025-1048.

April 25

The Causes and Consequences of Institutional Change:
The Bank of England

Douglass North and Barry Weingast, "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England," *Journal of Economic History* 49, No. 4 (December 1989), pp. 803-832

David Stasavage, "Partisan Politics and Public Debt: The Importance of the Whig Supremacy for Britain's Financial Revolution", *European Review of Economic History*, 2006, forthcoming.

David Stasavage, "Credible Commitment in Early Modern Europe: North and Weingast Revisited", *Journal of Law, Economics, and Organization*, vol.18, no.1, pp.155-186, 2002.

May 2

Competing Views: The Political Economy of
Franchise Extension

Daron Acemoglu and James Robinson, "Why did the West Extend the Franchise? Democracy, Inequality, and Growth in Historical Perspective," *Quarterly Journal of Economics* 115 (2000): 1167-1200.

Alessandro Lizzeri and Nicola Persico, "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* 119 (2004): 707-765.

Jean-Marie Baland and James Robinson, "Land and Power: Theory and Evidence from Chile" (May 2006)