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KNW 3399 – Democracy, Institutions and Development: Economic and Political Issues

Instructor: Thomas Osang
Dept. of Economics
3300 Dyer Street, Suite 301
tosang@smu.edu; 214-768-4398
Office hours:

Instructor: Luigi Manzetti
Dept. of Political Science
212 Carr Collins Hall
lmanzett@smu.edu; Tel 214-768-4366
Office hours:

Course content:

The *course goal* is to analyze the relationship between political institutions, democracy and economic development from both the economic and the political science perspective. In this sense, the class provides the theoretical and empirical knowledge on what is commonly referred as the political economy of development. The major questions to be addressed by the course are: How did economic theories shape the way politicians have chosen among alternative models of socioeconomic development? How important are public institutions for successful development? Is there a difference in economic performance between democratic and non-democratic types of political systems? How do differences in various political institutions determine policy choices? Conversely, how do economic institutions in turn affect political decisions? Why in developing and post-communist countries do governments adopt policies that usually slow down development? Why do seemingly inefficient political institutions survive through time? What accounts for democratic political accountability? One of the aims of the discussion in the class will be to combine complex theories of institutions and political systems with an in-depth look at case studies from various countries. The course is interdisciplinary in nature as it draws from both economic and political science approaches to provide the most comprehensive answers to the questions posed above.

Structure:

The course will combine material and the methodological perspectives from two existing courses, Economics (Eco5360: Economic Development: Macro) and Political Science (PLSC 4355: Comparative Political Economy of Industrialized Democracies). The classes will meet in the same room and the instructors will rotate lecturing and leading discussions, depending on the topic to be covered and the disciplinary perspective being presented. Topics for the course will include: New institutional economics, political theories of democracies, the role of democracy and public institutions for economic development as well as several case studies to examine recent developments in both developed and developing countries.

Learning Objectives:

- Identify the unique challenges and opportunities associated with democratic development under different types of capitalist institutions in emerging economies, and to differentiate between developing nations, transition economies, and developed economies.
- Identify and classify the country-level factors, including economic, political, and institutional characteristics that are associated with socioeconomic development.
- Analyze and discuss different democratic and economic strategies for emerging economies, and defend and support positions related to these strategies in a paper project.

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Learning Outcomes:

- By the end of the course students will have a good command about the importance of public institutions and political regimes for the development process from both an economic and political science perspective.
- Students will be able to identify which economic policies are most likely to be associated with what type of political system based on the viewpoint from both economics and political science.
- Students will understand the complex interplay between institutions, democracy and development by being exposed to the mostly complimentary viewpoints from both economics and political science.

Attendance policy (shall we include it? If so make changes if you think what I state below is too strict)

Attendance will be required and students are expected to show up on time for class. Those who repeatedly arrive late after the first infraction will have half a point deducted from the final grade on each occasion. After one unexcused absence, you will get a point off from your final grade for each class you do not attend thereafter.

Appeals policy

All appeals of grades received on a test need to be submitted no later than two working days after the date the midterm is returned to class.

How do we assess your grade?

There are two exams, one midterm and one final exam. In order to do well on the exams, students need to read the assigned material and make sure you have an excellent command of its content. Moreover, participation in the Q & A segment in each class will also be part of the grade.

Grading policy

The examination requirements for the course are:

Midterm: (45%)
Class participation: (10%)
Final Exam: (45%)

Grading scale:							
A	100-94	B+	89-86	C+	79-76	D+	69-67
A-	93-90	B	85-83	C	75-73	D	66-65
		B-	82-80	C-	72-70	F	BELOW 65

SMU Policy on Disability, Religion, and Extracurricular Activities

Disability Accommodations: Students needing academic accommodations for a disability must first register with Disability Accommodations & Success Strategies (DASS). Students can call 214-768-1470 or visit <http://www.smu.edu/Provost/ALEC/DASS> to begin the process. Once registered, students should then schedule an appointment with the professor as early in the semester as possible, present a DASS Accommodation Letter, and make appropriate arrangements. Please note that accommodations are not retroactive and require advance notice to implement.

· Religious Observance: Religiously observant students wishing to be absent on holidays that require missing class should notify their professors in writing at the beginning of the semester, and should discuss with them, in advance, acceptable ways of making up any work missed because of the absence. (See University Policy No. 1.9.)

· Excused Absences for University Extracurricular Activities: Students participating in an officially sanctioned, scheduled University extracurricular activity should be given the opportunity to make up class assignments or other graded assignments missed as a result of their participation. It is the responsibility of the student to make arrangements with the instructor prior to any missed scheduled examination or other missed assignment for making up the work. (University Undergraduate Catalogue)

Readings:

- Acemoglu, Daron and James Robinson (2012), Why Nations Fail: The Origins of Power, Prosperity and Poverty, Crown Publishing Group: New York, New York.
- Acemoglu, D., Robinson, J. A., Naidu, S., & Restrepo, P. (2014). Democracy Does Cause Growth. *MIT Department of Economics Working Paper*, 14-09.
- Friedman, Milton (1962). *Capitalism and Freedom*. Chicago: University of Chicago Press.
This book summarizes Milton Friedman's theory about the primacy of economic liberalism in creating the foundations of a free society. It challenged the Keynesian policies dominant at the time and provided the theoretical foundations for the economic policies that Ronald Reagan and the Republican Party proposed since the 1980s and had major repercussions in Europe as well developing countries in the 1990s.
- Kesselman, Mark, ed. (2008). *Readings in Comparative Politics: Political Challenges & Changing Agendas*. 2nd ed. New York: Wadsworth.
Kesselman's edited volume contains first class chapters coming from journal articles published in the last twenty years dealing with the relationship between democracy and development and to which degree developing countries are embracing liberal democracy and its core values.
- North, Douglass (1990). *Institutions, Institutional Change and Economic Performance*, Cambridge University Press. North's argument that political, cultural, and economic institutions have a key role in shaping economic development, challenges neoliberal and Keynesian theorists who have historically downplayed the role of such institutions in international trade.
- Olson, Mancur, (1996). Big bills left on the sidewalk: Why some nations are rich, and others poor. *Journal of Economic Perspectives* 10(2):3-24.
- Osang, Thomas and Jeffry Jacob (2016), "Democracy and Growth: A Dynamic Panel Data Approach," Mimeo.
- Putnam Robert (1993). *Making Democracy Work*. Princeton: Princeton University Press.
Putnam argues that it is politics, not economics that drives growth. More specifically, he argues that civic engagement is the best means to produce strong democracies and efficient markets.
- Rodan, Gary (2004). Neoliberalism and transparency: political versus economic liberalism. Asia Research Centre, Murdoch University
- Schumpeter, Joseph (2008), Capitalism, Socialism and Democracy, 3rd edition, Harper Perennial: New York, New York.
This book opens with a treatment of Karl Marx. While he is sympathetic to Marx's theory that capitalism will collapse, and will be replaced by socialism, Schumpeter concludes that this will not come about in the way Marx predicted. To describe it he borrowed the phrase "creative destruction", and made it famous by using it to describe a process in which the old ways of doing things are endogenously destroyed and replaced by new ways.
- Yergin, Daniel and Joseph Stanislaw (1998), The Commanding Heights, Simon & Schuster: New York, New York

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Each of the readings is designed to provoke student thinking about how different disciplines view the same events through time and how different disciplinary perspectives contribute to knowledge about the topics listed in the schedule below:

Instructional Films.

Besides the course readings, we will also watch a number of instructional movies, some of which are from the Public Broadcasting Service (PBS) and YouTube. The links are displayed below.

1. The first film will be the award winning “**Commanding Heights**,” which is divided into three episodes. This program helps us understanding how economic theories heavily influenced politicians to adopt different development decisions around the world for the last hundred years. Students will find all the details on the three episodes by logging into:

<http://www.pbs.org/wgbh/commandingheights/lo/index.html>

This web page recaps what is discussed in the tapes. Once you get into the main page, just click on one of the main headings that provide:

- a recap of the main story line
- a country-by-country information
- key events leading to major policy shifts
- the profile of crucial thinkers and policy-makers
- the summary of the most important ideas at play

Date	Topic	Readings
May 18	The Role of Public Institutions and Democracy for Economic Development: <ul style="list-style-type: none">➤ Defining Institutions<ul style="list-style-type: none">• Institutions as Rule of the Game• Organizations	North, Douglass (1990). <i>Institutions, Institutional Change and Economic Performance</i> , Cambridge University Press. Select chapters
May 19	<ul style="list-style-type: none">➤ Institutions: The Neoclassical Economics Perspective<ul style="list-style-type: none">• Allocation of Resources and Employment	North, D. 1994, Institutions Matter, Economic History North, D. 1993 Five Propositions about Institutional Change, Econ working paper, WUSTL
May 22	<ul style="list-style-type: none">➤ New Institutional Economics<ul style="list-style-type: none">• Economics of Property Rights• Transaction Cost Economics	North, D. 1994, Transaction Cost Through Time, St. Louis
May 23	<ul style="list-style-type: none">➤ <i>Defining Democracy</i>➤ <i>Democracy and Growth</i><ul style="list-style-type: none">• <i>Development Through Democracy</i>• <i>Democracy as a Roadblock to Development</i>	Olson, Mancur, (1996). Big bills left on the sidewalk: Why some nations are rich, and others poor. <i>Journal of Economic Perspectives</i> 10(2):3-24. Acemoglu, Daron and James Robinson (2012), <u><i>Why Nations Fail: The Origins of Power, Prosperity and Poverty</i></u> , Crown Publishing Group: New York, New York. Select chapters.
May 24	The Role of Democracy and Public Institutions for Economic Development: Empirical Evidence <ul style="list-style-type: none">➤ Cross-Section Studies➤ Panel Data Studies	Osang, Thomas and Jeffry Jacob (2016), “Democracy and Growth: A Dynamic Panel Data Approach,” Mimeo Acemoglu, D., Robinson, J. A., Naidu, S., & Restrepo, P. (2014). Democracy Does Cause Growth. <i>MIT Department of Economics Working Paper, 14-09</i> . Rodrik, D and R. Wacziarg, 2015, Do democratic transitions produce bad economic outcomes? <i>American Economic Review</i>

May 25	MIDTERM	
May 26	<p>The Battle of Ideas and Policy Change in the 20th Century:</p> <p>“Von Hayek vs. Keynes”</p> <p>“The Collapse of Soviet Communism and Lat. Am.”</p>	<p><i>Watch Commanding heights episode 1 & 2:</i></p> <p>https://www.youtube.com/watch?v=xPx4lLJ6K8&list=PLOZnmxyfDSfSk3QdIA66p6mVbIqdWSc6A&index=9</p> <p>https://www.youtube.com/watch?v=HvqlkWbWM5Q&index=10&list=PLOZnmxyfDSfSk3QdIA66p6mVbIqdWSc6A</p> <p>Go to the “Ideas” section of Commanding Heights http://www.pbs.org/wgbh/commandingheights/lo/ideas/essay.html and read:</p> <p>Keynes Economic Theory: http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/ess_keynesiantheory.html</p> <p>Hayek's Road to Serfdom: http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/ess_serfdom.html</p> <p>The Chicago School: http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/ess_chicagoschool.html</p> <p>Also read the following documents posted on Canvas: Milton Friedman chp. 1-2</p>
May 30	<p>The Battle of Ideas and Policy Change in the 20th Century</p> <p>“Global Markets and their Problems”</p>	<p><i>Commanding heights episode:</i></p> <p>https://www.youtube.com/watch?v=Xyy5krDBhmU&index=11&list=PLOZnmxyfDSfSk3QdIA66p6mVbIqdWSc6A</p> <p>Stiglitz in Kesselman Rodan (2004) in Canvas</p>
May 31	<p>Theories of Democracy</p> <ul style="list-style-type: none"> ➤ Liberal Democracy ➤ Social Democracy 	<p>Dahl Liberal Democracy Theory in Kesselman Almond Liberal Democracy and Welfare (1991) on Canvas PPT Social Democracy & Liberal Democracy Compared on Canvas</p> <p>Recommended: Friedman's Critique of Social Welfare https://www.youtube.com/watch?v=bILldpGbVf0 Friedman</p>
June 1	Social capital, democracy & institutional performance	<p>Putnam chapters 1 & 6 in Canvas Olson (1996) in Canvas Diamond youtube.com/watch?v=1A5oJ-Dcpd0</p>
June 2	FINAL	

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