

17.178. Political Economy of Development

Fall 2019
Wednesday 1:30-3:30
E53-438

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This course provides an introduction to core topics in the political economic analysis of development. The readings range widely across contending theoretical perspectives, over time, and across countries. Among other dimensions of comparison, the course will examine issues in business-government relations, industrial policy, human capital and skills, bureaucratic capacity, multinational corporations and global production networks, and natural resource dependence. The common thread across these diverse topics is the analysis of how variations in organizations, institutions, governance, and politics affect development outcomes.

This course differs from others on the political economy of development in a number of respects. For one the coverage is more micro than macro with a heavier focus on the incentives and behaviors of economic agents like investors, government officials, firm managers, and workers than on macro dimensions such as inflation, trade and investment flows, fiscal balance, and so forth. However, the focus is not as micro as much recent behavioral and experimental research in the new development economics. Geographically, the readings cover both developed and developing countries, especially middle-income countries of Latin America and Asia. Lastly, the syllabus incorporates recent publications coming out of the multilateral development agencies (especially the Inter-American Development Bank and the World Bank) in part because so much original research is funded by them and in part because their publications have such resonance in policy circles in developing countries.

Course requirements (with grading weights) include: participation in seminar discussions and weekly posts on the readings (30%); three 4-page (double spaced) reviews of the weekly reading (30%); and a final exam (40%). The weekly reviews should be posted to Stellar by 10am on Wednesday so that everyone can consult them before class.

Unless otherwise noted, the readings will be on Stellar,
<http://stellar.mit.edu/S/course/17/fa19/17.178/>

Week 1 (4 September). **Introduction and Organization**

Week 2 (11 September). **Institutional Legacies, Path Dependence, and Property Rights**

Gerschenkron, Alexander. 1962. *Economic Backwardness in Historical Perspective*. Cambridge: Belknap. Chapter 1.

Haggard, Stephan, Andrew MacIntyre, and Lydia Tiede, "The Rule of Law and Economic Development," *Annual Review of Political Science* 11, (2008): 205-34.

Acemoglu, Daron, Simon Johnson, and James Robinson. 2005. "Institutions as a Fundamental Cause of Long-Run Growth," in Philippe Aghion and Steven Durlauf, eds., *Handbook of Economic Growth*. Elsevier. Read first 4 sections, pp. 388-421 only.

Stan Markus *Property, Predation, and Protection: Piranha Capitalism in Russia and Ukraine*. Cambridge University Press: 2015, pp. 1-46

Kohli, Atul. 1994. "Where Do High Growth Political Economies Come From? The Japanese Lineage of Korea's "Developmental State." *World Development* 22, No. 9, pp. 1269-1293.

Patrick Collison and Tyler Cowen. "We Need a New Science of Progress: Humanity needs to get better at knowing how to get better." *Atlantic*, Jul 30, 2019.
<https://www.theatlantic.com/science/archive/2019/07/we-need-new-science-progress/594946/>

Further reading

Mahoney, James. 2000. "Path Dependence in Historical Sociology." *Theory and Society* 29(4, August).

Mahoney, James. 2010. *Colonialism and Postcolonial Development: Spanish America in Comparative Perspective*. New York: Cambridge University Press.

Acemoglu, Daron, Simon Johnson and James A. Robinson. 2001. "The Colonial Origins Of Comparative Development: An Empirical Investigation," *American Economic Review* 91 (5,Dec), 1369-1401.

Week 3 (18 September). **The State and Development**

Stephan Haggard. 2017. *Developmental States*. New York: Cambridge University Press.

Pritchett, Lant, Kunal Sen, and Eric Werker. 2017. *Deals and Development: The Political Dynamics of Growth Episodes* Edited by Lant Pritchett, Kunal Sen and Eric Werker. New York: Oxford University Press. Chapter 1, "Deals and Development," pp. 1-38.

Doner, Richard, Bryan Ritchie, and Dan Slater. 2005. "Systemic Vulnerability and the Origins of Developmental States: Northeast and Southeast Asia in Comparative Perspective." *International Organization* 59(2, Spring).

Mahoney, James, and Diana Rodríguez-Franco. "Dependency Theory." *The Oxford Handbook of the Politics of Development*. 2016.

[skim] Mazzucato, Mariana. 2013. *The Entrepreneurial State: Debunking Public Vs. Private Sector Myths*. New York: Anthem. Chapter 4, "The US Entrepreneurial State," pp. 73-86, and chapter 5, "The State behind the iPhone," pp. 87-112.

Further reading

Naseemullah, Adnan and Caroline Arnold, "The Politics of Developmental State Persistence: Institutional Origins, Industrialization and Provincial Challenge," *Studies in Comparative International Development*, March 2015, Vol. 50, No. 1, pp. 121-142.

Kohli, Atul. 2004. *State-Directed Development: Political Power and Industrialization in the Global Periphery*. New York: Cambridge University Press.

Rodrik, Dani. 2007. *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*. Princeton: Princeton University Press.

Week 4 (25 September). **Industrial and Innovation Policy**

Rodrik, Dani. 2007. "Industrial Policy for the Twenty-First Century." In *One Economics, Many Recipes*. Princeton: Princeton University Press.

Pack, Howard, and Kamal Saggi. 2006. "Is There a Case for Industrial Policy? A Critical Survey." *World Bank Research Observer* 2(2): 267-97.

Breznitz, Dan, and Darius Ornston. "The revolutionary power of peripheral agencies: Explaining radical policy innovation in Finland and Israel." *Comparative Political Studies* 46.10 (2013): 1219-1245.

Ang, Yuen Yuen, 1979. *How China escaped the poverty trap*. Ithaca : Cornell University Press, 2016. Intro (pp. 1-22) and chapter 1 (pp. 23-47).

Wade, Robert. (2016). "Industrial Policy in Response to the Middle-income Trap and the Third Wave of the Digital Revolution." *Global Policy*, 7: 469–480. doi:10.1111/1758-5899.12364

Further reading

Block, Fred. 2011. "Innovation and the Invisible Hand of Government." in Block and Matthew Keller, eds., *State of Innovation*. Boulder, CO: Paradigm.

Amsden, Alice. 2001. *The Rise of "the Rest:" Challenges to the West from Late-Industrializing Economies*. Oxford: Oxford University Press.

Altenburg, Tilman, and Dani Rodrik. "Green industrial policy: Accelerating structural change towards wealthy green economies." *Green Industrial Policy* (2017).

Whitfield, Lindsay, et al. *The politics of African industrial policy: A comparative perspective*. Cambridge University Press, 2015.

Sabel, Charles. 2012. "Self-Discovery as a Coordination Problem." In *Export Pioneers in Latin America*, ed. Charles Sabel, et al. Washington, DC: IDB.

Week 5 (2 October). Bureaucracy, Institutional Capacity, and Governance

Pepinsky, Thomas, Jan Pierskall, and Audrey Sacks, 2017 "Bureaucracy and service delivery" *Annual Review of Political Science*.

Ang, Yuen Yuen. "Beyond Weber: Conceptualizing an alternative ideal type of bureaucracy in developing contexts." *Regulation & Governance* 11.3 (2017): 282-298.

Fukuyama, Francis. 2013. "What is Governance?" *Governance*, Vol. 26, No. 3, July 2013 (pp. 347–368).

Bersch, Katherine, Sérgio Praça, and Matthew Taylor. 2017. "Bureaucratic Capacity and Political Autonomy Within National States: Mapping the Archipelago of Excellence in Brazil." in Centeno, Kohli, and Yashar, eds., *States in the Developing World*. New York: Cambridge University Press.

Oliveros, Virginia, and Christian Schuster. 2018. "Merit, Tenure, and Bureaucratic Behavior: Evidence From a Conjoint Experiment in the Dominican Republic." *Comparative Political Studies* 51.6, 759-792.

Further reading

Dargent, Eduardo. *Technocracy and democracy in Latin America*. Cambridge University Press, 2015.

Johnson, Chalmers. 1982. *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*. Stanford: Stanford University Press.

Fukuyama, Francis. "Governance: What do we know, and how do we know it?." *Annual Review of Political Science* 19 (2016): 89-105.

Centeno, Miguel Angel, Atul Kohli, and Deborah Yashar. 2017. "Unpacking States in the Developing World: Capacity, Performance, and Politics." in Centeno, Kohli, and Yashar, eds., *States in the Developing World*. New York: Cambridge University Press.

World Development Report. 2016. *Making Politics Work for Development: Harnessing Transparency and Citizen Engagement*. Washington DC: World Bank. Chapter 1, pp. 1-32.

Persson, Anna, and Bo Rothstein. 2015. "It's My Money: Why Big Government May Be Good Government." *Comparative Politics* 47(2, January): 231-49.

Gerth, H. H. and C. Wright Mills, eds. *From Max Weber*. New York: Oxford University Press, 1946. "VIII. Bureaucracy", pp. 196-244.

Week 6 (9 October). **Social Welfare and Development**

Haggard, Stephan, and Robert Kaufman. 2008. *Development, Democracy, and Welfare States: Latin America, East Asia, and Eastern Europe*. Princeton: Princeton University Press. Introduction pp. 1-24 (Chapter 1, not required, has good descriptive and historical background).

Huber, Evelyne, and John Stephens. 2012. *Democracy and the Left: Social Policy and Inequality in Latin America*. Chicago: Chicago University Press. Chapters 1-3, pp. 1-72.

Holland, Alisha. 2017. *Forbearance as Redistribution: The Politics of Informal Welfare in Latin America*. New York: Cambridge University Press. Chapter 6.

Evans, Peter, Evelyne Huber, and John Stephens. 2017. "The Political Foundations of State Effectiveness." *State Building in the Developing World*, Miguel Centeno, Atul Kohli and Deborah Yashar, eds. New York: Cambridge University Press.

Cammett, Melani, and Aytug Sasmaz. 2016. "Social Policy in Developing Countries." *Oxford Handbook of Historical Institutionalism*. Oxford University Press.

Further reading

Peter Evans and Patrick Heller. 2014. "Human Development, State Transformation and the Politics of the Developmental State." *Oxford Handbook of Transformations of the State* edited by Stephan Leibfried, et al. New York: Oxford University Press.

Teichman, Judith. (2015) *The Politics of Inclusive Development: Policy, State Capacity and Coalition Building*. Palgrave Macmillan.

Gingrich, Jane. 2011. *Making Markets in the Welfare State: The Politics of Varying Market Reforms*. New York: Cambridge University Press.

Isabela Mares and Matthew Carnes. 2009. "Social Policy in Developing Countries." *Annual Review of Political Science*, Vol. 12, p. 93-113.

Wibbels, Erik, and John Ahlquist. 2011. "Development, Trade, and Social Insurance." *International Studies Quarterly* 55(1):125-49.

Week 7 (16 October). **Labor Markets and Skill Formation**

Pagés, Carmen, Gaëlle Pierre, and Stefano Scarpetta. 2009. *Job Creation in Latin America and the Caribbean*. Washington, DC: World Bank. "Overview," pp. 1-30.

Estevez-Abe, Margarita, Torben Iversen, and David Soskice. 2001. "Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State." In *Varieties of Capitalism*, Peter Hall and David Soskice, eds.

Amsden, Alice. 2010. "Say's Law, Poverty Persistence, and Employment Neglect." *Journal of Human Development and Capabilities* 11(1, February): 57-66.

Baker, Andy. 2019. "The Formal/Informal Labor Divide and Worker Attitudes toward Social Policy: Evidence from Mexico." Apsa, Washington DC.

Sancak, Merve, and Isik Özel. 2018. "When politics gets in the way: Domestic coalitions and the making of skill systems." *Review of International Political Economy* 25.3 pp. 340-363.

Further reading

Freeman, Richard. "Labor regulations, unions, and social protection in developing countries: market distortions or efficient institutions?" *Handbook of Development Economics*. Vol. 5. Elsevier, 2010. 4657-4702.

Stiglitz, Joseph, and Bruce Greenwald. 2015. *Creating a Learning Society: A New Approach to Growth, Development, and Social Progress*. New York: Columbia University Press.

Carnes, Matthew. 2014. *Continuity Despite Change: The Politics of Labor Regulation in Latin America*. Stanford, CA: Stanford University Press.

Schneider, Ben Ross. 2013. *Hierarchical Capitalism in Latin America: Business, Labor, and the Challenge of Equitable Development*. New York: Cambridge University Press.

Rodrik, Dani. "Premature deindustrialization." *Journal of Economic Growth* 21.1 (2016): 1-33.

Week 8 (23 October). **Corporate Governance, SOEs, and Diversified Business Groups**

Colpan, Asli, and Alvaro Cuervo-Cazurra. 2016. "Business groups as an organizational model." *Oxford Research Encyclopedia, Business and Management*.

Khanna, Tarun, and Yishay Yafeh. 2007. "Business Groups in Emerging Markets: Paragons or Parasites?" *Journal of Economic Literature* 45 (June):331-72.

Fernando Leiva. 2015. "Chile's Grupo Luksic and the "New Spirit of Capital." Latin American Studies Association.

Morck, Randall, Daniel Wolfenzon, and Bernard Yeung. 2005. "Corporate Governance, Economic Entrenchment, and Growth." *Journal of Economic Literature* 43(3, September): 655-720. Skim middle sections.

Aldo Musacchio and Sergio Lazzarini. 2014. *Leviathan Evolving: New Varieties of State Capitalism in Brazil and Beyond*. Chapters 1, 8, 9, pp. 1-20, 197-217, 218-232

Further reading

Zorn, Dirk, Frank Dobbin, Julian Dierkes, and Man-Shan Kwok. 2005. "Managing investors: How financial markets reshaped the American firm." *The Sociology of Financial Markets* (2005): 269-289.

Schneider, Ben Ross. "A Comparative Political Economy of Diversified Business Groups, or How States Organize Big Business." *Review of International Political Economy* 16, no. 2 (May 2009), pp. 178-201.

Carney, Michael, et al. 2011. "Business Group Affiliation, Performance, Context, and Strategy: A Meta-Analysis." *Academy of Management Journal* 54(2): 437-60.

Granovetter, Mark. 2005. "Business Groups and Social Organization," In *Handbook of Economic Sociology*, ed. Neil Smelser and Richard Swedberg. Princeton: Princeton University Press.

Week 9 (30 October). **Business-Government Relations**

Fernández-Arias, Eduardo, et al. 2016. *Two to Tango: Public-Private Collaboration for Productive Development Policies*. Washington DC: IDB. Chapters 1 and 5, pp. 1-31, 189-236.

McDermott, Gerald. 2007. "The Politics of Institutional Renovation and Economic Upgrading: Recombining the Vines That Bind in Argentina." *Politics and Society* 35(1): 103-44.

Ornston, Darius. 2012. *When Small States Make Big Leaps: Institutional Innovation and High-Tech Competition in Western Europe*. Ithaca, NY: Cornell University Press. Introduction, Chapter 1, "The Paradox of High-Tech Corporatism," Chapter 4, Denmark, Chapter 8, "Comparing Corporatisms," pp. 1-27, 92-125, 165-88.

Lemma, Alberto, and Dirk Willem te Velde. "State–Business Relations as Drivers of Economic Performance." In *The Practice of Industrial Policy*, John Page and Finn Tarp, eds. Oxford University Press, pp. 63-79.

Further reading

Page, John, and Finn Tarp, eds. 2017. *The Practice of Industrial Policy: Government-Business Coordination in Africa and East Asia*, UNU-WIDER Studies in Development Economics, Oxford University Press. <http://dx.doi.org/10.1093/acprof:oso/9780198796954.001.0001>

Schneider, Ben. *Designing Industrial Policy in Latin America: Business-Government Relations and the New Developmentalism*. Palgrave, 2015

Devlin, Robert, and Graciela Mogueillansky. 2011. *Breeding Latin American Tigers: Operational Principles for Rehabilitating Industrial Policies in the Region*. Washington: World Bank.

Week 10 (6 November). **MNCs and Global Value Chains**

Alfaro, Laura. 2017. "Gains from Foreign Direct Investment: Macro and Micro Approaches." *World Bank Economic Review* 30: S2–15. doi:10.1093/wber/lhw007.

Thomas Farole, Cornelia Staritz, and Deborah Winkler. 2014. "Conceptual Framework." In Farole and Winkler, eds., *Making foreign direct investment work for Sub-Saharan Africa*. Washington DC: World Bank. Chapter 2, " ", pp. 23-55.

Seth Pipkin Alberto Fuentes. 2017. "Spurred to Upgrade: A Review of Triggers and Consequences of Industrial Upgrading in the Global Value Chain Literature." *World Development*.

Fuller, Douglas. 2016. *Paper Tigers, Hidden Dragons: Firms and the Political Economy of China's Technological Development*. 2016. New York: Oxford University Press. Introduction and Chapter 1.

Amsden, Alice. 2009. "Nationality of Ownership in Developing Countries: Who Should 'Crowd Out' Whom in Imperfect Markets?" In *Industrial Policy and Development*. Ed. Joseph Stiglitz, Giovanni Dosi and M. Cimoli. Pp. 289-309. New York: Oxford University Press.

Further reading

Cohen, Stephen. 2007. *Multinational Corporations and Foreign Direct Investment: Avoiding Simplicity, Embracing Complexity*. New York: Oxford University Press. Chapter 4, "Heterogeneity." Good basic background on MNCs.

Gereffi, Gary. 2018. *Global value chains and development :redefining the contours of 21st century capitalism*. New York, NY : Cambridge University Press.

Pandya, Sonal. "Political economy of foreign direct investment: Globalized production in the twenty-first century." *Annual Review of Political Science* 19 (2016): 455-475.

Kohli, Atul. 2009. "Nationalist Versus Dependent Capitalist Development: Alternate Pathways of Asia and Latin America in a Globalized World." *Studies in Comparative International Development*.

Pauly, Louis, and Simon Reich. 1997. "National Structures and Multinational Corporate Behavior: Enduring Differences in the Age of Globalization." *International Organization* 51(1, Winter): 1-30.

13 November. No class**Week 11 (20 November). Commodity Booms and Resource Curses**

Waldner, David, and Benjamin Smith. 2015. "Rentier States and State Transformations." (2014). In Stephan Leibfried, et al., *Handbook on Transformation of the State*. New York: Oxford University Press.

Menaldo, Victor. *The Institutions Curse: Natural Resources, Politics, and Development*. Cambridge University Press, 2016. Chapter 1, pp. 1-24.

Kurtz, Marcus, and Sarah Brooks. 2011. "Conditioning the "Resource Curse": Globalization, Human Capital, and Growth in Oil-Rich Nations." *Comparative Political Studies* 44(6):747-70.

Sabel, Charles, Gary Herrigel, T. Thune, O. A. Engen, and O. Wicken. "Collaborative Innovation in the Norwegian Oil & Gas Industry: Surprise or sign of a new economy-wide paradigm?." In *Petroleum Industry Transformations*, pp. 231-248. Routledge, 2018.

Naazneen Barma, Kai Kaiser, Tuan Minh Le, Lorena Viñuela. 2011. *Rents to Riches?: The Political Economy of Natural Resource-Led Development*. Washington, DC: World Bank. Chapter 1, "Introduction: Beyond the Resource Curse," and Chapter 2, "The Political Economy of the Natural Resource Paradox," pp. 1-76.

Further reading

Maloney, William. 2007. "Missed Opportunities: Innovation and Resource-Based Growth in Latin America." In Daniel Lederman and Maloney, eds. 2007. *Natural Resources: Neither Curse Nor Destiny*. Washington DC: World Bank.

Pauline Jones Luong and Erika Weinthal. 2006. "Rethinking the Resource Curse: Ownership Structure, Institutional Capacity, and Domestic Constraints." *Annual Review of Political Science*, Vol. 9: 241-263.

Ross, Michael. 2012. *The Oil Curse: How Petroleum Wealth Shapes the Development of Nations*. Princeton: Princeton University Press.

Karl, Terry. 1997. *The Paradox of Plenty: Oil Booms and Petro-States*. Berkeley: University of California Press.

No class 27 November.

Week 12 (4 December). Regulation and Development

Schrank, Andrew. 2012. "A Second Regulatory Divide? Labor Inspection Regimes in Comparative Historical Perspective." 89–112. In Osterman, Paul, ed., *Economy in Society*. Cambridge: MIT Press, 2012.

Shadlen, Kenneth C., and Elize Massard da Fonseca. "Health policy as industrial policy Brazil in comparative perspective." *Politics & Society* 41.4 (2013): 561-587.

Post, Alison and María Victoria Murillo. 2016. "How Investor Portfolios Shape Regulatory Outcomes: Privatized Infrastructure After Crises." *World Development*. 77: 328-345.

Amengual, Matthew. 2013.. "Pollution in the Garden of the Argentine Republic Building State Capacity to Escape from Chaotic Regulation." *Politics & Society* 41.4 (2013): 527-560.

Further reading

Sabel, Charles, Gary Herrigel, and Peer Hull Kristensen. "Regulation under uncertainty: The coevolution of industry and regulation." *Regulation & Governance* 12.3 (2018): 371-394.

Navroz Dubash and Bronwen Morgan. 2013. *The Rise of the Regulatory State of the South: Infrastructure and Development in Emerging Economies*. Oxford University Press.

Week 13 (11 December). **Human Capital, Distribution, and Growth**

Hanushek, Eric, and Ludger Woessman. 2015. *The Knowledge Capital of Nations: Education and the Economics of Growth*. Cambridge: MIT Press. Introduction and chapter 5, pp. 1-7, 109-39.

Stewart, Frances. "Changing perspectives on inequality and development." *Studies in Comparative International Development* 51.1 (2016): 60-80.

Taylor, Zachary. 2016. *The Politics of Innovation: Why some Countries are Better than Others at Science and Technology*. New York: Oxford University Press. Chapter 6. How Nations Succeed: Networks, Clusters, and Standards," pp. 140-79.

Goldin, Claudia and Lawrence Katz. *The Race between Education and Technology*. Harvard University Press, 2009. Chapters 1 & 2, pp. 1-43.

Ansell, Ben. 2010. *From the Ballot to the Blackboard: The Redistributive Political Economy of Education*. New York: Cambridge University Press. Chapter 1, pp. 1-19, and skim Chapter 3, pp. 72-119.

Further reading

Iversen, Torben, and John Stephens. 2008. "Partisan Politics, the Welfare State, and Three Worlds of Human Capital Formation." *Comparative Political Studies*.

Schneider, Ben Ross and Richard Doner. "The Middle Income Trap: More Politics than Economics." *World Politics*, October 2016.

Sen, Amartya. 1999. *Development as Freedom*. New York: Knopf.

Iversen, Torben, and David Soskice. *Democracy and Prosperity: Reinventing Capitalism Through a Turbulent Century*. Princeton University Press, 2019.

Evans, David, and Anna Popova. 2015. "What Really Works to Improve Learning in Developing Countries?" Policy Research Working Papers. The World Bank. doi:10.1596/1813-9450-7203.

Matías Busso, Julián Cristia, Diana Hincapié, Julián Messina, Laura Ripani. 2017. *Learning better: public policy for skills development*. Washington DC: IDB. Chapter 1, pp. 1-19.

Grindle, Merilee. 2004. *Despite the Odds: The Contentious Politics of Education Reform*. Princeton: Princeton University Press.