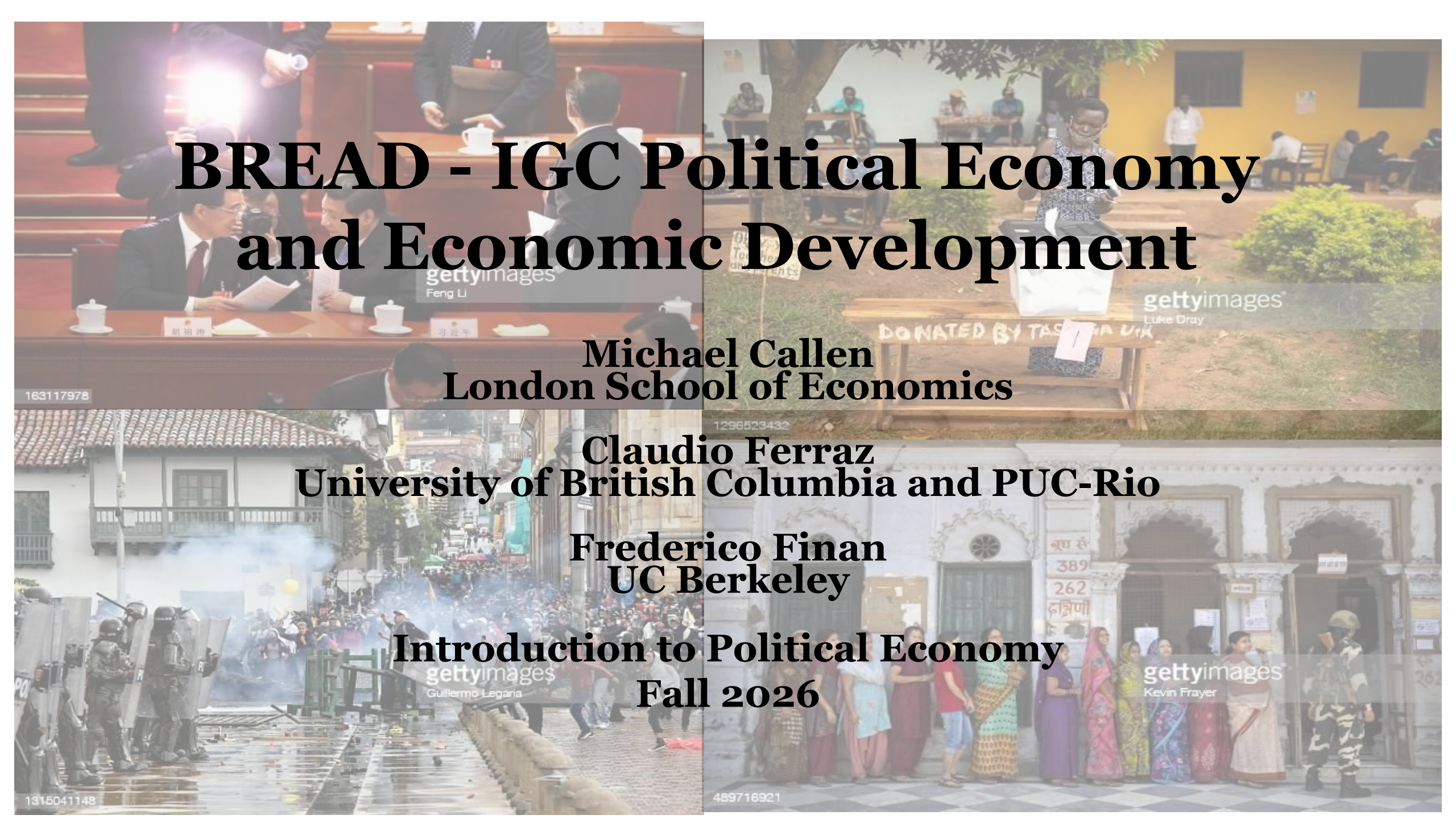




BREAD - IGC Political Economy and Economic Development

Michael Callen
London School of Economics

Claudio Ferraz
University of British Columbia and PUC-Rio

Frederico Finan
UC Berkeley

Introduction to Political Economy
Fall 2026

Welcome!

- This course consists of twelve lectures on how political power, institutions, and state capacity shape economic development — and on the theoretical and empirical toolkit the field has built to study them.
- 20 lecturers, including many who have made key contributions to the state of knowledge.
- The course is designed for PhD students; master's students and policy makers are also welcome.

Learning Objectives

- **Explain and compare** the main theoretical frameworks in political economy and apply them to concrete cases.
- **Read** empirical work critically. Identify the empirical strategy, judge the research design, and trace the chain from political power → institutions → policy.
- **Situate** contemporary debates — state capacity, clientelism, media, conflict, autocracy — within the broader development literature.

Course Structure

Twelve weekly lectures · 8 September to 24 November 2026

Tuesdays, 3:30–5:00 pm UK time (7:30-9:00 PST)

Zoom · certificate of completion for attending 10 of 12 lectures

Key readings are posted in advance; lectures extend and contextualize them.

Topics

1	8 Sep	Introduction to Political Economy	Callen · Ferraz · Finan
2	15 Sep	History, Persistence, and Development	Nunn · Dell
3	22 Sep	Core Political Economy Models	Francois
4	29 Sep	State Capacity	Besley
5	6 Oct	Politicians and Political Agency	Ferraz · Finan
6	13 Oct	Bureaucracy and Implementation	Khan · Khwaja
7	20 Oct	Political Selection, Voice, Representation	Pande · Casey
8	27 Oct	Conflict and Fragility	Callen · Dube
9	3 Nov	Crime and Organized Crime	Blattman · Sviatschi
10	10 Nov	Political Economy of Africa	Robinson
11	17 Nov	Autocracy and China	Yang · Yuchtman
12	24 Nov	Media and Political Economy	Enikolopov · Petrova

Economists should care about politics

“Economists must **not only know their economic models**, but also **understand politics, interests, conflicts, passions**-- the essence of collective life. For a brief period of time you could make changes by decree; but to let them persist, you have to build coalitions and bring people around.”

*Alejandro Foxley, Chilean Minister of Finance (1990–1994), **during the transition from military rule of Pinochet to democracy**, quoted in Williamson and Haggard (1994)*

Let's start with the big picture

Large differences in income

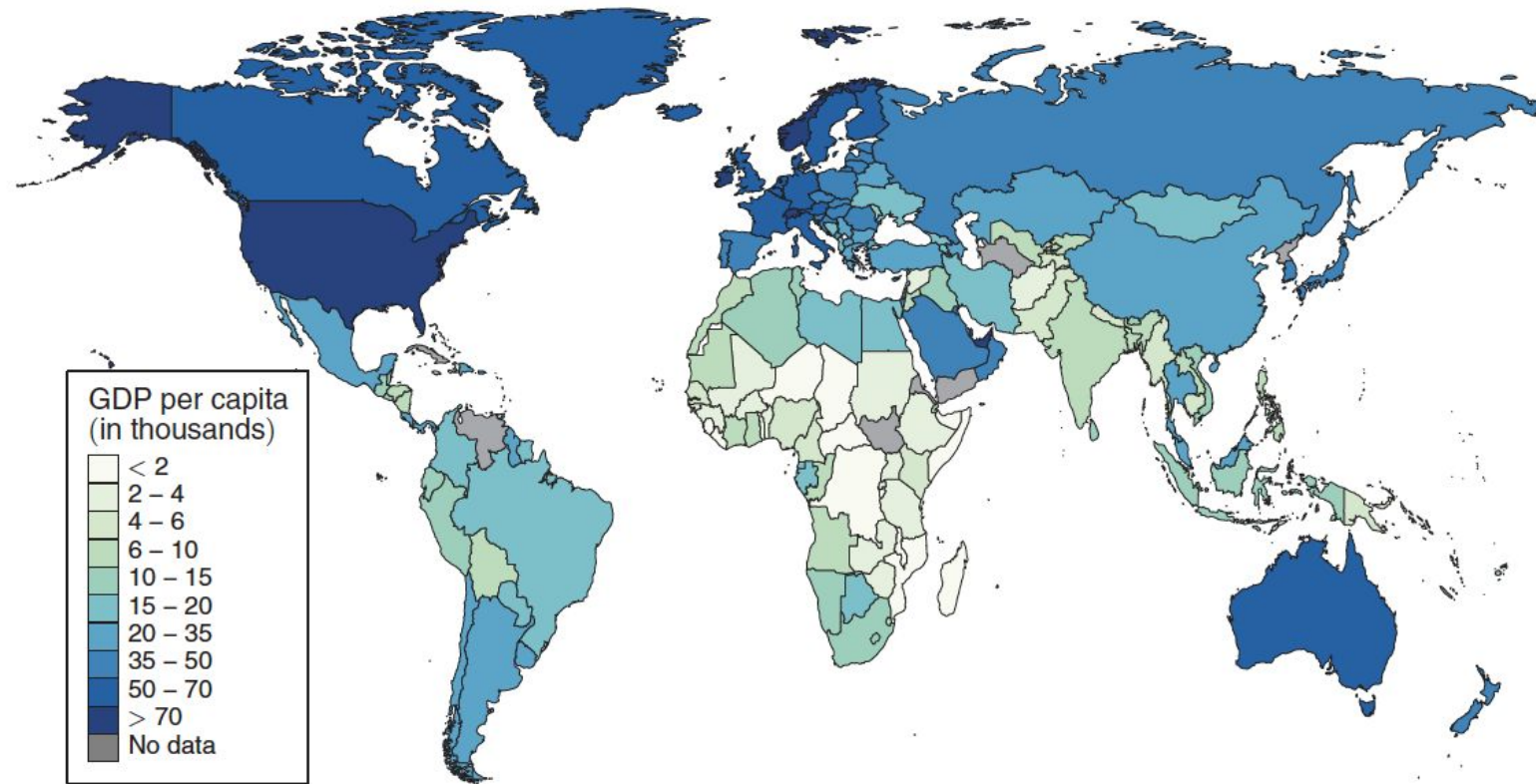
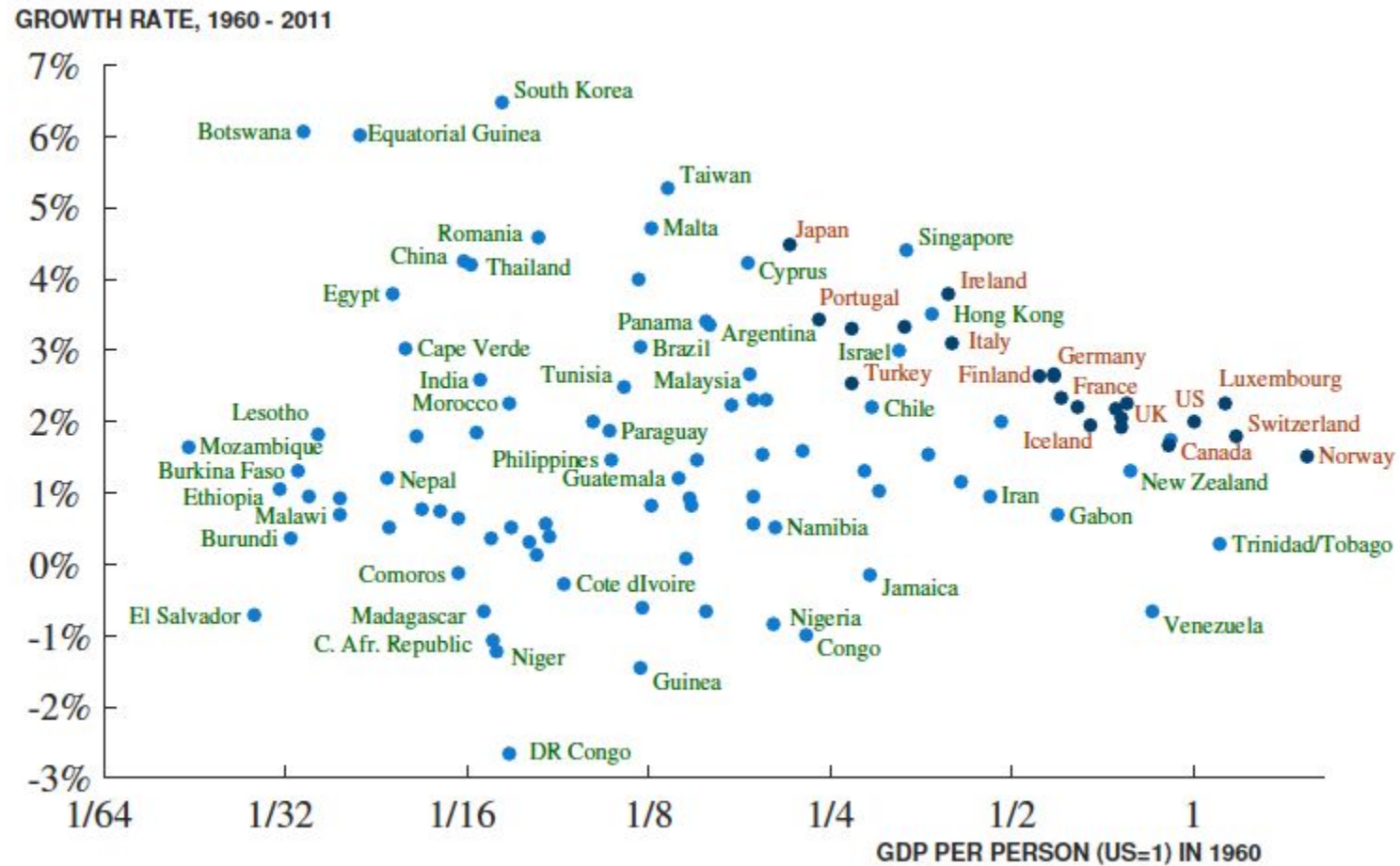


FIGURE 1. THE WORLD DISTRIBUTION OF INCOME

Notes: This figure shows the distribution of GDP per capita across the world. GDP per capita is computed as the average of PPP-adjusted GDP divided by total population over 2019–2023, from World Bank data.

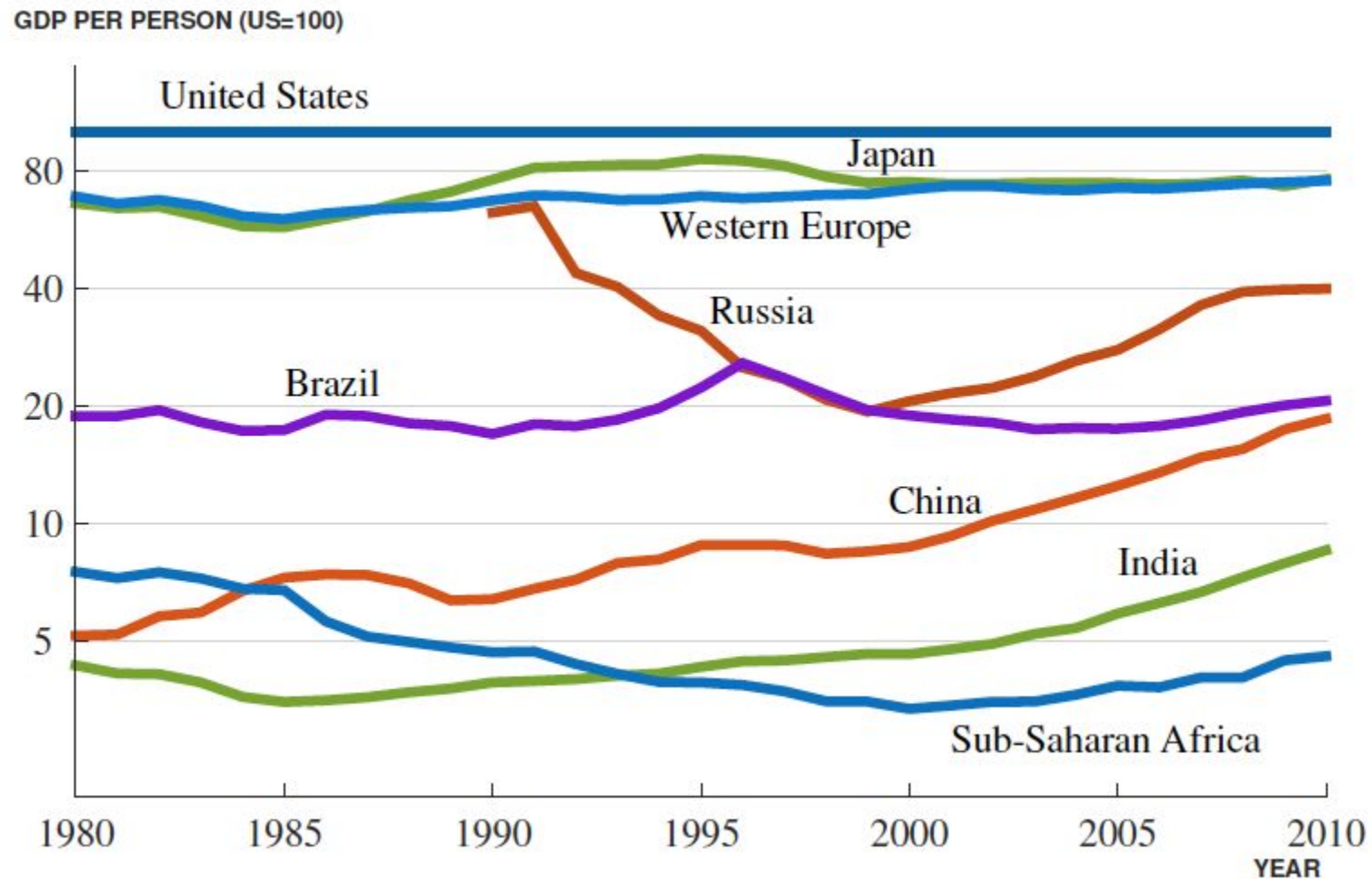
Source: Acemoglu (2025)

And countries are not getting closer



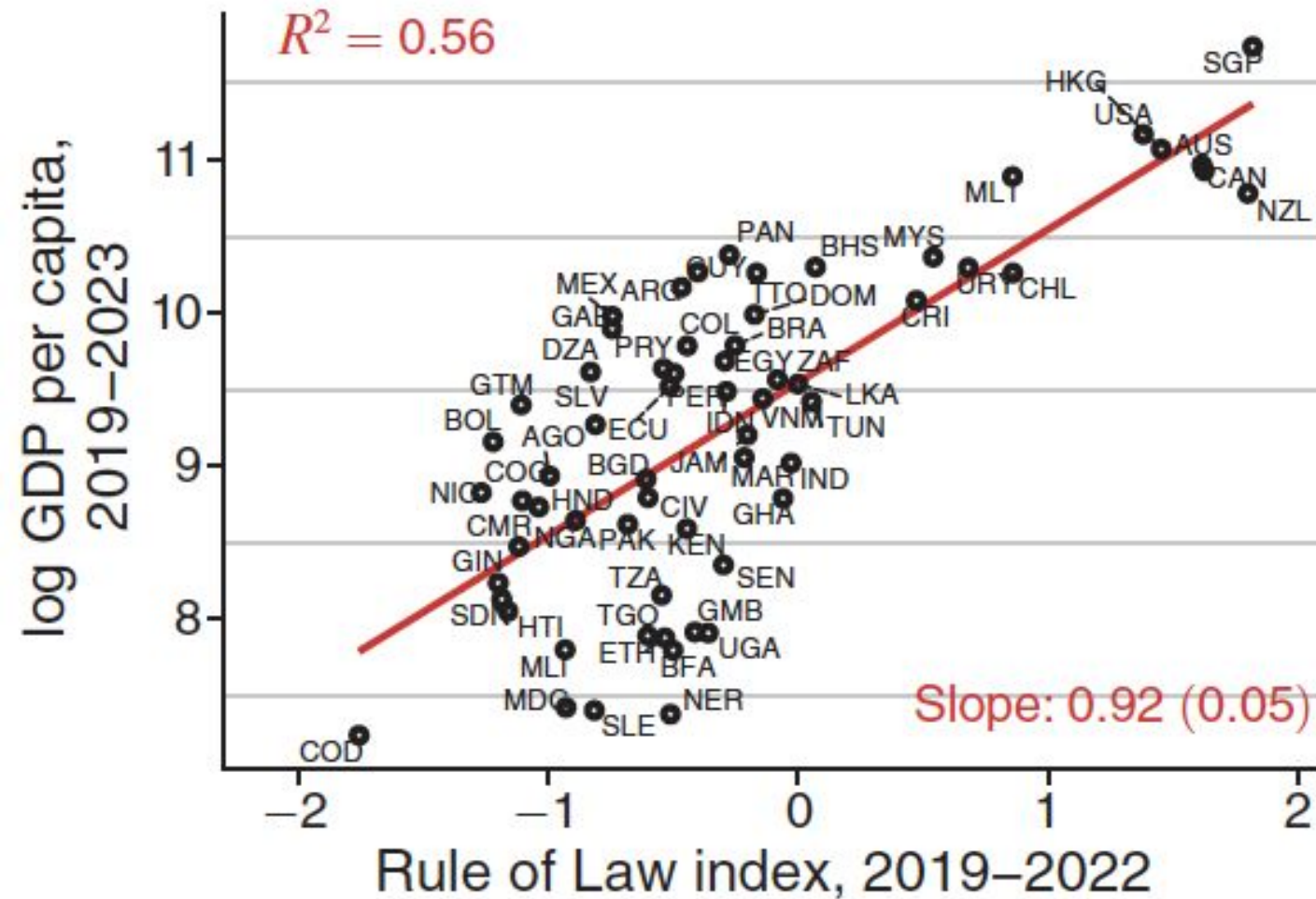
Source: Jones (2016)

Despite some success stories



Source: Jones (2016)

Rule of law and development



Source: Acemoglu (2025)

Richer countries are more democratic

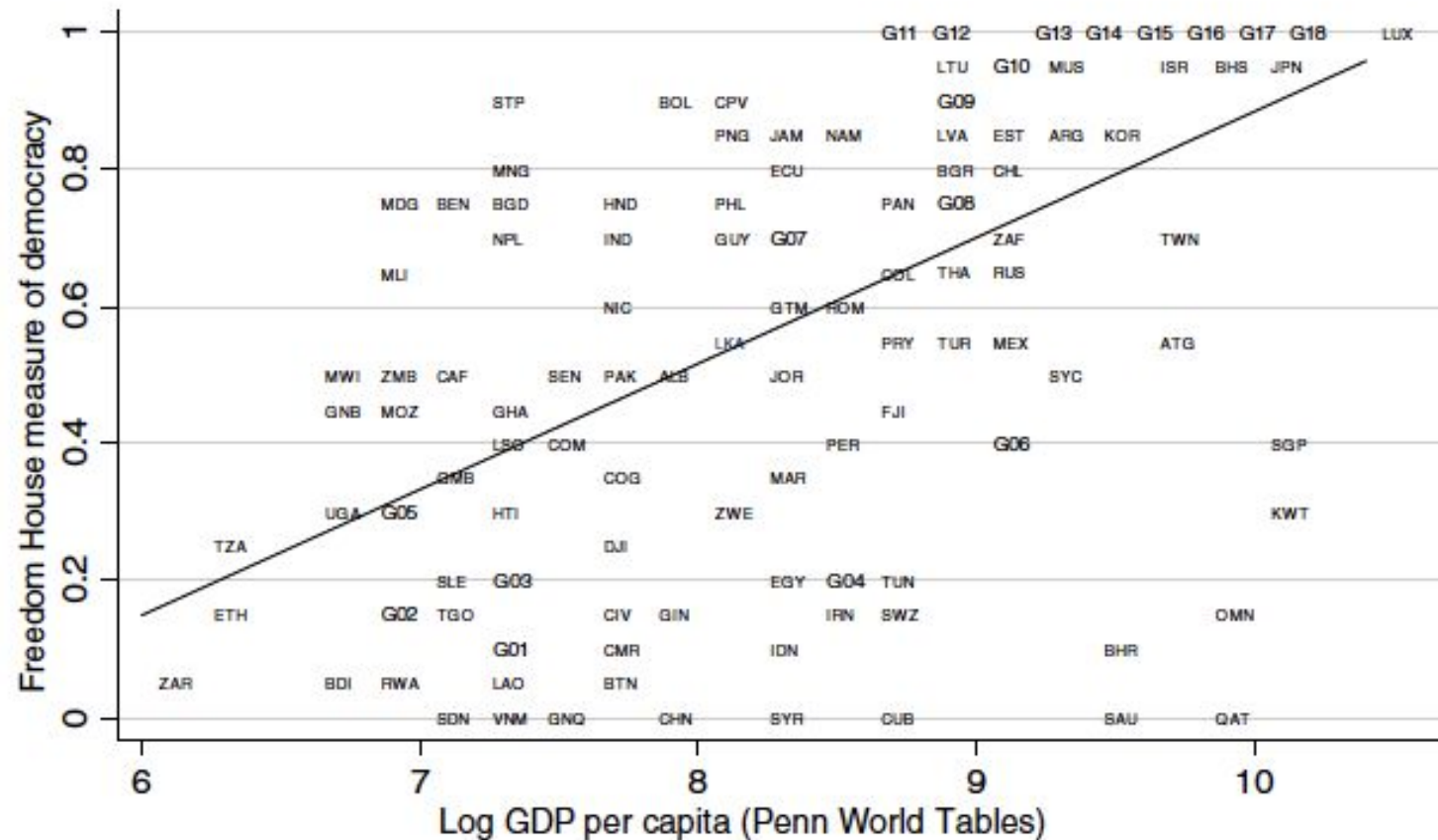
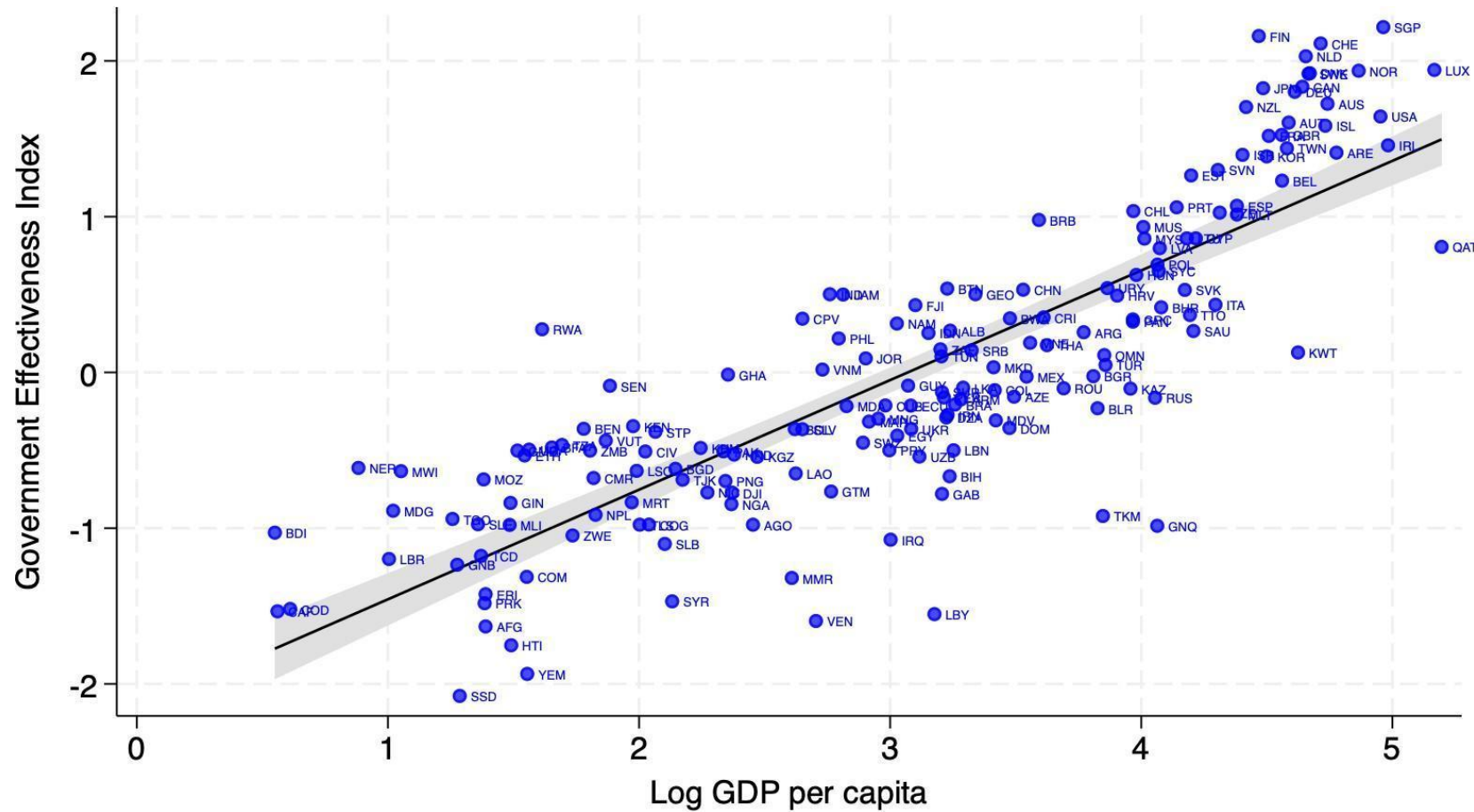


FIGURE 1. DEMOCRACY AND INCOME, 1990s

Source: Acemoglu et al (2008)

And have more effective governments



Source: Worldwide Governance Indicators; year 2018

Source: Ferraz et al (2026)

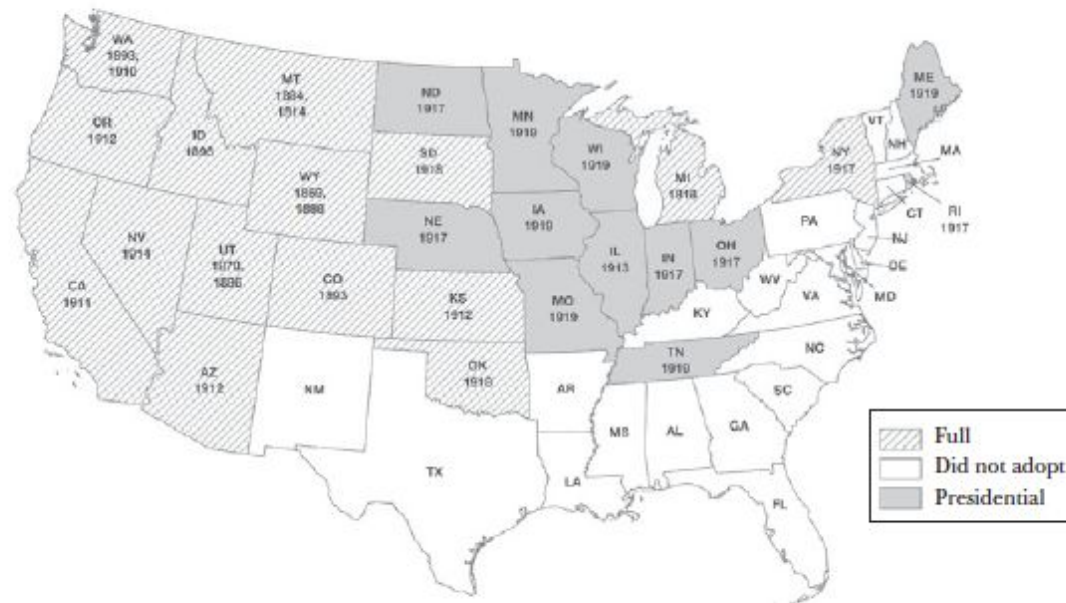
**These differences are not a
coincidence**

**Institutions and political power
matter for policy making**

Women's suffrage and Spending

Figure 3

Women's Full and Presidential Suffrage Prior to the Nineteenth Amendment



Source: Keyssar (2009, Table A.20, 368); McDonagh and Price (1985, Table 1, 417).

WOMEN'S SUFFRAGE

1171

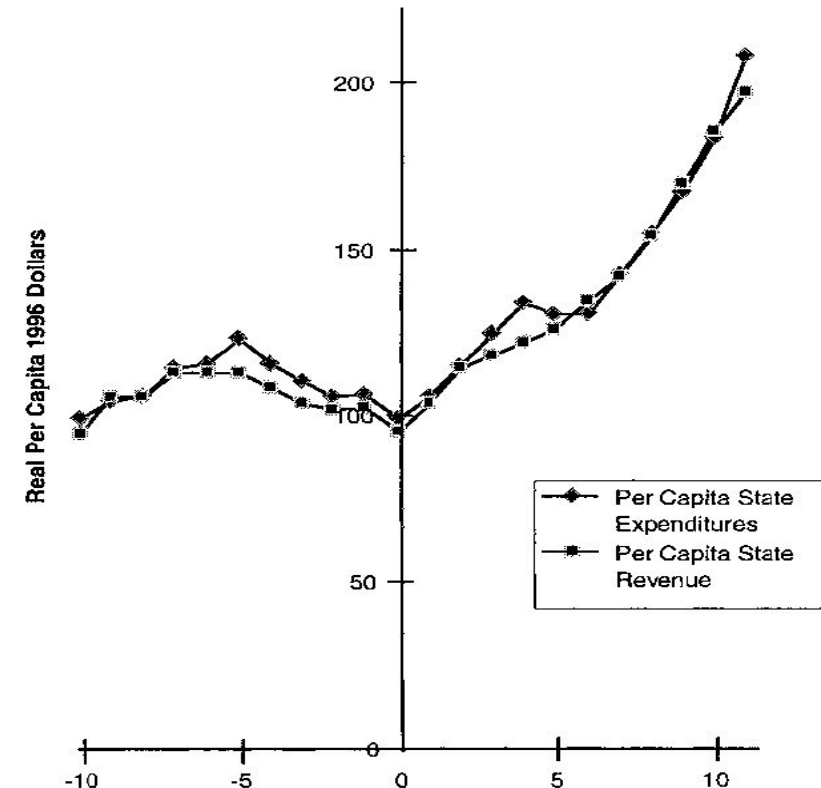


FIG. 2.—Effect of giving women the right to vote on per capita state government expenditures and revenue. The horizontal axis shows the years before and after women were given the right to vote in different states: year 0 is the first year in which women were allowed to vote in different states.

Political Budget Cycles

- In your macro course you probably studied government spending
- But you did not study a model that could explain why governments spend more in electoral years, with larger effects in young democracies

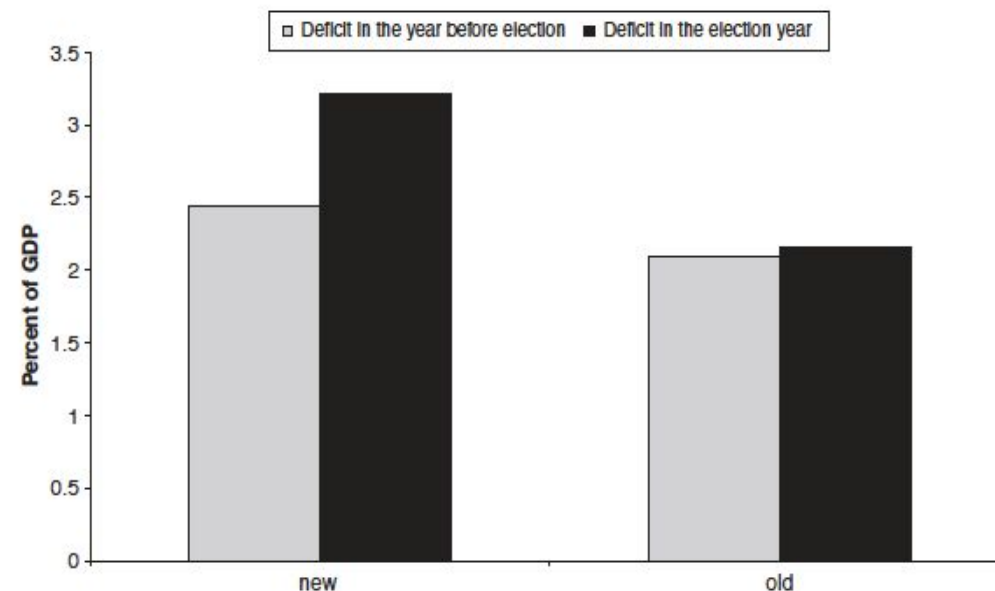
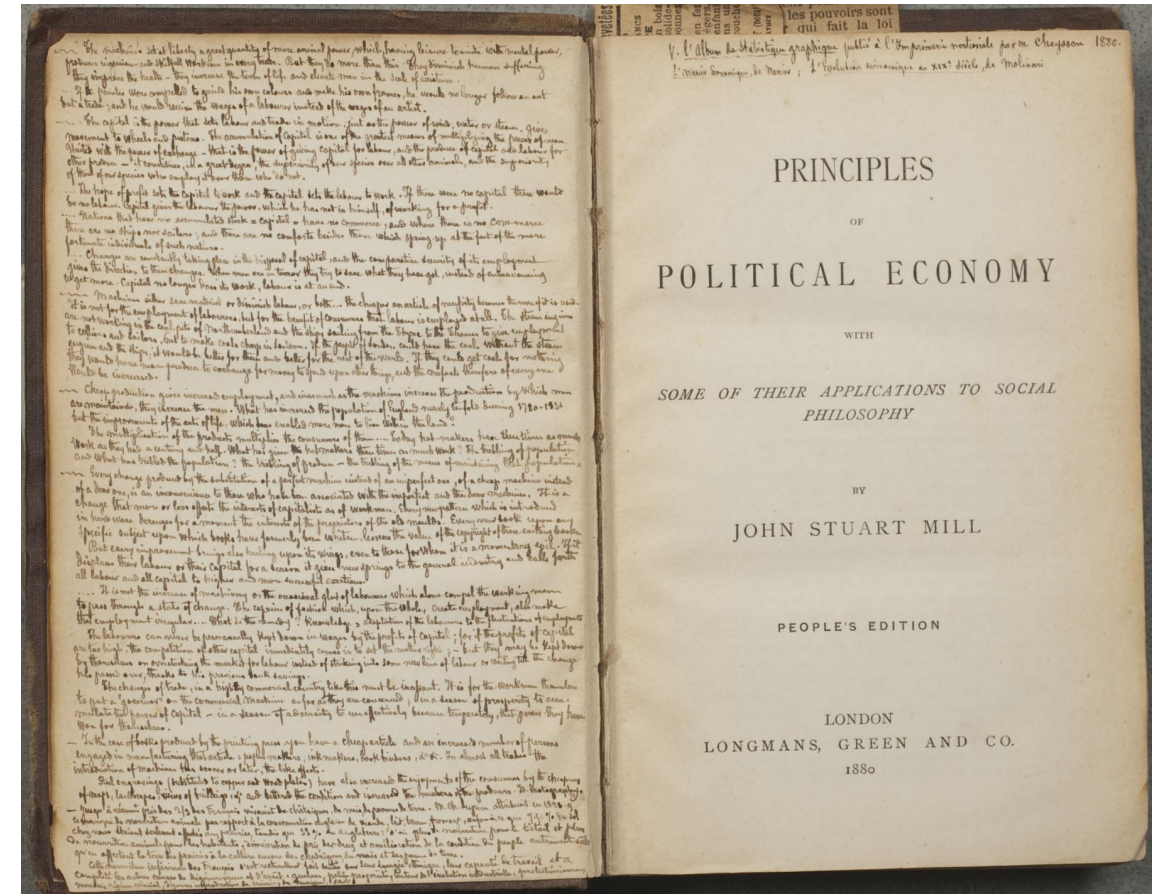


Fig. 1. Average budget deficits in the election year and in the previous year.

Source: Brender and Drazen 2005

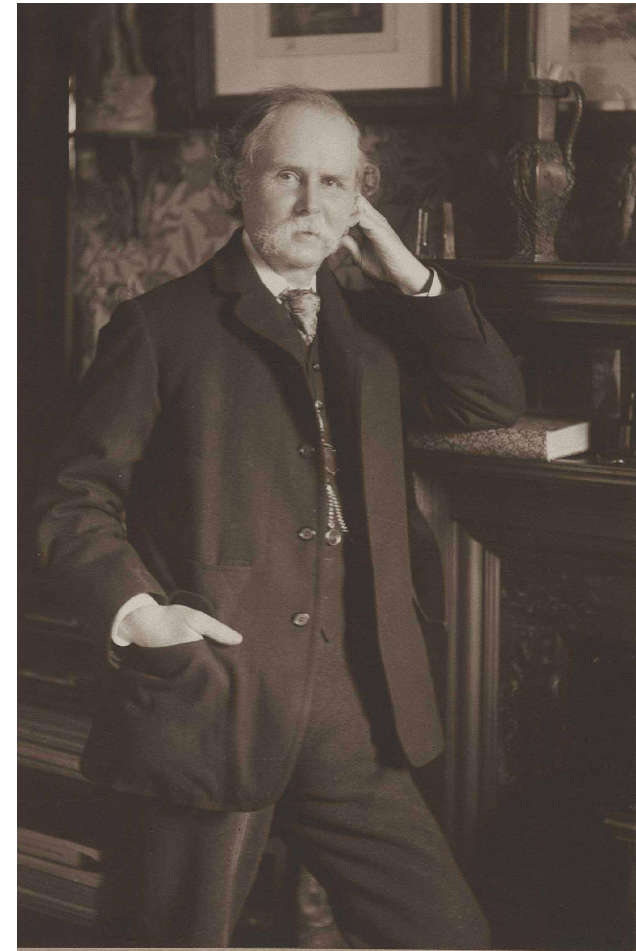
The History of Political Economy

- What we now call “economics” was referred to, in the past, as “political economy”
- Adam Smith’s *Wealth of Nations* in 1776 until at least John Stuart Mill’s *Principles of Political Economy* in 1848
- Belief that Economics and Politics were not separable



Separation of Economics and Politics

- Methodological progress towards more rigorous basis for economic analysis led to a separation between Economics and Political Science
- Economics stressed optimization by consumers and firms and equilibrium in markets. Got away from the analysis of struggles for political power

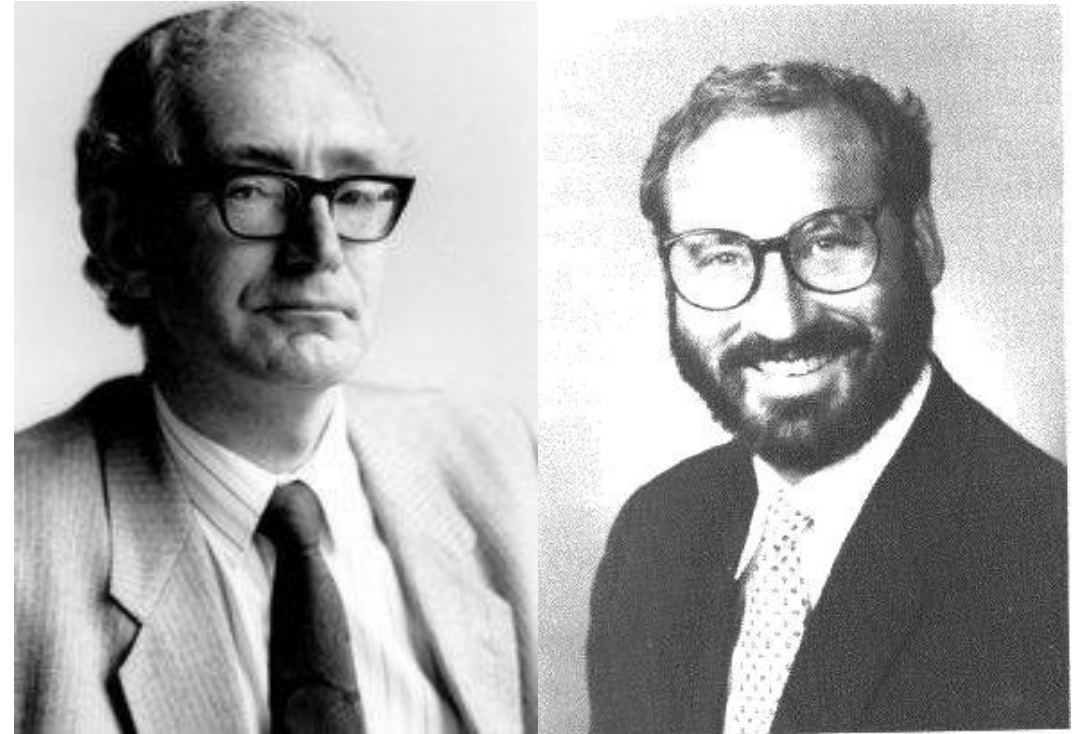


Alfred Marshall 1842-1924

Economic Thinking About Policy

- Until the 1980s, policy economics was dominated by **Welfare Economics** (efficiency versus equity)
- Optimal government intervention based on market failures or redistribution
- **Social welfare function**

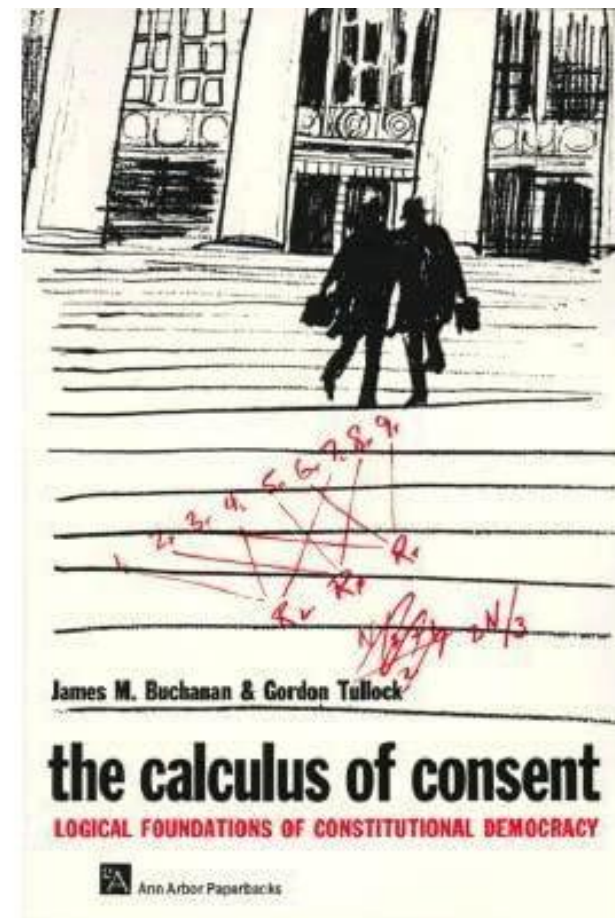
$$SWF(x) = \sum_i^n u_i(x)$$



Atkinson and Stiglitz important contributions in the 1970s

Public Choice

- Welfare economics emphasized market failures and how governments could fix them
- But there are many cases of **government failure** (corruption, policy capture)
- **Public Choice** studied the problems of democratic governance--constitutions and rules constrain self-interest



Buchanan and Tullock 1962

Bad Policies Need Explanations

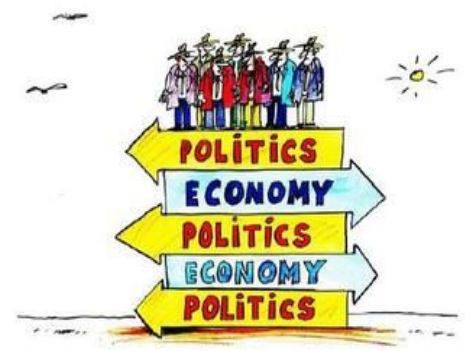
1980s Guido Tabellini, Torsten Persson, Alberto Alesina, and others becoming convinced that “big mistakes” were being made in economic policy:

“We had a very high inflation rate, were accumulating large government debt and going through a financial crisis. Not because the economy was weak, but because policymakers were enacting very bad policies”



Trying to understand why those bad policies were chosen over more efficient alternatives

Political Economics



- **Economics** is the study of the optimal use of scarce resources.
Implicit assumption: once the optimal policy is found, it will be implemented
- **Political economics** begins with the observation that actual policies are quite different from “optimal” policies. **Policy choice that emerges depends on the political process**

Need More Realistic Models...

No representative agent: there is conflict, agents want different things (e.g. poor vs rich)

Frequent elections affect policy making. **Threat of revolution** also affect policy making in autocracies

No benevolent government: corruption, re-election incentives, special interests



Policy making

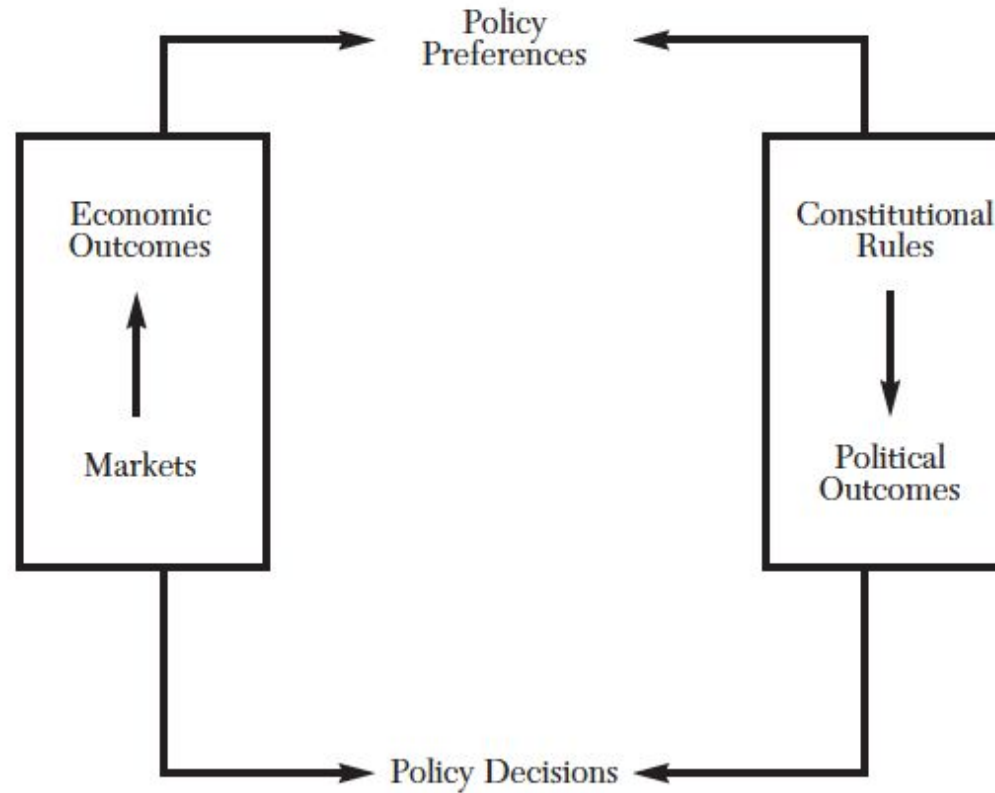


Figure 1: The Policymaking Process (Figure 1.1, page 3)

Source: Persson and Tabellini 2005,
The Economics Effects of Constitutions

Advances in theory

JOURNAL OF ECONOMIC THEORY 14, 180–189 (1977)

Candidates with Policy Preferences: A Dynamic Model

DONALD WITTMAN

University of Chicago, Chicago, Illinois 60637

Received October 23, 1975; revised August 16, 1976

The extensive literature concerned with formal models of political candidate strategies has almost without exception viewed policy as a means to winning.¹ In this paper, I suggest that the reverse is true—that candidates view winning as a means to policy. The paper argues that this perspective is more realistic in its assumptions and more accurate in its predictions. The approach is shown to yield considerable insight into a variety of situations with differing assumptions concerning voters and elections, including a sequential path analysis with no restrictions on the distribution of voter preferences; and a simultaneous presentation of platform positions with certain restrictions on the distribution of preferences.

The path analysis was originally put forward by Downs [3]. The winner in



Regular Article

Optimal Retention in Agency Problems ☆

Jeffrey S. Banks^a, Rangarajan K. Sundaram^b

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Cite

Voter Participation and Strategic Uncertainty

THOMAS R. PALFREY
HOWARD ROSENTHAL
Carnegie-Mellon University

The paradox of not voting is examined in a model where voters have uncertainty about the preferences and costs of other voters. In game-theoretic models of voter participation, equilibrium outcomes can have substantial turnout even when voting costs are high. In contrast, when uncertainty about preferences and costs is present, on or negative net voting costs participate when the electorate is large.

This article provides a unified treatment of two areas of longstanding theoretical attention in political science. The first is the paradox of not voting as addressed by Downs (1957), Tullock (1967), and Riker and Ordeshook (1968). Why does anyone bother to vote, given that voting is presumably costly and that the probability that one's vote will affect the outcome is presumably small? The second area is the role played by uncertainty or the lack of information in affecting political processes.

The second type of model is one in which voters decide whether to vote before they know the preferences of other voters. Because there is no information about other voters' preferences, the decision before the election is a decision about whether to vote in a game-theoretic model is one in which voters decide whether to vote before they know the preferences of other voters. Because there is no information about other voters' preferences, the decision before the election is a decision about whether to vote in a game-theoretic model is one in which voters decide whether to vote before they know the preferences of other voters.

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American Political Science Review

Vol. 87, No. 1 March 1993

A THEORY OF VOTING EQUILIBRIA

ROGER B. MYERSON and ROBERT J. WEBER *Northwestern University*

A voting equilibrium arises when the voters in an electorate, acting in accordance with both their preferences for the candidates and their perceptions of the relative chances of various pairs of candidates being in contention for victory, generate an election result that justifies their perceptions. Voting equilibria always exist, and the set of equilibria can vary substantially with the choice of voting system. We compare equilibria under the plurality rule, approval voting, and the Borda system. We consider a candidate-positioning game and find that the plurality rule imposes little restriction on the position of the winning candidate in three-candidate races, while approval voting leads to a winner positioned at the median of the voter distribution. We contrast campaign activities intended to influence voter preferences with activities meant to influence only perceptions of candidate viability.

Voters in an election typically have not only personal preferences for the various candidates, but also perceptions (influenced by news reports, public opinion polls, and commonly heard talk "on the street") of the candidates' relative chances of winning the election. The behavior of a voter may depend on both. For example, when many candidates are running for the same office under plurality rule, a voter might not vote for the candidate that he most prefers if this candidate is considered unlikely to be in contention for victory.

A voter's honest response to a poll asking his voting intentions might well depend upon perceptions formed from viewing the results of previous polls. Voting intentions may change from day to day as the voters' perceptions evolve during a campaign (even if their preferences remain unchanged), so that a poll, when published, may invalidate itself. A voting equilibrium arises when the perceptions arising from

reports that accompany an extended campaign. (The campaign is, in part, a political *tâtonnement*, or equilibrium-seeking, process.)

Following the terminology of Simon (1954), we say that an election displays a *bandwagon effect* if voters become more inclined to vote for a given candidate as his standing in preelection polls improves. Conversely, it displays an *underdog effect* if the voters become less inclined to vote for a candidate as his standing in the polls improves. The possibility of bandwagon or underdog effects has been recognized and investigated in the received literature on voting. In particular, Simon showed that there can be many different predictions that are self-fulfilling prophecies, especially when there is a bandwagon effect (see also Bowden 1987; Grunberg and Modigliani 1954; McKelvey and Ordeshook 1985).

In most of the literature on elections involving three or more candidates, however, bandwagon and

Endogenous policy formation

Daron Acemoglu and James Robinson on why do countries adopt bad policies

POLITICAL ECONOMY, GOVERNANCE, AND DEVELOPMENT†

Political Losers as a Barrier to Economic Development

By DARON ACEMOGLU AND JAMES A. ROBINSON*

Per capita income in many sub-Saharan African countries, such as Chad and Niger, is less than 1/30th of that of the United States. Most economists and social scientists suspect that this is in part due to institutional failures that stop these societies from adopting the best technologies. A particularly interesting historical example comes from the diffusion of railways in the 19th century. While railways are regarded as a key technology driving the Industrial Revolution, there were large lags in their diffusion. For example, in 1850 the United States had 14,518 km of track, Britain 9,797 km, and Germany 5,856 km; in the Russian and Hapsburg empires there were just 501 km and 1,357 km, respectively (all data from Brian R. Mitchell [1993]). Why do societies, as in this example, fail to adopt the best available technologies?

ideas are widely discussed in the literature on international trade policy with many formal models (e.g., Gene M. Grossman and Elhanan Helpman, 1994).

There are problems with this story, however. First, despite the intuitive appeal of the story, there are relatively few instances where economic change was blocked by economic losers. Mokyr (1990) emphasizes the attempt by many skilled artisans to block the introduction of new machines. The most famous example is the Luddites, skilled weavers who were thrown out of work by mechanization. Interestingly, however, many of these groups, including the Luddites, were ultimately unable to block economic progress. Equally important, the economic-losers hypothesis relies on the assumption that certain groups have the political power to block innovation. But if so, why

WHY DID THE WEST EXTEND THE FRANCHISE? DEMOCRACY, INEQUALITY, AND GROWTH IN HISTORICAL PERSPECTIVE*

DARON ACEMOGLU AND JAMES A. ROBINSON

During the nineteenth century most Western societies extended voting rights, a decision that led to unprecedented redistributive programs. We argue that these political reforms can be viewed as strategic decisions by the political elite to prevent widespread social unrest and revolution. Political transition, rather than redistribution under existing political institutions, occurs because current transfers do not ensure future transfers, while the extension of the franchise changes future political equilibria and acts as a commitment to redistribution. Our theory also offers a novel explanation for the Kuznets curve in many Western economies during this period, with the fall in inequality following redistribution due to democratization.



Theories of “Bad Policy”

James A. Robinson

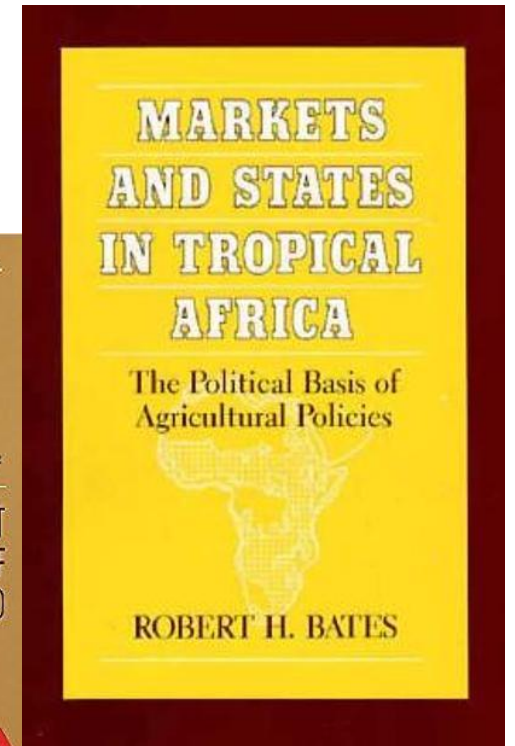
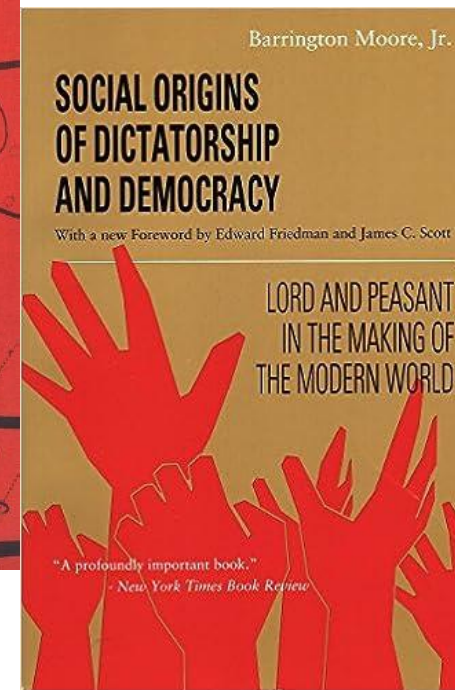
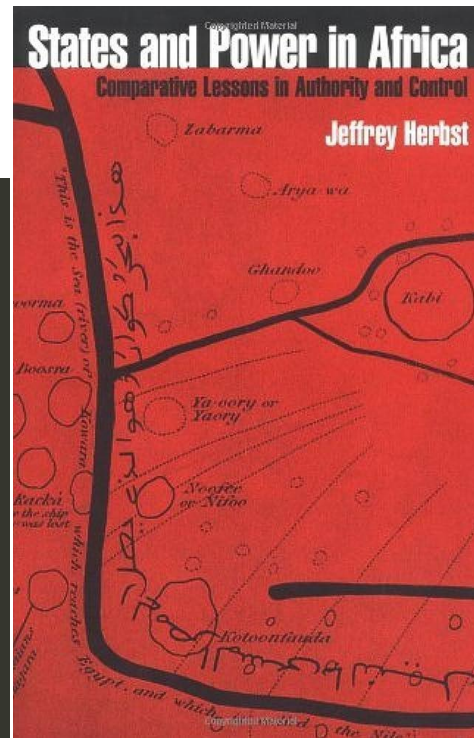
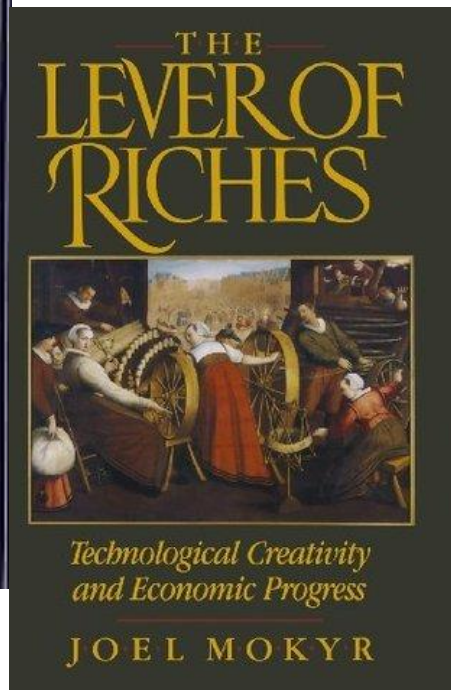
University of Southern California

Received June 1995; Revised December 1996; In final form June 1997

cent growth theory fails to provide a convincing account of underdevelopment terms of economic “fundamentals”. As a result, many accounts cite “bad” government policy (including the failure to support appropriate institutions) as a causal factor behind stagnation. Yet this perspective is hard to understand from the viewpoint of welfare economics. This paper studies theories of endogenous policy which can possibly account for such bad policy. I stress three (interrelated) general intuitions about the causes of bad policy which apply, irrespective of the type of political regime: (1) inability to use transfers to separate efficiency and distribution, (2) inability to commit, (3) the close connection between development and changes in the distribution of political power. I particularly stress the ability (or inability) of these theories to explain cross country differences.

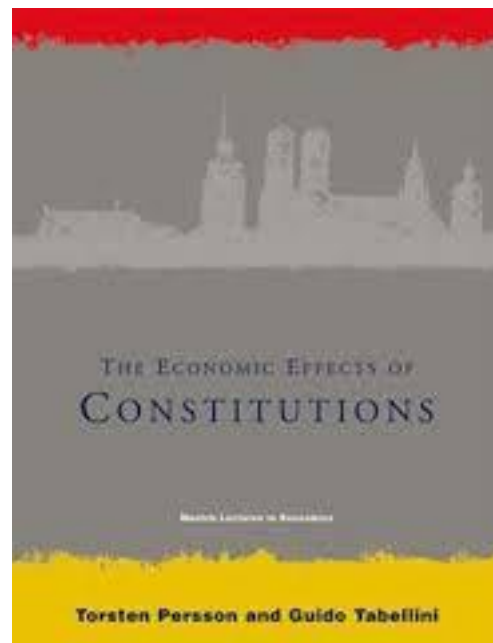
Interdisciplinary perspective

Interdisciplinary influence from history, economic history, political science and sociology



Political Economics

- 1990
- 2000
- 2005
- 2011



Chapter 6

INSTITUTIONS AS A FUNDAMENTAL CAUSE OF LONG-RUN GROWTH

DARON ACEMOGLU

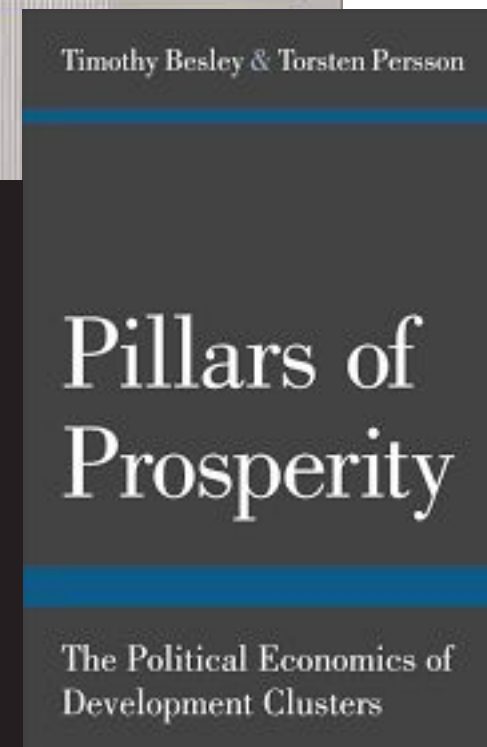
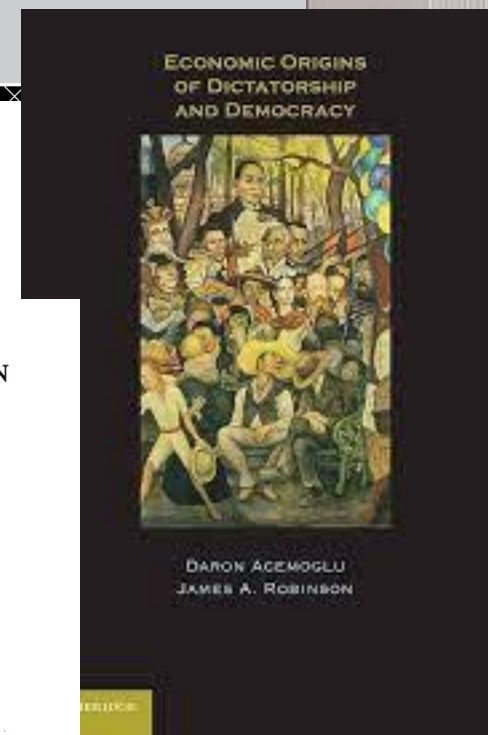
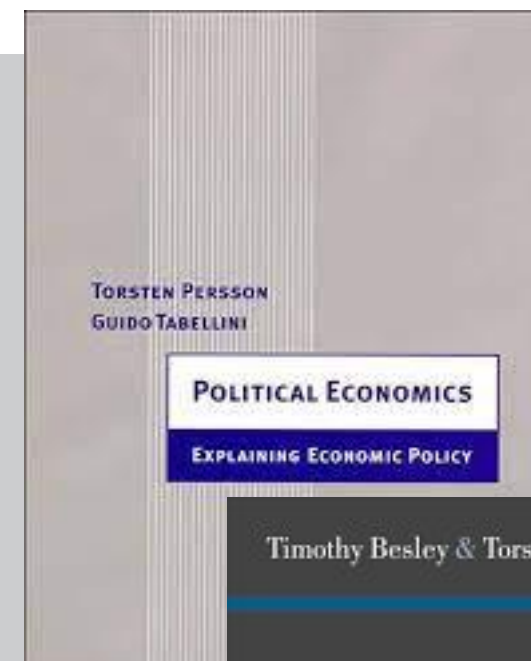
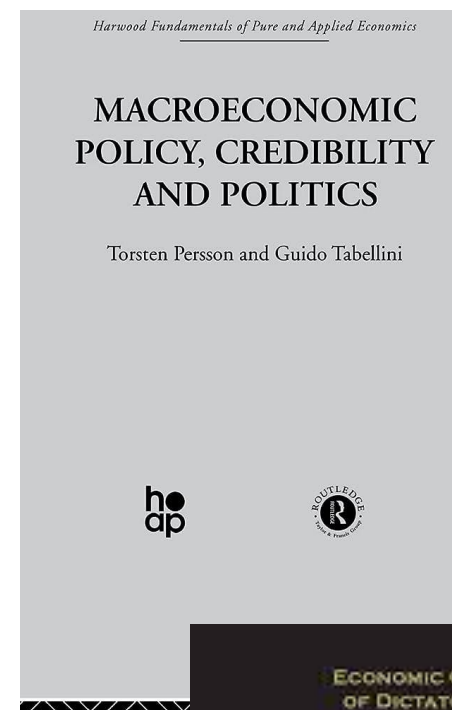
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Why are some countries rich and others poor?

SWEDEN

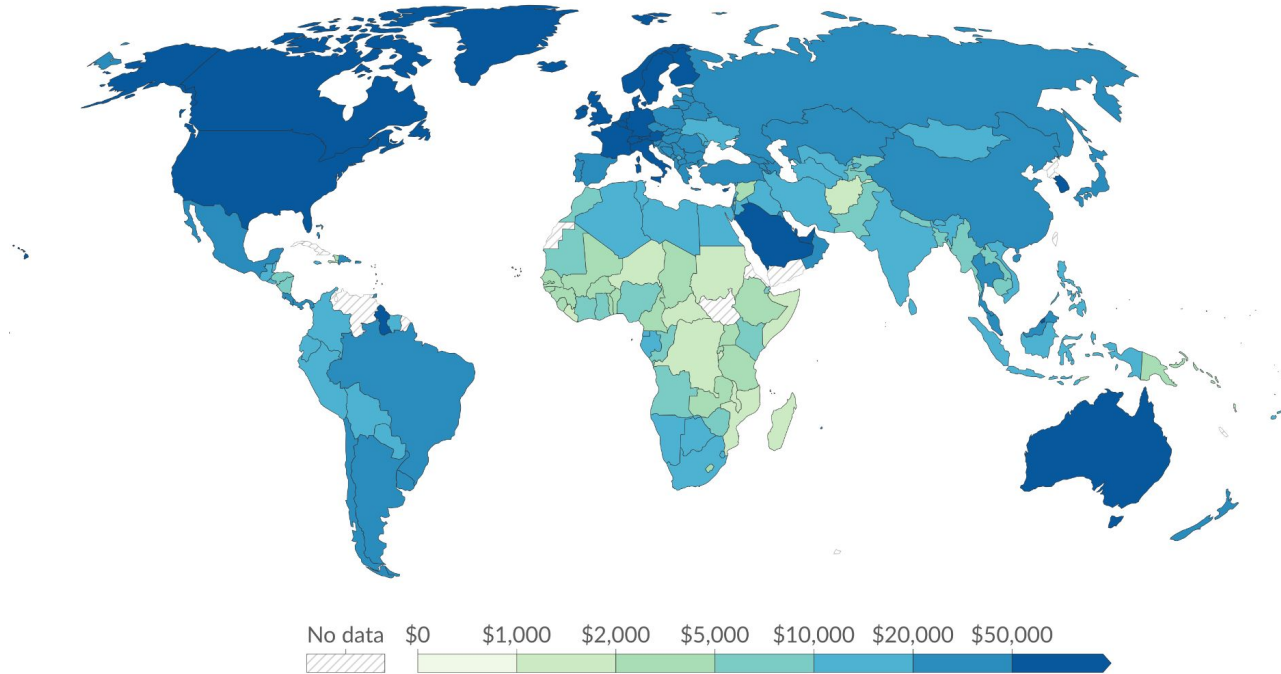
\$63,362

GDP per capita (2025)

MALAWI

\$1,623

GDP per capita (2025)



Data source: Eurostat, OECD, IMF, and World Bank (2026)

OurWorldinData.org/economic-growth | CC BY

Note: This data is expressed in international-\$² at 2021 prices. Where data for 2025 is unavailable, the value from the closest year between 2020 and 2024 is shown instead.

1. Gross domestic product Gross domestic product (GDP) is a measure of a country's economic performance. It represents the total monetary value of all final goods and services produced within its borders over a specific time period, typically annually or quarterly. GDP includes consumption, government spending, investments, and net exports (exports minus imports). It can be measured in current prices (nominal GDP) or adjusted for inflation to reflect GDP in constant prices (real GDP).

GDP is used to gauge the health of an economy, with increases indicating growth and decreases signaling contraction. Policymakers, economists, and analysts use GDP to make informed decisions, track economic trends, and make comparisons between countries.

2. International dollars International dollars are a hypothetical currency that is used to make meaningful comparisons of monetary indicators of living

Why are some countries rich and others poor?

The factors we have listed (innovation, economies of scale, education, capital accumulation, etc.) are not causes of growth; they are growth.

– North and Thomas (1973)

Traditional View

Proximate Causes

Until the 1990s, economists emphasized the accumulation of factors of production:

- Capital & labor accumulation (*Harrod-Domar model*)
- Exogenous technological change (*Solow model*)

The Modern Shift

Fundamental Causes

But factor accumulation and technology are only proximate causes of growth.

We must understand the **fundamental** causes that drive these visual decisions across societies.

What's a fundamental cause?

01. THE SYMPTOMS

Why is Chad poor?

Little physical capital, little human capital, low productivity. These are **proximate causes** (simply restating what being poor consists of).

02. THE INCENTIVE

Why so little capital & school?

Because the returns to accumulation and education are low.

03. THE ROOT

Why are the returns low?

The answer to this deeper question points directly to a **fundamental cause**.

DEFINITION

A fundamental cause is a feature of the environment that people take as given when they decide to save, invest, educate and innovate — it is not one of those decisions — and that differs across societies.

Four Potential Fundamental Causes

01. GEOGRAPHY

Physical Environment

Climate, disease burden, soil quality, and access to sea routes.

02. LUCK

Historical Accidents

Random historical events or turns of fortune that diverge paths.

03. CULTURE

Values & Beliefs

Shared preferences, social norms, trust, and religious values.

04. Institutions

The formal and informal rules of the game shaping human interaction.

WHY INSTITUTIONS MATTER

Institutions are the one a society can **change deliberately**. That is what makes them interesting — and it is why we need a theory of who chooses them and why.

What are Institutions?

*“Institutions are the rules of the game in a society or, more formally, are the **humanly devised constraints** that **shape** human interaction.”*

— Douglass North

Key Takeaways

01

Human Devised

Created and developed by societies, not natural occurrences.

02

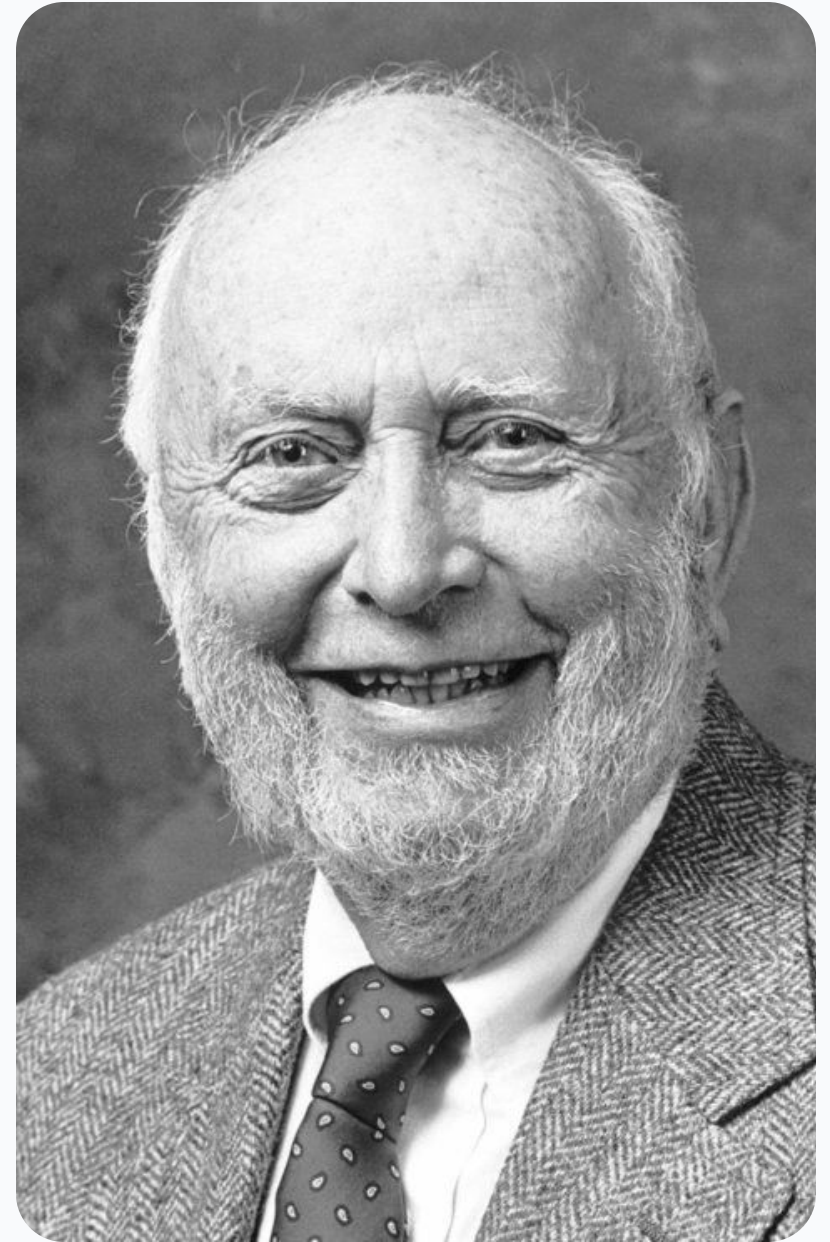
Set Constraints

Define the boundaries and rules that structure behaviors.

03

Shape Incentives

Directly influence human choices and interactions.



Types of Institutions

Useful to distinguish between two classes of institutions

Economic Institutions

Examples

Property rights, entry barriers

Key Role

Shapes economic incentives, contracting possibilities, and distribution.

Political Institutions

Examples

Form of government, constraints on politicians

Key Role

Shapes political incentives and the distribution of political power.

Institutions vary around the world

Economic Institutions

Protection against expropriation risk. Higher indices indicate stronger property rights protection and lower likelihood of state seizure.

GLOBAL PROPERTY RIGHTS AND EXPROPRIATION RISK VARIATION (2024)

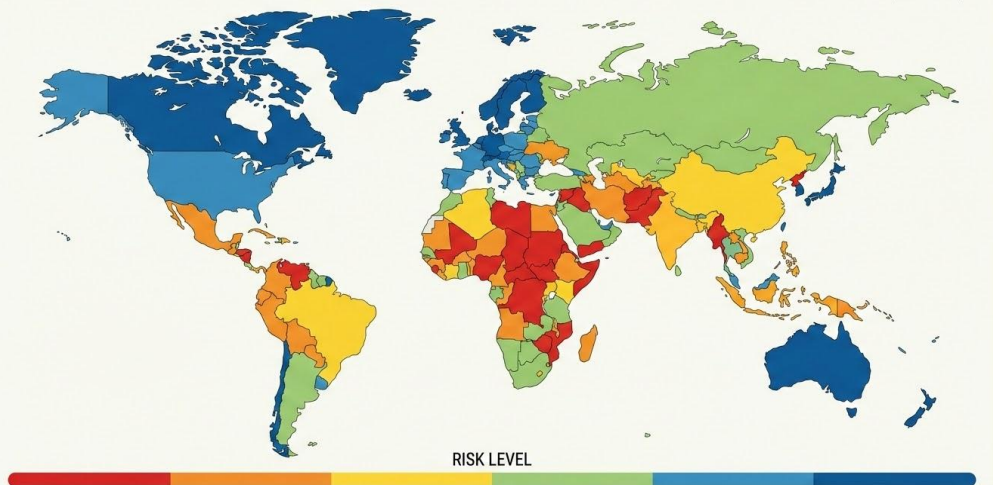


Figure 1: Global distribution of Protection Against Expropriation Risk

Political Institutions

Constraints on the executive. Higher ratings represent robust institutionalized checks and balances limiting the arbitrary power of leaders.

GLOBAL EXECUTIVE CONSTRAINTS & DEMOCRACY INDEX LEVELS

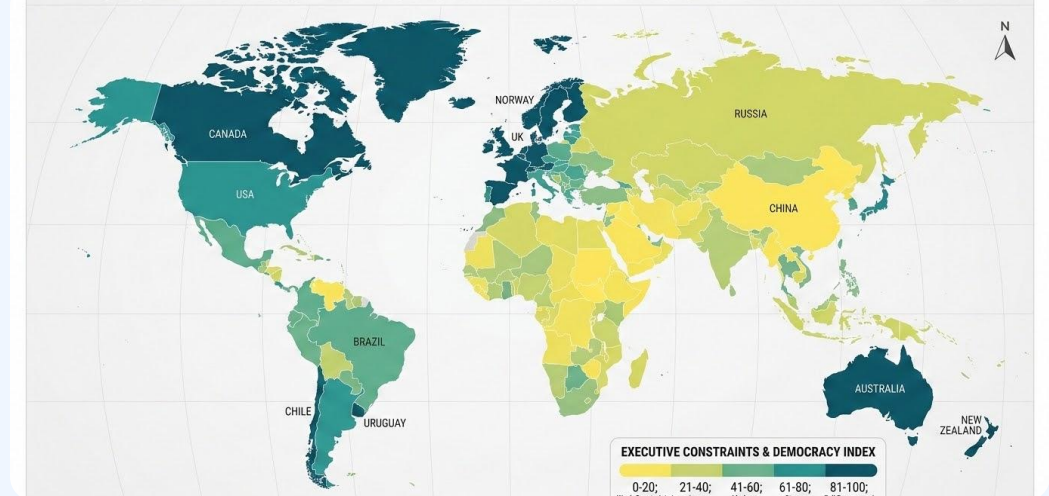


Figure 2: Global distribution of Institutional Constraints on the Executive

**Why do societies choose different
institutions?**

Efficient Institutions

- Institutions evolve in response to changes in the economic environment so as to reduce transaction costs or internalize externalities, thereby increasing total surplus.
 - **Ghana's cocoa boom:** As cocoa production expanded in the early 20th century, land that had traditionally been held under communal tenure became far more valuable. Cocoa farmers began acquiring increasingly individualized and transferable rights to land.
 - Because cocoa trees require long-term investment, stronger individual rights helped protect farmers' returns and reduced disputes over who could use the land—so rising returns to investment created demand for more clearly defined property rights.
- Institutions vary across countries because have different underlying characteristics

Efficient Institutions

- Although, everything else equal, there would be a tendency to adopt efficient institutions, everything else far from equal in practice.
- Every set of institutions creates different losers and beneficiaries. Efficient institutions require either the losers to be compensated or the beneficiaries to impose their choice.
- In practice, losers generally not compensated ex post, and often can be powerful enough to block institutional change that is beneficial in the aggregate.
 - Landed elites may want to block mass education
- Empirically, efficient institutions view cannot help us understand why some societies adopt institutions that were disastrous for economic growth.

Ideology/Beliefs view

- Institutions differ because people have different beliefs about what is best for society
- For example, policymakers may genuinely believe that state ownership and central planning are superior to markets, so they create institutions built around public ownership, price controls, and planning (e.g., North Korea)
- Where do different beliefs come from? This is linked to cultural origins of institutions

Ideology/Beliefs view

- Beliefs across societies differ, and existing regimes remain in place by gaining some degree of approval (role of media and propaganda)
- But many empirical patterns cannot be explained by ideology
- For example, broadly similar European colonizers established very different institutions across colonies depending on local conditions—extractive institutions where Europeans faced high mortality and settlement institutions where they could settle.

Incidental View/Luck

- Institutions may emerge as the unintended consequence of actions taken for other purposes, rather than because economic agents deliberately choose an institutional arrangement.
- **State building in Europe:** fiscal capacity, bureaucracies, and representative institutions developed partly because rulers needed to raise revenue and mobilize resources for war.
- **Colonial transplantation:** European powers brought their own legal and administrative institutions to colonies; these institutional differences often persisted long after independence and continue to shape outcomes today.

Incidental View/Luck

- History: ample evidence that institutional choices persist.
- But they are also choices, not simply dictated by history.
- Need to understand why institutions persist, and why, and how, they change.

Social Conflict view

- Institutions emerge from economic agents' choices, not necessarily efficient
- Each set of institutions creates beneficiaries and losers; certain groups obtain high incomes, rents and privileges.
- Thus distributional implications from institutional choices.
- Preferences over institutions determined by their distributional implications. For example, a monopolist would be opposed to a reduction in entry barriers even if these increase aggregate income.

Four Theories of Institutions

Efficient Institutions

Institutions evolve to maximize aggregate surplus by reducing transaction costs or solving collective-action problems.

Beliefs / Ideology

Institutions reflect what leaders or citizens believe is legitimate, desirable, or effective—even when those beliefs are mistaken.

Luck / Accident

Institutions can be persistent by-products of contingent events, colonization, war, or initial conditions rather than deliberate design.

Social Conflict

Institutions are chosen by groups with political power, who may prefer arrangements that protect their rents over those that maximize output.

Social Conflict View

Core Premise

Institutions are chosen for their **economic consequences**.

Economic institutions shape incentives and determine the distribution of resources, while taking account of their distributional implications.

The Conflict

How does society make decisions in conflictual situations when there is no agreement on what should be done?

Political Power

The power to impose or secure social choices against the wishes of other groups.

Determines Choices

Political Power → Social Choices

Shapes Framework

Political Power → Economic Institutions

Key Questions

Q1

Origin of Power

Where does political power come from?

Q2

Role of Institutions

What about political institutions?

Political Power

1. De Jure Power

Formal Political Power

Allocated directly by political institutions and formal rules of the state.

2. De Facto Power

Actual/Physical Power

Determined by economic wealth, resources, or military/physical capacity to enforce outcomes.

The overall distribution of political power in society is determined by the combined distribution and interplay of **de facto** and **de jure** political power.

Political Power & Institutional Persistence

1. De Jure Power

Persistent & Institutional

Political institutions are inherently persistent, meaning that formally allocated (de jure) power remains stable and durable over time.

2. De Facto Power

Transient & Strategic

De facto power is transient and highly subject to change. Its durability depends entirely on how it is leveraged:

Economic Changes: If used only for immediate economic gains, the changes are easily reversed when de facto power shifts.

Political Changes: If leveraged to alter political institutions, a group can secure much more durable gains.

Strategic Incentive: There is an inherent incentive to use temporary de facto power to reshape political institutions to regulate future de jure power.

Institutional Persistence

The interplay between economic institutions and political power reinforces and perpetuates existing systems over time.

1. Political Power

Determines structure of:

Economic Institutions

Those holding political power design the rules of the economic game to suit their strategic interests.

2. Economic Rules

Shape the allocation of:

Distribution of Resources

These institutions directly dictate how wealth, physical capital, and social resources are distributed.

3. Resource Wealth

Generates powerful:

De Facto Political Power

Economic wealth translates into de facto influence, allowing elites to defend and maintain the system.

A **non-level playing field** in the economy favors those with political power, which in turn increases their political power further, creating a self-reinforcing loop.

A Theory of Institutions

Acemoglu and Robinson (2005)

1. Social Conflict

Inequality & Prosperity

Economic institutions are essential for prosperity, but they benefit different groups unequally, generating constant social conflict.

2. Political Power

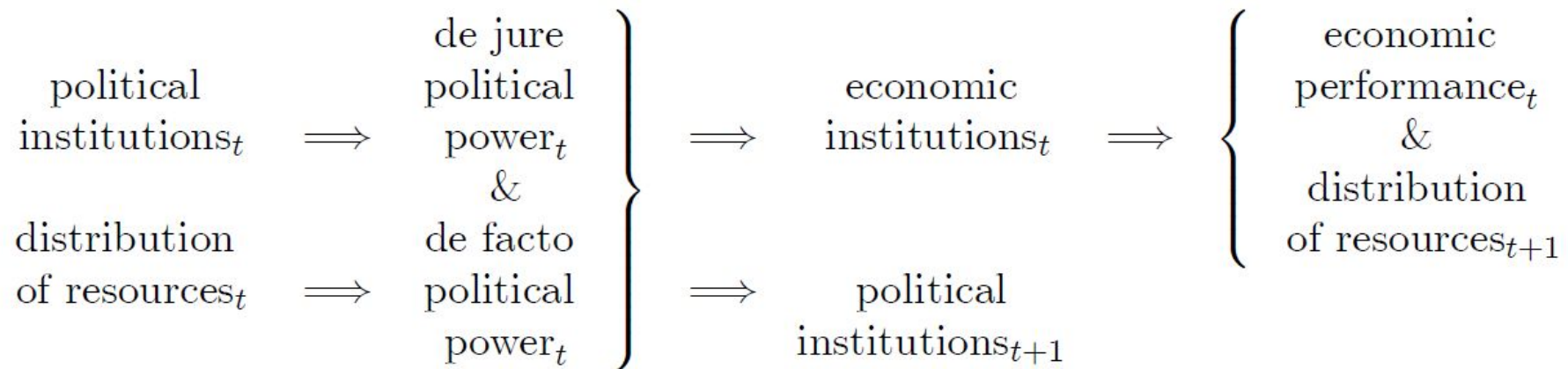
Shaping the Rules

Those holding political power design institutions. Better institutions emerge when they align with the interests of those in power.

3. Persistence

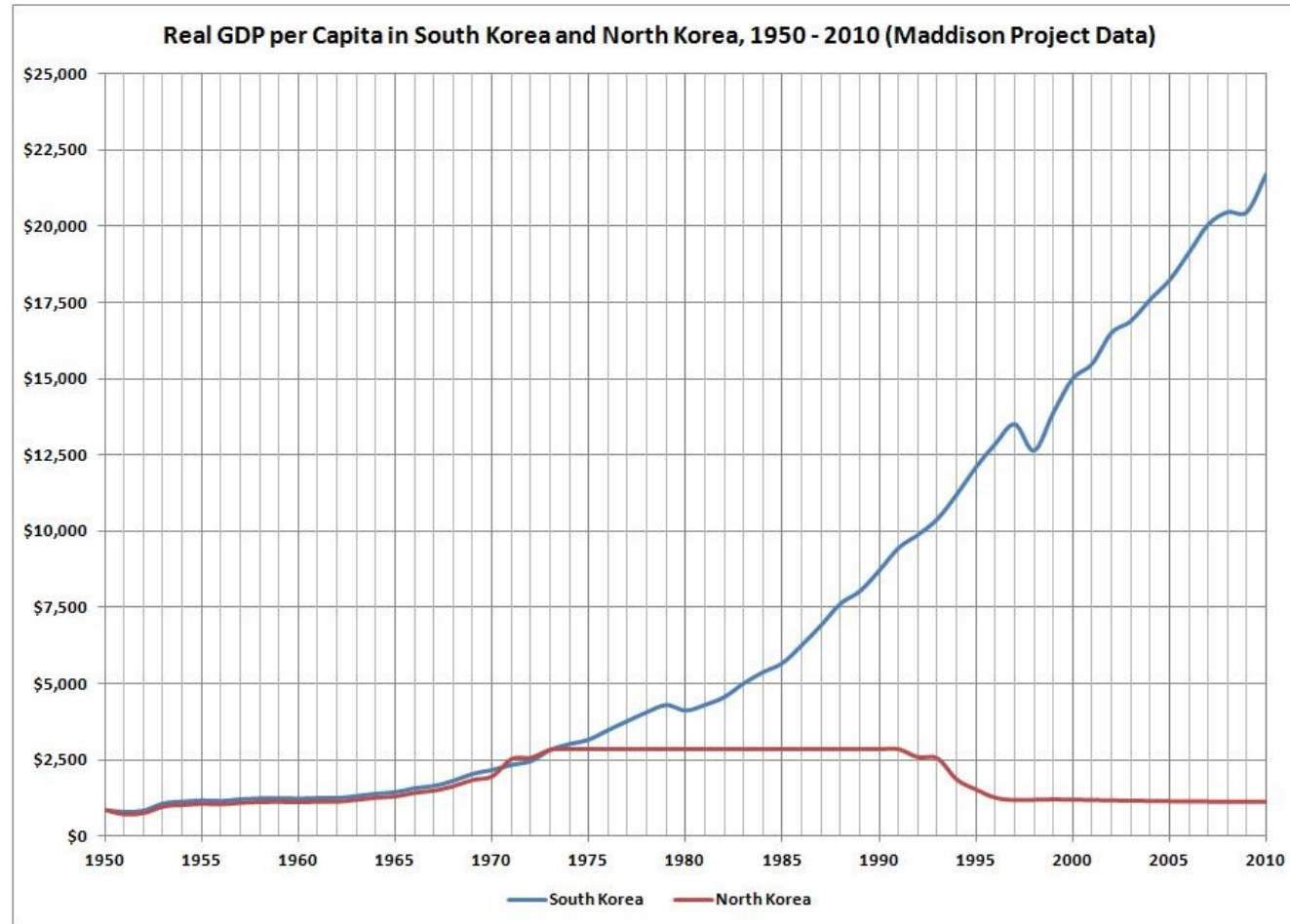
Self-Reinforcing Loops

De jure and de facto political power interact dynamically with economic institutions, creating a self-reinforcing source of persistence.



How do we know if institutions really matter?

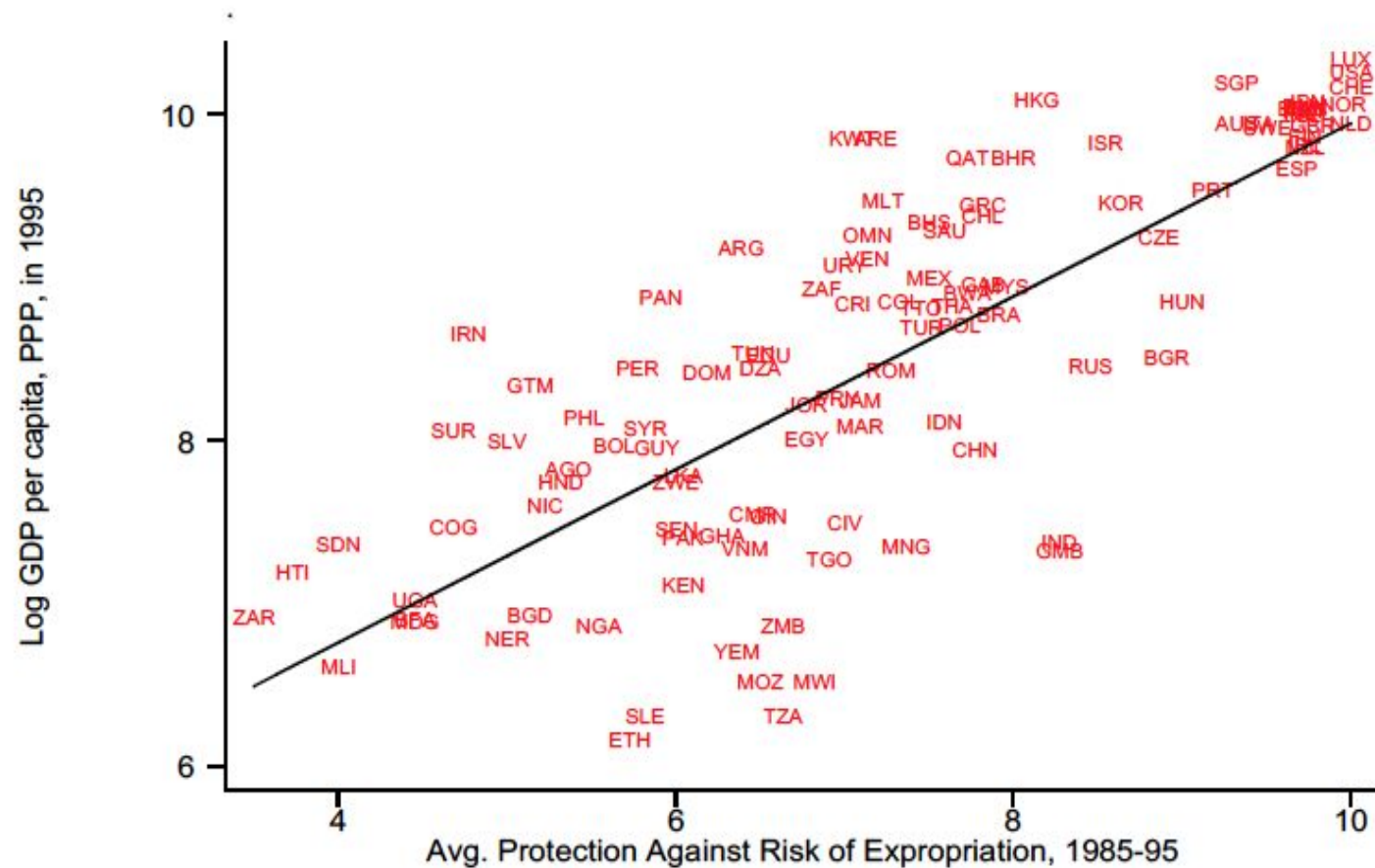
Institutions and growth



Night Light Density -- Korea

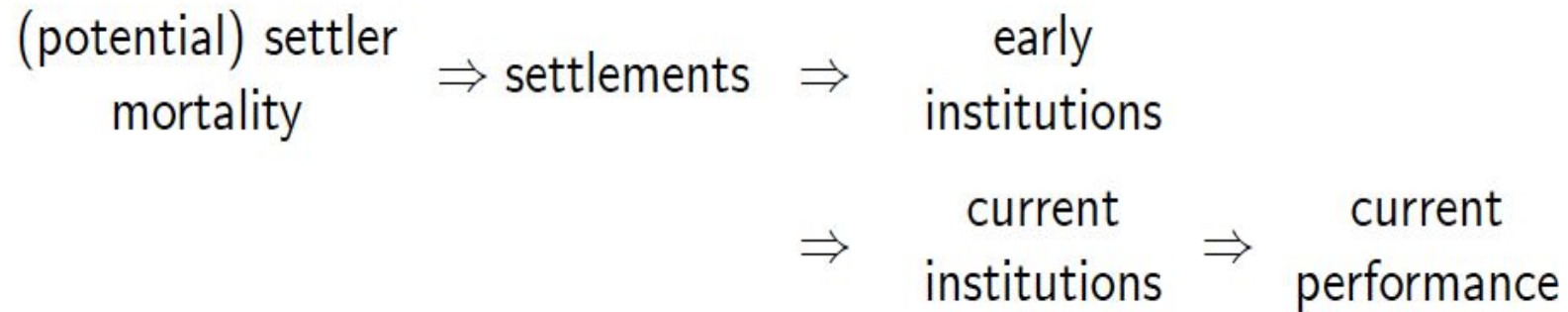


Economic institutions and economic performance



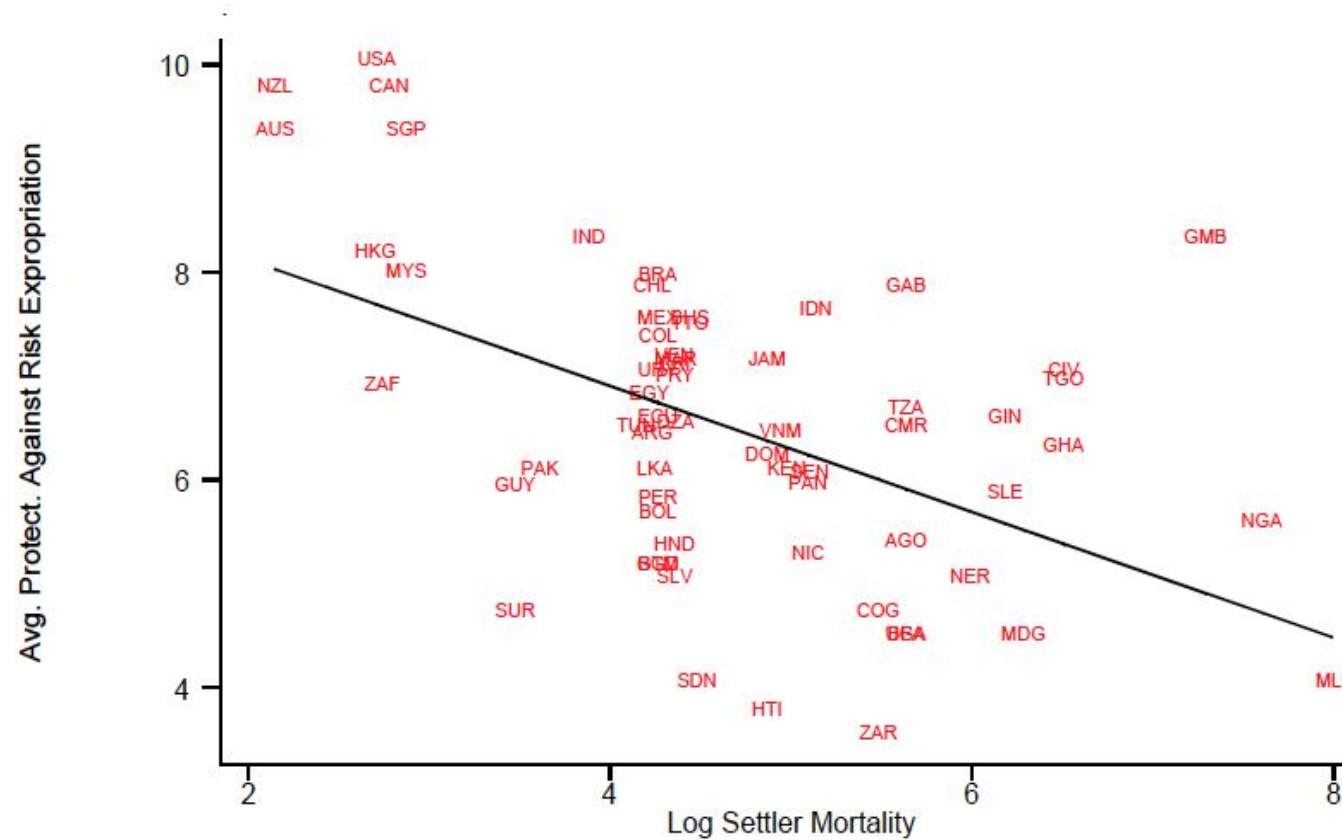
**But do better property rights
cause higher income or
countries that are richer can
enforce better property rights?**

Settler mortality and extractive institutions (AJR 2001)



- High mortality, incentives for short-term and extractive institutions

Settler mortality and extractive institutions (Acemoglu, Johnstone, Robinson 2001)



IV regressions

Second Stage Regressions:
Dependent variable is log GDP per capita in 1995

	All former colonies	All former colonies	All former colonies	Without neo-Europes
Protection Against Risk of Expropriation, 1985-95	0.99 (0.17)	1.11 (0.26)	1.19 (0.39)	1.43 (0.45)
Latitude		-1.61 (1.57)		
Continent Dummies (p-value)			[0.09]	
Number of Observations	63	63	63	59

- Higher risk of expropriation (**instrumented**), lower GDP per capita today

Some micro evidence: insecure property rights in Ghana 1

Over 60 percent of the Ghanaian population is in the agricultural sector, and land distribution is mostly governed by customary law

Title over land depends on lineage, and individuals gain access to land via membership of specific groups

Why does it matter? Goldstein and Udry (2005) show that insecurity of land tenure is associated with lower investment in land and lower profits

Some micro evidence: insecure property rights in Ghana 2

Individuals who hold political office end up having more secure property rights on their own land

Conditional on observed characteristics of the plot, officeholders leave plots fallow for approximately 2 years longer than non-officeholders

System is inefficient with cost of inefficiency mainly borne by those not holding political office (Pande and Udry 2005). Why does it persist?

Some micro evidence: insecure property rights in Ghana 3

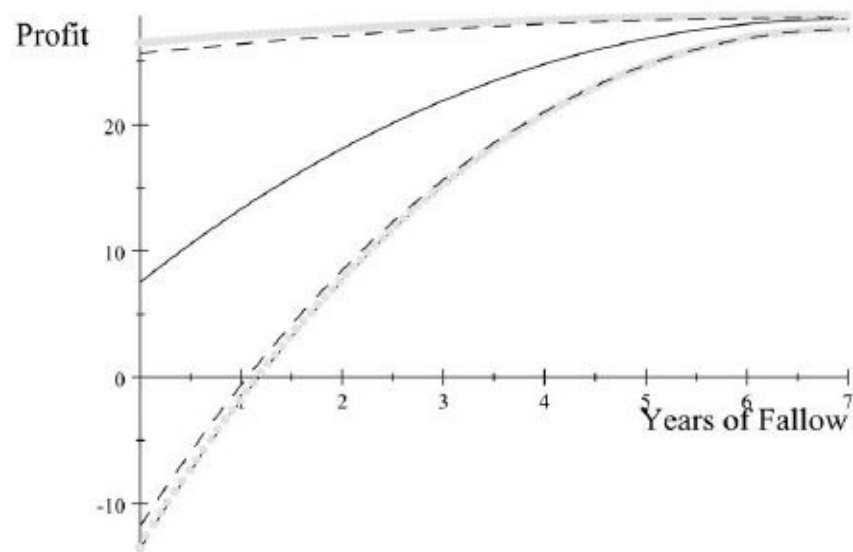


FIG. 2.—Nonlinear IV estimate of the profit function. Central line: $g(\hat{a}, \hat{b})$, where $(\hat{a}, \hat{b})$ are point estimates from nonlinear IV estimates of the profit function. Outer band: 90 percent confidence interval for $\hat{a}$ and corresponding values of $\hat{b}$. Inner band: 90 percent confidence interval for $\hat{b}$ and corresponding values of $\hat{a}$. Confidence intervals are taken from 1,000 block-bootstrap iterations, with blocks defined by household-year groups.

TABLE 6
FALLOW, WEALTH, AND LAND OWNED

	OLS DV: Wealth (× 1,000 Cedis) (1)	IV DV: Fallow Duration (2)	OLS DV: Fallow Duration (3)
Wealth (× 1,000 cedis)*		-.001 (.001)	
Gender: 1 = woman	32 (107)	-.01 (.20)	-.27 (.23)
Area on other plots (hectares)			-.16 (.07)
1 if first of family in town	145 (89)	.06 (.32)	.22 (.28)
Years family/respondent lived in village	8 (1)	.01 (.01)	.01 (.00)
1 if respondent holds traditional office	497 (174)	2.35 (.56)	2.01 (.36)

From institutions to comparative economic development

- **To this point:** institutions help explain why some countries are rich and others are poor (e.g., Acemoglu, Johnson, Robinson, 2001; Dell 2010).
- This observation provides the basis for much of the modern research in political economy and economic development.
- Governments protect property rights, correct market failures, raise revenue, and provide public services.
- **Addressing development challenges requires understanding *why* institutions succeed or fail.**

Developments since 2000 (part 1)

1. Where do contemporary institutions come from?

Why do elites extend the franchise to non-elites? Does the influence of geography, factor endowments, and major historical events persist in modern institutions?

Acemoglu and **Robinson** (2000, 2005); Alesina et al. (2003); Lizzeri and Persico (2004); Acemoglu, Johnson, and **Robinson** (2005); Banerjee and Iyer (2005); **Nunn** (2008); Dell (2010); **Nunn** and Wantchekon (2011); Alesina, Giuliano, and **Nunn** (2013)

2. How do effective institutions work and change?

How do democratic institutions select and discipline politicians? How do powerful groups capture and distort political power? Why do states acquire the capability to perform their essential functions?

Besley (2006); Dal Bo, Dal Bo, and di Tella (2006); Padro-i-Miquel (2007); **Besley** and Persson (2009, 2010, 2011); Esteban and Ray (2011)

Developments since 2000 (part 2)

3. Tests of predictions, reforms, and innovations

Are corrupt politicians voted out? Do franchise extensions improve policy? Do policies that provide representation to marginalized groups change behavior? Can micro interventions shift political behavior at scale?

Besley and Burgess (2002, 2004); **Pande** (2003); Chattopadhyay and Duflo (2004); Olken (2007); **Ferraz** and **Finan** (2008, 2011); Beaman et al. (2009); **Casey**, Glennerster, and Miguel (2012); Dal Bo, **Finan**, and Rossi (2013); **Callen** and Long (2015); Fujiwara (2015); Dal Bo et al. (2017); **Blattman**, Jamison, and Sheridan (2017); **Khan**, **Khwaja**, and Olken (2015, 2019); Bidwell, **Casey**, and Glennerster (2020); **Casey**, Kamara, and Meriggi (2021).

4. Other political forces shaping development

What drives violent conflict? What are the legacies of conflict for political and economic development? What is the role of non-state actors in governance? How does media (including social media) shape accountability? Political accountability and economic development in non-democratic regimes.

Collier and Hoeffler (2004); Miguel, Satyananath, and Sergenti (2004); **Blattman** (2009); Berman, Felter, and Shapiro (2009); **Dube** and Vargas (2013); **Enikolopov**, **Petrova**, Zhuravskaya (2011; 2020); Cantoni et al., (2017); Cantoni et al. (2019); Chen and **Yang** (2019); Beraja, Kao, Yang, and **Yuchtman** (2023).

Institutions and development

- Acemoglu and Robinson (2012) - We need to understand “how institutions are determined and change over time, and how they fail to change even when they create poverty and misery for millions.”
- Pande and Page (2018) - “To end extreme poverty sustainably and as quickly as possible, the state’s governing the world’s poor need to be strengthened such that they are both accountable to the needs of the poor and have the capacity to meet those needs. The international community should recalibrate the allocation of resources to increase accountability and state capacity.”

(Some) defining features of this work

- Clear theory of institutions. For empirical work, clear motivation from theory and a focus on credible causal identification
- Knowledge of institutions in context. Innovations and interventions built within institutions.
- Rich measurement
- Focus on development consequences

Example: Fujiwara (2015)

- Despite universal suffrage, complex ballot papers effectively disenfranchised less educated citizens
- Around 23% of adults were illiterate.
- Paper ballots required voters to write a candidate's name or number.
- Poorer and less-educated citizens were much more likely to cast invalid votes.

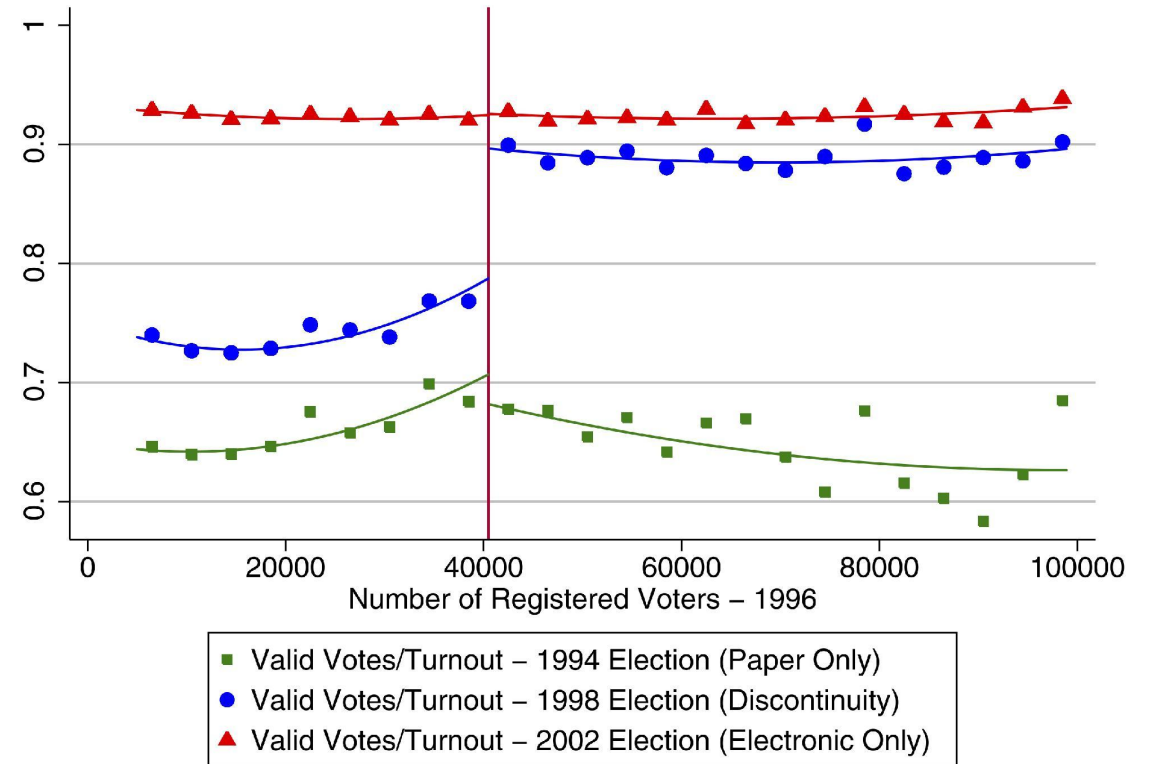
Did simpler voting technology increase effective political participation?



Voting for (fictional) candidate number 92111 (name: Monteiro Lobato, party: PLT)

Fujiwara identifies effective enfranchisement

- In 1998, electronic voting was introduced only in municipalities above a registered-voter threshold.
- Municipalities immediately above and below the threshold were otherwise comparable.
- Electronic voting sharply increased valid votes.
- The increase was concentrated among less-educated voters.



Effective enfranchisement changed policy and health

- More valid votes among poorer and less-educated citizens
- Greater electoral success for left-wing parties
- **Health spending:** +3.4 percentage points (34%)
- **At least seven prenatal visits:** +7 percentage points (19%)
- **Low-weight births:** −0.5 percentage points (6.8%)

Voting technology → de facto enfranchisement → better policy → improvements in health

Conclusion

- Political economy explains how power, accountability, and state capacity shape development—and why governments succeed or fail in addressing major social and economic problems.
- Especially during the last 25 years, the field has brought new theories, data, ambitious field experiments, and causal evidence on these questions.
- In the remaining lectures, the course will provide comprehensive introduction to how the field has developed, impacted economics more broadly, and identify the frontier.