

IPEC 322: Economic Reforms and Corruption

Tuesdays 8:15-10:05 PM, ICC 212

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Content and Purpose

This topic course in political economy is focused on two sets of literature; the economic literature on political economy of economic reforms, and the literature on corruption. The purpose of the course is to offer you an overview over the findings in these two fields, but also to give you some training in economic methodology. The examination is in the form of two written term papers, so it also serves the purpose of giving you some practice in how to write, which will be useful when you write your senior thesis your last semester. The first part of the course covers the literature on the political economy of economic reforms, dealing with political reasons for why socially beneficial reforms are delayed or simply not implemented. Students should be aware of that this part of the course focuses on formal economic modeling, so an interest in the formal side of economics is recommendable. In the second part of the course we learn about corruption. The focus here is on the empirical part of the literature, which tries to understand what causes corruption, and what the consequences of corruption are. In terms of methodology this part gives us an opportunity to practice our skills in applied econometrics.

Prerequisites

Required courses are Econ 101 (microeconomic theory) and EconStat, and if you have not taken PECO 201 (Introduction to Political Economy) you need my approval. I presume that you are familiar with static optimization problems and basic game theory. Some knowledge of basic econometrics is also a plus.

Grading

Grades are determined as follows. 1) The requirement for the reform part is a paper (about 10-15 pages) in which a case study of reform(s) is analyzed economically and politically. As part of this, everybody will give a short presentation (10 minutes including feedback) of an initial proposal. The final paper accounts for 35 % of the total grade and the proposal presentation accounts for 10 %. 2) The requirement for the corruption part is similar, this time with a study of the causes or consequences of corruption (case study or comparative case study). Once again, the paper accounts for 35 % of the total grade and the proposal presentation accounts for 10 %. 3) Class room participation counts for 10 % of the final grade. Note that you need to start thinking about the topic for your first paper as soon as possible!!! Also, deadlines are strict, failures to hand in papers in time leads to reductions in the grade.

Course schedule and required reading

The required textbooks listed below can be purchased at Amazon for instance.

- Drazen, Allan (2000), *Political Economy in Macroeconomics*, Princeton University Press.
- Peter Kennedy (2003), *A Guide to Econometrics*, MIT Press.

Additional reading consists of journal articles and shorter sections of books. These are available on the web whenever a web-address is specified. Otherwise they will be available as electronic reserves at the library. The current reading list may be subject to some minor change during the time of the course. Papers with an (*) ahead of them are technical. Focus on the intuition behind the authors' arguments and don't worry if you cannot follow the math. I have only specified readings that I will actually discuss. There is of course a lot of additional literature out there for those who are interested.

September 4: A short introduction to the course and to the political economy of economic reforms literature.

- Rodrik, Dani (1996), "Understanding Economic Policy Reform", *Journal of Economic Literature*. Available at www.jstor.org.
- Drazen, Allan (2000), *Political Economy in Macroeconomics*, pp. 403-410, 617-19.

September 11: Methodology: A review of some basic theory and econometrics.

- Peter Kennedy (2003), *A Guide to Econometrics*, MIT Press. Chapters 1-4 (in particular).

September 18: Political and economic losers.

- Acemoglu, Daron and James Robinson (2000), "Political losers as a barrier to economic reform", *American Economic Review*. Available at http://econ-www.mit.edu/faculty/acemoglu/files/pubs/aea_final.pdf.
- Engerman, Stanley and Kenneth Sokoloff (2002), "Factor endowments, inequality, and paths of development among new world economies", NBER Working Paper 9259. Available on electronic reserves.

September 25: Status Quo bias and the benefit of a crisis. (First set of proposal presentations)

- Drazen, Allan (2000), *Political Economy in Macroeconomics*, 414-419, 444-454.
- (*) Fernandez, Raquel and Dani Rodrik (1991), "Resistance to reform: Status Quo bias in the presence of individual specific uncertainty", *American Economic Review*, Vol. 81, 1146-55. Available at www.jstor.org.

- Drazen Allan and William Easterly (2001) “Do Crises Induce Reform? Simple Empirical Tests of Conventional Wisdom”. *Economics and Politics*, July. Available at electronic reserves.

October 2: Delay of Stabilization: costs of constraints on executive authority? (Second set of proposal presentations)

- Drazen, Allan (2000), *Political Economy in Macroeconomics*, 432-439.
- (*) Alesina, Alberto and Allan Drazen (1991), “Why are stabilizations delayed?”, *American Economic Review*, Vol. 81, 1170-88. Available at www.jstor.org.
- Alesina, Alberto, Silvia Ardagna and Francesco Trebbi (2006), “Who adjusts and when? On the Political Economy of Reforms”, working paper. Available at <http://post.economics.harvard.edu/faculty/alesina/papers.html>

October 9: State capture in transition: benefits of constraints on executive authority?

- Desai, Raj and Anders Olofsgard (2006), “Constitutionalism and credibility in reforming economies”, *Economics of Transition*. Available at www.georgetown.edu/faculty/afo2.
- Hellman, Joel (1998), “Winners take all: The Politics of Partial reform in Post-communist Transitions”, *World Politics* 50. Available at http://muse.jhu.edu/journals/world_politics/v050/50.2hellman.html
- The World Bank (2002), “Transition: The First Ten Years”, World Bank Report. Chapters 9-12. Available at <http://lnweb18.worldbank.org/eca/eca.nsf/General/D902E8CAF401B76E85256B410081DF03?OpenDocument>

October 16: Post Washington Consensus? Experimentation!

- Rodrik, Dani (2006), “Goodbye Washington Consensus, Hello Washington Confusion?”, *Journal of Economic Literature*. Available at <http://ksghome.harvard.edu/~drodrik/papers.html>
- Mukand, Sharun and Dani Rodrik (2002), “In search of the holy grail: Policy convergence, experimentation and economic performance”. Available at <http://ksghome.harvard.edu/~drodrik/polconv.pdf>. Note, read the working paper, not the published paper!
- Daniel Berkowitz, Katharina Pistor and Jean-Francois Richard (2003), “Economic development, legality, and the transplant effect”, *European Economic Review*. Available

at <http://www.sciencedirect.com>. Search for European Economic Review, and then click on volume 47, issue 1 and you will find it.

October 23: Case study: Privatization in transition economies.

- Schleifer, Andrei and Daniel Treisman, (2000), "Without a Map", MIT Press. Chapter 2. Available at electronic reserves.
- Earle, John and Scott Gehlbach, (2003), "A Spoonful of Sugar: Privatization and Popular Support for Reform in the Czech Republic", *Economics and Politics*. 15(1): 1-32. Available at <http://www.upjohninst.org/staff/jse-recpub.html>. Click on the staff working paper version.
- Roland, Gerard (2000), "Transition and Economics", MIT Press. Chapter 10.1. Available at electronic reserves.

October 30: Corruption: The issues and theories (Paper 1 is due!!)

- Bardhan, Pranab, (1997), "Corruption and Development: A Review of Issues", *Journal of Economic Literature*. Available at www.jstor.org.
- Shleifer, Andrei and Robert W Vishny, (1993) "Corruption", *Quarterly Journal of Economics*. Available at www.jstor.org
- Jacob Svensson (2006), "Eight questions about corruption", *Journal of Economic Perspectives*. Available at <http://www.iies.su.se/~svenssoj/>

November 6: What causes corruption? The macro perspective

- Treisman, Daniel, (2000), "The causes of corruption", *Journal of Public Economics*. Available at <http://www.sciencedirect.com> Search under his name.
- Olofsgard, Anders and Zaki Zaharan (2007), "What Causes Corruption Levels to Change? The Impact of Broad Policy Reforms", *Economics and Politics*, available at www.georgetown.edu/faculty/afo2.

November 13: What causes corruption? The micro perspective (First set of proposal presentations)

- Recanatini, Francesca, Alessandro Prati and Guido Tabellini (2005), "Why are some public agencies less corrupt than others? Lessons for institutional reform from survey data", working paper. Available at <https://www.imf.org/external/np/res/seminars/2005/arc/pdf/reca.pdf>

- Svensson, Jakob (2003), "Who Must Pay Bribes and How Much? Evidence from a Cross Section of Firms", *The Quarterly Journal of Economics*, vol. 118 (1): 207-30. Available at <http://www.iies.su.se/~svenssoj/>.

November 20: The consequences of corruption. (Second set of proposal presentations)

- Mauro, P. (1995), "Corruption and growth", *Quarterly Journal of Economics*. Available at www.jstor.org.
- Tanzi, Vito and Hamid Davoodi (1997), "Corruption, Public Investment and Growth", IMF WP. Available at <http://www.imf.org>. Click on publications, search for Tanzi.

November 27: Case Study 1: Corruption in the education sector in Uganda.

- Svensson, Jakob and Ritva Reinikka (2004), "Local Capture: Evidence from a Central Government Transfer Program in Uganda", *The Quarterly Journal of Economics*, vol. 119 (2). Available at <http://www.iies.su.se/~svenssoj/>.
- Svensson, Jakob and Ritva Reinikka (2005), "The power of information: Evidence from a newspaper campaign to reduce capture", working paper. Available at <http://www.iies.su.se/~svenssoj/>.

December 4: Case study 2: Transition and corruption.

- The World Bank (2000), "Anticorruption in Transition", pp. 1-38. Available at <http://www.worldbank.org/wbi/governance/pdf/contribution.pdf>.
- Frye, Timothy and Andrei Schleifer, (1997), "The invisible hand and the grabbing hand", *The American Economic Review*. Available at www.jstor.org.

Paper 2 is due on the final exam date (unless everybody agrees on an earlier date).