

Syllabus for 260A: Comparative economics. (2008-2009).
Instructor : Gérard Roland

The course will introduce students to the new and evolving field of comparative economics that has emerged from the transition experience and the economics of transition. Before the economics of transition, comparative economics was devoted mostly to the comparison of capitalism and socialism, and in practice mostly to the study of socialist economic systems (central planning, Yugoslav self-management, market socialism...). The transition experience and the economics of transition has shown the importance of the institutions underlying the capitalist system. Comparative economics is now turning to the comparative analysis of institutions of existing capitalist systems and to the historical evolution of those institutions.

This year, one third of the course will be devoted to understand the success of the growth process in China.

Lecture 1. Introduction.

Review of the issues covered by the new comparative economics.

Readings:

- G. Roland *Transition and Economics. Politics, Markets and Firms*, MIT Press 2000, Introduction.

- S. Djankov, E. Glaeser, R. La Porta, F. Lopez-de-Silanes and A. Shleifer, « The New Comparative Economics » *Journal of Comparative Economics*, vol. 31, No 4, December 2003, pp. 595-619.

Other readings:

- M. Aoki *Comparative Institutional analysis*, MIT Press 2001.

PART I. COMPARATIVE INSTITUTIONAL ANALYSIS

Lecture 2. Different coordination mechanisms.

Readings:

- M. Weitzman “ Price Versus Quantities” *Review of Economic Studies* vol 41 No 4 October 1974, pp.477-491.

Other readings:

- P. Bolton and J. Farrell “Decentralization, Duplication and Delay”, *Journal of Political Economy* , vol 98 No 4 1990, pp. 803-826.

Lecture 3. Institutions and Economic Performance.

Readings:

- Karla Hoff & Joseph E. Stiglitz, 2002. "After the Big Bang? Obstacles to the Emergence of the Rule of Law in Post-Communist Societies," NBER Working Papers 9282, National Bureau of Economic Research, Inc.
- Simon Johnson & John McMillan & Christopher Woodruff, 2002. "Property Rights and Finance," *American Economic Review*, vol. 92(5), pages 1335-1356.
- Besley, Timothy, 1995. "Property Rights and Investment Incentives: Theory and Evidence from Ghana," *Journal of Political Economy*, vol. 103(5), pages 903-37.

Other readings:

- G. Roland *Transition and Economics. Politics, Markets and Firms*, MIT Press 2000, Chapter 8.

Lecture 4. Comparative legal systems. Common Law vs Civil Law.

Readings:

- R. LaPorta, F. Lopez-de-Silanes, A. Shleifer and R. Vishny, , «Law and Finance», *Journal of Political Economy* 106, 1998 1113-1155.
- E. Glaeser, A. Shleifer. "Legal Origins", *Quarterly Journal of Economics* . vol. 117 No 4, pp 1193-1229, 2002.

Other readings:

- R. Rajan and L. Zingales, "The Great Reversals. The political Ecoomy of Financial Development in the twentieth century". Working paper. Downloadable at <http://gsbwww.uchicago.edu/fac/finance/papers/reversal.pdf>
- K. Pistor, M. Raiser & S. Gelfer "Law and Finance in Transitional Economies" *Economics of Transition*, 8 (2), 325-368 2000.
- M. Roe. "Corporate Law's Limits" *Journal of Legal Studies* vol. 31(2), pp. 233-71.
- D. Berkowitz and K. Clay "Initial Conditions, Institutional Dynamics and Economic Performance: Evidence from the American States," mimeo May 2003, downloadable at <http://www.pitt.edu/~dmberk/berkclay1.pdf>

Lecture 5 and 6. Comparative Financial Systems.

Readings:

- Dewatripont, Mathias and Eric Maskin, (1995), "Credit and Efficiency in Centralized and Decentralized Economies", *Review of Economic Studies*, 62: 541-555.
- M. Pagano and P. Volpin Pagano, 2001. "The Political Economy of Corporate Governance," CEPR Discussion Papers 2682. Downloadable at <http://www.cepr.org/pubs/dps/DP2682.asp>

Other readings:

- E. Berglöf, "Capital Structure as a Mechanism of Control: A Comparison of Financial Systems", in Masahiko Aoki, Bo Gustavsson, and Oliver Williamson, (eds.), *The Firm as a Nexus of Treaties*, European Sage, 1990.
- C. Mayer, (1990) "Financial Systems, Corporate Finance, and Economics Development" in R.G. Hubbard (ed.) *Asymmetric Information, Corporate Finance and Investment*, University of Chicago Press, Chicago: pp. 307-332.
- J. Kornai, E. Maskin and G. Roland "Understanding the Soft Budget Constraint", *Journal of Economic Literature*, December 2003.
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Lecture 7. The role of culture.

Readings:

- Avner Greif, 1994. "Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies," *Journal of Political Economy*, vol. 102(5), pages 912-50, 1994.
- R. Barro and R. McCleary "Religion and Economic Growth" April 2003. Downloadable at http://post.economics.harvard.edu/faculty/barro/papers/Religion_and_Economic_Growth.pdf

Other readings:

- D. Landes *The Wealth and Poverty of Nations: Why Are Some So Rich and Others So Poor?*, New York: W.W. Norton, 1998.
- A. Alesina, R. Di Tella and R. MacCulloch "Inequality and Happiness: Are Europeans and Americans Different?" mimeo 2002. Downloadable at http://www.people.hbs.edu/rditella/papers/inequality_and_happiness.pdf
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Lecture 8: Capitalism under democracy and dictatorship.

Readings:

- D. Acemoglu The Form of Property Rights. Oligarchic versus Democratic Societies. Downloadable at http://econ-www.mit.edu/faculty/download_pdf.php?id=832
- R. Barro "Determinants of Democracy", *Journal of Political Economy* December 1999.
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Other Readings:

- A. Przeworski et al. , *Democracy and Developmen. Political regimes and Material well-being in the World: 1950-1990* , Cambridge University Press, 2000.

Lecture 9: Comparative analysis of democracies: political regimes and electoral systems.

Readings:

T. Persson and G. Tabellini , *The Economic Effect of Constitutions* MIT Press 2003.

Lecture 10: Measuring the Effect of Institutions on Economic Growth.

Readings:

- D. Acemoglu, S. Johnson and J. Robinson “The Colonial Origins of comparative Development. An Empirical Investigation”, *American Economic Review* vol 91, pp. 1369-1401, 2001.
- R. Hall and C. Jones "Why Do Some Countries Produce So Much More Output per Worker than Others?", *Quarterly Journal of Economics*, 1999, Vol. 114, pp. 83-116.

Other readings:

- D. Rodrik, A. Subramanian and F. Trebbi Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development October 2002. Downloadable at <http://ksghome.harvard.edu/~drodrik/institutionsrule,%205.0.pdf>

PART II. UNDERSTANDING CHINA’S GROWTH.

Lecture 11: Understanding China’s Growth.

Readings:

- Qian, Yingyi, Chong-En Bai and Chang-Tai Hsieh “The Return to Capital in China” *Brookings Papers on Economic Activity*, 2:2007, forthcoming.
- Young, Alwyn, “Gold into Base Metals: Productivity Growth in the People’s Republic of China during the Reform Period.” *Journal of Political Economy* 111 (December 2003): 1220-1261.
- Chow, Gregory C & Li, Kui-Wai, 2002. "China's Economic Growth: 1952-2010," *Economic Development and Cultural Change*, University of Chicago Press, vol. 51(1), pages 247-56, October.
- Mohsin S. Khan & Zulu Hu, 1996. "Why is China Growing So Fast?," IMF Working Papers 96/75, International Monetary Fund.
- Dwight H. Perkins and Thomas G. Rawski. 2006 “Forecasting China’s Economic Growth over the Next Two Decades” mimeo .

Lecture 12: The gradual approach to reform and the flexibility of China's administrative organization.

Readings:

- Roland, Gérard . *Transition and Economics*, Chapter 2, MIT Press 2000.
- Dewatripont, Mathias and Gérard Roland "The Design of Reform Packages under Uncertainty" *American Economic Review*, 1995, vol 83, n°5, 1995, pp. 107-1223.
- McMillan, J. and B. Naughton, (1992), "How to Reform a Planned Economy: Lessons from China", *Oxford Review of Economic Policy*, 8, pp. 130-143.
- Chandler, Alfred. *Strategy and Structure*, New York: Doubleday and Company, 1966.
- Williamson, Oliver. *Markets and Hierarchies*, New York: Free Press, 1975.
- Qian, Yingyi, and Chenggang Xu, "Why China's Economic Reforms Differ: M-Form Hierarchy and Entry/Expansion of the Non-State Sector," *Economics of Transition*, 1993, 1(2), pp. 135-170.
- Qian, Yingyi, Gerard Roland, and Chenggang Xu, "Coordination and Experimentation in M-form and U-form Organizations," *Journal of Political Economy*, June 2006.

Lecture 13: Dual-track liberalization and its properties.

Readings:

- Lau, L., Y. Qian and G. Roland, (1997), "Pareto-Improving Economic Reforms through Dual-Track Liberalization", *Economics Letters*, 55(2): 285-292.
- Lau, L., Y. Qian and G. Roland, (2000), "Reform Without Losers: An Interpretation of China's Dual-Track Approach to Reforms", *Journal of Political Economy*, vol. 108 (1), pp 121-143.
- Roland, G. and T. Verdier, (1999a), "Transition and the Output Fall", *Economics of Transition*, 7(1): 1-28.
- Murphy, K., A. Shleifer and R. Vishny, (1992), "The Transition to a Market Economy: Pitfalls of Partial Reform", *Quarterly Journal of Economics*, 107: 889-906.
- Sicular, T., (1988), "Plan and Market in China's Agricultural Commerce", *Journal of Political Economy*, 96(2): 283-307.
- Byrd, W. A., (1987), "The Impact of the Two-Tier Plan/Market System in Chinese Industry", *Journal of Comparative Economics*, 11: 295-308.
- Byrd, W. A., (1989), "Plan and Market in the Chinese Economy: A Simple General Equilibrium Model", *Journal of Comparative Economics*, 13, 177-204.

Lecture 14: Fiscal decentralization and the incentives of bureaucrats.

- Berkowitz, D. and W. Li, (1999), "Tax Rights in Transition Economies: A

- Tragedy of the Commons ?", *Journal of Public Economics*,
- Weingast, Barry R., "The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Growth," *Journal of Law, Economics, and Organization*, 1995, 11, pp. 1-31.
 - Qian, Yingyi, and Barry R. Weingast, "Federalism as a Commitment to Market Incentives," *Journal of Economic Perspectives*, Fall, 1997, 11(4), pp. 83-92.
 - Qian, Yingyi, and Gerard Roland, "Federalism and the Soft Budget Constraint," *American Economic Review*, December 1998, 88(5), pp. 1143-1162.
 - Zhuravskaya, Ekaterina, "Incentives to Provide Local Public Goods: Fiscal Federalism, Russian Style," *Journal of Public Economics*, 2000, 76, pp. 337-368.
 - Jin, Hehui, Yingyi Qian, and Barry Weingast, "Regional Decentralization and Fiscal Incentives: Federalism, Chinese Style," *Journal of Public Economics*, September 2005, 89(9-10), pp. 1719-1742.
 - "The Razor's Edge: Distortions and Incremental Reform in the People's Republic of China." *Quarterly Journal of Economics* 115 (November 2000): 1091-1135.

Lecture 15: Meritocracy and yardstick competition in the Chinese administration.

Readings:

- Maskin, Eric, Yingyi Qian, and Chenggang Xu, "Incentives, Information, and Organizational Form," *Review of Economic Studies*, April 2000, 67(2), pp. 359-378.
- Li, Hongbin, and Li-An Zhou, "Political Turnover and Economic Performance: The Incentive Role of Personnel Control in China." *Journal of Public Economics*, September 2005, 89(9-10), pp. 1743-1762.
- Chen, Ye & Li, Hongbin & Zhou, Li-An, 2005. "Relative performance evaluation and the turnover of provincial leaders in China," *Economics Letters*, vol. 88(3), pages 421-425, September.
- Li, S. Li. S. and W. Zhang, 2000. "The Road to Capitalism: Competition and Institutional Change in China," *Journal of Comparative Economics* 28: 269-292.