

Economics 498-1
ECONOMIC INSTITUTIONS IN COMPARATIVE HISTORICAL PERSPECTIVES

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Office Hours: by appointment – please email.
Class Time: Tuesday & Thursday, 9:00-11:00
Class Location: Andersen 3204
Blackboard Course Website: <https://courses.northwestern.edu/>

COURSE DESCRIPTION

This course examines economic institutions and business organizations in various countries from comparative historical perspectives and explores the mechanisms of institutional change and their implications for economic growth. To pursue these goals, the course combines several theoretical and empirical methods, including game theory, econometric analysis, case studies, and historical narratives. The main topics of the course include agricultural tenancy, business corporations, employment contracts, supplier relations, and technological innovation.

READINGS

- 1) Required text: Douglass North. *Institutions, Institutional Change and Economic Performance*. Cambridge University Press, 1990.
- 2) Students who have a weak background in history or who wish to have a systematic and chronological review of world economic history are encouraged to obtain a copy of: Rondo Cameron. *A Concise Economic History of the World*. Oxford University Press (any edition).
- 3) Other required readings (journal articles and book chapters) are available online. Please visit online course syllabus at the Blackboard Course Website.

EVALUATION

Class participation (20%), four short reports (40%), a final research paper (40%).

CLASS PARTICIAPTION

Class participation accounts for 20% of the final grade. In this course, in addition to journal articles, I will use open-ended “cases,” i.e., thick descriptions of particular institutions and have a short discussion based on assigned questions (the case materials are marked with a star * in the list). Reading the case materials and giving thoughts to the questions in advance are critical for one’s own learning with positive spillovers.

SHORT REPORTS

Each student is asked to choose four articles from the readings listed in the syllabus with a # mark. For each paper, please write a short report (3-4 pages) that critically summarizes:

- (1) research questions addressed,
- (2) theoretical and empirical methods,
- (3) the nature of data,
- (4) main findings and their significance, and
- (5) suggestions for extensions and improvements.

Students should divide the articles among themselves so that each article is covered by at least one student. Short reports are due at the beginning of the class to which the corresponding articles are assigned.

FINAL PAPER

Each student must complete a final paper that embodies significant original research using primary sources. Students are encouraged to consult with the instructor earlier in the quarter in choosing topics, and topics must be approved by November 2 (Thu). Each student will prepare a research proposal (that outlines research questions, methods, data, and bibliography) by November 27 (Mon), which will be distributed to other students in the class. During the last week, students will present their research in progress to receive constructive comments from their classmates. The final paper is due within one year from the end of this quarter.

GENERAL READINGS ON INSTITUTIONS

- Arrow, Kenneth (1974) *Limits of Organization*. New York; Norton & Company.
Williamson, Oliver (1975) *Markets and Hierarchies*. New York; Free Press.
Williamson, Oliver (1985) *The Economic Institutions of Capitalism*. New York; Free Press.
Alston, Lee et al. (1996) *Empirical Studies in Institutional Change*. New York; Cambridge University Press.
Masten, Scott ed. (1996) *Case Studies in Contracting and Organization*. New York; Oxford University Press.
Bates, Robert et al. (1998) *Analytic Narratives*. Princeton; Princeton University Press.
Aoki, Masahiko (2001) *Toward a Comparative Institutional Analysis*. MIT Press.
Greif, Avner (2005) *Institutions and the Path to the Modern Economy*. Cambridge University Press.

CLASS SCHEDULE & READING ASSIGNMENTS

WEEK 1: September 19 & 21:

Introduction

- McCloskey, Donald (1976) "Does the Past Have Useful Economics?" *Journal of Economic Literature* 14: 434-461.
Greif, Avner (1997) "Cliometrics After 40 Years." *American Economic Review* 87: 400-403.

Conceptual Framework: New Institutional Economics and Beyond

- Coase, Ronald (1937) "The Nature of the Firm." *Economica* 4: 386-405.
Williamson, Oliver (1991) "Comparative Economic Organizations." *Administrative Science Quarterly* 36(2): 269-296.
North, Douglass (1990) *Institutions, Institutional Change and Economic Performance*, Part I.
Greif, Avner (1998) "Historical and Comparative Institutional Analysis." *American Economic Review* 88: 80-84.
Granovetter, Mark (1985) "Economic Action and Social Structure: The Problem of Embeddedness." *American Journal of Sociology* 91: 481-510.
Bowles, Samuel & Gintis, Herbert (1993) "The Revenge of Homo Economicus: Contested Exchange and the Revival of Political Economy." *Journal of Economic Perspectives* 7: 83-102.
Williamson, Oliver (2000) "The New Institutional Economics: Taking Stock, Looking Ahead." *Journal of Economic Literature* 38: 595-613.

WEEK 2: September 26 & 28

The Evolution of the Firm (1): Long-distance Trade

- North, Douglass "Institutions." *Journal of Economic Perspectives* 5 (Winter 1991): 97-112.
#1 Greif, Avner (1993) "Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Traders' Coalition." *American Economic Review* 83: 525-548.
#2 Irwin, Douglas (1991) "Mercantilism as Strategic Trade Policy: The Anglo-Dutch Rivalry for the East India Trade." *Journal of Political Economy* 99: 1296-1314.

The Evolution of the Firm (2): Organization of Work

- * Chandler, Alfred (1977) *The Visible Hand*, Chapter 8, "Mass Production."
#3 Clark, Gregory (1994) "Factory Discipline." *Journal of Economic History* 54: 128-163.
Related reading:
Marglin, Stephen (1974) "What do Bosses do? The Origins and Function of Capitalist Hierarchy." *Review of Radical Political Economy* 6: 60-112.
Landes, David (1986) "What Do Bosses Really Do?" *Journal of Economic History* 46: 585-623.
Laibson, David (1997) "Golden Eggs and Hyperbolic Discounting." *Quarterly Journal of Economics* 112: 443-479.

WEEK 3. October 3 & 5

The Evolution of the Firm (3): Giant Enterprises

- #4 Goldin, Claudia & Katz, Lawrence (1998) "The Origins of Technology-Skill Complementarity." *Quarterly Journal of Economics* 113(3): 693-732.
#5 Wright, Gavin (1990) "The Origins of American Industrial Success, 1879-1940." *American Economic Review* 80: 651-668.

Related reading:

Aoki, Masahiko (1990) "Toward an Economic Model of the Japanese Firm." *Journal of Economic Literature* 28: 1-27.

Chandler, Alfred (1990) *Scale and Scope: The Dynamics of Industrial Capitalism*, Chapter 2.

Employment Institutions (1): Agricultural Tenancy

Alston, Lee & Higgs, Robert (1982) "Contractual Mix in Southern Agriculture since the Civil War: Facts, Hypotheses, and Tests." *Journal of Economic History* 42: 327-353.

#6 Young, Peton & Burke, Mary (2001) "Competition and Custom in Economic Contracts: A Case Study of Illinois Agriculture." *American Economic Review* 91: 559-573.

Akerberg, Daniel & Botticini, Maristella (2000) "The Choice of Agrarian Contracts in Early Renaissance Tuscany: Risk Sharing, Moral Hazard, or Capital Market Imperfections?" *Explorations in Economic History* 37(3): 241-57.

#7 Akerberg, Daniel & Botticini, Maristella (2002) "Endogenous Matching and the Empirical Determinants of Contract Form." *Journal of Political Economy* 110(3): 564-91.

WEEK 4. October 10 & 12

Employment Institutions (2): Indentured Servitude

#8 Galenson, David. (1981) "The Market Evaluation of Human Capital: The Case of Indentured Servitude." *Journal of Political Economy* 89: 446-467.

Grubb, Farley (1994) "The End of European Immigrant Servitude in the U.S.: An Economic Analysis of Market Collapse, 1772-1835." *Journal of Economic History* 54: 794-824.

Related reading:

Galenson, David. (1984) "The Rise and Fall of Indentured Servitude in the Americas." *Journal of Economic History*: 1-26.

Employment Institutions (3): Apprenticeship Contracts

Elbaum, Bernard (1989) "Why Apprenticeship Persisted in Britain But Not in the U.S." *Journal of Economic History* 49: 337-349.

#9 Hamilton, Gillian (1995) "Enforcement in Apprenticeship Contracts: Were Runaways a Serious Problem? Evidence from Montreal" *Journal of Economic History* 55: 551-574.

#10 Acemoglu and Pischke (1998) "Why Do Firms Train? Theory and Evidence." *Quarterly Journal of Economics* 113(1): 79-120.

WEEK 5. October 17 & 19

Employment Institutions (4): Employment Contracts

* Roy, Donald (1952) "Quota Restriction and Goldbricking in a Machine Shop." *American Journal of Sociology* 57: 427-442.

#11 Raff, Daniel & Summers, Lawrence (1987) "Did Henry Ford Pay Efficiency Wages?" *Journal of Labor Economics* 5: S57-S86.

Related reading:

Gibbons, Robert (1987) "Piece-Rate Incentive Schemes." *Journal of Labor Economics* 5:413-429.

Fehr, Ernst & Falk, Armin (1999) "Wage Rigidity in a Competitive Incomplete Contract Market." *Journal of Political Economy* 107: 106-134.

Employment Institutions (5): Industrial Relations

* Brown, Clair & Michael Reich (1989) "When Does Union-Management Cooperation Work? A Look at NUMMI and GM-Van Nuys." *California Management Review*: 26-44.

#12 Ichiniowski, Shaw, & Prenzushi (1997) "The Effects of Human Resource Management Practices on Productivity: A Study of Steel Finishing Lines." *American Economic Review* 87: 291-313.

#13 Moriguchi, Chiaki (2005) "Did the American Welfare Capitalists Breach their Implicit Contracts during the Great Depression? Preliminary Findings from Company-level Data." *Industrial and Labor Relations Review* 59: 51-81.

Related reading:

Hermalin, Benjamin (1998) "Towards an Economic Theory of Leadership: Leading by Example." *American Economic Review* 88:1188-1206.

WEEK 6. October 24 & 26

Supplier Relations & Boundaries of the Firm

- * Casadesus-Masanell & Spulber (2000) "Fable of Fisher Body." *Journal of Law and Economics* 43: 67-104.
- #14 Mullin & Mullin (1997) "U.S. Steel's Acquisition of Great Northern Ore Properties: Vertical Foreclosure or Efficient Contractual Governance?" *Journal of Law, Economics & Organizations* 13: 74-100.

Related reading:

- Kreps, David (1990) "Corporate Culture and Economic Theory" in *Perspectives in Positive Political Economy*, edited by Alt & Shepsle.
- Fishback, Price (1986) "Did Coal Miners 'Owe Their Souls to the Company Store'? Theory and Evidence from the Early 1900s." *Journal of Economic History* 46(4): 1011-1029.

Financial Institutions (1): Public Finance

- #15 Greif, Milgrom & Weingast (1994) "The Coordination, Commitment, and Enforcement: The Case of Merchant Guild." *Journal of Political Economy* 102: 745-776.
- North, Douglass & Weingast, Barry (1989) "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England." *Journal of Economic History* 49: 803-832.
- #16 Conklin, James (1998) "The Theory of Sovereign Debt and Spain Under Philip II." *Journal of Political Economy* 106: 483-513.

WEEK 7. October 31 & November 2

Financial Institutions (2): Banking & Corporate Governance

- #17 Guinnane Timothy (1994) "A Failed Institutional Transplant: Raiffeisen's Credit Cooperatives in Ireland, 1894-1914." *Explorations in Economic History* 31(1): 38-61.
- #18 Hoshi, Kashyap, and Scharfstein (1991) "Corporate Structure, Liquidity, and Investment: Evidence from Japanese Industrial Groups." *Quarterly Journal of Economics* 106: 33-60.
- #19 Fohlin, Caroline (1998) "Relational Banking, Liquidity, an Investment in the German Industrialization." *Journal of Finance* 53:1737-58.

Technological Progress & Invention

- #20 Sullivan, Richard (1989) "England's 'Age of Invention': The Acceleration in Patents and Patentable Invention during the Industrial Revolution." *Explorations in Economic History* 26: 424-452.
 - #21 Sokoloff, Kenneth (1988) "Inventive Activity in Early Industrial America: Evidence From Patent Records, 1790-1846." *Journal of Economic History* 48: 813-850.
 - Moser, Petra (2005) "How Do Patent Laws Influence Innovation? Evidence from Nineteenth-Century World's Fairs." *American Economic Review* 95(4): 1214-36.
- Related reading:
- Mokyr, Joel (1990) *The Lever of Riches*, Chapter 7 "Understanding Technological Progress."

WEEK 8. November 7 & 9

Technological Choice & Path-dependence

- * David, Paul (1985) "Clio and the Economics of QWERTY." *American Economic Review* 75: 332-37.
 - * Continuous Casting Investments at USX Corporation, HBS Case #9-697-020.
 - Sandberg, Lars (1969) "American Rings and English Mules: The Role of Economic Rationality." *Quarterly Journal of Economics* 83: 25-43.
 - #22 Saxonhouse, Gary & Wright, Gavin (1984) "New Evidence on the Stubborn English Mule and the Cotton Industry, 1878-1920." *Economic History Review* 37: 507-519.
- Related reading:
- Arthur, Brian (1989) "Competing Technologies, Increasing Returns, and Lock-in by Historical Events." *Economic Journal* 99: 116-31.
 - Krugman, Paul (1991) "History Versus Expectations." *Quarterly Journal of Economics* 106: 651-667.
 - Chari & Hopenhayn (1991) "Vintage Human Capital, Growth, and the Diffusion of New Technology" *Journal of Political Economy* 99: 1142-1165.

Technological Leadership

- * Kennedy, Paul (1987) *Rise and Fall of the Great Powers*, Chapter 1.
- #23 Shiue, Carol & Wolfgang Keller (2005) "Markets in China and Europe on the Eve of the Industrial Revolution." Mimeo., Department of Economics, University of Colorado.

Related reading:

Diamond, Jared (1997) *Guns, Germs, and Steel*.

Mokyr, Joel (1990) *The Lever of Riches*, Chapter 9 "China & Europe."

Pomeranz, Kenneth (2000) *The Great Divergence*, Introduction.

WEEK 9. November 14 & 16

Mechanisms of Institutional Change

North, Douglass (1990) *Institutions, Institutional Change and Economic Performance*, Part II.

Elbaum, Bernard & Lazonick, William "The Decline of the British Economy: An Institutional Perspective." *Journal of Economic History* 44: 567-583.

#24 Greif, Avner (1994) "Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies." *Journal of Political Economy* 102: 912-950.

Institutions & Long-run Economic Growth

#25 LaPorta, Lopez-de-Silanes, Shleifer, and Vishny (1997) "Law and Finance." *Journal of Political Economy* 106: 1113-55.

#26 Engerman & Sokoloff (2002) "Factor Endowments, Inequality, and Paths of Development among New World Economies." NBER Working Paper No.9259.

#27 Acemoglu, Johnson, and Robinson (2001) "The Colonial Origins of Comparative Development: An Empirical Investigation." *American Economic Review* 91: 1369-1401.

#28 Benerjee, Abhijit and Lakshmi Iyer (2005) "History, Institutions and Economic Performance: the Legacy of Colonial Land Tenure Systems in Rural India," *American Economic Review* 95: 1190-1213.

WEEK 10. November 21 & 23

Income Inequality & Economic Growth

Kuznets, Simon (1955) "Economic Growth and Income Inequality," *American Economic Review* 45: 1-28.

Deininger & Squire (1998) "New Ways of Looking at Old Issues: Inequality and Growth," *Journal of Development Economics* 57: 259-287.

Moriguchi & Saez (2006) "The Evolution of Income Concentration in Japan: Evidence from Income Tax Statistics, 1886-2002," NBER working paper no.12558.

WEEK 11. November 28 & 30

Student Presentation of Research Proposals

WEEK 12. December 4-8: Final Exam Week (No final exam in this course.)