

STOCKHOLM SCHOOL OF ECONOMICS
750 Institutions and economic development
Spring 2019

INSTITUTIONS AND ECONOMIC
DEVELOPMENT
COURSE PARTICULARS

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Rationale

Economies are often alike, yet rarely identical. Just as we need to form an idea of how the bits and pieces of the economic landscape relate to each other, and to the whole, as practitioners of the economist's craft we also need to be able to understand if, and if so how, different (classes of) economies are structured and how they can be expected to behave. Think economic growth, for example. Or the nature and direction of structural change. Or, for that matter, political risk.

There are a number of candidates as to why economies differ. The level of development itself is one; combinations of size, resource endowment and factor availability another. Past experiences no doubt matter, as do current economic policies. An important source of divergence across economies is the underlying economic system (market based, cooperative or centrally planned), but with the demise of central planning formal and informal rules – in short, institutions – have come to dominate the discussion. Indeed, an important debate in development economics over the past two decades has been the relative importance of nature (“geography”) vs institutions.

The purpose of Institutions and economic development (course 750) is to provide an introduction to the role of institutions in economic development and change. As such it builds on and supplements previous courses on international economics (700), macro-economics and policy analysis (407/412) and the economics of organisation (652) that are offered as part of the bachelor programme. To this course 750 also adds components of economic history, development economics and economic geography to constitute something of a re-modelled successor to the sub-discipline of comparative economic systems. Now, instead, we may perhaps pointedly speak of comparative capitalisms as is indeed other social scientists do.

Structure

The course is structured around three themes: institutional theory, structural change and the role of institutions in generating the outcomes observed. Each theme is developed over the course three lectures, followed by a compulsory small group seminar. The first theme focuses on the institutional theories as applied in economics and other social sciences, and theoretical frameworks designed to account for the existence of institutional variation across time and space. The second theme introduces the notions of economic development and structural change, including the role of general purpose technologies. A number of approaches are identified and discussed in some detail with a view to situating institutions in a wider setting. Finally, and actively using empirical examples, the third theme discusses the role of institutions in these developments. Examples of *ex ante* and *ex post* institutional change are identified, as are cases of institutional variation, complementarities and competition. The interaction and tension between developments at different scales – global, national, sub-national – are identified. The examples are mainly drawn from Sweden, the rest of Europe and Asia.

Learning outcomes

On completion of the course the course participant should be able to

- *explain* the notion of institutions and why they are important to economic development;
- *identify* and *describe* core concepts, theories and theoretical frameworks;
- *apply* these concepts, theories and frameworks;
- *assess* the applicability and appropriateness of competing sets of theories in analysing processes of structural change; and, finally,
- *critically evaluate* the role of institutions themselves in economic change and development (e.g., for analytical ends or for the purposes of policy formulation).

Lectures and seminars

There are twelve lectures, only the first one of which is compulsory. These are divided in three major parts, each part of which is concluded with a compulsory small group seminar; a summarising Part IV completes the lecture series. Readings, whether compulsory or recommended, are listed under the heading Literature below.

1. Introduction: what are institutions and why bother about them?

Part I: institutional theory

2. Institutional theories old and new, 1
 3. Institutional theories old and new, 2
 4. Comparative economics in a new guise
- A. Seminar 1: Varieties of capitalism — the critique

Part II: economic development and structural change

5. Economic development and change
 6. Structural change, 1: the temporal dimension
 7. Structural change, 2: the spatial dimension
- B. Seminar 2: Legal origins or some other context? Institutions vs geography/history

Part III: institutions in observed development and structural change

8. The structural cycle model in a real world setting, 1
 9. The structural cycle model in a real world setting, 2: its wider applicability
 10. The geography of institutional variation and structural change
- C. Seminar 3: Institutional convergence and competition in East Asia

Part IV: some unresolved issues and summing up

11. Informal institutions, social norms
12. Summing up

Literature

readings for the literature test; * recommended readings; unmarked = compulsory but not part of the literature test

- * Acemoglu, Daron, James A. Robinson and Thierry Verdier (2017): 'Asymmetric growth and institutions in an interdependent world', *Journal of Political Economy* 125 (5): 1245–1305.
- * Ascani, Andrea, Riccardo Crescenzi and Simona Iammarino (2016): 'Economic institutions and the location strategies of European multinationals in their geographic neighborhood', *Economic Geography* 92 (4): 401–429.
- * Boyer, Robert (2005): 'How and why capitalisms differ', *Economy and Society* 34 (4): 509–557.
- # Brownlow, Graham A. (2010): 'Structure and change: Douglass North's economics', *Journal of Economic Methodology* 17 (3): 301–316.
- * Caballero, Gonzalo and David Soto-Oñate (2015): 'The diversity and rapprochement of theories of institutional change: original institutionalism and the new institutional economics', *Journal of Economic Issues* 49 (4): 947–977.
- # Chang, Ha-Joon (2011): 'Institutions and economic development: theory, policy and history', *Journal of Institutional Economics* 7 (4): 473–498. [You may also want to consult the often critical comments published in the same issue of *JIE*.]
- * Coase, Ronald H. (1937): 'The nature of the firm', *Economica* 4 (16): 386–405.
- * Commons, John R. (1931): 'Institutional economics', *American Economic Review* 21 (4): 648–657.
- * Crouch, Colin, Maarten Keune, Pernilla S. Rafiqui, Örjan Sjöberg and András Tóth (2009): 'Three cases of changing capitalism: Sweden, Hungary, and the United Kingdom', in Colin Crouch and Helmut Voelzkow (eds): *Innovations in Local Economies: Germany in Comparative Context*. Oxford University Press, Oxford, pp. 43–69 [available electronically (use the on-line library catalogue, use book title as search term)].
- * Easterlin, Richard A. (2000): 'Locational restructuring and financial crises', *Structural Change and Economic Dynamics* 11 (1–2): 129–138.
- * Faulconbridge, James R. and Daniel Muzio (2015): 'Transnational corporations shaping institutional change: the case of English law firms in Germany', *Journal of Economic Geography* 15 (6): 1195–1226.
- # Hall, Peter A. and David Soskice (2001): 'An introduction to varieties of capitalism', in Peter A. Hall and David Soskice (eds): *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford University Press, Oxford, pp. 1–68 [available through the library as an e-book (search online catalogue) or from the web site of one of the authors, Peter Hall, at URL <http://www.people.fas.harvard.edu/~phall/VofCIntro.pdf>].
- # Hall, Peter A. and Kathleen Thelen (2009): 'Institutional change in varieties of capitalism', *Socio-Economic Review* 7 (1): 7–34.
- Henning, Martin, Kerstin Enflo and Fredrik N.G. Andersson (2011): 'Trends and cycles in regional economic growth: How spatial differences shaped the Swedish growth experience from 1860–2009', *Explorations in Economic History* 48 (4): 538–555.
- # Henrekson, Magnus and Tino Sanandaji (2011): 'The interaction of entrepreneurship and institutions', *Journal of Institutional Economics* 7 (1): 47–75.
- # Hodgson, Geoffrey M. (2006): 'What are institutions?', *Journal of Economic Issues* 40 (1): 1–25.
- Jackson, Gregory and Richard Deeg (2008): 'Comparing capitalisms: understanding institutional diversity and its implications for international business', *Journal of International Business Studies* 39 (4): 540–561.

- # Jovanovic, Boyan and Peter L. Rousseau (2005): ‘General purpose technologies’, in Philippe Aghion and Steven N. Durlauf (eds): *Handbook of Economic Growth*, Vol. 1B. Elsevier, Amsterdam, pp. 1182–1224 [available electronically via the on-line library catalogue (use book title as search term)].
- # Kingston, Christopher and Gonzalo Caballero (2009): ‘Comparing theories of institutional change’, *Journal of Institutional Economics* 5 (2): 151–181.
- * Kondratieff, N. D. (1935): ‘The long waves in economic life’, *Review of Economic Statistics* 17 (6): 105–115.
- Lane, Christel (2008): ‘National capitalisms and global production networks: an analysis of their interaction in two global industries’, *Socio-Economic Review* 6 (2): 227–260.
- # Mantzavinos, C., Douglass C. North and Syed Shariq (2004): ‘Learning, institutions, and economic performance’, *Perspectives on Politics* 2 (1): 75–84.
- # Mokyr, Joel (2005): ‘Long-term economic growth and the history of technology’, in Philippe Aghion and Steven N. Durlauf (eds): *Handbook of Economic Growth*, Vol. 1B. Elsevier, Amsterdam, pp. 1113–1180 [available electronically via the on-line library catalogue (use book title as search term)].
- * North, Douglass C. (1979): ‘A framework for analyzing the state in economic history’, *Explorations in Economic History* 16 (3): 249–259.
- # North, Douglass C. (1991): ‘Institutions’, *Journal of Economic Perspectives* 6 (1): 97–112.
- # North, Douglass C. and Robert Paul Thomas (1970): ‘An economic theory of the growth of the Western world’, *Economic History Review* NS 23 (1): 1–17.
- Ornston, Darius (2013): ‘Creative corporatism: the politics of high-technology competition in Nordic Europe’, *Comparative Political Studies* 46 (6): 702–729.
- Rafiqi, Pernilla S. (2010): ‘Varieties of capitalism and local outcomes: a Swedish case study’, *European Urban and Regional Studies* 17(3): 309–329.
- * Rafiqi, Pernilla S., Martin Schröder, Örjan Sjöberg, Helmut Voelzkow and Colin Crouch, ‘The furniture industry in Ostwestfalen-Lippe and southern Sweden’, in Colin Crouch and Helmut Voelzkow (eds): *Innovation in Local Economies: Germany in Comparative Context*. Oxford University Press, Oxford, pp. 70–91 [available electronically (use the on-line library catalogue, use book title as search term)].
- * Regnér, Patrick and Jesper Edman (2014): ‘MNE institutional advantage: how subunits shape, transpose and evade host country institutions’, *Journal of International Business Studies* 45 (3): 275–302.
- Schopf, Fritz W. (2010): ‘The asymmetry of European integration, or why the EU cannot be a “social market economy”’, *Socio-Economic Review* 8 (2): 211–250.
- * Schön, Lennart (2007): ‘Technological shifts and convergence in a European perspective since 1950’, *Scandinavian Economic History Review* 55 (3): 222–243.
- * Schön, Lennart (2009): *Technological waves and economic growth – Sweden in an international perspective 1850-2005*. Working paper 2009/06, CIRCLE, Lund University [available at URL <http://lup.lub.lu.se/search/ws/files/3421147/1763579>].
- # Schön, Lennart (2010): *Sweden’s Road to Modernity: an Economic History*. SNS Förlag, Stockholm [Swedish edition also available: *En modern svensk ekonomisk historia*, four editions of which have been published 2000–2014, the second one from 2007 being identical to the English version]
- # Scott, W. Richard (2003): ‘Institutional carriers: reviewing modes of transporting ideas over time and space and considering their consequences’, *Industrial and Corporate Change* 12 (4): 879–894.

- # Whitley, Richard (2000): 'The institutional structuring of innovation strategies: business systems, firm types and patterns of technical change in different market economies', *Organization Studies* 21 (5): 855–886.
- * Williamson, Oliver E. (1979): 'Transaction-cost economics: the governance of contractual relations', *Journal of Law and Economics* 22 (2): 233–261.
- # Williamson, Oliver E. (2000): 'The new institutional economics: taking stock, looking ahead', *Journal of Economic Literature* 38 (3): 595–613.
- # Witt, Michael A. and Gregory Jackson (2016): 'Varieties of Capitalism and institutional comparative advantage: a test and reinterpretation', *Journal of International Business Studies* 47 (7): 778–806.
- # Zukauskaitė, Elena, Michaela Trippel and Monica Plechero (2017): 'Institutional thickness revisited', *Economic Geography* 93 (4): 325–345 [embargo imposed by EconLit/Ebsco Host to be lifted by 1 Feb. 2019; if not please contact Örjan].

NB **Seminar readings** are in addition to the above and will be posted separately.

Readings: instructions

Compulsory readings, including for the seminars, are to be read by all. Recommended readings are intended to provide additional depth and explanation or, in some cases, a possibility of acquainting yourself with the original ideas that are referred to in the lectures; in some cases they provide examples of empirical application. All material is available through the e-journal or e-book databases of the SSE library, except as noted above.

The only text not available electronically is the textbook by Lennart Schön, *Sweden's Road to Modernity: An Economic History* (2010).¹ The book should be approached with a light touch, focusing on the following:

Chapter 1 (up to p. 34): analytical framework, including critical concepts (such as complementarities, development blocks, structural cycles), but above all the model of technological and structural change itself (pp. 29–32).

Chapter 3 (pp. 116–142): part of 'Sweden and the breakthrough of industrialisation 1850–1890'.

Chapter 6: the third industrial revolution.

The rest can be read selectively; as such it is recommended, both on account of the information on Swedish economic development that it provides but primarily because it is a case of institutional and structural analysis in action. Note that the entire book is organised along the lines of the model introduced in the introductory chapter. Examples of development blocks and *ex ante/ex post* institutions can be found throughout the text.

¹ Page references refer to the first English language edition (so far used by most course participants). For greater detail as far as the relevant pages in the other editions of the same text that you may use, please refer to the abridged version of this course outlined sent by mail to all registered participants on 6 January 2019.

Please note that multiple editions of this textbook exist, including four in Swedish alone published under the title, *En modern svensk ekonomisk historia. Tillväxt och omvandling under två sekler* (SNS Förlag, Stockholm, 2000, 2007, 2012; Studentlitteratur, Lund, 2014). The first English language edition was published by SNS Förlag in 2010 as *Sweden's Road to Modernity: an Economic History*, and in 2017 appeared in a second edition, now published by Studentlitteratur, Lund). In 2012, a second (this time prohibitively expensive hardback) English edition was published, under the title *An Economic History of Modern Sweden* (Routledge, Abingdon), a paperback version of which thankfully appeared in 2016 and it is also available as an eBook. **Note that for the purposes of this course, any of these seven editions can be used.**

Examination

Small group seminars (1/3 of total grade): compulsory attendance, active participation based on readings of about 125–200 pages per seminar (reading assignment: see separate announcement).

Literature test (1/3 of total grade): compulsory, takes place Friday 21 February 2019, 1015–1200, room 550. The test covers all literature marked #, i.e. that which is relevant to and covered by Lectures 2–7, including textbook by Schön and lecture notes.

Term paper (1/3 of total grade): compulsory, application of institutional theory to an empirical case written up to customary academic standards of 12–16 pages in length, to be written individually or in pairs, deadline 15 March 2019 at 2359 (term paper idea due by 14 February 2019 at 2359).

Schedule 2019

Activity	Title and tentative contents	Readings
Lecture 1 16 Jan. 1015–1200 348	Introduction: what are institutions and why bother about them? (a) the benefits and limits of universal models (b) what are institutions and what do they add to the stew? (c) course structure and practicalities (d) literature, seminars, the term paper, grading	
Part I: institutional theory		
Lecture 2 18 Jan. 0815–1000 348	Institutional theories old and new, 1 (a) Veblenian or sociological institutionalism (b) sociological institutionalism à la Scott	(a) *Commons (1931), Hodgson (2006), *Caballero & Soto-Oñate (2015) (b) Scott (2003)
Lecture 3 21 Jan. 1015–1200 348	Institutional theories old and new, 2 (a) transaction costs institutionalism: the contribution by Coase and Williamson (b) the early North: relative prices and transaction costs mitigation (c) the later North: irrational institutions and a cognitive turn	(a) *Coase (1937), *Williamson (1979), Williamson (2000) (b) North & Thomas (1970), *North (1979) (c) North (1991), Mantzavinos <i>et al.</i> (2004), Brownlow (2010)
Lecture 4 23 Jan. 1015–1200 348	Comparative economics in a new guise (a) critiques of and alternatives to institutional economics (b) business systems: Whitley (c) varieties of capitalism: Hall and Soskice	(a) Kingston & Caballero (2009), Chang (2011), Henrekson & Sanadaji (2011), *Acemoglu <i>et al.</i> (2017) (b) Whitley (2000) (c) Hall & Soskice (2001), *Boyer (2005), Hall & Thelen (2009), Witt and Jackson (2016)
Seminar 1	Varieties of capitalism — the critique	Separate announcement (course web)
Part II: economic development, structural change and institutions		
Lecture 5 1 Feb. 1315–1500 348	Economic development and change (a) engineering the shift from low to high productivity activities: theories of economic growth past and present (b) a sample of frameworks: from big push to property rights	(a)(b) Mokyr (2005) plus, for reference purposes, any modern textbook in development economics (e.g. Perkins <i>et al.</i> , <i>Economics of Development</i> 2012); for (b) also Chang (2011)

Lecture 6	Structural change, 1: the temporal dimension	(a) *Kondratieff (1935), *Easterlin (2000)
4 Feb. 1015–1200 348	(a) cycles of structural change: Kondratiev waves and Kuznets cycles (b) the beauty of general purpose technologies (c) institutions and development blocks as agents and outcomes of change: the model of Schön	(b) Jovanovic & Rousseau (2005) (c) Schön (2010)
Lecture 7	Structural change, 2: the spatial dimension	(a) (b) (c) Zukauskaitė <i>et al.</i> (2017)
5 Feb. 1015–1200 536	(a) cost pressures and changing relative prices in spatial structural change (b) forms of spatial structural change: suburbanisation, filtering and off-shoring (c) the contribution of institutions, agglomeration economies and clusters	
Term paper	Tentative objective and outline (1 page)	
14 Feb. 2359	To be submitted to orjan.sjoberg@hhs.se	
Seminar 2	Legal origins or some other context? Institutions vs geography/history	Separate announcement (course web)
Literature test (<i>dugga</i>) takes place on 21 February, at 1015-1200, in 550		Covers core literature for Part I and II (including textbook by Schön)
Part III: institutions in observed development and structural change		
Lecture 8	The structural cycle model in a real world setting, 1: Sweden	(b)(c)(d) *Schön (2007), *Schön (2009), Schön (2010), Ornston (2013)
22 Feb. 0815–1000 348	(a) the bench mark case: Britain (b) Schön's model applied to the Swedish economy: the general picture (c) Swedish examples of <i>ex ante</i> and <i>ex post</i> institutional change (d) institutional complementarities and development blocks in Swedish economic history	
Lecture 9	The structural cycle model in a real world setting, 2: its wider applicability	Kingston & Caballero (2009)
25 Feb. 1015–1200 348	(a) globalisation and regional integration: the role and nature of national and supra-national institutional change (b) institutional convergence and competition: the case of the European Union	(a) Lane (2008) (b) *Crouch <i>et al.</i> (2009), Scharpf (2010)

Lecture 10	The geography of institutional variation and structural change	(a) lecture notes only
27 Feb. 1015–1200 328	(a) locational differentiation and change across scales (b) the international dimension: MNCs as agents of institutional change (c) putting Schön’s structural cycle model to a geographical test (d) sub-national productive incoherencies: the role of institutional variation in the Swedish wooden furniture industry	(b) Jackson and Deeg (2008); *Regnér and Edman (2014); *Faulconbridge & Muzio (2015); *Ascani <i>et al.</i> (2016) (c) Henning <i>et al.</i> (2011) (d) Rafiqui (2010), *Rafiqui <i>et al.</i> (2009)
Seminar 3	Dynamic comparative, institutional convergence and competition in East Asia	Separate announcement (course web)
Part IV: some unresolved issues and summing up		
Lecture 11	Informal institutions, social norms	North (1991), Whitley (2000), Williamson (2000), Scott (2003), Hodgson (2006), Kingston & Caballero (2009); Hall & Soskice (2001)
7 March 1015–1200 133	(a) narrowing in on informal institutions: what the literature says (b) how to fit them in, if at all	
Lecture 12	Summing up	
8 March 0815–1000 TBC	(a) the contribution of institutional theory and institutional frameworks to our understanding of economic development and structural change (b) the role of institutional complementarities (c) the limits to institutional theory and current institutional frameworks, or the importance of acknowledging the role of non-institutions (d) on balance, do institutions matter in economic development? (f) practicalities: the term paper (due 17 March)	
Term paper	Analysing a case of institutional change and development (12–16 pages).	As needed
Deadline: 15 March 2359		
