

## Lesson Plan – Section 7

### Introduction:

We're going to spend our class today talking about the relationship between economic growth and democracy. This is a giant topic in political science – the question of “does democracy cause growth” or “does growth cause democracy” is still being asked in political science papers today – and we started this project in the 1950s!

The question has deep implications for how we approach development on a very tangible level: will forcing democratic reforms cause poor countries to get richer? Or do we need to stimulate economic growth before we can have political freedoms? Maybe limiting political freedom is the best way to achieve growth. [The case of S. Korea, is an interesting one that Jiwon mentioned in her OMP. ]

The readings today present us with two main, opposing theories that attempt to address this relationship between economic development and democracy. The two theories are modernization theory, which suggests that urbanization and growth causes democracy, and new institutionalism, which introduces the idea of institutions as a mediating factor.

So our plan for today:

- we'll start out with Andrew and Nick's presentation
- do a quick activity that will help us evaluate the readings and their causal arguments. This is the kind of thing that your next paper will be based on, so it's good practice!
- Go over Lipset and Bates et. al 's modernization theory arguments
- We'll take a short break, then move on to discussing A&R's piece on institutions, and then use the Bates Chapter 9 to discuss institutional change, and moving from a bad equilibrium to a good one.

### [Chiara's Endogeneity Game]

- Is there a correlation between indent and dep variables?
- Does the cause come before the effect?
- Is there a plausible causal pathway, and is there any evidence?
- Has the author dispensed with alternative explanations?
  
- What is causality?
  - o Let's say you want to figure out what direction the relationship between studying and doing well on a test
  - o In an ideal world, you'd have the exact same student along all dimensions, and to one of them, you'd assign studying, and to the other you'd assign no studying.

- Fundamental problem of causal inference: you can never see both outcomes. You can only treat one individual with either studying or no studying – not both!
- So to get around this problem, we randomly assign treatments; allows us to replace missing counterfactuals with something similar
- [how is this different from correlation?]

## Modernization Theory

### *Lipset*

- According to Lipset, what is the relationship between economic development and growth? [urbanization and growth causes democracy]
- What are the mechanisms by which economic development causes growth?
  - Role of the education: enlightened people believe properly and reinforce democracy
  - Role of the middle class. Emerging middle class moderates conflict because it rewards moderate democrats and penalizes extremes. The middle class has more to lose and comes to believe in the national culture. Class becomes less salient.
  - Inequality means the rich do not regard the poor as equals in the process
  - If you have less inequality, people are more likely to be tolerant

### *Bates et al*

- Bates et al suggest that the relationship runs in the opposite direction: democracy causes growth.
- What evidence do Bates et al bring to bear on their argument?
  - Separate out resource rich and non-resource rich countries. [Will go into the resource curse next week with the Fish article]
    - Resource curse: if you have a lot of natural resources, you have problems. States are not reliant on it's citizens for taxes, can just extract wealth via resources
    - Bates et al find that in non-resource rich countries, Lipset hypothesis holds: economic growth → democracy
    - For resource rich countries, find the opposite: democracy → economic growth
  - Looked at the Africa subsample
    - Find that democratic institutions cause more growth
  - do Bates et al provide a convincing mechanism for their argument that the relationship in fact goes the other way?

### *Comparing Lipset and Bates et al*

- Whose argument do you find more convincing? Why?

- What are some of the potential endogeneity problems in Lipset? ? OVB (geography, institutions [historical colonial choices], culture [protestantism]), reverse causation, spurious correlation
- If you had to design a study in an ideal world to figure out who was right, how would you do it?

[Break]

### Institutions

This half of the class, we'll focus on institutions. Basically, these authors are saying that the relationship between growth and democracy is not that simple; there is this big mediating factor: INSTITUTIONS!

- What are institutions? [the rules, norms, laws that structure the incentives present in a society. So different institutions can offer different incentives, resulting in different outcomes. ] Talk about property rights.
- Why are they important? What do A&R say?
- What are the different types of institutions that A&R bring up? Exclusive and inclusive economic and political institutions – go through the definitions

### *Equilibria*

- The outcomes A&R are describing are *equilibrium* outcomes
- What is an equilibrium?
  - o Neither party has incentives to do anything different – doing so would make them worse off.
- What reinforces the “bad” and “good” equilibria that A&R talk about? [bad: exclusive economic institutions that make exclusive political institutions necessary. Good: property rights, inclusive economic institutions]

### *Shifting to Bates Chapter 9*

- How do you move from a bad equilibrium to a good one? In other words, how do you get a change in institutions?
- What is Bates' explanation for moving from a bad eq to a good eq?
  - o Exogenous shocks
- If we don't have these exogenous shocks, is change impossible? In the absence of exogenous shocks, what institutions seem important to change? independent courts and law? elections? property rights? legalism?