

Economics 797
Seminar in Theoretical Institutional Economics
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(Tuesday at 6pm)
Instructor: Samuel Bowles

Objectives. This seminar is an introduction to recent research -- both theoretical and empirical -- concerning institutions and their evolution. It is designed for those simply wanting a survey of this literature as well as for those intending to do research in the field.

Requirements: Members of the seminar are expected to participate in discussions of the readings, present and critique occasional readings in the members area of interest, and prepare a seminar paper, the proposal for which will be presented to the seminar at mid semester, and a draft of which will be presented late in the semester. Ideally the seminar paper will present original research, but, where appropriate given the member's research plans, a critical review of an important body of literature, or a draft of a dissertation prospectus may also be considered. It will be useful for participants to be familiar with the material covered in economics 700; the seminar is open to those currently taking this course.

Readings: Those who have not completed economics 700 should read my *Economic Institutions and Behavior* prior to the beginning of the semester (including the problem sets).

Seminar topics and Readings

Note: topics and readings will be altered in light of seminar participants interests and research topics; the readings not marked with an asterisk will be discussed in class.

1 Introduction

2 Getting the Rules Right: an overview.

F. A. Hayek, "The Use of Knowledge in Society" *American Economic Review*, 35,4, (September, 1945), 519-530

Joseph Stiglitz, *Whither Socialism*, Chapter 1 ("The Theory of Socialism and the Power of Economic Ideas")
*1-6, 6-14.

Michael Taylor, "Good Government: On Hierarchy, Social Capital, and the Limitations of Rational Choice Theory," in *J. Political Philosophy*, 4,1(March,1996):1-25.

Ernst Fehr and Simon Gaechter, *Homo Reciprocans and Human Cooperation*, @University of Zurich, 1998.

* S. Bowles and H. Gintis, "Efficient Redistribution: New Rules for Markets, States and Communities," *Politics and Society*, 24,4(December,1996): 307-342 (you may want to look at the responses to this paper by John Roemer, Erik Olin Wright, Steven Durlauf, Karla Hoff, David Gordon and others in the pages immediately following).

- * F. A. Hayek, *The Fatal Conceit: The Errors of Socialism*, 6-28. ("Was Socialism a Mistake?" and "Between Instinct and Reason")
- * David Miller, "The Fatalistic Conceit" (Review of Hayek) *Critical Review*, Spring, 1989, 310-323.
- * John Roemer, "An Anti Hayekian Manifesto" *New Left Review*, 211(May/June, 1995):112-128 (essay review of Stiglitz)
- * Douglass North, "Institutions" *J.Econ. Perspectives*, 5,1 (Winter, 1991):97-112.
- * Thrainn Eggertsson, "No experiments, monumental disasters: Why it took a thousand years to develop a specialized fishing industry in Iceland," *J.Econ. Behavior and Org.*, 30(1966):1-23.
- * Avner Greif, "Microtheory and recent developments in the study of economic institutions through economic history," in David Krebs and Kenneth Wallis, eds., *Advances in Economics and Econometrics: theory and applications*, Volume II, Cambridge University Press, 1997.

3 Evolutionary Social Science

- Talcott Parsons, "Evolutionary Universals in Society" *Am. Soc. Rev.* 29:3 (June, 1964) (reprinted in Parsons, *Sociological Theory and Modern Society*, 490-520.)
- Peyton Young, *Individual Strategy and Social Structure: An Evolutionary Theory of Institutions* (Princeton, Princeton University Press, 1998), chapters 1 and 10, pp. 3-24; 144-150.
- Robert Boyd and Peter Richerson, "The Evolution of Norms: An Anthropological View," *J.Institutional and Theoretical Economics*, 150/1(1994) 72-87.
- * L.L.Cavalli-Sforza and M.W.Feldman, *Cultural Transmission and Evolution*, Introduction, 53-76.
- * Robert Boyd and Peter Richerson, *Culture and the Evolutionary Process*, 1-18, 280-294 ("Overview" and "Conclusion"), 37-38 ("Social norms...and desires"), ch 5 ("Biased Transmission and the Sociobiology Debate") 132-137, 157-171.
- * Richard Dawkins, *The Selfish Gene*, 189-201 ("Memes: The New Replicators")
- * Jack Knight, *Institutions and Social Conflict*, "Contemporary Theories of Institutional Change," and "Rationality and Social Institutions" 9-19.
- * Andrew Schotter, *The Economic Theory of Social Institutions*, 1-17, 20-30, ("The Nature and Function of Social Institutions", "State of Nature Theory and the Rise of Social Institutions".)
- * Armen Alchian, "Uncertainty, Evolution, and Economic Theory," *J.Political Econ.*, 58,3 (June, 1950) 211-221.
- * Janos Kornai, "The Affinity of Ownership Forms and Coordination Mechanisms: The Common Experience of Reform in Socialist Countries," *J.Econ. Perspectives*, 4,3 (Summer, 1990) 131-147.
- * Ernst Mayr, *Toward a New Philosophy of Biology*, essays 6 and 8 ("An Analysis of the Concept of Natural Selection" and "Adaptation and Selection") 95-115, 133-148.
- * Richard Lewontin, "The Shape of Optimality," in John Dupre, ed., *The Latest on the Best: Essays on*

Evolution and Optimality, 151-159.

- * Douglas Futuyma, *Evolutionary Biology*, esp chapters 2 and 9 ("The Ecological Context and Evolutionary Change" and "Adaptation")
- * Richard Dawkins, *The Blind Watchmaker*, 1-18 ("Explaining the very improbable.")
- * John Maynard Smith, *Evolution and the Theory of Games*, vii - 23,
- * Alan Grafen, "The Hawk Dove Game Played Between Relatives" *Animal Behavior*, 27:3(1979) 905-907.
- * John T. Bonner, *The Evolution of Culture in Animals*, 3-29, 158-190.
- * L.L.Cavalli-Sforza and M.W.Feldman, *Cultural Transmission and Evolution* 3-53, 340-366.
- * S. J. Gould and R.C.Lewontin, "The spandrels of San Marco and the Panglossian paradigm: a critique of the adaptationist programme," *Proceedings of the Royal Society (Biology)*, 205(1979):581-598.
- * Robert Pollak and Susan Watkins, "Cultural and Economic Approaches to Fertility: Proper Marriage or *Mesalliance*?" *Population and Development Review*, 19,3 (September, 1993):467-496.

4 Communities as Institutions

- Samuel Bowles and Herbert Gintis, "The moral economy of communities: structured populations and the evolution of pro-social norms," *Evolution and Human Behavior*, 1998.
- Robert Sampson, et al. "Neighborhoods and Violent Crime: A multi-level study of collective efficacy," *Science*, 277(August 15, 1997):918-924.
- Steven Durlauf, "The Memberships Theory of Inequality," unpub, 1997.
- Avner Grief, "Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies," *Journal of Political Economy*, October, 1994.
- * Samuel Bowles and Herbert Gintis, "Optimal Parochialism: the dynamics of trust and exclusion in groups," 1997.
- * Ernst Gellner, *Nations and Nationalism*, 1-52, 136-143.
- * Pagano, Ugo. "Can Economics Explain Nationalism?" in Albert Breton, Gianluigi Galeotti, Pierre Salmon, and Ronald Wintrobe, *Nationalism and Rationality*, Cambridge University Press, 1995, 173-203.
- * Ronald Wintrobe, "Some Economics of ethnic capital formation and conflict," in Albert Breton, Gianluigi Galeotti, Pierre Salmon, and Ronald Wintrobe, *Nationalism and Rationality*, Cambridge University Press, 1995, 43-70.
- * W.D. Hamilton, "Innate Social Aptitudes of Man: an Approach from Evolutionary Genetics," in Robin Fox, ed., *Biosocial Anthropology*, New York: John Wiley and Sons, 1975, 115-132.
- * R.Boyd and Peter Richerson, "Culture and Cooperation" in Jane Mansbridge, *Beyond SelfInterest*, 111-132.

5 Applications: Group Selection and the Evolution of Norms

- J. Soltis, Robert Boyd, and Peter Richerson, "Can Group-Functional Behaviors Evolve by Cultural Group Selection? An empirical test," *Current Anthropology*, 36,3(1995):473-494.
- Samuel Bowles and Herbert Gintis, *The Evolution of Strong Reciprocity*, Santa Fe Institute, 1998.
- Eliot Sober and David Sloan Wilson, "Human Groups as Adaptive Units," in *Unto Others: the evolution and psychology of unselfish behavior*. (Cambridge: Harvard, 1998):159-194.
- *Ernst Fehr, Simon Gaechter and Georg Kirchsteiger, "Reciprocity as a Contract Enforcement Device: Experimental Evidence," *Econometrica*, 65,4(July,1997):833-56.
- * Ernst Fehr and Jean-Robert Tyran, "Institutions and Reciprocal Fairness" *Nordic J of Pol. Econ.*, January 1996, 1-18.
- * Chen, Kuang-Ho; Cavalli-Sforza, L. L. and Feldman, M. W. "A Study of Cultural Transmission in Taiwan," *Human Ecology*, 1982, 10(3), pp. 365-382.
- * Cavalli-Sforza, L. L., Marcus Feldman et. al. "Theory and Observation in Cultural Transmission," *Science*, October 1, 1982, 218, pp. 19-27.
- * Samuel Bowles, "Endogenous Preferences: The Cultural Consequences of Markets and other Economic Institutions," *J.Econ.Lit.*, 1998.
- * Bruno Frey, "A Constitution for Knaves Crowds out Civic Virtues", *The Economic Journal*, (July, 1997):1043-1053.
- *Bruno Frey, "The cost of price incentives: an empirical analysis of motivation crowding out," *American Economic Review*, 87,4(September, 1997): 746-755.
- * David Sloan Wilson and Elliot Sober, "Reintroducing group selection to the human behavioral sciences," *Behavior and Brain Sciences*, 17(1994):585-654.
- * David Sloan Wilson, "Group Selection," Evelyn Fox Keller and Elisabeth Lloyd, eds., *Keywords in Evolutionary Biology*, 145-148. (This volume is a useful reference work, as are Mayr and Futuyma, below, and the *Cambridge Dictionary of Biology*.)
- * Boyd and Richerson, *Culture and the Evolutionary Process*, Chapter 7 ("Frequency Dependent Bias and the Evolution of Cooperation") 204-207, 223-240.
- * David Sloan Wilson and Elliot Sober, "Reviving the Superorganism," *Journal of Theoretical Biology*, 136(1989):337-356.
- * Robert Axelrod, "The Emergence of Cooperation among Egotists," *American Political Science Review*, 75,2 (June, 1981), 306-318.
- * Ernst Fehr, Erich Kirchler and Andreas Weichbold, "When Social Forces Remove the Impact of Competition: Social Exchange in Experimental Labor Markets," October, 1994.
- * David Kreps, "Corporate Culture and Economic Theory," in James Alt and Kenneth Shepsle, eds,

Perspectives on Positive Political Economy, 90-144.

- * Heinz Hollander, "A Social Exchange Approach to Voluntary Cooperation," *American Economic Review*, 80(5)(December 1990):1157-1167.
- * Stephen Jones, *The Economics of Conformism*, chapter 3 ("A Model of Conformism,") 38-62.
- * Jack Knight, *Institutions and Social Conflict*, Chapter 4 ("The Spontaneous Emergence of Social Institutions") 84-122.
- * Peter Taylor, Community, in Keller and Lloyd, *Keywords in Evolutionary Biology*, 52-60.
- * Paul Seabright, "Is Cooperation Habit Forming?" in P Dasgupta, and K.-G. Maler, eds, *The Environment and Emerging Development Issues*, (forthcoming).

6 The Property Rights Paradigm and the Evolution of Property Rights

Robert Sugden, *The Economics of Rights, Cooperation and Welfare*, 55-83, 87-103 (AProperty@ and APossession@).

Peyton Young, *Individual Strategy and Social Structure: An Evolutionary Theory of Institutions* (Princeton: Princeton University Press, 1998), chapters 1 and 10, pp. 3-24; 144-150.

- * John Maynard Smith, *Evolution and the Theory of Games*, vii-9 (APreface and Introduction@) 94-105 (ASymmetric Games: ownership), 180-188, 191-194 (some basic results, plusADynamics and Stability@ and AGames Between Relatives@)
- * Harold Demsetz, "Toward a Theory of Property Rights," *American Economic Review*, 57(1967):347-359.
- * Robert Coater "The Coase Theorem," John Eatwell, et. al., eds., *The New Palgrave*, 457-459.
- * Joseph Farrell "Information and the Coase Theorem," *J.Econ. Perspectives*, 1:2 (Fall, 1987) 113-129.
- * Harold Demsetz, "The Exchange and Enforcement of Property Rights," *J. Law and Economics*, 7(1964), 11-26.
- * Ronald Coase, "The Problem of Social Cost" *J. Law and Econ.*, 1(1960) 1-44.
- * Morton Horwitz, *The Transformation of American Law*.
- * Ensminger, Jean. *Making a Market: The institutional transformation of an African society*. Cambridge: Cambridge University Press, 1996.
- * Allen, Robert. *Enclosure and the Yeoman*. Oxford: Clarendon Press, 1992.
- * Richard C. Hoffman, "Medieval Origins of the Common Fields," in William Parker and Eric Jones, *European Peasants and Their Markets*, 23-71.
- * Donald McClosky, "The Persistence of English Common Fields," in Parker and Jones, 73-119.
- * D.Bruce Johnson, "The Formation and Protection of Property Rights among the Southern Kwakiutl Indians," *J.Legal Studies*, 15(January 1986):41-67.

- * Kathryn Firmin-Sellers, *The Transformation of Property Rights in the Gold Coast: An empirical analysis applying rational choice theory*, Cambridge University Press, 1996.
- * Terry Anderson and P.J.Hill, "The Evolution of Property Rights: A Study of the American West," in *J.Law and Econ.*, 18 (April 1975):163-179.
- * Jack Knight, *Institutions and Social Conflict*, ch 2 ("The Primary Importance of Distributional Conflict") 21-47.
- * Andrew Schotter, *The Economic Theory of Social Institutions*, 43-45 ("Inequality Preserving Institutions: Property Rights and the Status Quo").

7 Presentation of paper topics

8 Property Rights, Allocative Efficiency and Class Structure

- Ugo Pagano, "Property Rights Equilibria and Institutional Stability," *Economic Notes*, 20, 2 (1991), 189-228.
- Karla Hoff, "Market Failures and the Distribution of Wealth: A Perspective From the Economics of Information," *Politics and Society*, December 1996.
- Ben Craig and John Pencavel, "Participation and Productivity: A Comparison of Worker Cooperatives and Conventional Firms in the Plywood Industry," *Brookings Papers on Economic Activity: Microeconomics* (1995):121-174.
- * Ashok Kotwal and Mukesh Eswaran, "Credit and Agrarian Class Structure," in Bardhan, ed., *The Economic Theory of Agrarian Institutions* (Oxford: Clarendon, 1989) 166-184.
- * Joseph Stiglitz, "Rational Peasants, Efficient Institutions, and a Theory of Rural Organization," in P. Bardhan, *The Economic Theory of Agrarian Institutions*, (Oxford, Oxford University Press, 1989) 19-29.
- * Jean-Jacques Laffont and Mohamed Salah Matoussi, "Moral Hazard, Financial Constraints and Sharecropping in El Oulja," *Review of Economic Studies* 62(1995):381-399.
- * Abhijit Banerjee and Maitreesh Ghatak, "Empowerment and Efficiency: The Economics of Tenancy Reform," unpublished, 1996.
- * Pranab Bardhan, Samuel Bowles, and Herbert Gintis, "Wealth inequality, wealth constraints, and economic performance," in Anthony Atkinson and Francois Bourguignon, eds., *Handbook of Income Distribution*, 1998.
- * Amartya Sen, *Poverty and Famines: An Essay on Entitlement and Deprivation*, 1-9, 45-51., 154-173 ("Poverty and Entitlements," "The Entitlement Approach," "Entitlements and Deprivation," and "Exchange Entitlement.")
- * John Roemer, "New Directions in the Marxian Theory of Exploitation and Class," in Roemer, *Analytical Marxism*, 81-95 *95-110, 111-113.
- * Ugo Pagano and Robert Rowthorn, "The Competitive Selection of Democratic Firms in a World of Self Sustaining Institutions," in Ugo Pagano and Robert Rowthorn, *Democracy and Efficiency in the Economic Enterprises*. London: Routledge, 1996, 116-145.

- * Samuel Bowles and Herbert Gintis, "The Distribution of Wealth and the Viability of the Democratic Firm," in Ugo Pagano and Robert Rowthorn, *Democracy and Efficiency in the Economic Enterprises*. London: Routledge, 1996, 82-97.

9 Managing the Commons

- Pranab Bardhan, "Analytics of the Institutions of Informal Cooperation in Rural Development," *World Development*, 21,4(1993) 633-39.
- Elinor Ostrom and Roy Gardner, "Coping with Asymmetries in the Commons: Self Governing Irrigation Systems Can Work," *J. Economic Perspectives*, 7,4(Fall, 1993) 93-112.
- Paul Seabright, "Managing Local Commons: Theoretical Issues in Incentive Design," *J. Economic Perspectives*, 7,4(Fall,1993) 113-134.
- * D.W.Bromley, ed., *Making the Commons Work*.
- * Robert Putnam, *Making Democracy Work: Civic Traditions in Modern Italy*, chapter 6 ("Social Capital and Institutional Success") *163-166 167-185.
- * Jeff Dayton-Johnson and Pranab Bardhan, "Inequality and Conservation on the Local Commons" June, 1996.
- * Jean Marie Baland and Jean-Philippe Platteau, "Inequality and Collective Action in the Commons" June, 1996.
- * Robert Wade, *Village Republics*, chapters 1, 10-11.
- * Robert Wade, "The Management of Common Property Resources: Collective Action as an Alternative to Privatization or State Regulation," *Cambridge J. of Economics*, 11(1987):95-106.
- * Elinor Ostrom, *Governing the Commons*, chapters 1 and 6.
- * Sara Singleton and Michael Taylor, "Common Property, Collective Action, and Community," *Journal of Theoretical Politics*, 4,3(1992):309-324.
- * David Feeny et al., "The Tragedy of the Commons: Twenty-two Years Later," *Human Ecology*, 18,1(1990):1-19.
- * J.K.Boyce, "Technological and Institutional Alternatives in Asian Rice Irrigation," *Economic and Political Weekly*, 23:13 (1988) A6-A22.
- * D.W.Bromley and M.M.Cernea, "The Management of Common Property Resources," World Bank Discussion Paper Number 57 (1989).

10 Rent Seeking and the State

- Dennis Mueller, *Public Choice, II*, 229-246 ("Rent Seeking").

Adam Przeworski, "On the design of the state: a principal agent perspective," April, 1996.

Donald Wittman, "Why Democracies Produce Efficient Results," *J.Political Economy*, 97,6 (1989):1395-1424.

* Boaventura Santos, "Participatory Budgeting in Porto Alegre: Toward a Redistributive Democracy" unpublished, 1996.

* Asim Dasgupta, "Decentralization Experiments in the State of West Bengal, India" unpublished, 1996.

* Michael Taylor, *The Possibility of Cooperation*, 125-179 ("The State," and "Epilogue")

* Leif Johansen, "The Bargaining Society and the Inefficiency of Bargaining," *Kyklos*, 32,3(1979):497-522.

* Eric Rasmusen, *Games and Information*, section 3.3 ("Chicken, the War of Attrition and Correlated Strategies") 73-76.

* Paul Milgrom and John Roberts, "Bargaining costs, influence costs, and the organization of economic activity," in James Alt and K. Shepsle, eds. *Perspectives on Positive Political Economy*, *57-72,72-89.

* Adam Przeworski, *The State and the Economy Under Capitalism*, 4-29 ("The Rule of the People")

* Anne Krueger, "The Political Economy of the Rent Seeking Society," *American Economic Review*, 64 (June, 1974) 291-303 (reprinted in Buchanan, et. al.).

* James Buchanan, et. al., *Toward a Theory of the Rent Seeking Society*.

* Warren Samuels and N. Mercurio, "A Critique of Rent Seeking Theory," in D.C. Collander, ed., *Neoclassical Political Economy*, 55-70.

11-13 **Presentation of seminar papers** (meetings at my house)