

The New Comparative Economics

Djankov, Glaeser, La Porta, Lopez-de-Silanes, Shliefer

Glaeser et al., "The New Comparative Economics"

1. Introduction

- Traditional Comparative Economics: "Socialism vs Capitalism"
Problem: Not interesting anymore
- Modern Comparative Economics: "Alternative capitalist models"
Key features: private vs public institutions. In other words (in extremes): disorder vs dictatorship

Glaeser et al., "The New Comparative Economics"

1. Introduction

- Disorder (no state control, full democracy)
 - Bads: risk of private expropriation in forms of banditry, murder, theft, bribes in courts, etc.
 - Example: "Wild West"
- Dictatorship (state control)
 - Bads: risk of expropriation by state and its agents through taxation, violation of property, etc.
 - Example: "wartime communism" in USSR

Glaeser et al., "The New Comparative Economics"

1. Introduction

- Both extremes are BAD. An optimal regime lies in the middle. Can we say that the shift towards one of the extremes is strictly better? No strict evidence:

	Success	Failure
Disorder	Central Europe	Modern Russia
Dictatorship	China	USSR

- Reason: different regimes may be optimal in different cases!

Glaeser et al., "The New Comparative Economics"

2. Basic Framework

- Institutions need to provide a trade-off b/w dictatorship and disorder
- Why there is always a tradeoff: A state that can control disorder, is more dictatorial!
- Total social loss = (losses due to disorder) + (losses due to dictatorship)
- Can represent on a graph:

Glaeser et al., "The New Comparative Economics"

2. Basic Framework

Figure 1: Institutional Possibilities

Glaeser et al., "The New Comparative Economics"

3. Application: Institutional Design

We examine 3 cases:

1. France and England and their legal systems (12-13 centuries)
2. The rise of the regulatory state in the US (end of 19th-beginning of the 20th century)
3. Post-communism transition

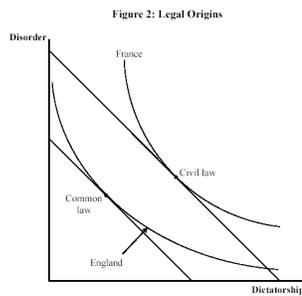
Glaeser et al., "The New Comparative Economics"

France & England

- France was decentralized, with high inequality => the efficient choice was a legal system with a higher level of dictatorship => adopted "civil law"
- England was peaceful, and the King maintained control over the country => adopted "common law"

Glaeser et al., "The New Comparative Economics"

France & England



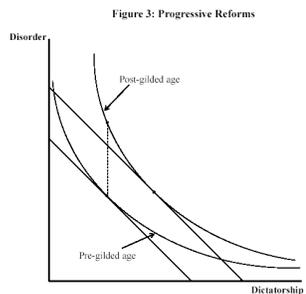
Glaeser et al., "The New Comparative Economics"

US: the Regulatory State

- Before 1900: most of disputes were resolved by private litigation over contracts
- After the Civil War, industrialization increased inequality, shifted the IPF outwards, made the reliance of courts inefficient
- => more regulation became an efficient choice

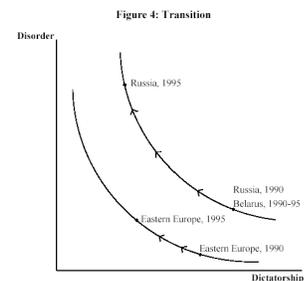
Glaeser et al., "The New Comparative Economics"

US: the Regulatory State



Glaeser et al., "The New Comparative Economics"

Institutions in Transition



Glaeser et al., "The New Comparative Economics"

Transplantation of Institutions

- (Most of) the cases we considered: the country made its own choice
- But sometimes, the choice can be enforced, for example, transplanted (through colonization). Example: Napoleon->Spain, Holland; England->the US, Canada, India; Germany->Switzerland, Japan, etc.
- This is not always optimal & leads to over-regulation in developing countries!

Transplantation of Institutions

