

The New Comparative Economics

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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

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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

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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!

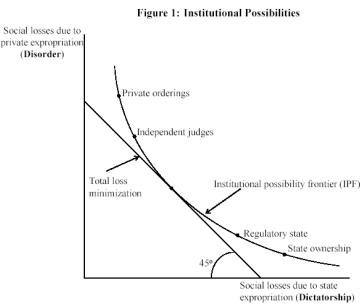
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2. Basic Framework

- 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:

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2. Basic Framework



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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

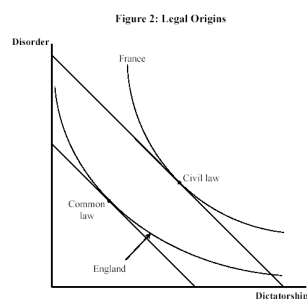
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France & England

- 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"

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France & England



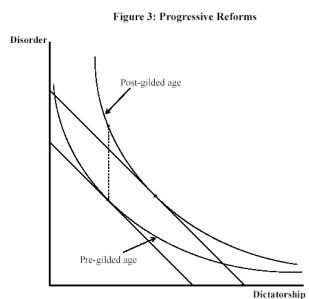
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US: the Regulatory State

- 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

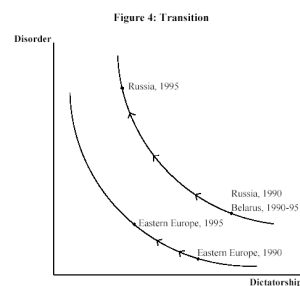
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US: the Regulatory State



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Institutions in Transition



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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!

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Transplantation of Institutions

