

# ***An Austrian Inquiry into the Wealth of Nations: Incorporating Austrian Economics into Economic Development***

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## **Abstract**

This paper reviews our combined experiences teaching a graduate level course in development economics. Our goal is to provide an overview of the course with an emphasis on the connection with Austrian themes. A course in this area provides a unique opportunity for the instructor to incorporate certain elements of Austrian economics.

## **Introduction**

For the past five years we have taught a one-semester, graduate-level course in development economics at West Virginia University (Leeson 2005-2007; Coyne 2007-2010) and George Mason University (Leeson 2007-present). While this course is not specifically focused on Austrian economics, we draw on many Austrian themes throughout the semester. This paper draws on our combined experiences teaching this course over the past several years. Our goal is to provide an overview of the course with an emphasis on the connection with Austrian themes. As we will show, a course in development economics provides a unique opportunity for the instructor to incorporate certain elements of Austrian economics. The opportunity is unique because in the field of development economics certain Austrian themes are not considered heterodox, but instead tend to align with what are typically considered to be mainstream topics.

To provide a specific example, consider research in the areas of institutions, which refer to the formal and informal rules governing human behavior (North 1990). The realization that ‘institutions matter’ is recognized by those throughout development economics. Austrians have always place institutions at the center of their analysis which means there is a natural alignment between development economics and Austrian economics. Similarly, Austrians have always emphasized the importance of entrepreneurship which is now a central focus of research in development economics.

In order to provide an overview of the topics we cover, we have provided a course outline, including readings—books and academic journal articles—in the Appendix. The details of the main research discussed throughout this essay can be found in the Appendix. This is by no means the only way to teach a development economics course and we are constantly revising the content. That said, we have found that the general topics covered in the Appendix to be an effective means of introducing students to the central scholars—past and present—and important research—existing research and future areas of research—in the field of development economics. At the graduate level, our overarching goal is to provide students with the tools to be not just consumers of existing research, but producers of original scholarship. In line with this goal, the main assignments in our course are a series of short papers culminating in a full-length, journal-quality article. With some work, the structure of the course and readings could be modified for an undergraduate course in this area. In what follows we provide a brief overview of the main areas that we typically cover in this semester-long course. Given that our focus in this paper is on how Austrian themes can be incorporated in an economic development course, we give varying levels of detail to different topics depending on how they ‘fit’ with these themes.

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## Knowledge and Incentives

We frame the development course (Module 1) as an exercise in comparative institutional analysis and begin by having students read James Buchanan's 1963 presidential address to the Southern Economic Association, where he posed the question—"What Should Economists Do?" We have found that graduate students are rarely asked to consider the answer to this question during their core training. The purpose of Buchanan's article was to challenge the prevailing orthodoxy that treated the economic problem of society as one of allocating scarce resources among competing ends. According to Buchanan, the allocation paradigm misconstrued the nature of the science of economic as well as the role of the economist. Instead of focusing on the issue of allocation, Buchanan argued that economists should concentrate on exchange relationships and the institutions within which exchange takes place. This leads naturally to a consideration of different institutional arrangements, how they impact economic outcomes, and hence development. As the 'rules of the game,' institutions influence the payoffs attached to various courses of action and therefore directly influence development for better or worse.

Issues of comparative institutional analysis were at the heart of the socialist calculation debate which emerged in the late 19<sup>th</sup> century and continued into the 20<sup>th</sup> century. The debate centered around the pros and cons of socialist versus capitalist institutions for achieving advanced material production. One argument against socialism was that participants would face incentive issues that would preclude the efficient allocation of resources. In contrast, proponents of socialist institutions argued that incentives would not be an issue because people's preferences would change when socialist institutions were introduced. Ludwig von Mises (1920) added a new aspect to this debate by assuming away the incentive issue and shifting focus to the problem of 'economic calculation.' Economic calculation refers to the decision-making process of how to best allocate resources among the array of feasible alternatives

Mises's calculation argument proceeded in three steps. First, without private property in the means of production, there would be no market for the means of production. Second, without a market for the means of production, there would be no monetary prices established for the means of production. Third, without money prices reflecting the relative scarcity of the means of production, there would be no way for economic planners to assess the opportunity cost of resources: there would be no way to engage in rational economic calculation.

The response to Mises's critique by Oskar Lange, Abba Lerner and others recognized the calculation problem, but argued that it was not as damning to the socialist project as Mises thought. Instead, these authors argued, socialism could be at least as efficient as capitalism as long as central planners used the price system as if they were acting in a market economy. The resulting 'market socialist' alternative would operate as follows. Markets would be allowed, but only in final consumer goods and labor markets. The productive sector would be nationalized and central planners would provide strict production guidelines to firms. These instructions would direct the managers of state enterprises to set price equal to marginal cost and to produce that level of output that minimizes average cost. Shortages or surpluses would be dealt with through a process of trial and error using inventory as a signal. The result, it was argued, would be at least as efficient as market outcomes and possibly more so since the "rationalization of production" achieved by abolishing most markets would eliminate supposed market failures (e.g., externalities, monopoly, and business cycles).

In response to the market socialists, Hayek (1948) argued that a socialist economy, even with markets in consumer goods and labor, could not achieve the efficiency of markets. Hayek emphasized that the market socialists were preoccupied with the notion of a static equilibrium. The market socialist alternative attempted to substitute the government for the fictitious Walrasian auctioneer. The problem, of course, is that real-world markets are not in fact coordinated by a Walrasian auctioneer. In real-world markets, individual actors must themselves come to discover the prices and quantities that reflect an efficient allocation of resources and clear markets. Hayek (1945) argued that there was no way for the members of the planning board to possess or acquire the context specific knowledge of 'time and place' that were captured in market prices. Market socialists were acting as if the only relevant information was scientific (i.e., 'book knowledge'). But in reality much of the knowledge that market participants rely on is inarticulate and context specific. Hayek emphasized that markets allowed participants to discover that which market socialists assumed already existed *ex ante*.

Reviewing the specifics of the calculation debate early in the development course is important for three reasons. First, it provides students with some insight into the history of thought of the economics discipline, which is becoming exceedingly rare in graduate programs. Second, it allows for a specific discussion of how institutions play a central role in development or the lack thereof. Third, it provides students with an understanding of the importance of both knowledge and incentives and how these factors are influenced by institutions. The various topics covered throughout the course of the semester can then be framed and discussed within this context.

### **The Goals of Development Policy**

The purpose of Module 2 is to review the standard metrics of development as well as some alternatives to these measures. Standard metrics include indicators of wealth (e.g., GDP, GNP, per capita GDP, per capita GNP, and economic growth), health indicators (e.g., doctors per capita, immunizations, life expectancy, infant mortality, access to sanitation and water, etc.), education indicators (e.g., enrollment levels, literacy rates, etc.), measures of civil and political freedoms, indicators of environmental quality (e.g., pollution and air quality, etc.), and social justice (e.g., Gini coefficients).

After reviewing the metrics there is an opportunity to engage students in a discussion of some of the issues with these metrics. For example, most would argue that these metrics are proxies for a ‘good life.’ However, there is the issue that different people weigh these goods differently, sometimes dramatically so. A related issue for discussion is whether the standard development indicators suffer from a ‘Western bias’ of what a good life entails.

Also relevant to understanding what development entails is Amartya Sen’s (1999) ‘capabilities approach’ to development. Sen argues that standard wealth measures are too narrow as indicators of development. In contrast, the capabilities approach focuses on the well-being of individuals in terms of their capabilities to function and pursue those courses of action that allow them to live a worthy and dignified life. Sen’s capabilities approach has led to a broadening of the goals of development by expanding the focus from solely income considerations to the well-being of individuals in terms of their capabilities to function and pursue the courses of action which allow them to live a worthy and dignified life. This is reflected in some of the metrics discussed above—health, civil and political freedoms, social justice, etc.—as well as in the creation of new measures such as the Human Rights Index produced by the United Nations.

When discussing Sen’s capabilities approach, there is also an opportunity to discuss Hayek’s concept of freedom in *The Constitution of Liberty* (1960). Hayek argued for the importance of private spheres of action to allow people to pursue the plans they choose. One of the tensions with the capabilities approach is that it requires freedom from state coercion. At the same time, Sen assigns an important role to the state in terms of providing and protecting people’s capabilities. A key issue is the tradeoff between coercing some to ensure the capabilities of others. Hayek’s vision of what freedom entails provides a potential solution to this dilemma because it ensures all people a sphere of autonomy that necessarily insulates them from state coercion.

### **Getting the Policies Right**

This module (Module 3) of the course provides the instructor with the opportunity to present the history and evolution of modern development economics. The professor can begin by providing a brief history starting with Adam Smith’s (1776) *An Inquiry in the Nature and Causes of the Wealth of Nations*. The discussion can then move into the evolution of modern development economics.

One way to present this material is to start with some of the relevant current events from the 1920s up through the 1940s to provide students with the context in which modern development economics evolved. Important events include, but are not limited to: (1) the Great Depression, which led to skepticism regarding the stability of capitalism; (2) the Keynesian revolution in macroeconomics, which emphasized aggregates and government as a corrective to market failures; (3) decolonization following World War II, which resulted in numerous backward countries; (4) the creation of the United Nations and its agencies (the IMF, World Bank) following World War II, which were focused on development issues.

Within this context of world events the instructor can then discuss how the central theme of early modern development economics was on ‘getting the policies right.’ Of course what constituted the ‘right’ policies changed over time. Starting in the 1940s there was an emphasis on central planning through big push style industrialization and import-substitution. Based on the work of Paul Rosensein-Rodan and later Walt Whitman Rostow, the logic behind these policies was that development required large-scale, coordinated investments by government. If implemented correctly, the big push would result in countries reaching a take-off stage of development after which growth would be self sustaining.

Starting in the 1970s emphasis shifted from big push-type policies (although these policies still played a key role in development) to a set of policies that would eventually become known as the “Washington Consensus.” The Washington Consensus is basically a set of free market policies—e.g., private property rights (privatization), free trade (trade liberalization), deregulation, monetary and fiscal reform and stability, etc.

Finally, in reviewing the evolution of development economics, there is an opportunity for the instructor to make the connection with the evolution of macroeconomic growth models and what they mean for development policy. Easterly’s (2005) article, “National Policies and Economic Growth: A Reappraisal,” provides a good overview of these issues and also provides an important contrast between the policies approach to growth and the institutions approach to growth. The policies approach is focused on how government policies can influence development in the short run while the institutions approach is focused on how changes to the underlying institutions of a society are required for sustainable development.

### **The Failure of Development Aid**

One of the main debates in the field of economic development centers around the effectiveness of aid for generating sustained development. The purpose of Module 4 is to review the major theoretical and empirical literature in this area. The instructor may provide a review of the major types of aid (e.g., bilateral aid, multilateral aid, humanitarian aid, military aid, etc.) and the relative magnitude of each type of assistance. It also may make sense to discuss the different forms that assistance can take (e.g., cash transfers, physical equipment, grants, loans, etc.).

The discussion of aid can be framed in terms of the issues of knowledge and incentives discussed at the beginning of the class. In order to be effective, those that distribute (e.g., governments and aid agencies) and receive aid must have the incentive to use it in the ‘right’ way. Likewise, those same parties must have the relevant knowledge to allocate aid correctly. As discussed earlier, the existing incentives and knowledge are a function of the institutions in the country receiving aid. Given this context, the instructor can discuss the various trends in foreign aid, which at various times have focused on some combination of the investment gap in physical capital, the investment gap in human capital, overpopulation and contraception, conditionality, and debt forgiveness. Books by Bauer (2000), Easterly (2001, 2006) and Sachs (2005), as well as the various journal articles listed in Module 4 of the Appendix cover the various arguments for and against aid. These various trends can all be framed in terms of the course’s focus on the role of institutions and how they shape incentives and the discovery of knowledge.

### **Institutions and Private Property**

The purpose of these two modules (Modules 5 and 6) is to explore what the notion of institutions entails, as well as the main empirical findings regarding institutions and economic growth. In presenting the various literatures on institutions, one should make the distinction between ‘macro-institutional analysis’ and ‘micro-institutional analysis.’ Research in the former category tends to focus on empirically testing whether institutions are a primary or secondary determinant of growth, while the latter focuses on the underlying processes through which specific institutional arrangements emerge and evolve over time. The readings in these modules include research in both areas.

We typically begin with North (1990) who defines institutions and discusses their importance in our understanding of interactions and exchange. North’s work would fall under the broad category of micro-institutional analysis since he emphasizes the process of institutional emergence and change over time. For example, a key focus for North is the concept of ‘institutional path dependence,’ which focuses on how

certain institutional structures can become ‘locked in.’ This concept implies that relatively small factors can have large, long-run effects. In the context of development, the potential for institutional path dependence can contribute to our understanding of divergent development outcomes.

A second aspect of institutional analysis focuses on the macro-institutional empirical work on institutions. This research focuses on empirically determining the roles of institutions by employing a variety of institutional measures. The instructor might begin by reviewing the major institutional measures that typically used in empirical analysis (e.g., Economic Freedom of the World, Freedom in the World, the Polity project, etc.). We typically focus on the important papers by Acemoglu, Johnson and Robinson (2001, 2002), listed in Module 5 of the Appendix, which find that institutions explain the observed variance in economic performance among former colonies. Also important are the papers by Glaeser et al. (2004) which provide a critique of Acemoglu, Johnson and Robinson and find no relationship between institutions and growth. They also raises the important issues of what exactly the institutional measures are capturing (e.g., actual institutions or the outcomes of institutions) as well as the limits of these measures. Another key paper in this strand of literature is by Rodrik, Subramanian and Trebbi (2004). They empirically analyze the impact of institutions, geography, and economic integration on growth and find that institutions are the primary driver of income.

The empirical literature on the ‘primacy of private property’ (Module 6 of the course outline) can be seen as an extension on the aforementioned work on institutions. The papers by Scully (1988), Gwartney, Holcombe and Lawson (1999), Johnson, McMillan and Woodruff (2002), and Acemoglu, Johnson and Robinson (2005) all find that well-defined private property rights are the main driver of economic development. While reviewing the various aspects of these papers the instructor should make the connection back to initial discussions in the class where the importance of property for creating proper incentives and allowing for rational economic calculation was established. As noted above, the instructor should take care to emphasize that while these studies play a role in isolating the main determinants of development, they focus on the macro role played by institutions while adding little insight into the underlying, micro-processes that drive the emergence and evolution of various institutional arrangements.

### **Politics, the Law, Geography, and Fractionalization**

The next four modules (Modules 7, 8, 9, and 10) focus on the role that political and legal institutions play in economic development. They also discuss how geography and fractionalization influence development. The topics of these modules are standard issues discussed in development economics and, as such, there is nothing exclusively ‘Austrian’ about these modules. That said, it is important for the instructor to discuss how the topics discussed in these modules influence institutions for better and worse. Given that the overarching theme of the course is the role played by institutions in creating incentives and the knowledge relevant for economic calculation, understanding the factors which influence institutions is crucial.

We begin our discussion of political constraints by focusing on the importance of constraints grounded in the ‘paradox of governance.’ The core dilemma is that the state must be simultaneously empowered to undertake activities which protect key institutions, such as private property, and constrained so that this power cannot be abused. One way to approach this issue is to provide overview of the field of public choice economics so that students have the necessary context of existing economic scholarship on politics and political constraints. We then compare and contrast ‘man-made constraints’ (e.g., self-enforcing private arrangements, the media, private pockets of power, etc.) with ‘state-made constraints’ (e.g., constitutions, separation of powers, federalism, etc.). The work by Barry Weingast (1995) on ‘market preserving federalism’ is important for understanding the feasibility of state-made constraints. A connection can be made between the importance of political constraints and the earlier discussion in Module 2, which focused on ‘the goals of development,’ and Hayek’s (1960) discussion about the importance of individual’s private spheres of autonomy for engaging in discovery.

Our discussion of legal institutions begins with a broad definition of what the notion of ‘law’ entails. This includes a consideration of three broad categories of law—customary law, common law and civil law. After discussing the types of law, we turn to a discussion of the empirical work in the area of legal institutions. The work by Glaeser and Shleifer (2002) focuses on ‘legal origins’ in order to understand what explains the different choices in legal institutions. They conclude that the choice in legal institutions

reflected the different power structures that existed in societies at the time of adoption. The work by Djankov et al. (2003) provides an economic analysis of courts with specific emphasis on how the law influences the ability of courts to effectively enforce private contracts. Using Hayek's *The Constitution of Liberty* (1960) as motivation, La Porta et al. (2004) focus on the effect of judicial checks and balances on economic freedom and political freedom. They find that judicial checks and balances are important mechanisms for ensuring the protection of freedom. This analysis provides the instructor with the opportunity to illustrate to students how work in the Austrian tradition can be operationalized in a manner that is more likely to have greater reach in the economic profession.

The macro-level, empirical institutional analysis discussed in the previous Module (Module 5) finds that institutions have a direct and primary impact on variations in economic growth. There is an alternative strand of literature, listed in Module 9 of the Appendix, which considers the role played by geography in development. A leading proponent of the 'primacy of geography' literature is Jeffrey Sachs (2001, 2003) who has several papers on the topic. These papers attempt to empirically isolate the effect of geography. In contrast to the 'institutions rule' literature, these papers find that geography, and not institutions, has a direct impact on income. According to this literature, it is not that institutions are irrelevant, but instead that they have a secondary effect on income.

Research in the area of 'fractionalization' (Module 10 in the Appendix) focuses on how ethno-linguistic diversity influences economic outcomes. The first strand of literature on this topic provides empirical macro analysis of the effect of fractionalization on growth. Easterly and Levine (1997) argue that fractionalization leads to bad policies and institutions resulting in economic stagnation. They contend that high levels of fractionalization can contribute to increased violent conflict, coordination problems regarding policy, increased rent seeking, and political instability. However, Easterly (2001) finds that good institutions, which protect minority rights and protect against expropriation, can resolve ethnic conflict.

The second strand of fractionalization literature focuses on the micro-level processes associated with the interaction of heterogeneous actors. Leeson (2005) argues that the problems associated with fractionalization are not the result of socially distant people per se. While the standard argument is that fractionalization results in bad policies and institutions, Leeson argues that bad institutions can also cause fractionalization leading to bad results. Leeson (2005, 2006, 2008) explores specific micro-level mechanisms which allow socially distant individuals to engage in mutually beneficial trade. Work in this area has clear Austrian connections as it focuses on emergent institutions and the process of discovering mechanisms which increase the extent of the market. At this point the instructor may wish to mention the importance of entrepreneurship both over and within institutions which comes later (Module 13) in the course. This connection is important for considering how institutions can evolve to deal with the potentially negative aspects of fractionalization.

### **Weak and Failed States and the Economics of Anarchy**

Economists have only recently begun to study 'weak' and 'failed' states. However, the issues associated with these states are important in economic development. Research in the area of 'anarchy' has a slightly longer history. But it is also a relatively young area of inquiry in the economics discipline. Both strands overlap greatly with Austrian themes of emergent institutions. The central issue that unites these areas of study is: How do people cooperate in the absence of effective formal, state-created rules and enforcement?

We discuss the answer to this question in the context of an exploration of the potential for informal norms to facilitate cooperation in a variety of contexts. Norms are privately created rules and mechanisms that facilitate interaction and cooperation. The relatively 'easy' case is one where there are small numbers of homogenous individuals. In such instances, mechanisms of reputation and social ostracism can effectively foster cooperation. However, conventional wisdom indicates that norms are less likely to facilitate cooperation among outlaws, socially diverse individuals, and where the prospects for violence are high. Recent research calls this conventional wisdom into account. The instructor can make a link back to the readings in the previous module (Module 10) on fractionalization. The relevant readings in the fractionalization module include Leeson (2005, 2006, 2008) who analyzes how socially diverse individuals can signal their true type in order to facilitate trade. In addition to highlighting these previous readings, the relevant readings from Module 11 include Leeson (2007c, 2007d, 2009) who explores the "laws of

lawlessness” to understand how cooperation can emerge among outlaws and where violence is likely. These readings, along with the others in this module, can be used to facilitate a discussion of the scope of informal norms for facilitating cooperation where formal, state-created rules are either absent or dysfunctional.

Another relevant issue in this subject area is the ability of outsiders to improve weak and failed states through a variety of interventions. Coyne (2008) discusses the various constraints facing occupiers attempting to reconstruct weak and failed states. These constraints include knowledge problems regarding the design of meta-institutions and public choice issues regarding the implementation of policies. The instructor may choose to discuss these issues in the context of efforts to ‘fix’ weak and failed states. Leeson (2007) and Leeson and Williamson (2009) discuss how a state of anarchy may be preferable in weak and failed states as compared to feasible institutional alternatives. The growing focus on the issue of state failure and anarchy provide an opportunity to incorporate Austrian themes of emergent institutions while discussing limits on knowledge as it relates to rationally designing formal institutions through central planning.

### **The Media, Entrepreneurship and Culture**

The final modules (Module 12-14) of our course consider the importance of media, entrepreneurship, and culture. We focus the discussion of media (Module 12) on the role of media in development. This includes a discussion of how private versus state ownership creates different incentives for political actors (Sen 1999; Besley and Burgess 2002; Coyne and Leeson, 2003; Besley and Prat 2006). We also consider the different ways that governments can manipulate the media (Leeson and Coyne 2005) and how media can facilitate institutional change through the creation of common knowledge (Coyne and Leeson 2009). A clear link can be made back to the discussions throughout the course on mechanisms of institutional change and evolution. How does media influence the reinforcement or change of existing institutions? What is the effect of government and private ownership influence the transfer of information that is relevant for development? These are just some of the questions that are relevant for economic development.

Entrepreneurship (Module 13) is at the center of the Austrian theory of the market process and is therefore a critical aspect of the process of economic progress and development. The market process refers to the continual reallocation of scarce resources to their highest valued use. We typically begin with Kirzner (1997) who provides an overview of the market process approach. We then make clear how the entrepreneur is at the center of this process. It is also crucial to make a link back to the concept of economic calculation discussed in Module 1. Prices and profit and loss are crucial to allowing entrepreneurs to engage in economic calculation which allows them to determine how to best reallocate resources. This calculation can only take place in the context of private property.

After establishing the importance of entrepreneurship for reallocating resources, we then discuss Baumol’s (1990) distinction between productive or unproductive entrepreneurship. Productive entrepreneurship is positive-sum in nature (e.g., innovation, arbitrage, etc.) while unproductive entrepreneurship is zero or negative-sum (e.g., rent seeking, crime, etc.). After making this distinction, it is important to make a connection back to the overarching theme of institutions. As the rules of the game, institutions create the payoffs to productive and unproductive activities. Where institutions assign a relatively high payoff to productive activities, entrepreneurs will be more likely to pursue positive-sum activities which are conducive to development. In contrast, where institutions assign a relatively high payoff to unproductive activities entrepreneurs will tend to pursue negative and zero-sum activities which are harmful to development. Coyne and Leeson (2004) apply the productive-unproductive distinction to the case of Romania which serves as an illustration of how these concepts can be applied in practice.

In addition to considering how existing institutions influence entrepreneurship, it is also important to consider how entrepreneurship can change institutions. Boettke and Leeson (2009) discuss not only the important role played by entrepreneurs within a given set of institutions, but also the important role they play in the discovery and shaping of meta-institutions within which subsequent exchange takes place. This a crucial issue to discuss because development ultimately requires ‘good’ institutions as discussed in Modules 5 and 6. The crucial issue then becomes understanding if, and how, these institutions can be established where they do not currently exist. A consideration of entrepreneurship over institutions can help to frame this issue.

The final module of the course (Module 14) considers the role of culture in development. In the broadest sense, culture refers to the set of beliefs, views, and attitudes which characterize a group. The focus on culture in economic development is relatively new, but cultural considerations are now considered central to understanding the wealth of nations. The discussion in this module should first focus on the meaning of culture and how it matters for development. North (2005) discusses the role of culture and belief systems in understanding the process of economic change and therefore is an effective means of framing this discussion. Boettke, Coyne, and Leeson (2008) discuss how culture serves as a foundation for the ‘stickiness’ of formal institutions.

Discussion can then turn to attempts to understand how culture influences economic outcomes. De Soto (1989) applies the case study method to understand the how culture facilitates cooperation in Peru in the face of dysfunctional formal institutions. Knack and Keefer (1997), Grier (1997), Barro and McCleary (2003), Guiso, Sapienza, and Zingales (2006), and Tabellini (2010) provide empirical studies of the relationship between culture and development. These papers provide a means of discussing the pros and cons of attempting to measure culture for empirical analysis.

There are clear connections with the topic of this module the previous modules of the syllabus. For example, culture can be understood as an informal institution which was discussed in Module 5. Relevant discussion topics include the evolution of culture, as well as the factors that can potentially prevent culture from changing. Also important are the relationships and feedback loops between formal institutions and culture.

### **Concluding Remarks**

Development economics considers the causes and consequences of the wealth and poverty of nations. This is an extraordinarily broad area of consideration that encompasses insights from a variety of social sciences. Both the historical starting point for development-related inquiries in Adam Smith and the direction that modern development economics has taken, particularly over the course of the last few decades, are intensely concerned with the overlap and interaction between insights from across these disciplines. While rooted in the analytical apparatus of economics, in this sense, development economics fundamentally interdisciplinary in nature. Further, the central motivating economic considerations at work in development economics—issues of incentives, information, and how institutions affect them—are eminently Austrian in flavor. Our course attempts to leverage this fact in teaching development economics. We hope that our attempt is successful and fruitful and that others find use in it as well.

### **Appendix: Sample Course Outline and Readings**

#### **Required Course Books:**

Bauer, Peter. 2000. *From Subsistence to Exchange and Other Essays*. Princeton: Princeton University Press.

Coyne, Christopher J. 2008. *After War: The Political Economy of Exporting Democracy*. Stanford: Stanford University Press.

de Soto, Hernando. 1989. *The Other Path*. New York: Basic Books.

Easterly, William. 2001. *The Elusive Quest for Growth*. Cambridge: MIT Press.

Easterly, William. 2006. *White Man’s Burden*. New York: Penguin Press.

Hayek, F.A. 1960. *The Constitution of Liberty*. Chicago: University of Chicago Press.



Hayek, F.A. 1948. *Individualism and Economic Order*. Chicago: University of Chicago Press.

North, Douglass C. 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.

North, Douglass C. 2005. *Understanding the Process of Economic Change*. Princeton: Princeton University Press.

Sachs, Jeffrey. 2005. *The End of Poverty: Economic Possibilities for Our Time*. New York: Penguin.

Sen, Amartya. 1999. *Development as Freedom*. New York: Anchor Books.

### **Outline of Course Events:**

#### **1. Understanding the Central Problem: Knowledge and Incentives**

Boettke, Peter, Christopher Coyne, Peter Leeson and Frederic Sautet. 2005. "The New Comparative Political Economy." *Review of Austrian Economics* 18(3-4): 281-304.

Buchanan, James M. 1964. "What Should Economists Do?" *Southern Economic Journal* 30(3): 213-222.

Demsetz, Harold. 1967. "Toward a Theory of Property Rights." *American Economic Review* 57(2): 347-359.

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

Hayek, F.A. 1937. "Economics and Knowledge." *Economica* 4(13): 33-54.

Hayek, F.A. 1948. *Individualism and Economic Order*. Chicago: University of Chicago Press. Chapters 7-9.

Kohn, Meir. 2008. "Economic Development and Growth: A Survey." *Cato Journal* 29(2): 237- 246.

Mises, Ludwig von. 1935 [1920]. "Economic Calculation in the Socialist Commonwealth." In *Collectivist Economic Planning*, edited by F.A. Hayek. London: George Routledge & Sons.

#### **2. The Goals of Development Policies**

Banerjee, Abhijit and Esther Dufflo. 2007. "The Economic Lives of the Poor." *Journal of Economic Perspectives* 21(1): 141-167.

Becker, Gary, Thomas Philipson, and Rodrigo Soares. 2005. "The Quantity and Quality of Life and the Evolution of World Inequality." *American Economic Review* 95(1): 277-291.

Boettke, Peter and J. Robert Subrick. 2003. "Rule of Law, Development and Human Capabilities." *Supreme Court Economic Review* 109-127.

Hayek, F.A. 1960. *The Constitution of Liberty*. Chicago: University of Chicago Press. Chapters 1-3, 9.

Sen, Amartya. 1999. *Development as Freedom*. New York: Anchor Books. Chapters 1-3.

### 3. Getting the Policies Right

Easterly, William. 2005. "National Policies and Economic Growth: A Reappraisal." In *Handbook of Economic Growth*, edited by Philippe Aghion and Steven Durlauf. Amsterdam: North-Holland.

Hausmann, Ricardo, Dani Rodrik, and Andres Velasco. 2008. "Growth Diagnostics." In *The Washington Consensus Reconsidered: Towards a New Global Governance*, edited by Narcis Serra and Joseph Stiglitz. New York: Oxford University Press.

Mankiw, Gregory. 1995. "The Growth of Nations." *Brookings Papers on Economic Activity* 1: 275-326.

Rodrik, Dani. 2005. "Growth Strategies." In *Handbook of Economic Growth*, edited by Philippe Aghion and Steven Durlauf. Amsterdam: North-Holland.

Sachs, Jeffrey and Andrew Warner. 1995. "Economic Reform and the Process of Global Integration." *Brookings Papers on Economic Activity* 1: 1-118.

Warner, Andrew. 2003. "Once More Into the Breach: Economic Growth and Integration." Center for Global Development Working Paper No. 34.

### 4. The Failure of Development Aid

Bauer, Peter. 2000. *From Subsistence to Exchange*. Princeton: Princeton University Press. Chapters 1-5.

Brumm, Harold. 2003. "Aid, Policies and Growth: Bauer Was Right." *Cato Journal* 23(2): 167-174.

Burnside, Craig and David Dollar. 2000. "Aid Policies and Growth." *American Economic Review* 90(4): 847-868.

Easterly, William. 2001. *The Elusive Quest for Growth*. Cambridge: MIT Press. Chapters 1-3.

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