

*API-451*  
**Institution Building, Trust, and Effective Governance**  
*Spring Semester, 1999*  
*Kennedy School of Government*

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Tuesday, Thursday, 1:00-2:30  
B-322

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**Course Description**

In this course we begin with the dismal predictions of the logic of collective action and the tragedy of commons, which foresee a failure to achieve many collectively preferred social outcomes because individuals have a temptation to free ride on the contributions of others. Fortunately, these predictions are often not borne out in experimental evidence, and many institution builders have succeeded in establishing rules that allow people to get to a collectively optimal outcome. Understanding the mechanisms by which real world actors succeed in overcoming these dilemmas to produce institutions of effective governance is the goal of the course.

Although we will consider experimental findings relevant to the development of cooperative institutions, we will focus on evidence from case studies of environmental regulation, social capital and economic development, and institutions of international cooperation. The precise emphasis of the course will depend on the balance of student interests.

**Audience**

This course should appeal to students interested by the current debates on the relative importance of social capital and of institutional design in fostering cooperation in a wide array of areas of concern to policymakers. It is hoped that students will bring to the class a variety of real world experiences in local experiments in cooperation—both successes and failures—that will enrich the empirical material that will serve as the basis of the course.

A background in game theory is neither presumed nor necessary, as it is important only that students understand the intuitive logic of basic social dilemmas to grasp the materials covered in the class. Students who want to review basic concepts like the prisoner's dilemma should talk to me at the beginning of the semester for some accessible, non-technical references.

**Requirements**

Students will be expected to do the assigned reading in order to participate actively in class discussions. Evidence from case studies will be assigned for presentation to teams of students, who will be evaluated on the clarity of their presentation and on their success in

setting out the key issues for discussion. In addition, the final four classes will be devoted to concepts that appear repeatedly across the different issue areas. Students will be divided into groups who will argue a pro and a con side for the importance of the particular concept in helping to explain the emergence of successful cooperation.

The final assignment is a reasonably detailed (10-20 pages) analysis of two similar cooperative dilemmas—one that has achieved some success, one that has largely or utterly failed—in order to exercise the critical faculties that the class should have developed.

General class participation will account for 25 percent of the final grade, and one's performance in the two team exercises will account for another 25 percent of the grade. The remaining fifty percent of the final grade will depend on the final paper.

### **Materials**

In addition to the course readings available at the CMDO, we will use the following two texts, which students may want to purchase and which are available at the Coop:

- Elinor Ostrom, *Governing the Commons*, Cambridge University Press, 1990
- Elinor Ostrom, Roy Gardner, and James Walker, *Rules, Games, & Common Pool Resources*, University of Michigan Press, 1994

### **Class Outline**

- I. Introduction to the Real-World Problems of Common Pool Resources and Public Goods
- II. Experimental Data
- III. Cases in Light of the Laboratory Results
- IV. Trust and Social Capital
- V. Excursus on International Institutions
- VI. Summary Lessons on Problems of Cooperation

**Introduction to the Real-World Problems of Common Pool Resources and Public Goods**

Thursday, February 4: ***Common Pool Resources and Cooperation***

Ostrom, chs. 1-2, pp. 1-55.

Tuesday, February 9: ***Concepts, continued***

Ostrom et al., ch. 1, pp. 3-22.

Ostrom, 1998, "A Behavioral Approach to the Rational Choice Theory of Collective Action," *American Political Science Review*, vol 92, no. 1, pp. 1-22.

Thursday, February 11: ***Cases of Success***

Ostrom, ch. 3, pp. 58-102.

Tuesday, February 16: ***Elements of Institutional Change***

Ostrom, ch. 4, pp. 103-142.

Thursday, February 18: ***Case Studies of Failed Cooperation and Lessons for Success***

Ostrom, chs. 5-6, pp. 143-216.

**Experimental Data**

Tuesday, February 23: ***Why institutions fail in the lab***

Ostrom et al., chs. 5-6., pp. 99-144.

Thursday, February 25: ***Communication and Sanctions: How they help***

Ostrom et al., chs. 7-8, pp. 145-194.

Tuesday, March 2: ***What does the lab tell us about the real world?***

Ostrom et al., ch. 9, pp. 195-220.

### **Cases in Light of the Lab Results**

Thursday, March 4: ***Self-Provision vs. Government Provision: Irrigation and Fisheries***  
Ostrom et al., chs. 10-11, pp. 221-266.

Tuesday, March 9: ***Monitoring and Sanctioning: Forests and Groundwater***  
Ostrom et al., chs. 12-13, pp. 267-300.

Thursday, March 11: ***Pulling it All Together***  
Ostrom et al., chs. 14-15, pp. 301-330.

### **Trust and Social Capital**

Tuesday, March 16: ***Social Capital, an Introduction***  
Robert D. Putnam, 1993, *Making Democracy Work*, Princeton University Press, ch. 6, pp. 163-185.  
James Coleman, 1990, *Foundations of Social Theory*, Harvard University Press, ch. 12, pp. 300-324.

Thursday, March 18: ***Social Capital and Economic Development: Theory***  
Michael Woolcock, 1998, "Social Capital and Economic Development: Toward a Theoretical Synthesis and Policy Framework," *Theory and Society* 27:2, pp. 151-208.

Tuesday, March 23: ***Social Capital and Economic Development: Evidence***  
Stephen Knack and Phillip Keefer, 1997, "Does Social Capital Have an Economic Payoff? A cross-country investigation," *Quarterly Journal of Economics*, 112, pp. 1251-1288.  
Jonathon Temple and Paul Johnson, 1998, "Social Capability and Economic Growth," *Quarterly Journal of Economics*, 113:3, pp. 965-990.

Thursday, March 25: ***Trust and Inter-firm Relations in the OECD Countries***  
Francis Fukuyama, 1995, "Social Capital and the Global Economy," *Foreign Affairs*, 74: 5, pp. 89-103.  
Mari Sako, 1998, "Does Trust Improve Business Performance," in Lane and Bachmann, eds., *Trust within and between Organizations: Conceptual Issues and Empirical Applications*, Oxford University Press, pp. 88-117.

*Spring Break*

Tuesday, April 6: ***Developing Countries***

Peter Evans, 1996, "Government Action, Social Capital, and Development," *World Development* vol 24, no 6, pp. 1119-1132.

Jonathon Temple, 1998, "Initial Conditions, Social Capital, and Growth in Africa," forthcoming in *Journal of African Economies*, 7:3.

Thursday, April 8: ***Developing Countries, continued***

John Humphrey and Hubert Schmitz, 1998, "Trust and Inter-firm Relations in Developing and Transition Economies," *Journal of Development Studies*, 34:4, pp. 32-61.

Susan Whiting, 1998, "The Mobilization of Private Investment as a Problem of Trust," in Braithwaite and Levi, eds, *Trust and Governance*, Russell Sage Publications, pp. 167-194.

Tuesday, April 13: ***What does "Social Capital" do? And how?***

Margaret Levi, 1996, "Social and unsocial capital: a review essay of Robert Putnam's *Making Democracy Work*," *Politics and Society* 24:1, pp. 45-55.

Carles Boix and Daniel Posner, 1998, "Social Capital: Explaining its Origins and Effects on Government Performance," *British Journal of Political Science*, pp. 686-693.

#### **Excursus on International Institutions**

Thursday, April 15: ***Regulating the Environment Internationally***

Haas, Keohane, and Levy, chs 1 and 9 (pp. 3-24 and 397-426), in Haas, Keohane, and Levy, 1993, *Institutions for the Earth*, MIT Press.

Tuesday, April 20: ***Considerations of Institutional Design***

Duncan Snidal, 1995, "The Politics of Scope: Endogenous Actors, Heterogeneity, and Institutions," in Keohane and Ostrom, *Local Commons and Global Interdependence*, Sage Publications, pp. 47-70.

Robert Axelrod and Robert O. Keohane, 1985, "Achieving Cooperation under Anarchy: Strategies and Institutions," in Ken Oye, ed., *Cooperation under Anarchy*, Princeton University Press, pp. 226-254.

#### **Summary Lessons on Problems of Cooperation**

Thursday, April 22: ***Reciprocity, Student Presentations***

Tuesday, April 27: ***Trust, Student Presentations***

Thursday, April 29: ***Reputation, Student Presentations***

Tuesday, May 4: *Learning, Student Presentations*

Thursday, May 6: *Class Summary*