

# Concepts in Political Economy

4 credits

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Contents: The aim of the course is to provide a foundation in political economy theory, concepts and their application in different fields of political science and international relations. The course will discuss historical and current debates about the nature of political economy and the pros and cons of different methodological approaches. Themes include: Nature and scope of political economy; Rational choice theory and its critics; Game theory- theory and practice; Cost benefit analysis and political economy; Constructivism and normative political economy: the role of norms and political choice; Institutions: path-dependence, institutional choice; Institutions: managing change - *tabula rasa* or gradualism; Institutions: avoiding hold-up/opportunism problems; Institutions: solving information problems & enabling learning & innovation; Commitment devices, policy delegation & credibility.

The course consists of 24 (12x2) lectures and seminars in which we apply concepts and theories of political economy to case studies in political science, international relations and political economy. The seminar topics will be introduced by the teacher in a short presentation, laying out the key issues, followed by a general discussion. The second seminar in the week will be introduced by two students in a 10-15 minute presentation addressing the questions for that week, followed by 35-40 min discussion per topic.

Requirements: One paper, one seminar presentation, and active preparation for class participation. All students are supposed to read the assigned readings for the week carefully and in small groups (of about 5) write a 1000-word essay on one of the seminar questions for that week. These essays are handed in (preferably via email) by 5 pm on the Sunday evening.

In addition, students will write one essay of approximately 1500 words (excluding the bibliography), on the topic of their seminar presentation, which is due by 5 pm on the Sunday preceding the last week of term (essays on week 12 presentations are handed in by 5 pm on the Sunday immediately after term). This paper should be submitted electronically via email, and it will normally be marked and returned within a week. Teacher and student can agree on a resubmission of the essay, subject to a drop of one-third in the final mark (A-, for example, would become B+ in this arrangement). The final mark for the course is constituted as follows: 1500-word paper 75%; preparation for and participation in class, including short essays, 25%.

Reading list: Items on the syllabus marked with \* are required reading; the others are recommended if you want to go deeper into the subject. Typically, when preparing a seminar presentation, all readings on the list should be treated as required.

## Week 1. The nature and scope of political economy

### Question:

1. *What is the source of power in economic relationships?*

(no student presentations)

\* Caporaso, J.A. and Levine, D.P. (1992): *Theories of Political Economy*, Cambridge: Cambridge University Press (repr. 1998), ch.1-2 [HB74.P65 C24 Course Coll.].

Levi, M (2000): 'The Economic Turn in Comparative Politics', *Comparative Political Studies* vol.33, No.6/7, pp.822-844. [#in the e-library]

Locke, J. (1689): *Second Treatise on Government*, Prometheus Books: Buffalo NY, ch. IX, par.123-131 [JC153.L8 S44 Course Coll.].

Smith, A. (1776): *An Inquiry into the Nature and Causes of the Wealth of Nations*, Everyman's Library: London (1991), First Book: chs. 1-3, [HB161 S64] [web link].

Polanyi, K. (1944), *The Great Transformation*, Boston: Beacon Press, ch.10 [HC53 P76 Course Coll].

## Week 2. Institutions, interests, and ideas

### Questions:

2. *'Institutions are the building blocks of political economy, because interests and ideas are always mediated through institutions.'* Discuss.

3. *Does the rejection of a rational choice approach to policy-making imply that policy-makers are assumed to be irrational?*

\* Hall, P. and Taylor, R. (1996). 'Political Science and the Three New Institutionalisms', *Political Studies* vol.44: 936-57 [JA8 second floor].

\* Levi, M (2000): 'The Economic Turn in Comparative Politics', *Comparative Political Studies* vol.33, No.6/7, pp.822-844. [#in the e-library]

Blyth, M. (1997). '[Review Essay] Any More Bright Ideas? The Ideational Turn of Comparative Political Economy', [Comparative Politics vol.29, No.2](#), pp.229-250.

Hall, P. A. (ed.) (1993): 'Conclusion', in: idem, *The Political Power of Economic Ideas: Keynesianism Across Nations*, Princeton: Princeton University Press, pp.361-391. [HB99.7 P76 Course Coll] [#order more]

Schelling, T.C. (1978): *Micromotives and macrobehavior*, New York and London: WW.Norton, ch.1 [HM291 S32 Course Coll.].

Goldstein, J. and Keohane, R. (eds.) (1993): *Ideas and Foreign Policy: Beliefs, Institutions, and Political Change*, Ithaca: Cornell University Press, ch.1 by the editors and ch.7 by Garrett and Weingast on the single market [JX1391 I11 Course Coll.].

Drazen, A. (2000), *Political economy in macroeconomics*, Princeton University Press, chs.1 and 2.[ HB172.5 D76 Course Coll.]

Furubotn, E.G. and Richter, R. (2000), *Institutions and Economic Theory; The Contribution of the New Institutional Economics*, The University of Michigan Press [HB99.5 F99 Course Coll.].

Pontusson, J., "From Comparative Public Policy to Political Economy: Putting Political Institutions in Their Place and Taking Interests Seriously," *Comparative Political Studies*, 28, 1 (Spring 1995), 117-147. (e-library)

### Week 3. Rational choice and its limits

#### **Questions:**

4. *Is the principal-agent model of corporate governance, with the owner of a firm as the principal and management as the agent, applicable to the EU? Which modifications would you have to make to the basic model? Take either competition policy or monetary policy as an example.*

5. *Can the objectives of the EU meaningfully be considered as an aggregation of the interests of its member states? If not, how can it be explained by rational choice institutionalism?*

\* Axelrod, R. (1984), *The Evolution of Co-operation*, New York: Basic Books, chs. 2 and 3 [HM131 A96 Course Coll.].

\* Sen, A.K. (1977): 'Rational Fools: A Critique of Behavioral Foundations of Economic Theory', *Philosophy and Public Affairs* 6 (3): 317-344 [H1, weblink to JSTOR].

Buchanan, J.M. & Tullock, G. (1952): *The Calculus of Consent*, Ann Arbor: University of Michigan Press, chs. 3, 18 [JC423 B91 Course Coll.].

Kassim, H. and Menon, A. (2005): 'The principal-agent approach and the study of the European Union: promise unfulfilled?' in: E.Jones, and A.Verdun (eds): *The Political Economy of European Integration*, Oxon and New York: Routledge, ch.3.

Piore, M. J. (1995): *Beyond Individualism*. Cambridge MA: Harvard University Press, chs. 1, 2 [HM136 P66 NORM].

## Week 4. Game theory

### Questions:

6. *'The referendums that governments of EU member-states announce and organise have little to do with the need for democratic legitimation of major decisions within the EU, and a lot with strengthening their bargaining position in the negotiations leading up to these decisions.'* Discuss.

7. *Is EMU better understood as a repeated Prisoners' Dilemma or as a Battle of the Sexes game?*

\* Scharpf, F.W. (1997), *Games real actors play : actor-centered institutionalism in policy research*, Boulder, CO: Westview Press, ch.6 [JA72.5 S31 Course Coll.]

\* Tsebelis, G. (1990), *Nested games: rational choice in comparative politics*, Berkeley, CA: University of California Press, chs.1-2 [JF51 T88 Course Coll.]

Binmore, K.G. (1992), *Fun and games: a text on game theory*, Lexington, MA: D.C. Heath, Introduction (and whatever useful) [QA269 B61 Course Coll.]

Camerer, Colin F. (2003), *Behavioral Game Theory: Experiments in Strategic Interaction*, Princeton University Press, Chapter 1 Introduction, pp. 1-42..

Schelling, Thomas C. (1960), *The Strategy of Conflict*, Harvard University Press, Cambridge, 1960. In paperback: Oxford University Press, New York, 1963. Harvard University Press paperback, 1980.

## Week 5. Information, power and institutions

### Questions:

8. *TO FOLLOW*

9. *How do/can institutions that govern a market economy resolve information asymmetries and avoid market failures?*

\* Begg, *Dornbusch & Fischer*, Ch. Xx

\* Hall & Soskice, "An introduction to Varieties of Capitalism" (in) Hall & Soskice (ed.), *Varieties of Capitalism*, Oxford UP 2001

[The piece that initially drew attention to information as a good –and is worth reading on its own-- is Akerloff, G, 1972. "The market for lemons", QJE]

## Week 6. The boundaries between market and state

### Questions:

10. *“The invisible hand of the market can only deliver efficient outcomes if backed up by the visible fist of state power, including contract enforcement through the legal system.” Discuss.*

11. *If the Keynesian welfare state in the West and the planned economy in the East both demonstrate the attempt of European governments to steer the economy, does their almost simultaneous collapse in the 1980s and 1990s imply that markets should be allowed to develop freely without government intervention?*

\* Barr, N (2003) *The Economics of the Welfare State*, 4<sup>th</sup> ed., Oxford: OUP, ch.4.

\* Strange, S. (1993): *States and Markets*, 2<sup>nd</sup> ed., New York: Basil Blackwell, ch.2 [HG3881 S89 Course Coll].

\* Hahn, F.H. (1984), “Reflections on the Invisible Hand”, in: idem, *Equilibrium and Macroeconomics*, Blackwell: Oxford, pp. 111-133 [HB151 H14].

## Week 7. Constructivism

### Questions:

12. *“Ideas are everywhere. They can therefore not explain political-economic processes by themselves.” Discuss.*

13. *Compare market failure and efficiency as an argument for government intervention with more normative considerations such as social justice and equality. Which ones do you find more convincing and why?*

\* Fligstein, N. and Mara-Drita, I. (1996): ‘How to Make a Market: Reflections on the Attempt to Create a Single Market in the European Union’, [American Journal of Sociology, vol.102, No.1](#), pp.1-33.

\* Moravcsik, A. (1999): “‘Is Something Rotten in the State of Denmark?’ Constructivism and European Integration”, [Journal of European Public Policy vol.6, No.4](#), pp.669-681.

\* Polanyi, K. (1944), *The Great Transformation*, Boston: Beacon Press, chs. 11-13 [HC53 P76 Course Coll].

Checkel, J.T. (1999): ‘Social construction and integration’, [Journal of European Public Policy vol.6, No.4](#), pp. 545-560.

Berger, P.L. and Luckmann, T. (1966): *The Social Construction of Reality: A Treatise in the Sociology of Knowledge*, London: Penguin Books, chs. 2.1 and 2.2 [BD175 B49 Course Coll]

## Week 8. Legitimacy and accountability

### Questions:

14. *If the ECB's position within EMU is (by its own account) primarily based on output legitimacy and if inflation remains higher than 2% and economic growth in the Euro-zone at a low level, how would you assess the viability of EMU and of the position of the ECB within it?*

15. *Is rules-based economic policy-making by independent agencies compatible with democratic political systems?*

\* Majone, G. (1997), 'The Regulatory State and its Legitimacy Problems', *West European Politics* vol.22, No.1, pp.1-24 [JN1].

\* Majone, G. (2001): 'Two Logics of Delegation. Agency and Fiduciary Relationships in EU Governance', [European Union Politics vol.2, No.1](#), pp.103-122.

\* McNamara, K.R. (2002): 'Rational Fictions? Central Bank Independence and the Social Logic of Delegation', [West European Politics 25\(1\)](#), pp.47-76.

Downs, A. (1957): *An Economic Theory of Democracy*, New York: Harper and Row, chs.1, 2, 3 [JF1351 D75 Course Coll.].

March, J.G. and Olsen, J.P. (1989), *Rediscovering Institutions. The Organizational Basis of Politics*, New York: Free Press, ch.7 [JC249 M31 Course Coll.].

Buiter, Willem H. (2006), "'How Robust is the New Conventional Wisdom in Monetary Policy? The surprising fragility of the theoretical foundations of inflation targeting and central bank independence"', mimeo, European Institute, London School of Economics and Political Science, June 2006. Paper presented at the 2006 Central Bank Governors' Symposium "Challenges to Monetary Theory", at the Bank of England, on June 23 2006, Section III, The useful but dangerous myth of central bank independence. pp. 41-101, <http://www.nber.org/~wbuiter/konstanz.pdf>.

## Week 9. The logic of collective action and agency capture

### Questions:

16. *Workers were, on the whole, as well-organised as farmers in the Western Europe of the 1950s, 60s and 70s, and were backed by Leftist parties everywhere. Why, then, don't we have a social-democratic welfare state at the European level similar to the Common Agricultural Policy?*

17. *Does the presence of strong interest groups in a political economy necessarily lead to the prevalence of narrow interests in economic policy-making?*

\* Olson, M. (1982): *The Rise and Decline of Nations*, New Haven and London: Yale University Press, chs. 2, 3 [HD82 O51 Coursecoll.].

\* Lohmann, S. (2003): 'Representative Government and Special Interest Politics (We Have Met the Enemy and He Is Us)', *Journal of Theoretical Politics* vol.15: 299-319.

Hirschman, A.O. (1992): 'Exit and Voice: an expanding sphere of influence', in: idem, *Rival views of market society and other recent essays*, Cambridge, MA: Harvard University Press, ch.4 [HD75 H66 Norm and Course Coll].

Gellner, E. (1994). *Conditions of Liberty. Civil Society and its Rivals*. London: Hamish Hamilton, Introduction [JC336 G33 Course Coll]

Sabatier, P.A. (1992): 'Interest Group Membership and Organization: Multiple Theories', in: Petracca, M.P. (Ed.): *The Politics of Interests: Interest Groups Transformed*, Boulder, CO: Westview, ch.5 [JK1118 P76 Course Coll.].

## Week 10. Hold-up problems, joint-decision traps and issue linkage

### Questions:

18. *An enlarged EU (after Southern enlargement) with an enhanced role of the European Parliament launched the Single Market Programme and the monetary union in the late 1980s and early 90s; does this mean that hold-up problems are not really a problem?*

19. *TO FOLLOW*

\* Putnam, R. (1988): 'Diplomacy and domestic politics: the logic of two-level games,' *International Organization* 42 (3): 427-60.

\* Scharpf, F.W. (2006): 'The joint-decision trap revisited', *European Institute Working Paper* 1/2006, revised version forthcoming in *Journal of Common Market Studies*, special issue (Nov).

Tsebelis, G. (2002): *Veto Players - How Political Institutions Work*. Princeton University Press, chs.2, 6, 8, 11. [JF51 T88 Course Coll.]

## Week 11. Credibility, commitment and conditionality

### Questions:

20. *How can a government that is incapable of committing itself to the pursuit of low and stable inflation, credibly commit itself to create an independent monetary authority mandated to pursue low and stable inflation, and not to interfere with the independence of this monetary authority?*

21. *Was EU conditionality necessary for reform in Central and Eastern Europe, (a) in economic terms, and (b) in political terms?*

\* Giavazzi, G., and Pagano, M. (1988): 'The Advantage of Tying One's Hands: EMS Discipline and Central Bank Credibility', [\*European Economic Review\*, vol. 32](#), pp.1055-1082.

\* Lohmann, S. (2003) 'Why Do Institutions Matter? An Audience-cost Theory of Institutional Commitment', [\*Governance\* vol.16, No.1](#), pp.95-110.

\* Rodrik, D. and Zeckhauser, R. (1988): 'The Dilemma of Government Responsiveness', [\*Journal of Policy Analysis and Management\* vol.7, No.4](#), pp.601-620.

Cukierman, A. (1992): *Central Bank Strategy, Credibility, and Independence: Theory and Evidence*, Cambridge, MA & London: MIT Press, ch.2 [HG229 C96 Course Coll.].

Balcerowicz, L. (1995), "The political economy of economic reform: Poland, 1989-92", in *Socialism, Capitalism, Transformation*, Budapest, Central European University Press.

Blinder, Alan S. (1999), *Central Banking in Theory and Practice*, Cambridge, MA: MIT Press.

McCallum, B. T. (1995), "Two fallacies concerning central bank independence", *American Economic Review*, Papers and Proceedings, vol. 85 (May), pp. 207-211.)

## Week 12. Key issues in Political Economy

In this last class, we will discuss key issues in political economy in small groups and in public debate. Details will follow by week 10.