

Political Economy I

Lecturer: Anil Duman

Credits: 2 Credits (4 ECTS)

Semester: Fall 2009

Course Level: 2 Year MA

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 holdup/ opportunism problems; Institutions: solving information problems & enabling learning & innovation; Commitment devices, policy delegation & credibility.

Learning Outcomes: At the end of this course, the students are expected to;

- develop analytical skills
- have a thorough understanding of the underlying features of political economy concepts and its application to political science
- formulate researchable questions
- and to be able to follow and understand the literature related to the subject matter

Reading list:

Week 1. The nature and scope of political economy

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

* Caporaso, J.A. and Levine, D.P. (1992): *Theories of Political Economy*, Cambridge: Cambridge University Press (repr. 1998), ch.1-2.

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

Polanyi, K. (1944), *The Great Transformation*, Boston: Beacon Press, ch.10.

Week 2. Institutions, interests, and ideas

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 policymakers are assumed to be irrational?*

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

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

Hall, P. A. (ed.) (1993): 'Conclusion', in: idem, *The Political Power of Economic Ideas: Keynesianism Across Nations*, Princeton: Princeton University Press, pp.361-391.

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.

Drazen, A. (2000), *Political economy in macroeconomics*, Princeton University Press, chs.1 and 2.

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.

Week 3. Rational choice and its limits

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.

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

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

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.

Week 4. Game theory

6. *'The referendums that governments of EU member-states announce and organize 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.

* Tsebelis, G. (1990), *Nested games: rational choice in comparative politics*, Berkeley, CA: University of California Press, chs.1-2.

Binmore, K.G. (1992), *Fun and games: a text on game theory*, Lexington, MA: D.C. Heath, Introduction.

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.

Week 5. Information, power and institutions

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

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*, 4th ed., Oxford: OUP, ch.4.

* Strange, S. (1993): *States and Markets*, 2nd ed., New York: Basil Blackwell, ch.2.

* Hahn, F.H. (1984), "Reflections on the Invisible Hand", in: idem, *Equilibrium and Macroeconomics*, Blackwell: Oxford, pp. 111-133.

Week 7. Constructivism

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.

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.

Week 8. Legitimacy and accountability

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.

* 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.

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

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.

Week 9. The logic of collective action and agency capture

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.

* 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.

Gellner, E. (1994). *Conditions of Liberty. Civil Society and its Rivals*. London: Hamish Hamilton, Introduction.

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.

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

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*

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

Week 11. Credibility, commitment and conditionality

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.

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
No readings.

Requirements: Weekly papers (%20)
Class Participation (%10)
Midterm exam (%30)
Final paper (%40)