

Concepts in Political Economy

Central European University
Department of Political Science
MA Program, Fall Semester 2010/2011

Lecturer: Dorothee Bohle and Anil Duman

Office hours:

Time and Place:

Credits: 4 Credits (8 ECTS)

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; institutional change, avoiding holdup/opportunism problems; policy delegation & credibility.

The course consists of 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 weekly topics will be introduced by the teacher in a short lecture, laying out the key issues, followed by a general discussion. The second seminar will be introduced by students in a short presentation addressing the questions for that week, followed by a discussion.

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

- Have developed analytical skills
- Have a thorough understanding of the underlying features of political economy concepts and their application to political science
- Formulate researchable questions
- Be able to follow and understand the literature related to the subject matter

Course requirements and evaluation

1. Attendance and in-class participation (15% of the grade)
2. One in-class presentation on the suggested seminar questions or any question agreed upon with the convener (15 % of the grade).
3. Four reading memos. These memos should consist of a one to two paragraphs summary of the major argument of the text(s) and questions and/or short comments on the readings. Reading memos are to be distributed electronically to

- the whole class latest by noon the day prior to the class. Late work will not be accepted. (30% of the grade).
4. Final essay of approximately 2000 words (without bibliography). A proposal should be sent no later than week 10. (40 % of the grade)

Reading Material

All the course material is available in electronic form through a pass word protected e-learning site. Students who do not wish to purchase a paper reader are welcome to download the texts from <http://e-learning.ceu.hu/>. The password will be communicated to students who enroll for the course.

Topics and Readings

Week 1. The nature and scope of political economy (convener: Anil Duman)

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 (convener: Dorothee Bohle)

xxxQuestionsxxx

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

* Hall Peter A., 1997. "The Role of Interests, Institutions, and Ideas in the Comparative Political Economy of Industrialized Nations", in Mark Lichbach and Alan Zuckerman, eds., *Comparative Politics. Rationality, Culture, and Structure* (Cambridge, Cambridge University Press, pp. 174-207.

Blyth, M. (2002): *Great Transformations: Economic Ideas and Institutional Change in the 20th Century*, Cambridge: Cambridge University Press.

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.

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

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: Institutions and institutional change (convener: Dorothee Bohle)

xxxxQuestionsxxxxx

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

*Streeck, W. and K. Thelen (2005): Institutional Change in Advanced Political Economies. In: W Streeck and K. Thelen: *Beyond Continuity. Institutional Change in Advanced Political Economies*. Oxford: Oxford University Press, pp. 1-40.

Bohle, D. and B. Greskovits (2009): Varieties of capitalism and capitalism *tout court*, *European Journal of Sociology*, Vol. 50, Nr. 3, December 2009, S. 355-386.

Campbell, John L. (2004): Institutional Change and Globalization. Chapter two: The Problem of Change, Chapter 3: The Problem of Mechanism. Princeton, PUP, pp. 31-90.

Crouch, C. (2005): Capitalist Diversity and Change. Recombinant Governance and Institutional Entrepreneurs. Oxford, Oxford University Press.

Streeck, W. (2009):. Re-Forming Capitalism. Institutional Change in the German Political Economy (Oxford, Oxford University Press)

Week 4. Rational choice and its limits (convener: Anil Duman)

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. *How are the individual agent's interests aggregated? Please provide examples that are for or against the theoretical premises.*

* Shaun Heap et al., (1992). *The Theory of Choice: A Critical Guide*, Chapter 1

* 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 5. Game theory (convener: Anil Duman)

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. *What are some of the applications of Prisoners' Dilemma or Battle of the Sexes games? What would be the policy implication derived from each game?*

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

* G. Hardin (1968) "The Tragedy of the Commons", *Science*. 162: 1243-1248.

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 6. The boundaries between market and state (convener: Anil Duman)

10. *"The invisible hand of the market only can 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 (convener: Dorothee Bohle)

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 (convener: Dorothee Bohle)

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.

* Scharpf, F. *Governing in Europe: effective and democratic?* Oxford : Oxford University Press, 1999, **pp...**

Mair, P. ‘Popular Democracy and the European Union Polity’. European Governance Papers (EUROGOV), No. C-05-03, available at: <http://www.connex-network.org/eurogov/pdf/egp-connex-C-05-03.pdf>

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

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”, available at <http://www.nber.org/~wbuiter/konstanz.pdf>.

Week 9. The logic of collective action and agency capture (convener: Dorothee Bohle)

16. *Workers were, on the whole, as well-organized 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 (convener: Anil Duman)

18. *What are the hold-up problems in EU? Describe also the mechanism to overcome those and their success or failure.*

19. *Does having more veto players make a polity less able to change its policy? What is the distinction between effective and restricted veto players?*

* Scharpf, F.W. (2006): "The joint-decision trap revisited", *European Institute Working Paper*

*Ganghof, Steffen (2003): "Promises and Pitfalls of Veto Player Analysis", *Swiss Political Science Review*, 1-25.

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

Cameron, Charles M. (2000): *Veto Bargaining: Presidents and the Politics of Negative Power*. Cambridge.

Week 11. Credibility, commitment and conditionality (convener: Dorothee Bohle)

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?

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

* Vachudova, M. (2005), *Europe Undivided: Democracy, Leverage, and Integration after Communism*. Oxford: Oxford University Press, chp. 1, 7.

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.

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

Week 12. Globalization and Justice (convener: Anil Duman)

22. To what extent is global poverty a harm inflicted by the global economy?

23. What practical challenges and constraints do states and individuals face in responding to their global moral duties?

*Stiglitz, J. (2002). *Globalization and its Discontents*, Ch. 1,

*Wolf, M. (2005). *Why Globalization Works?*, Ch3, New Haven: Yale University Press.

Miller, D. (2007), *National Responsibility and Global Justice*, Chapter 7, Oxford: Oxford University Press.

Klein, N. (2002). *No Logo: no space, no choice, no jobs*, New York: Picador.