

AMERICAN POLITICAL ECONOMY

Political economy addresses a wide range of issues, including the ways in which public policies and institutions shape economic performance (growth, inflation, unemployment); the impact of public policies on the evolution of economic institutions and relationships over time; and the ways in which economic performance impinges upon governmental decision making and political stability. This course focuses on the American political economy as it has evolved over the course of the past century. After examining competing theoretical perspectives and the key institutions of the political economy, we will survey the way in which the American political economy evolved from the Progressive Era to the present. The last several sessions of the course will be reserved for an examination of the looming entitlement crisis, the subprime crisis of 2007-08, corporate bailouts, and the Obama administration's economic recovery program.

The goals of the course can be clearly stated:

1. To gain a familiarity with competing perspectives on the state in the economy. Analysts approach the study of political economy with a number of theoretical perspectives, each with its own inherent strengths, weaknesses, and biases. Students in the course will encounter several theoretical approaches ranging from rational choice to class perspectives.
2. To gain an understanding of the key actors in the American political economy, including corporations, labor unions, financial institutions, and government agencies engaged in economic management, and the relationships among them.
3. To gain an understanding of how patterns of state-economy relations evolve over time and the impact that this process has on economic performance.
4. To gain an understanding of the dynamic of globalization and the ways in which it impacts on the distribution of wealth, opportunities, and economic power across borders.
5. To sharpen one's ability to think critically about how economic policies and institutions and the possible avenues of reform.

COURSE READINGS

All of the course readings for GOVT 220 are available as electronic documents, either through JSTOR or online.

COURSE REQUIREMENTS

Midterm Exam	30%
Research Paper Prospectus	10%
Research Paper	30%
Final Exam	30%

The Midterm Exam

The midterm exam will be given on March 4th. It will cover all readings and lectures through March 2nd. The exam will consist of short answer identifications and will provide ample opportunity for choice. If you have a learning disability that requires additional time for the exam, the Dean must provide documentation prior to the exam period.

The research paper must engage a topic of core relevance to the course. A list of preapproved research topics will be posted on Blackboard. Other topics should be approved through consultation with the professor. The paper must employ some subset of the works assigned in the course, in addition to research conducted primarily for the assignment.

The research paper requirement has two components: a research paper prospectus, due on or before April 1st, and a research paper not to exceed 20 pages in length, due by the end of the day on May 4th. Both components must be submitted via email attachment (Microsoft Word).

The prospectus is an invaluable tool for writing a research paper. It must contain an introduction that establishes the thesis, purpose, and relevance of the project to the course. The body of the prospectus should summarize the key elements of your research (i.e., how you will support your thesis, claims, hypothesis). In addition, there must be an annotated bibliography with at least 4 sources (journal articles, book chapters, or books) not assigned in the course.

The research paper should not exceed 20 pages. The best papers will effectively develop a thesis and an argument, support the thesis by exploring relevant research on the topic, and exhibit a broad competence of the subject matter.

The Final Exam

The final will be a take home exam. The question will be distributed during the final weeks of the semester and will be due on or before the date assigned for the final exam by the registrar.

COURSE POLICIES

It is an expectation of the course that students will attend class regularly and arrive before the beginning of the period. If you anticipate that you will not be able to arrive at class as scheduled, you should reconsider your decision to take this course. Likewise, if you anticipate that you will not be able to meet the due dates (e.g., you have commitments to be absent during key periods of the semester) you are urged to reconsider your decision to take this course.

Incompletes and extensions will be allowed only in cases of serious and verifiable emergencies (e.g., serious illness, family emergency).

It is assumed that all students will familiarize themselves with what constitutes plagiarism under University policy and will abide by the provisions of the Honor Code.

CONTACTS

My office hours (317 PAC) are as follows:

Monday	1-3
Tuesday	9-10

Meetings outside of these periods must be arranged by appointment.

Electronic Communications

Email is my preferred mode of communication (meisner@wesleyan.edu). All emails should have the course number GOVT 220 in the header for filtering purposes. I hope to reply to all emails at the end of business on the day received. Emails that ask questions or request information that may be beneficial to the class will be circulated via email, albeit with the name of the original correspondent removed.

COURSE SCHEDULE AND READINGS

Session
1-2
(1/21-26)

TOPIC
PART I. WHAT IS POLITICAL ECONOMY?

Political economy integrates the study of economics and political science (with contributions from history, sociology, and law) to understand the ways in which the political-institutional environment impacts on market behavior and, conversely how the economy shapes political action. The growing interest in political economy reflects, in part, ongoing efforts to break down disciplinary barriers and move away from highly stylized, formal, and discipline-specific models of politics and economics. See, for example, the debates over “post-autistic economics” at the [Post-Autistic Economics Network](#). A similar movement has been occurring in political science as part of the [Perestroika Movement](#).

Political economists have adopted a host of different approaches, placing varying emphasis on the role of individuals, markets, institutions, and classes. Familiarize yourself with each of the perspectives:

Public Choice

James M. Buchanan and Gordon Tullock, *The Calculus of Consent*, Chapters 1-4. [Download](#).

The Austrian School

Llewellyn H. Rockwell, Jr., “Why Austrian Economics Matters.” Ludwig von Mises Institute. [Download](#)

The Institutional Perspective

Geoffrey M. Hodgson, “What is the Essence of Institutional Economics?” *Journal of Economic Issues*, 34 (2000):317-329. [Download](#).

The Class Perspective

Bob Jessop, “Capitalism and the Capitalist Type of State.” [Download](#).

PART II. THE AMERICAN POLITICAL ECONOMY

3 Overview of the American Economy

(1/28)

The best single snapshot of the US economy is found in the [Economic Report of the President](#). An interesting evaluation of performance is issued by the [Shadow Open Market Committee](#). The [Left Business Observer](#) and the [Economic Policy Institute](#) provide ongoing analyses of US economic policies from a left perspective. The [Cato Institute](#) provides analyses from a libertarian perspective whereas the [American Enterprise Institute](#) does the same from a conservative perspective.

1. Council of Economic Advisors, *Economic Report of the President*, 2007. Overview, Chapters 1. [Download](#).

4-5 Markets and Property Rights

(2/2-4)

The market is an institution for the exchange of property rights. Although we are often tempted to speak of the market and the state as two opposing endpoints on a continuum, in reality, markets depend heavily on the expression of public authority. [Property rights](#) can be defined as the rights “to use, enjoy or possess a determinant thing, and the right to exclude others from same.” These rights are established through public policies and court decisions. Property disputes are adjudicated by courts and rights are enforced via the police power of the state.

Much of the political economic research on markets focus on the ways in which public policies provide a foundation for the emergence of markets and compensate for their limitations and the ways in which actors organize themselves and their relations with others in hopes of protecting their rights and minimizing uncertainty (and their vulnerability to opportunistic behavior).

1. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Book I, Chapters 1-3. [Download](#)
2. F.A. Hayek, “The Use of Knowledge in Society.” *American Economic Review*, XXXV (1945): 519-30. [Download](#).
3. Frank B. Cross, “Law and Economic Growth.” (2002) [Download](#)
4. Deirdre McCloskey, “Bourgeois Virtues?” *Cato Policy Report*, 28, 3 (May/June 2006). [Download](#)

6 The State (2/9)

According to Max Weber, the state is that institution which enjoys “the monopoly of the legitimate use of physical force within a given territory.” As such, it is one of the core topics examined by political scientists (and increasingly, social scientists more broadly). Each of the completing theoretical frameworks discussed in the beginning of the semester adopts a different understanding of the state. Marxists, for example, tend to view the state through the lens of class struggle. Pluralist, elite, and public choice theorists will offer very different accounts.

1. Stephen D. Krasner, “Approaches to the State: Alternative Conceptions and Historical Dynamics.” *Comparative Politics*, 16 (1984): 223-246. [Download](#)
2. James G. March; Johan P. Olsen, “The New Institutionalism: Organizational Factors in Political Life.” *The American Political Science Review*, 78, 3 (1984): 734-749. [Download](#)
3. Stephen Skowronek, “Order and Change.” *Polity*, 28, 1 (Autumn, 1995): 91-96. [Download](#)
4. James M. Buchanan, “Public Choice: Politics Without Romance.” *Policy*, 19,3 (2003): 13-18. [Download](#)
5. Robert Higgs, “Crisis, Bigger Government, and Ideological Change: Two Hypotheses on the Ratchet Phenomenon.” [Download](#).

7-8 The Corporation and Governance (2/11-16)

The [corporation](#) is a legal entity (an artificial person with distinct legal rights and constitutional protections) and an organization that coordinates a variety of actors in the production of goods and services. The ways in which corporations are organized and coordinate their activities and external relationships have important implications for their capacity to compete in markets, adjust to changing circumstances, innovate, and generate wealth.

1. Ronald Coase, “The Nature of the Firm.” *Economica*, 4, 16 (1937): 386-405. [Download](#)
2. Alfred D. Chandler, Jr, “The Emergence of Managerial Capitalism,” *Business History Review*, 58 (1984): 473-503. [Download](#)
3. David Vogel, “Why Businessmen Distrust Their State: The Political Consciousness of American Corporate Executives.” *British Journal of Political Science*, 8, 1. (1978): 45-78. [Download](#)
4. Oliver E. Williamson, “The Economics of Organization: The Transaction Cost Approach.” *The American Journal of Sociology*, 87, 3. (1981): 548-577. [Download](#)

5. John L. Campbell and Leon N. Lindberg, "Property Rights and the Organization of Economic Activity by the State." *American Sociological Review*, 55, 5. (1990): 634-647. [Download](#)
6. Marc Schneiberg, "What's on the Path? Path Dependence, Organizational Diversity and the Problem of Institutional Change in the US Economy, 1900-1950." *Socio-Economic Review*, 5 (2007): 47-80. [Download](#)

9 Finance

(2/18)

Finance plays a critical role in shaping political economic outcomes. Corporate finance is a complex topic worthy of some attention. In the United States, a heavy reliance on capital markets creates pressures for short-term profitability. The availability of low-cost secondary markets (such as the New York Stock Exchange and NASDAQ) allows investors to adjust their portfolios rapidly in response to changes in profitability. The chief regulator of the corporate financial markets is the Securities and Exchange Commission, created during the New Deal.

In addition, the Federal Reserve Board manages the money supply and interest rates through its regulation of U.S. banks.

1. Ross Levine, "Financial Development and Economic Growth: Views and Agenda." *Journal of Economic Literature*, 35, 2. (1997): 688-726. [Download](#)
2. John T. Woolley, "Monetary Policy Instrumentation and the Relationship of Central Banks and Governments." *Annals of the American Academy of Political and Social Science*, 434(1977): 151-173. [Download](#)

10 Labor

(2/23)

Labor is another important element in the political economy. Although labor unions often receive much attention, union membership rates have been quite low in the United States (membership peaked during the New Deal and World War II, largely as a result of government recognition and promotion of union organization. See the National Labor Relations Board [history](#) if interested). The US Department of Labor has much information on labor at its [website](#). The [Bureau of Labor Statistics](#) is the primary source of data on US labor and a host of economic trends.

1. Karen Orren, "The Primacy of Labor in American Constitutional Development." *The American Political Science Review*, 89 (1995): 377-388. [Download](#)
2. David Fairris, "From Exit to Voice in Shopfloor Governance: The Case of Company Unions." *The Business History Review*, 69, 4. (1995): 494-529. [Download](#)

3. Christopher L. Tomlins, “The New Deal, Collective Bargaining, and the Triumph of Industrial Pluralism.” *Industrial and Labor Relations Review*, 39, 1. (1985): 19-34. [Download](#)
4. Jack Barbash “Trade Unionism from Roosevelt to Reagan.” *Annals of the American Academy of Political and Social Science*, 473 (1984): 11-22. [Download](#)

11-12 Collective Action, Rent-Seeking, and the State

(2/25-3/2)

Mancur Olson’s [Logic of Collective Action](#) framed some interesting debates on the political economic implications of group mobilization (a theme he brought to fruition in his next book, [The Rise and Decline of Nations](#)). A central concern is the way in which organized interests may capture policies that serve their interests while placing a claim on the income of the unorganized (an activity known as rent-seeking). Often, policies that appear to serve the public interest become little more than a form of corporate welfare—a fact that is hidden by the formation of what Bruce Yandle describes as [“Bootlegger-Baptist”](#) coalitions.

1. Geoffrey Brennan and James M. Buchanan, *The Reason for Rules: Constitutional Political Economy*, chapter 4. [Download](#)
2. Bruce Yandle, “Bootleggers and Baptists: The Education of a Regulatory Economist.” *Regulation*, 7, 3 (1983): 12-16. [Download](#)
3. Bruce Yandle, “Bootleggers and Baptists in Retrospect.” *Regulation*, 22,3 (1999): pp. 5-7 [Download](#)
4. Jonathan Adler, “Rent Seeking Behind the Green Curtain.” *Regulation*, 19, 4 (1996). [Download](#)
5. Mancur Olson, “Stagflation and the Political Economy of the Decline in Productivity.” *The American Economic Review*, 72, 2 Papers and Proceedings of the Ninety-Fourth Annual Meeting of the American Economic Association. (May, 1982): 143-148. [Download](#)

13 Midterm Exam In Class

(3/4)

III. THE EVOLUTON OF THE AMERICAN POLITICAL ECONOMY

14 **Progressivism and the Rise of Regulation**

(3/23) The [Progressive Era](#), dated from the last years of the nineteenth century to the onset of World War I, was a period ripe with political, economic, and social reforms. A host of new regulatory initiatives (including an expansion of antitrust and the creation of the Federal Trade Commission) permanently changed the role of the state in the economy and in many ways created an important foundation for the rise of the modern welfare state. It also marked the beginning of social engineering as policy makers sought to apply social scientific research to solve a host of social and economic problems.

1. John Patrick Diggins, "Republicanism and Progressivism." *American Quarterly*, 37, 4 (1985):572-598. [Download](#)
2. Robert H. Wiebe, "Business Disunity and the Progressive Movement, 1901-1914." *The Mississippi Valley Historical Review*, 44, 4. (1958): 664-685. [Download](#)
3. Martin Shefter, "Regional Receptivity to Reform: The Legacy of the Progressive Era." *Political Science Quarterly*, 98, 3. (1983): 459-483. [Download](#)
4. Alan L. Seltzer, "Woodrow Wilson as "Corporate-Liberal": Toward a Reconsideration of Left Revisionist Historiography." *The Western Political Quarterly*, 30, 2 (1977): 183-212. [Download](#)

15-16 **Planning for War and Depression**

(3/25-30) War has had an enormous impact on state-building. In response to war, policy makers need to develop the administrative tools and policy instruments to mobilize all of society. Once war ends, these lessons are rarely forgotten. In the United States, the three greatest episodes of state expansion occurred during World War I, the Great Depression, and World War II.

1. Theda Skocpol, and Ken Finegold, "State Capacity and Economic Intervention in the Early New Deal." *Political Science Quarterly*, 97(1982): 255-278. [Download](#)
2. Theda Skocpol; Kenneth Finegold; Michael Goldfield, "Explaining New Deal Labor Policy." *American Political Science Review*, 84(1990): 1297-1315. [Download](#)
3. William F. Shughart II, "Bending before the Storm: The U.S. Supreme Court in Economic Crisis, 1935–1937." *The Independent Review*, 9, 1, (2004): 55–83. [Download](#)
4. Robert Higgs, "Regime Uncertainty: Why the Great Depression Lasted So Long and Why Prosperity Resumed after the War." *The Independent Review*, 1, 4 (1997): 561-590. [Download](#)
5. Brian Waddell, "Corporate Influence and World War II: Resolving

the New Deal Political Stalemate.” *Journal of Policy History*, 11,3 (1999): 223-256. [Download](#)

17 The Postwar System and the Keynesian Consensus

(4/1) During the postwar period, macroeconomic policy was dominated by the [Keynesian](#) consensus. Policymakers sought to manage aggregate demand in the hope of minimizing fluctuations in the business cycle and preventing a reoccurrence of the Great Depression. The Keynesian consensus guided policymakers for more than two decades after World War II. However, the combination of high inflation and stagnation (or stagflation) during the 1970s led to the collapse of this consensus. At the same time, growing concerns about the economic impact of the regulatory and welfare state and a general decline in faith in government supported a more general rejection of government activism and set the stage for the rise of neoliberalism in the 1980s and 1990s.

1. J. Bradford De Long, “Keynesianism, Pennsylvania Avenue Style: Some Economic Consequences of the Employment Act of 1946.” *The Journal of Economic Perspectives*, 10, 3. (1996): 41-53. [Download](#)
2. Leon N. Lindberg, “The Problems of Economic Theory in Explaining Economic Performance.” *Annals of the American Academy of Political and Social Science*, Vol. 459, (1982): 14-27. [Download](#)
3. James Tobin, “The Conservative Counter-Revolution in Economic Policy.” *The Journal of Economic Education*, 14, 1. (1983):30-39. [Download](#)

18-19 Neoliberalism and the Return of the Market

(4/6-8) The election of Ronald Reagan in 1980 marked something of a sea change in the American political economy. Reagan’s economic program had several key features, including: strong support for deregulation, regulatory reform, and welfare reform; tax reductions to create stronger incentives for growth ([supply side economics](#)); the use of monetary policy to control inflation; and greater support for free trade. The basic features of Reagan’s program (often referred to as Reaganomics) defined a new policy consensus in the United States that would find an expression in subsequent presidential administrations.

1. William A. Niskanen, “Reaganomics.” *The Concise Encyclopedia of Economics*. [Download](#)
2. Jude Wanniski, “Taxes, Revenues, and the ‘Laffer Curve.’” *The Wall Street Journal*, June 1978. [Download](#)

3. Murray N. Rothbard, "The Myths of Reaganomics." [Download](#)
4. Henry R. Nau, "Where Reaganomics Works." *Foreign Policy*, 57. (1984-1985): 14-37. [Download](#)
5. Kenneth R. Hoover, "The Rise of Conservative Capitalism: Ideological Tensions within the Reagan and Thatcher Governments." *Comparative Studies in Society and History*, 29, 2. (1987):245-268. [Download](#)
6. Paul Pierson, "The New Politics of the Welfare State." *World Politics*, 48,2 (1996): 143-179. [Download](#)

20-21 Deficits, Debts, and Transfer Seeking

(4/13-15) Keynesian economics provided a theoretical justification for budget deficits during downturns in the business cycle. With the decline of Keynesianism, little theoretical justification exists. Rather, budget deficits appear to be a product of political dynamics (e.g., transfer-seeking, pork barrel politics, tax cuts) and new policy commitments (Iraq, Medicare Modernization). As of this writing, the debt stands at \$10,638,425,746,293.80. You can track the debt at the U.S. Treasury's [Bureau of Public Debt](#). Deficits and the debt are of great concern because of the impact of future generations, the value of the dollar, and the impact on the capital available for commercial investment.

Peter G. Peterson, "Running on Empty: How the Democratic and Republican Parties Are Bankrupting Our Future and What Americans Can Do About It." Presentation to the Institute for International Economics, August 9, 2004. [Download](#)

David M. Walker, "Long-Term Budget Outlook: Saving Our Future Requires Tough Choices Today." Testimony before the Committee on the Budget, U.S. Senate (January 11, 2007). [Download](#)

22-23 The Credit Crisis

(4/20-22) The subprime crisis that has engulfed much of the economy since 2007 is arguably a product of a combination of failed regulation, financial innovation, and the unintended consequences of public policies. Some critics attribute it to a lack of regulation, others to the failure to pursue sufficient deregulation. The potential solutions to the credit crisis are, as a result, more complicated than most policy problems.

Carmen M. Reinhart and Kenneth S. Rogoff, "Is the 2007 U.S. Sub-Prime Financial Crisis So Different? An International Historical Comparison." (2008) [Download](#)

Barry Eichengreen, "Anatomy of a Financial Crisis." September 18, 2008. [Download](#)

Janet L. Yellen, “Economic Prospects for the U.S. Economy from a Monetary Policymaker’s Perspective.” *CFA Institute Conference Proceedings Quarterly*, 25, 3 (2008):1-9. [Download](#)

Martin Neil Baily, Robert E. Litan, and Matthew S. Johnson, “The Origins of the Financial Crisis.” *Fixing Finance Series*, Paper 3. The Brookings Institution, November 2008. [Download](#)

24-25 **Obamanomics: Managing the Recession of 2008-09**

(4/27-29)

Despite the constant references to free markets in the United States, there has been a long history of bailouts. Some have been relatively small (the 1971 bailout of Lockheed cost \$1.4 billion, the 1980 bailout of Chrysler cost \$4 billion, both in 2008 dollars). These figures pale in comparison to the bailouts of 2008 that were used to forestall further economic decline: Chrysler/GM (\$17.4 billion), Bear Stearns (\$30 billion), AIG (\$150 billion), Fannie Mae/Freddie Mac (\$200 billion), and the Troubled Asset Relief Program (\$700 billion)...the list goes on. We will explore the impact of the bailouts and the basic features of the Obama administration’s economic recovery plan during the final days of the course

Readings: TBA

26

(5/4)

Course Conclusion: Toward a New Political Economy?