

GOVT 220
Spring 2005
MWF 9-9:50

Marc Eisner
Wesleyan University

AMERICAN POLITICAL ECONOMY

Political economy addresses a wide range of issues, including the ways in which public policies and institutions shape economic performance and the distribution of income and economic power; 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.

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 have evolved over time and the impact that this process has had on the distribution of wealth, opportunities, and economic power within the national borders.
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

The following books are required and can be purchased at Broad Street Books or at an online bookseller:

1. Marc Allen Eisner, From Warfare State to Welfare State: World War I, Compensatory Statebuilding, and the Limits of the Modern Order. (Pennsylvania State University Press, 2000) ISBN 0271019964
2. John Micklethwait and Adrian Wooldridge, A Future Perfect: The Challenge and Hidden Promise of Globalization. (Times Books, 2000). ISBN 0812930967
3. Peter G. Peterson, Running On Empty: How The Democratic and Republican Parties Are Bankrupting Our Future and What Americans Can Do About It. (Farrar, Straus and Giroux, 2004). ISBN: 0374252874
4. Joseph E. Stiglitz, Globalization and Its Discontents. (W.W. Norton, 2003). ISBN 0393324397

In addition, there will be a number of assigned articles and book chapters on reserve or online. You will need to install Adobe Acrobat Reader to read many of the documents (available as a free download from Adobe.com)

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 and will be worth 30% of the grade. 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.

THE RESEARCH PAPER

The research paper must engage a topic of core relevance to the course. Examples would include key economic policies, events, or theoretical debates. 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 midnight May 2nd. Both components must be submitted as electronic documents.

The prospectus is an invaluable tool for writing a research paper. It must contain an introduction which 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, not to exceed 20 pages, is due on May 2nd. 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.

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.

All written work must be submitted to Blackboard as a Microsoft Word attachment by midnight on the date due. Late work will be penalized one full grade per day, beginning at 12:01 on the day following the due date.

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:

Wednesday	1-2
Friday	10-12

Meetings outside of these periods must be arranged by appointment.

Electronic Communications

Email is the 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. I have also established an Instant Messenger screen name (ProfEisner) that can be used to contact me during office hours (and outside of office hours, when logged on).

Session	Date	Topic
1-3	1/19-24	<p data-bbox="613 268 1268 300" style="text-align: center;">PART I. WHAT IS POLITICAL ECONOMY?</p> <p data-bbox="513 342 1372 558"><u>Political economy</u> describes “interdisciplinary studies that draw on economics, law, and political science in order to understand how political institutions and the political environment influence market behavior. Within political science, the term refers to liberal, realist, and Marxian theories concerning the relationship between economic and political power among states.”</p> <p data-bbox="513 600 1372 852">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.</p> <p data-bbox="513 894 1372 1035">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:</p> <p data-bbox="513 1077 704 1108">Public Choice</p> <p data-bbox="513 1115 1372 1182">James M. Buchanan and Gordon Tullock, <i>The Calculus of Consent</i>, Chapters 1-4. Download.</p> <p data-bbox="513 1224 797 1255">The Austrian School</p> <p data-bbox="513 1297 1372 1398">Israel M. Kirzner, “Competition, Regulation, and the Market Process: An "Austrian" Perspective.” <i>Cato Policy Analysis</i> No. 18 (September 30, 1982). Download.</p> <p data-bbox="513 1440 911 1472">The Institutional Perspective</p> <p data-bbox="513 1514 1372 1623">Geoffrey M. Hodgson, “What is the Essence of Institutional Economics?” <i>Journal of Economic Issues</i>, 34 (2000):317-329. Download.</p> <p data-bbox="513 1665 813 1696">The Class Perspective</p> <p data-bbox="513 1703 1372 1770">Bob Jessop, “Capitalism and the Capitalist Type of State.” Download.</p>

PART II. THE AMERICAN POLITICAL ECONOMY		
4-5	1/26-28	<p style="text-align: center;">Overview of the American Economy</p> <p>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 and the Center on Budget and Policy Priorities does the same from a conservative perspective.</p> <ol style="list-style-type: none"> 1. Bureau of Labor Statistics, Report on the American Workforce 2001, Chapter 2. Download. 2. Council of Economic Advisors, Economic Report of the President, 2004. Chapters 1 and 3. Download.
6-7	1/31-2/2	<p style="text-align: center;">Markets, Courts and Property Rights</p> <p>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.</p> <p>Many 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).</p> <ol style="list-style-type: none"> 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. Yoram Barzel, “Property Rights and the Evolution of the State.” (1999) Download

8-10	2/4-9	<p style="text-align: center;">The Corporation and Governance</p> <p>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.</p> <p>Under US securities laws, corporations are required to submit routine filings on their activities and financial performance. These filings can be examined at the Securities and Exchange Commission's database. One can also learn much about corporations through various business weeklies (including Forbes and Business Week) and the business press (e.g., The Financial Times). Critical commentaries on corporate policies and practices can be found at a number of websites, including the Left Business Observer, the Multinational Monitor, and CorpWatch.</p> <ol style="list-style-type: none"> 1. Ronald Coase, "The Nature of the Firm." (1937). Review and Text 2. Alfred D. Chandler, Jr, "The Emergence of Managerial Capitalism," BusinessHistory Review, 58 (1984): 473-503. Download 3. Walter Powell, "Neither Market Nor Hierarchy: Network Forms of Organization." Research in Organizational Behavior, 12 (1990): 295-336. Download 4. 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 5. Oliver Williamson, "The Theory of the Firm as Governance Structure: From Choice to Contract." (2002) Download 6. 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
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11-12	2/11-14	<p style="text-align: center;">The State</p> <p>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.</p> <ol style="list-style-type: none"> 1. J.P. Nettl, "The State as a Conceptual Variable," World Politics, 20:4 (July, 1968), 559-592. Download 2. Stephen D. Krasner, “Approaches to the State: Alternative Conceptions and Historical Dynamics.” Comparative Politics 16 (1984): 223-246. Download 3. John F. Manley, “Neo-Pluralism: A Class Analysis of Pluralism I and Pluralism II.” American Political Science Review 77 (1983): 368-83. Download 4. Timothy Mitchell, “The Limits of the State: Beyond Statist Approaches and their Critics.” American Political Science Review, 85 (1991): 77-96. Download 5. John Bendix, Bertell Ollman, Bartholomew H. Sparrow and Timothy Mitchell, “Going Beyond the State?” American Political Science Review 86 (1992): 1007-1021. Download 6. Robert Higgs, “Crisis, Bigger Government, and Ideological Change: Two Hypotheses on the Ratchet Phenomenon.” Download. 7. Eisner, From Warfare State to Welfare State, ch. 1-2.
13-14	2/16-18	<p style="text-align: center;">Finance</p> <p>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.</p> <p>In addition, the Federal Reserve Board manages the money supply</p>

		<p>and interest rates through its regulation of U.S. banks.</p> <ol style="list-style-type: none"> 1. John Zysman, <u>Government, Markets, and Growth</u>, Chapter 2 Reserve 2. John T. Woolley, “Monetary Policy Instrumentation and the Relationship of Central Banks and Governments.” <u>Annals of the American Academy of Political and Social Science</u>, 434(1977): 151-173. Download 3. Federal Reserve Bank of St. Louis, In Plain English: Making Sense of the Federal Reserve.
15-16	2/21-23	<p style="text-align: center;">Labor</p> <p>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. The AFL-CIO also provides a wealth of information (although see LaborNet for information on radical labor organization in the US)</p> <ol style="list-style-type: none"> 1. Chris Tilly and Charles Tilly, “Capitalist Work and Labor Markets.” Reserve 2. Karen Orren, “The Primacy of Labor in American Constitutional Development.” <u>The American Political Science Review</u>, 89 (1995): 377-388. Download 3. Theda Skocpol; Kenneth Finegold; Michael Goldfield, “Explaining New Deal Labor Policy.” <u>American Political Science Review</u>, 84(1990): 1297-1315. Download 4. Jack Barbash “Trade Unionism from Roosevelt to Reagan.” <u>Annals of the American Academy of Political and Social Science</u>, 473 (1984): 11-22. Download

17-18	2/25-28	<p style="text-align: center;">Collective Action, Rent-Seeking, and the State</p> <p>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.</p> <ol style="list-style-type: none"> 1. 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 2. Jonathan Rauch, Government’s End, chapters 2-3. Reserve
19	3/2	SUMMA PART I
20	3/4	MIDTERM EXAM IN CLASS

III. THE EVOLUTON OF THE AMERICAN POLITICAL ECONOMY

21-22	3/21-23	<p>Progressivism</p> <p>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.</p> <ol style="list-style-type: none">1. John Patrick Diggins, "Republicanism and Progressivism." American Quarterly, 37, 4 (1985):572-598. Download2. Robert H. Wiebe, "Business Disunity and the Progressive Movement, 1901-1914." The Mississippi Valley Historical Review, 44, 4. (1958): 664-685. Download3. Martin Shefter, "Regional Receptivity to Reform: The Legacy of the Progressive Era." Political Science Quarterly, 98, 3. (1983): 459-483. Download4. 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
23-24	3/25-28	<p>Planning for War and Depression</p> <p>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.</p> <ol style="list-style-type: none">1. Eisner, From Warfare State to Welfare State, ch. 3-10.2. Theda Skocpol, and Ken Finegold, "State Capacity and Economic Intervention in the Early New Deal." Political Science Quarterly 97(1982): 255-278. Download

25-26	3/30-4/1	<p>The Rise and Fall of the Keynesian Consensus</p> <p>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.</p> <ol style="list-style-type: none"> 1. Marc Allen Eisner, The State in the American Political Economy, chapter 8-9. Reserve 2. James Tobin, “The Conservative Counter-Revolution in Economic Policy.” The Journal of Economic Education, 14, 1. (1983):30-39. Download 3. Leon Lindberg, “Models of the Inflation-Disinflation Process.” Reserve
27-28	4/4-6	<p>Neoliberalism and the Return of the Market</p> <p>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. This consensus is often referred to as neoliberalism.</p> <ol style="list-style-type: none"> 1. William A. Niskanen, “Reganomics.” The Concise Encyclopedia of Economics. Download 2. Jude Wanniski, “Taxes, Revenues, and the ‘Laffer Curve.’” The Wall Street Journal June 1978. Download 3. Henry R. Nau, “Where Reaganomics Works.” Foreign Policy, 57. (1984-1985): 14-37. Download 4. Kenneth R. Hoover, “The Rise of Conservative Capitalism: Ideological Tensions within the Reagan and Thatcher

		<p>Governments.” <u>Comparative Studies in Society and History</u>, 29, 2. (1987):245-268. Download</p> <p>5. Paul Pierson, “The New Politics of the Welfare State.” <u>World Politics</u>, 48,2 (1996): 143-179. Download</p> <p>6. Michael Meeropol, <u>Surrender</u>, chapters 10-11. Reserve</p>
	4/8	No Class: Conference
29-31	4/11-15	<p>Deficits, Debts, and Transfer Seeking</p> <p>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 \$7,597,502,679,583.99. You can track the debt at the 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.</p> <p>Peter G. Peterson, <u>Running On Empty</u>, entire</p>
32-34	4/18-22	<p>The Promise of Globalization</p> <p>Globalization opens the door to higher levels of growth through the realization of comparative advantage. Moreover, economic development and integration have had a powerful impact on life expectancy and infant mortality rates. Nonetheless, these benefits come at a cost measured in economic insecurity and the loss of cultural autonomy. Advocates and opponents of globalization will continue to debate whether the costs exceed the benefits.</p> <p>John Micklethwait and Adrian Wooldridge, <u>A Future Perfect</u>, entire.</p>
35-37	4/25-29	<p>The Limits Imposed by Institutions</p> <p>Although globalization appears to be process driven by markets and technological change, institutions can play a major role in moderating its effects. The major international institutions responsible for managing the international economy are the World Trade Organization, the International Monetary Fund, and the World Bank. The core question is whether these institutions are failing in their primary duties.</p> <p>Joseph Stiglitz, <u>Globalization and Its Discontents</u>, entire.</p>

38	5/2	COURSE CONCLUSION