

Syllabus for EITM I, Week 2 (1-7 July 2002)

Macro Political Economy

Lecturers: Robert J. Franzese, Jr. and John B. Londregan

Guests: Simon Johnson and Robert S. Erikson

Teaching Fellow: Christopher Adolph

Overview: This module surveys the increasingly unified study of the politics and economics of macroeconomic policymaking, policies, and outcomes. Drazen (2000) and Persson & Tabellini (2000) offer excellent surveys of this rapidly amassing research, from a macroeconomics perspective. This module covers some of that material, using electoral and partisan cycles in economic policies and outcomes, special- versus general-interest politics, and the political economy of growth and of public opinion as substantive settings in which to explore how the international and domestic institutional, structural, and strategic contexts of political competition condition policymakers' incentives, abilities, and effectiveness in managing economic policies and outcomes.

Readings: Lecturers will work primarily from the emboldened entries in the lists below, with some probability that some materials slated for earlier in the week may slip to time reserved toward the end for catch-up. The highest priority items, meaning the key ones you should read before the session, are underlined and emboldened. Please stay tuned and remain flexible (Thanks!) as various adaptations in timing and reading are almost certain as we prepare and then progress through the week. In particular, we may schedule one or two one-hour, more informal evening sessions, intended to illustrate various practical matters of work in progress and to foster more interaction amongst you and of you with us.

Exercises: We will distribute an exercise set early in the week, through which we encourage you strongly to work together in groups, for review and discussion Saturday.

Background:

Tufte, E. 1978. *Political Control of the Economy*. Princeton: Princeton UP.

Alt, J, Chrystal, K. 1983. *Political Economics*. Berkeley: U. Cal. Press.

Hibbs, D. 1987. *The American Political Economy*. Cambridge: Harvard UP.

Alt, J, Shepsle, K. 1990. *Perspectives on Positive Political Economy*. Cambridge: Cambridge UP.

Drazen, A. 2000. *Political Economy in Macroeconomics*. Princeton: Princeton UP. Part I: 1-98.

Persson, T, Tabellini, G. 2000. *Political Economics: Explaining Economic Policy*. Cambridge: MIT Press. Chapters 1-5: 1-114.

Monday, 1 July: Electoral and Partisan Cycle Theory & Empirics

09:00-09:30 Logistics and Introductions

09:30-10:00 Origins of Modern Macro Political Economy

Tufte, E. 1978. *Political Control of the Economy*. Princeton: Princeton UP.

Hibbs, D. 1987. *The American Political Economy*. Cambridge: Harvard UP.

Franzese, R. 2002. *Lecture Notes from PS 489.1:*

<http://www-personal.umich.edu/~franzese/ps489.Tufte.pdf>

<http://www-personal.umich.edu/~franzese/ps489.Hibbs.pdf>

10:15-12:00 Rational Partisan Theory

(ALR) Alesina, A, Londregan, J, Rosenthal, H. 1993. "A Model of the Political Economy of the United States," *American Political Science Review* 87(1):12-33.

(AR) Alesina, A, Rosenthal, H. 1995. *Partisan Politics, Divided Government, and the Economy*. Cambridge: Cambridge UP.

(ARC) Alesina, A, Roubini, N, Cohen, G. 1997. *Political Cycles and the Macroeconomy*. Cambridge: MIT Press.

Theory: **ALR**; AR Ch. 7-8, pp. 161-202; ARC Ch. 2-3, pp. 15-66.

Empirics: **ALR**; ARC Ch. 4-7, pp. 67-210; AR: Ch. 9, pp. 205-42.

Review: Franzese, R. 2000. "Book Review: Alberto Alesina and Nouriel Roubini with Gerald Cohen, *Political Cycles and the Macroeconomy*," *Journal of Policy Analysis and Management* 19(3): 501-9.

Further Empirics: Carlsen, F, Pedersen, E. 1999. "Rational Partisan Theory: Evidence from Seven OECD Countries," *Economics and Politics* 11(1):12-32.

Review & Extension: Drazen, A. 2001. "The Political Business Cycle after 25 Years," *National Bureau of Economic Research Macroeconomics Annual* 2000.

Extensions: **AR Ch. 3-4**, 5-6, pp. 43-160; AR: Ch. 10, pp. 243-59 or ARC: Ch. 8-9, pp. 211-52; Garfinkel, M, Glazer, A. 1994. "Does Electoral Uncertainty Cause Economic Fluctuations," *American Economic Review* 84(2): 169-173.

13:30-15:15 Rational Electoral (Opportunistic) Cycles

Base Theory: **Rogoff, K, Sibert, A. 1988. "Elections and Macroeconomic Policy Cycles," *Review of Economic Studies* 55(1):1-16.**

Theoretical Review & Extensions: Drazen, A. 2000. *Political Economy in Macroeconomics*. Princeton: Princeton UP. Chapter 7: 219-308 (see also chapters 8-9 below).

Theoretical Review & Extensions: Persson, T, Tabellini, G. 2000. *Political Economics*. Cambridge: MIT Press. Chapter 16: 419-34 (see also chapters 6-10 below).

15:30-16:00 "Modern" Electoral & Partisan Cycles in Economic Policies & Outcomes

Theoretical & Empirical Review: **Franzese, R. 2002. "Electoral and Partisan Cycles in Economic Policies and Outcomes," *Annual Review of Political Science* (<http://www-personal.umich.edu/~franzese>).**

Empirical Techniques: Franzese, R, Kam, C, and Jamal, A. 2002. "Modeling and Interpreting Interactive Hypotheses in Regression Analysis: A Brief Refresher." (<http://www-personal.umich.edu/~franzese>)

Tuesday, 2 July: Banks, Bargainers, and Multiple Conditionality; Special- v. General-Interest Politics in Comparative Political Economy

09:30-10:45 Banks and Bargainers

Base Theory & Empirics: Cukierman, A. 1992. *Central Bank Strategy, Credibility, and Independence: Theory and Evidence*, **Ch. 2**, skim rest of Part I, **Ch. 23**, skim rest of Part IV.

Review of Extensions: Franzese, R. 2001. "Strategic Interactions of Monetary Policymakers and Wage/Price Bargainers: A Review with Implications for the European Common-Currency Area," *Empirica: Journal of Applied Economics and Economic Policy* 28(4): 457-86.

Theoretical Extension: Adolph, C. 2002. "Parties, Unions, and Central Banks: An Interactive Model of Unemployment in OECD Countries."

11:00-12:00 Banks and Bargainers

Empirical Extension: Franzese, R. 1999. "Partially Independent Central Banks, Politically Responsive Governments, and Inflation," *American Journal of Political Science* 43(3): 681-706

Empirical Extension: Franzese, R. 2002a. "Multiple Hands on the Wheel: Partial Delegation and Shared Monetary-Policy Control in the Open and Institutionalized Economy." unpublished, (<http://www-personal.umich.edu/~franzese/Publications.html>).

Empirical Method: Greene, WH. 2000. *Econometric Analysis*, 4th edition. Upper Saddle River: Prentice-Hall. Chapter 10 ("Nonlinear Regression Models"): 416-454.

13:30-15:00 Public-Goods, Redistributive, Distributive, and Rent-Extraction Politics

Base Theory: Meltzer, A, Richard S. 1981. "A Rational Theory of the Size of Government," *Journal of Political Economy* 89(5): 914-27. For a more thorough introduction to the base theories, see Persson, T, Tabellini, G. 2000. *Political Economics: Explaining Economic Policy*. Cambridge: MIT Press. Chapters 3-5: 47-114.

Theory: Dixit, A, Londregan, J. 1996. "The Determinants of Success of Special Interests in Redistributive Politics," *Journal of Politics* 58: 1132-55.

Theory: Dixit, A, Londregan, J. 1998. "Ideology, Tactics, and Efficiency in Redistributive Politics," *Quarterly Journal of Economics* 113: 497-529.

* *Theoretical Review & Extension*: Persson, T, Tabellini, G. 2000. *Political Economics: Explaining Economic Policy*. Cambridge: MIT Press. Chapters 6-10: 115-274.

* *Theoretical Review & Extension*: Drazen, A. 2000. *Political Economy in Macroeconomics*. Princeton: Princeton UP. Chapters 8-9: 309-71.

* *Note*: Try reading one or the other of Drazen Chapters 8-9 or P&T Chapters 6-7 (perhaps skim both first to see whose style appeals more to you), then skim P&T 8-10 for other sections that interest you.

15:15-16:00 Public Goods, Redistribution, Distribution, and Rent Extraction: Further Theory and Empirics

Ellman, M, Wantchekon, L. 2000. "Electoral Competition under the Threat of Political Unrest," *Quarterly Journal of Economics* 115(2):499-531.

Dahlberg, M, Johansson E. 2002. "On the Vote Purchasing Behavior of Incumbent Governments," *American Political Science Review* 96(1).

Schady, N. 2000. "The Political Economy of Expenditures by the Peruvian Social Fund (FONCODES), 1991-1995," *American Political Science Review* 94(2): 289-304.

Wantchekon, L. 2002. "Markets for Votes: Evidence from a Field Experiment in Benin," unpublished.

Persson, T, Tabellini, G. 2002. *Economic Policy in Representative Democracies*. The MIT Press, Forthcoming (see also below).

Wednesday, 3 July: Inequality and Growth, Reform, and Transition

9:30-10:00 Political and Economic Development: Early Empirical/Theoretical Insights

Lipset, SM. 1959. "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," *American Political Science Review* 53: 69-105.

Olson, M. 1963. "Rapid Growth as a Destabilizing Force," *Journal of Economic History* 23: 529-52.

Huntington, S. 1968. *Political Order in Changing Societies*. New Haven: Yale University Press, esp. Ch. 1.

Hirschman, A. 1973. "The Changing Tolerance for Income Inequality in the Course of Economic Development," *Quarterly Journal of Economics* 87(Nov): 544-66.

**Franzese, R. 2002. *Lecture Notes for PS 441: Introduction: Socio-Economic Structure & Politics, Political & Economic Modernization, Sections I-XXXII*, pp. 1-40.
<http://www-personal.umich.edu/~franzese/ps441.ClassNotes.v2.pdf>**

10:15-11:00 Inequality and Democracy, Growth and Development

Theory: **Persson, T, Tabellini, G. 1992. "Growth, Distribution, and Politics." in Cukierman, A, Hurcowitz, Z, Leiderman, L, eds. *Political Economy, Growth, and Business Cycles*. MIT: Cambridge.**

* *Theoretical Review:* Persson, T, Tabellini, G. 2000. *Political Economics: Explaining Economic Policy*. Cambridge: MIT Press. Chapter 14: 373-392.

* *Theoretical Review & Extensions:* Drazen, A. 2000. *Political Economy in Macroeconomics*. Princeton: Princeton UP. Chapters 10-11, 12.7-9, 13: 403-525, 580-674.

* *Note:* Again, at least a skim of P&T and/or Drazen may prove interesting and useful.

11:15-12:00 Inequality and Democracy, Growth and Development

Empirics (reflecting theory): Londregan, J, Poole, K. 1993. "Poverty, the Coup Trap, and the Seizure of Executive Power," *World Politics* 1-19.

Empirics (reflecting theory): Londregan, J., and Poole, K. 1996. "Does High Income Promote Democracy?" *World Politics* (49): 1-30.

Empirics: Barro, R. 1997. *Determinants of Economic Growth: A Cross-country Empirical Study*. Cambridge: The MIT Press.

Empirical Method: Heckman, J. 1998. "Detecting Discrimination," *Journal of Economic Perspectives* 12(2):101-16. (Relates to the issue of small p v. big P "politics" in empirical analyses of macro political economy.)

Empirics: **Persson, T, Tabellini, G. 2002. *Economic Policy in Representative Democracies*. The MIT Press, Forthcoming, Chapter 5, skim rest.**

Empirical Method: Heckman, J. 1980. "Dummy Endogenous Variables in a Simultaneous Equation System," *Econometrics* 46(6): 931-959.

13:30-16:00 Comparative Development

Guest Lecture: Simon Johnson

Acemoglu, D, Johnson, S, Robinson, J. 2001. "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review* 91(5):1369-401.

Thursday, 4 July: Happy Fourth of July!

Friday, 5 July: Connecting Public Opinion and Mass Political Behavior to the Macro Political Economy

09:30-10:30 The Economy, Public Opinion, and Mass Political Behavior

Scheve, K, Tomz, M. 1999. "Electoral Surprise and the Midterm Loss in US Congressional Elections," *British Journal of Political Science* 29(3):507-21.

Scheve, K, Slaughter, M. 2001. "What Determines Individual Trade-Policy Preferences?" *Journal of International Economics* 54(2):267-92.

Scheve, K. 2002. "Public Attitudes about Inflation: A Comparative Analysis," *Bank of England Quarterly Bulletin* 2002: 283-294 (<http://www.bankofengland.co.uk/qb/qb010301.pdf>).

10:45-12:00 Catch-up Time &/or More on Methodology

Greene, WH. 2000. *Econometric Analysis*, 4th edition. Upper Saddle River: Prentice-Hall. Sections 15.4, 15.7, Chapters 16-17, Sections 18.3-4 (SUR, Nonlinear Systems, Simultaneous Equations, Lagged-Variable Models, Unit Roots & Cointegration): 614-35, 644-51, 652-747, 776-95.

13:30-16:00 Macro Political Economy, Public Opinion, and Mass Political Behavior

Guest Lecture: Robert S. Erikson.

Erikson, R, MacKuen, M, and Stimson, J. 2002. *The Macro Polity*. New York : Cambridge University Press, 2002. Ch. 3, 4, 7, 11

or replace Chapters 3 and 4 with:

Erikson, R, MacKuen, M, Stimson, J. 2000. "Bankers or Peasants Revisited: Economic Approval and Presidential Approval," *Electoral Studies* 19 (2-3): 295-312.

Erikson, R, MacKuen, M, Stimson, J. 1998. "What Moves Macropartisanship? A Reply to Green, Palmquist, and Schickler. " *American Political Science Review*, 92(4): 901-912.

Saturday, 6 July: Econometrics, Catch-Up, Wrap-Up, and Discussion

09:30-10:45 Catch-up Time &/or More on Methodology

Greene, WH. 2000. *Econometric Analysis*, 4th edition. Upper Saddle River: Prentice-Hall. Sections 15.4, 15.7, Chapters 16-17, Sections 18.3-4 (SUR, Nonlinear Systems, Simultaneous Equations, Lagged-Variable Models, Unit Roots & Cointegration): 614-35, 644-51, 652-747, 776-95.

11:00-12:00 Review Exercises & Wrap-Up

13:30-16:30 Scheduled Office Hours (24 students @ 15 minutes over 2 faculty)