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Political Economy

GV 307

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Structure of the Seminar

A) The Nature and Consequences of Political Decision-Making Mechanisms

Two-Party Competition

Voting Behavior 1: Forward vs. Backward Looking

Multiparty Competition

Voting Behavior 2: Abstention

Voting Behavior 3: Strategic Voting

Coalition Formation

Government Survival

B) Conflict of Interests and Government

General Interest Politics (Allocation)

Special Interest Politics (Distribution)

Origins of Inefficient Government 1: Time Inconsistency

Origins of Inefficient Government 2: Delayed Reform

Origins of Inefficient Government 3: Incentive Structures in Democracy and Autocracy

C) Institutions and Constitutions

Federalism and Bicameralism

Presidentialism and Parliamentarism

Are there 'Families of Nations'?

D) Applications

Democratization

Partisanship

Economic Integration and the Limits of Autonomy

Delegation to IOs

Size and the Number of Nations

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What is Political Economy?

Politicians neither love nor hate, interest, not sentiment, governs them.

Earl of Chesterfield

Political science has studied man's behavior in the public arena; economics has studied man in the marketplace. Political science has often assumed that political man pursues the public interest. Economics has assumed that all men pursue their private interests. (...) But is this dichotomy valid?

Dennis Muller

Over its long lifetime, the phrase 'political economy' has had many meanings. For Adam Smith, political economy was the science of managing a nation's resource as to generate wealth. For Marx, it was how the ownership of the means of production influenced historical processes.

Weingast and Wittman

Some additional definitions

Allen Drazen: A general definition is that political is the study of the interaction of politics and economics.

Allen Drazen: Political economy begins with the nature of political decision-making and is concerned with how politics will affect economic choice in a society.

Allen Drazen: Political economy begins with the observation that actual policies are often quite different from optimal policies.

Weingast and Wittman: Political Economy is the methodology of economics applied to the analysis of political behavior and institutions.

Why do governments exist?

And what are they doing?

Some terms for discussion

interests, preferences

social welfare

conflict of interest, heterogeneity of preferences

opportunism

ideology

allocation and distribution (allocative efficiency,
distributive efficiency?)

Political Economy...

...is the study of political trade-offs and its consequences.

Typical trade-offs exist because all political decisions have a redistributive effect. They not necessarily make some actors better at the expense of other actors, but typically even if political decisions achieve pareto-efficiency, some actors will gain more than others.

Trade-offs also exist because politics is confronted with budget constraints. Therefore, the extent to which government achieve one goal makes it less likely that they achieve other goals as well.

The classical trade-off in this respect is the one between efficiency (economic growth, transaction costs in decision-making, ...) and equality (of income, of participation in decision-making, ...).

Concepts and Models of Political Decision-Making

How much detail is necessary?

Drazen: First, one should be careful in making assumptions about the 'reasonable' characteristics of political behavioral relations. Second., finding out how much detail is necessary may be an iterative process (...). Third, one should be extremely cautious in trying to derive 'general' results.

Complexity in Theories of Political Economy

Actors, Interactions, Institutions, Choice

The Government

Social Welfare-Maximizer (Benevolent Dictator, Social Planner, Benevolent Government, ...)

Opportunistic Government

Partisan Politics

Other Actors

Economic Subjects

Parties

Voters

Interest-Groups

else?

Constitutional Features of Countries

Majority, Supermajority, Unanimity Rule

Autocracy/ Democracy

Presidentialism/ Parliamentarism

Central State/ Federalism -> Bicameralism?

Electoral System: Majoritarian Systems/ Proportional Systems / Direct Democracy

Other Features of Electoral Systems: 5-percent hurdle, barriers to entry (exit?), districts

Specific Institutions: Unions, Central Banks, Media, else?

Again: How much complexity is needed? What does a theory want to achieve?

