UNIVERSITY OF TORONTO
DEPARTMENT OF POLITICAL SCIENCE
WINTER 2019

POL443H/POL2322H: Topics in Comparative Politics II: Globalization, Democracy and Growth

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Mondays 12:00-2:00pm
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Overview: Comparative political economy is the study of how political context influences economic policy choice and economic performance. It has been one of the most active research areas in political science over the past twenty years, as scholars in have placed a renewed emphasis on the way in which political institutions influence economic outcomes. In this course, we will focus on the link between institutions and economic policy, starting with an examination of the effect on economic outcomes of specific democratic institutions, such as the separation of powers or delegation to unelected officials like central bankers. In so doing we will also ask whether globalization has altered the relationship between democratic institutions and economic policy choices. Empirical studies in the field of comparative political economy have used both qualitative historical methods and quantitative comparisons across broad groups of countries. We will read studies that use both of these approaches, and as a result, students taking the course should be familiar with quantitative methods in political science.

Objectives: To gain an overview of the latest research in comparative political economy of the positive/formal/quantitative type, and to learn how to critically read and interpret such research results.

Prerequisites: Formally, sufficient prior credits in Comparative Politics. Practically speaking, familiarity with quantitative methods as acquired through POL2504 or equivalent. For undergraduates, this typically means one of *POL232H1S: Introduction to Quantitative Reasoning II,* the first two econometrics courses, or two statistics courses in any other discipline. Without this preparation, you will have a hard time making sense of the readings. It is in your own best interests to only take the courses if you have this preparation.

Teaching method: Weekly two-hour seminar led by the instructor, with in-class presentations by students.

Assignments, Grade Breakdown, and Policy on Absences:

- Three 1000-word **response papers** (10% for the first paper, 25% for papers two and three, due Jan 28, Mar 4, Mar 25 in class). The response papers should summarize and critically evaluate the theories and evidence offered in all readings of a given week. Response papers have to be written on a set of readings not yet discussed in class, so for example if you submit your response paper on January 28, you can write either on the readings of that week or a later week only. Papers handed in at least a week early automatically earn a 3% bonus. Please submit an electronic version to me by email and a printout in class.
- Class participation (15%), including leading off some sessions.
- Final take-home test (25%), due April 4 at my office.
- Late submission of papers or take-home test incurs a penalty of 5% per day, including weekend days. Extensions can only be granted in cases of medical or family emergencies and require documentation as appropriate (e.g. the university-prescribed medical note substantiating that no term work could be undertaken during specific periods of time). Late response papers cannot be written on a topic we have already discussed in class.
- Two absences are allowed without requiring any further documentation, though I appreciate a notice by email beforehand if you know that cannot attend the session. Other absences require a medical note.

Readings:

Purchase of the Drazen and the Acemoglu/Robinson books is recommended. Weekly required readings are listed below. We may substitute some readings during the course to adjust to specific interests.

Drazen, Allan, (2000), *Political Economy in Macroeconomics*, Princeton, NJ: Princeton University Press

Persson, Torsten and Guido Tabellini, (2003), *The Economic Effects of Constitutions*, Cambridge, MA: MIT Press.

Watson, Joel. 2013. *Strategy: An Introduction to Game Theory*. Third Edition. New York, NY: W. W. Norton & Company.

Plagiarism:

Plagiarism is a most serious academic offense and the offender will be punished. Normally, students will be required to submit their course essays to Turnitin.com for a review of textual similarity and detection of possible plagiarism. In doing so, students will allow their essays to be included as source documents in the Turnitin.com reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the University's use of the Turnitin.com service are described on the Turnitin.com web site.

Auditing the course:

Graduate students may be allowed to audit the course at the instructor’s discretion and space permitting.

Contacting the instructor:

Office hours are listed above, but please confirm by email that I will be holding office hours that day. If you cannot make those, please ask for an alternative appointment by e-mail.

Session 1 (January 8): No class because of conference travel, will be rescheduled to a later date.

Session 2 (January 14): Institutions and Economic Policy

This introductory week will have several objectives. First it will define what "comparative political economy" is, discussing various conceptions of political economy that occur within the discipline. We will also allocate sessions in which students lead off the discussion.

Required

Drazen, Allan. 2000. *Political Economy in Macroeconomics,* pp.3-18. http://press.princeton.edu/chapters/s6819.pdf

Thelen, Kathleen. 1999. "Historical Institutionalism in Comparative Politics," *Annual Review of Political Science,* vol. 2: 369-404.

Recommended

Clark, William Roberts. 1998. "Agents and Structures: Two Views of Preferences, Two Views of Institutions," International Studies Quarterly, Vol. 42, No. 2, pp. 245-70.

Munck, Gerardo. 2001. "Game Theory and Comparative Politics: New Perspectives and Old Concerns," World Politics, vol. 53, no. 2: 173-204. http://www.jstor.org/stable/25054144

Session 2 (January 21): Determinants of Democracy

In many of the subsequent sessions we will take democratic institutions as 'given' and assume that the rules of the democratic game are respected. However, in many contexts this assumption is obviously unrealistic. This suggests that comparative political economy needs to focus not only on the effect of democratic institutions on economic policy, but also on the sources of democratic institutions. When are they established? When are they likely to endure?

(1) What causes best explain the wave of democratization? (2) Under what conditions are democratic institutions most likely to endure? (3) Why does authoritarianism persist against the predictions of the earlier literature?

Olson, Mancur. 1993. "Dictatorship, Democracy, and Development," *American Political Science Review*, Vol. 87, No. 3, pp. 567-76.

Acemoglu, Daron, and James A. Robinson. 2005. Economic Origins of Dictatorship and Democracy. Cambridge University Press. pp. 1-47.

Levitsky, Steven, and Lucan Way. 2002. The Rise of Competitive Authoritarianism. *Journal of Democracy* 13 (2): 51–65.

Session 3 (January 28): Inequality and Democracy

Growing disparities in wealth and income within developed countries have prompted much handwringing in recent years, and have been blamed for a rise in populist politics.

(1) What explains why voters appear more in support of redistribution in some countries than in others? (2) What are the challenges to a simple explanation of redistributive politics like the Meltzer-Richards model? (3) Does support for redistribution depend on the individual's economic situation or on how they feel about the economy in general?

Background Reading

Scheve, Kenneth, and David Stasavage. 2017. "Wealth Inequality and Democracy." *Annual Review of Political Science* 20(1): 451–68.

Required

Esping-Andersen, Gøsta. 1990. "The Three Political Economies of the Welfare State." *International Journal of Sociology* 20(3): 92–123.

Pontusson, Jonas, and David Weisstanner. 2018. "Macroeconomic Conditions, Inequality Shocks and the Politics of Redistribution, 1990–2013." *Journal of European Public Policy* 25(1): 31–58.

Rueda, David. 2005. "Insider–Outsider Politics in Industrialized Democracies: The Challenge to Social Democratic Parties." *American Political Science Review* 99(1): 61–74.

Session 4 (February 4): Majoritarian vs. Consensus Institutions and their Effect on Policy

Democratic institutions differ in the extent to which they allow majorities to set policies unhindered, or alternatively, whether they require a broader consensus before any policy can be changed. Contemporary theory suggests that consensus democracy is associated with the presence of multiple "veto points". There are three main ways to distinguish between these "majoritarian" and "consensual" forms. First, is there a unicameral or a bicameral legislature? Second, is there a separately elected executive who can veto legislation? Finally, do governments tend to be formed out of a single party, or are they instead based on multi-party coalitions. The potential advantage of multiple veto points is that they may help prevent the choice of policies that are highly unfavorable to minorities, and they may make policy outcomes more stable. Their disadvantage is that they may impede necessary changes in policy. This session will investigate the theory of majoritarian vs. consensus democracy and empirical applications.

(1) Is there convincing evidence that "consensus" institutions lead to more stable policies? (2) What are the strenghts and weaknesses of the "veto player" framework?

Lijphart, Arend. 1994. "Democracies: Form, performance and constitutional engineering," *European Journal of Political Research,* vol. 25, no. 1: 1-17

Tsebelis, George. 1999. "Veto Players and Law Production in Parliamentary Democracies," *American Political Science Review*, Vol. 93, No. 3, pp. 591-608

Persson, Torsten. 2002. "Do Political Institutions Shape Economic Policy?," *Econometrica,* vol. 70, no. 3: 883-905.

Session 5 (February 11): Politics of Fiscal Policy

This session will consider a number of alternative theories about the determinants of public indebtedness. In doing so it will consider theories emphasizing incentives for politicians to run deficits, the effects of fiscal federalism, as well as theories that focus on the effect of institutions on debt. Just as authors have suggested that central bank independence may be a solution to incentives for politicians to pursue short-termist monetary policies, a number of analysts have recently claimed that fiscal policy institutions can be designed so as to limit the emergence of excessive debt and deficits. The question is whether such institutions actually have an effect, and whether they may in some cases actually unduly constrain government action.

(1) How do political institutions interact with levels of public debt? (2) Are there variations in impact of political institutions, including federalism, on economic policy between developed and developing countries?

Fabrizio, Stefania and Ashoka Mody. 2006. "Can Budget Institutions Counteract Political Indiscipline?," *Economic Policy*, vol. 21, no.48: 689-739.

Rodden, Jonathan. 2002. "The Dilemma of Fiscal Federalism: Grants and Fiscal Performance around the World," *American Journal of Political Science,* vol. 46, no.3: 670-687.

Baskaran, Thushyanthan. 2010. On the link between fiscal decentralization and public debt in OECD countries. *Public Choice* 145 (3–4): 351–378.

Session 6 (February 25): Elections, Opportunism, and Partisanship: The PBC

Elections are designed to make leaders accountable to the public, but political observers have long suggested that they may also prompt politicians to prioritize short-run objectives at the expense of long-run goals. For both fiscal and monetary policy, some have suggested that there is a problem of an "opportunistic political business cycle". In addition, some authors have suggested that shifts between governments can create a "partisan political business cycle".

(1) Is there significant empirical evidence of political business cycles? (2) To what extent does the effect of political business cycles depend upon other institutions and the level of economic development? (3) How do expectations of a political business cycle affect macroeconomic and market performance?

Drazen, Allan. 2000. "The Political Business Cycle After 25 Years," *NBER Macroeconomics Annual*.

Franzese, Robert. 2002. "Electoral and Partisan Cycles in Economic Policies and Outcomes," *Annual Review of Political Science*, Vol. 5, pp. 369-421.

Schamis, Hector E., and Christopher R. Way. 2003. "Political cycles and exchange rate-based stabilization." *World Politics* 56(1): 43-78.

Schneider, Christina J. 2010. Fighting with one hand tied behind the back: political budget cycles in the West German states. *Public Choice* 142 (1–2): 125.

Session 7 (March 4): Party Government vs. Pressure Group Politics

Political parties are key features of democratic politics. This leads to two questions: what purpose do parties serve, and what effect do they have on policy? More recently, scholars have been interested in asking whether there are systematic differences in the policies pursued by governing parties of the left and the right – i.e. whether policy making has a partisan bias. Meanwhile, in democracies we also frequently observe that pressure groups attempt to exert collective influence on individual issues. Pressure groups can influence policy in several ways. First of all they may lobby by making campaign contributions or by paying bribes. Second, pressure groups can revert to 'outside options', such as strikes or violence. Each of these activities involves a problem of collective action; people in a group may benefit from acting collectively but on an individual basis they may face an incentive to "free ride" on the efforts of others.

(1) Is there evidence of a partisan bias to economic policy making? (2) Are parties sources of moderation, or alternatively does party politics make policy outcomes more volatile? (3) How can parties matter (or not) if voters do not vote with their pocketbook?

Boix, Carles. 2000. "Partisan Governments, The International Economy, and Macroeconomic Policies in Advanced Nations, 1960-93," *World Politics*, Vol. 53, No. 1, pp. 38-73.

Hall, Richard L., and Alan V. Deardorff. 2006. "Lobbying as Legislative Subsidy." *American Political Science Review* 100 (1): 69-84.

Kayser, Mark Andreas, and Christopher Wlezien. 2011. Performance pressure: Patterns of partisanship and the economic vote. *European Journal of Political Research* 50 (3): 365–394.

Session 8 (March 11): Delegation in Economic Policy: Costs and Benefits

Delegation to unelected officials can be beneficial when politicians have incentives to act opportunistically if they choose policies directly. It can impose costs, however, if unelected officials then pursue policies that suit narrow, private goals. An alternative to delegation is to adopt a policy rule. This section will consider costs and benefits of delegation in economic policy, focusing on the case of central bank independence.

(1) Is delegation to independent central bankers consistent with other features of democracy? (2) Can delegation be truly credible, given that laws and constitutions can be changed? (3) Are central banks political actors?

Background Reading:

Drazen, Allan. 2000. *Political Economy in Macroeconomics*, Princeton University Press, ch.5.

Required

Keefer, Philip and David Stasavage. 2003. "The Limits of Delegation: Veto Players, Central Bank Independence, and the Credibility of Monetary Policy," *American Political Science Review*, Vol. 93, No. 3, pp. 407-23.

Mukherjee, Bumba and David Andrew Singer. 2008. "Monetary Institutions, Partisanship and Inflation Targeting," *International Organization*, Vol. 62, No. 2, pp. 323-358.

Clark, William Roberts, and Vincent Arel-Bundock. 2013. Independent but Not Indifferent: Partisan Bias in Monetary Policy at the Fed. *Economics & Politics* 25 (1): 1–26.

Session 9 (March 18): Globalization and Democratic Politics

Previous sessions will have already encountered the question whether globalization has changed the relationship between democratic institutions and economic policy. This session will focus on this debate more directly, in particular by looking at capital mobility.

(1) Has increased capital mobility led to convergence between right and left? (2) Has increased capital mobility led to a shift in the balance of political power between labor and capital?

Required Reading:

Krieckhaus, Jonathan, Byunghwan Son, Nisha Mukherjee Bellinger, and Jason M. Wells. 2013. Economic Inequality and Democratic Support. *The Journal of Politics* 76 (1): 139–151.

Garrett, Geoffrey, and Deborah Mitchell. 2001. "Globalization, Government Spending and Taxation in the OECD," *European Journal of Political Research*, Vol. 39, No. 2, pp.145-78.

Busemeyer, Marius R. 2009. From myth to reality: Globalisation and public spending in OECD countries revisited. *European Journal of Political Research* 48 (4): 455–482.

Session 10 (March 25): Democracy and Government Spending in the Developing World

While we will have already considered a number of theories of fiscal policy that are applicable developing countries, there are a number of additional questions about democracy and government spending in the developing world that merit examination. In particular, how has the shift to democracy in many countries affected government spending decisions?

(1) Have democratic governments tended to be more responsive to public demands for social spending? (2) Has the effect of globalization on government spending varied between democracies and non-democracies?

Rudra, Nita. 2002. "Globalization and the Decline of the Welfare State in Less Developed Countries," *International Organization*, Vol. 56, No. 2, pp. 411-50.

Stasavage, David. 2005. "Democracy and Education Spending in Africa" *American Journal of Political Science*, Vol. 49, No. 2, pp. 343-58.

Wibbels, Erik. 2006. Dependency Revisited: International Markets, Business Cycles, and Social Spending in the Developing World. *International Organization* 60 (2): 433–468.

Session 11 (April 1): Varieties of Capitalism

In recent years, a large literature has argued that national comparative advantage depends on the combination of different institutions of the political economy, so that policy outcomes and socio-economic performances depend on those institutions and their interaction. This has become known as the "Varieties of Capitalism" approach, which was theorized by Hall & Soskice (2001). In this session, we will explore this model and its potential.

(1) Which are the key actors and the key institutions in of the Varieties of Capitalism approach? (2) Can the varieties of capitalism approach be applied to developing countries? (3) What is the role of politics in the Varieties of Capitalism approach?

Background reading

Hall, Peter and David Soskice. 2001. "An Introduction to Varieties of Capitalism," in Hall and Soskice (eds.) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford University Press, pp.1-68. **CC HB501 V29**

Required

Iversen, Torben. 1998. "Wage Bargaining, Central Bank Independence, and the Real Effects of Money," *International Organization*, Vol. 52, No. 3, pp. 469-504.

Iversen, Torben and David Soskice. 2006. "Electoral Institutions and the Politics of Coalitions: Why Some Democracies Redistribute More Than Others." *American Political Science Review,* vol.100, no. 2: 165-181.

Johnston, Alison, Bob Hancké, and Suman Pant. 2014. Comparative Institutional Advantage in the European Sovereign Debt Crisis. *Comparative Political Studies* 47 (13): 1771–1800.

Session 12 (Makeup session): Democratic Institutions & Economic Crisis

Democracy is characterized by what Adam Przeworski has called "institutionalized uncertainty." This session asks what the relationship between democracy's uncertainty and economic crises is. Does the practice of democratic politics provoke crisis? Do countries with democratic institutions find it easier or more difficult to respond to economic crises that require a change in government policy? What types of democracy are more or less likely to help or hinder reform efforts?

(1) What is the relationship between the practice of democracy and financial crises? (2) What is the interaction between political institutions and the policies adopted during and after crises?

Background Readings:

Drazen, Allan. 2000. *Political Economy in Macroeconomics*, ch.10.

Required:

Jensen, N. M. and S. Schmith (2005). "Market Response to Politics: The Rise of Lula and the Decline of the Brazilian Stock Market" Comparative Political Studies 38(10): 1245-1270.

Macintyre, Andrew. 2001. "Institutions and Investors: The Politics of the Economic Crisis in Southeast Asia," *International Organization*, Vol. 55, No. 1, pp. 81-122.

Block, S. A. and P. M. Vaaler. 2004. "The Price of Democracy: Sovereign Risk Ratings, Bond Spreads and Political Business Cycles in Developing Countries." *Journal of International Money and Finance,* vol. 23, no.6: 917-946.