1st Meeting of PS343: Political Economy of Developed Democracies

I. Hand out and discuss syllabi

II. What is Political Economy:

A. The Political Consequences of Economic Outcomes/Conditions

1. Economic Voting: how econ performance affects election outcomes
   a. Comparative: (Lewis-Beck, Powell & Whitten)
      (1) In all democracies, tendency for incumbents presiding over stronger economic performance to garner more votes
      (2) Comparative insight is that domestic political structure, institutions, conditions modifies/moderates this relationship
   b. US: Ray Fair et al.: econ-voting=core of many elect-predict models

2. Presidential Approval: econ conditions strongly affect eval of incumb
   a. Central questions:
      (1) Pro- v. Retro-spective
      (2) Personal v. Sociotropic
      (3) Partisan v. Valence Issue
      (4) Symmetric v. Asymmetric reward and punishment?
      (5) Credit/blame allocation
   b. Recent Contributions:
      (1) MacKuen, Erikson, Stimson: “Peasants or Bankers” (APSR)
      (2) Political Analysis vols. 3 & 4: Beck, Ostrom & Smith, Durr...

3. Commercial Liberalism: Trade & monetary openness ⇒ interdep ⇒ (?)
   a. Keohane & Nye and the IR interdependence literature
   b. One strand of the “liberal peace” literature

   a. Huntington’s Political Order in Changing Societies: impact of econ struct & change on stability
   b. Rest of Political Development Lit (Deutsch, Przeworski et al.): relation b/w econ & pol dev
B. Microecon Theory (utility max & game theory) applied to politics

1. International Relations Applications
   a. Ken Waltz’ *Theory of International Politics*: market-structure theory of international system (billiard-ball states)
   b. Thomas Schelling’s *The Strategy of Conflict*: game theory applications to international conflict
   c. Coop in anarchy: IR as iterated PD (Axelrod *Evolution of Cooperation*)

2. US Politics Applications: Legislative (comm’s, vetoes, etc.) & Party Pol
   a. Black’s *Median-Voter Theory*: 1-D preferences, 3+ voters ⇒ median
   b. Arrow, McKelvey-Schofield *Chaos Theorems*: 2+ D ⇒ majority-rule does not generally work / ⇒ chaos, etc.
   c. Shepsle, Baron, Ferejohn, Khreibel, etc.: how rules of proposing, amending, and voting induce (different) equilibria
   d. Down’s *Economic Theory of Democracy*: Hotelling-style Locational theory of 2-party systems (convergence) and voters
   e. Buchanon & Tullock’s *Calculus of Consent*: classic synthesis attempt

3. Comparative Politics Applications
   a. Same as US, +; e.g. Tsebelis: Veto Actors retard policy-adjustment
   b. Coalition-Form: Laver & … (Hunt, Schofield, Shepsle (x2)), Riker…

C. Normative Political Economy

1. PE Philosophy: Rawls, Sen, others on econ “justice” & “fairness” …

2. Welfare and Macro/International Economics
   a. What policy *should* be enacted to achieve ideal effects
   b. What policy *would* be enacted under some set of ideal conditions
D. Positive Political Economy: What Policy is or will be enacted / The Politics of Managing the Economy / “Economic Politics”

1. Limitations of Welfare Macro/International Economics
   a. Not benevolent social-planners but politically constituted governments ⇒ No reason to expect ideal policies
   b. Also, private-actors’ preferences may extend beyond those arising in the formal, exchange, market economy.
   c. Plus, private-actors’ options for action not constrained to the market; they may have political options as well.
   d. Still more, their rationality may be limited in some way(s)

2. Implications of these limitations
   a. Even the understanding of what economic outcomes certain policies produce likely flawed when political & social considerations ignored. I.e., by ignoring 1a-d, economics alone can even get the theory of policies⇒outcomes wrong.
   b. ⇒ A fortiori that welfare economics is incompletely equipped to answer what policies and what outcomes we may expect

III. Joint Determination of Social, Political, & Economic Outcomes (see fig’s)

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![Political Economy: The Simple Picture](image-url)

- Economics Affects Politics and Society
- Politics Affects Economics and Society
- Society Affects Politics and Economics
The Cycle of Political Economy

Examples of the Elements at Each Stage:
(A) Interests:
- Sectoral Structure of Economy
- Income Distribution
- Age Distribution
- Trade Openness
Elections:
- Electoral Law
- Voter Participation
Government Formation:
- Fractionalization
- Polarization
(B) Representation:
- Partisanship
Policy:
- Fiscal Policy
- Monetary Policy
Institutional Adjustment
Government Termination:
- Replacement Risk
(C) Outcomes:
- Unemployment
- Inflation
- Growth
- Sectoral Shift
- Debt
- Institutional Change

IV. Standards for Theory (From Olson, *The Rise & Decline of Nations*)

A. No *Ad Hoc*ery ⇒ we must insist that any explanation fits some data or observations beyond that/those from which it derived

1. Case-by-case identification of some unique characteristic of nation or nation-time is insufficient explanation because...
   a. ...cannot be tested against a broad enough array of evidence or experience for us to evaluate the theory
   b. ...almost always possible to construct an ‘irrefutable explanation’ if one is completely free to draw from any of an infinite number of unique characteristics of any given country-time

2. Sum: “unless the differences invoked also apply to other cases, we are making inferences from a sample of one” (p. 11)
B. High Power/Parsimony Ratio: the goal of any theory is to explain as much as possible with as little as possible

1. Given some amount of explanatory power, more parsimony preferred
2. Given some amount of parsimony, more explanatory power preferred
3. Given that optimal on both dimensions, becomes largely a matter of taste, or one of how theory is to be used, how much explanatory power willing to cede for greater parsimony or vice versa

C. Consilience: thr'y explains quite diverse facts (e.g., Darwin’s Evolution)

D. Thr’y must explain some cases beyond that/those from which derived

E. Theory must specify what sorts of observations would decrease confidence and what sorts of observations would increase confidence that it is correct

1. ∃ no expectation that any one thr’y should explain everything (in fact, highly doubtful any one or even any combination of theories could)
2. ⇒ there is no such thing as a critical case
3. ⇒ all predictive statements include ceteris paribus (all-else =) proviso
4. I.e., our predictive statements are probabilistic: we state conditions that make some outcome more or less likely to occur, ceteris paribus

V. A Positive Epistemology: Building & Empirically Evaluating Pos Thr’y

A. Viewing the Social World Positively

1. Systematic & Stochastic Features: We think of world as characterized by more-or-less systematic features & +/- random (or stochastic) features
   a. We must think there is something systematic, else:
      (1) Why lament bad policies? If simply random, nothing could be done about them. Unless something systematic about whatever causes policies, we would have no blame to lay. E.g., Why hate or love congress “as always the same” if policies are strictly random? --must be something systematic.
      (2) Politics generally, & political economy more specifically, not entirely random (see figures below)
         (a) If right-wing govt succeeds left-wing, do you think taxes, pub-spend, inf, UE, ineq, will rise or fall, ceteris paribus?
         (b) Comparing dev’d ctry with under-dev’d, which do you
think faces greater threat of violent soc unrest (cet. par.)?
(c) Comparing dev’d ctry with under-dev’d, which more likely to have dem gov’t or greater civ lib’s (cet. par.)?

b. No Proper Nouns: One trick to beginning to see systematic aspects of social reality is to rid exposition of your arg’s of proper nouns.

(1) Not Jesse Helms caters to relig. rt. & tobacco ind., but...Sens (pols) respond to interests of constituencies that elect them.
(2) Former may seem to explain, but note it no help to say what would happen when Helms died/replaced. Latter helps...
(3) ...and incidentally opens new lines for inquiry: why does one constituency win over its opponents? Shear numbers? How does Helms ever get his way if other Sen’s do not have like constituencies? If he doesn’t get his way, how re-elected?

c. Another trick is to posit some claim, some prediction. Then ask why you think it so–what moving parts make it happen that way. Then...so, if more/less of this moving part, we will have more/less of such-and-such outcome. I.e., think in degrees not in binary

2. Systematic Features of Social World amount to a set of (probabilistic) relationships between variables:

a. That is, we think of some feature(s) X that make Y more or less likely to occur or tend to † or ‡ amount of Y that occurs.
(1) Examples of hypothesized such relationships
(a) Comparative Examples:
   i) Huntington: Rapid socio-econ change produces political instability, coups, riots, & rebellions in under-dev’d ctry’s ⇒ Probability of Social Strife = an increasing function of rate of change in society & economy + other stuff
   ii) Right-of-center govts run lower deficits than left-of-center govts do ⇒ Budget Deficit = f(partisanship, $\xi$)
(b) American Examples:
   i) Divided government responds slowly if at all to shocks ⇒ Policy Response-Rate = f(Divided government, $'$)
   ii) Voters “rally around the flag”, supporting president when s/he’s involved in international events ⇒ Presidential Approval Rating = some function of how involved is president in international events + noise & other stuff
c) IR Examples:
   i) Ken Waltz: number of great powers affects likelihood or amount of systemic war \( \Rightarrow \) Amount of War = some function of number of great powers \(+\) some other stuff (stochastic &/or other factors not considered at moment)
   ii) Paul Huth: number of nuclear weapons and latent threat of nuclear use by defender will not increase probability of extended deterrence success when potential attacker is not a nuclear power \( \Rightarrow \) Likelihood Extended Deterrence Success \( \neq \) function nuclear power of defender if potential attacker also nuclear

b. Some Important Notes:

1. Statements are Probabilistic: speak of likelihoods of events, tendencies, fertile ground for Y to happen being created, etc.
   a) E.g., not generally interested in the particular event that triggered some riot, interested in environmental features which make riots more or less likely (systematic)
   b) E.g., not generally interested in whether some aspect of Kennedy’s personality determined his choices during Cuban missile crisis (specific, deterministic), though we may be interested in particular characteristics of pres’s personalities may make them more or less likely to enact certain sorts of policies (general, probabilistic)

2. Statements about Relationships: theories not so much about predicting per se, though that certainly part of their product, but rather about how some X (set of X’s) relates to Y (or doesn’t): “X goes up” tends to make “Y go up/down...”

3. Positive Theories are Simplifications:
   a) No implicit claim that X’s highlighted = everything (or even necessarily most or very important thing) relevant to phenomenon, Y, being predicted. In other words, there is always an implicit ceteris paribus (other things equal) statement accompanying a positive theoretical statement
   b) No intention of explaining everything about Y. The world is partly random--unless you believe it is all systematic--we are not out to explain all of Y, but rather to get grasp of some the systematic features of the social world
B. Conceptualization and Hypothesizing

1. Construct a Schematic for your argument
   a. \( Y = f(X_1, X_2, X_3, \ldots, X_k, \epsilon) \) where \( X_i \) to \( X_k \) represent the systematic part and \( \epsilon \) the random part and the part we are leaving out
      (1) Then you want to reason / use logic / construct formal model to figure theoretically expected relationship b/w X’s & Y.
      (2) E.g., \( Y \) is probability of deterrence success. \( X \) is relative military might of defender. Arg: \( Y \) positively related to \( X \).
   b. Arrow Diagrams: \( X \rightarrow Z \rightarrow Y \)
   c. Tables and Games:

<table>
<thead>
<tr>
<th></th>
<th>( X_2 = 0 )</th>
<th>( X_2 = 1 )</th>
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<tbody>
<tr>
<td>( X_1 = 0 )</td>
<td>(0,0) ( \rightarrow ? )</td>
<td>(0,1) ( \rightarrow ? )</td>
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<tr>
<td>( X_1 = 1 )</td>
<td>(1,0) ( \rightarrow ? )</td>
<td>(1,1) ( \rightarrow ? )</td>
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2. Identify counter-hypotheses
   a. Easiest & most frequently relevant: you predict \( Y \) positively related to \( X \) \( \Rightarrow \) counter hypothesis negatively or not related
   b. More powerful, usually, to identify specific theoretical counter-predictions: you predict military spending responds to economic conditions in country, presidential partisanship, and past military spending; Waltz predicts it responds to objective threat faced by the nation at the systemic level; Walt predicts it depends on perceived threat. Can you figure out what you would expect to see differently if each of these three were right?

C. Operationalization and Measurement

1. Operationalization: Theories usually constructed at fairly abstract level
   a. You will next need to relate your abstract theoretical concepts (e.g. perceived threat) to empirically observable counterparts.
   b. You must be every bit as careful and theoretically minded here as in previous step. When it comes time to evaluate evidence, your “findings” will only inform you about your theory to degree measures match the theoretical abstractions.

2. Measurement: data collection stage. May involve primary sources,
secondary sources, or even pre-processed data-bases like CoW, NES, PWT, OECD, IMF, etc.

a. Everything that exists in the observable world can be measured and measurement implies quantitative measurement:
   (1) At bare minimum on a present / not-present basis, or possibly an informal index or ranking; either way...
   (2) Inability to measure perfectly does not imply cannot be measured and it would be a horrendous mistake to think that by not explicitly talking about such measurement you have not in fact taken it because:

b. You cannot make any positive statements about the world without having made, explicitly or implicitly some measurement. (Given that logical truth, I find little persuasive arguments saying that we ought to leave it implicit.)

3. This stage should not be slighted because: “Operationalization and measurement must be theoretically informed for empirical evaluation to be theoretically informing.”

D. Empirical Evaluation

1. The broad intuition of most empirical evaluation is that you are examining whether, historically (or in whatever other data base you are using), the evidence aligns more with your theoretical expectations than was likely simply by chance or than w/ some alternative expects

2. The two-by-two table

<table>
<thead>
<tr>
<th></th>
<th>Y=0</th>
<th>Y=1</th>
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<td># of (0,0) cases</td>
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3. Regression analysis (see figures, and more on this later)

E. Reconsidering Theory in Light of Evidence: Once the “data have spoken,” you go back to the beginning and reconsider
The Relationship Between the 
Degree of Democracy and of Economic Development

Dem=26.1 -2.29\(\text{(GDP)}\)
\text{s.e. (2.27) (.286)}
N = 121, r = .59
Government Spending as % of GDP in 1988

\[ \text{GSpend} = 48.3 - 2.32 \times \text{GPart} \quad r = +.28 \]
\[ (1.82) \quad N = 21 \]

Soc. Sec. Transfers as % of GDP in 1988

\[ \text{Transfers} = 17.5 - 1.11 \times \text{GPart} \quad r = +.43 \]
\[ (0.55) \quad N = 20 \]
The "Catch-Up" Hypothesis

Correlation = 0.90  # pts = 21
y = 0.178 + -0.0176x
(0.0019)

The "Small Government" Hypothesis

Correlation = .27  # pts = 21
y = 0.0391 + -0.0354x
(0.0292)
Natural Log (1+WWII Battle Deaths / 10K Population)

R-square = 0.00304   # pts = 21
y = 0.0309 + -0.000264x

Result of WWII as it Relates to Internal Disruption
0=Neutral; 1=Part. on For. Soil; 2=Part. on Dom. Soil; 3=Conquered by Axis; 4 Conquered by Allies, Restructured

R-square = 0.151   # pts = 21
y = 0.0253 + 0.00235x