

PS389/CICS301: Globalization & the Modern Political Economy

Course Introductions, Descriptions, & Logistics

I. Distribute Syllabi

II. Introductions:

- A. *Robert (Rob) J. Franzese, Jr.* (franzese@umich.edu; www.umich.edu/~franzese)
1. Professor of Political Science; here since Fall 1996 (Ph.D. PolSci & Masters in PS & in Econ, Harvard; UG: Cornell); act'ly native Michigander (& lifelong fan: Go Blue!)
 2. My research & teaching areas: I study...
 - a. **Political Economy:** primarily economic policymaking in developed democracies
 - b. **Political Methodology:** statistical methods for political & social sciences; been working on spatial-econometric models of interdependence mostly of late, and empirical models of (complex) context conditionality (interactions and other nonlinear models)
 - c. **Comparative Democratic Politics:** particularly electoral, party, and governmental institutions, how they shape effective representation in policymaking.
 3. **Office Hours:** Tu 9:45-11:45 & by Appointment (email to arrange), 4246 I.S.R.

B. GSI: Hyeon-ho Hahm (hahm@umich.edu)

1. Study Areas:

- a. Comparative Democratic Politics & Political Economy, particularly microbehavioral level.
- b. Dissertation on individual-behavioral implications of alternative institutional designs of, and structures of interest across, democracy.

2. **Office Hours:** Mo & We 1:15-2:15, and by Appt. (email to arrange), 6752 Haven.

III. Broad Course Description:

A. A course in *political economy*, meaning political control of economic policy and political management of the domestic and international economy.

1. In particular, how this political control of economic policy and management of the domestic and international economy has evolved in response to “globalization”.
2. Emphasizes economic, political, & societal pressures on publics & policymakers that accompany globalization of *markets*, i.e., *increasing international economic interdependence*.

B. Approach: positive, interdisciplinary, and academic

1. *Positive*, as opposed to normative, means:

- a. Theory, and empirical evaluation of theory, about how these political economies actually function, and neither:
- b. How they would function under some idealized circumstances, nor
- c. How we judge they ought to work under some normative ideal.

2. *Interdisciplinary*:

- a. Primarily, as the course title would suggest, **political science** and **economics**. Positive study of political control/management of policy/economy \Rightarrow need to know:
 - (1) incentives of policymakers (political science),
 - (2) what actions & instruments they have available for pursuing those incentives (pol sci & econ), and
 - (3) how those tools & instruments affect the outcomes to which these incentives relate (economics).
- b. Partic. in re: CICS, course also aims provide some knowledge of some of core content & methodologies of these disciplines. Partly in service to the above, but also in own right.

3. *Academic*: i.e., interested in positive political-economic *theory*.

- a. Models & understandings of how things work, processes & relationships between variables;
- b. Descriptive exposition and pedagogy about practice & implementation less emphasized.

IV. Coursework & Assignments:

A. Class Sessions:

1. **Lecture notes** will post to CTools, but, regardless of how thorough they may be, students need the class sessions to understand & process the material they cover.
2. **Attend, attune, & engage:**
 - a. We're 140+ students, but I will try to make class experience as interactive as possible.
 - b. Do stop me for questions, even if must interrupt me. Especially since some of the material may be technically challenging for some of you and/or from unfamiliar disciplines.

B. Readings:

1. **Availability:** all readings are posted to CTools, excepting those from Hibbs' *The American Political Economy*, Clark's *Capitalism, not Globalism*, Hays' *Globalization & the New Politics of Embedded Liberalism*, and Frieden, Lake, & Broz's (editors) *International Political Economy* reader. Those are on library reserve and ordered at campus stores.
2. Ideally, students would read the assigned material before class; attend, attune, and engage in those class sessions; and return to review those readings after to ensure that they understand those materials.

C. Quizzes: 10 short quizzes, administered via CTools

1. Not intended to be especially difficult or onerous, but more as a quick check, for yourself as well as for me, of your grasp of the key concepts, arguments, evidence, and/or methods from the preceding week(s)'s class sessions.
2. Generally will post on the Thursday of the weeks indicated, around noon, and be due Sunday evening.

D. Exams: Midterm and final are more probing; each has one class period set aside for a review session before it.

1. **Midterm**, in class, the Weds after Winter break (Monday being the review session), to cover material from first half, through our coverage of Clark's book & my articles.
2. **Final** (LS&A has set for Friday, April 20, 1:30-3:30pm, here) focuses on the second half, although may reference some from the first half.

E. Grades:

1. *Assessments' Weighting:* Quizzes 50% total (5% each); Mid-Term 20%; Final 30%.
2. *Grading System:* Curve, then calibrate; first for quizzes, mid-term, & final each separately, then again for the combined score for the course.

V. Overview of the Course:

A. **Syllabi are plans, subject to change.** (Been said of war plans that...) Especially in this case, because course is new (and a late addition for me) and we just don't know how it will go. Stay tuned for changes and be flexible.

B. Reminder of Broad Overview:

1. *Subject*: A course in political economy, exploring how political management of the domestic and international economy has evolved in response to *globalization*, meaning in response to the economic, political, and societal pressures on publics and policymakers that accompany the globalization of *markets* (i.e., growing international economic interdependence).
2. *Process*:
 - a. Will proceed via thorough exposition of a series of political-economy texts, supplemented by a few additional articles and chapters.
 - b. We will use these texts also to motivate pedagogical pauses, as necessary, to work through important methodologies (e.g., basic regression analysis) and theories (e.g., basics of fiscal and monetary macroeconomic management, and international trade & finance).
3. *Approach*: positive, interdisciplinary, esp. econ & pol sci, and decidedly academic.

C. Schedule:

1. **Overview of Positive Political Economy:** Begin, accordingly, Monday w/ overview of what are *political economy* and *positive social science*.
 - a. No readings for this session; instead, I will be giving some disciplinary background for positive political economy.
 - b. Some models, methods, & tools will be first introduced here; some (not all) will reappear through course: economic voting, game theory, median-voter theorem, regression analysis.
2. **Classic Political Economy:**
 - a. Start substantive exploration selections from Tufte's classic, *Political Control of the Economy*:
 - (1) Set bases to understand economic policymaking as policymakers responding to their incentives, given their tools, and how those tools work in that political-economic context.
 - (2) Here: democratic incumbent policymakers, with incentives given by their electoral competition for office, and with economic policy tools that can affect voters' behavior to enhance the policymakers' probabilities of gaining or retaining office.
 - (3) Also Tufte's "electoral cycles" theory one of cores of political management of the economy that Clark is going to bring to reconsideration in the globalized economy (particularly, capital mobile).
 - (4) Will see more **regression analysis** (& other basic quantitative methods empirical evaluation).

Higher social security payments

Your social security payment has been increased by 20 percent, starting with this month's check, by a new statute enacted by the Congress and signed into law by President Richard Nixon on July 1, 1972.

The President also signed into law a provision which will allow your social security benefits to increase automatically if the cost of living goes up. Automatic benefit increases will be added to your check in future years according to the conditions set out in that law.

U.S. Department of Health, Education, and Welfare
Social Security Administration
DHEW Publication No. (SSA) 73-10322
October 1972

FIGURE 2-1
LETTER OF OCTOBER 1972 TO 24,760,000 SOCIAL SECURITY BENEFICIARIES

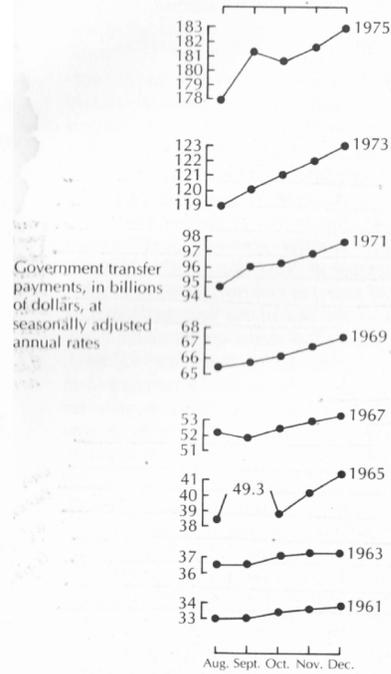


FIGURE 2-4
THE PATH OF TRANSFER PAYMENTS IN THE FALL OF ODD-NUMBERED YEARS

Note steady month-by-month increase, reaching yearly maximum in December. In all 8 odd-numbered years, December's transfers have exceeded November's, which have exceeded October's.

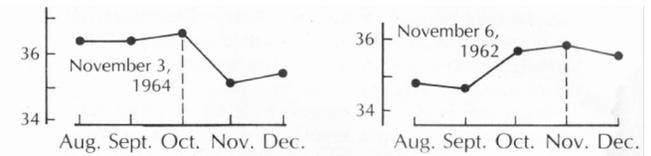


FIGURE 2-5
HEAPING OF TRANSFER PAYMENTS IN 1962, 1964, 1970, 1972

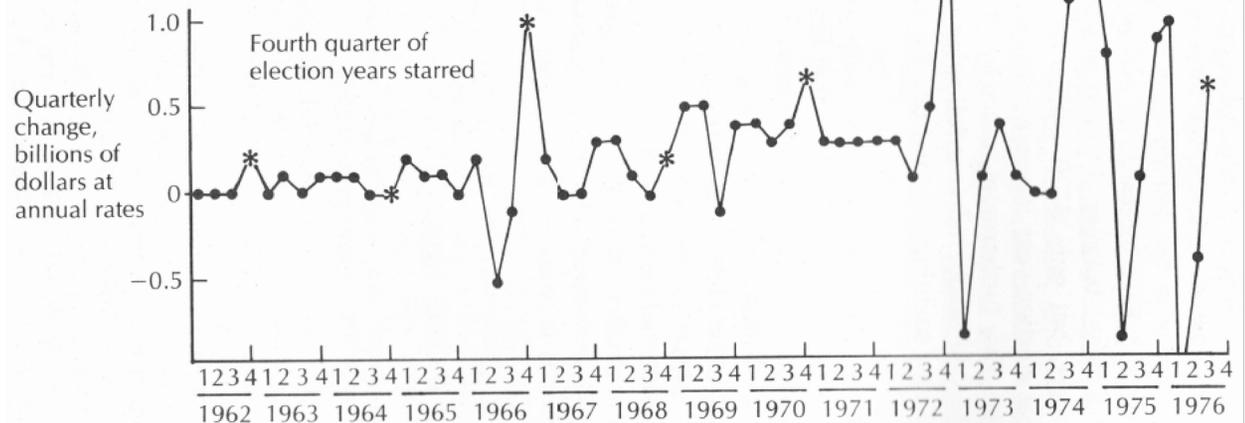


FIGURE 2-3
QUARTERLY CHANGES IN VETERANS BENEFITS

b. Continue with Hibbs' classic *The American Political Economy*

- (1) Elaborates the partisan incentives of elected policymakers in macroeconomic management.
- (2) Hibbs' "partisan cycles" theory, the other core to be explored by Clark, emphasizes differences in relative economic preferences left & right core constituencies of left & right parties, & how these different relative preferences shape the tradeoffs left *vs.* right policymakers will prefer to make in macroeconomic management.
- (3) Here we will introduce the basic **theories of fiscal and monetary policy management of the macroeconomy**; and we will again see more **regression analysis** (as we will rather often throughout, so I'm going to stop mentioning it...).

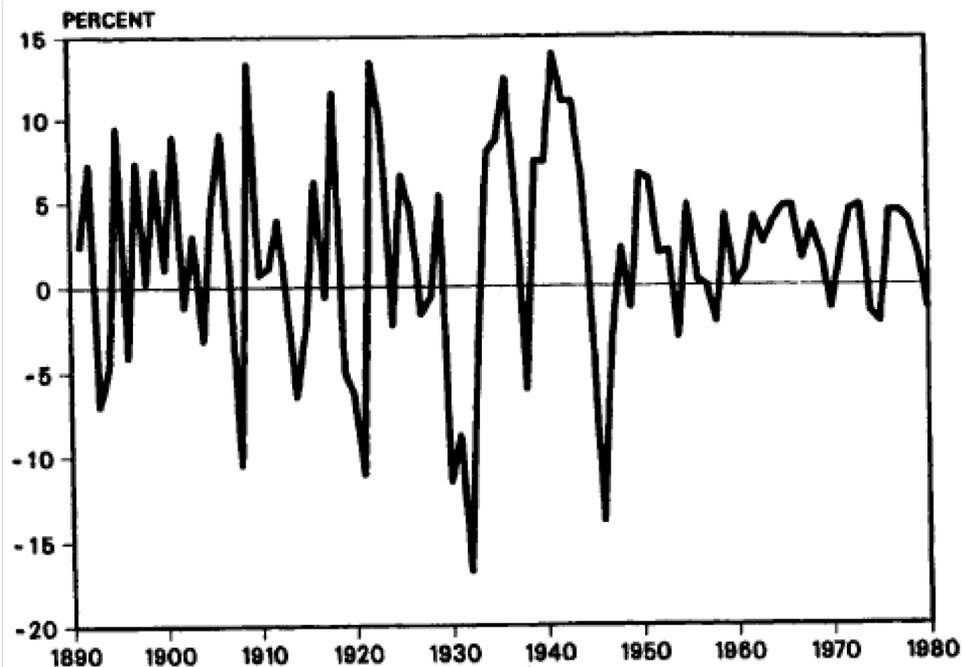


Figure 1.2 Real output stability over time: real GNP per capita growth rates

uction of a central bank with legal capacity/responsibility to
 ct counter-cyclical monetary policy for nation (**Treasury-Federal
 ve Accord of 1951**):

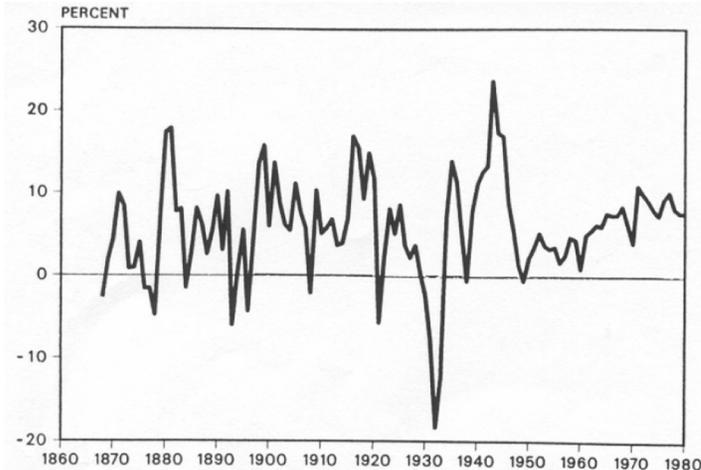


Figure 1.7 Monetary stability over time: M2 growth rates (percent per annum), 1868–1980. Sources: U.S. Department of Commerce, *Long Term Economic Growth 1860–1965*, Series B112, 1966; and TROLL-Citibank Economic Database, Series NBER12-FMM2X.

	1868–1929	1930–1949	1950–1980
Mean (\bar{x})	5.78	5.80	6.08
Standard deviation (σ)	5.69	10.47	2.68
Coefficient of variation (σ/\bar{x})	0.99	1.81	0.44

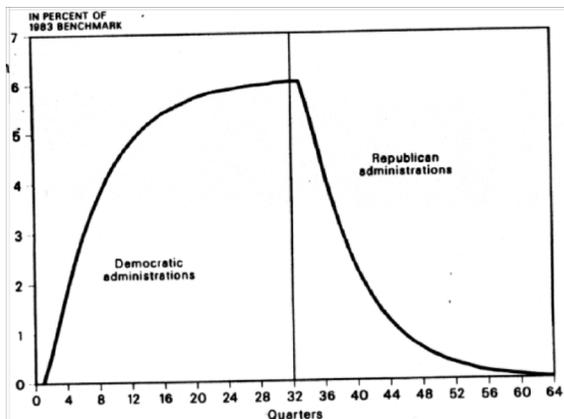


Figure 7.3 Net response of real output to eight-year partisan cycles. Source: based on Table 7.3, column 4.

a. Using Annual Data from 1890-1929 (**Table 1.3, p. 32**):

$$DM2_t = +4.85 + 0.25DM2_{t-1} - 0.01DM2_{t-2} + 0.06DCPI_{t-1} - 10.9 [\ln Y_{t-1} - (\ln Y_{t-1})^*]$$

T-stats: (2.43) (1.19) (-0.05) (0.24) (-0.72) $R^2 = 0.00$

b. Using Annual Data from 1950-1980:

$$DM2_t = +1.62 + 0.52DM2_{t-1} + 0.07DM2_{t-2} + 0.29DCPI_{t-1} - 19.0 [\ln Y_{t-1} - (\ln Y_{t-1})^*]$$

T-stats: (1.91) (2.88) (0.41) (2.01) (-1.79) $R^2 = 0.55$

c. These equations demonstrate two things:

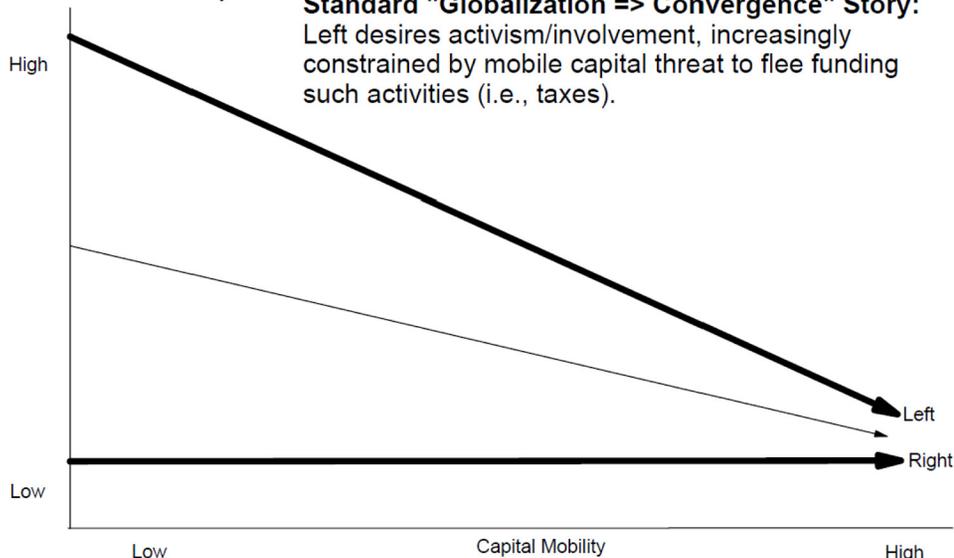
- (1) Monetary policy became much more predictable [what part tells you that?]
- (2) Monetary policy became much more counter-cyclical [what part tells you that?]

3. Democratic Management of Globalized Economy:

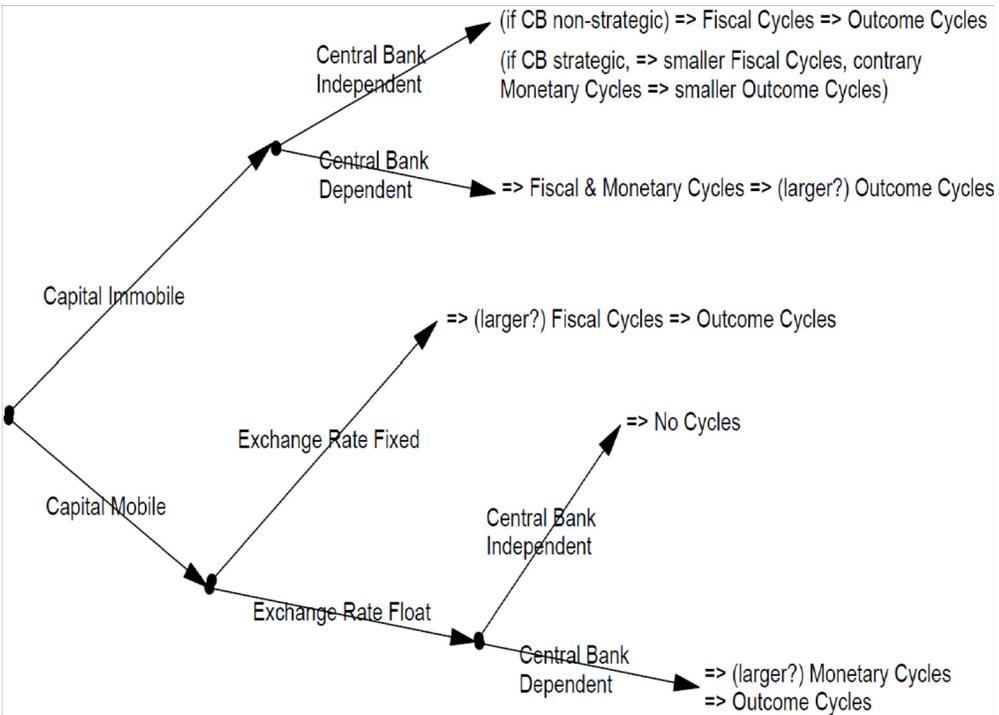
- a. Via Clark's *Capitalism, Not Globalism*, we consider electoral & partisan macroeconomic management under globalization, & in particular: highly mobile capital, w/ varying exchange-rate regimes & central-bank institutions. Important methodological and theoretical tools & models covered here will include:
 - (1) “**Interaction Effects**”: the effect of X on Y depends on Z. Here, the effects of election-years or of governments' partisanship (X's) on economic policies & outcomes (Y's) depend on capital mobility, the exchange-rate regime, and central-bank independence (Z's). We'll spend some time explaining how to model and interpret this sort of thing, because such “context conditionality” is core to modern political economy and among the major implications of globalization.
 - (2) The **Mundell-Fleming Model** of macroeconomic management in the open economy with high capital mobility and varying exchange-rate regimes.

Degree of Policy Activism / Govt Involvement in Economy

Standard "Globalization => Convergence" Story:
 Left desires activism/involvement, increasingly constrained by mobile capital threat to flee funding such activities (i.e., taxes).



(Top line is left party/constituency preference; bottom is right party/constit. Middle line is median-voter's pref. **Bold** is policy under that partisan govt.)



F. Using the IS-LM-BoP Model for Policy Analysis

1. Capital Mobile:

a) Monetary Policy under a Fixed Exchange-Rate Regime with highly Mobile Capital

(1) $\uparrow M^s \Rightarrow LM$ shifts out, but this $\Rightarrow \downarrow i$ along IS curve, but this \Rightarrow capital outflow \Rightarrow depreciation, which violates Fixity. $\downarrow M^s \Rightarrow \dots$ [same chain, opposite direction]... \Rightarrow appreciation, which violates Fixity.

(2) \Rightarrow Monetary Policy forsaken (wholly unavailable) under Cap Mob & Exchange Rate Peg

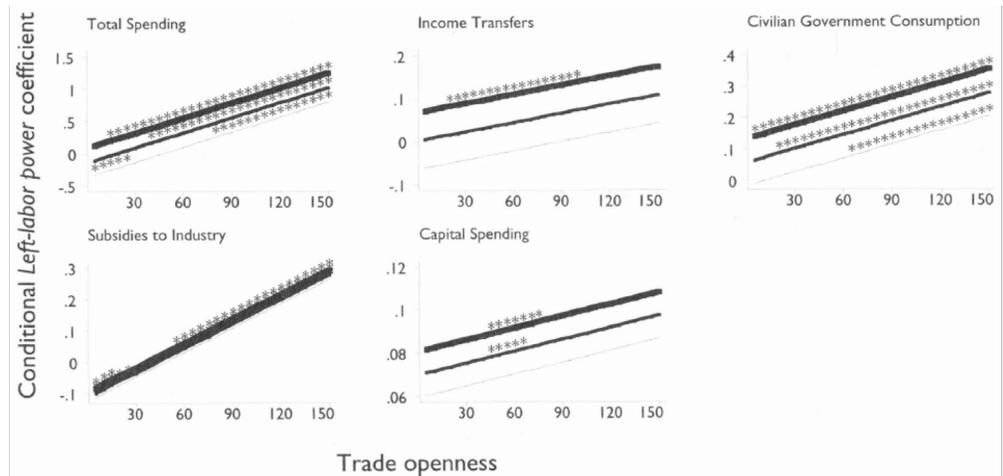
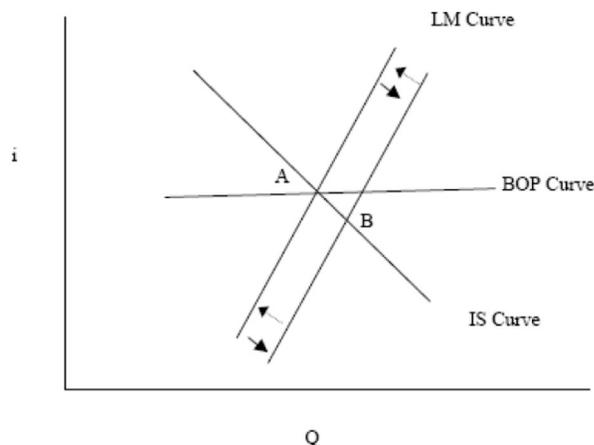


Fig. 5. The estimated effect of *Left-labor power* on government spending at various levels of trade and capital-market openness. Darker lines denote increased capital-market liberalization. (Note: * indicates coefficient is significant at $p < .10$, one-tailed.)

b. Franzese's articles at end of first half can serve as a kind of summary synthesis of political management of the open and institutionalized domestic economy.

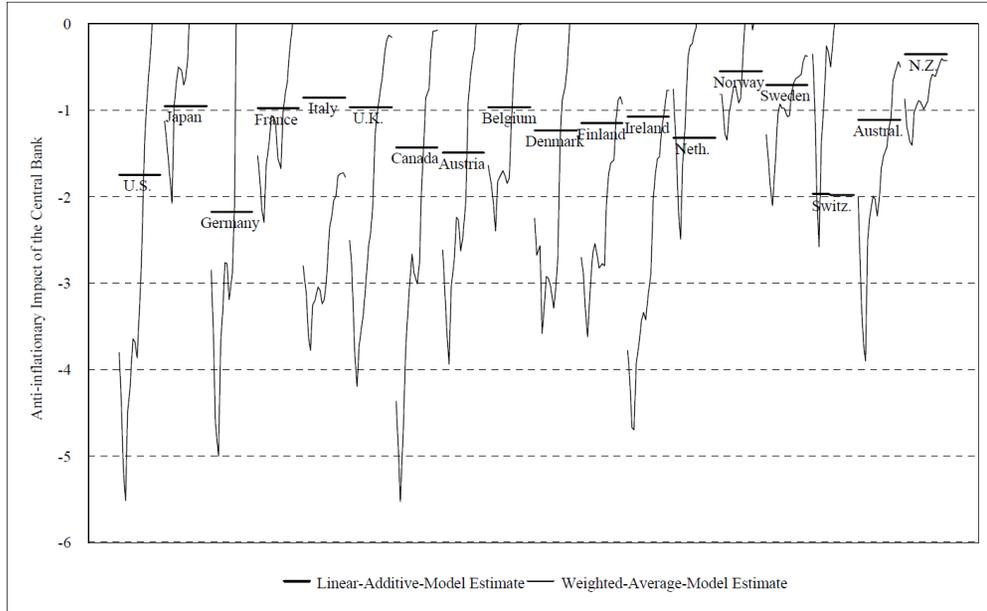


Figure 2: Linear-additive and weighted-average estimates of central banks' anti-inflationary impacts given their degree of independence and given the other politico-economic characteristics of that country-year. Estimates for each country 1972-90 are plotted from left to right. *Figure recreated from results reported in Franzese (1999).*

$$E(\pi) = \beta_0 + B_1' C + \beta_{cbi,1} CBI + \beta_g G + \beta_f F + \beta_t T + \beta_u U + \beta_{cwb} CWB + \beta_{\pi a} \pi^a + \beta_{cbi,2} CBI \cdot (\beta_g G + \beta_f F + \beta_t T + \beta_u U + \beta_{cwb} CWB + \beta_{\pi a} \pi^a)$$

$$\begin{aligned} \pi &= E \cdot \pi_a + (1 - E) \cdot \left\{ P \cdot \pi_p + (1 - P) \cdot \left[C \cdot \bar{\pi}_c + (1 - C) \cdot \pi_g(X_g) \right] \right\} \\ \Rightarrow \\ \frac{\partial \pi}{\partial E} &= \pi_a(P^*, E^*, C^*, X^*, \pi_a^*) - \left\{ P \cdot \pi_p(P^*, E^*, C^*, X^*, \pi_p^*) + (1 - P) \cdot \left[C \cdot \bar{\pi}_c + (1 - C) \cdot \pi_g(X_g) \right] \right\} \\ \frac{\partial \pi}{\partial P} &= (1 - E) \cdot \left\{ \pi_p(P^*, E^*, C^*, X^*, \pi_p^*) - \left[C \cdot \bar{\pi}_c + (1 - C) \cdot \pi_g(X_g) \right] \right\} \\ \frac{\partial \pi}{\partial C} &= (1 - E) \cdot \left\{ (1 - P) \cdot \left[\bar{\pi}_c - \pi_g(X_g) \right] \right\} \\ \frac{\partial \pi}{\partial X} &= (1 - E) \cdot \left\{ (1 - P) \cdot \left[(1 - C) \cdot \frac{\partial \pi_g}{\partial X} \right] \right\} \\ \frac{\partial \pi}{\partial \pi_a^*} &= E \cdot \frac{\partial \pi_a}{\partial \pi_a^*} + (1 - E) \cdot \left\{ P \cdot \frac{\partial \pi_p}{\partial \pi_a^*} + (1 - P) \cdot \left[(1 - C) \cdot \frac{\partial \pi_g}{\partial \pi_a^*} \cdot \frac{\partial \pi_a}{\partial \pi_a^*} \right] \right\} \end{aligned}$$

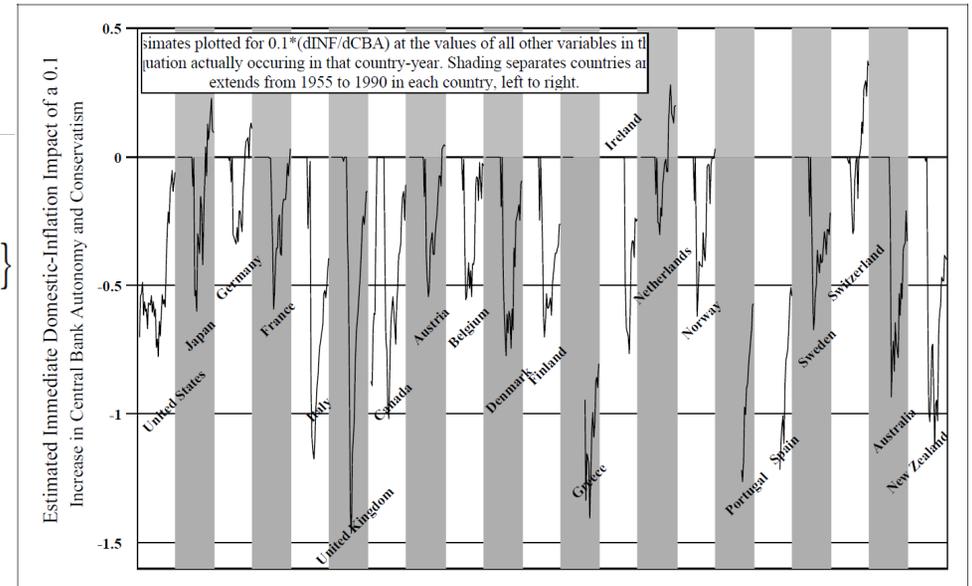


Figure 4: Estimated First-Year Domestic-Inflation Impact of 0.1 Increase in CBA in 21 Countries, 1957-90

c. [Second Half] Hays' *Globalization & the New Politics of Embedded Liberalism* explores nature & thorniness of Rodrik's "globalization dilemma", which is that:

- (1) **Globalization Dilemma:** increasing international economic integration both (a) exposes populations to greater economic risks (of external origin), thereby increasing public demands on governments to somehow to redress those risks, and (b) increases constraints on govts from raising revenues to fund policies and support institutions that could address those popular concerns.
- (2) **Embedded Liberalism:** (Ruggie's concept) international economic liberalization embedded in compensatory economic and social domestic and international policies.
- (3) Hays shows the severity of the risks/concerns and the tightness of the funding constraints induced by increased globalization vary depending on domestic political-economic conditions (namely, **labor-market (de)centralization** and **political-system (non)majoritarianism**).
- (4) Globalization Dilemma sharpest in the Anglo-Saxon political economies that had been the main forces behind the Embedded Liberalism that had emerged after WWII.
- (5) Important theoretical & methodological building blocks here include **Ricardian trade theory of comparative advantage**, **Stolper-Samuelson distributional implications of Heckscher-Ohlin factor-based comparative-advantage**; basic political theories & models of broad differences b/w **majoritarian vs. proportional democracies**; and perhaps some sophisticated empirical methods appropriate for modeling "interdependence", which at core of globalization and particularly the tax competition underlying the govts' funding-constraints half of the globalization dilemma.

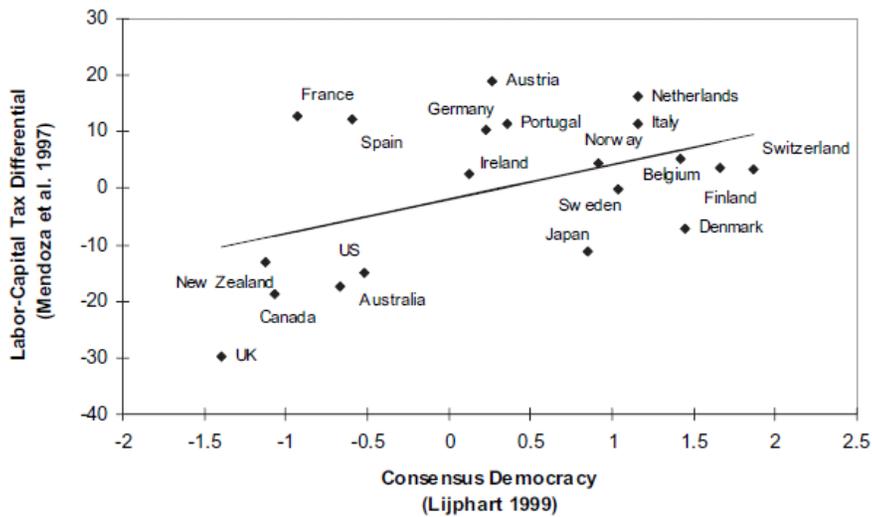


Figure 4.3 Consensus Democracy and Labor-Capital Tax Differentials, 1965–2000

From Powell (2001):
Elections as Instruments of Democracy

- Electoral rules
 - Plurality/Majority vs. Proportional Rep
- Policymaking rules
 - Concentrated vs. diffused authority

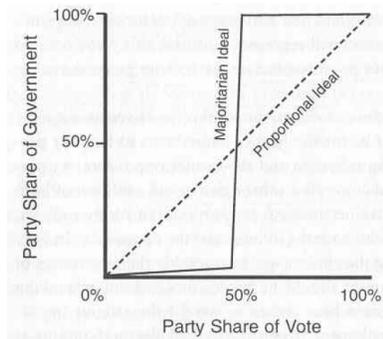


Figure 6.1. Two Ideals of Democratic Responsiveness

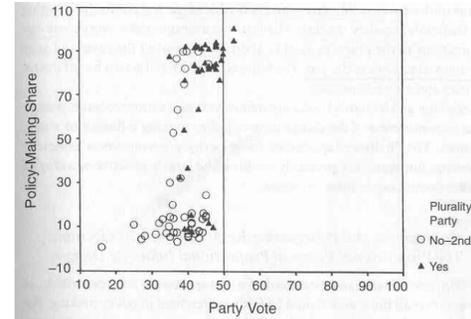


Figure 6.3. Majoritarian Design Systems: Party Votes and Policy Making Share

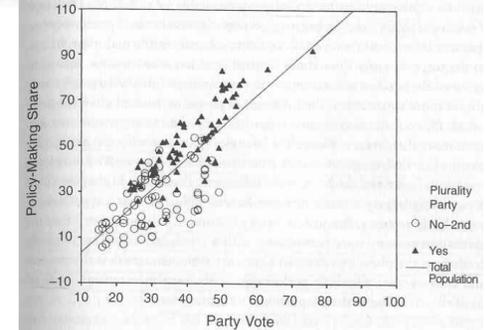


Figure 6.5. Proportional Design Systems: Party Votes and Policy Making Share

(4) Results for those key estimated quantities for substantive-theoretical interpretation:

$$\frac{\Delta FreeTrade_{isc}}{\Delta Tradable_{sc}} = \underbrace{(-.204 \text{ to } -.443)}_{(.051) \text{ and } (.169)} + \underbrace{(-.055 \text{ to } +.475)}_{(.419) \text{ and } (.250)} NRR_{isc} + \underbrace{(-.131 \text{ to } -.117)}_{(.031) \text{ and } (.024)} ALM_c + \underbrace{(+.038 \text{ to } +.123)}_{(.036) \text{ and } (.089)} EPL_c + \underbrace{(-.030 \text{ to } +.022)}_{(.033) \text{ and } (.034)} SocSec_{isc}$$

$$\frac{\Delta FreeTrade_{isc}}{\Delta Unemploy_{sc}} = \underbrace{(-.022 \text{ to } -.846)}_{(.052) \text{ and } (.500)} + \underbrace{(+.043 \text{ to } +.149)}_{(.522) \text{ and } (.600)} NRR_{isc} + \underbrace{(+.034 \text{ to } +.107)}_{(.093) \text{ and } (.045)} ALM_c + \underbrace{(+.012 \text{ to } -.151)}_{(.078) \text{ and } (.071)} EPL_c + \underbrace{(+.047 \text{ to } +.125)}_{(.048) \text{ and } (.041)} SocSec_{isc}$$

$$\frac{\Delta FreeTrade_{isc}}{\Delta NetExports_{sc}} = +.091 \text{ to } +.132 \quad (.039) \text{ and } (.031)$$

$$\frac{\Delta FreeTrade_{isc}}{\Delta NRR_{isc}} = \underbrace{(-.122 \text{ to } +.186)}_{(.104) \text{ and } (.297)} + \underbrace{(-.055 \text{ to } +.475)}_{(.419) \text{ and } (.250)} Tradable_{sc} + \underbrace{(+.043 \text{ to } +.149)}_{(.522) \text{ and } (.600)}$$

$$\frac{\Delta FreeTrade_{isc}}{\Delta ALM_c} = \underbrace{(+.062 \text{ to } +.105)}_{(.054) \text{ and } (.048)} + \underbrace{(-.131 \text{ to } -.117)}_{(.031) \text{ and } (.024)} Tradable_{sc} + \underbrace{(+.034 \text{ to } +.107)}_{(.093) \text{ and } (.045)} U$$

$$\frac{\Delta FreeTrade_{isc}}{\Delta EPL_c} = \underbrace{(+.180 \text{ to } +.234)}_{(.078) \text{ and } (.091)} + \underbrace{(+.038 \text{ to } +.123)}_{(.036) \text{ and } (.089)} Tradable_{sc} + \underbrace{(+.012 \text{ to } -.151)}_{(.078) \text{ and } (.071)} U$$

(↑ note opposite signs of the conditional effects ↑)

$$\frac{\Delta FreeTrade_{isc}}{\Delta SocSec_{isc}} = \underbrace{(+.015 \text{ to } +.094)}_{(.036) \text{ and } (.013)} + \underbrace{(-.030 \text{ to } +.022)}_{(.033) \text{ and } (.034)} Tradable_{sc} + \underbrace{(+.047 \text{ to } +.125)}_{(.048) \text{ and } (.041)} U$$

(5) [DISCUSS: Who is anti/pro-trade? How do policies condition that?]

Spatio-Temporal Effects

- Long-Run**
- 0.6501 - 6.0000
 - 0.6001 - 0.6500
 - 0.3001 - 0.6000
 - 0.0031 - 0.3000
 - 0.0001 - 0.0030

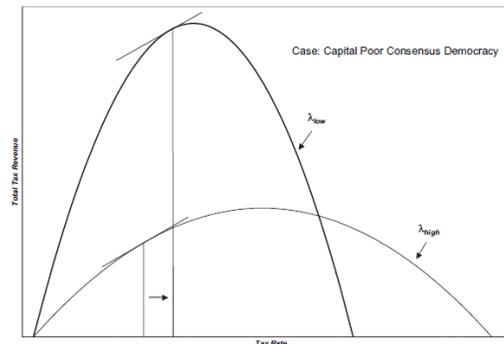
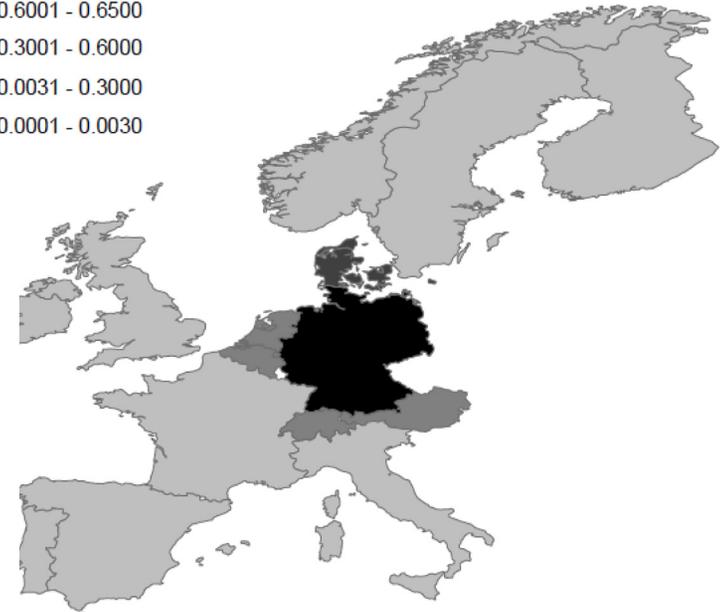


Figure 4.4 Globalization and Capital Taxation: Two Laffer Curves



4. Three modules surveying Critical Remaining Topics:
- a. Globalization and the political economy of international trade and finance;
 - b. Globalization and inequality & development;
 - c. Globalization and political-economic anxieties, tensions, & options.
 - d. Follow selections of recent academic articles or chapters on these topics, again introducing & explicating basic theories of & evidence regarding international finance and of economic development as we need them.
 - e. Against background of recommended, optional, additional reading from three very recent, more discursive (i.e., less academic) texts by three extremely prominent economists on the consequences and concurrences of globalization:
 - (1) Stiglitz' *Making Globalization Work* (sequel to his *Globalization & Its Discontents*),
 - (2) Rodrik's *The Globalization Paradox* (sequel to the aforementioned *Has Globalization Gone Too Far?*),
 - (3) Bhagwati's 2007 re-release of his 2004 *In Defense of Globalization*.
 - (4) Optional, not required, but may find these latest salvos in ongoing global discussions & debates about globalization, very interesting and thought-provoking as we cover our final three modules.
- D. Although some theories, models, & methods we will meet are sophisticated & may be challenging to some, important topics like trade theory, open-economy macroecon, international finance; comparative govt'l & soct'l organization & institutions; game theory & regression analysis, plan is to introduce & sufficiently explicate them within the course over the semester as they arise.

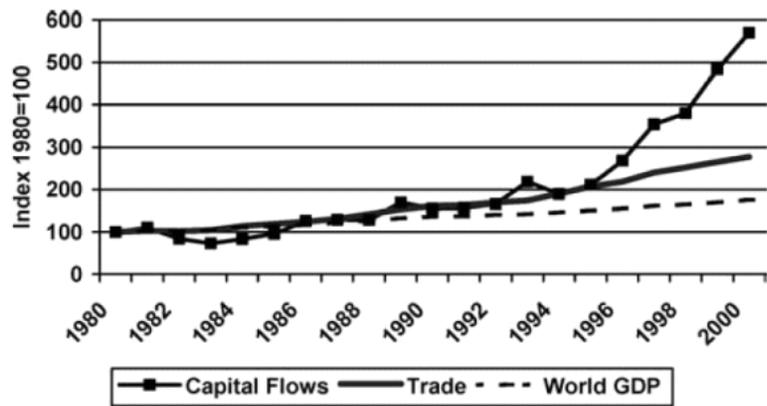


Figure 1 Global trade and private capital flows, 1980–2000. Capital flows are measured as the sum of absolute values of direct, portfolio, and other investment inflows, and outflows as a share of GDP. Trade is exports and imports as a share of GDP. Data from World Bank World Development Indicators CD-ROM 2004.

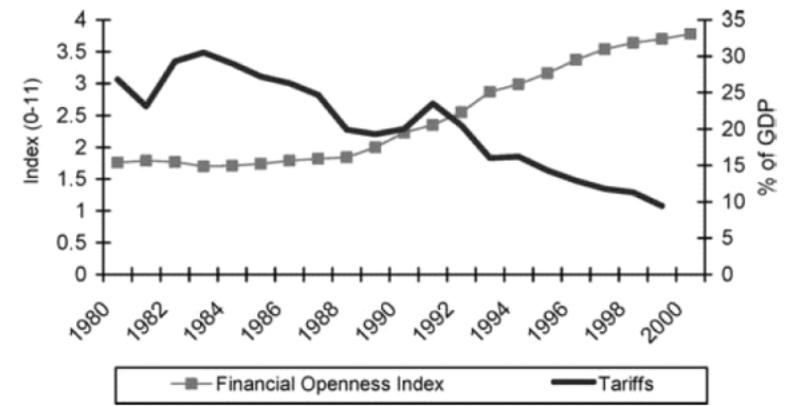


Figure 2 Global policy changes: tariffs and financial openness, 1980–2000. The financial openness index (FOI) is based on an index of 0–9. The tariffs measure is reported as a share of GDP. Tariffs data from World Bank (2004); financial openness index data from Brune (2004).

Figure 2. Global Gini 1988-2002 calculated with new and old PPPs

