

Political Science 556: The Political Economy of Reform

Spring, 2006. Tues., 12:30-3:15.

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Purpose: Contemporary theory in political science and economics increasingly emphasizes the role of institutions. In Central and Eastern Europe, meanwhile, institutions have seen an unprecedented degree of experimentation, reform and variation since 1989. This course will integrate recent theoretical developments with contemporary case studies drawn primarily from the region. Emphasis will be placed upon the political and economic consequences of the choice of institutions and upon the politics of institutional design.

Requirements:

- Students are expected to come to class prepared to discuss the assigned material and participate actively.
- In some weeks, one of the students will make a brief (fifteen minute maximum) presentation of one of the more technical articles, marked in the syllabus by an asterisk (*), and then answer questions. Imagine that the paper is your own work, and you are presenting it at a conference.
- Write a 20-30 page empirical research paper that tests a hypothesis about the politics of economic reform. Papers are due Friday, April 28, at noon (please distribute copies to all participants in the class). Each student will present his or her paper orally and participate in discussion of all of the papers. The purpose is to offer constructive criticism that will help the authors to revise their work.

Grading: 50% final paper, 50% class participation.

Books recommended for purchase, in order of use:

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

Torsten Persson and Guido Tabellini, Political Economics: Explaining Economic Policy (Cambridge: MIT Press, 2000). (T&P)

Randall W. Stone, Satellites and Commissars: Strategy and Conflict in the Politics of Soviet-Bloc Trade (Princeton: Princeton University Press, 1996).

Bruce Bueno de Mesquita et al., The Logic of Political Survival (Cambridge: MIT Press, 2003).

Alberto Alesina, Nouriel Roubini, and Gerald D. Cohen, Political Cycles and the Macroeconomy (Cambridge: MIT Press, 1997).

Ronald I. McKinnon, The Order of Economic Liberalization: Financial Control in the Transition to a Market Economy, (Baltimore: Johns Hopkins Univ. Press, 1991).

Randall W. Stone, Lending Credibility: The International Monetary Fund and the Post-Communist Transition (Princeton: Princeton Univ. Press, 2002).

These books are assigned in whole or substantial part, so it will be convenient to own a copy.

Also ordered, but used less extensively:

Torsten Persson and Guido Tabellini, eds., Monetary and Fiscal Policy, Volume 2: Politics (Cambridge: MIT Press, 1994). (MFP2)

Paul Milgrom and John Roberts, Economics, Organization and Management, (Englewood Cliffs: Prentice Hall, 1992).

Course Outline:

Week 1: Introduction and Course Overview

Week 2: Institutions

Drazen, Political Economy in Macroeconomics, Chpts. 1-3.

Paul Milgrom and John Roberts, Economics, Organization and Management, (Englewood Cliffs: Prentice Hall, 1992), Chpts. 3-6.

Ronald Coase, "The Problem of Social Cost," The Journal of Law and Economics 3 (Oct. 1960): 1-44.

Week 3: Voting and Electoral Control

Persson and Tabellini (P&T), Political Economics, Chpts. 1-5.

*John Ferejohn, "Incumbent Performance and Electoral Control," Public Choice 50 (1986): 5-26. Reprinted in MFP2.

Week 4: Principal-Agent Models and Central Planning

Randall W. Stone, Satellites and Commissars: Strategy and Conflict in the Politics of Soviet-Bloc Trade (Princeton: Princeton University Press, 1996).

*Jeffrey S. Banks, "The Design of Institutions: An Agency Theory Perspective," in David L. Weimer, ed., Institutional Design (Boston: Kluwer, 1995).

Week 5: Redistribution and Public Goods

P&T, Chpts. 6-7

Drazen, Chpts. 8-9

*Weingast, Shepsle & Johnsen, "The Political Economy of Benefits and Costs," Journal of Political Economy 89 (5) (1981). Reprinted in MFP2, Chpt. 13.

Grossman and Helpman, "Protection for Sale," The American Economic Review, 84 (4) (Sept., 1994), pp. 833-850. JSTOR.

Michael McFaul, "State Power, Institutional Change, and the Politics of Privatization in Russia," World Politics 47 (January 1995): 210-43. JSTOR.

Week 6: Leaders and Institutions I

Bueno de Mesquita et al., The Logic of Political Survival, Chpts. 1-5. Chpt. 3*

P&T, Chpt. 8

Week 7: Leaders and Institutions II

Bueno de Mesquita et al., The Logic of Political Survival, Chpts. 6-10.

P&T, Chpts. 9-10

Week 8: Commitment, Credibility and Reputation

P&T, Chpts. 11-12, 15.

Drazen, Chpts. 4-6

Kydland and Prescott, "Rules Rather than Discretion," Journal of Political Economy 85 (3) (1977). Reprinted in MFP1 (not MFP2), chpt. 1.

*Barro and Gordon, "Rules, Discretion and Reputation," Journal of Monetary Economics 12 (1983): 101-20. Reprinted in MFP1 (not MFP2), chpt. 4.

Week 9: Elections and political cycles

P&T, Chpt. 16.

Drazen, Chpt. 7.

Alesina, Roubini, and Cohen, Political Cycles and the Macroeconomy, chpts. 1-3, 6.

Week 10: Policy Change and Rent Seeking

Drazen, Chpts. 10, 13.

Ronald I. McKinnon, The Order of Economic Liberalization, Chpts. 1-7.

Joel Hellman, "Winners Take All," World Politics 50, No. 2 (January, 1998).

Week 11: The IMF and the Post-Communist Transition

Randall W. Stone, Lending Credibility: The International Monetary Fund and the Post-Communist Transition (Princeton: Princeton University Press, 2002). Chpt. 2*.

Week 12: Student presentations