

Politics, Economics, and Democracy
17.51
Political Science Department
MIT
Spring Semester, 2002

Meeting Times: Mondays & Wednesdays, 11-12:30

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This course examines the relationship between economics and politics in democracies around the world. The course facilitates dialogue between the fields of political science and economics by looking at institutions in two ways. First of all, some of the tools and concepts developed by economists are used as building blocks for a systematic, comparative analysis of democratic institutions. Second, we explore the effects of political institutions on economic outcomes around the world.

In the first section of the course, we trace out some key themes in the study of democratic institutions, following threads of thought that run from some of the classics of political philosophy, including the works of Aristotle, Hobbes, Madison and Hamilton, to the contributions of modern positive political economy. We start by asking whether democracy is in fact the best way to organize the political realm. In particular, we focus on the questions of economic growth and public goods. One of the most important issues running from the classics of political philosophy to modern constitutional political economy is the question of whether, and under what conditions, democracies can make policies that serve the “common interest” rather than the interests of small groups. This will serve as our main theme as well. In short, the first part of the course examines the view that democratic governments are, or at least should be, “agents” of citizens.

The second and third parts of the course survey the variety of ways in which this agency relationship might be structured, and begin to assess the consequences of different institutional arrangements. We examine the organization and practice of democracy around the world and use the normative benchmarks from the first section to evaluate the strengths and weaknesses of various democratic institutions. We view institutional rules as incentive structures that influence the behavior of self-seeking politicians. The second section starts with a familiar example—the United States congress and the problem of pork-barrel politics—and then examines the problem in two other countries. The third section surveys some of the key institutional distinctions that differentiate democracies around the world. First we examine the distinction between “majoritarian” and “consensus” democracy, and the closely related literature on “veto players.” We go on to address debates about the merits of presidential and parliamentary democracy, and federalism and decentralization. This part of the course combines theory with the careful analysis of country cases. The readings draw on lessons from the United States, England, Germany, Japan, and Brazil, but students will present evidence from a variety of additional countries.

The final component of the course builds on these foundations and focuses explicitly on the relationship between preferences, institutions, and the ability to provide public goods. In particular, we discuss fiscal performance and macroeconomic management, free trade, and ultimately, economic growth. In the end, the goal is to assess the nature of the agency relationship structured by each set of institutional rules, and link these with outcomes. Our goal by the end of the semester is not to arrive at one ideal set of institutional arrangements, but rather, to establish a rich set of trade-offs.

Basic Readings

Most of the readings are available in the course packet, which will be available through Copy-Tech. A copy will also be on reserve at Dewey. The other readings are from the following books, all of which will be available for purchase at the MIT Coop and on reserve at Dewey:

- Lijphart, Arend. *Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries*. New Haven: Yale University Press, 1999.
- Lijphart, Arend, ed., *Parliamentary versus Presidential Government*. Oxford: Oxford University Press, 1992.
- Mayhew, David. *Congress: The Electoral Connection*. New Haven: Yale University Press, 1974.
- Shepsle, Kenneth and Mark Bonchek. *Analyzing Politics: Rationality, Behavior, and Institutions*. New York, London: Norton, 1997.

Some of the readings discuss results of regression analysis. For those who need an accessible introduction to applied regression analysis, an additional book is available at the Coop and on reserve:

- Tufté, Edward, *Data Analysis for Politics and Policy*. Englewood Cliffs, NJ: Prentice-Hall, 1974.

Course Requirements

- Discussion (20% of course grade): Students are required to read all of the week's assigned readings before Monday meetings. Students are expected to participate in discussions every week. The discussion grade also includes short homework assignments and mandatory in-class debate.
- First Paper (10% of course grade): The topic will be given in class (4 pages), due March 4.
- Second Paper (30% of course grade) and Presentation (10% of course grade): Students will choose a country to use as a case study, and will write an essay (7-10 pages) that describes and evaluates some aspect of the performance of the country's democratic institutions, applying some of the concepts and lessons from the reading materials. Papers due April 17 in class.
- Cumulative Final Exam: (30% of course grade)

INTRODUCTION AND KEY THEMES

Feb. 6: Introduction to the Course

- Madison, James, *The Federalist No. 10*.

Feb. 11: Is Democracy the Best Political System?

- Aristotle, *The Politics*, in Stephen Everson, ed., *Aristotle: The Politics and Constitution of Athens*. Cambridge: Cambridge University Press (1996). Read Book III, Chapters 6 – 12 (pages 69-80), Chapter 18 (page 91), Book IV, Chapters 1-2 (pages 91-94).

Feb. 13: Does Democracy Facilitate Economic Growth?

- Przeworski, Adam and Fenando Limongi, "Political Regimes and Economic Growth," *Journal of Economic Perspectives* 7, 3 (1993): 51-69.
- Olson, Mancur, "Big Bills Left on the Sidewalk: Why Some Nations are Rich, and Others Poor," *Journal of Economic Perspectives* 10, 2 (1996): 3-24.

Feb. 19 & 20: How Can Political Institutions Facilitate Growth?

Cooperation and Public Goods

- Bardhan, Pranab, "Symposium on Democracy and Development," *Journal of Economic Perspectives* 7, 3 (1993), read pages 45-47.
- Shepsle, Kenneth and Mark Bonchek, *Analyzing Politics*, chapters 8-10.
- Shepsle, Kenneth, "Discretion, Institutions and the Problem of Government Commitment," in Bordieu and Coleman, eds., *Social Theory for a Changing Society*, pages 245-263.
- Twain, Mark, "The Canvasser's Tail," in *The Complete Short Stories of Mark Twain*. New York: Bantam, (1957), pages 121-127. (recommended).

Feb. 25: How Can Democracies Produce Public Goods?

Majority rule?

- Shepsle and Bonchek, *Analyzing Politics*, chapters 3-7 and pages 192-94.

Feb 27: Accountability and Representation

- Manin, Bernard, Adam Przeworski, and Susan Stokes, "Elections and Representation," chapter 1 in Przeworski, et al., *Democracy, Accountability, and Representation*. Cambridge: Cambridge University Press (1999), pages 29-54.
- Twain, Mark, "The Facts in the Great Beef Contract," in *The Complete Short Stories of Mark Twain*. New York: Bantam (1957), pages 40-45.

Delegation

- Kiewiet, Roderick and Matthew McCubbins, *The Logic of Delegation* (University of Chicago Press, 1991), Chapter 2 (Pages 22-38).

[FIRST WRITING ASSIGNMENT DUE MARCH 4 (TOPIC PROVIDED FEB. 27)]

INSTITUTIONS, INCENTIVES, AND THE MIX OF PUBLIC AND PRIVATE GOODS

March 4 & 6: Legislative Organization

- Shepsle and Bonchek, *Analyzing Politics*, chapter 12, "Legislatures."

The United States Congress

- Mayhew, David R., *Congress: The Electoral Connection*, entire book (Try to read and skim selectively to extract the main arguments).

March 11 & 13: Institutions and Pork-Barrel Politics in Comparative Perspective

- Starobin, Paul, "Democracy's Favorite Dish," *National Journal*, September 26, 1992, page 2222.

A pair of case studies:

- Ramseyer, Mark and Frances Rosenbluth, *Japan's Political Marketplace*. Cambridge, MA: Harvard (1993), chapter 2 (pages 16-37).
- Ames, Barry, "Electoral Rules, Constituency Pressures, and Pork Barrel: Bases of Voting in the Brazilian Congress," *The Journal of Politics* 57 (1995) p. 324-43.

How can the problem be overcome?

Leadership

- Shepsle and Bonchek, *Analyzing Politics*, chapter 14: "Leadership."

More specifically: presidents, agenda-setters, and parties

- Fiorina, Morris, "The Decline of Collective Responsibility in American Politics," *Daedalus*, 1980.

TYPES OF DEMOCRATIC INSTITUTIONS

March 18: Majoritarian and Consensus Democracy

- Lijphart, Arend, *Patterns of Democracy*, Chapters 2-8.

March 20: Debate

"Resolved: Proportional Representation is Superior to Majoritarian Electoral Rules"

March 25 & 27: Spring Break

[STUDENTS MUST SELECT COUNTRY FOR CASE STUDY BY APRIL 1]

April 1 & 3: Federalism and Decentralization

- Lijphart, Arend, *Patterns of Democracy*, Chapters 10-11.
- Stepan, Alfred, "Federalism and Democracy: Beyond the U.S. Model," *Journal of Democracy* 10: 4 (October 1999), p. 19-33.
- Weingast, Barry, "The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Development," *Journal of Law, Economics, and Organization* 11: 1, (1995).
- Rodden, Jonathan. 2001. To be handed out in class.

April 8 & 10: Presidential and Parliamentary Democracy

- Lijphart, Arend, ed., *Parliamentary versus Presidential Government* (Oxford: 1992).
Read the following chapters and short excerpts:
 - Verney, Douglas, “Parliamentary Government and Presidential Government,” (Chapter 1).
 - Montesquieu, selection from *The Spirit of the Laws* (Chapter 2).
 - Madison, James, *The Federalist* Nos. 47, 48 (Chapter 3).
 - Hamilton, Alexander, *The Federalist* No. 70 (Chapter 4).
 - Bagehot, Walter, “The English Constitution: The Cabinet” (Chapter 6).
 - Wilson, Woodrow, “Committee or Cabinet Government?,” (Chapter 7).
 - Laski, Harold J., “The President and Congress” (Chapter 8).
 - Mainwaring, Scott, “Presidentialism in Latin America” (Chapter 13).
 - Linz, Juan, “The Perils of Presidentialism” (Chapter 14)
 - Powell, G. Bingham, “Contemporary Democracies: Participation, Stability, and Violence,” (Chapter 33).

April 15: No class (Patriot’s Day)

[SECOND PAPER DUE APRIL 17]

April 17: Student Presentations

April 22: Student Presentations

April 24: Student Presentations

PREFERENCES, INSTITUTIONS, AND OUTCOMES

Apr. 29 & May 1: Fiscal Performance:

Consensus Democracy or Fragmentation?

- Lijphart, Arend, *Patterns of Democracy*, Chapters 15-17.
- Roubini, Nouriel and Jeffrey Sachs, “Political and Economic Determinants of Budget Deficits in the Industrial Democracies,” *European Economic Review* 33 (1989): 903-938.
- Alesina, Alberto and Allan Drazen, “Why are Stabilizations Delayed?” in Federico Sturzenegger and Mariano Tommasi, eds., *The Political Economy of Reform*. Cambridge, MA: MIT Press (1998).
- Stein, Ernesto, Ernesto Talvi, and Alejandro Grisanti, “Institutional Arrangements and Fiscal Performance: The Latin American Experience,” James Poterba and Juergen von Hagen, eds., *Fiscal Institutions and Fiscal Performance*. Chicago: University of Chicago Press (1999): 103-134. (Recommended).

Bicameralism:

- "The Great Budget Stalemate," *The Economist*, October 2, 1999.
- "State Legislatures: A House Undivided," *The Economist*, October 9, 1999.

May 6 & 8: Democracy, Institutions, and Free Trade

Is free trade a public good? If so, how can it be achieved?

- Paul Midford, "International Trade & Domestic Politics: Improving on Rogowski's Model of Political Alignments," *International Organization* Autumn 1993.
- Scheve, Kenneth and Matthew Slaughter, "What Determines Individual Trade-Policy Preferences?" *Journal of International Economics* 1 (2000)
- Rodrik, Dani, "Why Do More Open Economies Have Bigger Governments?" *Journal of Political Economy* 106, 5 (1998): 997-1032.

Perspectives on Seattle:

- "The New Trade War," *The Economist*, December 4, 1999, pages 25-26.
- "Clueless in Seattle," *The Economist*, December 4, 1999, page 17.

Fast Track?

- Newspaper articles to be handed out in class

[SHORT WRITING ASSIGNMENT DUE MAY 8 IN CLASS]

Come up with a hypothesis about how the design of political institutions might affect levels of protection. How would you test this hypothesis with cross-national quantitative data? (1-2 pages).

May 13: The Logic of Delegation: Inflation and Central Bank Independence

- Lijphart, Arend, *Patterns of Democracy*, Chapter 13.

Origins of Central Bank Independence

- Lohmann, Susanne, "Federalism and Central Bank Independence," *World Politics* 50, 3 (1998): 401-46.

Effects

- Grilli, Vittorio, Donato Masciandaro and Guido Tabellini, "Political and Monetary Institutions and Public Financial Policies in the Industrial Countries," *Economic Policy* 13: 341-392 (1991), especially section 5.

May 15: The Size and Composition of Government Spending

- Alesina, Alberto, Edward Glaeser and Bruce Sacerdote, "Why Doesn't the United States Have a European-Style Welfare State?"