THE POLITICAL ECONOMY OF PUBLIC POLICY (EC260)

Course duration: 54 hours lecture and class time (Over three weeks)

Summer School Programme Area: Economics

LSE Teaching Department: Department of Government

Lead Faculty: Professor Torun Dewan and Professor Valentino Larcinese (Dept. of Government)

Pre-requisites: Introductory microeconomics, basic knowledge of calculus and statistics.

Course Description:

Does democracy promote economic growth and welfare? What determines the size and evolution of the welfare state? Is regulation done in the interest of consumers? Is there a feasible third way between markets and governments in the delivering of public services? To answer these and many related questions it is necessary to understand the complex relationships between politics and economics. Governments and political processes define the boundaries of economic relationships and the rules of market interactions. Moreover, governments themselves allocate resources and these allocations reflect complex political bargaining. Understanding the interaction between politics and economics can help us to gain insight into the key questions of public policy making.

This course will examine public-policy making, its characteristics, determinants and consequences in liberal democracies. The course will first provide theoretical foundations from both economics and political science and then examine a number of topics from both theoretical and applied areas of political economy: collective action, electoral competition, fiscal policy and redistribution, bureaucracy, rent-seeking, regulation, information and accountability, constitutional reforms.

The course is organized around 12 lectures (3 hours each). Each lecture will cover a topic and classes (90 minutes each) will then be devoted to solve problems and discuss specific questions related to that topic. Problems and questions on each topic will be distributed during the first lecture.

Assessment:

This course is assessed by one written examination at the end of the course (on the final Friday). This will account for 50% of the final mark, and the time and location of the exam will be circulated during the programme. Additionally, students are required to write a 3,000 word essay that will account for the remaining 50% of the final mark. A list of essay titles will be distributed during the first lecture.

There will also be a formative assignment (creation of an essay plan) that will not count towards the final overall grade, but aims to prepare students for the summative assessments.
Reading

Main Textbooks:

This is the main reference for this course. It will cover most (but not all!) of the material. It can be usefully complemented by other readings that will be indicated in the syllabus.

For some topics we will use selected parts of

Useful books for beginners:
  (Useful for some topics on elections, parties, interest groups and bureaucracies).
  (Okay for selected topics, but not comprehensive for this course)

A stimulating read, definitely recommended:

Advanced textbooks:

These two books are harder but some might enjoy:

- Allan Drazen  *Political Economy in Macroeconomics* (Princeton, 2000)

Classic Books:


**Journals:**


In the following, readings marked * are compulsory, other readings are just suggestions.

**Syllabus and Reading List**

1. **Introduction to Political Economy. Rationality and methodological individualism. Preference Aggregation and Manipulation**

   This lecture will introduce the basic method of political economy. We will explore the possibility of aggregating individual preferences into collective decisions and the challenges that this process poses.

   - *Shepsle & Bonchek- Chs 1-4*
   - Drazen, A. - Ch. 1.
   - Persson, T. & Tabellini, G. - Ch. 1.
   - Mueller - Chs. 23, 24, 28.

2. **Public goods and the collective action problem**

   The particular characteristics of public goods pose a number of problems for what concerns their supply. Free-riding and collective action problems will be analysed with the aid of simple game-theoretic concepts.

   - Mueller- Ch. 2
   - *Shepsle & Bonchek- Chs. 8, pp 237-250 and pp 260-277
   - *M. Olson - The Logic of Collective Action,* pp. 1-16.

3. **Elections and public policy. Majority rule**

   The majority rule has a special place in collective decision-making. We will see why and will analyse electoral competition in majority systems. We will derive several results on public policy formation under majority voting.
4. The political economy of inequality and redistribution. Welfare spending and the size of the public sector

Why countries with apparently very similar economic characteristics differ in the amount of resources that are redistributed to the poor? We will use the models developed in lecture 3 to analyse welfare spending and the size of the public sector

- OECD (2011).- Divided We Stand. Why Inequality Keeps Rising. Paris: OECD, pp.21-43
- Persson & Tabellini - Ch. 6.
- Husted, T.A & , The Effect of the Expansion of the Voting Franchise and

5. Political Agency (1): The Economic Theory of Electoral Accountability Institutions and Political Accountability

Government performance depends on the quality of elected officials and the actions they take. We look at the role of elections with regard to performance and accountability.

- Besley, T (2007) Principled Agents; The Political Economy of Good Governance, Chapter1
- Galasso, V and Nannicini T (2011) “Competing on Good Politicians”, American Political Science Review, 105,1
- Maskin and Tirole ‘The Politician and the Judge’, American Economic Review, 94,4
6. Organisation of Legislatures and Legislative Procedures

The organisational rules of a legislature can have a big impact on how resources are allocated. We look at a number of features of the legislative process: log-rolling, coalitions, bargaining, confidence rules, and rule by committee.

- Mueller- p104-123  p278-295
- Shepsle  and Bonchek - Ch 12,14
- Krehbiel, K Information and Legislative Organization Michigan 1991

7. Interest Groups

Interest groups have an impact on the policy making process, but what is the extent of their influence, what tactics do they use and how might political mechanisms affect their impact.

- *Mueller- Ch. 15
8. Political Leadership


- Shepsle and Bonchek, chapter 14

9. The Origins and Effects of Political Institutions

What are the political implications of different constitutional forms? Does Democracy always lead to better policy outcomes? Is equality of representation an illusionary goal? What are the redistributive implications of Democracy and Oligarchy?


10. Political Agency (2)

What motivates political agents? What type of incentives are effective at securing quality service provision? How does the relationship between the legislature and the bureaucratic administration affect policy outcomes? In this session we take a further look at principal–agent analysis of policy making.

- Mueller - Ch 17
- Shepsle and Bonchek - Ch 13

11. Information, mass media and public policy

The mass media appear to be increasingly important in elections. Ultimately they might have a powerful influence on public policy. Is this true? And if yes, to which extend? We will analyse several theories of mass media influence in politics and have a look at what the data say.
- *Stefano DellaVigna & Persuasion: Empirical Evidence, NBER working paper 15298
Matthew Gentzkow

12 Electoral rules and policy outcomes
Institutions might influence the way voters and their elected representatives act. Thus, constitutional rules might have important consequences for public policy. We will focus on electoral rules and their impact on the provision of public goods and overall public spending.

- Mueller - Ch. 13
- Persson & Tabellini, - Ch. 10
- Lijphart - Patterns of Democracy, Yale University Press, 1999, Chs. 1, 8
Credit Transfer: If you are hoping to earn credit by taking this course, please ensure that you confirm it is eligible for credit transfer well in advance of the start date. Please discuss this directly with your home institution or Study Abroad Advisor.

As a guide, our LSE Summer School courses are typically eligible for three or four credits within the US system and 7.5 ECTS in Europe. Different institutions and countries can, and will, vary. You will receive a digital transcript and a printed certificate following your successful completion of the course in order to make arrangements for transfer of credit.

If you have any queries, please direct them to summer.school@lse.ac.uk