

January 17, 2012

THE NEW SCHOOL
Milano: The New School for Management and Urban Policy

Political Economy and Public Policy Analysis II

Professor David R. Howell
72 Fifth Avenue, Room 601
howell@newschool.edu
Office Hours: Thursdays 4:00-6:30pm

Spring 2012
Tuesdays, 6:00-7:50 P.M.

The two Political Economy and Public Policy Analysis (PEPPA) courses (I and II) are required for Milano doctoral students. The course readings represent a substantial share of the literature that should be mastered in preparation for the doctoral qualifying examination. Each course can be taken independently (they are not sequenced) and both are open to 2nd year Masters students who have taken at least an introductory course in microeconomics.

This course, PEPPA II, has two parts. The first is concerned with the history and theory of the welfare state and includes an introduction to the *varieties of welfare capitalism* and the *varieties of capitalism* literatures (like their names, closely related but not the same). The second part covers some essential elements of microeconomics for public policy analysis, ranging from utility maximization to welfare economics, externalities, and social protection policy. Both parts are broadly concerned with the roles the state plays – and should play - in 21st century market economies. Our focus will be on developed world economies, but much of the theory and tools we consider also apply to a large degree to less-developed countries.

Course Requirements:

The course grade will be based on **two take-home exams** and **class participation** (20%)
The **mid-term** (40%) is an essay on a topic of your choice that is addressed in a substantial way by Lindert or Hirschman. Your discussion should demonstrate a strong working knowledge of many of the required readings assigned for sessions 1-7 and the recommended readings for at least one session. I'm looking for evidence of the breadth of your reading (have you read the course material?), the depth of your understanding of the issues raised by these readings (did you understand the material?), and your ability to package this into a good essay (can you organize what you understand into an interesting, well-written "story"?). This essay has no specified page length but should be in the 12-15 page range. It should be double-spaced with 12 point font and margins! *It must be posted on BB by 10pm on Tuesday, March 27th.*

The **final exam** (45%) will consist of a series of short answer and short essay questions covering the material in Part II. I will discuss this nature of the questions at the beginning of Part II (session 8). The exam must be posted on BB by

The **class participation** grade includes one formal presentation. Each student is responsible for a 10 minute presentation of an asterisked (*) reading. The presentation will be followed by a 15 minute discussion, led by the presenter. Although there are a few class sessions with more than two asterisked readings, there will be a maximum of two presentations per session.

Class attendance is required. To pass this course, no more than 2 class sessions can be missed. In fairness to the others in the room, I expect everyone to be at class *on time and not to eat during class* (drinks are fine).

Grades: Grades in the A- to B+ range reflect proficient graduate-level performance. An “A” is reserved for exceptional work. Doctoral students in the Milano Program must receive at least a B+ to get credit for this required course.

Plagiarism: students handing in identical or similar answers that clearly reflect either copying or joint work will receive an automatic F for the course and are subject to disciplinary actions that include expulsion from the University.

Incompletes will be given only if an "incomplete" form is filled out and signed by me at least 2 weeks prior to the last class. There must be a good reason (e.g., falling behind in the reading is not one!).

Required Texts:

Jonathan Gruber, *Public Finance and Public Policy* (Worth, 2nd or 3rd edition)

Nicholas Barr, *Economics of the Welfare State* (Oxford), paper.

Peter H. Lindert, *Growing Public: Social Spending and Economic Growth Since the Eighteenth Century*, (Cambridge University Press, 2004), paper

David A. Moss, *When All Else Fails* (Harvard, 2004), paper

Robert Heilbroner, *The Nature and Logic of Capitalism* (Norton), paper

A.O. Hirschman – see session 13.

Most of the other required and recommended readings will be posted on Blackboard (BB).

COURSE OUTLINE

Session 1 (January 24): Course Overview; introduction to the understanding social systems, the development of the welfare state, and economic policy analysis

Heilbroner, Chapter 1, "On the Nature and Logic of Social Systems," and chapter 7, "The Limits of Social Analysis", in *The Nature and Logic of Capitalism* (Norton).
Lindert, Chapter 1: "Patterns and Puzzles" (pp. 3-19), in *Growing Public* (Cambridge).
Barr, Chapter 1: Introduction

Part I: The Rise of the Welfare State and Varieties of Capitalism

Session 2 (January 31): Historical Perspectives: The Rise of the Welfare State

Barr, Chapter 2: "Historical Background"
Lindert, Chapter 3: "Poor Relief Before 1880"
Lindert, Chapter 4: "Interpreting the Puzzles of Early Poor Relief,"
*F. Block and M. Somers, "In the Shadow of Speenhamland: Social Policy and the Old Poor Law," *Politics & Society*, vol. 31, no. 2, June 2003.
Lindert, Chapter 7: "Explaining the Rise of Social Transfers Since 1880" (pp. 171-90)

Recommended:

K. Polanyi, *The Great Transformation*, Chapters 1-8 (latest edition)
F. Block, "Introduction" to Polanyi, *The Great Transformation*
J. Stiglitz, "Preface" to Polanyi, *The Great Transformation*
Thomas Paine, *The Rights of Man*. Excerpt (BB)
Marx/Engels: *The Communist Manifesto*, parts 1-2 (download)
Jared Diamond, "From Egalitarianism to Kleptocracy," chapter 14 of *Guns, Germs and Steel* (BB)

Session 3 (February 7): Theoretical and Ideological Perspectives: the Role of the State in Market Economies

Barr, Chapter 3: Political Theory: Social Justice and the State
Moss, Chapter 1, "Introduction,"
Milton Friedman, chapters 1-2 of *Capitalism and Society* (BB)
Heilbroner, chapter 4, "The Role of the State" and Chapter 5, "The Ideology of Capital"
*Duncan Foley, "State Expenditure from a Marxist Perspective," *Journal of Public Economics*, 1978 (BB)

Recommended:

*James C. Scott, chapters 1-3 in *Seeing Like a State* (Yale)

Session 4 (February 14): Varieties of Welfare Capitalism (VWC)

Esping Andersen, "Three Worlds of Welfare Capitalism," (BB)

Arts and Gelissen, "Three Worlds of Welfare Capitalism or More?" (BB)

Lindert, Chapter 2: "Findings"

Lindert, Chapter 10, "Keys to the Free Lunch Puzzle"

*Alberto Alesina, Edward Glaeser and Bruce Sacerdote, "Why Doesn't the U.S. Have a European-Style Welfare System?" NBER Working Paper No. 8524, Oct. 2001. (BB)

Recommended:

Richard Freeman, "The Large Welfare State as a System" (BB)

*Esping-Andersen, "A Welfare State for the Twenty-First Century (BB)

On Sweden:

*Lindert, Chapter 11, "On the Well-known Demise of the Swedish Welfare State".

Assar Lindbeck, "The Swedish Experiment", *Journal of Economic Literature*, September 1997.

*Sherwin Rosen, "Public Employment and the Welfare State in Sweden,"

Journal of Economic Literature, 1997.

Richard Freeman, ed. *Reforming the Welfare State: Recovery and Beyond in Sweden* (NBER Conference Report, 2010)

Session 5 (February 21): Varieties of Capitalism (VoC)

Hancke, "Introducing the Debate" (*Debating VoC*)

Peter Hall and David Soskice: "An introduction to Varieties of Capitalism" chapter 1 of Hancke, *Debating VoC*

Hancke et al., "Beyond Varieties of Capitalism" chapter 9 of Hancke, *Debating VoC*

*Wendy Carlin and David Soskice, "German Economic Performance: Disentangling the role of supply-side reforms, macroeconomic policy and coordinated market economy," *Socio-Economic Review* (BB)

Recommended:

*B. Amable and S. Palombarino, "A Neorealist Approach to Institutional Change and the Diversity of Capitalism" (*Socio-Economic Review*), 2009.

Session 6 (February 28): Varieties of Welfare State Capitalism: social protection and employment performance

*Layard, Richard, Stephen Nickell and Richard Jackman. "Introduction" to the 2nd edition of *Unemployment: Macroeconomic Performance and the Labour Market* (Oxford: Oxford University Press). (BB)

A. Glyn, D. Howell and J. Schmitt, "Labor Market Reforms: The Evidence Does Not Tell the Orthodox Tale," *Challenge*, March-April 2006. (BB)

Richard Freeman, "Labour Market Institutions without Blinders: The Debate over

- Flexibility and Labour Market Performance,” NBER Working Paper #11286, April 2005.
- D. Howell, “Institutions, aggregate demand, and cross-country employment performance: alternative theoretical perspectives and the evidence,” in Hein and Stockhammer, *A Modern Guide to Keynesian Macroeconomics and Economic Policies* (Edward Elgar, 2011).

Recommended

- *OECD Employment Outlook, 2006, Chapter 3: “General Policies to Improve Employment Opportunities for All”
- Howell and Rehm, “Unemployment compensation and high European unemployment: a reassessment with new benefit indicators,” *Oxford Review of Economic Policy*, 2009 (vol. 25, Number 1).
- D. R. Howell et al., “Are Protective Labor Market Institutions at the Root of Unemployment?,” *Capitalism and Society*, Vol. 2, Issue 1, 2007.
- James J. Heckman, “Comments...”, *Capitalism and Society*, vol 2 Issue 1, 2007.

March 6: No Class

March 13: Spring Break

Session 7 (March 20 – Rick McGahey will lead this class): Economics, Ideology and Public Policy – Albert O. Hirschman

- *Hirschman, “Exit and Voice: An Expanding Sphere of Influence” in Hirschman, *Rival Views of Market Society* (BB)
- *Hirschman, *Shifting Involvements: Private Interest and Public Action* (Princeton)
- *Hirschman, *The Rhetoric of Reaction: Perversity, Futility, Jeopardy* (Belknap-Harvard)

March 27: No Class (mid-term due - Deadline for posting a first draft of your paper on BB is 10pm)

Part II. Efficiency, Equity and Public Policy Analysis

Sessions 8-9 (April 3 - double session 6:00-9:50pm) Introduction to Microeconomic Policy Analysis

- Barr, Chapter 4: “Economic Theory 1: State Intervention
- Lee Friedman, Chapter 2: “An Introduction to Modeling: Demand, Supply, and Benefit-Cost Reasoning,” in Lee Friedman, *The Microeconomics of Public Policy Analysis* (BB)
- Lee Friedman, Chapter 3: “Utility Maximization, Efficiency, and Equity” (BB)

Recommended:

- Gruber, Chapter 2: “Theoretical Tools of Public Finance” (BB)

(for a refresher on basic microeconomics)

*Rebecca Blank: “Can Equity and Efficiency Complement Each Other?” (BB)

Session 10 (April 10): An Introduction to Cost-Benefit Analysis

Gruber, Chapter 8: “Cost-benefit Analysis

K. Arrow et al., Is there a Role for Benefit-Cost Analysis in Environmental, Health, and Safety Regulation? (BB)

*S. Kelman, Cost-Benefit Analysis: An Ethical Critique (BB)

Sessions 11-12 (April 17, extended class): Externalities

Gruber, chapter 5: “Externalities: Problems and Solutions

Gruber, Chapter 6: Externalities in Action: Environmental and Health Externalities

*R. Stavins, What Can We Learn from the Grand Policy Experiment? Lessons from SO₂ Allowance Trading (BB)

*Michael J. Sandel, “It’s Immoral to Buy the Right to Pollute” (BB)

Session 13 (April 24): Risk and Social Insurance

Gruber, Chapter 12: “Social Insurance: The New Function of Government”

Gruber, Chapter 14: “Unemployment Insurance, disability Insurance, and Workers’ Compensation”

Howell and Azizoglu, “Unemployment Benefits and Work Incentives: the US labour market in the Great Recession,” *Oxford Review of Economic Policy*, 2011 (BB)

Moss, Chapters 9, 10 and Epilogue

Recommended:

*A. Krueger and A. Mueller, “Job Search, Emotional Well-being and Job Finding in a Period of Mass Unemployment: Evidence from High-frequency Longitudinal Data”, *Brookings Papers*, spring 2010.

Moss, Chapter 2: “A Primer on Risk and its History”

Moss, chapter 6: “Workers’ Insurance”

Session 14 (May 1): Inequality, Taxes and Work Incentives

Barr, Chapter 6: “Problems of definition and measurement”

Gruber, Chapter 17, “Income Distribution and Welfare Programs”

Gruber, Chapter 21: “Taxes on Labor Supply” (BB)

*Steve Holt, “The Earned Income Tax Credit at Age 30: What We Know,” The Brookings Institution, Research Brief #1, February 2006 (BB)

Recommended:

CBO report on Inequality, 2011

Session 15 (May 8): Political Economy and Public Policy: Privatization and Social Protection

Gruber, Chapter 9: “Public Choice Theory: the foundations of government failure” (pp. 249

Steven Kelman, “‘Public Choice’ and Public Spirit” (BB)

*Rebecca Blank, “When Can Public Policy Makers Rely on Private Markets? The Effective Provision of Social Services,” *The Economic Journal*, 110, March 2000.

Lindert, Chapter 12: “How the Keys Were Made: Democracy and Cost Control”

Moss, “Epilogue”

*Jacob S. Hacker and Paul Pierson, “Winner-Take-All Politics and Political Science,” *Politics and Society*, 38(2), 2010. (also take a look at the comments, especially by Neil Fligstein).

May 15: Take-Home Exam due (posted by 10:00 PM)