Aims

This module aims to equip students with the core background in the interdisciplinary enquiry of political economy. It will examine the relationship between individual choice, economic rationality and institutional structure and will enable students to appreciate the strengths and weaknesses of rival theories in both positive and normative political economy. Students will develop the theoretical knowledge necessary to engage in debates about the ability of political and market processes and combinations thereof, to address a range of economic and ethical dilemmas.

Learning Outcomes

By the end of the module students should be able to do the following:

- Apply core concepts from economics to understand the nature of political-economic dilemmas, including – rational choice, market failure and government failure
- Apply core concepts from politics/political science to understand the nature of political economic dilemmas – including the role of institutions and the importance of comparison, rival analyses of power, the distinction between positive and normative theory, rival forms of political justification/legitimacy, and the role of ideal and non-ideal theory
- Appreciate the distinction between formal and informal institutions and rules in political economic analysis
• Show critical awareness of different conceptions of rationality and their relationship to institutional structure and social outcomes
• Understand the relationship between different ontological and methodological approaches in the philosophy of social science and their relationship to political economy research
• Demonstrate critical awareness of rival efficiency standards in normative political economy and apply these standards to debates about the strengths and weaknesses of markets, democratic processes and combinations thereof
• Demonstrate critical awareness of rival ethical standards in normative political economy
• Show in depth awareness of the possible relationships between efficiency and ethical standards in normative political economy
• Apply ethical standards to debate the strengths and weaknesses of markets, democratic processes and combinations thereof

Teaching Arrangements

Teaching will take the form of lectures, question and answer sessions, and seminar discussion groups covering key topics in positive and normative political economy.

Assessment and Module Requirements

Students will be assessed on the basis of one extended coursework essay (50% of the total), and one unseen examination (50% of the total).

The coursework (5000 words max) is to be submitted electronically.

The unseen examination will take place in May/June 2016. Students will be required to answer three from nine questions over a three hour period.
**Reading**
Reading materials will be available in the King’s library and in the University of London libraries. In addition, all mandatory reading materials will be available via the online learning system KEATS. Items represented with ** are mandatory readings, those represented with * are additional readings that students may wish to consult. Additional recommended readings may also be discussed with the module convener.

**Positive Political Economy**
This part of the module will explore some key debates in positive political economy which aim to understand how economic and political processes interact to produce social outcomes. For the most part, positive political economy is concerned with trying to understand how the political economic world actually works rather than passing judgement on whether the operating principles are in some sense desirable. Nonetheless, most positive analyses of social phenomena draw on some basic assumptions about the character of human nature. These characteristics are highly contested and the extent to which they may or may not be subject to change and the implications thereof, is a key consideration for the debates in normative political economy that will be considered in the second part of the module. We will also explore some key concerns in the philosophy of social science and the implications of these debates for the manner in which research in ‘positive political economy’ should be carried out.

**Week 1. Individual agency and institutional structure**
This session will examine the way that different political economic traditions have analysed the relationship between individual choice and socio/institutional rules. It will distinguish between formal and informal rules and consider how alternative traditions in political economy have considered the question of how social rules interact with, and constrain or facilitate individual agency. Particular attention will be paid to the different analyses presented by the rational choice, cultural/historical and macro-structural traditions in political economic thought.

**Questions for Discussion:**
What are the key differences between formal and informal institutional rules? What are the key differences between rational choice, cultural/historical and structuralist understandings about the character of institutional rules? To what extent does a focus on institutional rules strengthen or weaken the principle of methodological individualism?

**Key Reading:**


2. Rational choice political economy
Rational choice political economy represents the clearest attempt to use the ‘economic way of thinking’ to analyse the role that institutions play in shaping the relationships between states and markets. More specifically it uses the ‘invisible hand’ type reasoning that many economists adopt to understand the dynamics of market processes to analyse the interaction between politics and economics. This session will examine the rational choice focus on strategic bargaining, collective action problems and principal – agent analysis and the extent to which these problems both shape and are shaped by institutional/political structures. The discussion will explore the rational choice focus on incentive structures and the relationship between this focus and certain core assumptions about human nature and the character of rationality.

Questions for Discussion:
To what extent can we understand formal and informal institutions as a response to collective action problems? How do rational choice political economists analyse behaviour within a given set of institutional rules? How do rational choice political economists understand questions of comparative political economy? To what extent does rational choice political economy depend on the assumption of self interested motivation? Does rational choice political economy imply support for the notion that social institutions are efficient?

Key Reading:


3. Bounded rationality and the limits of rational choice political economy
Rational choice approaches often assume a strong conception of individual rationality in their understanding of political economy and in particular the idea that actors ‘know their own interests’. This session looks at the implications for rational choice analysis of relaxing these strong rationality assumptions and in particular the recognition that choice occurs in conditions of uncertainty and what is sometimes known as ‘bounded rationality’. The discussion will centre on the question of whether recognition of bounded rationality improves the power of rational choice explanation or whether it weakens this power.

Questions for Discussion:
What are the implications for rational choice theory of recognising that people have limited cognitive/calculational capabilities? What role might formal rules and informal norms play in the decision practices of cognitively limited actors? What role do ideas and ideologies play in the decisions of cognitively limited actors? What significance do institutional feedback mechanisms have in our understanding of how political economic structures affect the capacity of actors to engage in a process of learning and adaptation? What is the significance of institutional path dependency to rational choice political economy?

Key Reading:


4. Cultural and historical political economy: the Polanyian challenge

Recognising the role that ideas play in how actors understand their interests is an important aspect of cultural and historical institutional political economy. Inspired by the contributions of Karl Polanyi, theorists in this tradition resist the attempt by rational choice analysts to use economic models based on the self-interest assumption to understand the relationships between economic processes and political institutions. Polanyian thinkers argue that economic rationality is culturally conditioned and that market models are inappropriate to an understanding of institutions based on different operating norms – such as reciprocity and redistribution. This session will examine the Polanyian perspective on the relationship between states and markets and explore how its insights have been deployed to understand variations between different political economic regimes.

Questions for Discussion:

How do cultural approaches to political economy understand the significance of formal and informal institutional rules? How do cultural approaches understand the significance of comparison in political economy? What sort of evidence do cultural theorists cite to challenge the universality of the rational actor model? How have rational choice theorists responded to the challenge offered by Polanyi’s work? How has the Polanyian perspective been used by contemporary cultural approaches to political economy?

Key Reading:


Polanyi, K. (1944) The Great Transformation, Boston, MA: Beacon Press (chapters 3,4,5 and 6) **


5. Cultural and historical political economy: the power and limits of path dependence
The notion that ‘history matters’ is a cornerstone of political economy approaches that emphasise the significance of culture over individual agency. On this view, culture and social norms provide the lens through which people conceive of their interests and these norms are often rooted in historical processes. Within this context, many analysts have examined the significance of institutional ‘path dependence’ in structuring the relationship between economic processes and political institutions and the way in which this can constrain individual agency. This session will examine the role that path dependency models play in cultural and historical institutional models, the scope they leave for individual agency and the extent to which they are able to account for instances of institutional change.
Questions for Discussion
How do cultural approaches to political economy understand the significance of path
dependence? What sort of phenomena might cultural path-dependence be used to explain?
How do cultural analyses of path-dependence account for instances of institutional change?
What differences are there between cultural/historical and rational choice understandings
of institutional path dependence? What scope is there for a synthesis between rational
choice and cultural/historical accounts of path-dependence? Are cultural/historical
accounts methodologically individualist or methodologically holist in orientation?

Key Reading:

Princeton University Press (chapters 1-3) **

Structuring Politics, Cambridge: Cambridge University Press *

(Introduction) **

Hall, P. (2005) Preference Formation as a Political Process: the case of Monetary Union in
Sage Foundation.

Michigan Press, (chapter 5)*


Steinmo, S. (1993) Taxation and Democracy, New Haven: Yale University Press *


and Situations, New York: Russell Sage Foundation *

6. Reading Week

7. Structural political economy: neo-Marxism
Macro structural approaches to political economy typically ascribe greater explanatory
weight to the role of large scale social systems which are thought in some sense to
determine the actions of individuals and social groups— and it is these macro-structures that are given greater causal/explanatory power relative to the motivations or beliefs of micro-level actors. Neo-Marxist political economy remains one of the most influential macro-structural approaches and will be the focus of discussion in this session. Particular attention will be paid to the differences between instrumental and structural functionalist forms of Marxist theory.

**Questions for Discussion:**
What are the major differences between instrumental and functionalist forms of neo-Marxism? To what extent do instrumental and functionalist forms of neo-Marxism allow scope for individual agency in their accounts of political economic structures? To what extent are neo-Marxist explanations of the character of the state dependent on the veracity of Marxist economic theory?

**Key Reading:**


Jessop, B. (1990) *State Theory: Putting Capitalist States in their Place*, Cambridge: Polity *


8. Structural Institutionalism: Analytical Marxism and non-Marxist alternatives
Partly in response to the tensions that exist between the instrumental and functionalist forms of Marxist political economy, structural theorists have increasingly sought to develop a framework which is less reliant on the basic assumptions of Marxist economics. Some have sought to develop an approach which tries to specify the relationship between individual agency and social structure in what has come to be known as ‘Analytical Marxism’. Other structuralist thinkers have retained an approach which privileges the role of macro-structural processes but in a manner that is not dependent on Marxist economic categories. This session will examine these perspectives to explore the strengths and weaknesses of macro-structural approaches.

Questions for Discussion:
How does analytical Marxism differ from conventional Marxist political economy? In what ways do the analytical Marxists attempt to combine the concerns of methodological individualism with a structural focus on class? Why have critics of analytical Marxism suggested that it is not in fact a ‘Marxist’ approach? How do non-Marxist forms of structuralism differ from Marxist alternatives? What properties do non-Marxist structuralists use to replace or compliment a focus on capitalism? What room do non-Marxist forms of structuralism afford to individual agency?

Key Reading:

Analytical Marxism


Non Marxist Structuralism


Skocpol, T. (1979) *States and Social Revolutions*, Cambridge: Cambridge University Press **


9. Philosophy of Social Science and Political Economy: from behaviouralism to neo-positivism

This session will examine whether theories of political economy arise primarily from the collection of empirical evidence (the inductive view) or whether the collection of evidence is always informed by a pre-existing theory or set of theories which must be tested against the available evidence (the deductive view)? Focussing on Karl Popper’s contributions the discussion will explore what scope there is for ‘testing’ of theories in a social science/political economy context?

**Questions for Discussion:**

Why does Popper reject inductive approaches in favour of the hypothetico-deductive model? Can the methods of the natural sciences be applied in the context of understanding political economic phenomena? Why is positivism often associated with the use of quantitative research methods? In what manner may qualitative research be informed by Popperian/falsificationist method?

**Key Reading:**


10. Philosophy of Social Science and Political Economy: Interpretive and Hermeneutic methods

In contrast to the various positivist schools, supporters of interpretive or hermeneutic methods reject the idea that political economic inquiry can or should be concerned with the discovery of ‘law-like’ or predictable relationships. They emphasise instead the importance of ‘understanding’ the subjective meanings that actors attribute to particular events and how these meanings are communicated across groups of actors and reflected in culture and social norms. This often leads to an approach based on ‘thick historical description’, the case for which will be examined in this session.

Questions for Discussion:
Why do interpretive or hermeneutic writers reject the case for a predictive form of social science? What role does ‘inter-subjectivity’ play in interpretive methods? What do interpretive researchers refer to when using the term ‘understanding’? Does understanding depend on the existence of a common culture? Is there any scope for combing an emphasis on interpretation and an appreciation for the contingency of events with some role for ‘prediction’ in political economic enquiry?

Key Reading:


11. Synthesis: new institutional political economy and analytic narratives
Positive political economy need not confine itself to any single explanatory framework or methodological approach and some of the most interesting work in recent years has been conducted within a tradition known as the ‘new institutionalism’. This blends a rational choice focus on individual incentives, with recognition of the role played by culture, beliefs
and background structural factors in shaping these incentives. Given the complexity of the underlying factors that contribute to political economic outcomes theorists of the new institutionalism have tended to eschew a purely ‘positivist’ approach which emphasises testing the predictive power of rival theories, in favour of ‘analytic narratives’ which attempt to combine some elements of positivism with an emphasis on historical detail and in-depth case studies. This session will consider the strengths and weaknesses of the new institutional approach and the analytic narrative method.

Questions for Discussion:
In what ways can a focus on individual action, culture and social structure be integrated in political economic analysis? What methods are appropriate to understanding the relationship between rational choice, cultural norms and macro-structures? How do analytic narratives differ from descriptive histories of political economic processes? What are the strengths and weaknesses of the analytic narrative approach?

Key Reading:


12. Review Session on Positive Political Economy
Semester 2

Normative Political Economy
This part of the course turns to the discipline of normative political economy - the debates that concern what kind of political economic structures analysts consider to be the most desirable and the criteria of desirability that should be used to evaluate different institutional regimes. Though normative analysis is distinct from positive political economy many of the debates in this field are influenced by the findings of positive analysis with normative views on the desirability of particular institutional arrangements often influenced by the experience of how certain types of institution have worked in practice. These debates are also influenced by views on whether the behavioural traits identified by positive theorists are open to change and what the implications of such changes might be.

1. Efficiency standards in political economy
Modern economics typically deals with positive or descriptive questions, but when economists do discuss normative questions they usually do so in terms of economic efficiency. The early development of political economy as a formal field of study in the late 18th and early 19th century is entangled with the development of utilitarianism. Economic efficiency standards emerge as an alternative to total social utility as a normative benchmark for evaluating actions, policies, and institutions. This session will explore the two most common efficiency standards employed by economists, Pareto efficiency and Kaldor-Hicks efficiency, as well as Marshallian efficiency.

Questions for Discussion:
What are the differences between the Pareto, Kaldor-Hicks, and Marshallian standards of efficiency? What do they share in common? What are the strongest objections to each of them? What are their strengths? What types of preferences should count when evaluating public policy? What should the role of cost-benefit analysis be in public policy? How different are these standards from those of utilitarianism?

Key Reading


2. Micro-economics: market failure and government failure

The theory of market failure emerged as an application of the economic efficiency standard in the middle decades of the 20th century, and is now a standard part of the corpus of economics. The theory of government failure arose largely as a response to the concept of market failure in the literature. This session will explore both ideas and sample the mechanisms posited by both literatures, with an emphasis on issues of imperfect information, monopoly and public goods.

**Questions for Discussion**

What is the significance of the first and second welfare theorems in the development of modern economics? Should the fundamental welfare theorems serve as the benchmark for evaluating market outcomes or government policies? What are the limitations of market failure arguments? What are the limitations of government failure arguments? Which form of failure is likely to be larger or more problematic?

**Key Reading:**


3. Economics, Externalities and Institutions

Externalities, costs or benefits not borne by a decision maker, are central to welfare economics. This session will explore the role of externalities in political economy analysis through the lens of the 20th century debate about the government vs. market responses to externalities. In the last few decades this debate has centred on the Coase theorem, which we will focus on in detail.

**Questions for Discussion**

How important is the Coase theorem for institutional analysis? What is the significance of the joint production of externalities? What types of externalities are easier to solve through market mechanisms? What types of externalities are easier to solve through regulation? Do transaction costs provide an adequate explanation for inefficiency?

**Key Reading:**


4. Macro-economics: market failure and government failure

In addition to those theories which focus on the efficiency or otherwise of individual markets within a political economic structure, normative political economy also examines issues of ‘macro-economic’ stability or instability and the extent to which governments should intervene in markets to promote stability. The discussion will focus on four different theories of macro-economic failure – Keynesian, New Classical, Virginia Political Economy and Austrian. Attention will focus on the underlying rationality and motivational assumptions adopted by the various theories and how these are reflected in their differing normative prescriptions for what the state should or should not do to promote stability.

Questions for Discussion:
What role does uncertainty play in Keynesian accounts of macro-economic crisis and what role do Keynesians believe the state can and should play in the light of this uncertainty? Why do New Classical theories downplay the impact of state intervention on macro-economic outcomes? What role does the concept of ‘fiscal illusion’ play in Virginia school accounts of macro-economic crisis? Given their common emphasis on uncertainty and subjective expectations, why do ‘Austrians’ arrive at such radically different normative conclusions to those of ‘Keynesians’?

Key Reading:


5. Distributive Justice and Political Economy

In this session we turn towards those standards of evaluation that focus more on distributional concerns and different notions of rights. Focussing on the works of Rawls, Dworkin, Nozick and Hayek the discussion will probe the interrelationships between different moral conceptions (utilitarianism, consequentialism and deontology) and how these relate to issues of institutional efficiency and/or practicality. Particular attention will be paid to rival conceptions of the relationship between the state and the market in contemporary liberal political theory.

Questions for Discussion

What sort of moral arguments do Rawls, Dworkin, Nozick and Hayek base their arguments upon? On what grounds do Rawls and Dworkin favour a welfare state as part of a justice satisfying political economy? What role do questions of political economic efficiency/feasibility play in the arguments of Rawls and Dworkin? On what grounds do Nozick and Hayek favour a strictly limited role for the state vis a vis the market? What role do questions of efficiency/feasibility play in the arguments of Nozick and Hayek?

Key Reading:

Fleischacker, S., A Short History of Distributive Justice, Cambridge, Harvard University Press, 2005 *


http://plato.stanford.edu/entries/justice-distributive/ *
6. Reading Week

7. Ideal versus non-ideal theory in normative evaluation
What kind of political economic relationships are ‘ideal’ from an ethical point of view and to what extent should these conceptions be influenced by recognition of ‘real world’ constraints? These are the questions that lie at the heart of debates about the status of ‘ideal’ and ‘non-ideal’ theory in ethical evaluation. Ideal theory attempts to define the contours of an ideal/just society and to use these principles as a benchmark against which to judge the status quo. Non-ideal theory focuses on obstacles to achieving the relevant ideal standards and the type of measures that might be justified in moving towards them. Within this context, however, there is considerable debate about the relationship between social ‘facts’ and ethical ideals with some thinkers suggesting that those aspects of the human condition which cannot be changed must be built into our conceptions of what an ideal/just society might actually look like.

Questions for Discussion:
What role do motivational constraints and incentives play in the distinction between ideal and non-ideal theory? What role do informational/knowledge constraints play in the distinction between ideal and non-ideal theory? To what extent should facts about the requirements of socio-economic coordination inform political ideals? If facts about the requirements of socio-economic coordination are allowed into analyses of political ideals is the distinction between ideal and non-ideal theory tenable?

Key Reading:


8. Ideal Theory, Non-Ideal Theory and Comparative Institutions Analysis

Whether one supports an ideal theoretic or a non-ideal view of the evaluative standards that normative political economy should embrace, judgements about which political-economic regime types we ought to prefer are often informed by a ‘comparative institutions’ account. Comparative institutions analysis in normative evaluation involves the comparison of different regime types on the same terms. Focussing on the rival contributions of Cohen and Brennan the discussion will focus on the importance of symmetrical idealisation in normative analysis and the extent to which thinkers follow this rule in their evaluation of different political economic regimes.

**Questions for Discussion:**

On what grounds does Cohen argue that capitalism is less desirable than socialism as a political economic ideal? On what grounds does Brennan contend that socialism is less desirable than capitalism as an institutional ideal? To what extent do Cohen and Brennan’s arguments focus on the qualities of people as opposed to the qualities of institutions? Why is symmetrical idealisation important in the context of normative evaluation?

**Key Reading:**


9. Constitutional Political Economy

Constitutional political economy describes the belief that constitutional rules demarcating the appropriate scope of government can be an effective means of controlling the state and guaranteeing the rights of individuals. Both Buchanan and Rawls use ‘veil of ignorance’
devices to formulate notions of an ideal constitution which would constrain actors after the ‘veil has been removed’. For Buchanan such rules must meet the criteria of unanimity – but this raises important questions concerning the decision-making costs involved and the practicality of such arrangements. Egalitarian/ Rawlsian critics have also contended that the principle of unanimity and the conceptualisation of politics as a form of exchange serve to privilege the status quo.

**Questions for Discussion:**
Can a constitution be an effective means of controlling the state and securing individual rights? How does Buchanan model politics as a form of exchange and is this a useful way of conceptualising political activity? Why does Buchanan argue that constitutional agreement must be unanimous? What might be the pre-requisites of unanimous agreement? Does constitutional political economy have an inherent conservative bias? How do constitutional political economists approach the concept of power?

**Key Reading:**


10. **Review Session on Normative Political Economy**

11. **Course work preparation**

12. **Exam Preparation**