I. Untitled introduction: **economic conditions and presidential popularity**

A. Shively concludes that the relationship is **positive** between the overall health of an economy and presidential popularity; however, two basic economic indicators (inflation & unemployment) are **inversely** related to presidential popularity

1. Good economies (inflation & unemployment are low) raise presidential popularity
2. Bad economies (inflation & unemployment are high) lower presidential popularity

B. However, numerous researchers have demonstrated that many other factors can alter this relationship, see: [http://people.uncw.edu/lowery/pls401/chapter_outlines/Presidents_job_approval_ratings.pdf](http://people.uncw.edu/lowery/pls401/chapter_outlines/Presidents_job_approval_ratings.pdf).

1. **Other (non-economic) salient issues** and their dynamics (influence presidential popularity)
   a. War: rally-round-the-flag public support at beginning & erosion as conflict becomes protracted & costly
   b. Scandal can hurt or not (e.g., Jefferson, Jackson, Grant, Cleveland, Harding, Truman, Eisenhower, Nixon, Reagan, Clinton)

2. **Other political actors** (influence presidential popularity)
   a. Media (news & entertainment): agenda setting & framing
   b. Special-interest-groups (racial/ethnic, religious, regional, generational, gender, etc.)
   c. Political parties

3. **Other (non-economic) individual identities & loyalties** (influence presidential popularity)

II. **Political economy**

A. Definition: a subfield within political science that focuses on economic variables

1. **Scope**: intersection between state and economy
   a. The economy influences the state (see section I. above)
   b. The state influences the economy (with fiscal, monetary, & regulatory policies)

2. **Methods**: rational-choice analysis
   a. **Basic assumption**: rational intentions (i.e., individuals are goal oriented, **not necessarily wise or sensible**)
   b. The complexities of reality can be reduced to mathematical formulae through simplifying assumptions about:
      1. Individual-level costs & benefits
      2. Aggregate-level supply & demand

B. Alternative subfields: political psychology (cognition & emotion) & political sociology (group identification)

III. Economic performance I: growth (GDP: the monetary value of all final [not resold] goods & services [regardless of ownership] produced in a state in a given year)

Figure 5.1

A. **Baumol’s disease**: an increase in the costs of labor-intensive services (e.g., education, health care) greater than the rate of inflation [note: both Baumol & Shively ignore the productivity increases in the service sector that are due to information-technology advances]

B. **Rent-seeking**: trying to make money by lobbying government for a competitive advantage rather than competing in a free market

1. Types
   a. **Patronage**:
      1. Definition: the power of elected or appointed government officials to make partisan appointments or to confer contracts, honors, or other benefits on their political supporters
      2. Examples:
         (a) The lack of impact fees due to the influence of realtors & developers in NC state and local governments
         (b) Pork-barrel projects
         (c) Tax-code loop holes
         (d) No-bid contracts
         (e) Royalty-free use of public lands
   b. **Preferments (honest graft)**:
      1. Definition: legal (although often not ethical) advantages that elected or appointed government officials gain for themselves because of their position or connections; called “**honest graft**” by George Washington Plunkitt of NYC’s Tammany Hall
      2. Examples:
         (a) Better government-paid health care & pension benefits than their constituents
         (b) “Revolving-door” employment in the private sector

2. Rent-seeking evaluated:
   a. Inevitably part of the costs of democracy in a pluralistic society due to the bargaining and compromising between conflicting interests
   b. It is inequitable in a non-representative system where the more powerful dominate government

C. **Import-substitution industrialization** (economic protectionism)

1. Definition: protecting domestic industry with high tariffs, quotas, or other barriers to foreign imports

2. Problem: without competition, owners often charge high prices for shoddy goods & services

3. **Supporters of protectionism**:
   a. Past: U.S. conservatives prior to Great Depression (e.g., Hamilton, Lincoln, & Teddy Roosevelt)
   b. Present: mixed ideological coalition

4. **Opponents**: argue that free trade creates more jobs than it destroys because it allows countries to specialize in the production of goods and services in which they have a comparative advantage (e.g., both neo-liberals, Clinton, & neo-conservatives, GW Bush)

D. **The South Korean experience** (a mixed bag)

1. Strong government intervention into the national economy with prohibitive tariffs & government monopolies in strategic industries imposed by an authoritarian military government; however, relatively little rent-seeking due to homogeneity of society & national-security threat from N. Korea

2. More generally: government intervention works best in countries with more homogeneous cultures (Scandinavian and other Asian countries, like Japan & Taiwan) where rent-seeking pressures are less strong
IV. Economic performance II: controlling inflation & unemployment

A. Inflation: a general rise in the prices of goods & services with a resulting fall in the value of a country’s currency

1. Causes
   a. Immediate cause: demand outpaces supply
   b. Underlying causes:
      (1) Deficit spending by government
      (2) Supply shortages caused by war, weather, labor-management stoppages, monopoly/oligopoly embargoes, other trade restrictions

2. Evaluation: “Normal, healthy, or acceptable” inflation ~ 5%/year

3. Effects:
   a. Some win: those with lots of discretionary income to invest
   b. Many lose: fixed-income individuals & those with savings locked up in long-term investments with (low) fixed interest rates

4. End of Cold War brought inflation rates down worldwide (more competition & less deficit spending)

B. Unemployment:

1. Definitions:
   a. Unemployment: not enough jobs available for everyone who wants to work
   b. Underemployment: hours or wages or working conditions are cut

2. Keynesian economics
   a. Definition: a school of political economy that argues for using governments’ fiscal & monetary policies to avoid the extremes of free-market economies’ boom & bust cycles
   b. Assumes an inverse relationship between unemployment and inflation (Phillips’ curve): when unemployment is high, inflation is low – and vice versa

3. However, in 1970’s stagflation, both unemployment & inflation were high and economists had to reformulate a New Keynesian economics that took into account other factors (e.g., the economic shocks of the OPEC oil embargo and the deficit-spending of the Vietnam War)
   b. Recognized that the typically inverse relationship between unemployment and inflation sometimes had a reverse (direct) effect due to other factors (e.g., the economic shocks of the OPEC oil embargo and the deficit-spending of the Vietnam War)

V. Managing distribution to address inequality

A. Fiscal policies

1. Progressive (income & property) taxes (in U.S. are counter-balanced by (1) regressive taxes – those that impose a smaller burden (relative to resources) on those who are wealthier – e.g., sales & Social Security and (2) income-tax loopholes for the non-poor)

2. Targeted spending (e.g., public assistance, public education)

B. Only marginal variation across countries

1. Generally higher inequality in less-developed countries
2. Generally higher inequality in less-democratic countries
3. But, a good deal of inequality in all countries (relatively little income redistribution)

VI. Independent central banks

A. Definition: a public-sector bank used by government to

1. Handle its own transactions
2. Regulate private-sector banks
3. Use monetary policies to regulate the national economy
   a. Reserve ratio
   b. Rediscount rate
   c. Open-market sales of government securities

B. Autonomy from elected officials varies (and is inversely related to a country’s average inflation rate) because elected leaders are less likely to use strong medicine to control inflation

VII. Corruption (see sec. III. B. 2., preferments or graft)

A. Definition: the use of public resources for private gain by elected or appointed officials

B. Inversely related to economic health of the nation (e.g., S&L failures in late 1980s)

C. Varies by country 

VIII. Other (economic) measures available to government:

IX. Example: political economy of Germany

A. Labor policy:

1. Codetermination (representation of labor on board of directors)
2. Post-high-school vocational education with on-the-job apprenticeships

B. Ordnungspolitik: extensive economic regulations have resulted in high-quality but expensive products & services

C. Anti-inflation policy:

1. Reflection of hyperinflation during 1920s & importance of bureaucrats rather than elected officials in economic policymaking
2. Hurts growth and competitiveness

D. The challenge of globalization: high labor costs especially relative to Poland & Hungary have led to outsourcing & unemployment

X. Example: political economy of Indonesia: transition from subsistence to diversified industrial economy aided by abundant natural resources and improving education but hindered by political corruption & regional violence in East Timor & Aceh