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.
      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 world wide (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
    - a. 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 loop holes for the non-poor)
  - 2. Targeted spending (e.g., public assistance, public education)
- B. Only marginal variation across countries [Table 5.1]
  - 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) [Figure 5.2] 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 [Box, pp. 116-17] correlates are: rapid change, poorer populations, foreign business presence, non-Protestant religious traditions, history of colonial rule other than Great Britain

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. *Ordungspolitik*: 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 [Table 5.2] 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