

5970: Economic Policy
BSc. Business and Economics: Economics major
— Summer Semester 2022

Instructors

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1 Course description

Economic policy is about how governments organise the economy. While different principles exist that guide economic policy - one may think of fixing market failures or ensuring equitable outcomes according to some distributive goals - governments need to negotiate what economic policies are implemented. Indeed, different principles, such as equity and efficiency, may be trade-offs but can also be complimentary depending on the context. In addition, different policy instruments differ in their effectiveness regarding the achievement of predefined aims. Drawing on the insights from comparative and (quasi-)experimental research, this course will explore

- how governments weight and reconcile different goals of economic policy, such as equity and efficiency;
- how and why institutions of national and international economic policy have developed;
- what changes economic policy is undergoing currently;
- in what ways policies affect outcomes, particularly social mobility and inequality.

2 Course objectives

In this course, students improve their critical thinking skills. In addition to regular exercises that require employing critical thinking in economic policy problems, the course gives students the tools and opportunities to effectively engage in academic literature, develop their own arguments and present them in writing. Through three essays, students practise how to structure argumentation and produce academic texts. In addition, compiling a policy memo towards the end of the course constitutes an exercise in presenting complex information in an accessible and well-structured way, engaging directly in policy analysis.

3 Course design

Expanding on the more traditional seminar teaching style, this course incorporates elements of the Oxford Tutorial system, adapted to the teaching situation at the Vienna University of Economics and Business. The unique Oxford Tutorial is based on the dialogue between 2-3 students and a tutor. Scholars and students engage in a discussion of materials covered in course lectures and the weekly readings. The starting point of the tutorial is an essay submitted by students to tutors, that reflects on the content of the lectures and readings. Based on students' work, tutors employ a form of the Socratic method, guiding students in challenging their own argumentation by means of questioning.

In this class, we use three seminar units that feature a tutorial session, each of which is allocated a one hour time slot. During the tutorials, students will discuss the course content with tutors. This discussion is based on student essays, which they submit two days in advance to both tutors and course conveners. Tutors are outstanding MSc students studying in relevant degrees. The course conveners allocate each 2-3 students to each tutor, and inform students on the allocation until the 17th of March. Together with the allocation, students will also receive contact details of the tutors.

4 Class schedule

The course consists of three blocks (corresponding to the background colour). The first block (in gray) will cover the principles according to which governments coordinate their economies. The second block (green) provides an overview of economic policy institutions, with a particular emphasis on labour market policy. Lastly (in beige), the course concludes by examining the outcome dimension of economic policy, focusing on inequality.

Week of...	Topic	Tutorials
03/03	Governments and the market	
10/03	Democracy and economic policy	
17/03	Reconciling efficiency and equity	
24/03	Economic models	T
31/03	Labour market institutions and labour relations	
07/04	Labour markets in transition	T
21/04	Inequality	T
28/04	Social mobility	

5 Written assessment

Essays

Students will write three essays throughout the course, each of which is submitted two days ahead of the tutorial sessions (22nd of March, 5th of April and 19th of April, at 4.15 pm). Essay questions and starting literature are provided below. Each essay will have a length of 1000 words (10% tolerance), and is submitted to both tutors (via email) and course conveners (via learn) in word format. Use scientific referencing in [Harvard](#) style. You may submit either in English or in German.

Essay questions

- Essay 1: Does economic policy differ in addressing the relationship between economic efficiency and socio-economic equality depending on an economy's model?

- Essay 2: Are labour market policies able to complement a country's specific institutional context, thereby turning zero-sum bargains into win-win situations?
- Essay 3: "Taxing the rich" is an appropriate tool to reduce inequality. Discuss.

Policy Memo

The Policy-Memo is a Take-Home exam. The tasks will be available on the learn platform the 28th of April at 08.00 pm. Submissions are online, within a 1-week time window. The submission can be edited throughout that time. Late submissions subject to point-deductions. The policy memo is 1000 words in length (+/- 10%). One graph or table allowed, counting with 100 words towards the word count. Word counts are to be reported on the memo. Submission in .doc format. A good policy memo is based on credible evidence, honours formal requirements, employs an appropriate writing style and is carefully structured. Moreover, it relies on high quality argumentation (no cheer leading, specificity, decent argument structure, covers main options), and maintains an overall logic. To guide students when compiling policy memos, they will find detailed guidance on writing a policy memo online (see examples from: [Harvard Kennedy School](#), [Maxwell School of Citizenship and Public Affairs](#) and [Princeton University](#)).

6 Grading

The course grade is determined by the following components:

Essay 1	16.6 %
Essay 2	16.6 %
Essay 3	16.8 %
Policy Memo	30%
In-class participation	20%

7 Detailed session overview

7.1 A) Theories behind economic policies

1) Governments and the market, 03/03/2022

After providing an overview of the course design and structure, the first session discusses the relationship between government and markets. It provides a brief historical sketch of how economic thought has historically conceptualised the appropriate role of government in the economy, ending with modern textbooks' arguments based on market failure and inequality. Problematising this view, week 1 revisits arguments relating to the separability of government and market spheres, and highlights emerging trade-offs.

Key questions:

- Introduction and course design
- What are the reasons for government action?
- How do these relate to each other and where are their limits?

Readings:

- Stiglitz, Joseph E., 2000. Economics of the public sector. 3rd ed, New York: W. W. Norton – Chapter 4
- Mazzucato, Mariana, 2021. Mission Economy a Moonshot Guide to Changing Capitalism, London: Penguin UK.

2) Democracy and economic policy, 10/03/2022

Week 2 extends the discussion on the scale and scope of economic policy to the democratic realm. It provides a take on how economic theory can contribute to understanding democratic voting, and highlights strengths and limits. Finally, this session discusses the relationship between economic technocracy and democratic deliberation.

Key questions:

- How does democracy contribute to coordinate government action in economic policy?
- Do democratic governments need to be restricted in economic policy?

Readings:

- McCarty, Nolan, and Jonas Pontusson, 2011. The Political Economy of Inequality and Redistribution. In: Timothy Smeeding, Wiemer Salverda, and Brian Nolan, 2011. The Oxford Handbook of Economic Inequality, Oxford: Oxford University Press
- Rodrik, Dani, 2018. Is Populism Necessarily Bad Economics? AEA Papers and Proceedings 108, pp. 196–99.
- Gilens, Martin, and Benjamin I. Page, 2014. Testing Theories of American Politics: Elites, Interest Groups, and the Average Citizens. Perspectives on Politics, 12(3), pp.564-581.

3) Market failure and economic policy responses, 17/03/2022

Week 3 discusses market failures and how economic policies are being used to address them. Welfare state institutions help to reconcile efficiency and equity trade-offs to produce win-win situations. Examples include the social insurance, taxation of externalities, vocational education as well as passive and active labour market policies. This week explores different explanations for the evolution of such policies and institutions including the role of producer groups such as business and organized labour.

Key questions:

- Is there a trade-off or a trade-in between optimal allocation of resources and their distribution?
- What institutions and policies can help to reconcile efficiency with equity?
- What caused the evolution of economic policy institutions?
- What role did producer groups have in the development of economic policy?

Readings:

- Barr, Nicholas, 1989. Social Insurance as an Efficiency Device. Journal of public policy, 9(1), pp.59–82.

- Jane Gingrich. Coalitions, policies, and distribution: Esping-Andersen's Three Worlds of Welfare Capitalism. In: Mahoney, J. & Thelen, K.A., 2015. Advances in comparative-historical analysis, Cambridge.

7.2 B) Applications of economic policies

4) Strengths and weaknesses of different economic models, 24/03/2022

Week 4 compares different economic models by focusing on spheres of economic coordination that relate to different areas of economic policymaking. A number of typologies exist for country comparisons. The United States or the United Kingdom often serve as the archetypes of liberal capitalism and a liberal welfare state. Vis-a-vis Social Europe, Germany or Scandinavia have been used to describe an alternative model of economic coordination within a market-based economy. The strengths and weaknesses of economic models are being discussed and the use fullness of typologies assessed.

Key questions:

- How have different economic models reconciled the zero-sum bargain or turned it into a positive sum bargain?
- What complementarities are being discussed in the Varieties of Capitalism approach?
- How does the VoC typology apply to countries beyond their archetypes? Beyond the West?
- How do different economic theories link to the variety in economic policies and growth regimes?

Readings:

- Hall, P.A. & Soskice, D.W., 2001. Introduction. In: Hall, P.A. & Soskice, D.W., 2001. Varieties of capitalism: the institutional foundations of comparative advantage, Oxford: Oxford University Press.
- Baccaro, Lucio & Pontusson, Jonas, 2016. Rethinking Comparative Political Economy. Politics & society, 44(2), pp.175–207.

5) Labour market institutions, 31/03/2022

Week 5 zooms into labour markets as one sphere of economic coordination. The central institutions are examined. Passive and active labour market policies, employment protection and the regulation of work by law and collective bargaining have evolved with profound implications for economic performance and economic inequality. Stakeholders contribute at different levels of centralisation and coordination depending on the country specific context and system of labour relations. *Key questions:*

- What institutions regulate labour markets?
- Who are the actors governing labour markets and which institutions do they rely on?
- What are the advantages and disadvantages of various labour market institutions?
- What trade offs and complementarities in labour market institutions can be identified?

Readings:

- Boeri, Tito., and J. C. Van. Ours, 2021. Introduction. In: Boeri, T. & Ours, J.C.van, 2021. The economics of imperfect labor markets Third., Princeton, New Jersey.
- Wulfgramm, Melike & Fervers, Lukas, 2015. Unemployment and subsequent employment stability: Does labour market policy matter? Socio-economic review, 13(4), pp.791–812.

6) Labour markets in transition, 07/04/2022

Week 6 engages with fundamental changes that have affected labour markets over the past decades. The demand for skills has shifted leading to skill upgrading and occupational polarization. Precarious work has grown in importance contributing to labour market dualization and to a shifting bargaining power between workers and employers. However, labour market institutions have altered the trends and resulted in considerable variation between countries. *Key questions:*

- What is labor-market dualization?
- What explains the emergence of non-standard employment?
- How does technological change affect labour markets?
- How is bargaining power structured in the labour market? What are the implications of labour market monopsony?

Readings:

- Biegert, Thomas, 2017. Welfare Benefits and Unemployment in Affluent Democracies: The Moderating Role of the Institutional Insider/Outsider Divide. American sociological review, 82(5), pp.1037–1064.
- Manning, Alan, 2021. Monopsony in Labor Markets: A Review. Industrial & labor relations review, 74(1), pp.3–26.

7.3 B) Consequences of economic policies

7) Inequality, 21/04/2022

Week 7 considers one of the key outcome dimensions of economic policy: Inequality. This session starts by examining whether and in what ways inequality may have increased. While recent evidence allows for the first time to consider long run trends, theorising on the drivers of inequality, not at least at different stages of development, is much older. Yet, deriving conclusions for policy, not at least when it comes to taxation is controversial. *Key questions:*

- Did inequality increase?
- What determines long-run inequality?
- What policies can address inequality?

Readings:

- Kopczuk, Wojciech, 2021. Reflections on Taxation in Support of Redistributive Policies. In: Olivier Blanchard and Dani Rodrik, 2021. Combating Inequality, Cambridge, Massachusetts: The MIT Press.

- Saez, Emmanuel, and Gabriel Zucman, 2019. The triumph of injustice: How the rich dodge taxes and how to make them pay, New York: W.W. Norton - Chapter 8.

8) Social Mobility, 28/04/2022

In contrast to the distribution of resources as such, it is frequently argued that not only final outcomes matter both for equity and efficiency reasons, but also opportunities. Week 8 delves into the intergenerational transmission of inequality. It highlights the important role of monetary inheritance in amplifying intergenerational persistence, but also considers human capital investment and the role of educational institutions in moderating intergenerational mobility. *Key questions:*

- How persistent is inequality?
- What mechanisms govern intergenerational transmission of advantage?
- What policies can promote intergenerational mobility?

Readings:

- Heckman, James J, 2006. Skill formation and the economics of investing in disadvantaged children. *Science*, 312(5782), pp. 1900–1902
- Beckert, Jens 2022. Durable Wealth: Institutions, Mechanisms, and Practices of Wealth Perpetuation. *Annual Review of Sociology*, 48(2022)