

Democracy and Markets in the Twenty-first Century: An Agenda

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The direction of global economic change in this century is relatively clear. State-owned enterprises are being privatized and new capital markets are emerging in many countries. These and existing markets are becoming increasingly liberalized and interconnected. A truly global financial system is emerging, one in which huge sums of money and capital are continuously and rapidly transferred from one location to another. This system is composed, in part, of large, privately-owned financial institutions. These institutions construct and rapidly adjust portfolios composed of assets from many locations with the aim of maximizing a world-wide rate of return. They and the intermediaries through which they deal constantly are inventing new financial products and services as well as new technologies with which to process their transactions. The information revolution contributes to these developments.¹

We care about privatization and economic globalization because of the widespread belief that markets enhance the welfare of people throughout the world. We attribute to markets the tremendous rise in the standards of living of many of the world's inhabitants in the last two hundred years (see Figure 1). In the minds of people who are

¹ Brune et. al. (forthcoming) report that between 1985 and 1999 there were more than eight thousand privatization transactions world-wide. These transactions peaked in the late 1980s. See also O.E.C.D. 2001.

committed to privatization and globalization, markets produce justice both intergenerationally and intragenerationally.²

-- Figure 1 about here --

In contrast to the direction of economic change, that of political change is unclear. Political authority is “migrating.” New supranational institutions like the European Union (EU) have been created. At the same time, the responsibilities for many public tasks are being transferred to subnational units of government. Some nation-states are disintegrating. Meanwhile, national political authorities struggle to retain some influence over their economies. For example, as regards privatization, national authorities try to retain influence through “golden shares” and restrictions on the resale of shares in formerly state-owned firms. Their efforts in this regard pale in comparison to the institutional innovations that are occurring in global markets. Moreover, public authorities do not seem able to exploit the information revolution as effectively as international traders and investors. While information technologies have revolutionized international economic dealings, these same technologies appear to have had little impact on democratic governance at least at the national level. Teledemocracy, for instance, is in its infancy.³

² On the concept of market justice, especially as embodied in the beliefs of Americans, see Lane (1986). Evidence that world growth enhances the welfare of the so-called global south is presented in The Economist October 16, 2004: 67-68.

³ The concept of “authority migration” is advanced by Gerber and Kollman (2004) to describe the transitions upwards and downwards in political power that are occurring world-wide. The devolution of power in Britain to the Welsh and Scottish Parliaments is illustrative. Examples of nation-states that have broken up are Czechoslovakia, Yugoslavia, and the U.S.S.R. New nation-states like East Timor also have been created. Scholarly discussions of these and related developments include Rosenau (1990), Ohmae (1995) and Guehenno (1995). Golden shares are shares with special privileges, e.g. the

We care about the direction of political change, particularly within democratic nation-states, because their political institutions confer and protect rights. They also serve as channels of popular sovereignty. Through democratic political institutions, civil, political, and, increasingly, social rights are provided to its citizens. Through elections, citizens exercise some influence over their economic well-being and the well-being of their children.⁴ This notwithstanding, there is evidence that as privatization and globalization have progressed, democratic citizens have lost faith in their governments' capacities to manage their economies. In several major industrialized democracies there has been a decline in the number of citizens who hold their national governments responsible for jobs and prices (see Table 1). More to the point, almost half the French and British citizens believe economic globalization leaves their national governments little room to create preferred macroeconomic outcomes (see Tables 2 and 3). This may be why, at the time of their respective surveys, 49% of French respondents and about 27% of British respondents indicated they were unsatisfied with the way democracy works in their countries. More recent surveys show that many citizens in these and other European countries do not feel their governments have enough influence over economic globalization (see Table 4). Nor do citizens express much faith in the authority of their newly created supranational institutions. Turnout in recent EU elections, for example,

right (of the state) to veto certain takeovers or mergers. The golden share mechanisms used by governments are described in Jones et. al (1999), Biais and Perotti (2002), and Etchemendy (2004).

⁴ On the idea of democracy as a universal value and its association with nation-states see Diamond (2003). Anderson (2004) raises question the universality of this value as it applies to Arab and some other states.

has been below fifty percent. And the European Parliament is populated by an increasing number of Euro-skeptics, the so-called “awkward squad.”⁵

-- Tables 1, 2, 3, and 4 about here --

Is this decline in efficacy, and perhaps popular sovereignty, the price of privatization and economic globalization? To enjoy the material benefits provided by global private markets, must we surrender national rights and national management of our economic futures? Can subnational or – as is more likely – supranational governments restore these protections and assert popular sovereignty over regional or the international economy? I submit that, while political economists have devoted much time and energy to studying how economic change affects political authority, they have not adequately addressed, let alone answered, these important questions about democracy’s future.

The first part of this essay criticizes extant treatments of democracy and markets. It argues there are five key questions that must be answered to determine if democracy and market globalization are compatible. Political economists have addressed only the first two. Moreover, many of the research designs they have used to address these two questions have been flawed. The second part of the essay calls for studies of the remaining questions and proposes a preliminary research agenda composed of six

⁵The percentages on satisfaction with one’s countries democracy come from the Eurobarometer public opinion study. The French figures are for November 1997; the British figures are an average of responses to not very satisfied and not at all satisfied for surveys conducted in January and November of 2001 [Note that these responses probably indicate a lack of satisfaction in the practice not ideal of democracy. Also as first wave (“old”) democracies the responses are less affected by the fortunes of one’s preferred party in the most recent election. Cf. Linde and Ekman, 2003]. The lack of turnout and importance of the rise of the “awkward squad” are stressed by The Economist in its June 19, 2004 issue (pps. 14-15 and 49-50).

projects. This agenda rests on the contention that in order to demonstrate the compatibility of democracy and economic globalization we must establish two things. First, we must establish the democratic bona fides of “expert democracy” as it applies to monetary technocracies both at the levels of national and supranational government. Second, we must show that citizens not only have a conception of government capacity vis-à-vis global market constraints, but also that citizens are content with the consequences of adhering to these constraints.

Markets, Government, and Welfare

That markets impose constraints on government, and hence limits on the macroeconomic outcomes public authorities can create, is well recognized. Over the long term, trends in material standards of living depend on technological change (see Figure 2) and on the fertility choices populations make (Lucas 2003). Governments, by protecting property rights (Olsen 1993) and providing care for older generations, may accelerate the pace of these trends. However, because these trends are driven, over the long-term, by technological change and fertility decisions, trends in per capita growth presumably are out of governments’ hands.⁶

-- Figure 2 about here --

Over the medium and short-terms, government can use economic policy to foster certain macroeconomic outcomes. Consider monetary policy. Through their monetary authorities, governments can influence the operations of global markets. In particular,

⁶Lucas (2003) mentions governments primarily as impediments to long term growth. Markets (trade) are the means by which people avoid diminishing returns from gaining technological skills and from helping their children to do the same. Of course, in the early 1980s, Zysman (1983) and others argued smart governments could promote technological change and growth. But this argument seems to have lost favor in political science.

their open market operations and/or foreign exchange interventions affect the money supply and this, in turn, affects the real exchange rate. From a macroeconomic point of view, financial openness and capital mobility actually enhance the effectiveness of some monetary policies. All things being equal, monetary contractions lead to increases in interest rates, capital inflows, currency appreciation, and slowdowns in economic activity. In other words, over the medium and short-terms, central banks actually have an easier time fighting inflation in financially open as opposed to closed economies. What financial openness constrains is government's ability to influence the *allocation of credit* within its jurisdiction. Today, governments have less ability to influence the location and type of investments within their economies. This, in turn, limits their ability to pursue industrial policies and to influence the distribution of income within their jurisdictions.⁷

As regards fiscal policy, there is an emerging consensus that globalization limits governments' abilities to raise revenue through certain kinds of taxes. Globalization also affects the price governments must pay to borrow and, in some cases, their ability to borrow. Over the last several decades international companies and financial institutions have developed methods to avoid taxation. Through the skillful manipulation of tax treaties, multinational firms and transnational, banks reduce their tax liabilities. The

⁷The allocation problem has been known for years. For instance, with regard to the Euromarkets, Dufey and Giddy wrote, "Thus the first two objectives of banking regulation [to properly execute monetary and exchange rate policy and to maintain the soundness of the financial system] are not seriously thwarted [in the 1970s] the existence of [these markets]. The third, however, clearly is: the Euromarket significantly affects both the international and domestic allocation of credit and hence hinders governments' attempts at domestic credit allocation" (1978: 204). See also Grabbe, 1996: 8. Interestingly, the American Bankers Association for many years opposed efforts to regulate international banking on the grounds that such efforts are a disguised effort of governments to determine the allocation of credit, particularly to force banks to hold a larger share of their assets in the form of government debt. Kapstein, 1989: 340.

increasing integration of capital markets and the proliferation of financial service firms make it easier for them to do this. To raise revenue, governments therefore rely more and more on consumption, payroll, and property taxes. Since globalization makes it increasingly easier for buyers of luxury goods to evade taxation, these consumption taxes fall increasingly on basic necessities.⁸

In addition, global markets now “discipline” governments when it comes to borrowing. For example, markets demand higher bond yields from governments that, in traders’ views, engage in excessive spending. At some level, markets simply refuse to finance government spending. The “hot money segment” of these markets punishes governments with capital flight when they judge the authorities’ policies are unsound. Mexico’s experience in the mid 1990s is illustrative.⁹

Global markets also pose regulatory challenges for governments. For instance, there is much concern about the ability of national authorities to cope with international financial crises, that is, to ensure the soundness of what is increasingly global banking

⁸ On the disparities of tax systems in Europe before Maastricht see Giovanni and Hines (1990) and Malinvaud (1990). Examples of capital flight and explanations of how offshore financial markets constrain governments ability to raise taxes can be found in such works as I.M.F. (1990, esp. 64-65), Grabbe (1986: 278-280), and Giovanni (1989). An analysis of the decline in the share of corporate taxes in the rise of payroll and consumption taxes is Tanzi (1997); see also Steinmo (1994). Tanzi and others such as The Economist (May 31, 1997: 15-23) predict a marked shift to consumption and property taxes in the years ahead.

⁹ In fact, there is in economics a Market Discipline Hypothesis (Bayoumi et al 1995; Cuddington 1986). In essence, the consensus is that international markets will provide more credit to governments at higher yields but only up to some threshold. The magnitude of this threshold depends on a number of factors including a government’s ability to extract tax revenue from its economy. For a recent analysis of these issues in the international political economy genre see Mosley (2000). An important analysis of the discipline bond markets impose on subnational (state) governments in the U.S. is Alt and Lowry (2001).

system. To this end governments are attempting to establish international accounting standards for international financial institutions.¹⁰

Economic Globalization, Democracy and Political Economy Research

Political economists have devoted a good deal of attention to two important questions about the compatibility between economic globalization and democracy:

- (1) Do governments have the capacity, through different mixes of monetary and fiscal policies, to produce genuinely distinct macroeconomic outcomes for their citizens?
- (2) What are the welfare costs of violating the monetary and fiscal constraints which markets impose?

Most work in macro and international political economy in political science focuses on the first question. The dominant view is that governments in the industrialized democracies still have much “room to maneuver.” Despite economic globalization, policies are not converging and, more important, neither are macroeconomic variables. Political economists study these distinct policy mixes and resulting welfare outcomes under such guises as liberal market versus social corporatist systems (Garrett 1998) and liberal market versus coordinated market economies (Hall and Soskice 2000). One scholar, Torben Iversen (1999) goes so far as to argue that decentralized monetarism—a combination of technically proficient, insulated central

¹⁰For instance, the I.M.F. regularly discusses regulatory challenges in its publication International Capital Markets: Developments, Prospects and Key Policy Issues, Other of its publications also analyzes this issue. An illustration is the I.M.F.’s Global Financial Stability Report: Market Developments and Issues (Washington, D.C.: The I.M.F., 2004).

banks and intermediate forms of wage bargaining—produces the most preferred blend of growth, prices, and jobs.¹¹

Students of economics and elections add that governments still have the capacity to create short-term changes in real disposable income immediately after, and in the run-up to, national elections (Krause 2004; see also Lohman 1999). Political economists studying privatization argue that through “golden share mechanisms,” deliberate “ownership fragmentation,” and other forms of “protectionist liberalization,” national governments can retain some degree of influence over national industrial development (Etchemendy 2004). In general, the recent political economy literature is replete with studies that claim there are major differences in the tax, wage, and spending policies of governments in advanced industrialized countries (Steinmo 2002; Boix 2001, Mosley 2000, Garrett 1998) – as well as major differences in wage equality, employment, and prices (Pontusson et al 2002, Rueda and Pontusson 2001, Traxler et al 2000, 2001; Franzese, 2002, Wallerstein 1999, Iversen and Wren 1998). Some of these studies claim that it is this room to maneuver that explains the liberal economic order – citizens agree to open their economies to trade and capital flows because they can rely on their government’s policies to cushion the impacts of global markets (see Scheve and Slaughter, 2004a).

¹¹ Garrett (1998), for example, argues there is a genuine social democratic alternative. Governments still can choose a mix of relatively high social spending, progressive taxation and large budget deficits; this mix produces comparatively lower unemployment, high growth, high interest rates and high inflation. Steinmo (2002) essentially echoes Garrett in contending that the Swedish experience of the 1980s and 1990s shows there are multiple “political-economic equilibria” from which countries can choose. Mosley (2000) concludes that her studies of the beliefs and behavior of international bond traders suggest that as long as governments toe the line on inflation and deficits, they have much flexibility to adopt other policies and welfare outcomes.

A handful of scholars contend that monetary and fiscal policies of advanced industrial countries are becoming more similar. For instance, there are well-established schools of thought about how monetary policy ought to be formulated (Woolley 1984; Kapstein 1992). And there is a clear trend toward making central bankers independent of elected officials. Political economists are hard at work explaining how democratic institutions ought to be modified to insure that this independence is preserved (Bernhard et. al.2002; Bernhard 2003). Iversen’s case for decentralized monetarism – a key component of which is, in effect, monetary technocracy – implies that eventually all countries will settle on a similar set of institutions because that set produces, over the short and medium terms, the most socially preferred policies in world markets. In a piece entitled “Has Globalization Gone Too Far?” Rodrik (2000) goes further and characterizes the constraints that global markets now impose on governments as a “golden straight-jacket.” Rodrik downplays the room to maneuver in policy and variance in macroeconomic outcomes across countries. In his mind, only world federalism will produce significant policy autonomy (Figure 3).¹²

-- Figure 3 about here --

Economic Globalization, Democracy and Voids in Political Economy Research

Despite the different conclusions produced concerning the first two questions related to the compatibility of economic globalization and democracy, neither camp addresses three equally fundamental questions:

¹² By “golden straight-jacket” Rodrik seems to mean limited room to maneuver in terms of policy but outcomes that fully satisfy mass preferences. As regards fiscal policy, Hays (2003) charts the convergence in capital versus labor tax policies. He argues counterintuitively that partisan politics will be more intense in majoritarian vs. consensual (viz. social democratic countries).

(3) Is the surrender of monetary policy to politically insulated central bankers monetary consistent with popular sovereignty?

(4) Is the degree of policy flexibility that governments still enjoy over the short and medium terms sufficient to satisfy mass publics' preferences for certain macroeconomic outcomes?

(5) Does world federalism, or some other form of supranational government, enhance democratic government's "room to maneuver" to a degree that mass preferences are more fully realized than at the national level?

Most political economists paper over, or ignore, the third question; they accept the rationale for monetary technocracy and assume that, in practice, monetary authorities adopt socially benign policies. As regards the fourth and fifth questions, political economists posit public preferences for macroeconomic outcomes rather than demonstrate, say through survey research, that mass publics are happy with these outcomes. Nor does Rodrik, or any other scholar, show that in the minds of mass publics, that globalization's straight jacket is "golden"¹³

Monetary technocracy is, in important respects, incompatible with democracy. For this reason, distinguished *economists* for years have questioned its justification. For example, Joseph Stiglitz (1998: 216-217) argues "The ostensible reason for delegating responsibility to a group of experts is that the decisions are viewed to involve largely technical matters in which politics should not intrude. But the decision made by the central bank are not just technical decisions; they involve trade-offs, judgments about

¹³With the exception of Steinmo (1994, 2002), not one of the scholars cited in the text marshals any survey data to show that the public is satisfied with macroeconomic outcomes. We return to Steinmo's work below.

whether the risks of inflation are worth the benefits of lower unemployment. These trade-offs involve values.” James Tobin simply states that “monetary policy is politics.” He advocates institutional changes that will hold central bankers more accountable to citizens.¹⁴

The assertion that existing policy flexibility allows public authorities to satisfy the preferences of mass publics also is problematic. For example, political economists cannot explain survey results like those reported in Tables 1-4. If governments, including their central banks, are using their room to maneuver to bring about distinct macroeconomic outcomes, why do more and more citizens believe governments are not responsible for jobs and prices if governments? Why, if their governments enjoy substantial policy flexibility, do almost half of the citizens in Britain, France, and other European countries believe their governments do not have enough influence over their national economies?¹⁵ And, if governments have so much power to buffer citizens from the welfare impacts of global markets, how can we explain the facts that so many citizens in countries like France are dissatisfied with their democracy and that European citizens in general show

¹⁴ Stiglitz (1998) downplays the importance of central banks fighting inflation at the expense of output and jobs. Tobin’s views are expressed in an interview in the December 1996 issue of The Region, a publication of the Minneapolis Federal Reserve Bank. A good summary of the competing viewpoints of economists and other academics about central bank independence is McNamara (2002). As I argue in my concluding essay in the 2002 issue of International Organization on the political economy of monetary institutions, most political scientists who write on this subject fail to reflect on the implications of central bank independence for democracy.

¹⁵ For instance, Mosley (2000: 751) describes the British Election of 1997 as a debate not about the amount of government spending but merely how money should be spent. She does not demonstrate that British citizens conceived of the election in this way, let alone that citizens were content with this state of affairs. In fact, S.S.L.T. surveys for Britain show that even in 1986 about a third of respondents said their government—“of whichever party”—could do “very little” to “keep prices down, to reduce unemployment, or to reduce taxes.”

so little interest in making their voices heard in the newly created supranational institutions of Europe? For instance, Rodrik characterizes welfare mixes in industrial democracies as “golden.” His political trilemma predicts a rise, not a decline, in mass politics in the EU. Until we can reconcile these survey results with the claims of macro and international political economists, we will not know if, in fact, there is any meaningful degree of popular sovereignty over advanced industrial economies. And we will not be able to gauge the compatibility between markets and modern democracy.¹⁶

Can the *micro* political economists help us here? Unfortunately the answer is no. There is almost no work on the values of central bankers, how central bankers view their role in democracy, or on citizens’ conceptions of central bank insulation vis-à-vis democracy. There is more work on how citizens view their government’s economic management. The responsibility attribution genre is illustrative. The problem with this research is the framing of the survey questions on which it is based, and the fact that it too rarely asks directly about the room to maneuver controversy. For example, Rudolph’s (2003) research on responsibility attribution in the U.S. uses a question that asks respondents who is *most* responsible for the economy, not if officials have any room to maneuver. This question does not probe the reasons subjects give for answering “Don’t

¹⁶Popular sovereignty can be defined as citizens having the “undisputed right to determine the framework, rules, regulations, and policies within a given territory and to govern accordingly” (Held 1991a: 150. Note that Held points out there are various restrictions on popular sovereignty in all democracies including various checks and balances and guaranteed rights. Note also that his definition emphasizes the “input” dimension of democratic legitimacy. Cf. Schimmelfennig, 1996).

Know.” Nor does it attempt to sort out the macroeconomic outcomes that citizens believe government does and does not influence.¹⁷

The same problem plagues studies of “elite responsiveness” and of macroeconomic priorities. National election studies frame the questions about elites so that non-responsiveness is due to “crookedness,” a lack of concern for voters’ welfare, or some (venal?) desire for votes. The possibility that international market constraints limit elites’ abilities to respond to mass preferences isn’t included among the responses on survey questions. In the same vein, many survey researchers frequently ask citizens a pair of questions that *imply* governments have room to maneuver. They first ask respondents to tell them the most important economic problem facing the respondent’s country, and then ask the if the respondent’s government should (has made) the solving of this problem a priority. This, of course, presumes that the government is unconstrained. Thus, like macro and international political economists, survey researchers simply *assume* governments have the capacity to influence macroeconomic outcomes. Survey researchers seem unaware of the debate described above and of citizens understanding of this debate.¹⁸

¹⁷Rudolph used the question, “Please tell me who you feel is most responsible for the economic conditions of the last few years: the Congress, the President, working people, or business people.” My claim is that “most responsible” frames the question in a way that implies there is room to maneuver in terms of policy when, in fact, in the minds of a substantial number of respondents, no such policy flexibility may exist. It turns out that only about 1% of Rudolph’s respondents answered None of the Agents listed and only about 2.5% responded Don’t Know (Tom Rudolph personal communication)

¹⁸ For a number of years, with the help of Jon Transue, Jude Hays, and Timothy Hellwig, I have searched surveys for questions about the room to maneuver and its implications for efficacy and political participation. Included in our search are the national election studies of numerous European countries, PIPA studies, Eurobarometers, CIPO surveys, CBS/NYTimes polls, and the new Comparative Elections Project surveys. Even the ISSP

The literature on economic voting usually takes as axiomatic the idea that citizens hold governments responsible for the economy, including outcomes in the open economy. But, as we shall see, when it inquires whether trade openness makes it easier for citizens to evaluate the competency of incumbents, researchers obtain conflicting results (Scheve 2004b; Hellwig 2002). Also, the economic voting literature contains perplexing results, like the finding that voters reward incumbents for long-term growth trends – trends that most economists think government has no control over (cf. Suzuki and Chappell, 1996).

Returning to the macro and international political economy literature, what should we make of the large number of statistical results that supposedly demonstrate the influence of elections and political institutions on policy and macroeconomic outcomes? First, as regards, the political business cycle literature, note that even when these studies find impacts of elections, these impacts are very small in magnitude. Consider Krause's (2004) important new contribution on political business cycles. Krause's *point estimates* for the immediate impact of electoral forces on real per capita GDP growth are less than one per cent. He contends that under an infinite period of incumbency ("dynamic effects") these impacts would be somewhat larger. But, it is unclear what infinite incumbency represents. Also, like many other scholars who write about this subject, Krause calls these impacts "distortionary" (*Ibid* p. 15). However, if elections are channels of popular accountability and sovereignty, we expect parties to create some

surveys on the Role of Government failed to include questions on the issue. Simply put, with the exception of the surveys on which Tables 2, 3, and 4 are based, we have few questions that address the room to maneuver debate.

(minor) alterations in economic outcomes as a result of the natural workings of democratic institutions.¹⁹

In addition, like much of the existing work in political economy, much of the work on electoral impacts on the economy relies on single equation, cross-sectional, pooled time series models. Such models ignore endogeneity in economies and polities within and between countries. Conceptually, ignoring feedback from popular opinion to policy to outcomes to popular opinion also ignores the political accountability that we hope for democratic market systems. Thus, most of these works are plagued by endogeneity bias. Concomitantly, they are oblivious to the normative concern that motivates us in studying democracy and markets: the feedback from policy outcomes to

¹⁹ Krause (2004) estimates that, under a policy balancing electoral cycle Democrats produce about a maximum increase of .75 % in real per capita GDP growth mostly in the immediate, two year aftermath of elections while Republicans engineer at most about a .67% increase in the same variable mostly in the year prior to an elections. These are point estimates from a single equation reduced form model that contains no variables for economic openness. Also, research on the fiscal policies of the American states (Alt and Lowry 2000) finds what are, in my view, minor (4-5% point estimate) differences in the target levels of revenue Democrats and Republicans seek to collect, and maximum rates of adjustment to these levels of only about 1/3 over two years. [Alt and Lowry consider these impacts of partisan transitions substantively significant; I consider them less so, especially when one takes in account the fact they are point estimates.] My own work with Houser (1998) also, in my mind, finds rather small impacts of approval shocks on the US macroeconomy.

As I explain below, new work on elections and electoral institutions provides insights about how to probe citizens understanding of the room to maneuver debate. But much of it simply ignores the constraints that markets impose on government. Illustrative are the important new contributions by Kuklinski, Peyton and Quirk (2004) and Nardulli (forthcoming). The former does not examine how markets constrain “policy correctives” that might be supplied by independent, unsophisticated voters; the latter does not examine the limits that markets impose on the impacts of any “electoral jolts” that might occur. Other well known works in this genre such as Powell (2000) suffer from the same problem of ignoring policy outcomes. Elite-mass congruence is of little import if policy impacts are of minor significance vis-à-vis market forces.

policy choice, as revealing of popular evaluations of those outcomes.²⁰ Finally, much of the empirical research ignores the important temporal distinction between long-term, medium, and short-term economic forces. As explained above, the conventional wisdom in economics is that long-term trends in growth and demographics are largely out of the control of government. If this is the case, these long-term trends need to be filtered out of our macro economic, and perhaps also macropolitical series, *before* we conduct our analyses. Failure to detrend our series may lead to mistaken inferences about the impact of short- and medium policy choices.²¹ These criticisms apply with equal force to studies of the first and second questions about democracy and markets. To determine if democracy and markets are compatible in the twenty-first century these design flaws must be corrected. But our agenda also needs to be expanded to include questions three, four and five. The following section proposes an agenda to address them.

A Three Pronged Agenda

Technocracy and Democracy

*Question 3: Does “room to maneuver” achieved through monetary technocracy come at the expense of popular sovereignty, or does monetary technocracy fit in a democracy?*²²

²⁰ The new work in spatial diffusion in international political economy (Franzese and Hays 2004a,b; Basinger and Hallerberg 2004) is a step in the right direction. But note that the respective models account for endogeneity in only one variable and, more important, they do not examine the welfare impact of tax or any other kind of policies. There are no channels of public accountability in them.

²¹ For instance, most of Krause’s constants in his equations in his final model (2004, Table 6) are statistically significant. But he does not draw any distinction between the short term impacts of elections and long term trends in growth.

²² This subsection draws from Freeman (2002, especially pages 902-905).

One approach to use in addressing this question involves the use of the idea of expert democracy. Even though they care a great deal about inflation and related macroeconomic outcomes, citizens might be unable or unwilling to decide how monetary policy ought to be formulated. They therefore may choose to defer to technocrats to make this kind of policy. The identities of these technocrats are less important than their scientific training and presumed commitment to the public interest. If necessary, oversight can be exercised by a small, highly informed segment of the citizenry together with a select group of legislators who periodically appoint and interact with monetary officials.²³

Unfortunately, it is not clear that, for their part, citizens grasp, let alone, support this concept. On the one hand, attribution surveys show that citizens are able to assign responsibility for economic performance to monetary authorities as opposed to elected officials. For example, consider the results of a survey conducted in 2001 by Hart and Teeter Research Companies for the *Wall Street Journal*. A combined 41% attributed the economic boom of the 1990s to the productivity of business and workers and to business cycles; 19% gave the credit to Alan Greenspan and the Federal Reserve; and only a combined 28% said the Clinton Administration or the Congress. Also, Adolph (2004) recently uncovered a connection between the partisan identity of government and the career patterns of the central bankers they appoint.²⁴

²³ On the general concept of expert democracy, see such works as Hansen (1989). The idea of technocracy is analyzed in studies like Centeneo (1993). A recent survey of legislative oversight institutions for monetary authorities is Leeper and Sterne (2002).

²⁴ Note that the Hart Teeter survey shows citizens have some sense of the long-term determinants of growth that, according to Lucas, are out of the hands of government. I thank Tom Rudolph for bringing to my attention this survey.

On the other hand, new research in political science raises questions about citizens' willingness to defer to monetary technocrats. Hibbing and Theiss-Morse (2002) find that "perceived consensus" best characterizes Americans views on many issues. That is, U.S. citizens believe that, with regard to inflation and other variables, they and their counterparts agree about what is desirable. For this reason citizens might be willing to defer to experts, as these experts are willing and able to choose the best policies to achieve mutually preferred ends.²⁵ But, in fact, Hibbing and Theiss-Morse present data that indicate the American electorate is uncomfortable with deference to non-elected officials (Table 5). Their data also provide little support for the idea of public-spirited veto players who guard the independence of central banks – a key idea in the political science literature on the subject (Bernhard et. al. 2003).

Moreover, the consensus that Hibbing and Theiss-Morse found in the U.S may not exist in other countries. For example, in a sophisticated study of the macroeconomic preferences of mass publics in O.E.C.D. countries, Scheve (2004a) found significant differences both within and across countries. Conceivably, these differences explain some of partisan appointment patterns that Adolph (2004) discovered. But, in fact, Adolph reports that, for unemployment, the impact of partisan appointments is less than one per cent. Thus, the implication is that elected officials have not delegated authority to monetary authorities (Bernhard 2002) as much as they have abdicated their responsibility to use monetary policy to satisfy the heterogeneous preferences of their constituents.

-- Table 5 about here --

²⁵ McNamara (2002: 58-59) stresses the consensus in Germany for price stability and how this consensus helped create support for the Bundesbank's policies.

With respect to the values and beliefs of technocrats, political scientists have long recognized differences in state administrative traditions.²⁶ Some have studied the values of bureaucrats in Western countries (Aberbach et al 1981), while others have focused on the beliefs and attitudes of central bankers. Within this literature central bankers are recognized as an epistemic community (Kapstein 1989, McNamara 2002). There is anecdotal evidence that some central bankers harbor a notion of perceived consensus in terms of the objectives of monetary policy,²⁷ and the recent behavior of leading central banks suggests that their members are striving for greater and more direct channels of public accountability. Finally, it is clear that many view their mission as much wider than price management, as evidenced by the Bank of England's Inflation Attitude survey and the Minneapolis Federal Reserves writings and high school essay contest. The fact remains, however, that we know very little about how central bankers view their roles in democracies generally or in adjudicating what are heterogeneous preferences for prices, jobs, and income equality. Political scientists have not inquired about these matters, perhaps because they themselves are so mystified by monetary economics.²⁸

²⁶See, for instance, Freeman 1989 Chapter 4.

²⁷ Hibbing and Theiss-Morse (2002: 141) note that, when he was at the Federal Reserve, Alan Blinder argued that the bank's legitimacy derived from popular consensus about the goals of monetary policy.

²⁸ To my knowledge, none of the leading political scientists who interviewed central bankers in recent years (e.g., Goodman, 1992; Bernhard 2002) asked these questions. The Public Opinion Section of the European Commission conducted a survey of top elites in 1996 (see <http://europa.eu.int/en/comm/dg10/infcom/epo/eb-top/en.html>). But, I have been unable to determine how many of these elites are central bankers or to construct the respective subsample. The German elite study included the opinions of bankers, but, unfortunately, only a small (17 of 100) were bankers who worked for the Bundestag or state governments (Kai-Uwe Schnapp, personal communication). In 1997, as a result of a report by the U.K. Treasury Committee on the accountability of the Bank

Project I.1 Comparative survey research that asks citizens:

1. If their monetary authorities provide them with room to maneuver in the face of international economic forces;
2. If they are willing to defer to central banks to make monetary policy in return for the distinctive macroeconomic outcomes that insulated central bankers are able to create;
3. If the room to maneuver achieved through monetary technocracy actually serves the interests of some groups more than others; and
4. Their views on the economic tradeoffs monetary technocrats make.

As regards the first two points, it is important to learn if British and French citizens like those whose opinions are reported in Tables 2 and 3 also feel that their respective central banks have no room to maneuver. As regards Iversen's case for decentralized monetarism, we need to probe the opinions of citizens in countries like Austria to learn if citizens see monetary technocracy as a necessary complement to their system of intermediate wage bargaining.²⁹ Questions along the lines of points three and

of England decided that "its new monetary policy framework...will be most effective if it is accompanied by wide public support, both for the objective of price stability and for the methods used to achieve it" (2003, p. 228). To this end, it regularly surveys citizens about their knowledge of and expectations for prices and interest rates, and about its own performance in hitting the government's inflation target. The Minneapolis Fed devoted its June 2003 issue of its Region to the subject of income inequality in the U.S. Its 2004 essay contest for high school students was on this topic (Ibid., June 2004: 28-30). Not surprisingly the winner argues that "income equality is not a government issue."

²⁹ Austria has intermediate wage bargaining, but due to its history of pegging to the Deutsche Mark, its monetary institutions are closely intertwined with Germany's. A good comparison with regards to employment performance would have been Austria in the 1980s versus Sweden after the breakdown of peak bargaining. Cf. Iversen, 1998: 488. For an extended analysis of the Austrian experience in these regards see Hochreiter and Winckler (1995).

four might show that, while citizens agree monetary technocracy affords their government room to maneuver, citizens oppose this type of insulated economic policymaking. These are plausible results because citizens may believe that the policies pursued in such a policymaking environment serve the interests of citizens who are especially inflation-averse at the expense of those who are unemployment-averse.

Project I.2 Comparative research that focuses on central bankers and asks about:

1. Their understanding of the expectational mechanisms and other key features of the *political economy*;
2. If and how they are (should be) held accountable to living citizens for their policies;
3. Whether they believe they achieve a distinctive mix of welfare outcomes that best serves the interests of their citizens vis-à-vis countries with alternative political institutions;
4. How they perceive the level of consensus within living generations over the relative importance of prices, jobs, and income distribution; and
5. What monetary policy can do to expand the range of welfare outcomes that are possible vis-à-vis the preferences of different groups of citizens.

The founders and users of the new accountability studies of the Bank of England deserve special attention in this study. Why and how the Bank of England has taken the lead in these matters needs to be explained. Why it frames its questions in ways that paper over the distributional conflict Scheve illuminates also needs to be explained. Finally, the welfare consequences of synchronizing popular elections and appointments

of central bank officials, as is the practice in Sweden (Adolph 2004), needs to be analyzed.^{30, 31}

The Satisfaction of Mass Preferences

Question 4. Is the policy flexibility that governments still enjoy over the short and medium terms sufficient to satisfy publics' preferences for certain macroeconomic outcomes?

Consider a citizen who agrees with most macro political economists in our discipline that her government has policy flexibility in the face of global market constraints. To gauge the degree of popular sovereignty, at least three facets of this citizen's reasoning must be examined. The first is her conception of *government capacity*. It is important to know that, even if she has difficulty awarding credit (placing blame) for particular policy choices and macroeconomic outcomes, this citizen believes her government has the capacity to bring about her preferred blend of social welfare. The issue therefore is deeper than "the clarity of responsibility." A citizen might be unable to discern who is responsible for actual outcomes but still be convinced that, despite global market forces, (non)elected officials could improve macroeconomic performance.

³⁰ As regards Scheve's (2004a) findings, note that the Bank of England's question number 10 (2003, p. 229) presents the tradeoff as one of high (low) interest rates and low (high) inflation, rather than one of high (low) interest rates, low (high) inflation, and *high (low) unemployment*. It thus frames the question in a way that papers over the distributional conflict inherent in monetary policy.

³¹ In the interest of brevity I do not discuss the issue of whether the identities of central bankers ought to better reflect those of the societies in which they reside—the issue of representative bureaucracy. I also do not discuss the problems of exercising legislative oversight over monetary technocrats. Both matters are addressed in a bit more detail in Freeman (2002). See also Stiglitz (1998: 217).

In this regard, this individual could understand that government's capacity to change long-term growth rates is limited (Lucas); recognize that in the aftermath of and run-up to elections elected officials manipulate the short-term growth rate (Krause); and believe that her public officials are free to choose the mix, if not the level, of public spending (Mosley). Where privatization has occurred, she also might believe that golden shares and ownership fragmentation allows her government to retain influence over economic activity (Etchemendy). Second, this citizen may comprehend the costs of departing from international constraints. She may also understand the constraints that apply to inflation and deficits, and that excessive prices and deficits are likely to produce higher interest rates that, in turn, will depress her economy (Mosley, 2000: esp. 764). Third, this citizen, who believes public officials enjoy policy flexibility, is perhaps satisfied with her democracy, at least insofar as the management of economic life is concerned. But, again, it is possible that she is unhappy with her democracy because, in her judgment, (non)elected public officials are not using their room to maneuver to bring about the macroeconomic outcomes she prefers.

Political science offers few insights into the reasoning and disposition of this first kind of citizen. Steinmo's (2002) research suggests that Swedes appreciate the room for maneuver, that they are satisfied both with the macroeconomic policies their government chooses, and concomitantly, with the way their democracy holds their government accountable for these choices. Tax policy may be one of those about which citizens are satisfied (Steinmo). But, in fact, we have no survey data that shows Swedes agree the

limits of policy flexibility have been reached or, that they believe some kind of social optimum has been achieved.³²

In an important new study of economic voting in open economies, Scheve (2004b) shows that trade makes it easier for citizens to ascertain the “competency” of their elected officials. He does not attempt to characterize the policy content of “competency,” let alone what competency means vis-à-vis international market constraints. Scheve’s work suggests that, where there is clarity of responsibility and strong parties, citizens reward incumbents for exercising their room to maneuver. But, again, no survey data are supplied by Scheve to support this result; nor does he show that citizens in his sample of countries are satisfied with the growth rates they observe. Moreover, he does not probe the understanding of “competency” among citizens either in terms of policy choice or policy limits. As regards satisfaction with democracy, there is evidence that the workers in geographically concentrated industries display more political efficacy when it comes to voting, campaign contributions, and lobbying (Busch and Reinhardt, 2000). These workers may be satisfied with the way their democracy responds to calls for assistance, but no surveys I could find confirm that they were, in fact, satisfied.³³

³² The key Table in Steinmo’s article (Table 4) is from a source on Swedish public opinion from 1989. With Sven Steinmo’s help I recently contacted two leading Swedish scholars about the availability of data that addresses the room to maneuver debate directly. Unfortunately, neither scholar was able to locate such data.

³³ Like most of the works in its genre, it is unclear what “competency” represents in the way of policy choices. In fact, Scheve’s model (2004b) treats competency and policy as separate variables. His model also has no linkages between policy choice (competency) and economic processes like price determination. Unlike his other publications, in this study of economic voting, Scheve does not supply any survey data to illuminate citizens’ conception of “competency.”

Political science provides a few insights into the identities of this first kind of citizen. For instance, skilled workers generally are more favorably disposed to trade and financial openness than unskilled workers (Scheve and Slaughter 2001, 2004).³⁴ Skilled workers may believe that their government retains enough room to maneuver to shelter them and other workers from the impacts that global markets have on their well-being. The popular support for retraining schemes for affected workers is consistent with this possibility. As regards the survey evidence reported earlier about the beliefs in room to maneuver (Tables 2 and 3), the only breakdowns available are for the French case (Tables 6 and 7). And, unfortunately, there is not enough variance in these data to generate hypotheses about the impact of gender, age, education, and occupation on this belief.³⁵

Finally, studies of comparative political economy like Iversen and Wren (1998) suggest that, despite recent trends in globalization, first wave democracies have made, in recent years, distinct institutional choices about how to cope with economic change (i.e., with the transformation of the industrial economy into a service economy). The citizens in these countries – especially those where the choices have been most “radical” like Britain – should perceive that their government enjoys room to redesign political and

³⁴ By rewording questions like those which Scheve and Slaughter used, Hiscox (2004) finds essentially uniform support for free trade. The trouble with Hiscox’s study, as I understand it, is that he essentially gives respondents one half the story about the impact of trade (consumption benefits without employment impacts). By using the preferences of “economists” as expert opinion, in effect, he repeats this practice. Nonetheless Hiscox’s investigation points to the need for more careful study of the trade preferences of citizens.

³⁵ Interestingly, in its survey about attitudes toward globalization, PIPA (March 2003) found that many Americans not only support government retraining schemes for workers but also are willing to pay taxes to fund such schemes.

economic institutions thereby manifesting popular sovereignty over economic life. In fact, citizens should perceive their governments as having made distinct pairs of choices from the “trilemma of the [new] service economy.”³⁶

Tables 6 and 7 about here

Consider, in contrast, the citizen who believes his government has no room to maneuver, like those who responded negatively in the surveys in France in 1997 and in the U.K in 2001 (Tables 2 and 3). In this individual’s mind, because of the constraints global markets impose, certain policies and macroeconomic outcomes can no longer be achieved. These outcomes could include, as Mosley (2000) suggests, inflation and public deficits. But it is unlikely that these are the only outcomes on the mind of such an individual. The outcomes could also include employment, short and medium term growth, and income equality. This citizen reasons that there are causal connections between prices, public spending patterns, and the outcomes he desires, causal connections such that once interest rates and spending levels are determined, some spending *profiles* hence macroeconomic outcomes are ruled out.

For this individual, ironically, the power of governments to create a neoliberal model (Iversen and Wren, 1998) actually is a decision to eliminate room to maneuver, akin to the decision to abdicate power to monetary technocrats.³⁷ Such a person might be

³⁶The most radical change, according to Iversen and Wren, occurred in Britain where the Conservative governments chose fiscal restraint and employment growth over earnings equality (the Neoliberal option). So, British citizens ought to perceive their polity as having the capacity to make major institutional changes in the face of globalization. But see footnote 37 below.

³⁷ Interestingly, at the time neoliberal model was being created in Britain, citizens responded that government has little control over their economy. Cf. fn. 15 above. And note that the results in Table 3 suggest that the neoliberal model of Iversen and Wren has

opposed to privatization. He might consider golden shares and ownership fragmentation inadequate to preserve government influence over her country's economy. In addition, this citizen probably considers the costs of violating market constraints to be intolerable. He envisions dire scenarios if (non) elected officials fail to adhere to market constraints; conceivably this is how he understands incompetence. His belief in limited capacity of government probably means he is dissatisfied with democracy. It could be, however, that he believes other kinds of public policies compensate for what is, in her mind, the loss of government influence over economic life.

The political economy literature offers even fewer insights into how this second type of citizen reasons and who he is. This is because, as noted above, almost all the literature takes policy flexibility as a given. Once more, in their study of economic voting, Suzuki and Chappell (1996) actually show that citizens reward elected officials for long-term trends in growth – trends that Lucas and other economists contend are out of the hands of governments. This result is anomalous.³⁸ Hellwig (2002) suggests that trade dampens economic voting for individuals who have the following characteristics: citizens who are more educated; do not belong to unions; and who work in the private sector in tertiary industries. His findings therefore are the opposite of Scheve's (2004b).

left a large proportion of British citizens in 2001 with the same belief. So, again, the neoliberal alternative seems to amount to the power to relinquish popular sovereignty over economic life.

³⁸ That is, in a model of economic voting with explanatory variables representing long term growth trends (corresponding to different macroeconomic filters: Peltzman, Beveridge-Nelson, and Hodrick-Prescott) and deviations from these trends, Suzuki and Chappell (1996) find the former explains voting for President and Congress rather than the latter.

Hellwig's results also are inconsistent with Kuklinski et al's (2004) idea that the more educated use "motivated reasoning" to justify their partisan preferences.³⁹

As regards privatization, Spanish governments attempted to maintain influence over their economy through golden shares and especially through ownership fragmentation. And the Austrians still refuse to privatize a comparatively large number of their state-owned firms. Whether citizens in Spain or Austria consider their governments' policies an effective means of maintaining room to maneuver in the global economy is unclear. Survey results like those in Table 4 above suggest they are not, particularly in Austria where 78% responded in 2003 that their country did not have enough influence over the process of globalization. But, again, we lack direct survey results on this issue.⁴⁰ We also lack survey data on whether citizens who believe their governments have no room to maneuver are satisfied with their democracy.

³⁹Note that Hellwig's analysis is based on self-evaluations of the economy whereas Scheve's analysis is based on actual growth rates. This could explain the inconsistency between Hellwig's and Scheve's results. The concept of "motivated reasoning" (Kuklinski et al 2004) suggests that the more educated ought to credit their governments with the rewards that their skills yield in the global economy. According to Hellwig's findings, the citizens who believe governments still have room to maneuver are: less educated individuals who work in the public sector and in the primary and secondary sectors of the economy. But, the implication of Kuklinski et. al (2004), is that these less sophisticated citizens are the ones who "know something is not right."

⁴⁰On the Spanish case see Etchemendy (2004). The Austrian privatization "backlog" is described in Belke and Schneider (2003). See also the recent story about the refusal of the Austrian government to privatize various firms in the September 11, 2004 issue of The Economist (p. 48). For a more general discussion of the political implications of privatization see Freeman (nd).

Project II.1 Comparative survey research that explicitly probes citizens understanding of

1. The capacity of their governments to bring about, in the face of international market forces, macroeconomic outcomes like employment, price stability, and growth;
2. The costs of violating these constraints – what scenarios might ensue if (incompetent) governments violate market constraints;
3. The effectiveness of government attempts to retain some national control over privatized firms through golden shares and/or ownership fragmentation; and
4. The link between these evaluations and satisfaction with democracy.

The Swedish case is especially important in this project because of the distinctiveness of the spending mix and welfare outcomes in that country vis-à-vis others like the U.S.

Comparison of the British, Spanish, and Austrian experience with respect to privatization would be especially useful for understanding citizens' evaluations of privatization.

Britain privatized with few restrictions; Spain engaged in “protectionist liberalization” and tried to retain some control over their economy through golden shares and ownership fragmentation; and Austria not only engages in the same policies but also still has a good number of publicly-owned firms.⁴¹

⁴¹ There is evidence that some citizens do not have a good understanding of economic globalization and what it represents in terms of market forces. For instance, when in the fall of 2000 the Washington Post asked: “The presidential candidates frequently use the word globalization of the world economy. Generally speaking how well do you understand what that phrase means?” the per cent of respondents answering “not too well” or “not at all” totaled more than 40%. The European Commission in its survey on globalization found that in the U.K. and Luxembourg as much as 38% of the respondents had not heard of globalization (2003: Q1, p. 7). But it should be remembered that long before the spread of public education and the mass media, Americans displayed deep

Project II.2 Macro political economic research is needed that

1. Explicitly models the causal connections between macroeconomic variables within and between countries (i.e., that models simultaneity within a key set of political and economic variables);
2. Uses various filters and accounts for long-term trends in variables like growth, trends that may be outside governments control even in closed economies; and
3. Allows for the possibility of *multiple, dynamic (moving) equilibria* suggestive of the room to maneuver (Steinmo 2002: 857).

The analyses suggested here could be of the traditional, simultaneous equation type (Chappell and Keech 1983; Alesina, Rosenthal, and Londregan, 1993), reduced form-multiple time series variety (Freeman and Alt, 1994; Franzese 2003), or computational type (Freeman and Houser, 1998; Houser and Freeman 2002). Using these models we need to probe, counterfactually, how much change public policies can make in what are dynamic, complex, interdependent political economies.⁴²

Authority migration and popular sovereignty

understanding of exchange rate politics and related issues (Frieden 1994). Also Americans appear able to form expectations about the fiscal policies of different parties and to take into account the institutional context (unified, divided government) of fiscal policymaking (e.g., Lowry, Alt and Ferree, 1998).

⁴²Illustrative are Houser and my use of a computable political economic equilibrium model of the U.S. political economy to determine, under plausible scenarios, the welfare consequences of increased approval volatility and of government pursuit of higher, more consensual approval levels (1998: 650-655).

*Question 5: Does world federalism or other forms of supranational governance enhance the room to maneuver to a degree that mass politics is substantially enhanced, that popular sovereignty is more fully realized than at the national level?*⁴³

The logic here is simple. Enlarging the size of the government jurisdiction loosens the constraints on public policy. For instance, the ability of firms and banks to exit one jurisdiction in order to enjoy a lower tax rate than in another is diminished if both

⁴³ I focus here on authority migration to institutions “above” the nation-state. This is because, in my mind, the room to maneuver debate is based first and foremost on the issue of government capacity. And authority migration to subnational institutions in almost all cases diminishes this capacity. Most of the well-known works on this question in economics ignore the room to maneuver debate. For example, while they include a section on economic integration, Alesina and Spolaore (1997, section VI.1) assume that all citizens pay the same tax rate and accrue the same income; moreover, they do not consider the possibility that countries’ abilities to increase income by drawing on human capital in the rest of the world—their β_2 parameter—depends on their budget balances or on certain features of their local economies like inflation. The other well-known piece by Bolton and Roland (1997) is more relevant here insofar as its reverse logic explains why countries might adopt Rodrik’s “world federalism” or even some unified world government. Bolton and Roland show, for instance, that under perfect capital and labor mobility neither federalism nor independence are stable outcomes, more specifically, a single world jurisdiction would be preferred by the world’s median voter to either of these two alternatives (*Ibid.* Section VI). Their analysis of the more realistic condition of capital mobility only (*Ibid.* Section V) is less applicable because, in that case, Bolton and Roland assume independent “regions” can erect barriers to capital mobility and hence enjoy complete room to maneuver—under capital mobility alone, independence connotes a closed economy (cf. esp. pps. 1073-4). This is not the situation in which nation-states find themselves today.

As for political science, the leading research like Rodden’s (2004) and Rodden and Wibbel’s (2002) analyze the macroeconomic consequences of competition between subunits within countries as well as the existence of international, “market conforming” (*Ibid.*, 515) forces. But they treat the latter as exogenous variables for which they have to control; international market forces are not incorporated in their analyses in any serious way. Of course, it is conceivable that citizens in new, devolved states might believe their public authorities have greater room to maneuver than when they belonged to the larger (supranational) state. But the reasoning behind such a belief is difficult, for me at least, to imagine.

jurisdictions are absorbed into a supranational one.⁴⁴ Presumably such a supranational entity has a monetary authority that exercises greater control over prices and other macroeconomic outcomes than its counterparts in smaller member governments. Citizens might continue to believe in expert democracy. Only now they feel their supra-technocrats have more influence over economic activity than their national technocrats. Hence they presumably take a greater interest in the appointment of the respective monetary officials, and in the oversight exercised by supranational, legislative institutions over the new monetary authority. Because citizens comprehend the increased capacity of supranational institutions to affect economic activity generally, they are more efficacious and hence more engaged in the democratic process. In turn, as Rodrick's trilemma suggests (Figure 3) supranational, mass politics has more of a direct and substantial impact on their economic lives than national level mass politics.

The recent experience of Europe perhaps provides the best test of these ideas. Unfortunately, the results of the European experience are not encouraging.⁴⁵ There is little doubt that the supranational technocrats in the European Central Bank (E.C.B.) have greater capacity to affect economic activity than the technocrats in member, national central banks. And there is evidence that some citizens believe the EU is better able to cope with the problems posed by globalization than member governments. For example, more than 50% of the same French citizens who participated in the 1997 National

⁴⁴The logic behind the Tobin tax is illustrative.

⁴⁵ While there remains writing on the idea of world federalism (Held 1991a,b) and various proposals for world democracy (Connelly 1991), there is no supranational institution yet of this kind. One could argue that a world monetary authority is forming alone with an epistemic community of central bankers (Kapstein 1989, 1992). How this world monetary (financial) authority "fits" in a vision of world federalism is a subject worthy of future study.

Election Survey (Table 2) agreed with the statement, “With the European Union, France will be best protected against the risks of economic globalization.” In the European Commission’s recent survey on globalization (2003), 58% of the EU15 citizenry judged the EU as having too much (21%) or the right level (37%) of influence over the process of globalization (Q10, p. 39).

However, in a more recent survey, 49% of French respondents said the EU now does not have enough influence over globalization. Moreover, most observers agree that the EU itself suffers from a “democracy deficit.” For instance, the E.C.B. is considered one of the most insulated in the world (Berman and McNamara 1999, McNamara 2002). Its first head, Wim Duisenberg expressed distain for democratic oversight of his bank’s policies.⁴⁶ Overall, for various reasons, the supranational institutions of the EU discourage rather than encourage popular sovereignty (Wallace and Smith, 1997).

Whether the European Constitution – even if it is adopted – will rekindle popular efficacy and foster the kind of “mass politics” Rodrik (2000) envisions is unclear. The abandonment of the European stability pact, low turnout in recent EU elections, and growing support for Eurosceptic parties suggest the opposite. In fact, a recent survey by *The Economist* (September 25, 2004) argues that the EU’s biggest problem is a “lack of popular understanding and enthusiasm.” *The Economist* predicts the transformation of the EU into core and aligned groups of nation-states.

⁴⁶Duisenberg served as President from the inception of the E.C.B. in June 1998 to the end of 2000. See the opening part of Adolph’s piece (2204: 2-3) where Duisenberg’s exchange with some social democratic M.P.s is summarized. Berman and McNamara (1999: 6) report that Duisenberg remarked that “while it [is] ‘normal’ for politicians to voice their thoughts about monetary policy, it would be ‘abnormal if those suggestions were listened to.’”

Project III.1 The citizens of the EU should be surveyed about the capacity of the E.C.B. to influence macroeconomic outcomes in Europe and about how the E.C.B. fits in their vision of supranational democracy. We need to know if

1. If citizens appreciate the greater capacity the E.C.B. has given Europe to achieve particular macroeconomic outcomes;
2. If they are willing to defer to E.C.B. technocrats in this regard; and
3. If they understand the weakening of the EU as a reduction in capacity for policy flexibility in Europe as a whole and in their own country.

A split in the aftermath of the constitutional deliberations would provide a natural experiment: citizens in the countries who become the core states should perceive greater capacity to maneuver vis-à-vis global economic constraints than those in aligned states. As regards the latter, it will be interesting to learn what tradeoff these citizens (those who vote to reject the constitution in referenda, for example) perceive in relation to diminished government capacity.

Project III.2 We need to ask officials in the E.C.B. questions aimed at determining:

1. Whether and how they believe the E.C.B. achieves greater room to maneuver in the face of globalization;
2. If they see the costs of departing from international economic constraints as less severe, and in what sense, than the costs which national governments would incur from violating the constraints; and
3. Whether they hold a concept of “expert democracy” in any form, a concept that could fit in a stronger, more democratic EU (for core states at least).

- a. If they do hold such a concept, we need to learn how they believe the E.C.B. should and does address popular dissensus about tradeoffs between prices and jobs.⁴⁷

Conclusion

This paper makes two basic points. The first is that political science research on democracy and markets has not addressed important questions about democracy and markets. Macro political economists assert that any room to maneuver in government policies necessarily satisfies public preferences, and that this room to maneuver embodies popular sovereignty. Micro political economists do not ask important questions about democracy and markets, including questions about room to maneuver. Second, methodologically, both genres are flawed. The models used by macro political economists rarely include equations for national or international economies; they ignore endogeneity not just between economic and political variables within and between countries, but also the endogeneity that represents popular accountability. The questions used by micro political economists frame questions in ways that fail to capture citizens' understandings of the capability of governments to influence economic activity in the face of global market constraints.

⁴⁷ For example, Scheve 2004a illuminates the different preferences national mass publics in Europe have for inflation and unemployment. His main conclusion is that there are substantial difference in the inflation aversion of these publics.

To determine if the rise of global markets is compatible with democracy, six specific projects must be completed. In general, we must establish the idea of expert democracy as it applies to monetary technocracy both at the level of national and supranational government. We must also show that citizens have a conception of government capacity vis-à-vis international market constraints and that citizens are content to adhere to these constraints.

World Population and Production

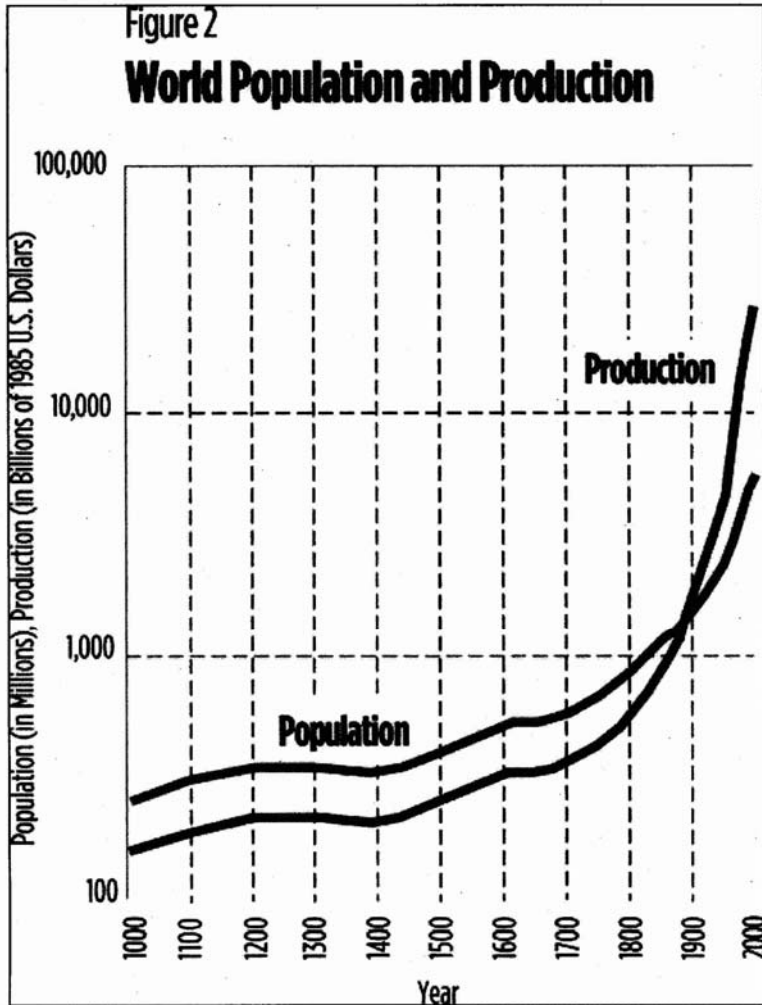


Figure 1 – World Population and Production

Source: Robert H Lucas, "The Industrial Revolution: Past and Future" from the Annual Report of the Federal Reserve Bank of Minneapolis.

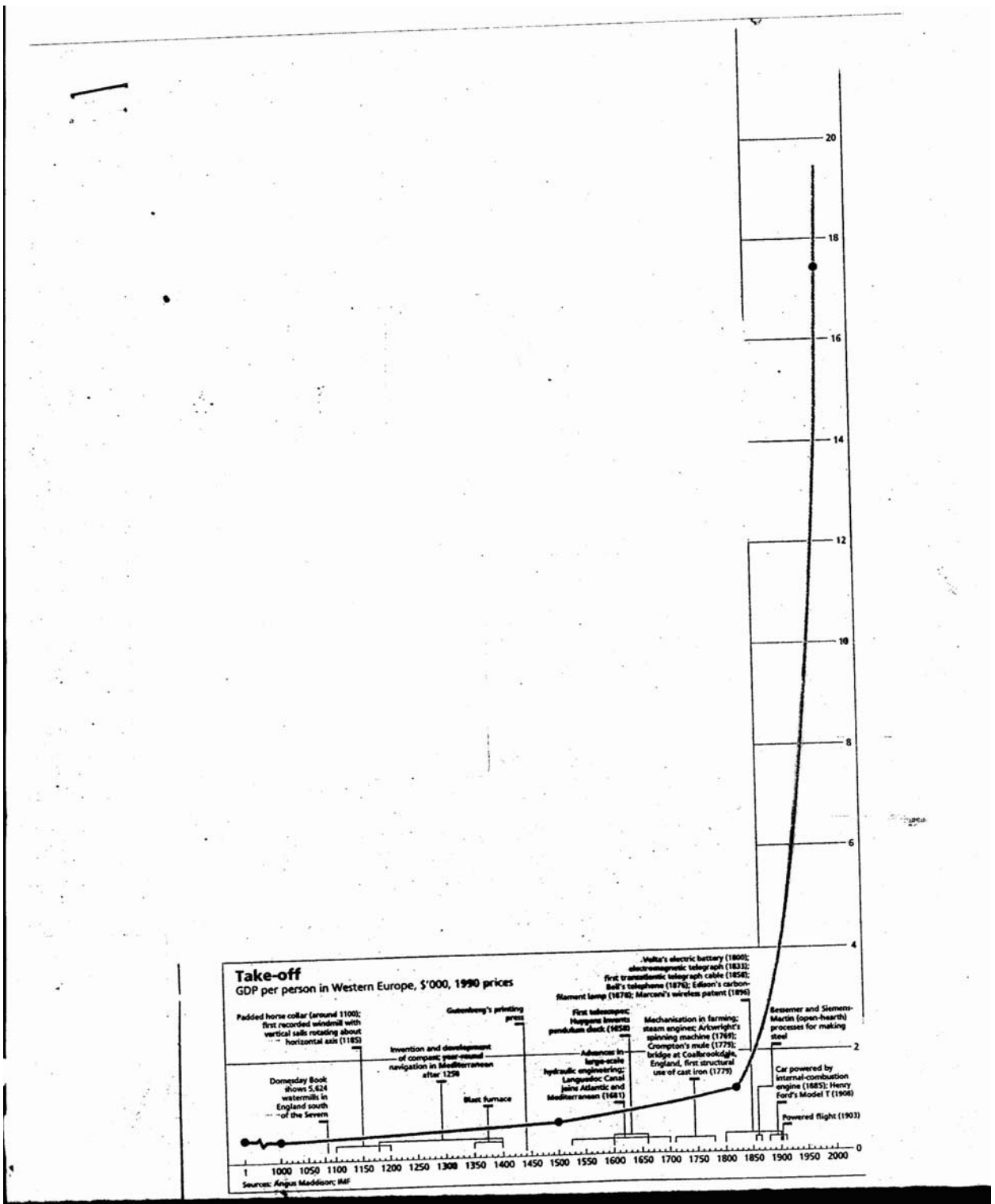


Figure 2: GDP/Person Takeoff in Western Europe

Source: Economist December 31st, 1999, p11.

Figure 2
Pick Two, Any Two

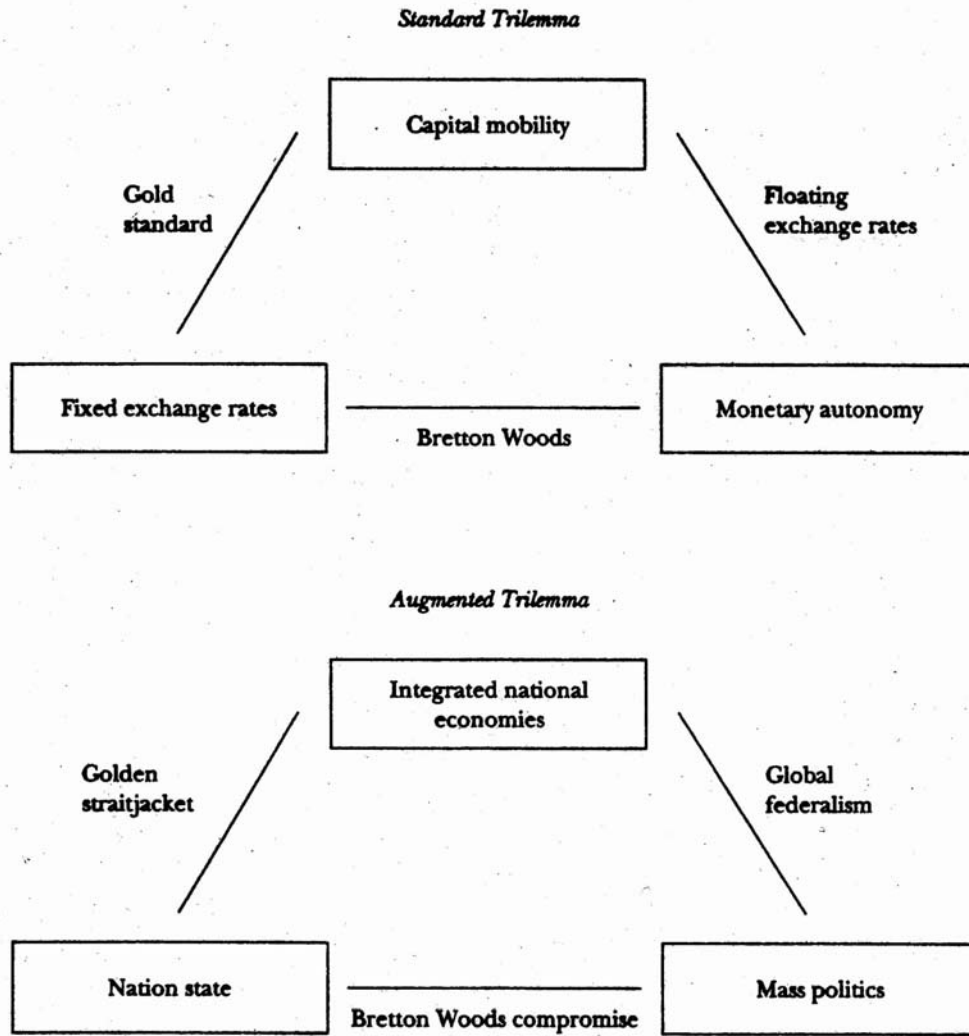


Figure 3 – Pick two, any two

Source: Dani Rodrik, 'How far will international economic integration go?' *Journal of Economic Perspectives* 14(1), 2000, p181.

	Germany (West)	Great Britain	Italy	Sweden	Mean
Provide jobs					
1974	94	85	94	89	91
1985	82	72	89	-	81
1990	74	63	85	75	74
1996	75	69	77	65	72
Control prices					
1974	96	-	95	-	96
1985	76	93	98	-	89
1990	70	89	96	86	85
1996	71	86	93	86	84
Provide health care					
1974	93	95	96	86	93
1985	98	99	100	-	99
1990	95	100	99	97	98
1996	93	99	99	96	97
Provide for the elderly					
1974	93	88	92	90	91
1985	97	98	100	-	98
1990	95	99	99	97	98
1996	94	98	98	98	98

Table 1 – Citizen attitudes towards government responsibility

Notes: 1974: Summed percentages of respondents who think policy domain is “essential for the government to do” or “that the government has an important responsibility to do.”

1985, 1990, 1996: Summed percentages of respondents who think policy domain is “definitely” or “probably” the government’s responsibility to do.

Sources: Timothy Hellwig (PhD Diss., University of Minnesota, 2004). Original Sources -1974: Political Action Survey; 1985, 1990, 1996: International Social Surveys Program (1990 Swedish data from Research Program on Comparative Political Culture, Umea University, cited in Huseby 1995).

	Respondents (%)
Very much	5
Somewhat	37
Not very much	43
Very little	11

Table 2 – French public opinion on government control of economy under globalization

Question: In your opinion, does globalization still leave the French government room to maneuver in the economy?

Original question: “Selon vous, est ce que la mondialisation laisse encore au gouvernement français dans le domaine économique de marges de manœuvre très grandes, assez grandes, assez faibles, ou très faibles?”

Source: Centre d’Etudes de al Vie Politique FranHansie (CEVIPOF), Centre d’Informatisation des Donnes Socio-Politiques (CIDSP) and Centre de Recherches Adminitratives, Politiques et Sociales (CRAPS) 2001. French National Election Study, 1997 [Computer file]. ICPSR version. Ann Arbor, MI: Inter-university Consortium for Political and Social Rsearch [distributor].

	Respondents (%)
A great deal	9
Quite a lot	44
Not very much	38
Hardly any	5

Table 3 – British public opinion on government influence on economy under globalization

Question: In today’s worldwide economy, how much influence do you think British governments have on Britain’s economy?

Source: Heath, Anthony, Roger Jowell and John Curtice. 2002. British Election Panel Study, 1997-2001; Waves 1 to 8 [computer file]. UK Data Archive version, University of Essex, Colchester.

	BASE	Too much influence (%)	Not enough influence (%)	Just the right level of influence (%)	DK/NA (%)
EU 15	7515	10	54	32	4
Belgium	498	5	64	29	3
Denmark	501	3	59	31	7
Germany	501	6	57	35	2
Greece	500	18	73	7	2
Spain	503	13	38	42	8
France	500	10	57	33	1
Ireland	500	5	69	24	2
Italy	501	15	53	29	3
Luxemburg	503	5	56	36	3
Netherlands	500	6	61	31	2
Austria	500	2	78	15	4
Portugal	500	7	61	25	7
Finland	501	1	68	28	4
Sweden	500	6	52	27	15
United Kingdom	507	16	45	35	4
Gender					
Male	3654	10	55	33	3
Female	3861	11	54	31	4
Age					
15-24	1114	12	44	43	2
25-39	2145	13	56	28	3
40-54	1941	11	58	28	4
55+	2311	8	55	33	5
Education					
15 years and less	1420	13	49	33	6
16-20 years	3327	11	55	32	3
21+ years	2641	8	57	32	2
Occupation					
Self-employed	692	9	57	31	3
Non-manual employee	2466	10	56	31	3
Manual worker	10001	10	56	31	3
Without prof. activity	3309	11	52	33	4
Locality Type					
Metropolitan zone	1972	11	53	33	3
Other town urban center	2923	11	55	30	4
Rural zone	2620	9	54	34	4
Position on globalization					
In favor	4690	10	52	36	2
Opposed	2134	12	63	22	3
Level of Openness of EU					
Too protectionist	1749	13	55	31	1
Too liberal	1618	10	58	30	2
Neither too prot., too lib.	3373	11	52	34	4

Table 4 – European public opinion on national influence on globalization.

(Question: For each of the following actors, tell me, if in your opinion, it has too much influence, too little influence or the just the right level of influence on the process of globalization...

Actor in question: “j) our country”)

Source: European Commission (2003).

	Leave decisions to successful business people	Leave decisions to non-elected experts	Run government like a business
Strongly agree	4 %	3%	10%
Agree	28	28	50
Disagree	59	60	37
Strongly disagree	10	9	3

Table 5 - Public attitudes toward less democratic arrangements in the United States

Source: Hibbing and Theiss-Morse, 2002, Table 6.2. The original source is the Democratic Processes Survey, Gallup Organization 1998.

	Influence of Political Parties				Influence of Governments			
	Too much	Not enough	Sufficient	No opinion	Too much	Not enough	Sufficient	No opinion
TOTAL – 100%	43	21	30	6	21	39	33	7
GENDER								
Male	38	24	33	5	19	45	32	4
Female	47	18	27	8	23	34	35	8
AGE								
18-24 years	49	17	34	0	29	25	43	2
25-34 years	45	18	36	2	18	36	44	2
35-49 years	48	18	29	4	26	36	32	6
50-64 years	37	26	28	9	19	48	29	4
65+ years	36	24	25	15	16	42	25	17
PROFESSION OF HOUSEHOLD HEAD								
Mercantile, mechanical, industrial	46	17	33	4	27	35	31	6
Executive, intellectual profession	41	21	37	1	22	40	35	3
Middle management	39	21	37	4	23	40	34	3
Employee	47	16	35	2	22	38	39	2
Worker	53	18	24	5	26	33	37	4
Unemployed/Retired	37	25	27	11	16	43	28	12
PROFESSIONAL SITUATION OF THE INTERVIEWEE								
Self-employed	38	20	36	5	27	35	31	7
Employee	46	19	31	4	22	39	36	3
- Public employee	43	22	31	4	23	38	38	2
- Private employee	47	17	31	4	22	39	35	3
Unemployed person	50	20	28	3	30	33	38	0
Retired person	39	23	28	10	18	40	30	11
PARTY PREFERENCE								
Left	34	26	36	4	18	42	35	6
- Communist party	41	21	32	6	21	32	29	18
- Socialist party	33	25	39	4	19	41	37	3
Ecologists	49	19	30	2	24	38	34	3
Right	46	20	28	7	19	39	35	7
- UDF	37	26	26	11	12	53	30	5
- RPR	48	20	26	6	16	41	37	6
- DL	43	10	33	14	29	38	29	5
- FN	57	22	22	0	30	30	30	9

No preference	47	16	22	16	27	34	26	13
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Table 6 – French opinions on economic influence of political parties and government.

For each of the following institutions and organizations, please tell me if you feel they have too much influence, not enough influence, or sufficient influence on the world economy.

Source: SOFRES

	Provide help to our businesses	Be a menace to our workers and business	No opinion
TOTAL – 100%	37	55	8
GENDER			
Male	39	53	8
Female	35	57	8
AGE			
18-24 years	54	43	3
25-34 years	48	47	5
35-49 years	34	59	7
50-64 years	30	64	6
65+ years	29	55	16
PROFESSION OF HOUSEHOLD HEAD			
Mercantile, mechanical, industrial	27	63	10
Executive, intellectual profession	54	37	9
Middle management	45	51	4
Employee	46	51	2
Worker	33	60	7
Unemployed/Retired	30	59	11
PROFESSIONAL SITUATION OF THE INTERVIEWEE			
Self-employed	25	64	11
Employee	40	54	6
- Public employee	39	53	8
- Private employee	41	54	5
Unemployed person	40	55	5
Retired person	34	56	10
PARTY PREFERENCE			
Left	42	51	7
- Communist party	20	71	9
- Socialist party	46	46	8
Ecologists	37	58	5
Right	36	56	8

- UDF	39	56	5
- RPR	37	53	10
- DL	33	53	14
- FN	17	83	0
No preference	30	58	12

Table 7 – French opinions on impact of globalization on French business prospects.

In general, do you think that economic globalization will a) be a help to French businesses b) be a menace to French workers and businesses c) no opinion.

Source: SOFRES

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