Course Description
This course is aimed at those of you who are interested in the possibility of reforming economic and social policy in the advanced industrial countries. Just as basic factor endowments (land, labor, and capital) influence what economic strategies are most likely to be successful in the international economy, countries also enjoy different sorts of comparative “institutional” advantage, which hamper or facilitate the political and economic strategies of governments. The institutions on which we will focus are the organization of business and labor; education and training systems; the welfare state; and finance and corporate governance. These institutions are (partly) politically constructed and (certainly) politically constraining. Our job in this course will be to see how much flexibility governments in fact have to change economic policies, faced with an institutional configuration that favors certain outcomes over others.

In the first part of the course, we try to understand the basic variations among the economic and social regimes within advanced capitalism. The empirical material we will read is relevant to all OECD countries, and to many developing economies as well, but most of our reading focuses on different European political economies. In the second part of the course we move from the realm of theory to the practical problem of reform. This portion of the course includes an optional module element, PAL-262m, which is an intensive week-long session held at the Ecole Nationale d’Administration (ENA) in Paris, France, during spring break; this portion of the course is entirely optional but is strongly encouraged (you must also register for PAL-262m in order to go to Paris and receive module credit). ENA and the Kennedy School have developed a program to bring together policymakers in the European Union who have been active in the problem of reforming the political economy in the context of different national institutions, and during this week we will discuss with them past and future reform episodes.

Audience
The course will be particularly useful to those students interested in the determinants of economic and social policymaking. There are no prerequisites, but an elementary understanding of basic political issues of macroeconomic policymaking is assumed.

The sessions at the ENA will be conducted in English. All students are encouraged to attend, but the Paris seminar is optional. Because of the logistical requirements involved with the ENA portion, we can only allow up to 25 students to attend the sessions in Paris. The trip will cost about $900, which students are expected to fund themselves. The Kennedy School pays the tuition costs of the seminar itself directly to the ENA.
**Requirements**

Students will be expected to do the assigned reading and integrate it into class discussions. Class participation is an important component of the final grade, and students will be particularly encouraged to tie the readings to their own experience in cases of reform.

This class emphasizes the usefulness of international comparison, and the subject of your semester-long research paper is a comparison between 2 large-scale attempts at reform of economic, social, or environmental policy undertaken since 1973. In choosing a research topic, you need to satisfy two objectives: 1) to choose an interesting comparison, which means both that the cases you pick have a different outcome, but also that there are similarities among them that make the difference in outcome in some way surprising; 2) to choose a topic that allows you to utilize the analytical approach taught in the class.

There are two written assignments. The first is a 3-page memo in which you outline the cases of reform you wish to study for the longer paper, the principal hypotheses you will be investigating, why the analytical tools of varieties of capitalism may be useful to these cases, and the research information on which you will be relying. The second is a longer (roughly 15 pages, double-spaced, 12 point font) paper in which you compare the two reforms in light of the material learned in the course and make concrete recommendations for how one of the reforms might have been improved so as to make it fit better within the constraints of existing institutions.

In order to receive an additional module credit, those students going to Paris have to complete additional assignments. First, they will prepare a longer final paper (18-20 pages). They will also be designated as scribes for a given session at the ENA, and must send their notes in electronic form to Professor Culpepper within three days of returning from Paris. All sessions in Paris are mandatory, and your participation in the Paris seminar will determine 50 percent of your final module grade; the remaining 50 percent will be determined by your longer paper.

The final grade for PAL-262 will be determined as follows:

- participation: 40 percent;
- memo: 20 percent;
- long paper: 40 percent.

Extraordinary performance in any one of these areas may be grounds for having it counted more heavily in the overall grade.

**Materials**

There are three required texts, all available from the Coop. The other readings for the course are available in a packet at the Course Materials Office and are on reserve in the KSG library.

Peter Hall and David Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford University Press 2001


I. The Institutions of Advanced Capitalism

Wednesday, February 4:                      Introduction: One Capitalism?

Monday, February 9:                      Varieties of Capitalism: Institutions and Interactions

Wednesday, February 11:                   Labor Markets and Product Markets


February 11 is also the deadline for registering for group hotel reservation and special airfare rates. Airfare will be term-billed to all students going to Paris on this date, unless you have made alternative arrangements and cleared them with Professor Culpepper. Students will also need to bring a one-paragraph biography, which will be transmitted to ENA for inclusion in the seminar program.

Monday, February 16:                      Holiday: No Class

Wednesday, February 18:                   Training and Skill Provision


Monday, February 23:                      Welfare States

Wednesday, February 25:  
**Corporate Governance**  


Monday, March 1:  
**Convergence? The Case of France**  

Pepper D. Culpepper, “Capitalism, Coordination, and Economic Change: The French Political Economy since 1985,” draft chapter from Culpepper, Hall, and Palier, eds., *Changing France* (forthcoming edited volume—this paper will be distributed by email).

DURING THE FINAL 20 MINUTES OF THIS CLASS WE WILL DISCUSS THE DESIGN OF RESEARCH PAPERS.

Wednesday, March 3:  
**European Corporate Governance—Guest Lecture**  
Nicolas Véron, “The European Debate on Corporate Governance”

Nicolas Véron is one of France's emerging young leaders and a respected analyst of the transformation of Europe’s business and capital markets. He currently runs ECIF, a financial consulting firm which he founded in 2002. Véron had previously been a corporate advisor to the Minister of Labour and Social Affairs and Deputy-Prime Minister Martine Aubry as well as chief financial officer of MultiMania / Lycos France, one of the country's most successful Internet start-ups. He was a student at Ecole Polytechnique, where he graduated valedictorian, and at Ecole des Mines de Paris. Nicolas Véron also frequently writes for several journals and reviews and has written a forthcoming book on the business impact of accounting rules.

Monday, March 8:  
**Industrial Relations**  


Wednesday, March 10:  
**Divergence? The UK/US vs. Germany**  

Monday, March 15:  
**Collective Discussion: What Have We Learned Thus Far?**
Complete (preferably in groups) old version of mid-term before class

Wednesday, March 17:  
**Logistics: PAL 262m**
This class is optional for those not enrolled in PAL-262m (you can use the time to work on your research memos, due next week). For those going, it is mandatory. We will discuss the final format of the program at the ENA, expectations, and travel arrangements.

Monday, March 22:  
**The European Union**

Orfeo Fioretos, “The Domestic Sources of International Preferences: The European Community at Maastricht,” *VoC*, pp. 213-244.


Wednesday, March 24:  
**Critiques of Varieties of Capitalism**
Chris Howell, “Varieties of Capitalism: And Then There was One?” *Comparative Politics* 36:1, October 2003, pp. 103-124.

Mark Blyth, “Same as it Never Was: Temporality and Typology in the Varieties of Capitalism,” manuscript, Johns Hopkins University, 2003 (this paper will be distributed by email).

FIRST MEMO DUE IN CLASS

Spring Break: (March 29-April 2)

**Policymakers and Political Economic Reform: European Experiences**
**Ecole Nationale d’Administration, Paris** (for those enrolled in PAL-262m)
II. Strategies of Reform and Institutional Interaction

Monday, April 5:  
**Trade-Offs in Economic and Social Policy Reform**


Wednesday, April 7:  
**Political Parties and Reform Projects**


Monday, April 12:  
**Political Parties and Inequality**


Wednesday, April 14:  
**Corporate Governance Reform**
Richard Deeg, “Institutional Change and Path Dependency: The Transformation of German and Italian Finance,” paper available on web (website to be provided by instructor).

Pepper D. Culpepper, “Institutional Change in Contemporary Capitalism,” (this paper will be distributed by email).

Monday, April 19:  
**Industrial Relations Reform**


Wednesday, April 21:  
*Training and Education Reform*
Pepper D. Culpepper, *Creating Cooperation*, chs 1, 4, 5 (required), 2 (recommended).

Monday, April 26:  
*Welfare State Reforms*


Wednesday, April 28:  
*Embedded Reforms in Transitional Economies*
Nina Bandelj, “Varieties of Capitalism in Central and Eastern Europe” manuscript, Princeton University, 2003 (this paper will be distributed by email)

Gerald McDermott, “Institutional Change and Firm Creation in East-Central Europe: An Embedded Politics Approach” manuscript, Wharton School of Business, 2003 (this paper will be distributed by email).

Monday, May 3:  
*Economic Reform in Developing Economies*


Wednesday, May 5:  
*Class Summary*

Wednesday, May 19 (by 5:00 PM):
**RESEARCH PAPERS DUE IN MY OFFICE (T-456); NOT ACCEPTED BY EMAIL!**