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THE POLITICAL ECONOMIST

NEWSLETTER OF THE SECTION ON POLITICAL ECONOMY, AMERICAN POLITICAL SCIENCE ASSOCIATION

CO-EDITORS:
WILLIAM BERNHARD, UNIVERSITY OF ILLINOIS, URBANA-CHAMPAIGN & J. LAWRENCE BROZ, UNIVERSITY OF CALIFORNIA, SAN DIEGO

WHAT'S INSIDE THIS ISSUE

FEATURE *Essays*

The "Case" for Case Studies in Political Economy[1]

Lee J. Alston, University of Colorado, NBER

I. Introduction

Sherlock Holmes was a deductive theorist who relied on generalizing from case studies to form his theories about criminal behavior. He is most known for his powers of observation to derive hypotheses. His observations relied on both qualitative and quantitative evidence. Was Sherlock a theorist? Yes, by traditional standards for he attempted to use each case study to make more generalizable hypotheses. I define a case study as one where the analyst has sufficient institutional detail, usually entailing some qualitative evidence such as personal accounts or surveys which the analyst may supplement with quantitative tests. For political economy does the use of case studies and qualitative evidence make the work any less scientific? Of course, this is a rhetorical question. In a court room evidence can be a smoking gun or it can be circumstantial. Yet much of the literature in political economy has leaned towards a bias of favoring mathematical modeling and the application of quantitative over qualitative evidence, presumably in trying to emulate the more mathematical techniques typically found in economics. Modeling indeed can be helpful in clarifying our thinking but it can also be premature. But, as Sherlock Holmes would contend, unless we understand an issue we may be only looking for keys underneath the lamppost. As to the use of quantitative

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Scientific Progress in Quantitative Political Economy

Jim Granato*, Visiting Scientist and Political Science Program Director, National Science Foundation

Methodological practices exist in quantitative political economy that undermine cumulative scientific progress. Some methodological conventions, including the misuse of the t-statistic, ignore key scientific attributes available in prior quantitative work. To reverse current methodological emphasis — and to build a falsifiable and cumulative science of political economy — I present a framework that builds on prior quantitative research. This framework stresses the linkage between formal and empirical tools and assists in constructing falsifiable models and finding underlying causal mechanisms.

Why is the use of quantitative models important for improving scientific understanding in political economy?[1] In her 2003 essay in *The Political Economist*, Elisabeth Gerber defines political economy as "the study of political phenomena using the tools of economic analysis, [emphasizing]… methodological approaches that build upon an assumption of utility maximization" (p. 3). Gerber's methodological focus gives the field a *scientific* definition. As Pearson (1957, 2004) argues, "*The unity of all science consists alone in its method, not in its material*…It is not facts themselves which make science, but the method by which they are dealt with" (p. 12).

With the attributes of shared (and improving) standards, language, and technical-analytical competence, science provides ideas such as *order, cause*, and *chance* (Bronowski 1978).[2] These ideas

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A LETTER FROM THE *Editors*

Dear Readers:

To complement your summer reading, we've included two feature essays on research methodologies in this issue of *The Political Economist*. In the first essay, economist Lee Alston (Director of the Research Program on Environment and Behavior at the University of Colorado at Boulder and specialist on agricultural tenancy and resource management in the U.S. and Latin America) offers his thoughts on the role of qualitative research in political economy. In the second, political scientist Jim Granato (outgoing Political Science Program Director at the National Science Foundation and specialist on the politics of macroeconomic performance) proposes a return to the fundamental scientific objectives of quantitative methodology.

Some might find it ironic that Alston, the economist, sings the praises of qualitative work while Granato, the political scientist, calls for even more rigorous quantitative analysis. But we were struck by the underlying similarities between the two essays. Both believe that current work in political economy places too much weight on correlative techniques rather than the empirical evaluation of causal mechanisms. That is, both call for a renewed emphasis on developing theoretical explanations and, in turn, the use of appropriate techniques to evaluate the mechanisms than link cause and effect. Moreover, both contend that the research process should involve a dialogue between theory and data, rather than being purely deductive or inductive. All in all, we think the essays make for compelling summer reading.

Also in this issue, we recognize the achievements of this year's award recipients: Christopher Adolph (Harvard University), winner of the Mancur Olson Award for his best dissertation in political economy, and Fiona McGillivray (New York University) recipient of the William H. Riker Award for best book in political economy. Joe Oppenheimer, chair of the Olson Award Committee, summarizes Adolph's excellent dissertation, "The Dilemma of Discretion: Career Ambitions and the Politics of Central Banking." Steph Haggard, chair of the Riker Committee, comments on McGillivray's extraordinary book, *Privileging Industry: the Comparative Politics of Trade and Industrial Policy* (Princeton University Press).

Finally, the issue contains scheduling information about political

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A LETTER FROM THE *Chair*

Dear Members of the Political Economy Section:

The next meeting of our Section will be at the APSA meetings on Saturday, September 3 at noon. It will be a lunch meet ing and sandwiches will be provided. An important agenda item is the announce ment of the awards given each year to the best dissertation, best book, and best paper given at last year's meeting. We will also discuss plans for our Section panels at the 2006 meetings. If you have any ideas on this topic, please send them now to Rick Wilson (rkw@rice.edu) or Liz Gerber (ergerber@umich.edu). If there are any other items you would like to suggest for the agenda, please send a note to Nicole Todd (stodd@indiana.edu) in the next two or three weeks (I will be away for most of the summer but Nicole always knows how to get messages through to me).

I encourage you to attend as many of our panels as feasible at APSA. Not only has William Clark worked hard to organize an exciting set of panels, but our quota of panels for 2006 depends on our attendance at our panels in 2005.

Sincerely,
Lin Ostrom
Chair of the Political Economy Section

Granato Feature Essay...continued from page 1

can be leveraged through the use of *models* that describe hypothetical worlds whose predictions have testable potential.

If models are central to the scientific process, then how do we construct them? Valid models make use of both deductive and inductive inference. Deductive inference relies on the power of logic where "The argument is so constructed that if the premises are true the conclusion must also be true" (Reichenbach 1951: 37). Yet, this attribute of internal validity and, by extension, order, falls short of allowing discrimination from other logically consistent yet competing models. Deductive inference, therefore cannot "establish a theory of prediction and must be supplemented by an inductive logic" (Reichenbach 1951: 82).[3] When deductive inference is "supplemented"[4] by inductive inference their combination:

"...enables us to associate probabilities with propositions and to manipulate them in a consistent, logical way to take account of new information. Deductive statements of proof and disproof are then viewed as limiting cases of inductive logic wherein probabilities approach one or zero, respectively (Zellner 1984: 5)."

Quantitative models have a natural affinity with both inductive and deductive inference; therefore, they are of great importance to the practice of scientific inquiry. But, to what end should these quantitative models be used? Which scientific criteria give the most traction in the use of order, cause, and chance?

One distinguishing feature of scientific practice is that hypotheses must be refutable. *Refutation* is essential to build a cumulative science. Refutable research requires that a methodology relate cause and effect in ways that are *identifiable* and that the identified relations are *invariant*.

When applied to quantitative models, the terms *identification* or *identifiability* mean that a model possesses sufficient information so that a unique and valid inference can be drawn from a particular parameter (see, for example, Koopmans 1949, Manski 1995). Some researchers treat the issue of simultaneity and identification as one and the same. However, in this essay, I use identification in a broader sense, encompassing not only issues such as simultaneity, but also a common sense concern that a parameter reflects the relation the researcher asserts.[5]

The terms *invariant* or *invariance*, when applied to quantitative models, center on whether a relation (signified by a parameter) remains constant in the face of a treatment (or policy) shift (see Marschak 1947, 1953, Lucas 1976). For instance, in quantitative political economy it is often the case that parameter estimates are based on past values, but when policies change, a model should account for the possibility that the public's expectations and behavior may change as well. Failure to provide for this circumstance risks systematic bias in model predictions.

Since quantitative political economy cannot be studied in a controlled environment, quantitative models are typically refuted in a probabilistic manner. To be even more specific, a need exists for a quantitative indicator that can serve as a reference for falsification, but also provide information on identification and invariance. Few indicators exceed the application and importance of a t-statistic, defined as the ratio, (b/(s.e.(b))). The t-statistic allows for probabilistic statements (i.e., statistical significance) and its numerator (b) contains information pertaining to identification and invariance.

Although the t-statistic has these important attributes, it has often been misused. While the concern with Type I and Type II errors and the identification of (b) should be of prime importance, much of quantitative political economic research pays scant attention to these matters. Instead, the focus centers on the size of the t-statistic and whether one can get significant results through ad-hoc specification and manipulation of the standard error (s.e.(b)).

When quantitative political economists give priority to manipulating standard errors over identifying invariant parameters they are effectively demonstrating that the scientific idea of order is secondary to the idea of chance. Yet even the idea of chance is compromised because manipulation of standard errors involves using model misspecification (and error) as a corrective device. It is akin to painting over a crack on a bridge. Such nonfalsifiable methodological practices impede the accumulation of knowledge.

I will show how prior work can inform current work in quantitative political economy by examining how the idea and use of identification and invariance developed in quantitative practice. Many ideas and institutions influenced the development of quantitative political economy, including the National Bureau of Economic Research (NBER), the Social Science Research Council (SSRC), the Econometric Society, the Rochester School, and the Political Methodology Society. However, I focus on the methodological contributions of the Cowles Commission, a group of quantitatively inclined economists.

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From the Editors...continued from page 2

economy events at the upcoming APSA meetings, including the political economy panels assembled by program chair Bill Clark and the political economy business meeting (Saturday, September 3, at noon). Please plan to attend as many of these events as possible.

We look forward to seeing you in Washington. Have a happy summer!

Bill Bernhard
bernhard@uiuc.edu
Lawrence Broz
jlbroz@weber.ucsd.edu

MANCUR OLSON AWARD ANNOUNCEMENT

BEST DISSERTATION IN POLITICAL ECONOMY PUBLISHED DURING THE PAST YEAR

Congratulations are due to Christopher Adolph and Harvard University! The Political Economy Section of the American Political Science Association has created an award in Mancur Olson's honor for the best dissertation in political economy granted during the past year. This year's Olson committee had Professor Joe Oppenheimer, chair (University of Maryland), Professor Scott Gehlbach (Assistant Professor, University of Wisconsin), and Gerry Mackie (Assistant Professor, University of Notre Dame) as members. We selected, unanimously, Christopher Adolph's dissertation, "The Dilemma of Discretion: Career Ambitions and the Politics of Central Banking," nominated by Harvard University, to be the recipient of the prize. The prize is scheduled to be presented by the Political Economy Section, at this year's APSA meeting in Washington, D.C.

Christopher Adolph's nicely written and clearly presented dissertation should be of interest to those concerned with the functioning of governmental bureaucracies in general, but especially those focused on the independence and policies of central banks. Adolph approaches the subject by considering the somewhat bifurcated career incentives of central bankers in the public or political and private or business sectors. Noting that both sectors have incentives to make 'shadow' offers of career paths in exchange for responsiveness to their interests, he suggests an interesting theoretical model that predicts substantial variation in central bank monetary policy as a function of the career interests of the bankers. This is tested by substantial data from the developed countries with independent central banks. The dissertation also contains seriously innovative graphic representations of the data.

Adolph builds on work in the political economy of monetary policy, where since Rogoff (1985) scholars have argued that delegation of monetary policy to a conservative and independent central bank can avoid the time-consistency problems that lead to excessive inflation. Central bank independence has been much-studied; the extent to which central bankers are conservative (whether granted independence or not) has not. To understand why this is an important omission, consider the impact of central bank independence in post-communist Russia: Viktor Gerashchenko, central bank chairman in the early 1990s, printed money with abandon. The problem was not pressure from the government - the central bank was quite autonomous - but the preferences of the central banker (an old communist, Gerashchenko apparently did not believe that a loose monetary policy could lead to inflation). Adolph argues that the preferences of central bankers can be read from their previous career experience (financial sector, government bureaucrat, etc.) due to socialization, and from their post-central bank careers due to incentive effects while in the central bank. He gathers what appear to be excellent and original data on the former, though relatively little data on the latter. Using the former, he has many nice and intuitive results, showing that the career experience of central bankers in both developed and less developed countries matters for monetary policy, economic outcomes, etc. Put simply, the career experiences (preferences, if we believe the story) of central bankers both exert a strong independent effect after controlling for central bank independence, and interact with central bank independence in determining outcomes. Methodologically, Adolph offers what are apparently original methods for dealing with "compositional data": variables which sum to one (as for example, in this dissertation, when the proportion of one's career in various sectors must sum to one).

We also would like also especially to commend the dissertation by Edmund Malesky, nominated by Duke University. Malesky's dissertation is a very serious attempt to integrate integrate statistical methods, case studies, and basic formal theory to gain leverage over the understanding of economic development in autocratic countries. He explores how foreign direct investors bargain with local politicians to create a better environment for development and how this tends to shift power to localities from the central autocrats. His case study is Vietnam but he also uses data from other countries.

The committee received seven dissertations in all and collectively we must say that they reflected a breadth, depth and quality of scholarship that made the task of reading rewarding, but the task of selection quite difficult.

For the entire committee,
Sincerely yours,
Joe Oppenheimer, University of Maryland
joppenheimer@gvpt.umd.edu

JAMES MADISON AWARD ANNOUNCEMENT

THE ORGANIZED SECTION ON POLITICAL ECONOMY

Congratulates

ELINOR OSTROM

2005 James Madison Award Winner

Every three years, the American Political Science Association confers the James Madison Award to an "American political scientist who has made a distinguished scholarly contribution to political science." This year's award committee, comprised of Elisabeth Gerber (Michigan), Daniel Carpenter (Harvard), and Michael Jones-Correa (Cornell), has selected Elinor Ostrom, citing her contributions to the study of collective action, resource management, property rights, and institutional design. Previous recipients of this prestigious award include: Robert A. Dahl (1978), Gabriel A. Almond (1981), Herbert Simon (1984), E. Pendleton Herring (1987), James Q. Wilson (1990), Sidney Verba (1993), Philip Converse (1996), Kenneth N. Waltz (1999), and David Mayhew (2002). The award will be presented at the APSA Annual Meeting Awards Ceremony.

WILLIAM RIKER AWARD ANNOUNCEMENT

BEST BOOK IN POLITICAL ECONOMY PUBLISHED DURING THE PAST YEAR

Each year, the Political Economy section gives an award for the best book in the field published during the previous year. This year, the selection committee was chaired by Stephan Haggard (University of California, San Diego) and included Sarah Brooks (Ohio State University) and John Huber (Columbia University).

The recipient of the 2005 Riker Award is Fiona McGillivray for *Privileging Industry: the Comparative Politics of Trade and Industrial Policy* (Princeton University Press, 2004). McGillivray's book focuses on trade policy, but is nested in a broader theory of the politics of redistribution. Her theory combines attention to industrial and electoral geography with a consideration of the incentives facing politicians in different electoral systems. In doing so, she moves beyond existing institutional models of trade policy and provides fresh insights into broader debates in the field, such as the conditions under which politicians will reward their base as opposed to targeting swing voters. The theory is highly portable and is tested in innovative ways, including through the use of stock prices to capture the rents associated with political change.

The committee also gave honorable mention to two other excellent pieces of political economy. Georg Vanberg's *The Politics of Constitutional Review in Germany* (Cambridge University Press, 2004) provides a tightly-argued theoretical account of the process of constitutional review. Vanberg underscores the critical importance of wider political support for the independence of the judiciary. Mikhail Filippov, Peter C. Ordeshook and Olga Shvetsova offer a rich account of the politics of federalism in *Designing Federalism: A Theory of Self-Sustainable Federal Institutions* (Cambridge University Press). *Designing Federalism* questions the assumption that the stability of federal systems can be attributed to constitutional bargains and rules alone, and returns to Riker's emphasis on parties and party systems as a crucial determinant of equilibrium in federal systems.

The next issue of The Political Economist will provide a more detailed consideration of McGillivray's work.

BEST PAPER IN POLITICAL ECONOMY AWARD ANNOUNCEMENT

PRESENTED AT THE 2004 APSA MEETING

The recipients of the best paper in political economy presented at the 2004 APSA meeting are William Bernhard (University of Illinois) and David Leblang (University of Colorado) for their paper, "When Markets Party: Stocks, Bonds and Cabinet Formations." This paper has also been awarded APSA's Franklin L. Burdette Pi Sigma Alpha Award for the best paper presented at the 2004 annual meeting. The runner-up in the political economy section is Sarah Brooks (Ohio State University), "A Competing Risks Model of Structural Pension Reform: Adoption and Diffusion of Alternative Paradigms." Please see the Winter 2005 issue of this newsletter for award committee chair Layna Mosley's description of these fine papers.

ANNUAL MEETING OF THE AMERICAL POLITICAL SCIENCE ASSOCIATION 2005

DETAILED LISTING OF POLITICAL ECONOMY PANELS

6-1 The Political Economy of the State

Date: Thursday, Sep 1, 10:15 AM/Co-sponsored by 11-1
Chair: Scott G. Gehlbach, gehlbach@polisci.wisc.edu, University of Wisconsin, Madison
Co-Chair: Allen D. Hicken, ahicken@umich.edu, University of Michigan, Ann Arbor
Author(s): Why Are Poor Countries Civil-War Prone?, James D. Fearon, jfearon@stanford.edu, Stanford University
Are Formal and Informal Institutions Complements or Substitutes? Evidence from a Survey of Russian Business Elites, Timothy Frye, frye.51@osu.edu, Ohio State University
Contract Enforcement and Predation, Catherine Hafer, catherine.hafer@nyu.edu, New York University
A Theory of State Formation, Scott G. Gehlbach, gehlbach@polisci.wisc.edu, University of Wisconsin, Madison
Discussant(s): Scott G. Gehlbach, gehlbach@polisci.wisc.edu, University of Wisconsin, Madison

6-2 Strategic Financial Liberalization

Date: Friday, Sep 2, 10:15 AM/Co-sponsored by 16-1
Chair: Chad Rector, rector@gwu.edu, George Washington University
Author(s): The Clash of Domestic Sectors in Stock Market Liberalization, Clint Peinhardt, cpeinhar@umich.edu, University of Michigan, Ann Arbor
International Coordination, Domestic Politics, and Capital Controls Liberalization: France, 1960-1985, Kara Heitz, kheitz@gwu.edu, George Washington University & Scott L. Kastner, skastner@gvpt.umd.edu, University of Maryland
The Politics of Time Horizons: Strategic Dynamics of Capital Account and Trade Liberalization in Contemporary Latin America, Sarah M. Brooks, brooks@polisci.sbs.ohio-state.edu, Ohio State University & Marcus J. Kurtz, kurtz.61@osu.edu, Ohio State University
Democracy, Autocracy, and Timing of FDI Restriction Liberalization, Quan Li, quanli@psu.edu, Pennsylvania State University & Dale L. Smith, dlsmith@garnet.acns.fsu.edu, Florida State University & Joseph K. Young, mjosephyoung@yahoo.com, Florida State University
Discussant(s): Andrew Sobel, sobel@artsci.wustl.edu, Washington University

6-3 Roundtable Discussion of Douglass North's Understanding the Process of Economic Change

Date: Saturday, Sep 3, 10:15 AM/Co-sponsored by 13-1
Chair: Paul S. Edwards, pedward@gmu.edu, George Mason University
Participant(s): Elinor Ostrom, ostrom@indiana.edu, Indiana University, Bloomington
Mathew D. McCubbins, mmccubbins@ucsd.edu, University of California, San Diego
Barry R. Weingast, weingast@stanford.edu, Stanford University
Peter J. Boettke, pboettke@gmu.edu, George Mason University
Discussant(s): Douglass C. North, north@economics.wustl.edu, Washington University

6-4 Distributive Politics from Comparative Perspectives

Date: Saturday, Sep 3, 8:00 AM/Co-sponsored by 11-2
Chair: Diana Evans, diana.evans@trincoll.edu, Trinity College
Author(s): Distributive Politics in Postwar Italy, Miriam A. Golden, golden@ucla.edu, University of California, Los Angeles & Lucio Picci, lucio.picci@unibo.it, Facolta di Scienze Politiche
Regionalism and Redistribution in South Korea, Yusaku Horiuchi, yusaku.horiuchi@anu.edu.au, The Australian National University & Seungjoo Lee, seungjoo@cau.ac.kr, Chung-Ang University
Electoral Rules and Pork-Barrel Spending: Evidence from the Russian Duma, Jana Kunicova, jana@hss.caltech.edu, California Institute of Technology
Testing Theories of Distributive Politics and Pork Barrel Spending in Legislatures, Michael C. Herron, Michael.C.Herron@dartmouth.edu, Dartmouth College & Alan Edward Wiseman, wiseman.69@osu.edu, Ohio State University
Discussant(s): Diana Evans, diana.evans@trincoll.edu, Trinity College
Co-Discussant(s): Jonathan Rodden, jrodden@mit.edu, Massachusetts Institute of Technology

6-5 The Political-Historical Determinants of Current Economic Outcomes

Date: Friday, Sep 2, 8:00 AM/Co-sponsored by 12-1
Chair: Shanker Satyanath, ss284@nyu.edu, New York University
Author(s): Democracy, Historical Legacies, and Primary Education in Africa, David Stasavage, d.stasavage@lse.ac.uk, London School of Economics
The Historical Determinants of Long-Run Macroeconomic Stability , Shanker Satyanath, ss284@nyu.edu, New York University
Democracy, Credibility and Clientelism, Philip Keefer, pkeefer@worldbank.org, The World Bank
Political Democracy and Exchange Rate Policy: The View from History, David Leblang, leblang@colorado.edu, University of Colorado, Boulder
Discussant(s): Jeffry A. Frieden, jfrieden@harvard.edu, Harvard University
Co-Discussant(s): Leonard Wantchekon, leonard.wantchekon@nyu.edu, New York University

6-6 The Comparative Political Economy of Advanced Industrial Countries

Date: Saturday, Sep 3, 10:15 AM/Co-sponsored by 11-3
Chair: Mark Hallerberg, mhalle2@emory.edu, Emory University
Author(s): Globalization, Policy Diffusion, and Welfare State Retrenchment in the Capitalist Democracies, 1970-2001, Duane H. Swank, duane.swank@marquette.edu, Marquette University
The Role of the Political Party System on Partisan Monetary Policies: Why Coalition Governments Deliver Lower and More Stable Inflation than Single Party Governments, Despina Alexiadou, despina.alexiadou@iue.it, European University Institute
Left, Right and Taxes: What Differences Does Partisanship Make?, Jeffrey F. Timmons, jtimmons@itam.mx, Instituto Tecnologico Autonomo de Mexico (ITAM)
Privatization and Corporate Governance: The Effect of Privatization on Shareholder Rights Laws in the Developed Economies, William Mabe, billmabe@rci.rutgers.edu, Rutgers University
Balancing Competing Interests in American Regional Governance, Elisabeth R. Gerber, ergerber@umich.edu, University of Michigan, Ann Arbor & Clark C. Gibson, ccgibson@ucsd.edu, University of California, San Diego
Discussant(s): Christopher Way, crw12@cornell.edu, Cornell University

6-7 The Comparative Political Economy of Developing Countries

Date: Thursday, Sep 1, 2:00 PM/Co-sponsored by 11-4
Chair: Robert R. Kaufman, kaufrutger@aol.com, Rutgers University, New Brunswick
Author(s): The Unintended Consequences of Decentralization: Armed Clientelism in Columbia, Kent Eaton, kenteaton@stanfordalumni.org, The Naval Postgraduate School
Variations in National Economic Performance: Democracies versus Autocracies, Siddharth Chandra, chandra@gspia.pitt.edu, University of Pittsburgh & Nita Rudra, rudra@pitt.edu, University of Pittsburgh
Are Prime Ministers and Proportional Representation Better for the Poor?: Institutional Causes of Income Inequality in LDCs, Gregory Love, gjlove@ucdavis.edu, University of California, Davis
Electoral Structure, Social Cleavages and the Size of the Party System: A District Level Analysis of National Parliamentary Elections in India, Ira Parnerkar, irapar@uchicago.edu, University of Chicago
Unstable Politics: Fiscal Space and Electoral Volatility in the Indian States, Irfan Nooruddin, nooruddin.3@osu.edu, The Ohio State University

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DETAILED LISTING OF POLITICAL ECONOMY PANELS

Discussant(s): Sebastian M. Saiegh, sms47@pitt.edu, University of Pittsburgh & Robert R. Kaufman, kaufrutger@aol.com, Rutgers University, New Brunswick

6-8 The Politics of International Money and Finance
Date: Saturday, Sep 3, 8:00 AM/Co-sponsored by 16-2
Chair: Thomas D. Willett, thomas.willett@cgu.edu, Claremont Graduate University
Author(s): Dropping Zeroes and Gaining Credibility? Currency Redenomination in Developing Nations, Layna Mosley, lmosley@email.unc.edu, University of North Carolina, Chapel Hill
International Monetary Policy Transmission Since the Introduction of the EURO: A Spatial Panel Data Analysis, Vera Eva Troeger, troeger@mpiew-jena.mpg.de, Max-Planck-Institute
Risky Business: A Pooled Cross-Sectional Time-Series Analysis of the Relationship between Investor Risks and Foreign Direct Investment Flows, Jo Jakobsen, jo.jakobsen@svt.ntnu.no, Norwegian University of Science and Technology
Government Courtship of Migradollars: International Migrants' Remittances and Policy Intervention in the Case of Contemporary Mexico, Els de Graauw, degraauw@berkeley.edu, University of California, Berkeley & Regine Amy Spector, rspector@uclink.berkeley.edu, University of California, Berkeley
Discussant(s): Thomas D. Willett, thomas.willett@cgu.edu, Claremont Graduate University
Co-Discussant(s): Hilton L. Root, hilton.root@earthlink.net, Claremont Graduate University

6-9 Commitment, Conservatism, Consensus and Corporatism
Date: Thursday, Sep 1, 4:15 PM
Chair: William T. Bernhard, bernhard@uiuc.edu, University of Illinois, Urbana-Champagne
Author(s): Three Simple Tests of Career Influences on Monetary Policy, Christopher Adolph, cadolph@u.washington.edu, University of Washington
The Force of Economic Ideas: Decision-making in the Federal Open Market Committee, Cheryl M. Schonhardt-Bailey, c.m.schonhardt-bailey@lse.ac.uk, London School of Economics & Political Science & Andrew Bailey, andrew.bailey@bankofengland.co.uk, Bank of England
The Politics of Investment: Partisanship, Bargaining, and Commitment, Pablo Martin Pinto, pp2162@columbia.edu, Columbia University & Santiago Miguel Pinto, smpinto@mail.wvu.edu, West Virginia University
Why Corporatism and Consensus Democracy Do Not Matter For Socio-Economic Performance, Noël P. Vergunst, np.vergunst@fsw.vu.nl, Vrije Universiteit Amsterdam
Discussant(s): Robert J. Franzese, franzese@umich.edu, University of Michigan, Ann Arbor
Co-Discussant(s): William T. Bernhard, bernhard@uiuc.edu, University of Illinois, Urbana-Champaign

6-10 The Political Economy of Development
Date: Friday, Sep 2, 4:15 PM/Co-sponsored by 12-2
Author(s): The Economic Cost of Democratic Responsibility? Cabinet Volatility and Stock Market Response in New Presidential Democracies, Chiwook Kim, cwkim@mail.la.utexas.edu, University of Texas-Austin
Overlapping Sectors: Botswana's Inoculation Against the Dutch Disease Amy R. Poteete, apoteete@uno.edu, University of New Orleans & Andres Marroquin, amarroqu@gmu.edu, George Mason University
Natural Resources and Regime Stability: The Political Resource Curse Re-Examined, Kevin Morrison, kmm15@duke.edu, Duke University
Liberal States and Fiscal Contracts, James E. Mahon, jmahon@williams.edu, Williams College
The Evolution of an Economic and Political Middle Class in Transition Countries, John E. Jackson, jjacksn@umich.edu, University of Michigan, Ann Arbor & Daniel Berkowitz, dmberk@pitt.edu, University of Pittsburgh

6-11 Domestic Politics, Integrated Markets
Date: Saturday, Sep 3, 2:00 PM
Author(s): Traders, Voters, and Teachers: How Openness and Democracy Affect Education Expenditure, Ben William Ansell, ansell@fas.harvard.edu, Harvard University
Having their Cake and Eating it Too?: A Closer Look at the Effects of Economic Openness and Partisanship on Government Fiscal Policy, Nicholas Charron, nc02c@fsu.edu, Florida State University & Joseph Trafton, joetrafton88@hotmail.com, Denver University
How do Political Institutions Matter for Economic Globalization, Nam Tae Park, ntpark@tamu.edu, Texas A&M University
How Common is the Common External Tariff?: Domestic Influences on European Union Trade Policy, Sean D Ehrlich, sehrlich@buffalo.edu, SUNY, Buffalo
Discussant(s): Mark Andreas Kayser, mark.kayser@rochester.edu, University of Rochester & Oxford University

6-12 Elections and the Economy
Date: Sunday, Sep 4, 8:00 AM
Chair: Robert Grafstein, bobgraf@uga.edu, University of Georgia
Author(s): "More is Better" or "Who Gets What"?, Suzanna Linn DeBoef, sdeboef@psu.edu, Pennsylvania State University
Promises, Policies, and Voter Responses, Guy D. Whitten, whitten@polisci.tamu.edu, Texas A&M University
A Cross-National Comparison of Political Business Cycles: Are They More Prevalent in Developing Countries than Developed Countries?, Jonathan Krieckhaus, krieckhausj@missouri.edu, University of Missouri, Columbia
Electoral Rules, Intra-Party Politics, and Political Business Cycle in Distributive Policy, Kenichi Ariga, kariga@umich.edu, University of Michigan, Ann Arbor
Discussant(s): George A. Krause, george.krause@sc.edu, University of South Carolina
Co-Discussant(s): William R. Keech, keech@andrew.cmu.edu, Carnegie Mellon University

6-13 The Economic Consequences of Political Institutions
Date: Sunday, Sep 4, 8:00 AM/Co-sponsored by 11-9

6-14 The Domestic Effects of International Trade Agreements: Political Preferences, Legal Capacity, Trade Volatility and Transparency
Date: Sunday, Sep 4, 10:15 AM/Co-sponsored by 16-11

6-15 The Politics of Exchange Rates
Date: Saturday, Sep 3, 4:15 PM/Co-sponsored by 16-15

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versus qualitative evidence, neither form is necessarily superior over the other. It depends on the question posed by the analyst and the evidence available. I would rather have weaker evidence on an extremely interesting issue than irrefutable evidence on a trivial issue. Moreover the use of qualitative evidence coupled with quantitative evidence may make the quantitative evidence more compelling.

Unquestionably the field of political economy practiced by economists and political scientists has gravitated towards recognition of the important role of institutions for shaping outcomes. The catch is that institutions are difficult to quantify. But this does not mean that they are any less important. Suppose we define institutions following Douglass North as the "rules of the game in a society or…the humanly devised constraints that shape human interaction" [North (1990): 3]. One of the most important institutions shaping political and economic outcomes is the rule of law but there is no consensus, certainly within law schools, as to just what is meant by the rule of law, e.g. it does not appear on the state bar exams. As a result we have a variety of indices manufactured by think tanks that are constructed ultimately on a somewhat subjective basis and awarded a numeric score. Economists then plug a measure of the rule of law into a growth equation, and voila we find that rule of law is important in promoting economic growth. I find the result neither surprising nor very useful for academics or policymakers. For example are we to surmise that if only Chad had the rule of law of Hong Kong that it would be a superstar on the economic growth charts? I very much doubt that would happen, but, more importantly, I doubt that it could happen and as such is not helpful for the policy arena. In order to ascertain the impact of rule of law the analyst needs much more information, generally qualitative, about the norms in societies that built and sustain the rule of law. A more interesting question is: how do countries acquire the rule of law or in some cases lose it? Here I do not believe that quantitative evidence alone is of much help, but case studies and qualitative evidence often in conjunction with quantitative evidence can be.

My lament about the use, or in many cases abuse, of quantitative evidence is that it typically entails running a regression with the result of telling us very little that we do not already know, at least in the case of institutions.[2] Regressions that tell us what we already know about average behavior nevertheless have merits.[3] The first is that they can tell us about magnitudes, e.g., how important in a quantitative sense is the variable x in explaining outcome y? The second, and more underappreciated, role of regression analysis is to identify outliers. Outliers are interesting intellectually because they deviate from the predicted model and therefore the measures that we used cannot explain the behavior of the outlier. Understanding outliers, is in some sense, where the action may be, at least in furthering our understanding of institutions. This is where the use of qualitative evidence and case studies come in.

In the economics profession at large and to a lesser degree in political science the use of case studies is not the norm. Case studies may be frowned upon as simply individual narratives and as such not generalizable, which is one of the criteria for good scientific research. The more general the result, the better the theory, so the scholar needs to take care when selecting the case study to be aware of the "big picture." Indeed I advocate the use of case studies because it allows the analyst to isolate the impact of a theoretical concept in a more detailed and potentially more compelling manner. In other words case studies can be tools for developing models which can then be tested with both qualitative and quantitative evidence. Case studies are especially important for the new institutional economics because it enables us to analyze both the determinants and consequences of institutions and institutional change.

Case studies in the new institutional economics (NIE) are also known as "analytic narratives."[4] The term "analytic" conveys the use of a theoretical framework or set of theoretical concepts, and the term "narrative" conveys the use of historical qualitative evidence.[5] Though narratives use historical evidence, including at times, accounts by individuals, the style also endorses quantitative evidence including the use of econometric tests. One of the differences between the use of quantitative evidence in case studies as opposed to many broader analyses is that the scholar typically has a very thorough understanding of the issue and the data used in the analysis. In some cases the analyst may have collected the data, as is typically the case for anthropologists as well as some development economists. Economic historians often must create their data sets. Scholars working in the field of case studies may also have relied on surveys and interviews as input for the study. Interviews can be extremely helpful for the scholar to more thoroughly understand an issue before embarking on modeling and testing. Surveys can be crucial for testing some hypotheses because of an absence of data. Though surveys can have their biases, we have come a long way, largely due to work outside of standard economics, in our ability to conduct a survey and understand the potential biases.[6] The deep understanding of data and its limitations is important because the statistical work then becomes more believable if one has faith in the underlying data set.

Narratives or case studies in the NIE have taken two branches, micro and macro. "Micro" studies in the NIE preceded "Macro" studies partially because they tended to hold constant the broader

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Created in the 1930s, the Cowles Commission was designed "to foster the development of logical, mathematical, statistical methods of analysis for application in economics and related social sciences."[6] I contend that, despite some important shortcomings, the methodological work of the Cowles Commission directly informs cumulative quantitative practice because it emphasizes issues such as identification and invariance probably more than any other social science entity.[7]

The Cowles Commission and Cumulative Quantitative Practice

The contributions of the Cowles Commission rest, in part, on a scientific vision that involved merging formal and applied statistical analysis. The basis for this linkage was the idea that random samples were governed by some latent and probabilistic law of motion (Haavelmo 1944, Morgan 1990). Further, this view meant that formal models, when related to an applied statistical model, could be interpreted as creating a sample draw from the underlying law of motion. A well-grounded test of a theory could be accomplished by *relating* a formal model to an applied statistical model and testing the applied statistical model. The Cowles methodology was seen, then, as a valid representation and examination of underlying processes in existence.[8]

The Cowles Commission contributed to the rise of econometric methodology in many ways.[9] The Cowles methodology created new research aimed at determining valid inference in response to these demands, particularly the issues of identification and invariance. For the first issue, identification, rules (i.e., rank and order conditions) were devised so that an equation of a model could reveal one and only one set of parameters consistent with both the model and the observations (see, for example, Koopmans 1949).

A second issue involved the invariance of a (structural) relation. If an underlying mechanism is constant in the past and future, then the path of the relevant variable(s) will be predictable from the past, apart from random disturbances (see, for example, Marschak 1947, 1953). However, there was no concerted attempt to assure this condition and this failure would invite both theoretical and empirical criticisms.

By the mid-1960s the Cowles approach was a standard quantitative approach in economics. However, the approach came under criticism in the early 1970s. Not only were the quantitative models forecasting poorly, but the approach was failing to appropriately address the issues of identification and invariance.[10] Indeed, the poor predictive power of the quantitative models occurred because of the failure to account for identification and invariance.

One source of this problem was that the identification "rules" were becoming ends in themselves. This practice reached the point where researchers were using *incredible theoretical restrictions* that compromised basic theory (Sims 1980). As an alternative Sims developed statistical models that changed the emphasis of inference from individual coefficients to the dynamic time series properties of an unrestricted (by theory) system of equations (i.e., Vector Autoregression (VAR)).[11]

Additionally, some researchers complained that the Cowles approach insufficiently accounted for the concept of invariance. Lucas (1976) argued that the parameters of econometric models (which were based in part on past data) are unlikely to remain stable under alternative treatments (policies). A working assumption was that once the public's expectations were included, it was not clear their behavior would remain invariant to policy shifts when the policy shifts presented a new menu of costs. Lucas proposed a solution requiring that theory specify the relations contained in structural models *be invariant* to expected changes in exogenous forces.

Kydland and Prescott (1982) offered one response to Lucas's *critique* with their method of "real business cycle modeling" (RBC). Like Cowles, the model has a distinct structure (micro and macro), but Kydland and Prescott *calibrate* the model using parameter values derived from data and generate simulations of the equilibrium processes. These simulations also serve as the basis for the statistical sampling distributions. Kydland and Prescott "test" the validity of a model by comparing how close these simulated statistics are to those computed for data from actual economies (see Sims 1996 for a critique).

The approaches advocated by Sims and Kydland and Prescott place a premium on uncovering causal mechanisms. Furthermore, they take a more eclectic view on refutation (falsifiability). A significant t-statistic, for example, is only one of many potential criteria used to test a model. In other words, unlike current methodological practices in political economy which focus on the t-statistic, the criteria used for refutation are a means not an end.

Building a Cumulative Science of Quantitative Political Economy

While there has been considerable scientific improvement in quantitative political economy, there is also cause for concern that political economists are not absorbing the scientific lessons of predecessors, and in particular, the Cowles Commission. The successor approaches of either Sims or Kydland and Prescott have also been marginalized.[12] Much of current quantitative political economy is only loosely connected to the fundamental scientific considerations of identification and invariance.

It is now increasingly obvious that some current methodological practices in political science (Achen 2002), when applied in quantitative political economy, contribute to noncumulation. While borrowing applied statistical tools did

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institutions of a society and focus on isolating a particular theoretical concept. Narratives have been especially useful in illustrating what might otherwise be anomalies in contracting. Much of the work of Ronald Coase falls into this category. Coase is a particularly apt example because his first published article was about the neglect of transaction costs in the theory of the firm and in particular the important role of transactions costs in vertical integration and disintegration. Numerous narratives then analyzed specific cases, perhaps the most famous being the integration of the Fisher Body Company into General Motors.[7] Other early micro narratives include cases of long-term contracting.[8] As a result of the narratives, theorists have incorporated many of the insights into a much richer theory of contracting.[9]

Narratives are ideally suited to make comparisons across time, a period long enough to isolate the determinants or impacts of institutional change.[10] Through case studies scholars can study the dynamics of individual societies and begin to understand the lack of worldwide development. Particularly puzzling is why there exists so much "institutional lock-in" given the poor economic performance in many countries.[11] Recently macro theorists have utilized narratives to help them build broader theories for explaining the lack of world-wide development.[12] Case studies have also been used to make comparisons across space, e.g. by holding constant a sector the analyst can make better inferences about the role of political institutions on economic outcomes.[13]

As all of those who work in the area of the new institutional economics understand, there is no grand all-encompassing theory of institutional development and change. Case studies are important for the profession because they form the building blocks for a framework for understanding the role of institutions in societies with the hope of someday having what we might term a theory of institutional development. Towards this goal, it is critical for scholars who develop case studies to do so with an understanding of how their work fits into a broad framework of either the determinants of institutional change or the impacts of institutions on political and economic outcomes. This is true for both "micro" and "macro" studies. For micro studies the economic outcomes typically entail a particular type of contracting.[14] For macro case studies, economic outcomes include indicators such as GDP per capita, income distribution or economic opportunity. By political outcomes I mean indicators such as the degree of political competitiveness or more micro outcomes such as an election or the passage of a law. One of the more difficult tasks of scholars in the NIE who utilize case studies is to prevent the research from becoming simply a "good story." To increase the analytical component, it is critical to isolate what is exogenous and what is endogenous to the actors in the system that one is trying to understand. In this way we can make headway towards a more general understanding of the dynamics. Of course the issue of endogeneity can always rear its head but this is where a thorough understanding of an issue helps the analyst. This is true for either deciding ex-ante what is exogenous to the question at hand or for deciding on "sensible" instruments.

In advocating the case study approach, by which I mean supplementing qualitative with quantitative evidence, I am not advocating forsaking theory. Indeed the case study approach can make theory more compelling as well as help to build onto existing theory. The advantages of the case study approach are several: 1) when coupled with quantitative evidence case studies provide a more convincing explanation of an issue. This is especially the case when the quantitative evidence is scant and the ability to conduct formal tests limited; 2) case studies increase our understanding of outliers rather than simply identifyingthem; 3) case studies aid the analyst in deciding the line between exogenous and endogenous, especially when coupled with statistical tests; 4) case studies form the building blocks for a more unified theory of institutional change which will put meat on the bare bones concept of "path dependence."

I illustrate the use of case studies by describing research in three broad areas that I have studied: the role of property rights to land and the causes of insecure property rights for land; the importance of beliefs in the rule of law; and the roles of economic incentives and political abilities in shaping policy outcomes.

II. Titles, Conflict and Land Use in the Brazilian Amazon[15]

It is now received wisdom that secure property rights promote economic growth, yet there has been surprisingly little empirical work on either the precise mechanisms by which secure property rights promote growth or on the quantitative impact of property rights on growth.[16] Case studies can fill this void. In this section I summarize the methodology that we used and some of the empirical results from our research on titles and land use in the Brazilian Amazon. By property rights I mean both the specified and enforced rights that individuals have to resources. Specified (i.e. legal) property rights to land may include: the ability to use the land, including keeping it idle; the right to sell the land; the right to bequeath the land; and the ability to use the land as collateral. Property rights are enforced through social norms (when scarcity values are low), such as the stigmatization of criminal activity; private enforcement, such as fences that deter encroachment; and government enforcement such as forced evictions by police.

Secure property rights may influence

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improve upon older techniques, the search for identified and invariant relations was virtually nonexistent. In more technical language, the creation of methodologies that isolated structural parameters — for the identification of these parameters — became secondary to the use of applied statistical techniques that end up doing things such as manipulating standard errors and their associated t-statistics. There was no use of formal modeling to aid in this process of determining identification, and by extension, invariance. Moreover, there was little effort to seek unification between formal and empirical approaches.

Some political scientists did see the problems associated with disjointed quantitative work.[13] For example, Aldrich argued in 1980 that:

"Empirical observation, in the absence of a theoretical base, is at best descriptive. It tells one what happened, but not why it has the pattern one perceives. Theoretical analysis, in the absence of empirical testing, has a framework more noteworthy for its logical or mathematical elegance than for its utility in generating insights into the real world. The first exercise has been described as "data dredging," the second as building "elegant models of irrelevant universes." My purpose is to try to understand what I believe to be a problem of major importance. This understanding cannot be achieved merely by observation, nor can it be attained by the manipulation of abstract symbols. Real insight can be gained only by their combination (p. 4).

Echoing these sentiments Bartels and Brady (1993) argued that in the field of political methodology "there is still far too much data analysis without formal theory – and far too much formal theory without data analysis." (p. 148).

A Proposed Framework for Unification of Formal and Empirical Analysis

Below is a methodological framework to unify formal and empirical analysis.[14] As with the Cowles Commission, it argues that cumulative research practices are more likely to occur when efforts are made to identify parameters in the model. An emphasis on parameter identification — structural (invariant) parameters — provides more transparent interpretation and allows for refutation.

Structural parameters are only part of what is necessary for refutation. If one were to strictly adhere to the Cowles Commission approach we would, for example, forego the chance of modeling new uncertainty created by shifts in behavioral traits (such as public tastes, attitudes, expectations, learning, etc.). The scientific consequence of this omission directly affects the issues of identification and invariance because these unaccounted behavioral shifts of variables would not be linked with the other variables and specified parameters.

This framework addresses these issues through the unification of formal and empirical analysis. In this way, this framework takes advantage of the mutually reinforcing properties of formal and empirical analysis to address the challenge(s) above. The other attribute of this framework is the emphasis on concepts that are quite general and integral to many fields of research but that are seldom modeled and tested in a direct way.

There are three basic steps:

1. Link Theoretical Mechanisms and Applied Statistical Concepts

A fundamental part of theoretical explanation is identifying the causal mechanism—the reason(s) why the independent and dependent variables covary. Given that human beings are the agents of action, mechanisms should reflect overarching social and behavioral processes. Examples include *bargaining, expectations, learning*, and *social interaction*.

It is imperative to find an appropriate statistical concept to match the theoretical mechanism. For example, if our behavioral mechanism is learning, then an appropriate applied statistical concept that is linked to learning might be *persistence*, *measurement error*, or *simultaneity*. By trying to *operationalize the mechanism,* we move beyond aggregated and static operationalizations of variables that invite misuse of the t-statistic. This latter practice includes the use of dummy variables or other crude measures that have no behavioral basis.

2. Develop Behavioral (Formal) and Applied Statistical Analogues

To link concepts with tests, we need analogues. An analogue can be thought of as a device in which a concept is represented by continuously variable — and measurable — quantities. Analogues serve as analytical devices for behavior and, therefore, provide for changes in behavior as well as a more transparent interpretation of the formal and applied statistical model. Analogues also emphasize measurement validity — the relation between a measure and the (unmeasured) concept it is meant to represent.

Current methodological practice in quantitative political economy emphasizes finding valid operationalizations of the independent and dependent variables. This is insufficient for finding causal mechanisms, since we need to unify the operationalization (data) with formal theory and an empirical test.

Examples of analogues for the behavioral (formal) concepts such as expectations and learning include (but are not limited to) *conditional expectations procedures* (Muth 1961) and *Bayesian* and *adaptive learning* procedures, respectively. On the other hand, examples for the applied statistical concepts such as persistence and measurement error include *autoregressive processes* and *error-in-variables* models, respectively.

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3. Link and Evaluate the Behavioral (Formal) and Applied Statistical Analogues

In current methodological practice we see correlations in the data, but with the misuse of the t-statistic, there is no effort to evaluate the causal mechanism. Consequently, we cannot be sure of the underlying reasons why a variable causes an outcome. This framework attempts to uncover the mechanism(s) through the linkage and evaluation of the behavioral and applied statistical analogues. In doing so, this third step uses the mutually reinforcing properties of the formal and empirical analogues and helps identify the parameters of interest (i.e., the (b's)).

Moreover, this linkage and evaluation provides a clearer (i.e., falsifiable) interpretation of the results because the model's mechanisms are explicit. The specified linkage shows potential sources of inaccuracies and model failure. Further, an inductive and deductive dialogue is created between the data and the technique(s) where new theoretical mechanisms and/or new analogues can be used.

An example of this framework is the link between expectations (uncertainty) and measurement error.[15] In separate work, Friedman (1957) and Lucas (1973) merged "error in variables" regressions with formal models involving information uncertainty.[16] The important contribution of both Friedman's and Lucas's work (on the consumption function and aggregate supply respectively) is that they relate expectational uncertainty to specific parameters in their regression model(s). This linkage provides a behavioral explanation (achieving identification and accounting for invariance) on why parameters in their empirical model mimic error in variables regressions. Friedman and Lucas's substantive findings would not have been achieved had they just treated their research question as a pure measurement error problem requiring only an applied statistical analysis (and "fix" for the measurement error) that focused on a significant t-statistic.[17]

This framework is certainly not the final word on linking formal and applied statistical models.[18] For example, one could simply link any formal model with actual data and test the specified prediction. In addition, research that fosters links to different levels of analysis (Kydland and Prescott 1982, Freeman and Houser 1998) or makes explicit use of game theory (McKelvey and Palfrey 1995, 1996, 1998, Signorino 1999, Mebane and Sekhon 2002) currently exist. The use of Bayesian analysis is a promising route as well. Experiments, too, provide a rich alternative to the secondary data analysis that is implied in this framework (see a discussion in Morton (1999)).

It should also be noted that the proposed framework leads to alternative criteria for refutation and falsifiability. In particular, there is an explicit focus on parameters. This is important since different levels of specificity in a formal model can create *free* parameters and confound identification. One could think of this framework, then, as having two levels, the first level involving results that are consistent with the formal and applied statistical analogues' predictions. But, a second level requires even greater emphasis (via added information) on identifying every structural relation in the formal model.

This approach also suggests the development of new metrics that address the degree to which free parameters can confound the results. One possibility is to create a *tolerance criteria* on the relation between the structural equations (the formal model), the number of free parameters, and the probability of achieving valid refutation (Type I and Type II errors).[19]

In the end, this framework should not be interpreted as a substitute for pure formal or pure empirical approaches. There are numerous examples where theory is ahead of data and data are ahead of theory, sometimes for decades (Ridgen 2005). Nor should the quantitative nature of this framework suggest it precludes the use of qualitative procedures (see Brady and Collier 2005). Such exclusion would be throwing out information which could otherwise aid in finding underlying mechanisms. Indeed, what this framework is meant to do is shift the focus away from unscientific uses of quantitative methods.

Summary and Implications

Why is creating a more scientific methodology for quantitative political economy a meritorious activity? Improving upon current practice adds significant social value to our work. For example, much of quantitative political economy has been directed toward assisting policymakers in devising ways to stabilize business cycles. In particular, we know that the volatility of business cycles has been reduced in the past 50 years and that the duration of economic expansions has increased in the United States (Granato and Wong (Forthcoming)) and around the world (Sheffrin 1989).[20] These salutary economic events occurred at approximately the same time that quantitative political economic methodologies emphasized and were judged on their ability to produce identified and invariant predictions.

Is this relation between quantification and prosperity a coincidence? A good case can be made that the guidelines of the Cowles Commission and successor methodologies has contributed to changes in business cycle behavior (since World War II). And while they have received their share of criticism, these quantitative tools have assisted policymakers by providing useful knowledge and creating a systematic scientific justification for policymaker actions.

As a final thought, we cannot rely on current quantitative practices that

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misuse the t-statistic if we are to address complex issues, such as why some countries succeed in following certain valid policy prescriptions and others fail. The failure to emphasize identification and invariance threatens scientific cumulation in quantitative political economy. To ensure that political scientists are at the forefront of this scientific endeavor, efforts can be made to encourage research (and a mindset) that unifies formal and empirical analysis.

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economic growth through several mechanisms: 1) secure property rights provide the incentive to maintain the value of an asset; 2) secure property rights provide an incentive to enhance the value of an asset through investment; 3) secure property rights provide the ability to invest by enabling the property right holder to use the asset as collateral for a loan; and 4) secure property rights increase the extent of the market and thereby may increase the exchange value of an asset by enabling outside investors to compete for the ownership of the asset.

Individuals in societies demand secure property rights because they enhance the value of their assets. Underlying the analysis is the notion that the potential rent generation from more secure property rights increases as the resource becomes scarcer. The difference between the rental streams from an asset with more as compared to less secure property rights generates a "demand" for secure property rights.

In our exposition we used distance from a market center as the proxy for scarcity but we could also use fertility of the soil or population density as alternative measures of scarcity.[17] Here it was our knowledge of the region that prompted the use of distance rather than an alternative measure. The framework is flexible to allow for changes in technology, preferences or new market opportunities.

To put meat on the analytical bones detailed above, we (Alston, Libecap and Schneider, 1996) conducted 249 surveys in 1992 of smallholders in the Brazilian Amazonian state of Pará. Designing the survey ourselves enabled to us to collect data on the factors important for a study on the role of property rights.[18] We chose the state of Pará because it was the most populous Amazonian state and the area where land conflict was the most prevalent. This is still true as of 2005. We selected four different areas for our surveys in order to control and test for the importance of various attributes. The mix of sites allowed us to analyze the effects of different agency jurisdictions and settlement processes. Without having knowledge of the settlement process and legal jurisdictions we would not have been able to choose our sites to test for the provision of property rights.

Undertaking a case study enables the analyst to better understand exactly what the proxy for property rights conveys. In our case we used formal titles as the proxy for secure property rights. We maintained that titles conveyed a lot of information about security to the land. Title is a formal document that either is issued by the Brazilian federal government or the state government, depending on jurisdiction, and which signifies government recognition of an individual's property rights to land. With title, the police power of the state is used to enforce private property rights to land. As the most visible form of ownership recognition by the government, having title reduces private enforcement costs, provides security and collateral for long-term investment in land improvements, and promotes the development of land markets. All of these activities are wealth enhancing.

With a firm understanding of the rights title conveyed we then proceeded to estimate the impact of land titles on land investment and land values.[19] Controlling for a host of individual characteristics we estimated the percentage of total farmland representing investments for those with and without a title. The results across our sites follow: Devoting land to pasture or permanent crop represents large investments in materials, effort, and, in the case of tree crops, patience. The effects are large, statistically reliable and, importantly, believable because of the care that went into understanding the local context and therefore the survey design.

Table 1
Percentage of Hectares devoted to pasture or permanent crops

	Without a Title	With a title
Altamira	26%	55%
Sao Felix	7%	28%
Tailandia	12%	33%
Tucuma	32%	80%

We also estimated the impact of title on land values, over and above its impact on investment. Investments should increase land values more on titled than untitled land. This extra increase is because settlers have to expend less time enforcing their own claims and because the extent of the market for their land has increased. For example, most investors in Sao Paulo or Rio de Janeiro would only buy titled land. The increased value of a title is greater for land that is closer to a market center. For land at the market center our estimates indicate that a title title increases land values by 189%. For land that is 40 kilometers from the market, value would increase by 72% with a title; and for land 140 kilometers from a market land values would increase by 45%. These estimates make sense because titled land closer to a market should have a greater value due to increased competition for the land. By controlling for distance we show that titles matter more, not surprisingly, the greater the competition for land, which we proxied by distance to the market.

It is the potential impact of property rights to land that will drive the "demand" for property rights. But property rights are not costlessly supplied nor are the incentives identical across titling agencies in Brazil. In our work on the Amazon we used proxy variables for both demand and supply side variables and estimated the determinants of property rights. As the potential impact of secure property rights increased so too did the probability of having a title. Perhaps more innovatively we were able to test for the impact of different suppliers of title on the likelihood of an individual having a title. It turns out that state land agencies title more, holding all else constant, than

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federal land agencies. This makes sense given that there is a greater electoral connection between land holders and local politicians who tend to title prior to elections as a quid pro quo for a vote. We reached this conclusion by asking squatters if and when they anticipated receiving a title. Only using a dummy variable to capture jurisdictional differences, however, would not have allowed us to achieve these findings.

If titles have such beneficial results why are secure titles not more prevalent in Brazil and elsewhere in the world? Though many landholders in the Amazon and elsewhere in rural Brazil have a legal formal title, property rights for many large landholders remain insecure. Several factors account for the insecurity. Brazil has the highest level of land inequality in Latin America, which produces a consensus view in Brazil for land reform. Yet, there is also a consensus that property rights and land titles should be upheld. In the 1988 Constitution, as well as earlier Constitutions, there is a provision allowing squatting on private land if the land is not "beneficially used." If land is not productively used the state has the right to expropriate (with compensation) the land. As a result of these Constitutional measures, the Landless Peasants Movement has organized land invasions in the hope of prompting the government to expropriate and redistribute to the invading group. This leads some farmers in the Amazon to cut trees prematurely in order to show "beneficial use." In all regions the invasions and reactions of landholders has led to violent conflict. One can view the conflict at a higher level as one between the federal government responding to the general interests of the public for land reform and the courts who adjudicate according to Civil Law which guarantees the rights of private property holders. In an even broader sense there is a political conflict present in all societies to a greater or lesser degree of promoting efficiency through secure property rights and promoting equity through redistribution.

The goal of describing the work on property rights in the Amazon was to provide sufficient description to illustrate some of the benefits of the case study method as discussed in the introduction. By providing sufficient detail, in this instance the role of land titles in the Brazilian Amazon, we can first understand the issue and thereby better isolate the theoretical concept and as a result the argument becomes more compelling. I also tried to emphasize the importance of being analytically clear on the determinants of institutional change, here the demand for and supply of property rights, and the impact of a given institutional change, in this case the impact of having a land title on investments in land and land values. The results of a case study should also shed light on a bigger issue. In this case it is the role of property rights in fostering economic development. I trust that it is obvious that to the extent that titles affect behavior in the Brazilian Amazon they might function in a similar fashion in Latin America.[20]

III. The Erosion of Checks and Balances in Argentina and the Rise of Populism[21]

At the dawn of the 20th century Argentina was in the top ten in GDP/per capita in the world. At the dawn of the 21st century Argentina is a middle income country. Why did the fall occur? Cross-country econometric evidence would probably do little to help us answer this question because regression analysis tells us about behavior at the mean and Argentina is an outlier. On the other hand a detailed case study can give us a better understanding of off-path behavior, which in turn may help us produce more enlightened policies for economic development. This case study also illustrates the role of beliefs in shaping economic policies, especially in the long-run when economic performance is poor. The role of beliefs is important for theorists to understand in their quest as to why there has not been convergence in GDP across countries.

From the late 19th century until 1914 Argentina was run by a conservative autocratic elite. In 1912 Argentina established the secret ballot and embarked on its way towards becoming a country ruled by a legitimate democracy. As a result of the secret ballot, the Radical Party secured majority representation in the Chamber of Deputies and the Presidency from 1914 to 1930. The Conservative Party maintained its majority in the Senate. During this period Argentine citizens began to develop a belief in the rule of law, with the Supreme Court acting as an independent check on the executive and legislative branches.[22] During this period Argentina also continued in its mode of sustained economic growth. The virtuous feedback from a system of checks and balances to economic growth came to an end with the first military coup in Argentine history in 1930. The Conservative Party openly supported the coup, as did the Supreme Court and some people within the Radical Party.

The Conservatives planned on moving back to open democracy and held a fair election in the province of Buenos Aires in 1932. The Radical Party won the election and the Conservatives, fearing defeat at the National Election, annulled the vote. The Conservatives in particular were afraid of turning over economic policy to the Radicals during the Great Depression. Though conducting economic policy well during the Great Depression, the Conservatives continued to engage in fraud in several leading Provinces, particularly Buenos Aires, in order to stay in power.[23] As a result the Conservatives eroded the belief in the rule of law and set the stage for the next military coup in 1943 and the support for populism.

Following the coup, Juan Peron won the Presidential election fairly in 1945.[24] His platform consisted of a series of populist policies one of which entailed abridging the property rights of

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landowners in the Pampas. This abridgement of rights would not have been possible had it not been for the impeachment of all but one of the Supreme Court Justices. In the hearings for the impeachment it was clear that the rationale was the countenance of fraud during the 1930s. Following the impeachments, the Peronists began to craft a new Constitution, which they submitted for approval in 1949. With a new constitution in hand and without a backstop of an independent judiciary, the Peronists were able to have their way until the next military coup in 1955.[25]

Since the impeachment process and new constitution, Argentina has never been able to return to its former institutional path of upholding property rights through the rule of law. In the aftermath of Peron, Argentina witnessed a departure from its historical growth trajectory compared to other high-income countries.[26] In 1947 Argentina was ranked 10th in the world in per capita income. Relative to various cohorts to whom Argentina might be compared, relative income per capita fell precipitously. Argentina now ranks between the mid-sixties and mid-eighties in income per capita and is no longer the growth superstar of Latin America.

Successive military and populist governments appointed their own Supreme Court Justices in order to accomplish their political goals. But, without the court as a backstop, institutional volatility ensued.[27] Until Peron, no Justices had been impeached or "forced" to resign. Following Peron, only 5 of the 63 changes in Justices have been due to death or retirement.

The only time when Executive, Legislative and Judicial branches were close to the ideal of the Constitution was the Camelot period of 1912-30. After the military coup of 1930, instead of returning to open democracy, the conservative elite resorted to fraud in order to stay in office and dictate economic policy. The Conservatives may be given high marks for economic policy but their short-sightedness gave rise to oscillations between democratic/populist and conservative/military governments. With this background we cannot be sanguine about the future institutional path of Argentina.[28] Until Argentina moves to back to a respect for rule of law with an independent court and constitutional review, it seems highly unlikely that short-run economic policies can re-ignite economic growth.

The importance of studying the Argentine case is to understand off the path behavior. Argentina is the only country in modern history that fell from a high to a middle-income country. It is only by understanding the historical detail that allows us to argue that in the absence of fraud Argentina would still be a high income country with checks and balances. The Argentine case also provides a more general lesson about the fragility of young democratic institutions. Beliefs in the system of checks and balances are important for both building and sustaining democratic institutions, which underlie long-run economic growth.

IV. Southern Paternalism and the American Welfare State: The Dynamics of Institutions[29]

Temporal analysis of the determinants and impact of institutions is necessary in order to better understand the dynamics of institutional change. Case studies are ideal for this task because they enable the analyst to construct an analytical narrative. Narratives allow for the combination of a deep understanding of the historical and institutional context with a theoretical framework. Temporal narratives also give the scholar the ability to address the "big picture" that is both the consequences of institutions on economic performance and the feedback of economic performance on institutional change.

Generally, it is an easier task to analyze the impact of institutions on contracting and in turn economic performance. I use "contracting" in the very general sense, i.e. how the participants interact to best exploit the potential gains from trade. The beauty of a case study is that it allows us to keep these abstractions in mind while engaging in the specifics of time and place which Hayek and Coase viewed as essential for theoretical (Hayek) and empirical (Coase) work.

In this section I will detail the rise and fall of paternalism (a part of contracting) in Southern agriculture and then the impact of paternalism on the shape of the American welfare state (a set of institutions). Prior to analyzing paternalism it is important to set the stage or establish the background conditions. From its initial settlement by Europeans in the early 17th century to mid-20th century, the U.S. South was dominated by agriculture both economically in terms of employment and politically in terms of representation. Our analysis focused on the post-Civil War (1865) period until circa 1970. Throughout this period the South can be characterized as a "low wage" and "low education" region. From the late 19th century there was effectively only one political party: the Democratic Party.

Because of the legacy of slavery and massive immigration to the U.S. North in the late 19th and early 20th centuries, the South was home to the vast majority of the black population in the U.S. until after World War II. Furthermore, most of the black population resided in rural areas and worked in agriculture, many on plantations where their predecessors toiled. On large plantations paternalistic relations predominated. By paternalism in Southern agriculture, I mean an implicit contract that emerged following the Civil War, under which agricultural workers (more often black than white) exchanged "good and faithful" labor for a variety of in-kind goods and services, most notably protection from civil rights abuses.

Workers had a "demand" for paternalism because of the presence of

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discriminatory laws and practices in the South and the absence of any federal or state welfare programs. For example, by the 1890s the Democratic agricultural elite managed to disfranchise most blacks (and many poor whites) through the establishment of literacy tests and poll taxes. Lynchings – public murder – peaked in the 1890s. In this atmosphere, labeled in the early 20th century by W.E.B. DuBois as "an armed camp for intimidating black folk," it made sense for black workers to attach themselves to a white protector who could protect them from the most vicious abuses and also provide them with the modicum of social insurance, e.g. a house, medical care, garden plots and, for the most loyal workers, old age assistance.

Landlords had an incentive to "supply" paternalism because of the high monitoring costs in pre-mechanized labor intensive agriculture. By offering a paternalistic contract planters could induce greater work effort and reduce turnover by supplying goods and services (protection from civil rights abuses) that were difficult if not impossible to procure in the market. In the language of labor economists, paternalism functioned as an efficiency wage, the landlords offered workers a total compensation package that had a greater value than the alternative, casual labor market, package. The simple "demand" and "supply" framework for paternalism examines contracting and takes institutions as exogenous. I now turn to an examination of political institutions.

Paternalism rested on the political ability of Southern Congressmen to maintain social control in the South and prevent northern interference in race and labor relations. The disproportionate ability of Southern Congressmen to ward off northern attempts to reform the South rested on two main institutional factors which I also take as exogenous to this analysis. The first important institution in the South was the creation and maintenance of the southern one-party system. Having one party gave disproportionate seniority to Southern Congressmen, which in turn allowed Southern politicians to occupy nodes of power in the U.S. Congress, in particular chairs of committees. Chairs of committees have considerable agenda setting power, which allowed Southerners both to veto legislation that as whole they did not want and shape bills to their preferences.

Further bolstering Southern political power was their ideological position within Congress. Overall they occupied a pivotal position. On labor and race relations they aligned themselves with Republicans, but on other issues they sided more with the populist side of the Democratic Party. Ideology and agenda control enabled the South to shape the welfare state in the U.S. for more than 50 years. I stress that here the analysis takes welfare policy as endogenous to the political actors in the South because of exogenous institutions giving them disproportionate political power. Evidence that Southerners were able to prevent any interference in agricultural labor relations include: 1) Agricultural workers were excluded from the first two major welfare and labor relations programs passed during the 1930s – the Social Security Act and Fair Labor Standards Act; 2) Southerners were decisive in cutting appropriations to the Farm Security Administration (FSA) in the late 1930s when the FSA turned its agenda from recovery to reform; 3) Southerners were instrumental in establishing deferments from the military draft for agricultural workers during World War II; and 4) Southerners initiated and maintained the "guest worker" program for Mexicans to work in U.S. agriculture, mostly outside of the South, as a means of discouraging out-migration of its own agricultural labor force.

So far I have described how paternalistic relationships in Southern agriculture emerged and were sustained because of the economic incentive and political ability of Southerners to keep labor cheap and dependent. In this part of the analysis we took paternalistic relations as the "dependent" variable given a set of institutions. In another part of the analysis we showed how another set of exogenous institutions, e.g. the one-party system coupled with strong committee power, enabled the South to shape the welfare state, which in turn fed back on paternalistic relations.

The dynamic maintaining paternalism began to change in the late 1950s and early 1960s and by circa 1970 we see little paternalism in Southern agriculture. Given that paternalism rested on the economic incentive in Southern agriculture and the political ability of Southerners to shape labor relations, one or both had to change. We argue that the economic incentive to continue paternalistic contracting changed with the mechanization of cotton and complementary technology that came to fruition around 1960.[30]

A competing though not necessarily contradictory explanation for the decline of paternalism is that the political ability of Southerners to resist the expansion of the welfare state declined. We find the evidence inconsistent with Southerners losing political power. As a measure of political power, we used the chairmanship and top five senior seats held by Southern Democrats on the following House and Senate Committees: House Committees – Rules, Appropriations, Ways and Means, Agriculture, Education/Labor and Judiciary; and Senate Committees: Rules, Appropriations, Finance, Agriculture, Labor and Judiciary. The evidence clearly shows that Southerners did not lose their dominance of the committee hierarchy in the 1960s and indeed Southerners slightly increased their strategic nodes of power. We also stressed that it was not necessary for Southerners to dominate a particular committee in both houses of Congress; seniority in one

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chamber is sufficient to act as a veto player.

With the economic incentive to supply paternalism obsolete and with it the fierce opposition to the rise of the federal welfare state, we argue that Southern Congressmen allowed and shaped the expansion of the modern American welfare state. Evidence consistent with this view includes: 1) the passage of the Economic Opportunity Act in 1964 which was the first welfare legislation to encourage migration out of the South by allowing state control of welfare benefits, even though the benefits were partially funded by the federal government; 2) the termination of the guest worker program for Mexicans in 1963; 3) the passage and expansion of the Food Stamp program; 4) the soliciation of outside capital by Southerners; and 5) the dramatic increase in expenditures on Southern primary and secondary education.

The rationale for the detail in this case was to show how to use case studies to illustrate and test the dynamics and feedback loops among institutions, economic contracting, economic performance, technological change and institutional change. Like all of political economy, it is crucial for the analyst to be explicit about what is exogenous and what is endogenous. Unless one does so the narrative strays from being analytical with general lessons to being a unique story.

V. The Lessons from Case Studies

In this essay, I tried to demonstrate the value of case studies for economists and political scientists by detailing three specific case studies. The tools used in case studies are similar to the tools used elsewhere in the New Institutional Economics: a theoretical framework emphasizing the interaction of institutions and economic performance; and empirical testing using both qualitative and quantitative evidence, including econometrics. Case studies have value in part because they enable the scholar to be very detailed and specific about both causation and testing. In our analysis of Brazil we provided a clear description of the possible benefits of having a title and how values vary with the distance from a market. This enabled us to perform very clear tests that generated believable results about both the determinants and impact of land titles. The importance of the study lays both in the issue itself, the Amazon being one of largest remaining frontiers in the world but also because it clearly illustrates and quantifies the role of secure property rights.

Case studies can also enable the analyst to examine off-path behavior and the role of beliefs in shaping economic policies, which in turn shape economic performance. The most general characteristic of societies is stasis but there are critical turning points. Detailed case studies may be the best way to examine moments in a country's history that have long term effects. We argued that the electoral fraud in Argentina in the 1930s promoted a belief in populism that led to an erosion in the belief in the rule of law and that in turn led to a declining relative economic performance. Argentina fell from one of the top GDP per capita countries in the world to a middle income country.

One of the hallmarks of the New Institutional Economics is its ability to examine the dynamics of institutional change and economic performance. To do so requires that the analyst be careful about what is exogenous and what is endogenous to the actors in the system. In the case study of paternalism in Southern U.S. agricultural labor contracts we tied the prevalence of paternalism to the high supervision costs of monitoring labor prior to mechanization of Southern agriculture. But, for paternalism to reduce monitoring, workers needed to be dependent on their landlords. This dependence required the absence of welfare programs which, because of political institutions in the U.S., the South was able to shape. Once mechanization became available, the South again shaped welfare policies only now in a way that encouraged migration out of the South.

The goals of case studies include: the ability to first understand an issue prior to modeling it; the ability to test theoretical hypotheses using both qualitative and quantitative evidence; and the ability to shed credible light on the workings of the institutional and economic workings of society. At the current stage of development of the New Institutional Economics, case studies allow us to ask better questions, and then develop and test better models. Case studies form the building blocks upon which we can erect a more solid theoretical and empirical foundation for a theory of the dynamics of institutional change: the holy grail of many in the social sciences.

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[1] This essay draws heavily from a forthcoming chapter, **"**The "Case" for Case Studies in the New Institutional Economics" in New Institutional Economics: A Textbook, edited by Jean-Michel Glachant (2005). For comments and helpful discussions I thank David Brown, Joseph Ferrie, Andres Gallo, Gary Libecap, Bernardo Mueller and Tomas Nonnenmacher.

[2] A similar complaint can be raised about modeling. Most models in economics and political science are really quite obvious. The importance of a model should be to clarify our thinking and develop testable hypotheses. Far too often the model simply demonstrates that the modeler can do some math rather than increasing our insights into the intuition of the right problem.

[3] I do not mean that large cross-country studies do not have merit but only that the analyst needs to take care with fully understanding the data used to measure the independent and dependent variables.

[4] The New Institutional Economics draws insights from across the social sciences as well as law. It is a turn-around for economists who, in the spirit of Gary Becker, were imperialists in the other social sciences. Many NIE economists are importers from other disciplines: Anthropology, Law, Political Science, Psychology, and Sociology. "Analytic Narratives" is the title of a book of case studies compiled by Robert Bates, Avner Grief, Margaret Levy, Jean-Laurent Rosenthal, and Barry Weingast.

[5] By "historical" I mean an approach that relies on quantitative and qualitative evidence, which has been one of the hallmarks of historical research.

[6] Anthropologists as well as scholars in business schools have relied on surveys for a long time.

[7] Coase is clearly a theorist in the Sherlock Holmes mold. His article on private lighthouses is a great example of pointing out the folly of purely relying on inductive theory for predictions.

[8] Paul Joskow and Victor Goldberg were two of the scholars who first worked on the issue of long-term contracting and vertical integration.

[9] The work of Oliver Williamson, along with Coase, may have had the greatest impact on theorists working on contract theory.

[10] Douglass C. North was the pioneer in taking "micro" concepts and using them to build an analysis of changes over time. It is important to note that North has been careful not to refer to his work as theory. Indeed, North, like Coase, maintains that economists are far too hasty in modeling an issue before they fully understand the issue. See in particular North (2005).

[11]For possible explanations for "institutional lock-in" see Alston and Mueller (2005).

[12] The work of Acemoglu, Johnson and Robinson falls into this category.

[13] See Levy and Spiller (1994) for an analysis of the impact of political determinants on regulatory outcomes for telecommunications.

[14] Franchising is a good example of an economic outcome for a micro case study.

[15] This section draws heavily on Alston and Mueller (2005), Alston, Libecap and Mueller (1999) and Alston, Libecap and Schneider (1996). See Libecap (1989) for a early discussion of property rights which relies on case studies from which he draws generalizations.

[16] The work of Erica Field on titling in Peru is a recent addition to the literature on impact of secure property rights on economic behavior.

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GENERAL ANNOUNCEMENTS

INTRODUCTION OF APSA WORKING GROUPS AT 2005 ANNUAL MEETING

APSA has introduced a program of Working Groups on Political Science at its 2005 Annual Meeting. The Annual Meeting Working Group is a small group of meeting attendees interested in a common topic who agree to attend panels and plenaries aligned with the topic and convene 2 or more times at the meeting for discussion of them. The idea is to simulate a working group conference experience amidst the panels. We hope Section Members will be interested in sponsoring or participating in a Working Group in their area of specialization.

Contact Ebony Ramsey at eramsey@apsanet.org if you are interested. You can find more information on organizing or signing up for an AMWG by visiting http://www.apsanet.org/section_584.cfm

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[1] A quantitative model can be characterized as a construct that is represented by a set of logically — and in this case — quantitatively connected variables. Quantitative models of political economy can include formal analysis (modeling) and applied statistical analysis. Formal analysis (i.e., social choice, linear difference equations, and differential equations) refers to deductive modeling in a theorem and proof presentation or computational modeling that requires the assistance of simulation. Applied statistical analysis involves data analysis (from experimental or secondary sources) using statistical tools.

[2] *Order* is defined as "the selection of one set of appearances rather than another because it gives a better sense of the reality behind the appearances" (Bronowski 1978: 48). Bronowski is critical of what he believes is the misuse of the term *cause* and prefers to link it with probabilistic statements — *chance* — which "replaces the concept of the *inevitable effect* by that of the *probable trend*" (p. 87).

[3] Because inductive inference or logic involves deriving a reliable generalization from observations, the premises make a probabilistic statement about a conclusion.

[4] Note that deductive inference can be used to "supplement" inductive inference as well. The issue is the unification of both.

[5] For example, Seawright and Collier define *identification* as "The process of demonstrating that the researcher has sufficient information (typically involving the number of data-set observations) to produce estimates of the parameters in a given causal models" (Brady and Collier 2005: 303).

[6] See http://cowles.econ.yale.edu/about-cf/about.htm.

[7] A lesson on these early developments is that the acceptance of statistical methodology has been motivated by substantive problems. Some methodological contributions of political science have centered on voting behavior (see Gow 1985) while for economics macro contributions have been on the business cycle (Tinbergen 1937, 1940). While quantification includes formal and applied statistical (empirical) approaches, this essay emphasizes changes from the applied statistical side.

[8] Following Haavelmo (1944), this *probability approach* involved the definition of a precise stochastic model representing the phenomenon under study and the generation of the data. Inference was to be determined within the framework of a *complete* model, where the model is characterized by as "many relationships as variables to be explained" (Morgan 1990: 114). The application of the probability approach resulted in models (built mostly by economists) that appear as systems of equations with additive random terms. Estimation and testing was done in the context of these complete representations. A typical estimation procedure was ordinary least squares.

[9] Research associated with the Cowles Commission approach includes (but is not limited to): Cooper (1948), Haavelmo (1943, 1944), Hood and Koopmans (1953), Klein (1947), Koopmans (1945, 1949, 1950), Koopmans and Reiersol (1950), and Marschak (1947, 1953). For further background on the Cowles Commission consult the following URL: http://cowles.econ.yale.edu/.

[10] See Zellner (1984: 16-25) for further information on criticisms of the Cowles approach.

[11] Sims' approach also deemphasizes the use of the t-statistic.

[12] Sims' VAR approach has been used extensively in quantitative political economy, but (again) more so by economists than political scientists. For an application in political science, see Freeman, Lin, and Williams (1989). In addition, see Freeman and Houser (1998) for an application of the RBC method and Freeman (2005) for recent developments in both VAR and RBC approaches and their potential applications in political science.

[13] See Morton (1999) for a comprehensive examination of the effort to merge formal and empirical analysis.

[14] Technical details of this framework are provided in Granato, Lo, and Wong (2005).

[15] Achen (1983) describes how Kramer (1983) creates a measurement error by suggesting that citizens respond to income changes in a way that is not captured by the data that researchers use. This framework is related to Kramer's logic.

[16] The error-in-variables regression model was the analogue for measurement error. Conditional expectations techniques were the analogues for expectations and information uncertainty.

[17] See Granato and Wong (Forthcoming) for an example that links behavioral analogues for expectations and learning (i.e., adaptive learning) with the applied statistical analogue of persistence (AR(1) process).

[18] Analogues are central to this suggested framework. Some have been created but others will have to be invented as the research questions demand them. For example, one can have a model and test that has changing parameters, but not follow the path of Lucas (1973).

[19] One could envision a mix of rank and order-type conditions in conjunction with Extreme Bounds Analysis (EBA) (Leamer 1983).

[20] Since 1854 the three longest peacetime (or otherwise) economic expansions in the United States occurred *after* World War II (see http://www.nber.org/cycles.html).

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[17] The framework accommodates any force that either increases (or decreases) demand or supply.

[18] Designing the survey ourselves not only allowed us to construct the proxies for testing the determinants and impact of property rights but it gave us a thorough understanding of the issue prior to modeling and testing.

[19] We estimated a three-equation model with dependent variables as title (0,1), land value per hectare, and land investment (% of hectares that received site specific investments in either permanent crops or pasture requiring costly fencing).

[20] The degree to which one can extrapolate depends on thorough understanding of the role of title in a given society. Extrapolating to the rest of the world is analytically dangerous unless one is cognizant of the local formal and informal institutions.

[21] This section draws primarily from Alston and Gallo (2005).

[22] The Justices were independent but as is true in most countries, the Justices belonged to the upper classes and therefore were more likely to represent the interests of the higher socio-economic class.

[23] In Alston and Gallo (2005) we perform an econometric counterfactual using county level allegations of fraud as an explanatory variable for the vote for Conservatives. The results indicate that in the absence of fraud the Conservatives would have lost in the Province of Buenos Aires and most likely lost control of the Presidency.

[24] In Alston and Gallo (2005) we perform an econometric estimation for the determinants of voting for Juan Peron. One of the explanatory variables is fraud in the 1930s. Our results indicate that those provinces where fraud was the greatest voted most heavily for Peron. Indeed without fraud our results indicate that Peron would not have been elected. Additional circumstantial evidence comes from the Province of Cordoba located in the rich agricultural Pampas. In Cordoba the conservatives refrained from fraud in the 1930s and lost the elections but Cordoba continued to vote for the Radical Party and received more votes than Peron in the Presidential election of 1945.

[25] The U.S. confronted a similar turning point in its institutional history but the electorate in 1896 came down on the side of maintaining the independence of the Supreme Court. In the election of 1896, the Supreme Court was under assault and one of its Republican defenders presaged the future of Argentina: "There are two places in this country where all men are absolutely equal: One is the ballot-box and the other is the Supreme Court. Bryan (the Populist candidate) proposes to abolish the Supreme Court and make it the creature of the party caucus whenever a new Congress comes in…" [Westin, 1953, p. 37]

[26] See, Gallo (2003), for the econometric tests that determined the break point for Argentine GDP per capita with respect to Australia.

[27] Examples of the institutional volatility are abundant: The military government in 1955 removed all the Justices of the Supreme Court and nullified the Peronist constitutional reform of 1949 by a simple Decree. In 1958 the new Democratic President replaced most of the Justices of the Court and introduced two new Justices. Successive governments frequently either forced judges to resign or impeached them. On the economic side, stop and go policies characterized the post-Peron years. See Spiller and Tomassi (2003) for elaboration on policy volatility.

[28] The recent (January 2005) default by Argentina on its debt obligations illustrates this point.

[29] This works draws on Alston and Ferrie (1999).

[30] In 1960 Southern farmers still harvested 50% of the cotton crop by hand. We took technological change as exogenous in our analysis.