

POSC 143: Politics, Economics, and Democracy
Spring, 2007-2008

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Introduction. This course focuses on the political economy of market-oriented, democratic nations. Thus, its purpose is to provide a relatively in-depth study of the relationships between economics and politics in the established democratic capitalist systems of North American, Europe, and Australasia. Given that substantial numbers of nations in the “developing world” have abandoned authoritarianism for democracy, and central planning and government ownership for free markets and private property, many of the ideas about democratic capitalism we cover in the course can be applied readily to nations in Latin American, South Asia, and other areas of the (developing) world.

There are many ways to organize a class in political economy. We will do so by sequentially addressing a few of the really “big questions” about politics and economics asked in the disciplines of political science, economics and related fields. First, we shall consider the relative strengths and weaknesses of *markets versus politics* in achieving economic growth, socioeconomic equality, and other goals that most societies desire. We will survey the theory of market failures, namely, the idea that free market economic systems fail to provide public goods (e.g., national defense), deal effectively with externalities (e.g., pollution), and fail to accomplish other objectives all societies seek to obtain. In this context, we will give particular attention to one of the alleged problems of capitalist economic systems, namely, that the disproportionate power of owners of capital (that is, private business) tarnishes democracy. On the other hand, we will explore a set of ideas that suggests many facets of the practice of democracy (e.g., competitive elections, alternation in power of partisan governments), and a heavy reliance on public bureaucracies to implement democratically chosen policies, subverts economic efficiency and growth.

Second, we will address the question of whether or not there exists multiple “*varieties of democratic capitalism*” that succeed in different degrees in accomplishing economic growth, equality, and other universal societal goals. We will pay particular attention to the theory that the “social market economies” of much of Western Europe – political economies characterized by highly organized labor unions and private business communities, large welfare states, and significant government regulation of the market – match the liberal market economies of the United Kingdom, the United States and other Anglo countries in achieving material well-being and surpass them in socioeconomic equality. From this perspective, the degree and character of the organization of private businesses and their interaction with government is especially important in understanding the politics and economics of democratic capitalism.

Third, we will tackle one the most important questions of contemporary politics and economics: *has economic globalization overshadowed domestic economics and politics?* That is, has the vast expansion of trade (i.e., the growth in regional and global markets for goods and services), the explosion of transnational capital flows, and the increased movement of labor eclipsed the power of domestic economic actors and democratically elected policy makers to determine growth and equity in any particular nation?

Readings/Books. Nearly all of the course’s reading assignments will come from five books. These are available at the Book Marq. A small set of core journal readings will be available electronically (go to MARQCAT on the Raynor Memorial Libraries Website, then to title of journal). In addition, a couple of book chapters will be on electronic reserve at the Raynor Library with physical copies of the book at the reserve desk. Finally several short readings will come by way of class handout. Our book list, consisting of recent classics and important new works, is:

William Keech, *Economic Politics: The Costs of Democracy*. (New York: Cambridge University Press, 1995).

Layna Mosley, *Global Capital and National Governments*. (New York: Cambridge University Press, 2003).

Jonas Pontusson, *Inequality and Prosperity: Social Europe vs. Liberal America*. (Ithaca: Cornell University Press, 2005).

Graham Wilson, *Business and Politics: A Comparative Introduction*, 3rd ed. (New York: Chatham House, 2003).

Charles Wolf, Jr. *Markets or Governments: Choosing Between Imperfect Alternatives*, 2nd ed. (Cambridge, MA: The MIT Press, 1993).

Grading. Grades will be based on three exams -- two hourly exams and a final (a third hourly exam) -- and a research paper. Each of the exams will consist of essay questions covering required readings and class materials. The research paper will involve an analysis of a specific question about the interaction of politics and economics in democratic capitalist nations. A well-developed *paper prospectus* describing the research question, time frame, and countries for the paper, and including a preliminary bibliography, is *due on March 11*. The *paper is due May 1*.

Hourly Exam I:	20 %	Hourly Exam II:	20 %	Final Exam	20%
Paper Prospectus:	10 %	Final Paper	30 %		

Class Attendance. It is required, subject of course to excused absences (e.g., sickness, family and special work commitments); students are expected to actively participate in class.

Schedule of Readings

Part I: *Markets versus Politics*

January 15: Course Introduction (no assigned reading)

January 17: The Theory of Market Failures

- Chapter 1 “Cardinal Economic Choice,” and Ch. 2 “Market Failures” in Wolf, *Markets or Governments*

January 22/24: The Problem of Capital, or is Business too Powerful for Democracy?

- Ch. 13 “The Privileged Position of Business” (and Chs. 14 & 15) in Lindblom, *Politics and Markets* (Raynor Library electronic and hard copy reserve)
- Ch. 1, “Introduction,” and Ch 2, “Business and Politics in the United States,” in Wilson, *Business and Politics*

January 29/31: A Theory of Government Failure

- Chapters 3 and 4 on “Non-Market Failures” as well as concluding Chs. 6 and 8 in Wolf, *Markets or Governments* (Chs. 5 and 7 recommended)

February 5: Some Early Summary Reflections on the Trade-off Between Growth and Equality.

- Ch. 1, “Rethinking the Tradeoff Between Growth and Equality,” Pontusson, *Inequality and Prosperity*

February 7/12: More on the Problems of Politics and Governments: the “Costs of Democracy.”

- Ch.1 “Macroeconomic Politics and the Costs of Democracy” and Ch. 2, “Macroeconomic Theories and Their Political Implications,” in Keech, *Economic Politics: the Costs of Democracy*

February 14: **First Hourly Exam**

February 19/21: Democratic Economics? Electoral and Partisan Business Cycles.

- Chs. 3, 4, and 5 (Models of Opportunism and Partisan Choice) in Keech, *Costs of Democracy*

February 26/28: Economic Performance, Voters and Election Outcomes.

- Ch. 6 “Voters, Elections, Accountability and Choice” In Keech, *Economic Politics: the Costs of Democracy*
- Michal Lewis-Beck and Mary Stegmaier, “Economic Determinants of Electoral Outcomes” *Annual Review of Political Science* 2000. (Electronically Available through MARQCAT)

March 4: More on Fiscal and Monetary Policy.

- Chs. 7 and 8 (Discretion and Accountability in Fiscal and Monetary Policy Processes) in Keech, *Economic Politics: the Costs of Democracy*

March 6: Research Day

- class participants work to complete paper prospectus (prof at CES meetings)

March 11: An Overview of Varieties of Political Economies.

- Ch. 1 (review) and Ch. 2 “Varieties of Capitalism”
- **Research paper prospectus due**

March 13-23: Spring Break and Easter Holiday combined

Part II: Varieties of Democratic Capitalism: Does One Size Fit All?

March 25/27/April 1: How Social and Liberal Market Economies Work?

- Ch. 3 “Income Distribution and Labor Markets, Ch. 4 “Employment Performance,” Ch. 5 Macro-Economic Performance and Wage Bargaining,” and Ch. 6 “Participation, Security, Mobility and Skills,” in Pontusson, *Inequality and Prosperity*

April 3: **Second Hourly Exam**

April 8/10: More on Business Organization and Politics Across Varieties of Capitalism

- Chs. 3, 4, and 5 (more on varieties of business organization in Anglo liberal, neocorporatist, and developmental states) in Wilson, *Business and Politics*

April 15/17: The Importance of the Welfare State in Models of Democratic Capitalism

- Chs. 7, 8 and 9 (political economy welfare states) in Pontusson

April 22/24: Introduction to Globalization and Domestic Autonomy: Diminished Democracy?

- Ch. 1 “National Governments and Global Capital,” Ch. 2 “Financial Markets and Government Policy, and Ch. 3, “Financial Market Influence in Developed Nations.” in Mosley, *Global Capital and National Governments*

April 29 and May 1: Does Globalization Really Matter and, If So, How Much?

- Ch. 4 through Ch. 8 in Mosley, *Global Capital and National Governments*

May 1: **Final Papers Due**

May 6 (1-2 pm) **Final Exam (Third Hourly Exam)**