**POSC 4411: Politics, Economics, and Democracy**  
Spring, 2012-2013

Duane Swank  
Office 450 William Wehr Physics  
Office Hours: Monday/Wednesday 11:30 - 1:30  
Phone: 8-6842/3418 Email: duane.swank@marquette.edu

**Introduction.** In the wake of the global financial crisis, the great recession, and the explosion of public sector deficits and debt, basic questions about the relationship between markets and governments – and between capitalism and democracy – take on new significance. Is capitalism inherently unstable and, if so, what role should government play in managing the ever-present risks and uncertainties? Is business – most notably internationally mobile financial capital – just too powerful politically? Why have some governments apparently had more success than others in responding to the financial crisis? Are governing parties electorally punished for the persistence of the crisis, for stubbornly high unemployment, and for rising government deficits and debt?

This course focuses on the political economy of market-oriented, democratic nations and, as such, tackles these and other fundamental questions. Generally, we will pursue 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 and recently developed) world. To some extent, we will engage in such applications.

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 ends that most societies desire. We will survey the theory of market failures, namely, the idea that free market economic systems – despite their strengths – 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 of 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 (and, hence, citizens) to determine growth and equity in any particular nation?

To conclude, we will apply the theories and evidence obtained through our discussion of these three sets of questions to an analysis of the current economic crisis and malaise (and develop possible solutions to the problems confronting the US and other capitalist democracies).

Readings/Books. We will read four (arguably very good) books in political economy from the 1990s and 2000s; most of the course’s reading assignments will come from these books. The books are available at the Book Marq or Amazon (among other sellers). A small set of core journal readings will be available electronically (go to ARES course reserve for the class at Raynor Memorial Libraries Website). In addition, a few chapters or articles will be on electronic reserve on D2L for POSC4411. Finally several short readings will come by way of class handout. Our book list is:


Background Reading: For those who wish a quick review or some more background on key theories and concepts in macro- or international economics, for instance, see Frederick Weaver, *Economic Literacy: Basic Economics with an Attitude* (Rowman and Littlefield, 2007); this book is on reserve at Raynor Memorial Library.

Grading. Grades will be based on three hourly exams, a research paper, and class participation. 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 and including a preliminary bibliography, is due on March 6. The paper is due May 3. (More on the paper in a class handout.)

<table>
<thead>
<tr>
<th>Hourly Exams I, II, III:</th>
<th>20 % each</th>
<th>Class Participation</th>
<th>5 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper Prospectus:</td>
<td>5 %</td>
<td>Final Paper:</td>
<td>30 %</td>
</tr>
</tbody>
</table>

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

Schedule of Readings

**Part I: Markets versus Politics**

January 14: Course Introduction (no assigned reading)

January 16: Markets and Human Well-Being

- Introduction and Chs 1-3 in Cassidy, *How Markets Fail*

January 21: Martin Luther King, Jr. Holiday

January 23 and February 1: The Theory of Market Failures.

- Chs. 9-14 in Cassidy, *How Markets Fail*

February 1 and 6: The Problem of Unequal Economic Power, or is Business too Powerful for Democracy?

- Ch. 13 “The Privileged Position of Business” in Lindblom, *Politics and Markets* (PDF file on D2L)

February 6 and 11: A Theory of Government Failure


- 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*
- Chs. 6 and 8 in Cassidy, *Why Markets Fail*

February 20: **First Hourly Exam**


- Chs. 3, and 4 (Models of Electoral Opportunism and Partisanship) in Keech, *Costs of Democracy*

February 27: Economic Performance, Voters and Election Outcomes.

- Ch. 6 “Voters, Elections, Accountability and Choice” In Keech, *Economic Politics: the Costs of Democracy*

March 4: More on Fiscal and Monetary Policy: Are Rules the Answer?

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

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

March 6: An Introduction to Varieties of Political Economies.

- Ch. 1 “Rethinking the Tradeoff Between Growth and Equality.”
- **Research paper prospectus due**
POSC4411: Politics, Economics and Democracy

Duane Swank

Week of March 11: **Spring Break**

March 18: Varieties of Capitalism: Liberal and Social Market Economies

- Ch. 2 “Varieties of Capitalism” in Pontusson, *Inequality and Prosperity*

March 20: Another Variety: State-Led Capitalism

- Vivien Schmidt, “French Capitalism Transformed, yet still a third variety of capitalism,” *Economy and Society* Vol 32 (No. 4) Nov. 2003, ppl 526-554. (Find ARES Reserve for POSC4411 on Raynor Libraries website.)

March 25, 27 and April 8 How Do Social and Liberal Market Economies Work?

March 25: Trends in Income Inequality:

- Ch. 3 “Income Distribution and Labor Markets” in Pontusson, *Inequality and Prosperity*

March 27: Jobs, Jobs, Jobs !!!

- Ch. 4 “Employment Performance ” in Pontusson, *Inequality and Prosperity*

( recommended: Ch. 5 Macro-Economic Performance and Wage Bargaining,”in Pontusson, *Inequality and Prosperity* )

April 1: Easter Monday

April 3: **Second Hourly Exam**

April 8: Welfare, Education and Skills

- Ch. 6 “Participation, Security, Mobility and Skills,” and Chapter 7 “Welfare States, Redistribution, and Economic Growth.” in Pontusson, *Inequality and Prosperity*

**Part III: Globalization and Nation States**

April 10: Globalization and Domestic Autonomy: Diminished Democracy?

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

April 15: Globalization and Constraints on National Policy in Developed Countries

- Ch. 3, “Financial Market Influence in Developed Nations.” in Mosley, *Global Capital*
- Ch. 8 in Pontusson *Inequality and Prosperity*
April 17 and 22: Does Globalization Dictate Policy to Developing Countries (and some historical evidence on globalization and national autonomy)

- Pp. 102-145 in Ch. 4, pp. 157-177 in Ch. 5, pp. 199-215 in Ch. 6 of Mosley, *Global Capital*...
  (Recommended: pp. 249-276 in Ch. 7 of Mosley, *Global Capital*...)

April 24 and 29, May1: Analysis of the Financial Crisis, the Great Recession, and the Slow Recovery.

- Chs. 16 - 23 in Cassidy *Why Markets Fail*

Friday May 3: **Final Papers Due**

Wednesday, May 8 (8:50-10am) (“Final” - Third Hourly Exam)