

POSC 4411: Politics, Economics, and Democracy

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Office Hours: Tuesday/Thursday 12:30-1:30; 3:30-5:30

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Introduction. In the wake of the post-2007 global financial crisis, the great recession, and subsequent rise in public sector debt, basic questions about the relationship between markets and governments – and between capitalism and democracy – take on new significance. The pronounced rise in income inequality over the last three decades in the U.S. and other advanced democracies underscores the importance of these questions. 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 had more success than others in responding to economic crises or rising inequality? Are governing parties electorally punished for bad economic performance, and do incumbent politicians attempt to manipulate economic policies and outcomes to achieve reelection?

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 the most important questions of contemporary politics and economics: *has economic globalization overshadowed domestic economics and politics* in shaping our quality of life? 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 recent political economy; 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 – our password is PoliticalEconomy). In addition, a few chapters or articles will be made available on D2L for POSC4411. Finally several short readings will come by way of class handout. Our book list is:

John Cassidy, *How Markets Fail: The Logic of Economic Calamities* (New York: Picador, 2010).

William Keech, *Economic Politics in the United States: The Costs and Risks of Democracy*, 2nd Edition. (New York: Cambridge University Press, 2013).

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).

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, 2nd ed., 2007 or 3rd ed., 2010); 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 15**. The *paper is due May 5*. (More on the paper in a class handout.)

Hourly Exams I, II, III:	20 % each	Class Participation	10 %
Paper Prospectus:	5 %	Final Paper:	25 %

Class Structure and Attendance. Students are expected to actively participate in class (class participation is 10 percent of the final grade). For most sessions, I will provide some overview of key theories, substantive information, and background material on the topic of the day. In addition, we will engage in extensive discussion of the readings (and frequently discuss “big questions” of political economy that transcend the readings); students will be provided a reading guide/set of discussion questions ahead of time and this will hopefully focus reading and allow everyone to prepare well for class discussion.

Attendance is required, subject of course to excused absences (e.g., sickness, family and special work commitments).

Schedule of Readings

Part I: *Markets versus Politics*

January 19: Course Introduction (no assigned reading)

January 21: Markets and Human Well-Being

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

January 26 and January 28: The Theory of Market Failures.

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

February 2 and 4: 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)
- Pp. 1-15 in Ch. 1, “Introduction,” in Graham Wilson, *Business and Politics* (D2L)

February 9 and 11: A Theory of Government Failure

- Charles Wolf, pp. 107-132 in “A Theory of Nonmarket Failure: A Framework for Implementation Analysis” *Journal of Law and Economics* Vol. 22, Issue 1 (April) 1979. (ARES Reserve for POSC4411 on Raynor Libraries website.)

February 16 and 18: More on the Problems of Politics and Governments: the “Costs of Democracy.”

- Ch.1 “Macroeconomic Politics and the Costs and Risks 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 23: **First Hourly Exam**

February 25: Democratic Economics? Electoral and Partisan Business Cycles.

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

March 1: Economic Performance, Voters and Election Outcomes.

- Ch. 7 “Voters, Elections, Accountability and Choice” In Keech, *Economic Politics: the Costs of Democracy*
- (Recommended: Michael Lewis-Beck and Mary Stegmaier 2007, “Economic Models of Voting.” In the *Oxford Handbook of Political Behavior*. New York: Oxford University Press. (Electronic resource available online via MARQCAT).

March 3 and 8: More on Fiscal and Monetary Policy: Are Rules the Answer?

- Chs. 8 and 9 (Fiscal and Monetary Policy Processes) in Keech, *Economic Politics*
- recommended: Chapter 6 in Keech

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

March 10 and 15: An Introduction to Varieties of Political Economies.

- Ch. 1 “Rethinking the Tradeoff Between Growth and Equality,” in Pontusson, *Inequality and Prosperity*
- Ch. 2 “Varieties of Capitalism” in Pontusson, *Inequality and Prosperity*

- Research paper prospectus due, March 15

March 17/28: **Combined Easter and Spring Break**

March 29: 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. (ARES Reserve for POSC4411 on Raynor Libraries website.)

March 31: How Do Social and Liberal Market Economies Work? Income Inequality:

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

April 5: **Second Hourly Exam**

April 7: How Do Social and Liberal Market Economies Work? Jobs, Jobs, Jobs !!!

- Ch. 4 “Employment Performance ” in Pontusson, *Inequality and Prosperity*
(recommended: Chs. 5 and 6 in Pontusson, *Inequality and Prosperity*)

April 12: Equity vs Efficiency

- Chapter 7 “Welfare States, Redistribution, and Economic Growth.” in Pontusson, *Inequality and Prosperity*

April 14: **Research Day (prof at conference)**

Part III: Globalization and Nation States

April 19: 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 21: 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 26 and 28: 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...*)

May 3 and 5: The Political Economy of the Financial Crisis and the Great Recession

- Ch. 5 in Keech, *Economic Politics*
- Chs. 16 – 19; 22 - 23 in Cassidy *Why Markets Fail* (Chs. 20-21 are recommended)

May 5: Final Papers Due

May 13 (Friday, 3:30-4:30pm) **“Final” (Third Hourly) Exam**