

## CAPITALISM, DEMOCRACY AND EQUALITY: THE POLITICAL ECONOMY OF THE ADVANCED NATIONS (IR102)

**Course duration:** 54 hours lecture and class time (Over three weeks)

**LSE Teaching Department:** Department of International Relations

**Lead Faculty:** Dr Jonathan Hopkin and Dr David Woodruff

**Pre-requisites:** None

### Course Description:

This course introduces students to the complex and conflictual relationship between democracy and capitalism in the advanced market economies (focusing mainly on North America and Europe). The course examines the different ways in which democratic states have sought to both promote economic growth and redistribute income and wealth, and the tensions between these two aims.

The course presents key concepts and theories of comparative political economy, and uses them to compare institutions, policies and outcomes across countries and over time. The aim is understand why some advanced countries have grown faster than others, why some are more unequal than others, why countries have addressed common international pressures in such different ways, and how they have responded to the current crisis. Key areas of enquiry include the growth of the public sector, the structure of the welfare state, the role of electoral and party politics, the politics of monetary and fiscal policy, the distribution of income and capital, and the consequences of the current crisis.

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### Topics:

1. Introduction: Government and the Market in the Advanced Nations
2. Models of Capitalism: Institutions and Inequality
3. Understanding Diversity: The Political Origins of Capitalism
4. The Keynesian Model and the Growth of the State
5. The Neoliberal Fightback and the Survival of Welfare
6. Democratic Institutions and Economic Inequality
7. Reforming the Welfare State
8. The Rise of Inequality
9. The Politics and Economics of Market Bubbles
10. The Credit Crunch and the Politics of Austerity
11. Central Banking and Democracy
12. Responses to Crisis: Capitalism versus Democracy?

## Readings and Topic Questions

### General Books:

- Esping-Andersen, Goesta (1990). *Three Worlds of Welfare Capitalism*. Cambridge: Polity.
- Hall, Peter and David Soskice (eds.) (2001). *Varieties of Capitalism*. Oxford: Oxford University Press.
- Glyn, Andrew (2006). *Capitalism Unleashed*. Oxford: Oxford University Press.
- Crouch, Colin (2011). *The Strange Non-Death of Neoliberalism*. Cambridge: Polity.
- Blyth, Mark (2013). *Austerity. The History of a Dangerous Idea*. New York: Oxford University Press.
- Piketty, Thomas (2014). *Capital in the Twenty-First Century*. Cambridge MA: Belknap.

### 1. Introduction: Government and the Market in the Advanced Nations

What is the role of government in a market economy?

#### Required Reading:

- Block, Fred (1994). 'The Roles of the State in the Economy' in Neil Smelser and Fredrik Swedberg (eds.), *The Handbook of Economic Sociology*. Princeton NJ: Princeton University Press, pp.691-710.
- Polanyi, Karl (1944). *The Great Transformation*. New York: Beacon Press, Ch.4.
- [http://uncharted.org/frownland/books/Polanyi/POLANYI%20KARL%20-%20The%20Great%20Transformation%20-%20v.1.0.html#page\\_43](http://uncharted.org/frownland/books/Polanyi/POLANYI%20KARL%20-%20The%20Great%20Transformation%20-%20v.1.0.html#page_43)

#### Additional Reading:

- Schmidt, Vivien (2009). 'Putting The Political Back Into Political Economy By Bringing The State Back In Yet Again' *World Politics* 61(3) ( July 2009): 516–46.

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### 2. Models of Capitalism: Institutions and Inequality

How does the concept of 'models' or 'varieties' of capitalism contribute to our analysis of the the political economy of advanced countries?

#### Required Reading:

- Esping-Andersen, Goesta (1990). *The Three Worlds of Welfare Capitalism*. Cambridge: Polity, Ch.1.

#### Additional Reading:

- Alesina, Alberto and Edward Glaeser (2004). *Fighting Poverty in the US and Europe. A World of Difference*. Oxford: Oxford University Press, Ch.1-2.
- Hall, Peter and David Soskice (2001). 'Introduction', in Hall and Soskice (eds.) *Varieties of Capitalism*. Oxford: Oxford University Press, Ch.1.
- Hopkin, Jonathan and Mark Blyth (2012). What Can Okun Teach Polanyi? Efficiency, Regulation and Equality in the OECD', *Review of International Political Economy* 19(1): 1-33.

### 3. Understanding Diversity: The Political Origins of Capitalism

How do different models of capitalism emerge? What is the role of history and ideas in explaining capitalist diversity?

*Required Reading:*

- Iversen, Torben and David Soskice (2009). 'Distribution and Redistribution: In the Shadow of the Nineteenth-Century', *World Politics* 61: 438-86
- Alesina, Alberto and Edward Glaeser (2004). *Fighting Poverty in the US and Europe. A World of Difference*. Oxford: Oxford University Press, Ch.1.

*Additional Reading:*

- Alberto Alesina, Glaeser and Bruce Sacerdote. Why Doesn't the US have a European-style welfare state? *Harvard Institute of Economic Research*, Discussion paper N.1933, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=290047](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=290047).
- Weber, Max (1958). *The Protestant Ethic and the Spirit of Capitalism*. Mineola, NY: Dover, Chs.1-3.
- Cusack, Thomas, Torben Iversen, and David Soskice (2007). 'Economic Interests and the Origins of Electoral Institutions.' *American Political Science Review* 101 (August): 373-91.

### 4. The Keynesian Model and the Growth of the State

Why did the role of government in the economy increase after the Second World War?

*Required Reading:*

- Lindert, Peter (2004). *Growing Public. Social Spending and Economic Growth since the Eighteenth Century. Vol. 1*. Cambridge: Cambridge University Press, Ch.7.

*Additional Reading:*

- Tanzi, Vito and Ludger Schuknecht (2000). 'The Growth of Government Since 1870', in Vito Tanzi and Ludger Schuknecht, *Public Spending in the 20th Century*, Cambridge: Cambridge University Press, Ch.1.
- Blyth, M. (2002). *Great Transformations*. Cambridge: Cambridge University Press, Chs.1-2.
- Meltzer, Allan and Scott Richard (1978). 'Why Government Grows (and Grows) in a Democracy', *National Affairs* 52: 110-18

### 5. The Neoliberal Fightback and the Survival of Welfare

Why did the growth of government slow, and in some cases reverse, in the 1980s and 1990s?

*Required Reading:*

- Glyn, Andrew (2006). *Capitalism Unleashed*. Oxford: Oxford University Press, Chs.2-5.

*Additional Reading:*

- Hall, P. (1989). 'Introduction', in P. Hall (ed.), *The political power of economic ideas: Keynesianism across nations*. Princeton: Princeton University Press.

- Hall, Peter (1992). 'The Movement from Keynesianism to Monetarism: Institutional Analysis and British Economic Policy in the 1970s', in Steinmo, S., Thelen, K. and Longstreth, F. (eds.), *Structuring Politics. Historical Institutionalism in Comparative Analysis*. Cambridge: Cambridge University Press, pp.90-113.

## 6. Democratic Institutions and Economic Inequality

How do democratic elections affect the distribution of income?

*Required Reading:*

- Lane Kenworthy and Jonas Pontusson (2005) 'Rising Inequality and the Politics of Redistribution in Affluent Countries', *Perspectives on Politics* 3 (3): 449-71.

*Additional Reading:*

- Lijphart, Arend (1999). *Patterns of Democracy. Government Forms and Performance in Thirty-Six Countries*. Oxford: Oxford University Press, Ch.1.
- Iversen, Torben and David Soskice (2006) 'Electoral Institutions and the Politics of Coalitions: Why some Democracies Distribute More than Others', *American Political Science Review*, 100 (2): 165-181.
- Mahler, Vincent A. and David K. Jesuit, 'Fiscal Redistribution in the Developed Countries: New Insights from the Luxembourg Income Study,' *Socio-Economic Review* 4 (2006): 483–511.

## 7. Reforming the Welfare State

Why did conservative forces attempt to roll back the welfare state after 1980? Why were they more successful in some countries than in others?

*Required Reading:*

- Hacker, Jacob and Paul Pierson (2010). 'Winner-Take-All Politics: Public Policy, Political Organization, and the Precipitous Rise of Top Incomes in the United States', *Politics and Society* 38: 152-205.

*Additional Reading:*

- Bartels, Larry (2008). *Unequal Democracy. The Political Economy of the New Gilded Age*. Princeton, N.J.: Princeton University Press.
- Layna Mosely, 'Room to Move: Financial Markets and National Welfare States,' *International Organization* 54:4 (Fall 2000).
- Pierson, Paul (1996). 'The New Politics of the Welfare State', *World Politics* 48(2): 143-79, [http://muse.jhu.edu/journals/world\\_politics/v048/48.2pierson.html](http://muse.jhu.edu/journals/world_politics/v048/48.2pierson.html)
- Assar Lindbeck. 1997. 'The Swedish Experiment,' *Journal of Economic Literature* 35 (September):. 1273- 1319. (E)

## 8. The Rise of Inequality

Why has income inequality been rising in advanced nations since the 1980s?

What are the political consequences of economic inequality?

*Required Reading:*

- Piketty, Thomas (2014). *Capital in the Twenty-First Century*. Cambridge MA; Harvard/Belknap, Chs.1-6.

*Additional Reading:*

- OECD (2011). *Divided We Stand. Why Inequality Keeps Rising*. Paris: OECD, Overview, pp.21-42.
- Piketty, Thomas and E. Saez (2003), 'Income Inequality in the United States, 1913-1998', *Quarterly Journal of Economics* 118: 1-39.

## 9. The Politics and Economics of Market Bubbles

*Required Reading:*

- Keynes, John Maynard (1936). *The General Theory of Employment, Interest, and Money*. Chapter 12.
- Blyth, Mark. *Austerity: The History of a Dangerous Idea* (Oxford University Press 2013): Chapter 2 (page 21-49).
- *Further*
- Raghuram G. Rajan and Luigi Zingales (2003). *Saving Capitalism from the Capitalists*. New York: Crown Business. Ch.6.
- Markus Brunnermeier (2009), 'Deciphering the Liquidity and Credit Crunch 2007-2008,' *Journal of Economic Perspectives* 23(1): 77-100.  
[http://www.princeton.edu/~markus/research/papers/liquidity\\_credit\\_crunch.pdf](http://www.princeton.edu/~markus/research/papers/liquidity_credit_crunch.pdf)
- Strange, Susan (1985). *Casino Capitalism*. Manchester: Manchester University Press, Chs.1-2.
- Martin Baily, Robert Litan and Matthew Johnson (2008), 'The Origins of the Financial Crisis'  
[http://www.brookings.edu/~media/Files/rc/papers/2008/11\\_origins\\_crisis\\_baily\\_litan/11\\_origins\\_crisis\\_baily\\_litan.pdf](http://www.brookings.edu/~media/Files/rc/papers/2008/11_origins_crisis_baily_litan/11_origins_crisis_baily_litan.pdf)
- Claudio Borio (2008), 'The Financial Turmoil of 2007-?', *Bank of International Settlements Working Paper* N.251. <http://www.bis.org/publ/work251.pdf?noframes=1>

## 10. The Credit Crunch and the Politics of Austerity

What caused the financial crisis of 2008? Why did governments first adopt, then abandon, Keynesian policies?

*Required Reading:*

- Blyth, Mark. *Austerity: The History of a Dangerous Idea* (Oxford University Press 2013): Chapter 1 (page 1-18); Chapter 4 (51-92).

*Additional Reading:*

- Wade, Robert (2010). 'The Great Slump. What Comes Next?', *Economic and Political Weekly* XLV (47).
- Almunia, Miguel, Agustín Bénétrix, Barry Eichengreen, Kevin H. O'Rourke and Gisela Rua (2010). 'From Great Depression to Great Credit Crisis: similarities, differences and lessons'  
<https://webspaces.princeton.edu/users/piirs/pdf/almunia.pdf>
- Crouch, Colin (2011). *The Strange Non-Death of Neoliberalism*. Cambridge: Polity, Chs.1-3.
- Gourevitch, Peter (1986). *Politics in Hard Times*. Ithaca: Cornell University Press, Chs.1-2.

## 11. Central Banking and Democracy

Is central bank independence consistent with democracy?

*Required Reading:*

- Berman, S. and McNamara, K. (1999). 'Bank on Democracy: Why Central Banks Need Public Oversight', *Foreign Affairs* 78/2 March/April: 2-9.

*Additional Reading:*

- McNamara, K. R. 'Rational Fictions: Central Bank Independence and the Social Logic of Delegation.' *West European Politics* 25, no. 1 (2002): 47-76.
- Stiglitz, J. 'Central Banking in a Democratic Society.' *The Economist* 146, no. 2 (1998): 199-226.
- McCulley, Paul and Zoltan Pozsar. "Does Central Bank Independence Frustrate the Optimal Fiscal-Monetary Policy Mix in a Liquidity Trap?" Paper presented at the Inaugural Meeting of the Global Interdependence Center's Society of Fellows on March 26, 2012 at the Banque de France, Paris. (Esp. pages 1-8, 23-45. ) <http://www.interdependence.org/wp-content/uploads/2012/03/Paul-McCulley-Fellows-Paper.pdf>

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## 12. Conclusion: Responses to Crisis: Capitalism versus Democracy?

*Required Reading:*

- Streeck, Wolfgang (2011). "The Crises of Democratic Capitalism." *New Left Review* 71 (October).  
[http://newleftreview.org/article/download\\_pdf?id=2914](http://newleftreview.org/article/download_pdf?id=2914)

*Additional Reading:*

- Crouch, Colin (2011). *The Strange Non-Death of Neoliberalism*. Cambridge: Polity, Chs.4-7.

**Credit Transfer:** If you are hoping to earn credit by taking this course, please ensure that you confirm it is eligible for credit transfer well in advance of the start date. Please discuss this directly with your home institution or Study Abroad Advisor.

As a guide, our LSE Summer School courses are typically eligible for three credits within the US system and 7.5 ECTS in Europe. Different institutions and countries can, and will, vary. You will receive a digital transcript and a printed certificate following your successful completion of the course in order to make arrangements for transfer of credit.

If you have any queries, please direct them to [summer.school@lse.ac.uk](mailto:summer.school@lse.ac.uk)